CENTRE FOR HIGH
DEFENCE STUDIES

MILITARY CENTRE
FOR STRATEGIC STUDIES

OSSERVATORIO STRATEGICO OUTLOOK 2015

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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.

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- develops the cooperation between the Armed Forces, Universities and Research Institutes or Government bodies (National & International);
- trains military and civilian researchers;
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- publishes and circulates the most relevant studies.

The study and research activities have the primary goal to answer the cognitive and decision-macking 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.

CENTRE FOR HIGH DEFENCE STUDIES

MILITARY CENTRE FOR STRATEGIC STUDIES (ITALY)

OSSERVATORIO STRATEGICO OUTLOOK 2015

Osservatorio Strategico
Outlook 2015

This Volume has been prepared by the
Italian Military Centre for Strategic Studies (**Ce.Mi.S.S.**)

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Part III
Sectorial Analysis

"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

In the wake of an annual appointment that we can already define as having acquired a regularity character, we are proud to release a new volume of the Italian *Military Centre for Strategic Studies'* annual Outlook.

Before reviewing the most relevant points of this work, it is useful to highlight some of the peculiarities of the Outlook 2015. It is neither a summary of what happened all over the year nor a collection of opinions expressed by an authoritative group of researchers. Outlook 2005 aims at qualifying as one most advanced products in the analysis/forecast, regional/sectorial and global matter areas. It represents a practical tool for decision-makers working on international dynamics and enriches the already existing intense debate on Foreign Affairs, building on Ce.Mi.S.S. scholars' original contributions.

To strengthen our report, this year we decided to emphasize the predictive character of our Outlook 2015, concentrating the most important information in the executive summaries and combining *ad hoc* analysis on specific thematic sections with a broader global study. The reader is free to combine the inputs coming from the section focusing on global trends with the ones coming from regional/sectorial or country-based analysis and vice versa, taking advantage of the diversity of approaches and contributions offered. We are aware that any predictive analysis of events is risky and that it is possible that some of our predictions will be disproved. However, being conscious that it would be unfair to subcontract the entire work of your own analysis and strategic perceptions, we thought we could better contribute to an international debate that at times appears as too general and vague by offering a more plainspoken analysis of global and regional dynamics.

Suggestions and recommendations coming from our work can be summarized as follows:

- The global theatre is imbued with elements of financial, energetic, cyber and climatic instabilities, which will influence the various theatres in a more or less sharp way;
- Theatres where Italian international missions are involved (including Afghanistan, Lebanon,

Balkans, Arabian Sea, Indian Ocean, etc.) are likely to be influenced by a global trend of growing instability or by regional actors eager to strengthen or extend their strategic outreach;

- The leading role of the United States has not been visibly challenged yet, but it tends to express itself in different configurations compared to what it used to be in the past, and in a softer way than before. Washington's position has been further braked by the new balance that emerged after midterm elections;
- China and India are preparing to redefine their international roles and some of the consequences of this change are already visible at regional level and in the Mediterranean area;
- Italy and its partners have entered a stage of instability extending from Ukraine to Mauritania. In this area, the jihadism and the dynamics of *de facto* political entities are the consequence of the collapse of, at least, four States in the area, which was followed by severe tumultuousness in oil producing countries and influenced by the repercussions of several crisis in Africa;
- Russia will aim for consolidating the current *status quo* in Ukraine, despite serious financial difficulties are weakening its own energetic monopoly in the region.

Summary

Maj. Gen. Nicola Gelao

Once again, to complete its monthly monitoring of the major political and strategic international processes, Ce.Mi.SS attempts to summarize the nature of the events that have characterized the year just ended and to highlight the most likely developments of the one that has just started. As it happened for its previous editions, "Outlook 2015" cannot be reduced to an anticipation of a series of forecasts about what may or may not happen in the near future. This book proposes a set of useful tools to understand the most complicated dynamics of our contemporary world and the evolution of its major political processes.

