

The “Global Outlook 2014” completes the annual collection of the Strategic Monitoring 2013 series of which it is an integral part. This volume summarises the monitoring carried out during the year and formulates short-term predictions, scenarios and analytical hypothesis on the basis of events, indicators, warnings and innovative tools.

The, “**Strategic Monitoring 2013**” is a monthly series that puts together analysis and reports of the Military Centre for Strategic Studies, prepared by a team of specialised researchers. The areas of interest monitored during year 2013 were:

- Latin America;
- China;
- India and Indian Ocean;
- Middle East and North Africa (MENA)
- Asia-Pacific;
- South Eastern Europe and Turkey;
- Russia, Eastern Europe and Central Asia;
- Sub-Saharan Africa;
- Afghan Theatre;
- European Defense initiatives;
- NATO and transatlantic relations;

The essence of the “Strategic Monitoring” is made by the different contributions (structured into main events and critical analysis) regarding the mentioned areas. The most relevant results are published in the English “Quarterly” each March, June, September and December.



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GLOBAL OUTLOOK 2014

GLOBAL OUTLOOK 2014



The Military Center for Strategic Studies (Ce.Mi.S.S.) is an Italian MoD Institute founded in 1987 that carries out strategic researches for the CHOD.

This activity allows the access to knowledge tools and analytical methods that help in tackling current and future scenarios in support of the security needs of the Armed Forces and of the national community in general.

Its *mission* comes up from the imperative necessity of the Ministry of Defence to play effectively an active cultural and scientific role, interacting with the relevant communities in order to shape a positive social environment vis-à-vis with opinion leaders and the public opinion.

In particular the Centre:

- carried out strategic, political, military studies and researches;
- develops the cooperation between the Armed Forces, Universities and Research Institutes or Government bodies (National & International);
- trains military and civilian researchers;
- promotes the specialisation of young people in its research areas;
- publishes and circulates the most relevant studies.

The study and research activities have the primary goal to answer the cognitive and decision-making needs of the top MoD officials regarding relevant issues that affect the protection of the Country, including military security.

The Ce.Mi.S.S. carries out its activity availing itself of civil and military experts (italian and foreign), who enjoy academic freedom in their research. Therefore, the content of this volume reflects only the opinion of the research team and in any case not a position of the MoD.



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DEFENCE STUDIES**



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FOR STRATEGIC STUDIES**

GLOBAL OUTLOOK 2014

Global Outlook 2014

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“Are there any cardinal points we can observe to find a way to safely navigate the structure and purpose of life?”

Are there immutable principles that can bear on this problem with a strong and brightening light?

It is undeniable that the social and cultural complexity and disharmony we are currently experiencing has put this issue to the fore. Accordingly, it is urgent to return to the clarifying light of principles.”

Giorgio La Pira, Principles, n . 1 , January 1939

Foreword

Maj. Gen. Nicola Gelao

2014's edition of Global Outlook volume, Ce.Mi.S.S. confirms the will to end of the annual series of Strategic Monitoring (Osservatorio Strategico), catching the origin of the most important events in each monitored areas/sectors, enriching analysis with a prospective vision about possible evolutive addresses about actual developments too.

Therefore, this work should not be looked on as a mere prediction, like a forecast of events and trends, neither by including the rich and more complete literature of the "Intelligence", it consists in offering to the preparatory reader instruments for interpretation of possible dynamics in international scenario, starting by annual monitoring of past events.

The success of the first edition, spreaded at the beginning of 2013, suggested to complete the work introducing definitely the printed version of the bilingual volume: both in Italian and in English.

Firstly, it is expected to make easier the spread and usefulness of the paper to corresponding members of Military Centers, with whom the Ce.Mi.S.S. preserves and strengthens its ties.

Secondly, it meets up the enhancement the proven and successful cooperation along with the research environment: civil and military, national or international. Finally it is an acknowledgement to piece out a gap in the huge literature about the subject, drawing up a tool not affected by constrains or bias.

As supposed, the project of Strategic Monitoring is clearly not targeted to produce generic analysis of personalities, events or historical periods.

The right approach toward the strategic evolution it is actually well-established on long-lasting values, so that the higher contribution comes by the out-coming of witnesses and experiences of soldiers and civilians, constantly referring them to reality and in any case to not considering it as an absolute truth.

The point of view, from which the Strategic Monitoring offers its own remark on the events under monitoring, it is arising from a threefold approach: the scientific knowledge (by empirical-descriptive way), the ethical (the relationship between event and framework of values inwards the event occurs) and the interpretative criti-

cal (comparing the already occurred events and rational criteria interpretation).

The methodological approach, remains constantly linked with the historical acceleration and the cultural trends, social and political – military connections, not considering these dynamics as a function of justification of the authority status quo, but gathering them as an input for the transformation of situation and insti-

tutions which they spring from, trying to obtain the real importance too. The prospective vision which OS is looking forward to, will be mainly oriented to logical reflection about evolutive and most probable addresses, against processes spawning events.

This point of view means to develop tools that reduce as much as possible the unexpected event, offering a possible support to those are living with the need to undertake more and more “Multi-Objective Decisions”.

Summary

Maj. Gen. Nicola Gelao

Observing past year inherited profile, it's realistic to expect 2014 and 2015, full of irregular coming situations comparing with the past.

A significant number of countries agree with actual global financial crisis, ongoing by years and, in this contest, they are going to prepare the change of political authority summit.

These two causes can still increase social and political tensions of Middle East area.

The rebalancing politic, most of all in business, of the only one global authority, the USA, could still be Asia-Pacific Region oriented, asking to analyst to compare also the strategy toward Arctic Region.

The Pacific Asia keeps it's volatile situation, in which actors tend to increase their economic (and demographic) growth, even trying to solve serious internal problems or entrenched bi-multilateral disagreement.

The general boost of military costs, supported by good economic performances, suggest how the Region doesn't have it's own geopolitical balance, letting feel insecurity with possible unpredictable progressions.

In the Atlantic scenario instead, it's possible that NATO remains the only turning point that represent military-politic links between West Countries.

Complications hold over in turning high level consultation and coordination into economic-commercial political plan between european and american side.

Between 2014 and 2016 are scheduled both European Parliament and USA Presidential elections, which will focus up-country the leadership attention.

The common need of revisiting respective Defense balance sheets, will background the new NATO military profile in Afghanistan.

An half Alliance military presence, limited assistance not anymore combat, could depend of troops dislocation among main afghan regional military headquarters, focusing force in the capital city, Kabul.

The possible interoceanic reorganization of commercial, economic, productive relationships, can help the increasing of provisions or private and public standards, in the form of partnerships.

The target is to make the economic actors activity easy, relieving them from national rules and hindrance block, helping with alternative legal instruments to keep free commerce and intellectual property protection.

This could be dangerous because of possible World Trade Organization (WTO) alienation.

Both Europe and Latin America should evaluate this additional form of global competition.

The delay of Euro-Atlantic optimization processes, produced West Balkans area fragmentation where, the creation in Europe of Macro Adriatic Ionic Region still persist as most important target, even if not all countries in the area are included.

Turkey is still the most tractable geopolitical pole of South East Europe region.

The orientation about Caucasus, Middle East and Central Asia could become one of Turkish geopolitical pivot. Actually, Ankara can be the turning point between Oriental Mediterranean and Central Asia.

United States and Russian Federation can keep and eventually extend their appeal, already sharing the same radical islamic action limitation and thinking that invest in nuclear strategic force updating is not needed.

P.R.C. (China) made leadership turnover less than one year ago and, with a view to have a stable government in future eight years at least, introduces itself as principal actor in changing global dynamics.

Right now, Beijing seems inspired from crusader authoritarianism models, which could help to induce internal reorganization processes, real or estimated.

It's possible that this approach decrease internal instability and system downfall risks.

Chinese expansion politic in Africa made possible the big partnership networks development in many country with a fast increase of its economies (Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia and Nigeria).

The try of turning Africa into new global production center, will require the increase of chinese people there

with predictable integration issues with locals. On single researchers in-depth analysis, will be easy for the reader to enrich or to focus his own considerations.

The foundation of this perspective summary pointed towards 2014 is the monitoring activity did during 2013, overlapping perspective outlined at the end of 2012.

Global Outlook 2014

Alessandro Politi

EXECUTIVE SUMMARY

Pacific Geonetwork

The US have increased the pace of their political and economic initiatives, particularly through their financial and monetary manoeuvres and exploiting the perspective of mega-regional free trade agreements that could potentially impinge on the interests of China and the Mercosur. Nevertheless, a quick conclusion of the Trans-Pacific Partnership talks should not be taken for granted, due to increasing domestic and international opposition. The same caution is justified by the real viability of the budget after the last congressional fiscal compromise. Beijing, for its part, is engaged in a vast internal re-organization that does not seem to address the serious vulnerability of the national banking system, while the Shanghai Co-operation Organization is experiencing a stalemate and Latin American partners have been weakened by the crisis.

In addition to the nationalistic disputes between China and Japan in the South China Sea, the security background features the following critical aspects: the expansion of the Mexican narco-mafias, the internal instability of the North Korean regime and the fragile Thai democracy. And yet only the Korean crisis has been taken seriously, whereas the other hotspots either are not effectively managed or they are tackled with a stern nationalist attitude, which does not help regional stability.¹

¹ The Global Outlook 2014 has been co-directed with Dr. Claudia Astarita. The text has profited from the observations made by researchers of CeMiSS. In addition, MA Ilaria Pitton and MA Ilaria De Napoli have provided a significant support in preparing and finalising research materials (annotated summaries, chronologies, proofreading, co-testing of the SWOT² method and of the qualitative and quantitative radar charts measuring the shaping flows).

A geonetwork is a strategic theatre in a condition of liquid balance, generalised crisis and networked relationships; in other words, an area where there are no more clearly defined areas, consistent actors, shared rules, credible axes of power. There is instead a cluster of complex relationships that are difficult to control and steer, marked by multi-level co-petitions (simultaneous competitions and collaborations). A shaping flow is a tangible or intangible flow structuring relationships between international actors. The shaping flows are the following: Ecosystem (e.g. sea level, climate change); Drinking water; Food/Agrotech; Real/Virtual Migrations; Conventional-non conventional Energy; Financial and invested capitals; Knowledge in its wider sense (culture, tech, science, religion etc.). The SWOT² © is based on the interaction among: Strengths, Weaknesses, Opportunities, Threats e Trade-Offs.

Indian Geonetwork

The first rippling effects of the slowly consolidating Iran-USA agreement (beginning of 2014) create two distinct areas in the geonetwork: one gravitating around the Persian Gulf and another around the Indian subcontinent.

The second area is split between the frenzy of the great regional actors preparing themselves vis-à-vis the departure of ISAF from Kabul at the end 2014, and the paralysis affecting India and Pakistan. New Delhi and Islamabad, despite being strongly interested in Afghanistan's future, are absorbed by serious internal problems. On the one hand, India is tackling imminent political elections and a fragile governing coalition, while Pakistan is facing enduring terrorism and a difficult transition from military to civilian power.

The Persian Gulf is in a state of flux under the effect of the Tehran-Washington agreement. If the latter will be developed and finalised, it will deeply change the balance of the Indian Ocean because it will be marked by an increased presence of Iran and India, albeit in a framework defined by the lasting US naval hegemony. This dimension, together with expanding Chinese and Japanese maritime interests, will more closely integrate the Pacific and the Indian oceans at a strategic level into an "Indo-Pacific" area whose terminal is the Chindoterranean.²

The real chance of the major petro-monarchies is not given by an elusive victory in Syria (as Doha has experienced in Egypt and Riyadh risks to repeat in the Levant), rather by the control of the major Islamic finance hubs, participating into and influencing the Iranian economic recovery.

² The Chindoterranean is the tangible flow of goods, energy, people and capital going from China, India, the Gulf region and Africa through the Suez Canal into the Mediterranean, whereas "Indo-Pacific" is a concept developed by Stratfor.

Africa Geonetwork

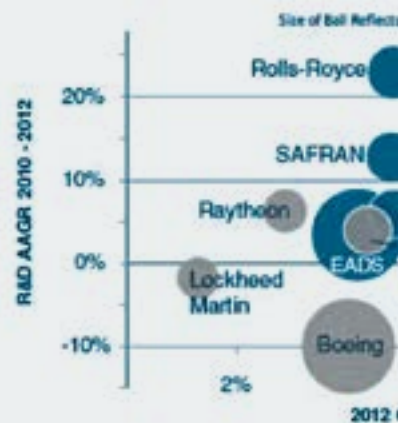
The continent offers some fairly interesting opportunities connected to the shaping flows of ecology and finance. In December 2013, Shell acknowledged its responsibility for the ecologic damage inflicted to the Ogoni people in Nigeria due to oil leaks from the pipelines in the area. This will be not only a case study that will be taken as a juridical precedent, rather it may be coupled with the Warsaw mechanism providing information exchange, technological support and, if necessary, compensations for the countries that have suffered climatic damages. From a financial perspective, the trend is set by the further development of Islamic finance. This is a financial branch that is interesting not only for North African countries, but also for emerging markets like Nigeria or relevant investors like Turkey, which in fact has become member of the African Development Bank.

Atlantic Geonetwork

This geonetwork shows a deep division between a group of highly integrated and financialised countries, and another firmly grounded on real economy and only partially included in the global circuits. Notwithstanding individual prosperity, these countries have generally in common a loss of their traditional strategic points of reference and a significant domestic burden of unsolved political, social and economic problems. This partially explains the allocation of power in the area and the weak collective ability in handling the crisis crescent from Ukraine to Morocco.

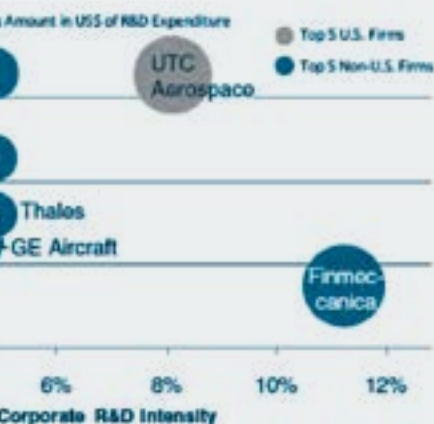
The TTIP (Transatlantic Trade and Investment Partnership) is an effort of regional reassembling, supported by Washington in order to reassert its interests in the great oceanic markets. It started as a secret diplomacy effort, and it encountered increased socio-political resistance, whereas more conventional operations, like the ICE-NYSE Euronext stock exchange merger, encounter no opposition. Along a parallel political level, one notices the unfolding of the initiatives deriving from the USA-Iran agreement and regarding the Syrian conflict and the Israel-Palestinian conflict. The success in the last two negotiations is far from being assured because it is hostage of the interest and interdictions of different actors. On the background remain the dynamics of a global economic and political crisis and may remain there until 2018. These dynamics are expected to strongly influence all other aspects and the junction in Europe of both transnational narcotics markets of cocaine (Atlantic) and heroine (the new Eurasian Silk Road).

Researcher-Ranked Global R&D



Source: Battelle/R&D Magazine, Schonfeld & A

D Leaders by Technology Area



Associates, European Commission-JRC/EIRI

SHAPING FLOWS

At first glance, energy and finance shaping flows are the most relevant in all geonetworks. This perspective is confirmed by the mainstream debate. However, once the occurrences are organized into a SWOT² © matrix, the results in terms of global influence, weak signals and risks/threats are much more diverse and subtle.

At a global level, the most relevant shaping flows are: ecology, knowledge *latu sensu* and invested/financial capitals. The Arctic Sea poses concrete questions about the future of the sea food chain through the evidence of accumulated mercury in the surface channels of the pack (leads) and about possible anthrax epidemics, when the permafrost will further thaw and melt. The institutional responses to these flows have been respectively the Minamata Convention and the UN Warsaw climate conference.

The international ruling elites are still not sufficiently aware of the problem, but at least they have created the precedent of the Warsaw Mechanism in favour of international support and compensation to climatically damaged countries, which will be further strengthened in an indirect way by the indemnification lawsuit won by the Nigerian Ogoni population for the ecologic damages caused by a major oil company.

During 2013, a problem at the junction between knowledge, politics, economy and strategy gained a lot of attention in the media: Prism, the massive US-led internet and optical fibre interception programme. Beyond public political discussion, Prism has shown a substantial and impressive continuity with the Echelon satellite eavesdropping programme (equally participated by Australia, Canada, New Zealand and United Kingdom), but also an unprecedented pervasiveness in civil life precisely through the arrays of internet.

It is not by chance that Brazil, beyond supporting, together with Germany, a resolution regarding on-line privacy at the UN General Assembly, has decided to host an ICANN (Internet Corporation for Assigned Names and Numbers) conference about internet interceptions.

In contrast with the widespread perception of the diversity of globalization, a deep integration process is taking shape in both virtual and real sectors of different business branches, as shown by the acquisitions of Google in the robotic sector and by Amazon.com of the global daily Washington Post.

The movement of capitals are strictly related with information and its control. Before seeing what the great financial risks are, we have to consider two relevant signals. The effort of suppressing any public information on the negotiations regarding the TPP e TTIP treaties (Trans Pacific Partnership – Transatlantic Trade and Investment Partnership), starting the comeback of secret diplomacy, is provoking an increasing opposition in the name of transparency.

When it is not possible to achieve it and financial systems continue to be opaque, companies prefer to draw on non-financial corporate bonds in both emerging and developed markets. The terrible costs paid during the financial crisis that started in 2006 have resolved the real economy actors to cut out financial intermediation,

while reducing also information asymmetries; this is an important trend but it is still coexisting with the old interests of virtual economy.

To these special interests one can trace back to global risks, originating, once again as in 2006, from the Pacific geonetwork: the pseudo-solution of the US fiscal cliff in the US (Ryan-Murray budget agreement) and the Chinese credit crunch in the interbank market. Interacting with Chinese exports, American public and private debt have created a crisis that is expected to last until 2018, while at the same time the rot of the scarcely regulated and controlled Chinese banking system was already visible. Despite free-market rhetoric, these are two parallel political manipulations to acquire and keep political consensus, jeopardizing not only the future of both countries, but also the viability of the whole global emerging and established economic system.

An increasingly strong emerging risk, albeit still not fully reckoned with, is the forceful expansion of the Mexican narco-cartels in both of their oceanic markets, i.e. Atlantic (cocaine) and Pacific (poly-production and –consumption of traditional and synthetic narcotics). This growth will be even stronger once the violence in Mexico diminishes after a government-mafia agreement.

Six weak signals to take into account have been identified:

- The emergence of the MINT markets (Mexico, Indonesia, Nigeria, Turkey), next to the established BRICS ones;
- The persevering Chinese technological growth in the next decade both in civil and military sectors, which is currently exploiting Russian capabilities. Against this trend, US military technology transfers to India should be taken into account;
- Beijing's effort to keep a sustainable population pyramid by easing the one-child rule;
- The possible re-integration of Zimbabwe in the international community with remarkable effects not only in the diamond market, but with potentially disruptive consequences on neighbouring South Africa;
- The development of alternative responses to current financial and currency flows with the initial growth of the virtual currency Bitcoin and the push towards Islamic finance;
- The coming (back) of a European neo-functionalism with the construction of a banking union that is the real defence of national sovereignties that are not viable. This means taking time vis-à-vis less urgent sovereignty transfers like those regarding a common foreign and security policy, because the cost of non-Europe associated to them is more bearable.

OUTLOOK BY GEONETWORK

PACIFIC GEONETWORK

This geonetwork is experiencing the first effects of Obama's "pivot to Asia" policy, which was carried out by following four global vectors:

- manipulation of national currency and fiscal policies in favour of the dollar's seigneurage;
- set-up of major regional free trade agreements (Trans Pacific Partnership and Transatlantic Trade and Investment Partnership) that have the potential of reshaping trade to the advantage of the most powerful interest groups in Washington;
- exploitation of shale gas and oil;
- supremacy over open and covert information channels through public and private means (NSA, Google and Amazon for instance).

A fifth component, namely the military power extensively used by the past Bush presidency, has been momentarily kept in reserve, but the cross-party interests of the military-industrial complex have been the common ground for the umpteenth budget compromise (Ryan-Murray budget agreement, mid-December 2013). In fact, in the short-medium term expenditures will increase, preserving as much as possible military allocations, while, in the long-term (2021–2023), more than 50% of promised cuts should be carried out through budgets caps that are still undefined and whose credibility is bound to be questionable in the course of a decade.

The most important threat for this geonetwork remains the expansion of Mexican narco-cartels not just in the American continent, but also all along continental and trans-oceanic logistic routes: Chicago, Australia and the Iberian Peninsula are the attack points, whereas Hong Kong, a financial hub that is now badly competing with other Chinese production and service economy centres, might be recognized as a practical way to access Asia.

The creation of a specific narco-culture that is becoming a mass phenomenon with good chances to expand in the Americas, together with other obvious indicators such as 60.000–120.000 estimated dead and an estimated narco-revenue of \$35–45 billion, confirms the significance of this threat.

Under a purely conventional approach, Thailand and North Korea are the critical points of this geonetwork. Bangkok is witnessing a ferocious political clash in order to force the actual prime minister (Yingluck Shinawatra) to step down. The country seems less close to the US than to China, and it might experience a soft military coup aimed at consolidating the power of the conservative ruling elite around the old king.

Pyongyang, instead, has just approved unprecedented purge, showing deep rifts inside the elite and portending for unpredictable and unmanageable outcomes. Despite some positive signals in January 2014, a negative indicator for the inter-Korean dialogue is the readiness declared by the DPRK to self-manage the Kaesong special economic zone (EZ). Moreover, the recent purge has stopped a number of Chinese-financed economic projects, including the economic zones of Rason and Hwanggumphyong/Wihwa, although the Onsong special zone contract has been regularly signed. Uncertainty surrounds Russian railway investments with South Korean participation due to their links with the Rason EZ.

Against this backdrop is the new US-ROK tailored deterrence strategy against the danger of North Korean missiles and of its few nuclear warheads. The problem is how the government in Seoul, which has scarce inclination for compromise, will weigh out its deterrence avoiding dangerous escalations.

Besides, North Korea is just one part of a regional security complex including increasingly visible tensions between Korea, Japan, China, Taiwan, USA and ASEAN members, with a distinct lack of any preventive diplomacy institutional capacity and of elementary political prudence that is more often than not side-lined by brinkmanship and nationalist positions.

In China, the III Plenum of the Communist Party has given directions for a reform aimed at increasing the flexibility of the political-economic relationship, while preserving the political supremacy of the party. New guidelines fostering the consolidation of a country that is already recognised as a major world power have also been provided. This endeavour entails a deep internal reorganization on at least four levels:

- demographic, with the relaxation of the one-child policy;
- ecologic, preparing for the de-commissioning of all coal-fired power plants;
- energetic, featuring new agreements with Burma, Russia, Turkmenistan, Kazakhstan, Brazil, Venezuela and perhaps Canada;
- technologic, preparing for the possible overtaking of the US in S&T by 2023.

In this sector, Beijing is running against time to compete not only against American excellence, but also against the evidently anti-Chinese transfers of US defence technology towards India.

In this scenario, and despite the explicit declarations about its own “pivotsky” to the Far East, an increase of the fleet stationed at Vladivostok and an ambitious investment programme in its most distant regions, Moscow continues to play a minor role in this geonetwork, where it is generally aligned to the Chinese position.

Signs of an economic slump are more and more visible, and they are related to the pillars of the Mercosur/Mercosul common market (Argentina, Brazil, Venezuela), with much more ominous consequences than the current political disputes. Indeed, the combination of Japanese and American monetary manoeuvres (easing and tapering off liquidity in the national and world circuits) and the possible conclusion of the two above mentioned FTAs could bring to the marginalization of the subcontinent.

Mexico is the only Latin American country that is again, like at the times of the NAFTA, playing the card of the US economic engine, favoured by a remarkable propensity by the financial oligopolies towards the new MINT markets (Mexico, Indonesia, Nigeria, Turkey). The country, already with a labour cost lower than the Chinese one, is approving a substantial fiscal and liberalizing reform package that should spur its economic recovery.

However, without a government-mafia agreement, cutting the levels of violence and militarisation and reducing the fragmentation of uncontrollable narco-cartels, the GNP will be constantly burdened by a -1% of direct and indirect security costs.

INDIAN GEONETWORK

The Gulf Co-operation Council is the actor that best shows the contradictions of this area, put under pressure by the developing Iran-United States agreement on nuclear matters and the influence of the Syrian crisis on the Persian Gulf countries and on Kurdish minorities (present in Turkey, Syria, Iraq, Iran).

On the one hand, the GCC has suffered a serious setback in its integration process when Oman threatened to leave the institution if Saudi Arabia insisted in an anti-Iranian attitude (December 2013). On the other hand, it is at the centre of initiatives that would change its strategic orientation.

Firstly, the proposal to include Iraq and Iran among its members has been perceived as a direct challenge to the Saudi leadership in the council. Then emerged the proposal for a FTA between the GCC and India, implying a more active role of New Delhi in the area. Finally, an action plan has been signed (17/1/2014) between China and the GCC, possibly opening the way for a FTA that is actively supported by Kuwait.