The conclusion of the ISAF mission in Afghanistan, which fulfils the longest operation so far undertaken by NATO, does not bring to an end the Western presence in the country. Its commitment will continue in other forms, with countries such as Germany, Italy, United States and Turkey on the front line to help the Afghan security forces, as they are not able to cope with new and stronger armed opposition groups by themselves. Although it seems realistic to forecast that Afghanistan will remain politically weak but stable, there is a chance that the insurrectionary phenomenon results in the collapse of the Afghan state. It all depends on the ability of the Afghan government to maintain a balance among different power groups. In any case, it is appropriate to highlight that the counter-insurgency approach adopted by Afghanistan has not proved particularly effective.

North Africa, the Eastern Mediterranean and the Persian Gulf remain the primary theatres in which Saudi Arabia and some of the Gulf monarchies on the one hand, and Iran and the Muslim Brotherhood on the other hand, will keep on confronting each other. What is often erroneously introduced as a religious war between the two major Islamic confessions is actually the consequence of Arab Gulf élites. A series of local dynamics are also competing for ideological and military supremacy, following the logic that whenever there is a winner, a loser has to follow. This attitude reduces any room for inclusive policies and dynamics. In this context, new problems are further complicating the already difficult crisis involving Israel and Palestine.

Despite some persistent problems, Africa is expected to continue along the path that is bringing the continent from a significant dependence on development aids to an economic growth based on trade. This trend will definitively connect Africa to the general dynamics of economic globalization and transform the continent in one of the most favorite destinations for international investments. The current relationship Italy and Africa share does not seem appropriate to deal with the forthcoming challenges the continent is about to face. The most recent EU-Africa summit has shown how national interests undermine the so-called "European unity", limiting the impact and the effectiveness of European foreign policy in Africa. This context indirectly explains the delay of the international response to the Ebola virus outbreak. Meanwhile, China is doing its best to overcome the major obstacles and constraints of international trade to extend its outreach in Africa.

It is already clear that Crimea is destined to remain an integral part of the Russian Federation and that the separatist republics will soon become "independent", whether or not the international community will recognize them as such. Russia succeeded in securing its presence in the Black Sea and in creating a new buffer zone on its western border. At the same time, the economic and financial crisis the country is currently going through and that is threatening its social stability is forcing local authorities to revise their investment programs and spending plans. Russia's stronger partnership with China and its attempt to strengthen its relations with Turkey aim to limit Moscow's dependence on European trade while looking for new markets in regions previously considered as secondary. Finally, Caucasus and Central Asia are struggling with the phenomenon of "foreign fighters" in Syria and Iraq, although at the current stage this threat looks prospective more than imminent.

The ongoing conflicts in Syria and Ukraine have shaped the geopolitical dynamics of South Eastern

European borders. It is extremely likely that the political evolutions of this region as well as the restructuring of EU and NATO integration policies will be deeply influenced by the consequences of these two conflicts. It is interesting to notice that Turkey and Russia have launched a parallel process of differentiation and estrangement from both Europe and the West, closing some of windows of strategic dialogue they kept open during the last ten years and that were working particularly well in South Eastern Europe. In fact, in this region the "foreign neighbourhoods" of Europe, Russia and Turkey overlap. For now, the outcome of this process is a general decrease of Turkish "soft power" and a new realignment between pro and anti-Russian countries.

European Common Security and Defence Policy 2015 initiatives are expected to focus on the outcomes of December 2013 European Council meeting. The Ukrainian crisis remains the major challenge to European security, although countries trying to face it in different ways. The United Kingdom is emerging as the guardian of Northern, Central and Eastern European countries despite the recent budget cuts and the impact this choice will have in terms of defence endowments and reorganization. France succeeded in limiting the amount of cuts to its defence budget while Germany is more an economic than a military power. As far as defence industry is concerned, most of current activities are expected to be reorganized to increase European effectiveness in this sector.

United States and China are smoothly competing for Western Pacific supremacy. From a political point of view, 2014 has not been a very encouraging year. Old and new authoritarian systems keep on interacting on the global arena. North Korean totalitarian and militaristic regime is scaring the rest of the world with rumours about the umpteenth nuclear test. Some openings, such as the Indonesian one and the end of Fiji's military dictatorship, are counterbalanced by the persistence of other authoritative regimes. Maritime tensions remain constant. China is trying to consolidate its outreach while several other countries want to limit its expansive ambitions. The few conciliatory signals recorded are unfortunately episodic events more than the first steps of a new positive trend. Raising tensions in the South China Sea are fuelling a military spending escalation in the region. Moreover, the remarkable number of Asians among ISIS militants may lead to a new era of violence.

In China, all protests recorded in 2014 are the consequence of an internal arm wrestling that involved the whole Chinese Communist Party (CCP). A massive anti-corruption campaign has allowed Xi Jinping to reduce the authority of most of his major political opponents, while the internal opposition has exploited regional sources of tension to weaken the reformist leadership. The end of this fight allows us to imagine that 2015 will be characterized by a lower degree of regional tension, a speed up of pro-integration initiatives among Japan, South Korea and China, and a more stable cooperation with the United States. Finally yet importantly, the resumption of a reformist approach aimed at favouring the implementation of rights and institutions mentioned in the Chinese Constitution while preventing the collapse of the CCP is also expected. Blocking this process is not recommended as this could lead to other protests such as the one that shocked Hong Kong this year.

In India, Narendra Modi's majority government has started redefining New Delhi's regional alliances looking beyond South Asian borders, seeking out partners who can support the country both economically and strategically. The success of this strategy depends on Modi's ability to promote himself as a reliable leader, to consolidate the dynamism and the consensus needed to multiply his reforms' positive effects, and to convince his new allies to play an active role in India's rebirth. Unknown variables like the way in which countries such as Pakistan, China and the United States will interact with India may further complicate the scenario. Modi would certainly find it difficult to address any request from Asian partners to take a more explicit anti-China stand in the region, especially if this demand will come at a stage in which India and the United States have not yet decided the priorities on which their new alliance should focus.

Finally, it is reasonable to expect that an agreement on the EU – Mercosur FTA is reached in the forthcoming two years, and the same can be said about the Transatlantic Trade and Investment Partnership, unless the US Congress decides to block it. If this happens, South America will inevitably strengthen its connections with the Atlantic market in a more balanced framework. In case Trans Pacific Partnership's membership will not be enlarged, Latin America needs to do its best to avoid any split among Pacific Alianza's members and the rest of the region. Despite its internal economic slowdown and Latin America local crisis, Beijing is expected to continue strengthening its presence in the region. Organized crime and drug trafficking threats will continue eroding regional equilibria. In particular, Mexico risks facing the consolidation of existing big drug cartels together with the fragmentation of the minor ones and the consequent proliferation of citizens' militia.

Readers will find it easy to go through researchers' analyses following their interests and thoughts. The monitoring work carried out through the entire 2014 together with the researches published during the previous years are the basis on which this 2015 Outlook is grounded.

Part I
Global Outlook

Global Outlook 2015

Alessandro Politi

GLOBAL VIEW [1]

The integrated analysis of global developments indicates the following relevant risks:

- The collapse of oil prices can have serious effects on Iran. It can cause quite alarming developments in Algeria and concerning ones in GCC petro-monarchies, despite the Saudi stabilising role. The longer prices remain between a $50-60 range, the bigger the risks for OPEC and non-OPEC countries will be. Two collateral effects of this situation will be the worsening of US-Saudi relations and the default risk for Venezuela.

- The expansion of Daesh (ISIS) in the no-man's land between Syria and Iraq, together with the oil crisis, can severely affect stability in Lebanon and Jordan.