In the meantime, Iran is particularly active in getting approval for the partial lifting of sanctions so that some previously frozen funds can be recovered (in China e.g., but only until July 2014), and for energy exports towards India and Iraq. From a political perspective, this agreement may end the long dispute between Tehran and Washington, and it is therefore structurally desirable and necessary for both elites. Nevertheless, the agreement is still vulnerable due to internal opposition in Congress, sometimes fuelled from abroad, and to resistances stemming from the Iranian infighting between petro-clerics and Pasdaran.

If this treaty is signed and ratified, it will usher a deep redefinition of the strategic role of the Indian Ocean and its regional actors will be ushered. This change is not expected to lead to a simple extension of the US Navy command in the Pacific, although the latter will play a more autonomous and open role in the US-India-Iran balance. Finally, Chinese and Japanese presences in the area are expected to be strengthened. In this context, it makes sense to talk about a new “Indo-Pacific” area where influences will work both ways. India’s presence in the South China Sea could increase, hopefully with the same prudence displayed in 2013.

Russia, after its largely diplomatic success in the Syrian chemical weapons affair, that bought precious time for the president Assad, tried by the end of December a political opening with Saudi Arabia. On the one hand, Moscow offered to support Riyadh after its relative estrangement with Washington over the Iranian deal. On the other hand, Saudi Arabia offered security collaboration against possible jihadist attacks aimed at the Sochi Winter Olympics in exchange for less support to Damascus.

The Volgograd suicide attacks (30/12/2013, 21/10/2013) have partially soured relations, but not enough to stop Russia from inviting Saudi Arabia and Iran to the Geneva II negotiations on Syria (22/1/2014), or the latter from asking for Moscow’s civil nuclear co-operation. At the same time, Riyadh is multiplying

its nuclear co-operation agreements approaching the UK, Hungary and the US. The country already signed similar deals with Argentina, China, France and South Korea.

Saudi Arabia had its own political success when it decided to refuse the rotating seat in the UN Security Council and entrust it to Jordan, a supporter of the kingdom, with the full endorsement from the Organization of the Islamic Conference and the Arab League. This is an important precedent showing the vitality of the OIC as a political platform as well as its potential in influencing economic choices.

In fact, besides the adjustments on energy prices and quotas, the on-going economic battle is around the rise of new economic and financial actors. It is not by chance that competition is flaring up around the QISMUT (Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey, making up 78% of the Islamic banking market), in an effort to oust London from its actual supremacy in this sector. Qatar could regain importance in this area after having lost its foreign policy relevance with the dynastic succession. Moreover, it is not a coincidence that three out of four MINTs have 50% or more of Muslim population.

While in Central Asia countries are preparing for the final dash to get the best positions after the retreat of ISAF (end of 2014), possibly entailing a strategic void in Afghanistan, India is concentrated on internal politics. This has created a situation whereby any party in the coalition can put a veto on foreign policy matters because it offers easy electoral gains or it allows showing nationalist pride.

The only significant result has been achieved in the WTO Bali conference with the exception for the Food Security Bill food subsidies, allowing India to support the poorest strata of the population. By the end of 2013, the India-US diplomatic incident over the immunity privileges of an Indian diplomat posted to the US has shown the tensions and the fragility of the political and strategic co-operation between the two countries: the issue in itself could be settled, but consequences could be more enduring.

A similar foreign policy paralysis, although depending on different reasons, is affecting Pakistan. Due to an uncertain transition from military to civilian hands and an enduring terrorism threat, the main priorities for Islamabad are monitoring the Afghan situation and promoting dialogue with the Talebans. It is desirable that between the end of 2014 and the beginning of 2015 India and Pakistan regain their foreign policy initiative. However, odds are not good at the moment, and the situation could be further complicated by the emergence of new ultra-nationalist governments.

China and Russia are moving very quickly, outside the co-ordination of the Shanghai Co-operation Organization, to secure new accords with Central Asiatic republics regarding the sectors of transports, energy and military assistance.

Burma is at the intersection of Beijing and New Delhi strategic influence spheres, and it successfully consolidated its role of energy hub with the new pipeline exporting gas to China and built with Indian and South Korean participation.

In the meantime, the local government, supported by former putschist militaries, is trying to sign and maintain cease-fire agreements with the different political opposition and ethnic minorities. This approach is expected to facilitate the exploitation of mineral resources by new competitors and consequently dilute the traditional Chinese presence in the country.

On the other hand, the gap in terms of effective diplomatic action on water resources aimed at avoiding disputes with China upstream (Irrawaddy, Salween, and Lancang) and with Laos downstream (Mekong) has not been filled.

AFRICA GEONETWORK

In this strategic picture, there are different crisis clusters that can be partially grouped around a leading nation and partially included in a geographic area i.e. Nigeria, East Africa and Southern Africa. The three leading countries in the continent continued to show in 2014 a declining influence, as already visible since 2013.

While Cairo and Pretoria retreated into themselves due to internal constraints, Abuja could not afford to be idle in its own regional sector. It has to manage the growing French influence, supported by the USA, within the Economic Community of West African States (or CEDEAO – Communauté économique des États de l'Afrique de l'Ouest). In the background, a no hold barred competition, opposing the Franco-American couple to the network of relationships spun by China, is still present, with Brazil, India, Israel and Turkey less engaged in this clash.

The crisis of Mali that worried so much the international community shows, at least superficially, some signs of recovery. Among them, Presidential and parliamentary elections; the jailing in November of Amadou Sanogo, the leader of the coup d'état; the removal of the compromised top brass by the neo-president Ibrahim Boubacar Keita; the recapture of Kidal, an important northern city; France is terminating a successful intervention.

Nevertheless, the fundamental question of the status of the Tuareg population remains a problem. Negotiations between Bamako and the three Tuareg guerrilla formations have been suspended by mid-January 2014 and the political co-ordination among the former rebels has vanished, while Kidal remains only under nominal Malian control. This situation is likely to continue if Algeria and France do not find a compromise favourable to their interests in the North of Mali, while Morocco has entered as possible mediator.

Nigeria was involved in the crisis at an early stage, but by January 2013 she quickly retreated from any further engagement. On the one hand, the terrorist group Boko Haram had intensified the attacks at home (July 2013). On the other hand, the situation in the narco-state of Guinea Bissau had seriously deteriorated, becoming a regional threat.

Both the UNSC and the Nigerian president Goodluck Jonathan have given to the military junta in Bissau an ultimatum to respect the engagements towards a

democratic transition, already reported until March 2014. It is reasonable to foresee that the situation could precipitate by 2014, inducing Abuja to play a more active role, possibly in co-ordination with the Lusophone countries and especially Angola, which considers Bissau as a relevant national interest.

Nigeria is facing a very delicate transition in its oil industry sector, and consequently in the redistribution of wealth in the political system. Namely, the massive oil thefts from pipelines amount now to nearly 20% of the current production, reducing the financial reserves of the government. The crucial Petroleum Industry Bill has not yet been passed by the parliament and energy operators deem its provisions and prospective implementation insufficient.

At the same time, foreign oil companies are moving their production from onshore to offshore wells because the first ones are systematically plagued by sabotage and theft; this opens an opportunity for the local energy industry, but at too early stage for its capabilities. The revenue decline risks producing a serious budget crisis towards March 2014, with destabilizing effects on the government, the majority party and the presidency's rotation between northern and southern politicians. In the north, this will favour the Boko Haram terrorist group, which is carrying out its attacks in an increasingly effective and co-ordinated fashion.

In the same geographic zone, the government of the Central African Republic had completely lost control of the situation between the crossfire of the former rebels Seleka (strongly Islamist), the anti-Balaka militias (Christians and supporters of the former president François Bozizé). A new transition president, Catherine Samba-Panza, has been elected (20/1/2013) after the resignation of Michel Djotodia, while enduring violence is sketching a new confessional division of the country: Muslims in the north and Christians in the south and west.

France, the real leader of the pacification operations, has received a concrete military support from the EU and can put a stopgap to the violence by disarming the militias. Despite that, a final stabilization is difficult to be achieved because international organizations lack the state-building capabilities necessary to transform highly volatile contexts.

The only positive aspect in the short-medium term could come from the implementation of the conclusions of the December Elysée summit (*Sommet de l'Elysée pour la paix et la sécurité en Afrique*), following a division of labour between France and Nigeria. Paris will concentrate on security architectures and rapid response capabilities, whereas Nigeria on a stand-by force in order to carry out preventive interventions by invitation of the country in trouble and under African Union mandate. In this context, the full success of the UN Force Intervention Brigade against the M23 militia in the Democratic Republic of Congo can be a useful operational precedent and also a blueprint for the involvement of regional capitals, like in first instance Bujumbura, Kigali, Kampala and Luanda.

A triple dynamic trend is identifiable in East Africa. The slow re-composition of Somalia, a difficult integration for the East African Community (Kenya, Uganda,

Rwanda, Burundi and Tanzania) and a new crisis flare-up in both Sudans (Khartoum e Juba). The situation is highly hazardous because it puts together negative synergies: a split within the elite and the society, the repression of all protest movements, the risk of a return of the civil war and the absence of a real compromise in Darfour, Kordofan and the Blue Nile region.

This branch of the Nile is in turn at the centre of a dispute between Ethiopia's project for a great dam, with Khartoum's support, and Cairo's opposition. The country fears negative effects downstream but it is also politically too weak to oppose the plan effectively. In January 2014, the diplomatic stalemate persisted despite a fresh round of negotiations.

Southern Africa shows weak signals regarding on the one hand the end of the international embargo against Zimbabwe, and on the other the rise of a crisis in Mozambique and Malawi. Maputo, due to the myopic behaviour of both FRELIMO in power and RENAMO at the opposition (respectively overconcentration of power and irresponsible political boycott) could endure another cycle of low intensity conflict.

The possible partial lifting of the sanctions against Harare, in order to allow the country to service a huge foreign debt and to respond to the pressure of the diamond industry, will have rather strong repercussions in South Africa. In this country, Mandela's death and the next political elections in April risk to open a fierce fight for power and to re-open the wounds of a still unsolved racial and tribal question. Until now, Boers were considered as an African tribe, but the example of compulsory Africanisation of the economy provided by Zimbabwe could ignite an explosive land ownership and social issue.

Finally, Malawi, whose 40% of the budget is made up by international donations, has risked bankruptcy due to a cash deficit of half billion dollars, apparently embezzled by politicians and civil servants. In January, the IMF has provided emergency relief and confidence to the donors, but without serious reform the country will fail sooner or later.

ATLANTIC GEONETWORK

The period under consideration is distinguished by a crescent of acute crisis stretching from Ukraine to Morocco through the Levant and four actors whose importance is declining: the United States, the most important countries within the European Union, Russia and Turkey. All these actors are undergoing severe crises which are in turn influencing internal and international balances. However, they are still able to afford means to influence the course of events or at least to try to do that.

The US are definitely the country with the biggest global debt burden in absolute terms, whose negative effects have repercussions on the widest number of states. The outlook for a substantial reduction of this debt stock has not substantially improved with the Ryan-Murray fiscal deal passed by the Congress last December. In fact, most of savings have been deferred by a decade, whereas increased expenditures will

be immediate and further liquidity has been introduced in the system through the so called quantitative easing. Needless to say, it is just fiat money without any solid backing.

This increases the risk of a widening gap, at a global level, between real and financial economy. The increase of liquidity can generate a strong dollar inflation, which seems to counter the crisis at financial level, but is further depressing real economy.

In this context, one can easily understand how, if China can prudently reduce its credit exposure vis-à-vis Washington, the Eurozone countries cannot do the same. On the one hand, they must tackle their own big public debts. On the other hand, they have to contribute to the disposal of those derivatives that have been massively produced and spread by the major financial economies (US and UK), more often than not through unregulated mechanisms (shadow finance and high frequency trading).

Against the backdrop of a global economic and financial crisis with weak recovery signals on both sides of the Atlantic and with scarce possibility of ending before 2018, pressure against the dollar seigniorage by increasingly distrustful economic and political actors will increase and thus also instability in the Atlantic geonetwork and at world level, unless the US administration and the Congress take decisive action.

In this respect, the results of the Obama administration regarding the domestic reconstruction of the United States in order to function as the “new” global mainstay are disappointing, while it is still too early to assess the impact of the new pope Francis I on the main trends of the global society.

The most important political and economic manoeuvre, in parallel with the TTP proposed in the Pacific geonetwork, is the TTIP (Trans-Atlantic Trade and Investment Partnership). Although initially presented as the comprehensive solution for all regional problems, the TTIP is currently undergoing a more careful scrutiny not only by civil society, but also by economic actors and negotiation specialists.

The National Security Agency mass eavesdropping scandal is related to the wider American effort to control, since 2001, the global information networks in order to enhance national advantages at political and diplomatic level. This goal is even more important now because president Obama must defend difficult domestic and international political choices that are strongly opposed by Congress, mainly for short term electoral interests.

Facing a co-ordinated speculative financial assault against the Euro, the priorities of the Eurozone countries have been two, depending from their own political weight. Germany has tried to defend the whole currency system almost at any cost, while other countries have tried to protect their financial reputation even at the expense of European solidarity, such as Italy and Spain.

France and the United Kingdom are in a particularly difficult situation. Paris has lost the bet of a victorious Libyan campaign, was caught off guard by the

developments of the Syrian crisis, has lost its AAA rating while being increasingly integrated in the US-led stock exchange system (NYSE Euronext-ICE merger) and is preparing another fiscal reform that is unlikely to achieve, in the short term, its deficit reduction objectives.

The United Kingdom, having seen, through a public parliamentary vote, the end of the special relationship with the US at strategic level and on the Syrian crisis in particular, has embarked at Mr Cameron's behest in a dangerous referendum on future membership in the EU (Brexit), whose immediate effect is an increased estrangement from European public opinions, while potential effects are unconvincing for major financial corporations.

If major countries are pursuing divergent paths, the result will be a European Union unable to act and react vis-à-vis real and present crises, impinging also on NATO's effectiveness, as shown by the narrow victory in the Libyan campaign, the failed intervention in Syria and the plodding reaction to the so called Euro crisis.

In the past, the legitimacy crisis of European bodies and procedures in Brussels has been overstated, but now it is compounded by the legitimacy crisis of national democracies vis-à-vis opaque and anti-social decisions taken by transnational financial oligopolies. The symptom lies in the growth of new right-wing politically authoritarian parties, which are against financial economy and globalisation. However, the structural problem that is consolidating this situation lies in European countries' electoral, party and political systems unable and unwilling to represent vast social strata, entailing evident effects on any serious European political integration project. Any time the necessity of synchronising European economic cycles is evoked in the official discourse, this appeal is often introduced as another expression for "political integration" that is consequently impossible to be carried out with these ruling classes.

Despite its serious demographic crisis and its structural economic weakness, Russia can at least benefit from a stronger and more coherent leadership, allowing to reap spectacular albeit temporary diplomatic successes in Damascus (indefinite postponing of an air attack against Assad and Syrian chemical disarmament) and Kiev. Nevertheless, one should not forget that Ukraine is notwithstanding any regime change on the verge of bankruptcy and that it was prepared to sign just an association agreement with the EU and that the stakes in Syria are becoming much less important with the consolidation of the Iran-USA agreement.

Turkey was taken by surprise, together with Qatar, by how badly the Muslim Brotherhood politically acquitted itself in Egypt and how quarrelsome the non-Islamist Syrian opposition has been. Therefore, by the end of 2013, Turkey decided to concentrate on two priorities: trans-regional agreements in the East and improving relationships with bordering countries. Erdogan is trying to put in stark terms the choice between the EU accession and the SCO (Shanghai Cooperation Organization) membership, stimulating the competition between the two organizations.

Trying to manage its near perimeter, Ankara wants to restore relations with Armenia, to further develop those with Azerbaijan and to lay to rest the crucial and bloody Kurdish issue. However, the government is dangerously ambiguous on this topic. On the one hand, it wants to introduce new laws to improve the status of the then called “mountain Turks” in order to win the next elections. On the other hand, it wants to open the door to energy agreements with the KRG (Kurdish Regional Government) that can directly favour separatist trends in Iraq and indirectly in Syria.

The “crisis crescent”, often automatically identified only with the Arab Revolutions, is in fact due to the forceful come out of the issue regarding the relationship and balance in quasi or non-democratic systems between majorities and minorities in the Mediterranean, from Morocco to Ukraine. By the way, this crisis mirrors the de-legitimation crisis of traditional politics, common to all highly indebted democracies.

The turn taken by the events in Libya and Egypt is inducing a number of international actors towards the choice of supporting more reassuring and authoritarian regimes, starting from Egypt and continuing with Libya and Syria. This apparent Realpolitik does not grasp that post-revolutionary governments tend to be an inconclusive interlude, worsening already existing social and political problems.

Syria, despite multilateral posturing, is not in itself an essential stronghold for anybody, but it can deeply influence the Kurdish issue or affect the duration of the Hashemite monarchy in Jordan. At the same time, internal Tunisian and Libyan tensions have a localised influence, but they can exacerbate Algeria vulnerability. This country is currently registering an oil production drop and is rather unsatisfied since two decades with the ineffective and corrupt administration of the “deep state”. Morocco could instead experience a weakening in the royal grip on the society and the economy because of revolutionary developments abroad.

All this brings to the strategic confusion that Israel has to face by itself. The special strategic relationship with Washington is largely vanished and the old autocratic stability in the Levant and the Gulf has been undermined beyond repair, leaving Tel Aviv undecided between two forms of headlong rush and a lasting solution. An attack against Iran for supreme security interests or the spectacular change of political patron belong to the first category, while the third option aims at pushing for a re-integration in the regional context, abandoning the existing paradigm and policies of exceptionality. It is possible that US State secretary Kerry represents the last occasion to forgo the rigid schemes of the past.

Part I

Regional Analysis

South Eastern Europe and Turkey

Paolo Quercia

EXECUTIVE SUMMARY

In 2014 South Eastern Europe (SEE), a region stretching from the Gulf of Fiume/Rijeka in the High Adriatic to the Gulf of Iskenderun/Alessandretta in the Eastern Mediterranean, will face a new risk of geopolitical destructuring, due to the persistence of various strategic threats and a prolonged economic stagnation.

Despite the NATO military intervention in Kosovo fifteen years ago, the Euro-Atlantic integration process has failed to complete the political blending of a relatively small region that remains fractured in a multitude of small political entities.

The slowing down of the process aimed at creating a Euro-Atlantic geopolitical space that occurred in the last years, before strengthening after 2008, has seriously jeopardized the political outlook of the region.

Indeed, most of the countries have not yet defined a consistent integration strategy. This is particularly true for many Western Balkan countries (Bosnia Herzegovina, Macedonia/FYROM, Albania, Kosovo, Montenegro, and Serbia), and represents a potentially dangerous environment for the resurgence of unresolved territorial or ethical conflicts.

Moreover a number of sensitive political anniversaries will be commemorated in 2014 in the region. Among them is the assassination of Archduke Franz Ferdinand of Austria that occurred in 1914. This tragic event signalled the beginning of World War I in Europe and transformed the issue of national minorities into Nineteenth century nationalism. Ten years after the solemn promises of the EU integration, made during the Thessaloniki EU-Western Balkans Summit (2003), an assessment of EU integration processes may be made today. The EU will likely go through a re-examination of its neighbourhood strategy, especially in light of the expected restructuring of its institutional architecture.

From a political point of view, there are two relevant issues that could affect the integration trends of the region; the process of re-inclusion of Serbia into regional politics and the issue of Turkey's kinship with Eastern Europe.

In view of present geopolitical uncertainties, the creation of a European Adriatic Ionian Macro-Region (EUAIR) remains the most innovative and integrative element for the Western Balkans, although Kosovo and FYROM/Macedonia are not part of this initiative. With the inclusion of Croatia in the EU and the EU Presidency being occupied by Greece and Italy in 2014, there will be a strengthening of the European dimension of EUAIR (Italy, Croatia, Slovenia and Greece).

A further strengthening of the region (and, therefore, the Mediterranean) could be achieved through the creation of a strategic and institutional synergy between EUAIR and the neighbouring Danube EU Macro Region (EUDR). In particular, energy transport connections amongst the Western Balkan countries that are part of both EU regions should be considered a strategic priority.

On the Southern side of the SEE region, Turkey appears to be losing its momentum in Europe, which is affecting its relations with the EU candidate countries of the Western Balkans. Ankara is either being swallowed by the perils or attracted by the opportunity of an evolving Middle East geopolitical space that is still very uncertain four years after the beginning of the mostly derailed Arab Spring transformation processes. This political turmoil did not produce a neighbouring neo-Ottoman friendly political space but rather a chaos-ridden belt where the interests of distant regional powers such as Iran, Saudi Arabia (and to a certain extent Russia) will become increasingly relevant. Ankara's influence will be shaped by a growing trilateral confrontation/cooperation with Tehran and Moscow. This process could open a new phase in its foreign policy.

Bosnia Erzegovina

Institutional deadlock is worsening by social tensions and protests. Unresolved political tensions and potentially ethnic increasing. (Increased political tensions and ethnic potentially unresolved).

Serbia

The negotiations to access the EU, they are going to open. The political situation is unstable and unsettled.

Montenegro

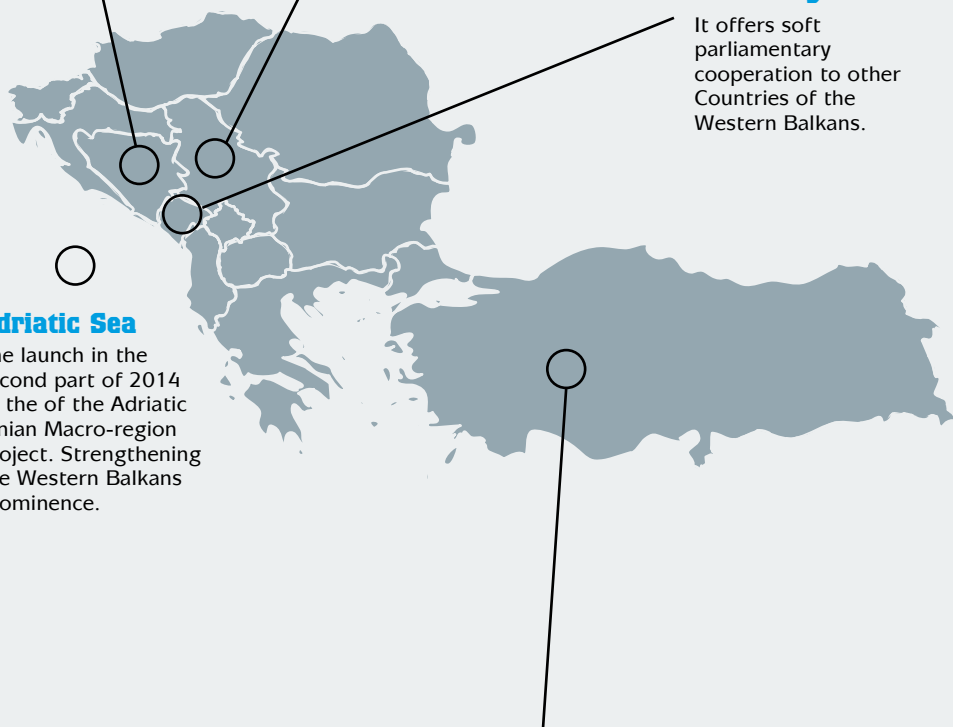
It offers soft parliamentary cooperation to other Countries of the Western Balkans.

Adriatic Sea

The launch in the second part of 2014 of the of the Adriatic Ionian Macro-region project. Strengthening the Western Balkans prominence.

Turkey

The most flowing Country in the region and his Geo Political - Re positioning is ongoing. Post Syrian reset of Turkish foreign policy vis à vis Russia and Iran. Policy positioning mainly oriented by domestic issues.



SITUATION

Turkey confirms the most dynamic geopolitical pole of the Southern Eastern region. In 2013, it was a leading driver for change in SEE and the Eastern Mediterranean, but it also experienced significant political challenges to its internal power structure. In some of the countries where Ankara supported regime change (such as Libya, Syria and Egypt) there has been either a progressive decomposition of sovereignty and state or a re-establishment of unpopular authoritarian regimes. In any case, the short term net result for Turkey from these processes is a diminishing number of potential state partners and allies in the region.

If the military coup in Egypt terminates the AKP sponsored Muslim brotherhood revolution, this will give an advantage to Saudi Arabia over Ankara. The developments of the Syrian civil war and the Geneva 5 +1 agreement have strengthened Moscow and Tehran, two of Turkey's historical regional rivals. The combined result of all these factors has produced a strategic weakening of Turkey's regional hegemony, forcing Ankara to reset its foreign policy.

It appears that AKP's moderate Pan-Islamism has produced little results in Turkish foreign policy, at least since the changes it went through after 2008. Now, it seems that Turkey's strategy is again moving towards a more domestic phase, in preparation for the forthcoming political elections. It pays particular attention on how to downgrade and divide the threats and menaces arising from a vast region of instability stretching from Libya to Iraq.

While the AKP government is attempting to find an honourable way out of the Syrian quagmire, it is also focussing its attention on a decade old Turkish issue that Ankara's government is handling with a new approach and determination. Ankara's main priority for 2014 will be establishing transborder relations with the Kurdish regional government of Iraq, and to a lesser extent with the Kurdish self-government in Syria. Regarding the Kurdish issue, consolidating the relations with these two groups that have achieved or are in the process of achieving a subnational self-government from their respective governments, will represent a strong tool in the hands of Ankara. This tool may be used for homeland security, but also to run (and eventually recover) the future by bilateral relations with Baghdad and Damascus.

The strengthening of the multi-polar character of the region is contributing to the loosening of the target of geopolitical unity, which more than a decade ago was set as an objective for the Balkan geopolitical space.

From the macro-security point of view, the situation has improved and the magnitude of the historical and modern conflicts in the region has slowly decreased. The relationship between Belgrade and Pristina has been significantly improved thanks to the EU brokering a deal in 2013. This area has previously been one of the most dangerous regional hot spots. The accession of Croatia to the European Union has also contributed to

the downgrading of the potential skirmish with Slovenia, Bosnia Herzegovina and Serbia, although the issue of the application of bilingualism in Vukovar remains problematic.

The territorial disputes between Greece, Macedonia and the Bosnian entities remain relatively unchanged, with unlikely signs of improvement in the short term. The inclusion of Croatia in the EU has resulted in the upgrading of a border between Croatia and Bosnia Herzegovina that will remain for some time.

As far as Bosnia Herzegovina is concerned, no improvement has been recorded in terms of the functionality and efficiency of the governments on any level. The stalemate in the government of the Federation has blocked the functionality of the policy-making mechanism, while the political conflicts within the tripartite presidency and the parliaments have compromised the adoption of several pieces of EU legislation. The parliamentary and presidential elections, scheduled for October 2014, and the proclamation of their results, could bring about tensions, that may put at risk the integrity of the Dayton Agreement, developed in 1995 to promote peace in Bosnia Herzegovina.

Another matter of concern for the region is the persistence of a negative economic situation in all of the six Western Balkans countries (Bosnia Herzegovina, Serbia, Montenegro, Kosovo, Albania and Macedonia). At the moment none of them can be regarded as a functioning market economy. Per capita GDP is stuck at 2007 levels, fluctuating between 4,000 and 7,000 US dollars, while unemployment rates have exceeded 30% in more than one of these countries.

The risk is the countries of this region will not be encouraged to initiate the economic and institutional reforms that are required due to the stalemate in the European integration process and the continuous stagnant economy. They look for alternative geopolitical projects that may appear at low social and political costs in the short term. This could lead to isolationism tendencies or a need to quest for alternative extra-regional partnerships. On the other side, there are few signs of a concrete renewal of old federalist projects.

EUAIR remains, for the moment, the principal multilateral initiative addressing the countries of the Western Balkans.

Finally, as far as the internal security of SEE countries goes, it should be noted that some concerns still remain in terms of dozens of jihadist combatants from Syria, especially in Bosnia Herzegovina, Serbia, Kosovo and Macedonia who are looking to return to the Balkan region.

OUTLOOK

The situation at the Eastern Borders of Turkey remains fragile with frequent violent incidents consolidating an extremely volatile environment. In

this new and peculiar context, Turkey is going to experience a redefinition of its own security space, which is becoming more problematic to manage, and it is contributing to the downsize of Ankara's regional political and strategic ambitions in the medium term.

The implosion of the Arab spring and the still unsuccessful gamble on the regime change in Cairo and Damascus, put Ankara in a disadvantageous position in the Middle East, a condition strengthened by the deterioration of its tactical cooperation with Saudi Arabia. The persistence of such an unfavourable scenario could bring Turkey to a shift of priorities, driving towards an improvement of the relations with Teheran and Moscow, in a re-edition of the trilateral cooperative-antagonism among Turkey, Russia and Iran, which took place in Central Asia in the nineties.

Several differences with today's scenario can be identified. First of all, Ankara will not have the same strategic advantage it had fifteen years ago, when it confronted a pariah and isolated Iran or a financially weakened Russia.

Another difference is that the "chessboard" of this new game will stretch, almost uninterrupted, from Eastern Mediterranean to Central Asia, involving numerous trans-regional issues, which are difficult to separate from each other. An eventual reshaping of Ankara's foreign policy towards a new Mediterranean-Asiatic regional power-game with Russia and Iran will re-tune Turkey's foreign posture on a Euro-Asiatic vector, a dimension that has not been particularly optimised inside the recent AKP neo-Ottoman and Islamism foreign policy. In the last decade, Turkey assisted in a process of state weakening at its Southern borders, with the disappearance or enfeeblement of a number of potential regional powers (such as Egypt, Syria, Iraq and Libya).

The result of this decade of the de-structuring of Turkish Southern Near-Abroad could lead to an increase in the relevance of Ankara's more eastern neighbours. Turkish "Relevant Abroad" appears on the process to move its barycentre Eastwards, while its more Mediterranean Southern Near Abroad is evolving into an arch of crisis more than an area of influence for deploying its economic and cultural soft power. Matched with the frozen EU integration process, it may result in a reduction in the weight of the Western and Southern dimensions of Turkish foreign action. This new strategic situation may bring new isolationist tendencies to the rise amongst Ankara's future regional policies, insulating from the most troubled Southern neighbourhood and detaching itself from an inhospitable European Union, while prioritising the construction of a new balance-of-power with its Eastern counterparts: Russia and Iran.

Turkey's international standing may become more and more dependent from the triangular competition/cooperation patterns that Ankara could set with Moscow and Tehran. An eventual division of the Middle East in

spheres of influences between Israel and Saudi Arabia on one side and Iran and Russia on the other, will further reduce any lonely capacity of manoeuvre by Ankara, accentuating the process of an Eastern rebalance of Turkish foreign policy.

As far as the Western Balkans go, 2013 has confirmed the persistence of multiple geopolitical options with different attraction capacities. The European vector, with its liberal-western model, preserves its attraction capacity and remains the primary political option while two other, less robust, options remain. The two old Euro-Asiatic vectors: one directed towards orthodox Russia and the other one towards the Islamist Turkey. These are softer and weaker geopolitical options that do not have the possibility to change the overall future posture of the region, but their combined effect can lead the area into a geopolitical vacuum. Its centre will remain Bosnia Herzegovina, whose triple national identity, dysfunctional institutional architecture and political stalemate still reflect the three different and concurring geopolitical directions: Euro-Balkan, Russo-Balkan, and Islam-Balkan. The population census, whose results will be published in 2014, could influence the political elections, and the very institutional structure of the country.

Bosnia Herzegovina remains the unfinished centre of South Eastern Europe, a centre where the three opposite souls of the geopolitical space between the Adriatic Sea and the Danube are still entrenched.

If Bosnia Herzegovina represents the powerless centre of the Balkans, the political keys for solving the open issues of the regions are still held by Belgrade. In the coming years, Bruxelles will avoid major strategic decision and its action will mostly involve continued engagement with the candidate countries. In this context, the main progress that the EU can make is improving the dialogue with Belgrade.

A rehabilitation of Serbia is one of the missing conditions for setting the base for a full integration of South Eastern Europe in the EU. Pursuing this goal will be the EU's best way of using its time and resources in the next years of an apparently slow-motion integration process. It is a complex and costly process, both for Europe and Belgrade, but it has already had a positive start to 2013 with the EU initiating a Serbia – Kosovo dialogue.

Both the Greek and Italian 'Balkan friendly' EU presidencies will characterise 2014. It will also be the year when the EUAIR will start its first activities. It will remain for a while the most relevant sub-regional initiative for South Eastern Europe where regional EU and non EU members could work on common strategic concepts. The Italian EU presidency will prioritise this dimension in the second semester of 2014.

In 2005 the International Commission on the Balkans, chaired by Giuliano Amato, closed its final report writing "2014 is the year and Sarajevo is the place where the European Union could announce the beginning of the European

century”. Unfortunately, the 2014 anniversary will arrive before the European century has started. It will be, more realistically, the year when the European future of the Balkans will be re-considered and discussed again at strategic level, in light of the changes that have occurred in the European Union and in the wider Mediterranean Region.

Middle East

Nicola Pedde

EXECUTIVE SUMMARY

The Middle East is currently affected by a widespread and deep-rooted crisis, which appears to be the product of a long build up rather than the sudden emerging of instability factors.

The regional elements of crisis, although distinct among each other and connected to the evolutionary dynamics of each country, share the effects of the global economic crisis and of the gradual process of generational shift in the elites typical in most of these countries.

For 2014, North Africa is likely to continue to be characterized by ongoing tensions in Libya, Tunisia and Egypt, with the variable of Algeria that could be possibly added to the already extended front of crisis.

In the Mediterranean Levant, Syria will continue to be the focus of greater regional instability, with the possibility of a progressive involvement of Lebanon and Jordan in the spiral of violence, which has to date cause more than 130.000 deaths.

Saudi Arabia considers the Muslim Brotherhood (Ikhwan) and Iran as the two main existential threats to the kingdom and its political continuity. Accordingly, the country is adopting a concrete strategy to face both risks in North Africa and the Levant, strongly feeding the Egyptian and the Syrian crisis.

The vast majority of the Gulf Cooperation Council (GCC) countries, with the exception of Qatar and Oman, share the Saudis vision. Qatar has long supported the Ikhwan, and with the ascent of the new king it seeks to define rational and pragmatic choices aimed at not increasing regional instability. Oman instead firmly opposed the increase in the GCC role proposed by Riyadh as part of an anti-Iran strategy.

The potential rapprochement between Iran and the United States is considered to be a significant threat by most of the regional countries. This rapprochement was sealed by the fruitful preliminary agreement signed in Geneva in late November, paving the way for a stable and lasting understanding between the Islamic Republic and Western countries.

In spite of the Saudi vision of a strong and perpetually aggressive Iran, however, it is worth noting that domestic politics in Tehran is anything but dormant after Hassan Rohani election to the presidency .

Only a positive and long-lasting agreement with the 5+1 countries can consolidate Khamenei and Rohani's power, weakening at the same time the radical groups that are still fuelling tensions inside and outside the country.

Syria

By means of the Lebanese Hezbollah forces deployed on the ground, the military balance in the Syrian conflict it comes back in advantage for central authorities and Bashar al-Assad. Therefore the government offensive carry on and the forces of opposition brought down their field of action.

The Islamic inspiration's forces and their consolidation are plainly moving up, furthermore Al Qaeda affiliates within the Syrian opposition, they standoff the essential policies to achieve international support to the Syrian opposition, so it seems some more advantage for the regime.



Lebanon

The ongoing conflict in neighboring Syria, improve the risk to extent effects into Lebanon through an escalation of attacks against the Shite's community. The clear aim seems to force the Lebanese Hezbollah engaged in Syria to go back to home. The new government expected in February 2014 is positively encouraging the population, even if in a context of uncertain stability and high fear for safety.

Iran

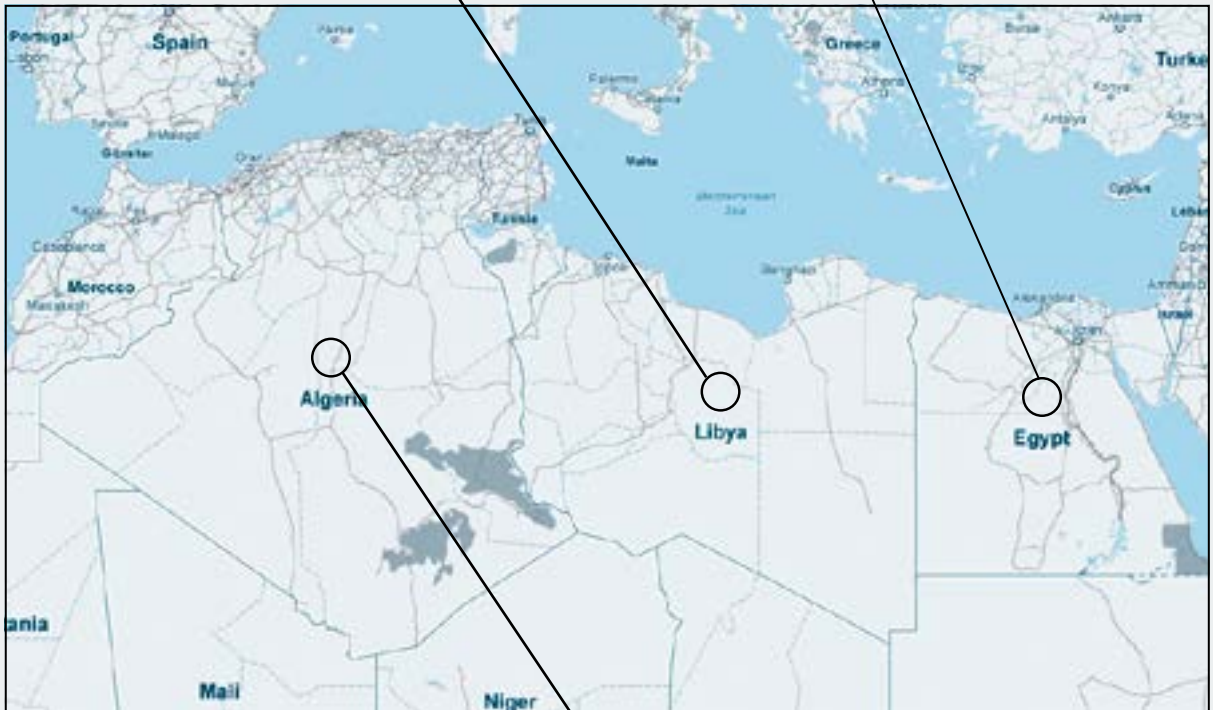
The talks among Iran and "5+1" Countries (US, Russia, China, UK, France, Germany) are going on to find a solution about the development of Iran's nuclear program in order to decrease the heavy pressure of sanctions that has afflicted the local economy. Dialogues continue positively, even if the ghost of opposing faction (both from United States and Iran side) don't help the achievement of a concrete result.

Libya

The fall of Gheddafi left the country in a political chaos and in a conflict situation. The splitting up of self-interests makes difficult to set a security framework, able to enhance oil based economic development. The main security problem is the difficulty on dismantling militias, which symbolize a multiplicity of political and social interests in the region.

Egypt

The Armed Forces ditched the Muslim Brotherhood's government in summer 2013. President Morsi has been arrested and the Islamic party has been banned. An unprecedented political crisis started and the outcome is still uncertain.



Algeria

President Bouteflika could compete for a fourth presidential mandate in the framework of a regional, political and economic crisis which is affecting Algeria's interests. Sahel crisis and instability in Tunisia and Libya are considered Algiers' main security threats with the risk of an expansion within national borders.

SITUATION

The dimension of the agreement signed in Geneva between the Islamic Republic of Iran and the countries of the so-called 5 +1 (United States, Russia, China, Britain, France and Germany), is momentous and it is aimed to define the basis for the development of Tehran's controversial nuclear programme.

Although is still a framework agreement under which the general terms of a broader and more complex relationship have to be defined, the extraordinary nature of the event is confirmed by United States and Iran manifest will to identify and actually start a process of confidence building.

The agreement signed at the dawn of the 24th of October 2013 in Geneva is the result of a long and laborious bilateral interaction managed by the now well-oiled machine of unofficial diplomacy in Washington and Tehran, which has worked for months to achieve this result.

The new Iranian administration headed by Hassan Rohani has managed to obtain a full official support by the Supreme Leader (Rahbar) Ali Khamenei, and from most of the political and institutional system they represent. The Rahbar has also firmly marked its position, by defending Rohani from the attacks of the ones opposing this new political course.

In Washington, thanks to a strong and unambiguous Iranian position, President Obama has gradually and progressively defined the margins of a negotiation with Iran that would take into account the possibility of offering concrete and acceptable options to Tehran.

The enemies of any hypothesis of negotiation with Iran are not, and will not, disappear even in Washington, but the signing of the Geneva agreements has significantly reduced the scope for action of those against negotiation.

Russia played a positive role in the negotiations, although their outcome is raising several concerns in Moscow. On the one hand, Russia has always been a supporter of the need to identify elements of negotiations aimed to readmit Iran into the international community, on the other hand Moscow is sceptical about the usefulness of promoting agreements which could lead to a full rapprochement between Tehran and Washington. A similar evolution indeed is perceived as significant limitation for Moscow interests in the region.

China kept its profile low during these negotiations, supporting the Iranian positions and trying to mitigate Washington's concerns and doubts about the Islamic Republic's real intentions.

European participation was and is dismally unco-ordinated and ineffective. The EU is actually represented by three nations, Britain, France and Germany, and by the European Union as a whole. The true, great defeat of Geneva was the acknowledgment the EU's irrelevance, consolidated by the enduring political myopia of Catherine Ashton.

France has openly tried to sabotage the definition of the agreement at the second meeting, raising the ire of the other participants, who forced the country

to stop its pressures. Ten days later, France accepted the same terms it previously opposed. Fearing a sudden collapse of his national consensus, president Hollande tried to defend his line of French regional foreign policy (whose adverse effects are already evident in Libya, Syria and Mali). Accordingly, he sustained the relationship with Israel and clarified his interest in benefiting from the economic opportunities coming from Saudi Arabia, who has made no secret about the possibility of identifying a partner in France for important projects related to the renewal of the Air Force fleet.

The United Kingdom appeared out of context even more than usual in the management of this round of negotiations. The country endorsed the American position and accepted the agreement, clearly aiming at a special role on behalf of the United States. London, however, proved once again to have weak analytical capacity regarding the local dimension of the political system and the perception of their own role within the complex Iranian scenario.

In Germany prevailed the line supported by the ministry of Foreign Affairs, which has long pushed for a reopening of relations with Tehran, satisfying the increasing pressures from the national economic system. Therefore, Angela Merkel had to abandon its traditional reluctance toward the dialogue with Iran, being obliged to accept the result.

OUTLOOK

The entire Middle East region is characterized by growing social and political tensions, and only two common elements can be identified.

The first is the intense and increasing economic crisis, which has alimanted a rapid and diffused deterioration of regional public finances and – given the local concentration of the economic activities within the public sphere – the subsequent diminishing of individual incomes.

These effects had been particularly evident during the so called “Arab springs”, when the dissatisfaction deriving from the economic crisis was fuelling protests much more than any other democracy and freedom requests.

The economies of the Middle East, characterized by a low degree of industrial diversification, and a strong institutional and elite’s control, suffered the disastrous impact of the global financial crisis, and they proved unable neither to adopt corrections not to count on reserves.

The second element of crisis is linked to the widespread process of rejuvenation regarding the political elites; this is currently challenging decades of paralysis fuelled, by authoritarianisms and dictatorships, set up by older people.

The majority of the problems that emerged in the region in the last two years has impacted on political elites which have been almost continuously ruling these countries for the last forty years, and most of the protests emerged when the generational shift process started.

Nevertheless, it is important to remind that, despite several common factors, all Middle East regional crises have been independent and different from each other, and, in some cases, of dubious spontaneity.

Each of these events is the product of longstanding specific and local reasons, domestically matured and linked to their own relationship between the elite and the social structure. Thus regional and global factors had only represented an additional side effect helping these crises emerging, that is favouring an irreversible process.

In 2014 the evolution of the regional political, social, economic and security frameworks will not be so different from what happened in 2013. Moreover, while the intensity of today's crisis is expected to raise, new problems may affect the stability of areas that appeared to be immune to crisis in 2013.

In the Maghreb, general variables and analysis express a certain degree of optimism in the case of Morocco, where the reforms adopted by the king – although far from being considered as liberal and modernizing according to Western standards – tend to foresee continuity within a framework of relative calm and social equilibrium, and moderate economic growth. These conditions are the traditional antidote to radical Islam diffusion.

This combination of factors allows a moderate expression of optimism on the stability of the country and its institutional capacity of management in this difficult phase of regional turmoil.

The Algerian scenario is completely different. The new presidential mandate of Bouteflika, and the tensions deriving from the Tunisian and Libyan crisis are alarming international analysts, which are worried by the rising risk of a new radical impulsion.

These factors could determine a rapid increase in tensions and social conflicts, imposing with urgent rapidity the need of a generational shift within the political élite, no longer manifestly able to represent the requests of Algerian youngest generations.

Not less complex and fragile is the political evolution in Tunisia, where the manifest Islamic parties and coalitions' crisis present some similarities with the Egyptian situation. The Ennahda party proved to be unable to govern such a complex and dynamic political process, challenged by the ambiguous and controversial role of the secular forces, within a scenario dominated by growing external interests on the country.

The positive virtuous effects determined by Tunisian first free elections had been dramatically lost within political tensions and the incapacity of delivering practical results, and the threat today is represented by the potential role of the radical Islamic forces, often alimented by foreign interests and financial support aimed to fuel violence and favour the restoration of an authoritarian political regime. On the other hand the approval of a constitution in January is a positive factor.

The Libyan crisis has also worsened. Central authorities have gradually lost the ability to exercise their role and maintain the control of the country.

Among the reasons behind this crisis there are the inability to prevent the role of militias – equipped with weapons looted from the governmental barracks – that are now determining the Libyan political stagnation and the inability to start the necessary process of national reconciliation.

The autonomist tendencies of Cyrenaica, together with the presence of numerous cells of the international jihadism, represent yet another factor of local crisis, within the context of an almost motionless international system.

Outside of the Maghreb, but always in North Africa, Egypt is experiencing a sort of limbo. Military authorities are involved in the process of re-definition of the constitution and in completing the ban of all Muslim Brotherhoods' activities. This means that on the one hand the militaries favour the temporary cohesion of secular forces, but on the other accelerating the irreversible collapse of any kind serious democracy and pluralism in the country.

The economic crisis is now the main obstacle to national security and stability. Thus the government is forced to strengthen its alliance with Saudi Arabia – alliance that has also been one of the main element of institutional crisis – being unable to take any kind of autonomous choice and presenting a very worrisome figure of the future.

The crisis in Syria is heading towards a phase of stagnation, marked however by the progressive ability of the loyalist forces to consolidate their control over the territory. With the offensive of Qalamoun, the opposition front had been further diminished in its capacity, allowing Bashar al-Asad to work on the slow and gradual strangulation of the resistance in Aleppo.

In operational terms, leaving aside the weak consistency of the Free Syrian Army, the only units with real warfighting capabilities within the opposition are Jabhat al-Nusra, the Islamic State of Iraq and the Islamic Front. They are opposed by more motivated and better equipped government forces on one side, and by the Lebanese Hezbollah militia, whose contribution turned the tide of the conflict, on the other.

The risk of a spill-over in Lebanon is still present and, similarly, a possible effect on Iraq and Jordan environment is not even marginal. Saudi Arabia considers the containment of Iran as a strategic priority and Syria is the main operational side of this strategy.

Even the Saudi political framework is not stable, due to a sovereign who pours in extremely poor health, and to the difficulties related to the hypothesis of a political transition in the vast and adversarial royal family.

Sub-Saharan Africa

Marco Massoni

EXECUTIVE SUMMARY

While China is making Africa the new centre of world production, those who are driving the Continental revival are an unexpected group of countries, in particular Angola, Ethiopia, Ghana, Mozambique, Rwanda, Tanzania and Zambia and a South Africa that is no more in the vanguard.

If Africa turns out to be the last global frontier from an economic point of view, in perspective it will turn out to be a frontier from a political point of view too, possibly becoming the battleground for world-wide proxy wars rather than producing mere regional outburst, as it was in the past.

Actually, compared to the past, the Euro-Atlantic block is closing ranks again in the African continent. On the one hand, Paris and London (on behalf of the entire EU) are vying for a blank check over African issues, with the peculiar intention of making sure their respective national agendas coincide with the European ones and not vice versa.

On the other hand, Washington has clearly understood the need to operate systemically through both public and private sector synergies, in order to catch up with China and penetrate thoroughly Africa. Therefore any co-operation scenario among external players (such as the European, the American and the Asian powers) is becoming increasingly less credible in Africa. The African continental institutions are growing in terms of technical skills, capacities and effectiveness of action, mainly due to the diversification of partnerships with emerging economies, though too slowly in regards to the Peace & Security pillar.

Although the number of wars has decreased dramatically compared to just a few years ago, the continuation of endemic armed conflict with the worrying proliferation of non-state players across all crises is still an area of concern. In addition, what is worrying is the more widespread and deliberate simplification of the identification of African conflicts by uses of terms such as 'ethnic' or 'religious' as they do not always reflect the truth. In this context, the rising phenomenon of the Made Happen Failed States (MAHAFS©) is also escalating.

With the ultimate outcome of a regime change, the crisis in Mali blew up, having increased the historical contradictions between the Northerner-Arab-Berber-Nomadic-Pastoral peoples on the one side and the Southerner-Negro-African-Sedentary-Farmer ones on the other side.

Conversely, in the Central African Republic (CAR), the artificial conflict between Christians and Muslims has occurred in a context of previous international inattention towards a structurally latent crisis, which has then justified the military intervention by external parties.

In South Sudan, despite the Dinka vs. Nuer feuds dating back to the dawn of time, the country has always kept in perfect balance and has shown no sign of a major outbreak since. But the seizure of power mainly by military leaders, who then became fully-fledged politicians at a later time, has intensified the conflict by exploiting precisely those frictions and by letting loose their own personal ambitions.

Sahel's negative dynamics are moving eastwards, belting up with the buckling instability of both East Africa and the Great Lakes Region. For this reason, it is desirable that during the Italian Presidency of the Council of the European Union in 2014, Rome calls two ad hoc conferences. One should be on the Greater Horn of Africa (Eritrea and South Sudan included) and one on Libya, so as to formulate and define a new broad Euro-African political vision, something that, more than anything else, is missing in European foreign policies today.