- The increase of global debt, the lack of rules for the shadow financial systems of China and the USA, together with new borrowing in the emergent markets (especially African ones), lead to fear another important financial crisis in the coming two years with serious global and regional effects, BRICS and emerging markets included.

- In such a scenario the Ukrainian crisis can be subjected to further repercussions, taking into account that Russia will experience a higher economic pressure than foreseeable with actual sanctions.

- Concerning climate risks, it is difficult to see their significant reduction in the next two years despite the recent US-China agreement on carbon emissions, because it is inadequate according to scientific standards.

- The development of the ICT sector risks to be negatively affected by two trends of concern; the re-nationalisation of internet after the scandal of global NSA eavesdropping and the further globalisation of cybercrime networks.

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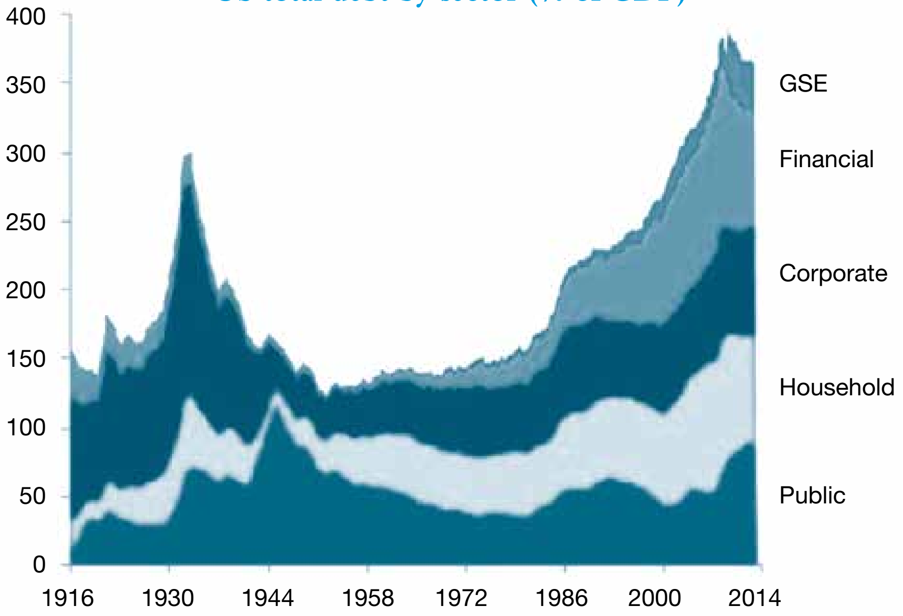
[1] The Global Outlook, Part I of this book, has been co-directed with MA Stefano Felician. The interns' team (MAs Ludovic Colacillo, Margherita D'Angelo Paola Lasorsa and Sophia Ricci) has provided an essential support in preparing and finalising research materials (annotated summaries, chronologies, proofreading, co-testing of the SWOT2 method and analysing trends of the shaping flows).
Concerning definitions, 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 collaborations and competitions). A shaping flow is defined as a tangible or intangible flow structuring relationships between international actors. The shaping flows are the following: Ecosystem (e.g. sea level, climate change); Drinkable Water; Food/Agrotech; Demography & Real/Virtual Migrations; Conventional-Non conventional Energy; Financial and Invested capitals; Knowledge (culture, tech, science, religion etc.). The SWOT2 © is based on the interaction among: Strengths, Weaknesses, Opportunities, Threats and Trade-Offs.