Sahel (Mali)

Following the Franco-African military intervention - 'Operation Serval' - the United Nations Multidimensional Integrated Stabilization Mission in Mali (MINSUMA) was deployed. Despite the recovery of the northern territories, the restoration of constitutional order subverted by the coup of 2012 and the holding of presidential and legislative elections, yet the instability remains, caused by the activity, however weakened, of the *Al-Qaeda Associated Movements (AQAM)* in the region.

Nigeria

The destabilizing activities of the Islamist sects Boko Haram and ANSARU pushed the federal government to maintain a state of emergency in the three states of the Northeast mainly concerned: Borno, Yobe and Adamawa.

Mozambique

There is an increasing degeneration of the political climate ahead of presidential elections next autumn, as the militia of the largest opposition party - the Mozambican National Resistance (RENAMO) - was responsible for a series of bombings in the country.

Guinea-Bissau

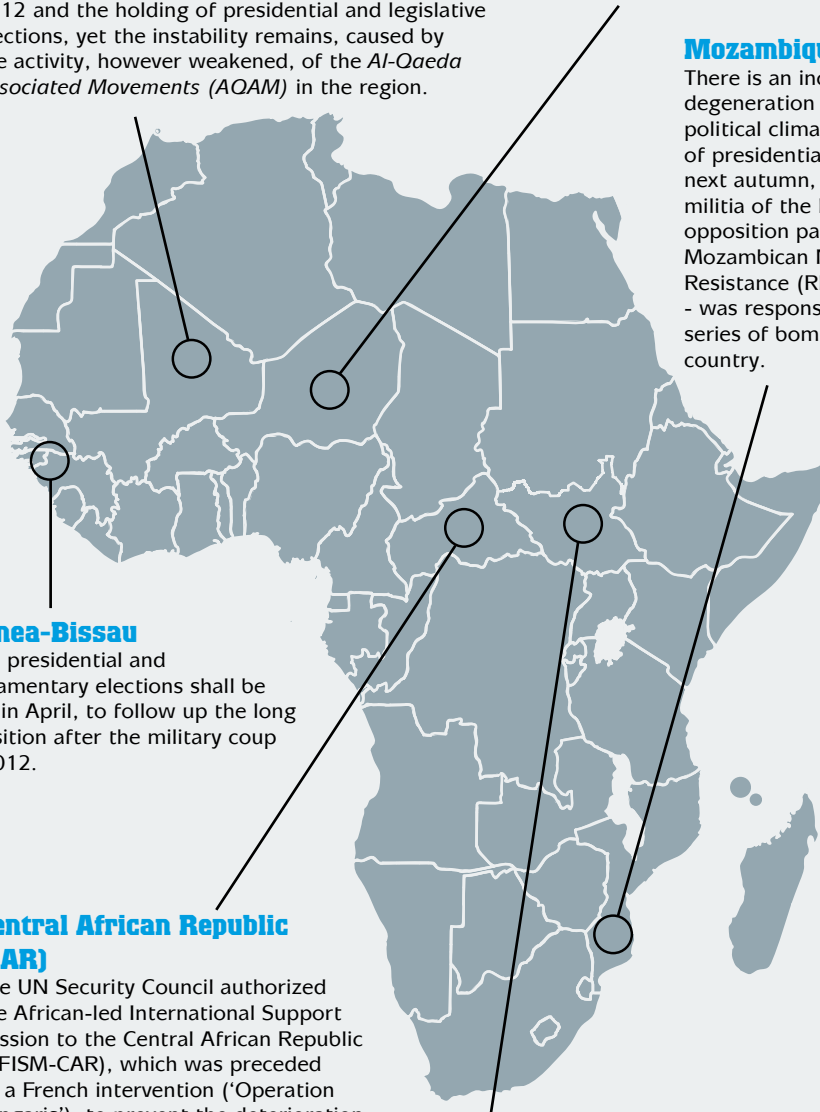
Both presidential and parliamentary elections shall be held in April, to follow up the long transition after the military coup of 2012.

Central African Republic (CAR)

The UN Security Council authorized the African-led International Support Mission to the Central African Republic (AFISM-CAR), which was preceded by a French intervention ('Operation Sangaris'), to prevent the deterioration caused by the clash between the supporters of the former President Bozizé, and the Séléka militias' leader of the coup.

South Sudan

The difficult peace negotiations sponsored by the Intergovernmental Authority for Development (IGAD) are at stake, after the armed conflict between the government, represented by the President Salva Kiir (belonging to the Dinka ethnic group), and the supporters of the former Vice-President, Riek Machar (belonging to the Nuer ethnic group).



SITUATION

The vastness of the African continent requires proceeding by sectors. In *Northern Africa*, the legislative and local elections in Mauritania (24/11/2013) are to be seen as a test ahead of the presidential election scheduled for 2014. However, these elections have been partially delegitimized, when an important coalition of opposition parties decided to boycott them.

Western Africa: in Guinea-Bissau, where the military's complicity with drug trafficking remains the major problem, once again the presidential and legislative elections have been put off (April 2014).

In Mali, Operation Serval (11/01/2013) was launched, in order to counter the Tuareg separatists allied with Al-Qaeda, who were beginning to push into the South of the country. The French-African military operation concentrated on the northern fringes, allowing to disperse terrorist groups across the neighbouring countries, especially in southern Libya, and to begin a national reconciliation.

In March, the French Michel Reveyrand-de Menthon was appointed EU Special Representative for the Sahel (EUSR) and the European Union Training Mission (EUTM) received the task to assist and train the national armed forces and make them operational. Since the 1st of July, the United Nations Multidimensional Integrated Stabilization Mission in Mali (MINUSMA) has been operational. The 11th of August 2013, Ibrahim Boubakar Keita, won the presidential elections. Despite having established a Ministry for National Reconciliation and Development of the Northern Regions, he has ruled out any independence or federalist solution for the North.

Consequently, the general lack of interest in the southern regions for the fate of the North and the still fragile security situation have created a climate of general apathy during the general elections held in November (24/11/2013). By January, Boubakar Keita has consolidated its power by placing family members in all key political positions.

For Nigeria, the US State Department has included Boko Haram together with its splinter, the Vanguard for the Protection of Muslims in Black Lands (ANSARU), in the list of terrorist organizations. The president, Goodluck Jonathan, whose candidacy for the presidential elections of 2015 is taken for granted, has declared a state of emergency in three states in the North-East, namely Borno, Yobe and Adamawa.

As for *Eastern Africa*, works have begun in Ethiopia on the highest and biggest hydroelectric African power plant dam located on the Blue Nile (i.e. the Grand Ethiopian Renaissance Dam - GERD), against which Egypt has taken a firm stand.

In Kenya, the elections led Uhuru Muigai Kenyatta to the Presidency and William Ruto to the Vice-Presidency (4/3/2013), although both were accused by the International Criminal Court in The Hague (ICC) on charges of crimes against humanity following the post-election violence in 2007-2008. The African Union (AU), with the support of China, has asked the UN Security Council to suspend the trial against them. The country was then subject to an Islamist terrorist assault at the Westgate Shopping Centre in Nairobi (21/09/2013).

The Second Conference on Somalia in London (7/5/2013) bestowed a federal structure for the country. Since June 3 in Mogadishu, the United Nations Mission in Somalia (UNSOM), led by the British Nicholas Kay, has been operational. On September 16, the New Deal Compact was signed in Brussels; it is a strategic agreement that aims at pacifying the country, promoting the new political order, the economic and social reconstruction and reform of justice and security.

In Sudan, the reformist faction of the ruling party, the National Congress Party (NCP), founded a new political party, the Reform and Renaissance Party. The region of Abyei continues to be a source of instability: in fact, the 31st of October the official results of a self-determination referendum in favour of annexation to South Sudan were released, although the international community has chosen not to recognize it. Ahead of the 2015 presidential elections in South Sudan, competition was looming for a while up to the last outburst within the ruling party (Sudan People's Liberation Movement – SPLM) between Juba's strong man, President Salva Kiir of the Dinka ethnic group and the former Vice-President, Riek Machar (Nuer). In December, the competition between the two has unfortunately resulted in open armed confrontation. In January 2014 mediation talks were started by the IGAD in Addis Ababa, but at the same time Uganda sent military forces officially to protect its 200.000 citizens trapped by the conflict and evacuate them; in practice, besides, the Ugandan forces have protected key locations in Juba and repealed rebel assaults.

For *Central Africa*, the Central African Republic (CAR) internal conflict's extension up to Cameroon has caught up with Boko Haram rear's incursions. The former CAR president, François Bozizé, now in exile in France, was ousted on March 24 through a coup d'état, led by Séléka, a coalition of rebel movements under the guidance of Michel Djotodia, who since August has been the head of state temporarily. In order to contain the violence caused by the continuous clashes between Séléka's and the local self-defence groups still loyal to Bozizé, the African-led International Support Mission to the Central African Republic (AFISM-CAR), or MISCA, was authorized. This 6/12/2013 deployment was however preceded by the sudden sending of 1.600 French soldiers serving in the Sangaris mission. In January 2014, Mr. Djotodia, incapable of controlling the clashes, had to resign and a new president, Catherine Samba Panza, was chosen. A new coalition and transition government, composed by Muslim and Christian figures, is led by André Nzapayeke, but violence has not yet abated by end January.

In the Democratic Republic of the Congo (DRC), the pacification of eastern regions remains problematic and negotiation phases are interspersed with military operations against the March 23 Movement (M23) that split up into two branches, one of which is a hardliner. In the meantime, the local UN mission (MONUSCO) has been integrated with a new special intervention brigade, which contributed to the defeat of the M23 at the beginning of November, forcing a deal notwithstanding continuing reorganization and recruitment of elements M23 in Rwanda and Uganda (17/12/2013).

As for the *Southern African* region, negotiations in Angola regarding the autonomy of Cabinda seem favourable to the former independence movement, the Front for the Liberation of the Enclave of Cabinda (FLEC).

In Madagascar, Hery Rajaonarimampianina won the December 20 ballot for the presidential elections, backed by outgoing President Andry Rajoelina, against Jean-Louis Robinson, who was supported by former president, Marc Ravalomanana.

In Mozambique, the violence caused by the historic opposition party – the Mozambican National Resistance (RENAMO) – could potentially increase the political tensions ahead of 2014 general elections. By end of January negotiations between government and opposition started again with the help of local mediators.

OUTLOOK

By 2015, seven of the fastest growing economies in the world will be African: Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia and Nigeria, all nations who, having been able to develop and consolidate a diversified range of partnerships not only with Westerner stakeholders, are now freer from unilateral constraints.

On the contrary, some countries fall into the category of the *Made Happen Failed States* (MAHAFS©), such as Mali and the Central African Republic (CAR), whose absence of constitutional order and collapse of governance were ordered, directed and managed from elsewhere.

With Beijing, Africa is set to become the new centre of global production, thanks to its pan-African policy and the fact that China is the only global power able to export capital, human resources, technology and goods at the same time. In order to be able to bear the cost of the workforce, Beijing shall be forced to displace a more consistent critical mass of it in Africa with predictable problems of integration at local level.

The remaining African countries to maintain official relations with Taipei and not with Beijing are: Burkina Faso, São Tomé and Príncipe, and Swaziland. The so-called Beijing Consensus is the way in which Beijing has diplomatic relations with African states – providing exclusivity with China at the expense of ties with Taiwan.

The attempts of the European Union (EU) to recover an adequate presence in Africa will keep on being ineffective, as long as the initiatives of individual national agendas of the EU member states continue to influence the unity of purpose of the common diplomatic action.

Within the framework of a burden-sharing strategy, one can witness the recurrent phenomenon of the *Controlled Multilateralism* (©) in the form of tacit consent or unspoken mandate to particularly self-confident international players, without necessarily sharing the total dividends of each operation. France is the only EU member state to be able to take advantage of the Common Security and Defence Policy (CSDP), as a multiplier of projection of its national power.

President Obama, following his June/July African tour of Senegal, Tanzania and

South Africa, presented the 'Power Africa' initiative, a development plan aimed at helping those countries that, despite being characterized by high economic growth, cannot sustain their energy needs due to the burden of inadequate, costly, outdated and polluting infrastructures. In essence, the ultimate goal is to ensure a capability to produce up to 10.000 MW of clean energy in the next five years.

As far as *West Africa & the Sahel* are concerned, Guinea seems to have somewhat recovered somewhat from the institutional crisis begun in 2009, having successfully completed the election process with the administrative poll (28/09/2013), whereas Guinea-Bissau will continue to be a source of instability, in spite of repeated announcements and referrals that free and democratic elections will occur. It will therefore be inevitable a growing role of the Community of Portuguese Language Countries (CPLP) in the mediation process.

The leadership of the President of Burkina Faso, Blaise Compaoré, shall be confirmed through an extensive revision of the Constitution, so as to be able to run for the 2015 presidential elections, being of paramount importance his role of regional mediator. As to the reorganization of the Al-Qaeda Associated Movements (AQAM), the Algerian Abou Said Moughatil became the new leader of Al-Qaeda in the Islamic Maghreb (AQIM). Moreover, it is worthwhile noting that the Brigade of the Signers in Blood (Katiba al Mulathamini), led by Mokhtar Belmokhtar originated after the merger with the Unity Movement for Jihad in West Africa (MUJAO). Libya seems to be one of the new main logistical bases. Until a response in terms of a comprehensive development is not effectively implemented, as advocated by the UN Integrated Regional Strategy for the Sahel, the deep causes of the crisis in Mali can easily replicate elsewhere across the region.

Regarding *Eastern Africa*, the prime minister of Ethiopia, Hailemariam Desalegn, also in his capacity of Chairman of the African Union (AU) for 2013, stated he would be willing to open negotiations with Eritrea in regards to the long-standing border dispute. After the war of 1999-2000 and the subsequent Algiers peace agreement, tension remained in the whole of East Africa with Eritrea often considered the regional spoiler.

Such an explicit proposal of détente by Addis Ababa in favour of Asmara ought to be grasped as an important signal towards the international community, in order to open a window for the urgent normalization of Eritrea in the area. In this context, under the six-month Presidency of the Council of the European Union in 2014, Italy could take advantage of convening an ad hoc Conference on the Horn of Africa, even by making capital of the inner turmoil in South Sudan.

The differences between the President of the Republic of Somalia, Hassan Sheikh Mohamud, and the former Prime Minister, Abdi Farah Shirdon 'Saaid', based on their respective clans¹, which had hindered the normal restoration of national

¹ The clan defines a parental exogamous group, having a common ancestor as common descent. Besides, the clan, which functionally acts as a corporate group on the basis of an ex ante criterion of membership, from a legal standpoint can act as a de facto non-state actor.

institutions functioning, were for the time being overcome with the appointment of the new PM, Abdiweli Sheikh Ahmed.

In Sudan, the political survival tactics of president al-Bashir could induce him to stiffen his radical positions, in order to satisfy those Islamist fringes, which otherwise could soon replace him in power.

Central Africa has on one hand become the junction between the British, Israeli and US interests with their epicentre in Rwanda and Uganda, and the French ones, which are lined up by a straight longitudinal axis, linking the Mediterranean to the Central African tropical forest through the Sahara, the Sahel and the Savannah. Along this virtual fault Paris and Washington respective strategic spheres of influence are establishing a geopolitical encirclement girded around the Great Lakes Region. Yet, these two forces share the need to contain the inevitable future expansionism of Beijing in Africa.

Proof is that the real cause of the Central African Republic's collapse was due to Bangui moving his foreign and defence policies away from the traditional French orbit to those of China and South Africa. By contrast, Chad is perfectly in line with France, while the leadership of Cameroon could be the next to fall.

Concerning the pacification of the eastern regions of the Democratic Republic of the Congo (DRC), the only conditions for a real disarmament of the M23 will be the dismantling of the Democratic Forces for the Liberation of Rwanda (FDLR) – an expression of the Rwandan Hutu rebellion backed by Kinshasa – along with the repatriation of Congolese refugees fled to Rwanda, Uganda and Burundi.

Regarding *Southern Africa*, if South Africa is no more a reference model, other emerging African economies are trying to replace it, becoming more attractive to foreign investors. An era is over for the rainbow nation, symbolically coinciding with the death of Nelson Mandela, but in fact caused by the conjunction of the malpractices of the African National Congress (ANC), whose leadership is now completely discredited, a macroeconomic discontinuous performance and the rise of serious social problems.

The International Contact Group on Madagascar (ICG-M) of the African Union and the negotiator on behalf of the Southern Africa Development Community (SADC), Joachim Chissano, have painstakingly prepared for the restoration of the constitutional order in Madagascar. It is hoped that it will demonstrate its effectiveness with the completion of the troubled electoral process during the first months of 2014.

Mozambique, thanks to ENI's discoveries, is about to become the largest regional exporter of natural gas, mainly intended for Asian markets. Inevitably, the opposition parties would also take advantage of such fortune, as the resurgent political tensions show.

In Zimbabwe, with the victory of the July 31 presidential elections, the umpteenth confirmation of Robert Mugabe will push the EU to ease sanctions, so as to improve bilateral relations, as long as a realistic political alternative is made available in the country.

Russia, Central and Eastern Europe, Central Asia

Lorena Di Placido

EXECUTIVE SUMMARY

In 2013, Russia committed itself to strengthen its role as a regional power, reinforcing firstly the traditional ties with the former Soviet republics and laying the foundation for renewed cross-border cooperation with China.

This strategy aims to capitalize traditional relationships in order to enhance the prestige and power of attraction necessary for an economic recovery and an effective outward projection. This strategy resulted in a great activism in order to diversify productive activities, through development projects targeted at the eastern regions of the country and at the expansion of cooperation in Eurasia.

During the year, the attraction of former Soviet countries by the new Customs Union forced them to define their position vis-à-vis the other integration path heading towards the EU. The outcome of this positioning will become evident in 2014, setting a new balance of power in the South Caucasus and in Central-Eastern Europe.

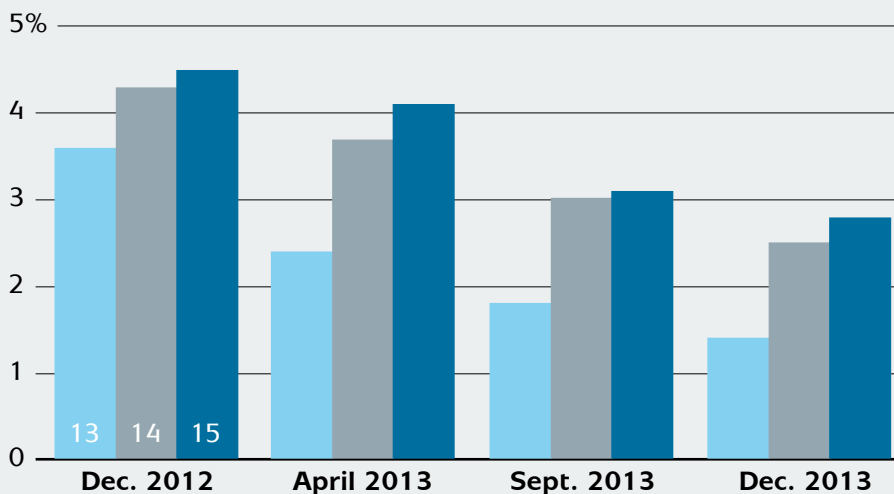
From the point of view of security, Moscow's leadership is facing the threat of religious extremism. In the meantime a new risk perception is emerging identifying the mass of illegal immigrants in the country as a substantial threat to stability and social order.

For the Central Asian region, 2013 was on the whole a year of transition to the exit of the multinational coalition in Afghanistan originally scheduled for the end of 2014. Since a regional response to the spread of illicit trafficking and the migration of extremists from Afghanistan is lacking, the security framework appears to be fragile and rather compromised.

No regional forum has taken (nor it seems wants to take) responsibility to ensure the security of the Central Asian countries. While the presence of a Russian contingent to guard the border between Tajikistan and Afghanistan does not seem decisive, the situation has been worsened by different bilateral disputes in the area, which remain difficult to resolve.

During 2013, the phenomenon of veteran extremist fighters coming back home from the Syrian front emerged as a common national security problem both for the Caucasian and Central Asian republics. The concern of local leadership concerning proselytism and subversive or terrorist activities will not abate any time soon.

China has confirmed its effectiveness in penetrating the whole of the Central Asian economic region and there are good prospects that this trend is likely to persist or even get stronger. Thanks to the good bilateral relations with Russia, China promotes an effective co-management on projects of common interest in the area under the auspices of the Shanghai Cooperation Organization.



In the last year, Russia's government has repeatedly cut its GDP forecasts
Source: Russian Economy Ministry

SITUATION

The situation in Russia is marked by economic and security problems at the domestic level and by a renewed dynamism in foreign policy.

The decrease in investment and exports in recent years has resulted in a slowdown of the economic growth (4,3% in 2011 to 3,4% in 2012). Forecasts from the ministry of Economy confirm this trend for 2013, with a GDP growth of around 1,4%.

President Putin has asked the government to implement a plan of economic measures to stimulate domestic demand and to strengthen the fight against corruption. However, a plan for structural reforms is still missing. Meanwhile a very expensive regional development programme for the period 2014-2025, called the “Economic and Social Development of the Far East and the Baikal region”, was approved (April 2013). Its main aim is improving transport and energy infrastructure.

In August, in order to strengthen national security and preserve social order, a law that penalises illegal migrant workers entering and staying in the Russian Federation was enacted with fines, imprisonment and the possibility of deportation as penalties. Moreover special collection centres for illegal residents have been set up.

North Caucasus remains considerably instable. The alert level was further increased (3/7/2013), following an appeal launched by the Islamist leader Doku Umarov to militants of the Caucasus, Tatarstan and Bashkortostan, to make every effort to stop the Winter Olympics in Sochi (7/2/2014).

Russia is making a considerable effort to transform by 2015 the Customs Union established in 2010 between Russia, Belarus and Kazakhstan in a Eurasian Economic Union on the EU model. Moscow attaches enormous importance to this, since it would involve many former Soviet republics and strengthen traditional business relationships.

These aims are in stark contrast with the Eastern Partnership initiative launched by the EU, putting the former Soviet countries in the difficult position of having to choose between the two options. The 18th of November Armenia announced that it will join the Customs Union by February 2014. At the Eastern Partnership Summit in Vilnius on 28-29 November, Georgia and Moldova signed association agreements with the European Union, while Ukraine has opted for closer relations with Moscow (sanctioned with a financial agreement signed the 18th of December), sparking violent and sustained protests in Kiev and other major cities in the country. Tension eased only between 20 and 21 February 2014. Thanks to the mediation of the Foreign Ministers of Poland, Germany and France, President Yanukovich and opposition parties reached a three-points agreement which foresees: a return to the 2004 constitution, the formation of a national unity government (established on February 26) and early presidential elections (appointed on May 25). On February 22, the parliament voted on the decadence

of Yanukovych and on the same day his main political rival, Yuliya Tymoshenko, was released from jail. The situation is normalizing in the capital but symptoms of bias are affecting the pro-Russian areas of the country particularly Crimea.

The same efforts to protect foreign interests have been successfully developed on the Syrian issue, where Moscow has managed to avert the possibility of a France-USA led bombing. It has successfully proposed the disarmament of the Bashar al-Assad chemical arsenal. In May 2013, the Russian naval presence in the Mediterranean was strengthened.

In Eurasia, a source of significant concern is represented by jihadi veterans returning to their home countries. In particular, according to May and October 2013 data, about six hundred Central Asian volunteers have joined the war in Syria.

Governments and Central Asian specialists in counter-terrorism believe that due to jihad veterans, there will be an increase in the flow of illegal trafficking and a flow back of jihad groups towards their countries of origin to reorganize new operations.

To limit this risk, Central Asian governments have introduced new controls on religious activities, while those that do not have adequate security systems, rely on cross-border military-technical agreements with reliable partners.

For this reason, under an agreement signed on October the 1st, a Russian military contingent will remain in Tajikistan until 2042 to carry out anti-terrorist activities and provide technical support for the modernization of local security forces.

The good economic relations that China enjoys with many Central Asian countries have been further strengthened. Energy, mining and the construction of new infrastructures remain key sectors for investment.

Russia and China made use of the Shanghai Co-operation Organization in their efforts to co-manage the Central Asian region, in search of a harmonious and balanced collaboration, free of any critical issues.

OUTLOOK

On the threshold of 2014, the economic environment of the Russian Federation seems weak and growth forecasts show a steady decline, which amounted to the lowest levels since the crisis of 2009 and compared to the first two terms of Putin's presidency. Finance minister, Anton Siluanov declared (December 6) that, due to the current trend, Russia will have a period of stagnation that will have negative effects until 2016-17, so that hardly any of the spending commitments made for the next two to three years will be honoured.

In such a frame, Russia will continue to implement the economic development plan of the Far East Russia with even greater conviction, guaranteed by the personal involvement of prime minister Dmitry Medvedev. According to Kremlin plans, investments in less developed areas of the country, together with

the exploitation of local resources and the intensifying of cross-border trade with China, could open a new phase of general growth, reducing the dependence on the sale of hydrocarbons.

The plan represents a further strengthening of Russian bending on regional interests, thus confirming itself as the catalytic power of the former Soviet countries and focused on strengthening political relations, routes and trades of various kinds with China and Far East Asia. Until today, Russia's most economic dynamism in decades has been concentrated in the east. However, there is the risk that the dynamic macroeconomic focusing on the development of such a vast territory with the reconstruction of infrastructure and business in only one direction might fail. In other words, the hoped positive economic chain reaction that should spread from the periphery to the centre, may not start or remain limited .

Another area of strong interest on the part of the authorities in Moscow is the Arctic, currently linked to military-strategic priorities more than the exploitation of resources.

The Eastern Partnership EU summit in Vilnius (November 2013) has become a test of belonging to the pro-European or pro-Russian / Eurasian deployment, sanctioning a contrast that, as expected, has gone far beyond merely legal reasons. If in the previous debate the choice of belonging to the European Union or the newly-formed Eurasian Union would have precluded the possibility of trading with a member of the other block (due to reasons related to the legal constraints that govern the free trade zones) the pressures exercised by Moscow on the candidate to the EU countries of Central and Eastern European rather have given way to a purely political speculation.

Moldova and Georgia, choosing to continue on the path of integration in the EU, are exposed to economic retaliation by Moscow. In December, Ukraine accepted financial aid from Moscow amounting to 15 billion Euro. Following the internal crisis of recent months, Ukraine needs either to stabilize political and social order and to adopt urgent measures to avoid the country financial bankruptcy. 25 billion Euros are needed to save Ukraine. The International Monetary Fund and other donors could be available to provide advice and funding, provided that a government with full powers intends to implement a plan of structural reforms. Moscow - which had already frozen the aid promised Kiev last December, prior to the evolution of the current crisis - has ruled out the possibility of maintaining privileged commercial relations with Ukraine, should it sign economic and financial agreements with Brussels. The secessionist forces in some areas of the country complicate the situation, adding additional obstacles to the normalization of relations with Moscow.

During 2014, the preventive and repressive counter-terrorism operations will continue in the North Caucasus in southern Russia and in major urban centres beyond security requirements related to the conduct of the games: the high alert

continues unabated and, indeed, is accentuated due to the phenomenon of the return of Islamic militants by Afghan and Middle Eastern theatres of crisis.

Around the Winter Olympics in Sochi ethnic and political elements intertwine with the urgent issues of security and are an ideal setting to manifest itself with a force and intensity hitherto dormant. The opportunity to reinvigorate national pride offered by the games is certainly important, but there are too many disturbing elements that threaten to ruin Moscow's plans. First of all there is the risk of terrorist attacks by Islamic elements and street protests that, despite being heavily banned, may still be held by ethnic minorities, like the Circassians, that consider themselves oppressed since the days of the Tsars. The risk of attack is extended to the whole country.

The tendency to regard the mass of illegal migrants on the territory of the Federation as the enemy within the national boundary is likely to continue also in 2014. Beyond the narrow mode of repression of illegal immigration, this phenomenon also has international aspects having to do with the countries of origin of the migrant workers.

Russia may threaten the forced return of illegal migrants of a certain ethnic or national group if new and more tense bilateral disagreements with those migrants' home countries should emerge. This threat is foreseen, for example, against Moldova at the time of signing of Vilnius agreement. The foreigner and the stranger continue to be perceived as a threat to social and political order increasingly self-referential and closed in.

Outside of regional space, Russia continues in the consolidation of a clear military position in the Mediterranean region, close to the scene of the Syrian crisis, which involves its traditional allies.

At the critical threshold of 2014, by which time most of the NATO forces leave Afghanistan, the fragility of the security framework of the Central Asian region is shown, as it is devoid of a local force that can replace the international coalition still active in the country. The limits, of regional cooperation (unable to meet the security needs, focusing more on economic interests) and the inherent difficulties in bilateral relations between the states coming to Afghanistan, emerge.

Between Uzbekistan and Tajikistan disagreements remain for the exploitation of water resources and likely to arise are new phases of acute tension, to the detriment of a proactive and collaborative atmosphere between the actors of the area. Even the regional forums seem to lack the necessary tools to provide a solution to the common security issues, while offering a more effective framework to support projects aimed at economic development and upgrading of infrastructure. The efforts made by Russia, on a bilateral basis to support the armed forces at the Tajik border, are unlikely able to contain the spreading of the flow of illegal traffic from that area throughout Central Asia and up to Western Europe .

China

Nunziante Mastrolia

EXECUTIVE SUMMARY

2014 might be labelled as the year when wide-ranging reforms started, as they have been put forward by the Third Plenum of the CCP Central Committee, entailing the successive reactions and objections from the sectors involved

First, there are the political reforms, which will probably follow the guidelines expressed by Xi Jinping: “Power should be restricted by the cage of regulations”, and “No organization or individual should be put above the constitution and the law”. This means both limiting as much as possible the margins of discretionary powers and carrying out in full what is stated in the principles and institutions foreseen by the Constitution, e.g. a greater independence of the judicial (the People’s Supreme Court) and the legislative power (the People’s National Congress).

Along with that, there will be economic reforms, whose core principle is the “decisive” role that the new leadership has attributed to the market forces in allocating resources and producing wealth, which entails devolution of power and functions to the market. That is, a deregulation and liberalisation process of those sectors that were earlier in the state domain. This also implies giving more room to the civil society with the chance of setting up free trade unions and industry associations. Once they are carried out, these reforms will unravel the knotty problems that risk strangling Chinese development.

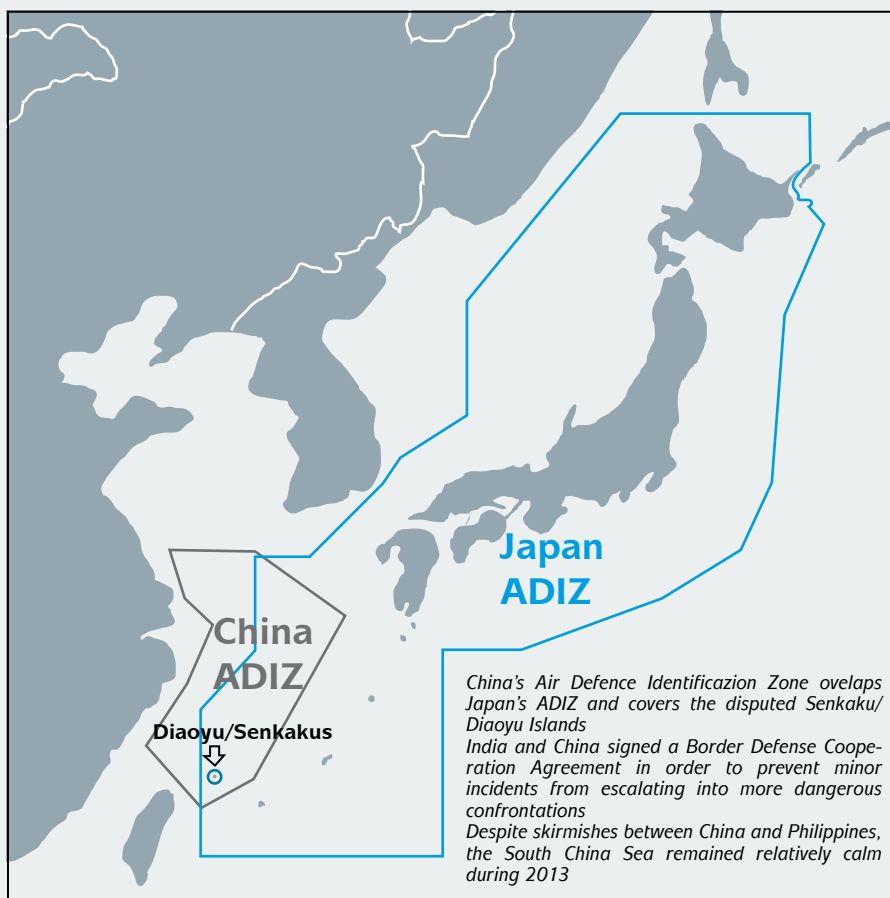
The stronger the new leadership’s determination in carrying out these reforms will be, the stronger the resistance by all those interests threatened by change. That is, part of the state-owned enterprises and state banks, part of the military and the security apparatus and part of the vested interests inside the party.

Therefore, the new leadership has to strengthen its own grip on the Party and on a part of the administrative apparatus. Hence, the setting up of two new institutions, both chaired by Xi Jinping:

The State Security Committee, that could reduce the importance of the powerful Political and Legal Affairs Committee, and the Central Reform Leading Group, that will steer the country's reform agenda.

One may assume that this reforming process, and the subsequent oppositions, can have an impact at a regional level according to the following equation: the greater the strength of the reformist leadership, the fewer the tensions with the neighbouring countries, particularly in the South and East China Seas. This would imply both progress in the existing regional trade integration projects with Japan and South Korea on the one hand and ASEAN countries on the other, as well as a possible Chinese participation in the Trans-Pacific Partnership initiative.

Should the new reformist leadership fail to succeed in removing the obstacles impeding the carrying out of the reforms, one may assume an increase in tensions with the neighbouring countries, which will ensure further fragmentation of the regional chessboard.



Government spending on medical and health care increased by 27.1 percent year on year in 2013 to **260,25 billion yuan** (43 billion U.S. dollars) and to **655,081 billion yuan** (108 billion U.S. dollars), up 13.9 percent, for social security and employment.

The central budget for education increased by 9.3 percent in 2013 to **413,25 billion yuan** (68 billion U.S. dollars) and to **252,991 billion yuan** (41,8 billion U.S. dollars), up 10.4 percent, for science and technology.

China's central budget allocated **720,168 billion yuan** (118,9 billion U.S. dollars) for national defense in 2013, up 10.7 percent from the previous year and **202,937 billion yuan** (33,5 billion U.S. dollars), up 7.9 percent for public security.

Source: Xinhua

SITUATION

2013 may be labelled as the year of sabre rattling between the rival factions with Xi Jinping and Li Keqiang's group of reformers having the upper hand. The Third Plenum of the Chinese Communist Party's Central Committee passed a series of reforms that could trigger an enormous change in the country's contemporary history, once they have taken shape.

Thus, the Third Plenum is essential to understand what has happened during the year and understand President Xi Jinping's drive for reform along with the Conservatives' balancing actions. On the one hand, there is the question of enforcing the Chinese Constitution, on the other document n. 9, which has brought about a stricter control and censure on the media, social networks and the academic world.

In light of the results achieved by this conference, contradictions emerged between reformists and conservatives, in a conflict among those who want to put China on the road leading to an open society and those who want to hold the country back to a closed society. According to Xi Jinping, heading to an open society means that "Power should be restricted by the cage of regulations", that is to say, shrinking the margins of discretionary power "establishing a scientific and effective means of power restriction, with a coordination mechanism"

At the same time, the reformers want to divide the power horizontally among the constitutional bodies and, vertically, widening the area of individual rights and the independence of both the civil society and the market. This implies putting the Chinese Constitution first, a Constitution that contains many principles and concepts of the western liberal tradition.

Xi Jinping recalls to the Constitution have been accepted by the Third Plenum that has strengthened the power of the people's National Assembly to review the constitutional legitimacy of the governmental acts and policies, which could *de facto* guarantee a fuller and stricter enforcement of the constitutional principles and institutions.

Xi Jinping's frequent statements concerning judicial independence find a correspondence, even though still embryonic, in the decision to explore the establishment of a judicial system that is suitably separated from administrative sectors. "Ensure independence and fairness in courts and prosecuting bodies. Unify the management of staff members and properties of courts and procurators below the provincial level. Separate the jurisdiction of courts from administrative divisions". The goal is clear: to improve the transparency of legal proceedings and find ways to reduce the direct control of courts and prosecutions by local governments.

Speaking about economics, Li Keqiang has worked throughout 2013 to carry out a process of liberalisation and deregulation of the economy in order to give to private firms more room for initiative, so as to unleash all the market potential and strengthen economic pluralism. By implication, the public hand must retreat from its current powerful role in allocating resources. That is to say that the government has to play a regulatory, rather than a direct intervention role.

All these initiatives in the economic field are in harmony with the decisions of the Third Plenum, where the CCP has celebrated its “Bad Godesberg”, like the German Social Democratic Party. Without giving in to the neoliberalist paradigm or dogmatists radical attitudes, the Chinese reformists have established a division of tasks between the state and the market in the economic field: “Market whenever possible, the state when necessary”, as it was said in 1959. In this context, we can see the continuous commitment of establishing a Chinese welfare state that can boost the development of a rich and prosperous middle class.

For all that, the reforms put forward by the Third Plenum are political rather than economic and can untie the knotty problems that might have strangled the Chinese miracle.

However, regional tensions could have a negative impact on this process. The Air Defence Identification Zone (ADIZ) is the point of maximum tension in the constant frictions between Japan and China in the East China Sea during the past year. This is a precedent that could jeopardize the detente attained in the South China Sea and along the Indian border.

In the meantime, the integration process among regional countries is going on, as demonstrated by the third round of talks between Japan, China and South Korea in an attempt to establish a free trade area by 2015, and also by China's first steps to join the Trans-Pacific Partnership.

The somehow vague and isolated signs of opening up that occurred during this year have been asserted by the Third Plenum and this may be seen as the return of China to the path leading to the open society.

OUTLOOK

Two events symbolise the two different trends that could shape 2014. On the one hand, there are the political, economic and social reforms put forward by the Third Plenum, on the other hand the establishment of the Air Defence Identification Zone (ADIZ) in the East China Sea.

The reforms suggested by the Third Plenum reactivate the transition process that started in 1978. The core of this process lied in the gradual

devolution of powers functions both horizontally, towards the institutions provided by the Constitution, and vertically towards the civil society – opening the possibility of setting up free trade unions and industry associations – and towards the market for its “decisive” role in producing wealth. This process involves also State-Owned Enterprises (SOE). If it is true that SOEs will not be privatised (the 60-point plan makes clear that state ownership must still play a leading role in the economy), it is also true that SOEs will be subjected to much more intense competition and tighter regulation, without relying on favourable financing by state banks.

Moreover, according to the Third Plenum, the military apparatus will also be reformed, in order to increase its efficiency and battle-readiness: “Major goals of the reforms include bringing China’s military fully into the information age, revamping the command system for joint combat, and reforming the leadership structure, reducing non-combat organs and personnel”.

The national security system may also be affected. In particular, the Political and Legal Affairs Committee structures and functions might be thoroughly changed by the creation of the State Security Committee. Another sector where the new leadership is particularly active is the fight against corruption of the Party members and civil servants with investigations and sentences involving tens of thousands of people. Local governance will also have to change, focussing more on growth quality and on building a more equal and fair society rather than only on gross domestic product growth.

Each of these reforms will threaten powerful vested interests. Therefore, if reformists actively pursue the agenda that has been detailed by the Third Plenum, the stronger and more determined are the reformists, the stronger the opposition will be. Much of that opposition will come from the above mentioned sectors: SOEs, security service and military apparatus, local government and from all those who perceive that their personal interests are in danger or who risk losing power due to change.

The strength of this reaction will be inversely proportional to the control capability, firmness and cohesion of the reformists’ leadership. Hence, the necessity that the leadership has to strengthen its own grip on the Party and on a part of the administrative apparatus, e.g. Xi Jinping’s presidency of the new-born State Security Committee and of the Central Reform Leading Group. “By establishing these two high-level groups, Xi is making clear that he will be the arbiter of all disputes, and that security issues will be

taken seriously but not allowed to obstruct crucial economic or governance reforms.” A two-way motion is expected: devolution of some functions and powers and a concentration of other powers and functions in the hands of the new leadership.

To express that in one conceit, one could call this a phase of “authoritarian reformism” as was the case with Mustafâ Kemal in Turkey or with Peter the Great in Russia, a necessary phase to eradicate all the obstacles impeding the carrying out of the reforms. Should this fail to happen, the reaction of those who object to the reforms will be harder.

An example of what might happen can be seen in the way the ADIZ was set up. At a regional level, one may assume that the reformists are interested in normalising the relationship with the neighbouring countries, speeding up the free trade area with Japan and South Korea on one side, and with the ASEAN countries on the other, deepening the cooperation with the USA, and joining the Trans-Pacific Partnership, from which China is still excluded. To make this process successful, it is necessary to subdue all tensions in East and South China Seas.

In this context, the way the ADIZ was set up (suddenly and with no previous communication) does not appear to be functional to this integration process. Consequently, one can assume that there is a connection between the ADIZ and the results of the Third Plenum: the way the ADIZ was created can be seen as the first reaction of those who are interested in blocking the reforms.

The tough reaction of Washington, Tokyo, Seoul, and Canberra puts the leadership in a position where it has to make a choice: either to disavow the ADIZ, which could be seen as a sign of weakness, or increase the already existing tension. Setting up an ADIZ in the South China Sea would be particularly dangerous, as it would result in frustrating all progress achieved during 2013. Therefore, if this analysis is correct, all those who oppose the reforms might be interested in increasing regional tensions.

Bearing this picture in mind, it is possible to assume that even at home there may be tensions and uncertainty to the detriment of the reformists caused by scandals involving one or more of them. Secondly, a serious breach of human rights would potentially cause public anger internationally.

The reforms the country needs have been defined clearly and it is urgent to carry them out, so as to have new economic growth and heal China’s social wounds. Yet, if the reformists’ intervention is ample and exhaustive and if the leadership is not firm and cohesive, more tensions are expected.

At national level, these tensions may weaken the leadership of reformists. At the international level, new tensions with both the USA and neighbouring countries may arise.

India and the Indian Ocean

Claudia Astarita

EXECUTIVE SUMMARY

In 2013, the only priority for the Indian government, led by a coalition headed by the Congress Party, has been the one of gaining new consensus in view of 2014 forthcoming elections. To achieve this aim, the government focussed on three issues. First, ensuring that the current internal economic and political crisis would not lead to the fall of the government resulting in early elections. First, prepare for the transition identifying the right Prime Minister candidate for 2014 elections. Accordingly, Rahul Gandhi, the eldest son of Sonia Gandhi, was chosen, and the current Prime Minister Manmohan Singh worked a lot to make sure that Rahul could be accepted and supported by the Congress Party and could gain trust and sympathy among Indians approaching people with a message of hope and renewal.

Secondly, to cope with national economic, financial and social problems, Singh's government tried to prove to be strong and far-sighted by designing and implementing a set of reforms allowing to get some real results in short time, just to regain credibility.

At the same time, and again for electoral purposes, New Delhi has embarked on a series of social and political initiatives. The most important one was assuring the distribution of food to poor people at controlled and subsidised prices, followed by the pro-autonomy position the government chose to respond Telangana pro-autonomy claims.

It is still difficult to forecast whether, if re-elected, the Congress Party will be able to face the consequences of all these initiatives, which are particularly onerous both from an economic and geopolitical perspective. At the same time, it would be interesting to see if a more nationalist government led by the opposition leader Narendra Modi might decide to endorse these initiatives or not. Despite being a very controversial political figure, the leader of the opposition party BJP (Bharatiya Janata Party) has achieved astonishingly economic and political results in Gujarat, the state he has been ruling for the last 12 years. It has also gained the support of mostly young people and business people in India.

Finally, in 2014 it will become extremely urgent for New Delhi to reconsider its foreign policy. Even in this case, the challenges are many. The most important one is linked to the repositioning of the United States in Asia, especially since the famous “Pivot Strategy” has proven to be meant to consolidate the American presence not only in the Far East and the Pacific, but also in South Asia and in the Indian Ocean.

The geostrategic balance of this region is changing, and India can no longer afford to keep it in the background. It would be crucial for New Delhi to reshape its political, economic and strategic connections with Pakistan (especially in view of the forthcoming withdrawal of NATO troops from Afghanistan), and with South Asia’s smaller countries (Maldives, Nepal, Sri Lanka and Bangladesh).

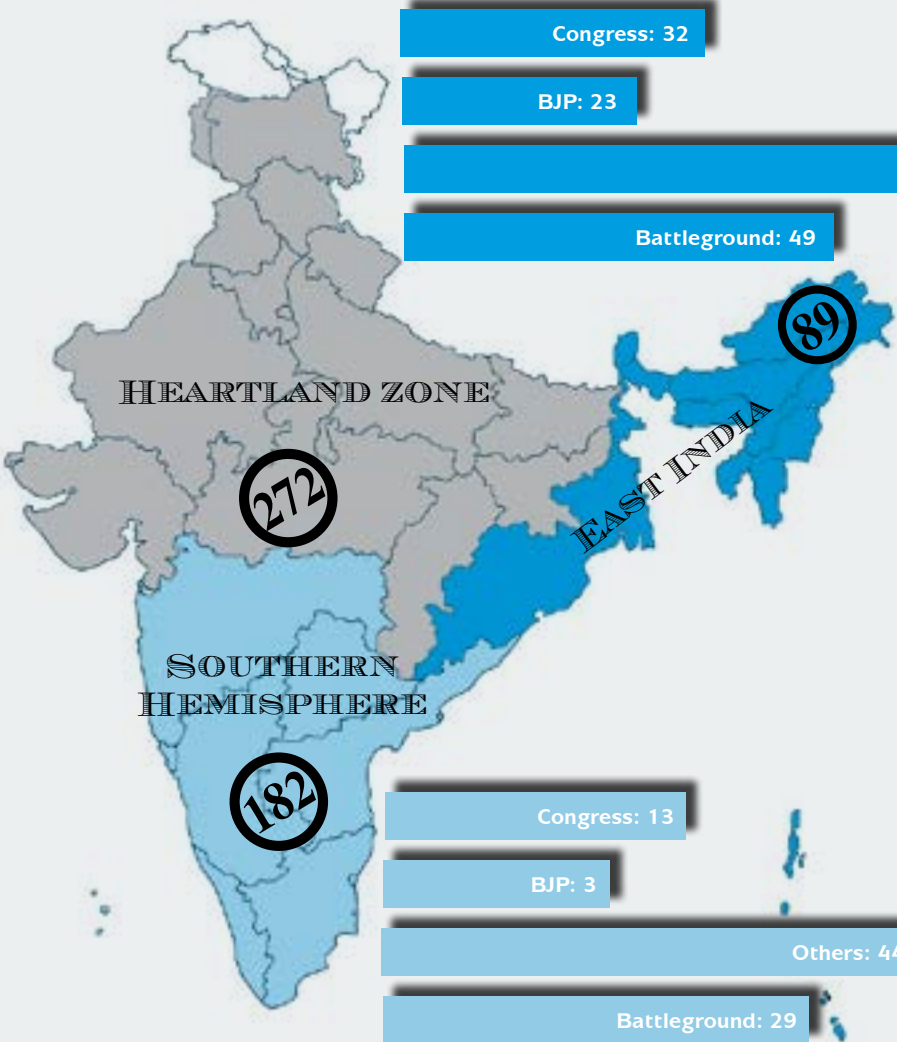
The 2014 Electoral Map of India

Congress: 14

BJP: 111

Others: 45

Battleground: 102



India, General Election 2014. Projections elaborated by author.
Source: Five Forty Three (<http://54ty3.in>)

SITUATION

2013 has been another very difficult year for India. However, differently from what happened in 2012, the Manmohan Singh government achieved numerous results that many people, including several elements of the majority coalition and the Congress Party, would not have expected.

First, it is important to highlight that the Prime Minister Manmohan Singh is still in office. This is a significant fact, proving the recent reinforcement of a Congress Party that successfully chose and implemented the right reforms to get some more support from the people and consequently avoiding early elections.

At the end of 2012 Singh, aware of the dangers linked to the adoption of unpopular reforms by looming election, made it clear that it would have been even more risky to keep on passively observing the rapid decline of the country. For this reason, in one of his end-of-the-year speeches, he officially committed to approve the reforms needed to address national political, economic and social priorities. Twelve months later, with several results achieved in many areas, he successfully created new expectations within the country about the usefulness of reforms.

From an economic perspective, the tenacity, commitment and determination of both Finance Minister Palaniappan Chidambaram and the newly elected governor of the Reserve Bank of India (RBI), Raghuram Rajan, helped the country to achieve three results:

- Increasing the degree of openness and transparency in the Indian market,
- Contributing to the improvement, albeit limited, of its fundamentals
- And recovering, even if only partially, the confidence of foreign investors.

It was only by the end of 2013 that foreign investors started believing that India, no matter how chaotic and poorly managed is, can offer several economic opportunities as well as an acceptable basis of transparency and predictability.

It is worth mentioning that one of the most important initiatives that has resulted in the consolidation of new perspectives has been the liberalisation of the retail and civil aviation industries. In addition to this, the simplification of bureaucratic procedures, aimed at strengthening foreign participation in infrastructure projects, the reduction of fuel subsidies and the approval for foreign banks to enter the Indian market.

On the social level, the government has been trying to approach poverty-related problems in a more pragmatic way. The National Food Security Ordinance has been approved to guarantee the distribution of rice and grains at a subsidised price. Furthermore, for the first time the Indian government agreed to discuss the problem of the autonomy of Telangana, bravely accepting its detachment from Andhra Pradesh.

Finally, Manmohan Singh has done his best to manage the rise of Rahul Gandhi, the eldest son of Sonia Gandhi, who is now the Prime Minister candidate for the Congress Party. With regard to his candidature, it should be remembered that, until a few months ago, it was not clear whether he intended to work in tandem with his sister Priyanka (who is now completely out of the picture), or whether the Congress Party was keen on supporting Rahul for real.