Pacific Geonetwork

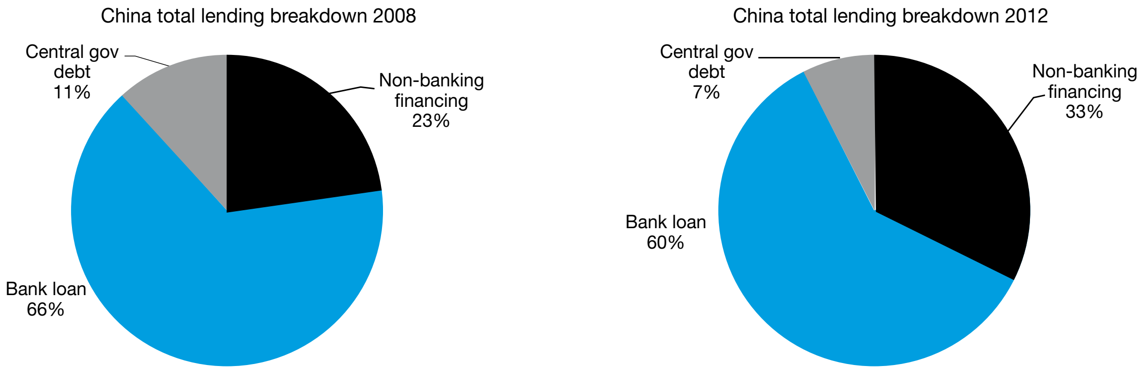
In the next two years a serious financial risk, caused by the interactions between the Chinese and US shadow financial systems, is probable; its negative impacts will be at global and regional level. Until now, no significant deleveraging has been observed at global level, but the leverage increased by 30%, due to a scarcely regulated shadow finance. In addition the Chinese shadow banking system has continued to store up bad debts (see below the Structural Flows section). The burst of this debt bubble could adversely affect also the outcome of TPP (Trans Pacific Partnership) negotiations.

US total debt by sector (% of GDP)



Source: Geneva Reports on the World Economy, Deleveraging? What Deleveraging?, ICBM- CEPR, September 2014. GSE, Government Sponsored Enterprises.

The evolution of Chinese debt



Source: Geneva Reports on the World Economy, Deleveraging? What Deleveraging?, ICBM- CEPR, September 2014.

Besides, the political dynamics between the US Congress and Administration will have an equally important impact on these negotiations, for which a "fast track" ratification is not a forgone conclusion. Meanwhile, by 2014 two important FTAs (Free Trade Agreement) have been respectively signed or initialled between China, South Korea and Australia.

In the short term, tensions in the area related to Chinese maritime claims could decrease due to the political successes of Xi Jinping in the domestic arena. Nevertheless rifts are probable at economic level due the competition between established economic development institutions and the new ones set up or proposed by China alone or within the BRICS group. In this context, Japanese military power has outgrown its neutral self-defence dimension and the country is further developing military co-operations with Russia, India and Australia.

Against this backdrop Russia will continue its careful approach vis-à-vis China and Japan at least until the crisis in Ukraine subsides. Surely the oil crisis is a further incentive for Moscow to nurture these relations.

North Korea continues its decay, but no breaking point is discernible in the short run with the government continuing manoeuvring among China, South Korea, Russia and Japan to seek financial support in various kinds. At the same time, Pyongyang is possibly developing an experimental ballistic missile conventional submarine (SSB, class SINPO) together with nuclear tipped ballistic or cruise missile vectors.

In the Latin American subcontinent the most visible and serious crises in the short term affect Colombia, Venezuela and Argentina. In Colombia the possibility that the peace process may fail is very high due to a tension strategy developed both by right-wing and left-wing political actors. If the peace fails, not only an important member of the Alianza del Pacifico (the economic alliance between Mexico, Colombia, Peru and Chile) will be handicapped, but also there will be no possibility of reducing the flow of cocaine that feeds the Mexican narco-war, the biggest ever at global level.

In the coming year Venezuela's government will continue to experience a steady erosion of popular consensus, probably accelerated by the slump in oil prices. On the other hand**,** it is still impossible to know when the opposition will launch a vigorous campaign capitalising the diffused discontent against the establishment.

Argentina will play a waiting game before the presidential elections, knowing that its default is manageable. The general economic and social situation unfortunately is increasing the risk of the development of narco-trafficking networks.