Also on the political level, the inability of regional parties to create a solid third pole should be mentioned. They failed in identifying both a policy and an acceptable Prime Minister candidate.

Finally, a few words are needed to introduce the Bharatiya Janata Party (BJP), the main opposition party whose candidate is Narendra Modi. Modi is alleged to have played an important role in 2002 Gujarat massacre, a tragedy that caused the death of nearly one thousand people between Hindus and Muslims, for which he always refused to apologise. Modi started his national campaign focusing on economic growth, well-being and transparency; that is the results he successfully achieved in Gujarat where he has been acting as Prime Minister for the last twelve years. Today, the hope of his supporters is to see him achieving similar results all over the country.

Loved by young people, businesspeople, and middle-class Hindus, Modi, now 63 years old, having confirmed his leadership within the country, is now endorsing populist initiatives to win the sympathy and the vote of Indians.

OUTLOOK

It is extremely difficult to forecast which leader, political party and coalition the Indian voters will choose to represent the country. However, to better understand what India is going to do, it would be useful to keep on monitoring its choices in terms of internal, regional, and foreign politics and economics.

As far as domestic politics and economy are concerned, there are two elements that cannot be underestimated: the results of the forthcoming national elections, and the future implications of the initiatives supported by the Congress Party during the last few months.

Regarding elections, it is quite difficult to forecast who is going to win. There are some analysts ready to bet that the country will remain in the hands of Congress, an idea that might have been strengthened by the tangible results Manmohan Singh achieved thanks to the recently implemented social and economic reforms. Moreover, some experts believe that Indians may be interested in bringing back to the frontline a member of the Nehru-Gandhi dynasty, assuming that Rahul Gandhi might

prove to be as strong, charismatic and visionary as his father Rajiv and his grandmother Indira have been. Indeed, it is believed that a new “strong” Gandhi would be the only leader able to complete the “profound renewal” that India needs today.

Unfortunately, betting on Rahul Gandhi means betting on a bureaucrat who has not proved to be particularly charismatic or politically smart. Beyond that, his economic image has already been damaged by his predecessor. Manmohan Singh is both the man who studied the reforms that, in the early ‘90’s, re-launched India’s growth, the Indian current leader, although he has not been able to solve any of its major structural problems or define a new path of robust and sustainable growth.

These are the reasons that are pushing some analysts to argue that, in spite of many predictions in favour of the Congress, choosing Gandhi may be perceived as too risky for Indians believing that the future of their country is deeply connected to its economic performance.

Reasoning in economic terms, the favourite Prime Minister candidate is Narendra Modi. He has been serving as Gujarat’s leader for more than ten years, and thanks to him this state is still growing at an average rate of 8,5%. Under Modi, Gujarat has often been described as “the Indian response to China”. Indeed, Gujarat’s development model has been based on massive industrialisation driven by foreign investments. In addition, in 2001 Gujarat became a model for India for service development. In particular, for management of water and electricity supply and business-related bureaucracy.

However, it should also be highlighted that Modi remains an extremely controversial figure due to his refusal to take responsibility and consequently apologise for the 2002 tragedy, which is marked as one of the worst ethnic massacre’s to have ever happened in India, resulting in thousands of Muslims and Hindus being killed, pushing analysts to believe he will never be able to address minorities’ needs.

Indian people are currently facing a dilemma. Supporting Rahul Gandhi would imply supporting and giving new confidence to the Congress Party, but it remains unclear if and how Rahul may succeed where the much more experienced and pragmatic Manmohan Singh has failed. Despite that, most of Gandhi’s supporters praise the image of purity and transparency he is trying to convey as well as his commitment to helping the minority groups and less fortunate, which is something that Modi is unable to do. At the same time, Modi is perceived much more prepared and capable to help India to get out its current economic impasse.

Regarding domestic politics and economics, it is crucial to understand how both Rahul Gandhi and Narendra Modi will eventually decide to cope

with the legacy of Manmohan Singh's reforms. In particular, it may be useful to anticipate what issue is deemed most important whether it is the support of new moves aimed at further opening the Indian market, sustaining financial liberalization, or fighting against poverty. It is believed that three different scenarios might consolidate after the 2014 general elections.

In the case of Rahul Gandhi becoming the new Indian Prime Minister, he will not be able to afford to outdistance himself too much from the strategy of his predecessor. No matter how expansive keeping Manmohan Singh's word on aid, reforms and welfare will be, Rahul will never be able to reverse his policy. However, it is already clear that he will not have enough resources to implement it. This unsolvable conflict will inevitably weaken his position in the country and within the ruling coalition.

Narendra Modi, instead, will have the chance to choose between two alternatives. Firstly, endorsing the strategy of the outgoing coalition will show an unexpected alignment to his opponents and his "willingness to compromise for the good of the country". Secondly, rejecting Manmohan Singh's strategy and claiming that a new one is needed to transform India into a "big" and successful country.

Another key issue for 2014 will be coping with the "Telangana precedent". The Manmohan Singh government has played a very important role in accelerating the recognition of autonomy for this portion of Andhra Pradesh. However, it is still too early to assess whether a similar approach may be considered for other problematic areas that have been asking for independence for decades, such as West Bengal and Assam. The "Telangana precedent" has inevitably made it more difficult to prevent or stop new splits.

In conclusion, it is reasonable to argue that domestic politics will remain a priority for India during most of 2014. At the same time, it is not realistic to imagine that the new government will keep on neglecting foreign policy, at both regional and international level.

The two most likely scenarios are: to gain time and at the same time prove his loyalty to the historical position of his family, Rahul Gandhi may keep the *middle-of-the-road policy* which would put him in a position to express an opinion on everything, without ever changing anything. However, such an approach might be too risky, at least at a regional level. If India will not exploit the deep geopolitical restructuring South Asia is currently going through to strengthen its position in the region, it may end up consolidating an extremely unfavourable position there.

On the contrary, Modi's approach may be much more forward-looking and pragmatic. It is highly unrealistic that the BJP leader, if elected, will be heavily influenced by the extreme section of his nationalist coalition.

Accordingly, he may decide to boost economic cooperation at both regional and international level to find new partners and resources to support India's growth. Furthermore, in this way Modi may be able to convince those countries labelling him *persona non grata* after the 2002 riots that he is instead a reliable and reputable leader.

Asia-Pacific

Stefano Felician Beccari

EXECUTIVE SUMMARY

Despite the current economic and demographic growth, the Asia-Pacific is still an unstable area. Accordingly, it is difficult to outline a clear geopolitical picture of the region. In this unpredictable situation, many players are trying to increase their own economic growth while managing many internal and regional problems. These contrasts usually put the states against each other. Eventually, the confrontation between Washington and Beijing for regional supremacy as well as other Asian nations' behaviours should be carefully monitored.

In order to understand the evolution of Asia-Pacific and Oceania geopolitics and geostrategy, this area should be analysed considering two aspects; the military and the political. Despite many uncertainties, it is possible to identify some trends and critical situations that will continue to exist in the short and medium term.

On a political level, despite the lack of a clear hierarchy of regional powers, it is possible to classify the states in five categories:

- "Great powers", as China and the U.S. Both have nuclear weapons and, in different degrees, a blue-water navy;
- "Proactive states", which want to increase their political weight or influence in the region, as Japan, Vietnam or Russia;
- "Static states", which want to defend their own positions, but without the will or the possibility to be stronger, such as Malaysia, Indonesia, Australia or South Korea;
- "Recessive states", which are reshaping their ambitions due to internal or external factors. This is the current situation of the Philippines, hit by a massive typhoon (2013) and still affected by internal terrorism, but also the situation of Thailand, if the current political crisis persists;
- "Fragile states", such as Myanmar/Burma and North Korea. Despite their diversity, both states are at risk of collapsing due to internal dynamics. This could have a relevant impact on the whole region.

The military level presents three main issues. These critical situations have been known for many years, but they will probably continue to influence the Asia-Pacific region during 2014:

- The evolution of the DPRK's nuclear ambitions, recently reinforced by the last nuclear test (February 2013, the third from the beginning of the century);
- Regional disputes, mainly maritime and concentrated in the Sea of Japan, the East China Sea and the South China Sea;
- The threat of fundamentalist, separatist or independent terrorist groups, which affects the Philippines, Malaysia and Indonesia.

The whole area is facing a general increase in military expenditures, boosted by the economic growth of the region. The rise of defence investments clearly shows that the region is still looking for its geopolitical stability, which seems unlikely to be achieved in the short term.

Pacific Political Map



Pacific Military Map



SITUATION

2013 has been an intense year for the whole Asia-Pacific region. This area is progressively assuming a pivotal position in the “great game” between the US and China. The consequences of this confrontation, even if not explicit as during the Cold War, exert an influence over the Asia-Pacific states, which are divided among pro-US, pro-China and neutral.

The “Pacific system” is extremely diverse and it lacks a structured hierarchy of powers. The region does not have clear and prominent regional powers, except for US and China. Nevertheless, four states have such potential in nuce. They are Indonesia, for its population and strategic position; Japan, for the new approach of the Abe administration; Vietnam, especially for its anti-Chinese positions; and Australia.

The weakness of regional organizations depends on the fluidity of regional geopolitics. In other words, the Association of Southeast Asian Nations (ASEAN) and other ASEAN-related fora are still unable to manage the most difficult political issues of the area; many of them are still legacies of the Second World War and the decolonisation process.

The most important events of 2013 should be selected focusing on two aspects, political and military.

On the political level, South Korea, Japan and Australia experienced a major shift in favour of conservative governments. Up until now only Japan has undertaken a tougher stance in foreign and military policy.

Many tensions exploded in fragile democracies such as Malaysia and Cambodia. In both cases the current ruling parties, which have been in power for decades and have won the elections again in 2013, have been strongly criticised. In Myanmar the political transition toward democracy is proving more and more difficult, and during the year there has been a significant increase in internal religious violence involving Buddhists and Muslims. These clashes pose a serious threat to the whole country and its government.

Another issue is the on-going controversy in the South China Sea and in the neighbouring seas, as well as islands disputes such as the Senkaku/Diaoyu or the Dokdo/Takeshima. These rivalries further complicate relations between states, and contribute to a spread of tensions across the region.

On the military level, 2013 began with a DPRK nuclear test (12/02/2013) followed by a dangerous escalation of rhetoric that brought the peninsula on the brink of a new war. The test is the third of the 21st century (the previous ones occurred in 2006 and 2009) and the first of this decade; it has further confirmed Pyongyang's limited nuclear capability.

Another source of concern is the intensification of fundamentalist and separatist terrorism in the Philippines and surrounding countries. The porous borders and the difficulty to control many active terrorist groups are serious security problems. The most blatant case has been the dramatic siege of the

city of Zamboanga, in the southern Philippines. During September 2013, the Pilipino Armed Forces fought for more than two weeks against some rebels to reconquer part of the city held by the insurgents.

The majority of the Asia-Pacific states are currently going through a robust modernization of their armed forces. Nearly all the nations of the South China Sea and Australia are undertaking relevant defence programs, focusing on aeronautical, amphibious, naval units (especially submarines) and the related command and control assets to manage joint operations.

Considering regional characteristics, it is evident that the maritime dimension is going to play a crucial role there. This sphere affects many interests, such as sea lines of communication, energy, fishery resources, but especially the disputed areas, a symbolic expression of nationalism. During the year some naval skirmishes without any opening of fire have been recorded.

OUTLOOK

Today, the Asia-Pacific region could change quickly following the active forces in the region. Focusing on politico-military perspectives, some of the macro-tendencies characterizing the area are economy, demography and nationalism.

During the next few years, all of the regional economies and populations, with the exception of DPRK, will continue to grow. Japan is the only country expected to face a demographic decline and whose economic future after the implementation of the “Abenomics”, the economic agenda of Prime Minister Abe, is uncertain.

In many countries these developments will contribute to the consolidation of a new, young, educated, digitally literate and richer middle class. Nationalism, eventually, will be another relevant variable characterizing the Asia-Pacific. In many states this ideology is often crucial to maintaining national cohesion, especially in “younger” countries, such as Vietnam, Philippines, Malaysia, Indonesia and South Korea. At the same time, nationalism is a useful tool for governments to legitimize their own interests, especially when territorial or maritime disputes erupt.

On the political level, regional institutions will continue to be weak and limit their actions on economy, avoiding getting tangled with more complicated political issues. This approach is not going to contribute to strengthen Asia-Pacific stability, although it may encourage the proliferation of bilateral agreements. Regional diversity is so high that it is hard to imagine regional organizations such as ASEAN to pursue relevant political objectives.

Despite its traditional attention to Europe and the West, Russia has recently increased its interest on the Far East. In 2013, a massive joint military exercise was organized around the Sakhalin islands; the drill was attended by Vladimir Putin himself. Meanwhile, Russian ties with Vietnam have been strengthened,

and now these two countries are strategic partners. The Russian pacific approach will probably need a strategy that currently appears to be missing, even if Moscow is increasingly interested in monitoring the evolutions in its Pacific neighbourhood.

China and the US will continue to play their own game using their respective networks of allies and exploiting the political, military, ideological and economic ties they have established in the region. In this field, the US seems to be in a more favourable position. Washington is felt as a “less-invasive option” compared to China, and it can rely on a stable network of key regional allies, such as South Korea, Japan, Taiwan, the Philippines, Thailand, Singapore and Australia.

The US is currently interacting with countries such as Vietnam and Indonesia, and it is strengthening its relations with New Zealand. This network of pro-US states has created a kind of “cordon sanitaire” which can limit Beijing’s naval aspirations. China has more difficulty in strengthening regional ties as it has direct interests in local disputes. On the other hand, the overwhelming political and economic power of China should not be overlooked.

Due to the lack of a structured hierarchy of regional powers, it is possible to identify some sub-regional powers interested in defining their own spheres of interests. This is especially important for the new conservative governments of South Korea, Australia and Japan, which now should implement the programs they used to win the elections.

The situation in the Philippines presents more uncertainties. The country has to cope with a strong terrorist threat and it has been recently hit by a massive typhoon. During 2014, Manila should invest more in reconstruction programs, with the aim of diverting attention from other challenges.

DPRK and Myanmar present some critical elements that should be monitored. DPRK is still in a phase of power transition. Kim Jong-Un is strengthening his grip on bureaucracy, and has recently implemented an unexpected massive purge against some top party members and relatives of the ruling family.

In 2014, DPRK could try to challenge regional stability for the purpose of internal political reasons. Accordingly, the Six Party Talks seem difficult to resume.

In Myanmar, the strong ethnic and religious tensions between Buddhist and Muslim communities will continue. Only some radical but unlikely actions of the government may avoid future clashes. Most likely, tensions will continue and violence will reach new peaks. Such a scenario could put Myanmar’s transition to democracy at risk.

Thailand also faces an uncertain future, as a consequence of the national and political crisis of November 2013. However, after this temporary shock the country might become stronger when compared to its neighbours.

From a military perspective, nuclear developments, terrorism and the territorial and maritime disputes should be carefully monitored. The first issue

is limited to DPRK, which apparently looks dangerous but it is not so risky. Pyongyang's rulers are fully aware that the use of a nuclear weapon would be suicidal. It is more probable that DPRK will threaten to use nuclear weapons while displaying carefully its conventional forces, as it happened in the beginning of 2013.

The second problem is terrorism, usually linked to separatist, fundamentalist or ideological aspirations. This will continue to be a thorn in the side of Malaysia, Indonesia and the Philippines.

The territorial and maritime disputes in some areas of the region are the third issue. These clashes will maintain the rivalry between some states (China, Japan, Taiwan, North Korea, South Korea, the Philippines, Malaysia, and Vietnam) and foster more aggressive approaches in some of them.

Vietnam and Japan, in particular, are already pursuing a more assertive policy against China.

Other players, instead, prefer to be critical while using softer tones due to their political and military weakness. The natural evolution of this regional "common insecurity" is a general growth of defence budgets. This trend involves all Asia-Pacific states.

A final consideration should be made about the numerous archipelagos of the Pacific Ocean (Micronesia, Melanesia, and Polynesia). This area and its states remain marginal from a military, economic and political perspective. Up until now these tiny states have been under the firm grip of the western powers, but in the future they may change their geopolitical stance.

Latin America

Alessandro Politi

EXECUTIVE SUMMARY

The South American economic miracle is fading away and Latin America's situation is much less rosy compared to the previous two years. The positive points in its strategic picture are:

- The development of the peace process in Colombia and its possible favourable conclusion by May 2014, just in time for general elections;
- The consolidation of democratic electoral cycles: next year the electors of 17 countries will vote;
- The positive effects of the election of the Argentinian cardinal Bergoglio as pope;
- The continuation of Chinese investments;
- The advances in the integration among the countries of the Alianza del Pacifico (Pacific Alliance) and
- Mexico's effort in starting political and economic structural reforms.

That said, there are some rather worrying weaknesses. First of all, the economies of Argentina, Brazil and Venezuela show serious cracks. Caracas is the most critical case in terms of economic sustainability, followed by Buenos Aires where the indicators of a major economic crisis are represented by internal and foreign debt, improvident public expenditures and the retreat of companies delocalising their production, sometimes to Brazil.

Brasilia has to tackle the consequences of a 2.3% growth. It could see its debt rating being downgraded by July 2014 to a BBB- level just before the October presidential elections because fiscal and financial policies are judged unbalanced by major financial companies. Since the pillars of Mercosur are in critical conditions, the deferment of its summit to the 31st of January is the symptom of a wider and deeper malaise in the region.

In the short- and medium-term the Mercosul/Mercosur should not be overly worried by the dynamism of the commercially competing Alianza del Pacifico (Chile, Peru, Colombia, Mexico), rather by the isolation following the conclusion of the negotiations of the great US-led regional agreements TTIP (Transatlantic Trade and Investment Partnership) and TPP (Trans-Pacific Partnership).

These agreements may entail heavy social costs, as underlined by the diplomacy of the Holy See opposing them, and could prove fatal for Mercosur if the EU-Mercosur free trade talks fail. A wild card is represented by the US proposal to reshape an American free trade area, starting from a NAFTA core.

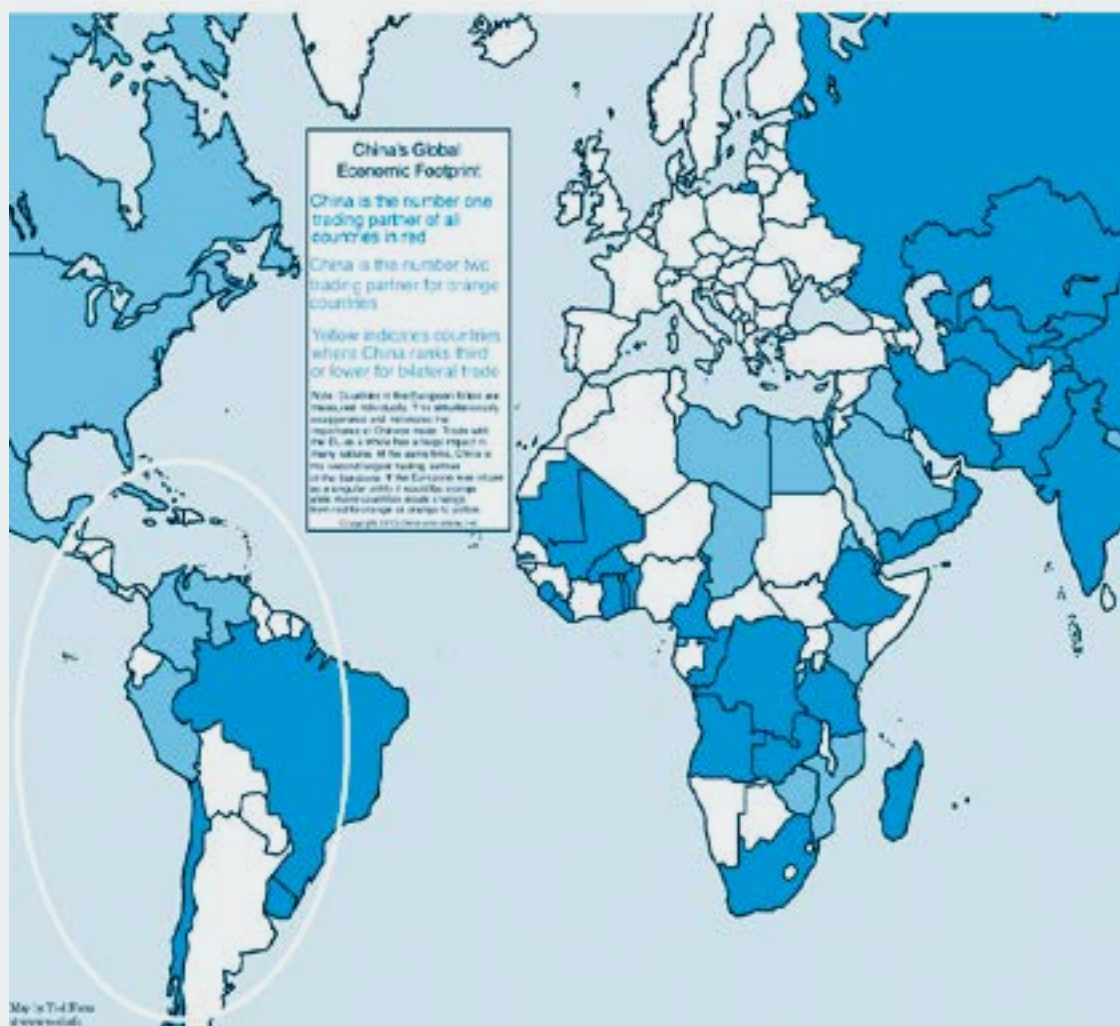
It is reasonable to predict that in the short-term Mercosur could face a rather serious crisis due to the global effects of US economic and political choices and to internal cohesion problems deriving from the fragile situation of its most important member countries.

China's presence in the continent will continue to be relevant, especially through the new investments in the banking and mining sectors, with some risks in Venezuela and Brazil and with the possibility that the Nicaragua Canal project may be reported or cancelled, especially if Beijing will not provide any effective support.

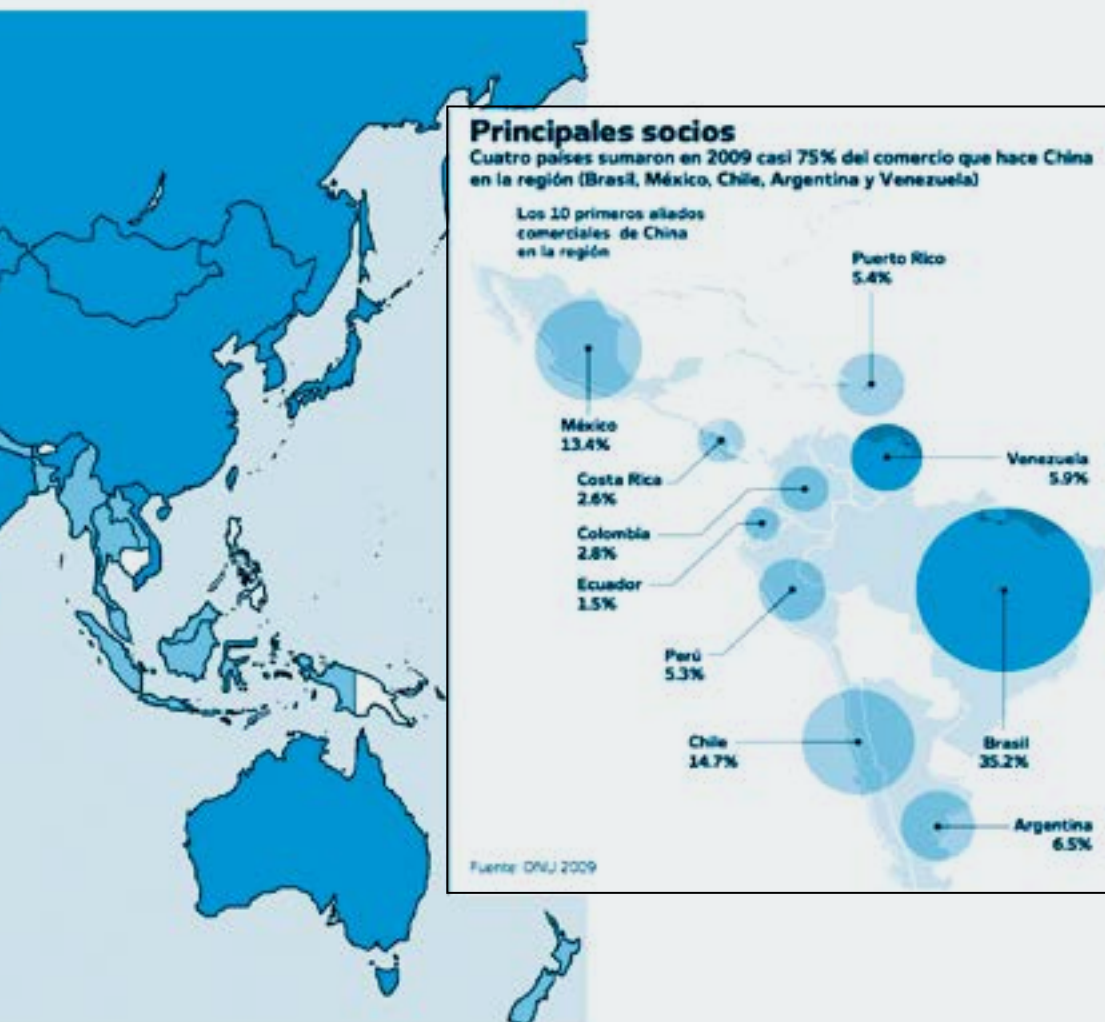
Regarding security issues and leaving aside border disputes, the biggest problems are the extensive infiltrations by organized crime in different countries and the potential consequences of the Snowden affair. In fact, only Colombia is acting effectively against its own narco-guerrillas, but other countries are scarcely able to manage the drug trafficking and mafia problems.

The Snowden affair has already prompted multilateral responses at UN and regional level, with the Argentinian-Brazilian initiative to create a cyber-defence structure within the UNASUR (Unión de Naciones Suramericanas) as one of its example. During 2014, Brasilia is expected to draft a bill forcing internet service providers to "territorialise" Brazilian data by storing them on servers based in the same country.

The China's foreign trade in the world and in Latin America 2009



The China's foreign trade in the world and in Latin America 2009



SITUATION

By the end of 2013, the Latin American subcontinent shows few positive developments and future opportunities, even if some of them have a considerable soft power and political potential.

Colombia, despite an arduous and difficult domestic negotiation, is advancing the peace process with its main narco-guerrilla, the FARC. The country recently finalised substantial agreements on crucial aspects like land reform and political participation after the conflict. The president, Juan Manuel Santos, aims at closing the talks or at least the bulk of them by May 2014, just in time for his expected re-election.

Another positive element, reflecting and apparently preceding wider developments in the Middle East, is represented by the Iranian diplomatic move in favour of a joint investigation with Argentina about the bomb attack against the Asociación Mutual Israelita Argentina (1994).

The soft power element has been introduced by the election of Pope Francis I and was highlighted by his significant visit in Brazil (August 2013). The political and diplomatic action of the Holy See is now more effective than in the past, thanks to important changes in attitude and communication regarding issue like faith and gender diversity.

Other important opportunities are linked to the economy and in particular to the deepening of China's influence in Latin America and to the developments of the Alianza del Pacífico. Despite a slower growth, China has signed a raft of important agreements: multi-sectoral ones with Venezuela for a value of \$20 billion; one on test bores in Uruguay. Further, an agreement regarding oil extraction with Brazil in the great pre-salt Libra oil field and another one offering China the chance to get involved in the new off-shore field of Sergipe.

The alliance between the most dynamic liberal economies of the area (Alianza del Pacifico) successfully mediated the establishment of a new currency union involving Chile, Peru and Colombia, followed by Mexico's efforts in launching appropriate reforms. Nevertheless, Mexico City should show a stronger commitment in term of reforms because, as the country has one of the lowest tax burdens in the region. During the year, the initial objective of recovering an amount of taxes equivalent to 4% of the GDP was diluted to 2.5%.

Mexico is also considering to open state-owned Pemex oil company to international investments, especially to allow further oil exploration and extraction. The national Parliament approved the opening in December 2013, and in November the Repsol controlled take-over was announced: Pemex would take over Repsol with the help of the Mexican billionaire Carlos Slim.

High-risk situations are mainly in two areas: economy and organized crime. Regarding the first one, Venezuela and Argentina carry the most visible issues. By October 2013, the IMF declared that the Venezuelan economy was unsustainable due to the existence of multiple currency markets for dollars and state aids for fuel consumption. These are two essential governmental supports to the *boliburguesia*

(Bolivarian bourgeoisie), the social class that grew upon the economic perks introduced by the late president Chavez, but that is also generating national deficits. By December 2013, two out of three rating agencies downgraded the economic perspectives of the country.

In November 2013, the Argentinian economic crisis emerged due to few concrete problems: public expenditures and debt beyond budget capabilities, macroeconomic decisions jeopardising investors' confidence and lack of success during the talks about the repayment of outstanding debts vi-à-vis the so called vulture funds.

In the meantime, Brazil's growth slowed down to a realistic 2.3%, inflation went up by 5.91% and a downgrading to a BBB- level seems possible as major financial companies consider national fiscal and financial policies unbalanced. This situation entails a serious survival challenge for the Mercosur economic bloc, dwarfing well-known disputes between Argentina and Uruguay for a pulp mill or between Paraguay and Venezuela for political reasons. A symptom of this malaise is the deferment of the Mercosur summit to the end of January 2014.

Salvador and Mexico are the countries where the organized crime threat is higher. Between November 2013 and January 2014, the crisis of the truce between the government and the main maras bosses (gangs/mafia groups) was evident: the desaparecidos doubled to 1.070 during 2013, killings of security forces members started again, women were conspicuously absent in the truce implementation, and bosses are unable to control their territories.

The massive migration of Colombian Mafiosi towards Central American countries (particularly Nicaragua and Panama) is even more worrying, as well as the infiltration of other criminal organizations in Argentina, Colombia and Mexico.

The situation in Mexico shows only one positive aspect (the recapture of the strategic Lázaro Cárdenas port on the Pacific by the police) and many dark sides. The clashes between local self-defence groups and the Caballeros Templarios cartel have increased to such a level in the state of Michoacán that Washington is considering to offer Mexico additional help. At the same time, details are emerging in December 2013 about secret negotiations during the past presidency between the US DEA and major criminal groups, Sinaloa cartel included.

At national level, the lack of a clear and effective anti-mafia strategy is visible, compounded by the silence of the president about this threat and by the growth of the powerful Sinaloa cartel, after the numerous arrests that have weakened the rival Los Zetas cartel.

OUTLOOK

During the next two years Latin America as a whole has to tackle the possible redesign at inter-oceanic level of commercial, economic, production and know-how management relationships through the so-called TTIP and TPP treaties. Similarly to the framework agreement reached with Tehran, these agreements “clouds” are the offshoot of the soft power approach of the Obama presidency. The objective is to

reaffirm the US hegemony with non-military means, awaiting the solution of thorny issues like debt, deficit and the decline of competitiveness with China and in the world stage.

These agreements are not the traditional treaties, but clouds and networks of clauses and public-private standards (including the extension to other countries of US legal practices) that will not create the usual commercial block, but a cloud of partnerships. The essential goal is to facilitate the activity of economic actors, freeing them from governmental allegedly excessive rules and barriers and providing them with the legal arsenal to widen the prerogatives of free trade and intellectual property protections.

These transoceanic pincers entail two risks. On the one hand, they marginalise the WTO in a state of limbo, that barely reached an agreement in Bali (7/12/2013) on goals that were minimal compared to the ones of the failed Doha Round (July 2008). On the other hand, they crush the fragile common platforms created by the BRICS (Brazil, Russia, India, China, South Africa) and minor regional agreements, including the South American Mercosur/Mercosul.

The discreet, but substantial pivot of the commercial pincers lies in the US debt and the quantitative easing policy. The OECD forecasts a slow growth in its own zone (1.2% in 2013; 2.3% in 2014 and 2.7% in 2015; growth in the Eurozone is estimated at 1% in 2014 while the USA should achieve 2.9% in 2014). Contrary to the latest compromise in Congress, the OECD lays down the requirement of abolishing the debt ceiling and adopting a strong long-term and credible policy leading to the consolidation of the debt. In other terms, financial austerity appears as the preferred choice.

If this path will not be taken, any recovery will be strangled by debt and competitive devaluations of the dollar (alias Quantitative Easing) and this will entail negative effects on global growth, including risks like currency manipulation and warfare, affecting China, Brazil and other major exporters.

This scenario leads to the forecast that Mercosur will face two years of serious crisis both due to the US influence on the global situation and the worsening of internal coherence. If one leaves aside the legal skirmishes, Buenos Aires has neither the will nor the interest in public debt reduction policies or in rebuilding investors' confidence.

Brazil and Venezuela, the other two pillars of the common market, are hamstrung by negative public expenditure dynamics and undermined by corruption schemes with highly probable negative consequences. Caracas has the problem of financing its domestic consensus without adequate oil revenues and investments. Brasilia was caught flat-footed by the ramification of the global crisis, precisely when it was mobilizing big infrastructural budgets for the World Cup and the Olympic Games. A decent credit rating is essential for continuing the development of its oil industry, even if Chinese investors are already contributing to it.

The qualitative analysis of the seven shaping flows in the Pacific and the Atlantic Ocean shows the great importance of the virtuous combination between energetic, financial and knowledge flows (the latter including information, culture, education,

computing and technology). If one considers this composite parameter, not one of the major Latin American countries (and Mexico too) has a solid standing.

In the short time, the presence of China will continue to be important, especially considering its new investments in the banking and mining sectors, but with increasing risks due to the difficult situation in Venezuela and the economic slowdown of Brazil. The possibility that the Nicaragua Canal will be built with the support of the Chinese government is rather reduced, but Managua and the Chinese prime contractor are still sticking to the date of the 31st of December 2014 for the beginning of the works.

In this context, Mexico economic and institutional reforms play an essential role, but must follow the rapid pace of global evolution rather than the slow rituals of ossified politics. One can reasonably predict that, if president Enrique Peña Nieto achieves substantial reforms regarding an independent judiciary, a credible national elections authority, the taxation system, the two-year cap on the re-election of local and central governments and mining royalties, Mexico will have a good chance to attract foreign investment in order to relieve its deep domestic crisis. This trend may be further helped by the new competitiveness of Mexico's salaries.

The continent's security, save fresh outbreaks of land or maritime borders due to merely internal political aims, depends on two crucial variables: the old fight against narco-mafias and narco-guerrillas, and the new battle for the integrity and control of information.

From North to South the fronts of the fight against organized crime are: the United States as main drug receiving country and main security financial backer; Mexico as the protagonist of the first mafia war of global relevance; Central America as headquarters of very persistent maras and Colombia, still plagued by narco-guerrillas.

Even though some progress has been achieved, the USA and the Central American countries seem incapable of formulating coherent and effective fighting and recovery strategies. Colombia has good chances to integrate the political efforts for the negotiation with the FARC with the repair of the internal waterways (especially the Magdalena). Unfortunately, neither Venezuela, nor Peru (that is currently facing the new Sendero Rojo narco-guerrilla) can be of any help to Bogota in its internal reconciliation.

Mexico, despite some successes, does not seem to have adopted a new strategy, even if a state-mafia compromise seems structurally probable, especially with the Sinaloa cartel. The Snowden affair (Prism-NSA) has induced Brazil and Germany to present to the UN General Assembly a resolution limiting the encroachment on privacy online. The UNGA adopted the resolution notwithstanding US opposition (18/12/2013). In the meantime, Argentina and Brazil are preparing a joint cyber-defence structure to be extended to all UNASUR (Unión de Naciones Suramericanas) members.

Brazil plans furthermore to build its own national internet, to implement a classified email system and the drafting of laws that impose to any internet service provider the physical storage of Brazilian data within the country. The latter would be an important precedent for the global connectivity business.

Part II

Sectorial Analysis

European Defense Initiatives

Claudio Catalano

EXECUTIVE SUMMARY

The European Union (EU) is facing new internal and external challenges. The EU today is deploying 7,000 persons, including more than 3,000 soldiers, in 16 missions: 12 are civilian missions and four are military operations. In more than 10 years, the EU has deployed nearly 30 missions in three continents.

Following the French initiative, a few member states have intervened militarily in Libya (2011) and Mali (2013). France is preparing to redeploy in the Central African Republic while disengaging its forces from Kosovo. Germany has confirmed its commitment in other missions, especially in KFOR, where the French would be replaced by a European military force (EUFOR).

The challenge at internal level is to provide the Common Security and Defence Policy (CSDP) with a military capability that should be assured by member states or through agreements with NATO. Battle groups (national or multinational units at brigade level to be deployed for crisis management) have never been used because of national vetoes. The EU Presidency and the Council would like to revitalise this initiative.

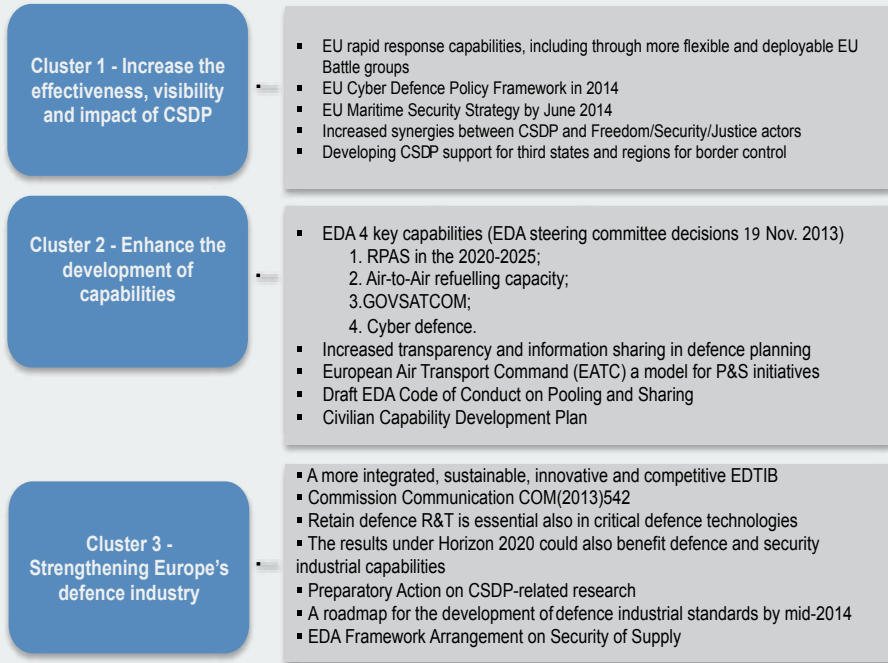
The 19th of November 2013, the European Defence Agency (EDA) approved programmes and a roadmap on four items: Air-to-Air Refuelling capabilities, Common Remotely Piloted Aircraft Systems (RPAS) by 2020-2025, a next generation of Governmental Satellite Communication, and cyberdefence. In addition, the EDA defined projects to support small and medium-sized enterprises, stimulating research and innovation initiatives for platform certification, especially civilian and military airworthiness, and particularly with regard to the insertion of RPAS's into civil airspace.

In Pooling and Sharing (P&S), the EDA has provided for joint helicopter training in view of a shared helicopter capability, but strategic airlift, reconnaissance satellites, and other areas remain on the table. The EDA is valued by third countries for the possibility of technology transfers: Serbia has signed a partnership in December 2013, and Turkey wishes to become a partner too.

The European Commission has played a leading role by issuing two communications, one on the industrial policy and another on defence industry. The CSDP until now not formally within the Commission's competence, except for the internal market and support to enterprises. In this sense, the Vice President of the Commission and Commissioner for Enterprise and Industry, Antonio Tajani, has attained major achievements.

The aerospace, defence and security industry in Europe is so far able to compete internally, or with U.S. companies, but competition from emerging countries (e.g. Embraer in Brazil, AVIC in China, Tata in India) is becoming fiercer. Greater cooperation is necessary in order to create the critical mass to invest in research and technology and continue to compete not only on a regional level but also globally.

European Council Conclusions Security & Defence December 2013



THE EUROPEAN COUNCIL WILL ASSESS CONCRETE PROGRESS ON ALL ISSUES IN JUNE 2015

SITUATION

In 2013, France showed an increase in defence activity. In January it started “Operation Serval” in Mali with the indispensable US intelligence and strategic reconnaissance support. Other states have provided essential logistical support in order to assist the ageing French C-160 Transall airlifters which will be replaced by the A400M in 2014. “Operation Serval” was made possible thanks to French troops’ withdrawal from Afghanistan in November 2012. However, for the stabilisation of Mali, France has been helped by African countries in the UN mission and the European training and Monitoring mission (EUTM Mali).

The French White Paper (29/4/2013) reaffirms the strategic functions spelled out in 2008. Among its priorities there are:

- The protection of the territory and citizens;
- The nuclear deterrence;
- Intervention in the areas of national interest;
- Anticipation i.e. intelligence and reconnaissance via satellites or RPAS;
- And Prevention through international agreements.

The United Kingdom seems to have loosened the Anglo-French alliance sealed by the Lancaster House Treaty (October 2010). The initiative had already shown its limits in Libya indeed, either due to the lack of strategic resources for which they have had to resort to the United States, or the level of interoperability that UK has achieved more with Italy than with France. Italy and the United Kingdom both have an air fleet of Eurofighter Typhoon and Tornado aircraft. For this reason, ‘Unified Protector’ RAF aircraft have been supported by the Italian Air Force, while the French have operated separately from bases in Corsica or from Charles De Gaulle carrier. The operation in Mali has further sapped the Anglo-French relationship because the British did not take part in “Operation Serval”, since Mali was not among their strategic interests. Nevertheless they ensured participation in EUTM Mali. On the other hand, during the December European Council, the United Kingdom opposed the financing of the proposed French intervention in the Central African Republic, as well as funding for the CSDP and the ‘strategic autonomy’ for European defence industry.

Germany continues its withdrawal of national assets from international military operations (Afghanistan, 28/2/2014) and from common defence policy initiatives. Particularly significant is its refusal to participate in ‘Unified Protector’ in Libya. Germany intervened only symbolically in Mali, by sending 2 C-130 aircraft together with other countries in the framework of the European Air Transport Command as it was done in 2003 for the European Union military operation ‘Artemis’ (Democratic Republic of Congo).

The termination of the Euro Hawk programme, an RPAS for strategic reconnaissance derived from the Northrop Grumman RQ-4 Global Hawk,

was due to the rising costs of a programme that had trouble in fulfilling its requirements. The Global Hawk program is under review also in the United States. Germany has already spent €500 million for the prototype and it would have to spend just as much for the construction of four other aircraft and over €600 million for the airworthiness, not to mention the through-life support costs of the RPAS fleet.

Italy did not intervene in Mali despite having strategic capabilities such as airlifters, Air-to-Air Refuelling, and RPASs. However, Italy aims to support the development of European defence. In September, defence minister Mario Mauro signed a joint declaration with his Spanish and Portuguese colleagues encouraging the development of dual-use technologies, as well as a European Maritime Security strategy. In addition, the new Italian appropriations planning system introduced for the first time a three-year plan for the defence budget.

Among the other member states, Poland has consolidated its defence industry and announced new programmes mainly associated with the “Navy development plan for 2030”. In July, Hungary announced the decommissioning of Soviet-era military equipment to be replaced through a modernisation plan until 2016.

In 2013, the EU institutions have been engaged in the preparation of the European Council in December. High Representative Baroness Ashton’s priorities were: increasing the effectiveness, visibility and impact of the CSDP; enhancing the development of capabilities; and strengthening Europe’s defence industry.

On July 24, the High Representative published an interim report which detailed the steps for a European defence and, on the same day, the European Commission published the Communication “Towards a more competitive and efficient European defence and security sector” COM (2013) 542 which includes an action plan. On 15 October 2013, the High Representative submitted its final report in view of the European presidency. The Lithuanian president of the EU had the task of preparing the European Council and identified its roadmap energy security and the revitalisation of the Battle group initiative.

OUTLOOK

In the short term, the member states indicate that members’ current trends will continue. France, Germany and the United Kingdom have different positions on the matter.

France is preparing to strengthen its military presence in the Central African Republic and withdraw 300 troops from KFOR by June 2014 after a 15-year deployment in Kosovo. This does not mean a withdrawal from European defence. In Kosovo, France will maintain staff at the KFOR HQ, and it will continue its participation to EULEX in Kosovo. Germany, which is the major

troop contributor to KFOR (followed by the United States and Italy), opposed a rapid Allies' withdrawal from KFOR. France wants KFOR to be replaced by EUFOR, as it happened in Bosnia with the transition from SFOR to EUFOR 'Althea' in December 2004. On the other hand, France did not find consensus among the member states for this handover.

The German government coalition agreement (CDU, CSU and SPD) adopted common security policy guidelines including civil and military crisis management (co-ordinating the participation of non-governmental bodies in the civilian missions), and welcomed arms control under UN and other international organizations (24/11/2013). Furthermore, the principle of the citizen-soldier will be reinforced in the Bundeswehr and the Parliament will authorise beforehand the deployment of special forces.

The EU remains still central for Germany, which is also asking for a greater role of the EU High Representative. Germany in turn needs to define its role as "lead nation" in deployments abroad. NATO military capabilities and CSDP development will have to be developed through the P&S, although the document does not specify the capabilities required nor does mention industry. Germany refuses to use armed RPAS for targeted killing missions, and wants them employed according to human rights standards, the German constitution and German laws for the protection of the individual.

During the European Council in December, Germany lobbied to postpone the entry into service of a common RPAS from 2020 to 2025. This approach comes from CDU and SPD traditional pacifist vocation, but it also confirms a tendency to disengage from the defence policy and this entails problematic consequences on the CSDP.

The United Kingdom is waiting for the withdrawal from Afghanistan in late 2014. This will lead to a redefinition of its 2015 Strategic Defence and Security Review. Afghanistan provoked a greater attention towards the land component. Two issues will have impact on the future of weapons programmes: vehicles' weariness, and the need to reimburse the Treasury for the Urgent Operational Requirements (a method to ensure the rapid acquisition of material for operational use). At the December Council, Prime Minister Cameron reiterated his opposition to provide the CSDP with permanent structures and assets, especially in contrast with NATO commitments.

The Eastern member states are very active and the Visegrad countries (Czech Republic, Hungary, Poland, and Slovakia) have announced their intention to create a 2.500-strong Battle group by 2016.

At the European Council meeting (19-20/12/2013), the focus was on economic issues and the Banking Union. However, the Council's priorities were recognised as follows:

- for the first cluster, Battle group rapid response mechanisms and strategies for cyber and maritime security;

- for the second cluster, the four EDA projects regarding the military capabilities approved in November, as well as strategic airlift centred on the European Air Transport Command which can be a model for P&S initiatives for helicopters or maritime surveillance or border control;
- for the third cluster, support of dual-use technologies in the Horizon 2020 programme, a Commission preparatory action for CSDP-related research, and a roadmap for a comprehensive EU-wide Security of Supply regime, which takes into account of the globalised nature of critical supply chains.

The Council endorsed the decisions on the strategic concepts and capabilities taken on 25 November 2013. A roadmap for the development of defence industrial standards is supposed to be proposed by mid-2014, and the EDA initiatives for the P&S should be brought to the attention of the European Council by June 2015.

The “networked security”, linking space and cyber domains, is one of the most innovative aspects of European security, which also considers aspects of energy security, maritime surveillance and border control. A European strategy on cyber security was adopted by February 2013. In December 2013, as a result of the Snowden affair, provisions have been inserted in the Wassenaar Agreement to classify programs that detect metadata (wiretapping and telephone traffic) or trace the activities of Internet users (except for marketing purposes). Member states intend to insert these norms also at EU level. In 2014, the EDA should submit a EU Cyber Defence Policy Framework. The EU Maritime Security Strategy is a global effort to fight illegal trafficking and piracy, and to solve maritime disputes. A Joint Communication of the Commission and High Representative is expected to be adopted by the European Council in June 2014.

Regarding European industry, after the failed merger in October 2012 between BAe Systems and EADS, the CEO of EADS (Thomas Enders) kept on working in order to reduce the governments’ influence on the company. In March 2013, France, Germany and Spain reduced their stakes in EADS. Consequently, private investors’ shares rose from 49% to 70%. The French government indicated that it will further reduce its stake in EADS. An industrial reorganization will start from the 1st of January 2014, when the Airbus Group will be created. This may influence the defence company’s shareholding structures or start an industrial restructuring in France and Germany.

In the short term, there are no expectations for a major transnational consolidation among big companies (BAe, EADS, Finmeccanica, and Thales) although the internal restructuring of these companies is already in place to cope with shrinking budgets and military programmes. Thales has reorganized itself into three divisions, while Finmeccanica has consolidated electronics in Selex ES and pursued the reorganization in its core business. BAE systems will try to balance its military activities in favour of civil activities.

In conclusion, major challenges await the Italian EU presidency in the second half of 2014, which will start soon after the renewal of the European Parliament, the Commission, and High Representative. An Atlantic Summit will also take place in Wales on the 4-5th of September 2014. These events will offer European countries another chance to discuss European Defence related issues before the European Council scheduled for June 2015.

Transatlantic relations and Nato

Lucio Martino

EXECUTIVE SUMMARY

During this first period of its second mandate, the Obama administration appears to show a high degree of continuity with the previous four years. However, the global environment has changed considerably during the last five years. The US economy has strengthened; areas of the Middle East and North Africa have been dramatically transformed, while countries such as Indonesia, Turkey and Brazil are attempting to play a regional role not asserted before. At the same time, the Obama administration is being influenced by new internal factors, reducing the margins of action. Among these are an extreme polarization of the political system and a growing percentage of minorities in the domestic population.

Many of the international challenges faced by President Obama since his arrival at the White House remain prominent on his agenda. Among these are questions involving Iran and the Middle East. There appears to be a consolidation in moving in the direction of a more skilled America, a State which works with the international or regional organizations and which is more cautious and targeted in its use of force, for example through the use of unmanned aircraft and Special Forces. The United States of the Obama administration is a country finally congruous with its own rhetoric, oriented to the pursuit of its own vital interests rather than to the universal affirmation of a wider range of values and principles.

For this reason, the United States does not seem particularly interested in the simple defense of an international balance of power based in many ways on residue dynamics. The approach taken by the Obama administration with regard to recent developments in the Arab crisis, but also in relation to the new Iranian leadership, continues to recall the great caution with which the administration of the elder Bush reacted to the collapse of the Soviet empire. The relations between the United States, Israel and Saudi Arabia have always undergone periods of crisis and stress, but never of the current intensity and frequency. Essentially, the objectives of these three countries seem to diverge for reasons of a structural nature.

Despite appearances, a convergence of interests exists between the United States and the Russian Federation. The two states share many common goals in the international sphere, commencing with the containment of radical Islamic

movements and failed States. Neither seems particularly convinced of the need to modernize their strategic nuclear forces and, therefore, of a continuing investment in military programs which are clearly expensive, unnecessary and potentially destabilizing. In recent months, the policies of rebalance decided for the Asia-Pacific region have focused more on the commercial aspects than on the military ones. The strategic repositioning of the United States also seems geared towards the entire Arctic region, as evidenced by the recent National Security Strategy for the Arctic Region.

Meanwhile, the withdrawal of combat forces from Afghanistan and the desire to reduce the Federal deficit have catalyzed a reassessment of the way and the means by which the United States can defend its interests, and at the same time remain in line with its values. This re-examination is in turn conditioning the drafting of now imminent new Quadrennial Defense Review, Quadrennial Diplomatic and Development Review and the National Security Strategy.

Despite the Obama presidency, the United States and the European Union member States have not been able to transform their current high level of consultation and coordination into a series of common policies. There are many examples, ranging from climate change negotiations to reducing trade barriers. The cases where common approaches have been identified, such as Iran and Syria, are still being fully developed. Transatlantic cooperation thus continues to be more than ever defined by NATO, with the next meeting scheduled for September 2014 in Newport. Reflecting the austerity that is proving to be the dominant element of the European economic and domestic policy, NATO remains immersed in its massive transformation phase, a process which has already lasted several years. The decline in defense budgets in all the major Allied countries has led to a continuous reassessment of the capabilities and priorities of the Atlantic Alliance, forcing NATO to launch new policies for the pooling and sharing of their military resources.

Lastly, 2013 ended without tangible progress for the health of the Euro zone, such that the belief, on both sides of the Atlantic, that the lack of economic stabilization on the European continent, and its continuing recession, will inevitably have repercussions on the United States economy is being heard often and loudly.

SITUATION

It appears that not only the popularity of President Obama has been damaged by the difficulties related to the implementation of his health care reform, but also the Democratic Party as a whole. The inevitable continuation of the present difficulties with the Congress over a series of important issues such as the reduction of the public debt, negotiations with Iran over its nuclear program, and the construction of the Trans-Pacific Partnership seems likely to weaken the White House, and hence block action.

The agreement reached in late November 2013 with Iran paved the way for at least another six months of negotiations. The goal is to achieve a solution to the problem of Iran's nuclear program that could lead to a significant change in regional alignments of the United States.

Meanwhile, the Russian attempt to persuade the Syrian authorities to surrender their chemical arsenal seems to be progressing. For their part, the United States and the United Kingdom appear to have abandoned any insistence on the resignation of President Assad as a precondition of negotiations, something which seems to power a moderate optimism about the prospects of the next Geneva conference, scheduled for the second half of January.

Meanwhile, the situation in Iraq continues to deteriorate both in terms of number of victims, now at its highest since 2007, and of the geographical spread of violence. The smooth conduct of parliamentary elections due by next April is threatened, in addition to foreign investment and exports of crude oil.

The August 2013 recommencement of direct talks between Israeli and Palestinian representatives encouraged some optimism about the prospects of a new Middle East agreement, but the obstacles that have doomed similar openings to failure persist. In addition, President Obama does not seem able to spend a great deal of political capital on matters not afflicting his own political system.

Yet another legacy of 2013 destined to surface in the near future is the decision to cancel the fourth phase of the European Phased Adaptive Approach. Not surprisingly, soon after its announcement, the State Department officially acknowledged that the United States was investigating the outlines of a new agreement on strategic disarmament with their Russian counterparts.

In line with the Obama administration's belief that a new series of military installations should not be the only result of the United States strategic shift toward Asia Pacific, the Trans-Pacific Partnership (TPP) appears to be the key element of the entire United States foreign policy. The twelve participating States represent approximately thirty per cent of world trade volume. The TPP is an attempt to create a new trading block at once so powerful and so attractive as to compel China to be a member, accepting its rules and mechanisms. The difficulties to be overcome are not few. The conclusion of the treaty negotiations still seems distant, as does the consent of the Senate, needed for ratification.

Despite the agreement on the 2014 budget, which avoided another shutdown of the federal government, containment of the debt remains more than ever unresolved as an issue. Approval of the debt ceiling increase now seems unlikely. With a repeated suspension of government activities electorally more damaging to the Republican Party, support of the measure is not in the interests of the Democrats. The primaries are in full swing, so this situation could drag on until mid-March, and probably even longer, although there are clear signs of an organized resistance by more moderate members Republican against members of the Tea Party. On the other hand, many Republicans, particularly Senator Cruz, seem determined to do everything in their power to undermine the White House health care reform, even at the cost of causing further unpopular shutdowns of the federal government.

OUTLOOK

2014 will not be an easy year for the European Union. German Chancellor Merkel will have the second half of 2014 and throughout 2015 to negotiate the treaty amendments and other measures necessary to launch the banking union. It follows that any ratification cannot be programmed before 2016, if the expected intervention of the German Constitutional Court is also taken into account. This timeline, if confirmed by events, would have the advantage of avoiding the overlap of the debate on the banking union with the upcoming elections in France and Germany. However, the obstacles to the realization of this process are still numerous, beginning with the results of the European elections.

The events of recent months seem to reinforce the possibility of a strong affirmation of Euro skeptic parties in elections to the European Parliament next May. Particularly important here is the recent strong performance of the Euro skeptic forces in Italy, Austria and Germany, and the high levels recorded in surveys in France and the Netherlands. This situation seems to force a convergence of political formations in a more traditional Euro skepticism that cannot avoid complicating the appointment of the new European Commission and the approval of legislation necessary for the banking union.

Faced with a growing unpopularity, and the likely increase in pressure from Berlin, it is unclear what the current French government could do to strengthen the competitiveness of their country in the long term. In Italy, despite President Napolitano's intention to do everything possible to support the current coalition government during 2014, a joint action of the opposition forces could cause the end of this legislature as early as next April. In Spain, the Catalanian demands for independence could lead to a constitutional crisis, whose consequences are difficult to predict.

The Cameron government seems to have averted the possibility of a referendum before the elections of May 2015, although this increases the probability of a post

election referendum on the United Kingdom's exit from the European Union. In addition, surveys reveal a reduction in the Labor Party margin of advantage, which seems to open up the possibility of a new Conservative victory and the symmetric confirmation of yet another Euro skeptic force: the United Kingdom Independence Party.

In September, Scotland will hold a referendum on independence, which should lead to the defeat of the separatist Scottish Nationalist Party and to new pressures for a greater devolution of powers from London, especially in the area of fiscal policy. However, the charisma of the leader of the separatists, Salmond, and his ability to exploit the unpopularity of the British government, are so significant as to not completely rule out a victory.

In the apparently endless United States election cycle, the focus is already on the presidential elections of 2016. There is a widespread movement supporting the former secretary of State Clinton to run again for the White House. Although an exponent of the same party as the current occupant of the White House, and unlike any of the other known Democratic candidates, her victory could lead to significant and important changes in the direction of United States foreign policy. Many factors weigh in favor of her accepting the challenge of a candidacy. Weigh against her dubious health and advanced age.

Currently, in addition to the Clinton candidacy, three other politicians seem able to face the Democratic primary with some chances of success. The first is Vice President Biden. There are numerous precedents for a Vice who follows a President to the White House, but the risk is that the new administration is seen as simply a continuation of the outgoing one. A second is Senator Elizabeth Warren, who enjoys a very strong support within the Democratic Party. The problem is that, at least for the moment, the American electorate as a whole has no idea who she is. A third possible candidate is Senator Mark Warner, in many ways the true potential outsider of the next Democratic primary.

Governor Christie appears to be the strongest Republican possibility. Any analysis of his entire career seems to be proof of how he could easily beat Clinton, if he manages to survive the Republican primaries, which is far from likely given the sincere aversion the Tea Party demonstrates towards him. On the other hand, the candidates whom this political group would support, such as Senator Paul or Senator Cruz, seem destined to deliver the White House to the Democrats. In this context, there are two names to watch during 2014: former Governor Jeb Bush and, especially, former Governor Huckabee, the real star of the Republican primary in 2008.

Although a lot may change over the next ten months, it seems likely that while the midterm elections will confirm the solid majority of the Republicans in the House and provide an excellent opportunity for them to regain control of

the Senate, the White House should still be able to win the support of the more traditionalist wing of the Republican Party for at least a large part of its foreign policy agenda.

Afghan Theatre

Claudio Bertolotti

EXECUTIVE SUMMARY

In December 2014 ISAF mission will be concluded, as well as the 'combat phase' of the U.S.-NATO military operation in Afghanistan; in January 2015 the NATO 'Resolute Support Mission' (RSM) will begin. The new NATO mission is going to modify its name, size, and mandate, but the principles of its long term presence will not change.

Prospective analysis suggests looking at 2014 by taking into account all the elements that are currently influencing the development of the contemporary Afghanistan. These are international political and economic support, regional country's interests, NATO long-term presence, the decrease of diminishing of the general interests for Afghanistan, endemic corruption, a lack of a capable and representative political and administrative leadership, unemployment and poverty, criminality, drug-trafficking, unchallenged insurgency phenomena and inadequate unprepared Afghan National Security Forces (ANSF).

Several other threats are undermining Afghanistan stabilization. The persistence of a medium intensity permanent conflict (which is linked to NATO disengagement and is also nurturing the economic crisis), the limited support Afghan people are offering to foreign military presence, and the incompetence and ineffectiveness of the Afghan state.

In this situation, the Armed Opposition Groups (AOGs) created solid and functional connections with regional war-lords and drug-lords.

From a socio-political perspective, several issues should be assessed: indirect effects deriving from the central-periphery contraposition, AOG's access to local and eventually central power, attempts to revise constitutional and human rights, and high risk of electoral frauds during the presidential election.

The AOGs - formally undefeated on the battlefield - confirmed their ability to influence security; they are military able, even if not capable to defeat ISAF and ANSF. Owing to these dynamics, a further step forward on peace talks cannot be excluded, aimed at reaching a political 'compromise' with the AOGs. This option could include a possible power-sharing and it could not exclude a possible revision of the Afghan Constitution and Law.

In brief, a 2014-2015 scenario will be characterized by:

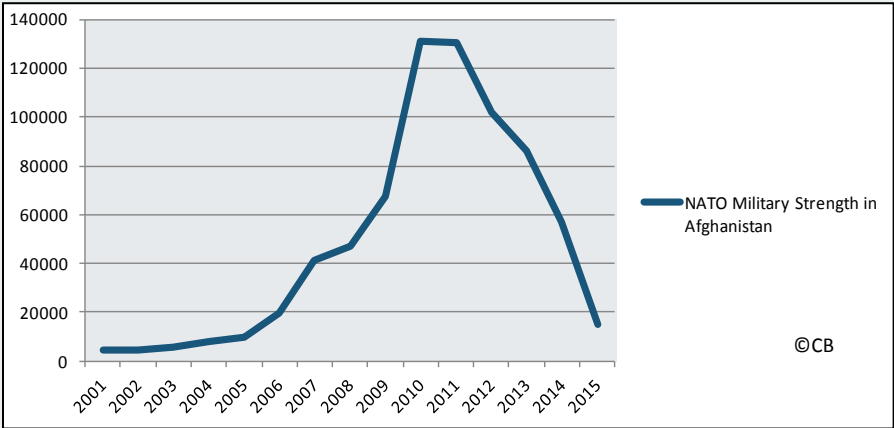
- I. A general increase of violence,
- II. The reduction of the role of the Afghan state,
- III. Considerable AOGs military pressure,
- IV. Growing political and social instability.

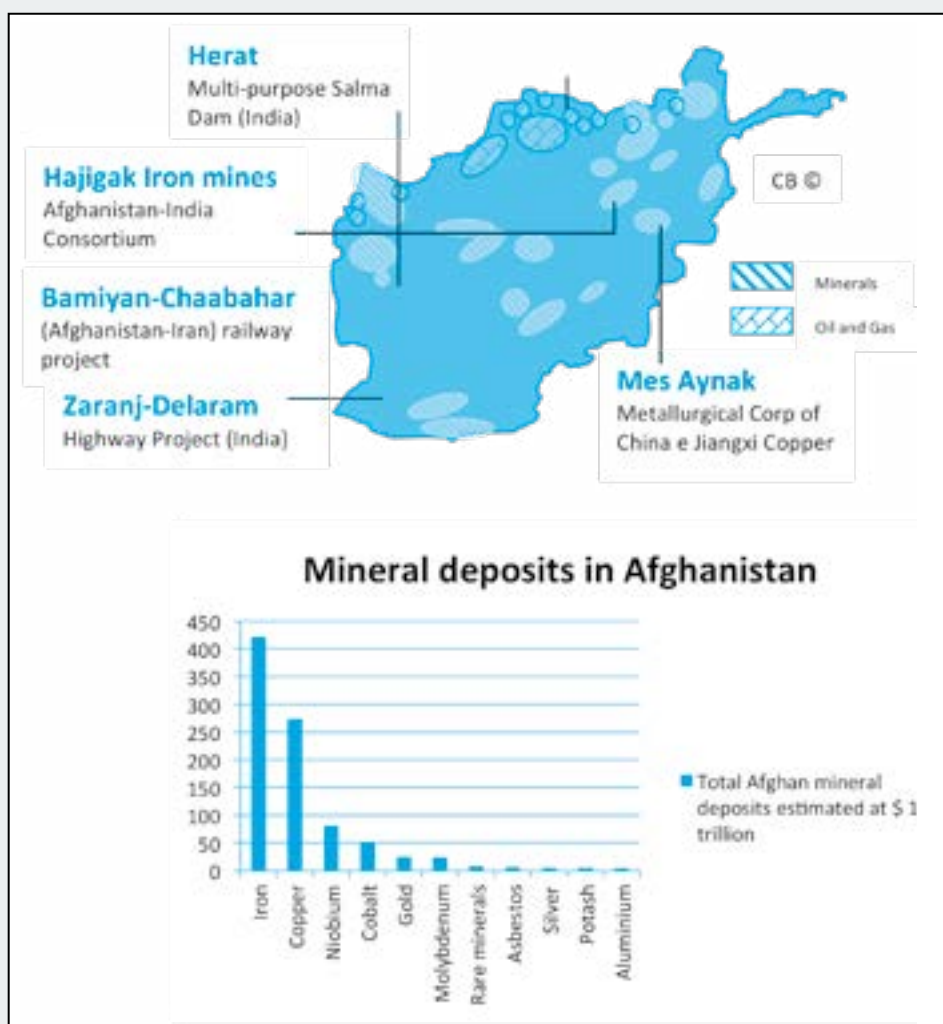
At the same time, NATO is moving to a new long-term advising role in Afghanistan.

NATO members and contributors are discussing on two hypotheses concerning the post-2014 Afghan scenario:

- I. **Possible scenario** (8.000 soldiers). "Kabul-centric" (military focus on the capital region), this scenario is finalized to maintain the control on the capital region renouncing, de facto, to rural and peripheral areas. This hypothesis should not exclude a compromise agreement among Afghan government, United States, Pakistan, and AOGs.
- II. **Probable scenario** (12-15.000 soldiers). "Regional-Limited", based on troops deployment in the main regional military commands (Kabul, Herat, Kunduz, Kandahar and Helmand). This solution could guarantee the support capability and ability to intervene in favour of the ANSF.

NATO troops in Afghanistan





SITUATION

2013 began with new dialogue opportunities among several competitors: the AOGs (Taliban and Hezb-e Islami's Gulbuddin Hekmatyar), the Afghan government, United States, Pakistan, Saudi Arabia, Turkey and, last but not least, Qatar (whose government has facilitated the opening of the 'Taliban political office' in the capital, Doha).

Unfortunately, the attempted dialogue failed, revealing that the conflict actors do not want to concede advantages to each other. Generally speaking, the 'strategic waiting' of the Taliban contrasts with the 'dynamic stalemate' of the United States (and their allies).

AOGs are looking for more benefits deriving from political and diplomatic developments of a coalition led by United States, determined to withdraw its main assets from Afghanistan, and firmly resolute to maintain a small but fundamental presence in the area; a presence which may be also functional to contrast Chinese interests there.

In fact, China is likely to become a dominant political and economic player in the Afghan region, since it has already access to important mining and energy resources. Finally, Iran is another important player in the new Afghan game.

In this multiple political and diplomatic process, spectacular attacks with a strong media and emotional impact – such as suicide commando attacks – were boosted, while a decrease in direct actions against ISAF-NATO forces and an increase of attacks against the ANSF can be observed. Furthermore, AOGs showed increased ability and willingness in propaganda activities (both traditional and via hi-tech media), and this trend may be confirmed for 2014–2015.

From a security point of view, the transition process has been marked by two interconnected dynamics. On the one hand, a decrease of territory under the Afghan government control has been recorded; on the other hand, ISAF troops reduction provoked a lack in security conditions, because of the increased AOGs operational capabilities.

In addition, the illegal business connected with opium poppy production and drug trafficking should be considered. In twelve years neither ISAF-NATO, nor the international community have been able to implement effective countermeasures. Cross-border and international organized crime play an important role and thrive on the Afghan chaos, for which they are partially responsible due to the direct connections with insurgent groups.

From a political perspective, signs of high uncertainty and lack of satisfaction emerge. The process for the election of the next Afghan president proceeds slowly, the amount of registered voters is small, and women participation is very limited.

The current instable political situation is further weakened by the failed endeavours of 'political dialogue' with the AOGs (Hezb-e Islami and, in particular, the Taliban) and the hazards of revision (and reduction) of the constitutional rights, in particular women's rights.

The Afghan state, which is currently powerless, unable to maintain stability within the country, economically depending on the international community and security forces, is not so far from substantial failure.

Extensive defections and high rate combat casualties have decimated the ANSF, making them weak regarding air and logistical support and able to guarantee a minimum security level in urban but not in rural and peripheral areas of the country.

The end of the ISAF NATO mission, scheduled for the 2014, represents the symbolic watershed of the International commitment in Afghanistan. Based on the Bilateral Security Agreement (BSA) between Afghan government and United States, this commitment will change its nature from 'combat' to 'train and assist', drastically reducing the number of international soldiers on the Afghan soil: from the current 85,000 to a maximum of 15,000 units of the new NATO task, the "Resolute Support Mission" (RSM).

NATO will no longer be able to assure a widespread operational support, but will ensure, thanks to its military strategic bases in Afghanistan, its medium-long term presence in the country.

OUTLOOK

In January 2015, NATO's role in Afghanistan will change. Its mission will change its name, size, and mandate, although the basic principles of its long-term presence are going to remain the same because of formal and substantial difficulties.

In order to anticipate how the country is going to evolve in 2014-2015, its strengths should be considered. Among them, the international political and economic support (Tokyo, 2012); a support tied to the respect of some political, economic and social agreements signed by international donors and the Afghan government.

Furthermore, Afghanistan stability is a primary interest for regional actors, which have direct interests on its natural resources. From a security point of view, NATO long-term presence can be seen as a guarantee for the fulfilment of cooperation and development projects as well as the protection of the national interests of the donors engaged in Afghanistan.

In contrast to these strengths, there are some weaknesses. Among them, the progressive decrease of general interest, accompanied by endemic corruption of the Afghan state apparatus, a lack of a competent and representative political and administrative leadership, high unemployment and poverty, criminality, drug-trafficking, unchallenged insurgency phenomena and unprepared ANSF.

'Presidential elections' and the signature of the 'Bilateral Security Agreement' are the most important points on the Afghan agenda.

The state building process has not been achieved, leaving the country without primary infrastructures for the development. The ANSF is responsible for the

security of the country, although its limited combat and logistical capabilities make it unable to counter an increasingly aggressive insurgency.

On the opposite side, the AOGs will keep on expanding their operational and political capabilities through the negotiation process and peace talks. Furthermore, AOGs have strengthened their connections with regional, transnational and international criminality and drug lords.

Afghanistan's opportunities are currently related to the financial commitment of the international community, natural resources (minerals, gas, oil) and the possibility to use the Afghan soil for the transit of regional natural resources (particularly the TAPI pipeline project, involving Turkmenistan, Afghanistan, Pakistan and India).

Economic cooperation with Iran and China is relevant as well. Teheran and Kabul recently signed a long-term bilateral agreement on economy and security. Beijing's interest in Afghan stability is linked to the economic benefits deriving from the access to the Afghan natural resources as well as to the idea that a stable Afghanistan may contribute to maintain stable and under control the Islamic fundamentalism threat in the Chinese Xinjiang Uyghur region.

Italy, Germany and United States will be the main pillars of the new 'RSM' NATO mission because of their involvement in regional cooperation activities. Among the most important Italian investments the extractive activities of oil and natural gas (Tirpul basin, Herat), as well as cooperation in the constructions industry (Italian-Afghan Memorandum of Understanding, 2012) should be highlighted. All these investments require security conditions that only a military presence can guarantee.

Finally, a potential positive effect deriving from the political negotiate with the AOGs is not excluded.

Among Afghanistan's potential threats, the continuation of a medium intensity permanent conflict together with the reduction of public support to foreign military presence should be take into consideration.

Furthermore, a substantial absence of political reaction to the social crisis is recognizable. In other words, the Afghan state is not able to respond to social needs and requests: the result is a situation characterized by a significant instability.

Therefore, a major role of the AOGs in the local conflict resolution processes is plausible, as well as in illegal business and activities based on a solid relationship with warlords and drug lords.

In conclusion, a few trade-offs should be emphasized, i.e. factors opening possible future developments (in particular concerning the socio-political and diplomatic-military context). Among them, the antagonistic impulses and the influences of regional states on Afghan power-groups' balance of power – a factor that could aggravate regional destabilization. Also, the way in which the U.S. and NATO troops will remain in Afghanistan after 2014 is another determinant for the future order of the country.

As far as the national situation is concerned, it is realistic to identify political and social direct and indirect effects deriving from:

- I. Centre-periphery political rivalry;
- II. AOGs access to power (both formal and informal);
- III. The revision process of human and constitutional rights;
- IV. Presidential elections (the 5th of April 2014) and consequent risk of vote rigging (as well as the reported trade of voters' registration cards).

Security will be shaped by AOGs' willingness to negotiate. Afghan insurgency, formally and substantially undefeated, is militarily able, even if not capable to defeat ISAF troops and the ANSF. For these reasons, the reopening of a negotiation process looking for acceptable compromises is not excluded. This may become an exit strategy alternative to the slow collapse of the central state. The compensation, on which this solution should be based, will be the power sharing and the partial revision of the aforementioned constitutional and human rights.

Growing conflicts and political-diplomatic dynamics suggest a probable 2014-2015 scenario characterized by:

- I. general increase of violence,
- II. reduced role of the Afghan state,
- III. more activity of the insurgency (in particular during the electoral process), and
- IV. growing instability at political and social level as consequence of a weak economy.

The political and economic role of regional states will be essential (in particular China, Russia, Pakistan, Iran), because of their interest in obtaining access to the Afghan natural and energy resources. Regional and domestic dynamics will contribute to an intensification of low-level conflicts with a possible 'multiple civil war' effect.

In brief, in the next two years Afghanistan is going to be:

- precarious from a domestic political perspective and exposed to the risk of a reduced role of the central government (to the advantage of local and peripheral powers),
- vulnerable to AOGs' requests,
- seriously unstable regarding its security and governance,
- inadequate vis-à-vis the transparency required by the international community's economical support agreements,
- open - but also vulnerable - to a dynamic and flexible environment regarding regional cooperation.

NATO, responding to a public opinion asking to bring the expensive Afghan engagement to an end, will reduce the costs of the war through a reduction of military efforts, while maintaining troops in the medium-long term in accordance with the BSA until 2024 and beyond. The new military presence

will be focused on a limited assistance and mainly on 'advising' activities (limited combat operation are not excluded).

Two hypotheses concerning the role of the new NATO (RSM) military commitment for Afghanistan can be formulated:

- I. **Possible scenario.** 'Kabul-centric' (military effort focused on the Capital region), oriented to maintain the control on the Capital region abandoning, *de facto*, peripheral areas. This hypothesis does not exclude a compromise agreement among Afghan government, United States, Pakistan, and the AOGs. This option needs a military effort not exceeding 8.000 troops (2.000/2.500 of them special forces elements and assets, 2/3 US). This option may be interpreted as an implicit admission of the ISAF mission failure.
- II. **Probable scenario.** The second hypothesis, 'Regional limited', is based on the deployment of troops in the main regional military commands (Kabul, Herat, Kunduz, Kandahar, and Helmand). This option requires 12-15.000 troops (not more than 3.000 of them special forces, 2/3 US), which are considered sufficient to guarantee support and operational capabilities in favour of the ANSF, but inadequate to conduct deep and prolonged conventional operations. This balanced proposal does not preclude further developments of the mission.