Indian Geonetwork

In the short term the geonetwork has a very low possibility to find at least some general shape, not to mention a stable condition, because the internal weaknesses of the states in the region are too serious. One has just to consider the devastating effects of corruption and its consequences in terms of cross-border illicit flows to understand the problems that even countries spared by wars have to overcome. This is the fundamental aspect that strongly limits the stabilization capacity of both local and external powers.

India will continue to develop a more dynamic foreign policy, but its strategic alliance with the United States is weak. Relations with China could improve significantly in the second half of 2015, while those with Iran are conditioned by the sanctions and by India's rivalry with Pakistan, as shown by the several freezes of the TAPI (Turkmenistan–Afghanistan–Pakistan–India) pipeline.

The AFPAK flashpoint will continue to affect negatively the neighbouring countries and its virulence will not decrease due to the difficult internal situation in Islamabad and its low willingness to collaborate with Kabul in counterinsurgency operations. The record production of opium during 2014 will lead to a consolidation of transnational organized criminal networks along the old Silk Road, anticipating the development of the Chinese New Silk Road project and influencing it negatively.

The newer SYRAQ (Syria-Iraq) flashpoint shows that a mix of Shi'ite militias and regrouped regular troops is reaping its first defensive successes with the help of air strikes against Daesh (also called Dawla or ISIS-Islamic State of Iraq and Syria). If the rebuilding and reorganization of Iraqi regular units is effectively carried on, one can reasonably foresee in the coming semester a stalemate with Dawla's forces and their slow attrition. Another attrition factor for Dawla could be the loss of support among the population of occupied areas due to the heinous methods of control used by the jihadi militias, while the collapse in oil prices could have a marginal impact. It is unlikely that during the next two years we will witness the stabilization of Iraq, not to speak about Syria, whereas the risk of destabilization in Jordan is constantly increasing and the pressure on Lebanon is not diminishing.

Yemen will be without an effective central government also next year, unless substantial Saudi or Iranian interventions. This condition is likely to last even if the Houthi forces succeed in driving out of the Arabian peninsula all Al Qa'eda units (AQAP), a remarkable development that will unfortunately entail serious consequences for the security of Somalia, Oman and Saudi Arabia.

On the other coast of the Arabian Peninsula, Bahrain has to manage a substantial Shi'ite majority. Actually, the country is nurturing the seeds of an instability that could be even deeper than the one experienced during the previous Arab Revolution, having broken any meaningful reform dialogue with the majority of the population.

All these events are strongly influenced by the drop in oil prices. The scenario envisaged is that prices go down below $50 per barrel or below and that they will stay around $45-50 for at least one semester, with the possibility of a subsequent stabilization at $60 for a year, although some industry forecasts anticipate a five-year period at this price. If this conservative prediction occurs, there will be momentous consequences within the geonetwork at short and medium term: Iran, despite being hardened by sanctions, will have to bear serious socio-political pressures to sign an agreement on its nuclear programme, while the states of the Gulf Cooperation Council (GCC), Riyadh included, will have to invest more into their internal stabilitydespite its huge financial reserves.

This background leaves relatively little freedom of action to foreign powers. A Republican Congress certainly has a strong interdiction power against the fragile agreement with Iran, but it cannot stop the reshaping of the area. The fundamental fact is that Iran will become increasingly important, although crippled by an agreement that probably will be partial and incomplete. In due time, Tehran will have to consider a radical reform of its system if the elite wants to recover social consensus. Equally important is the constant worsening of Saudi-US relations since 2001, which will be accentuated by the political consequences of oil prices because shale producer are among the main targets of this crisis.

Even China and Russia will be forced to mark time, despite the growing importance of Beijing and its long-term plans, but they will try to seize short-term emerging political deals in Iran, GCC and Turkey.

African Geonetwork

In the short term, the Africa Geonetwork will face the challenge of how to find a new and difficult balance between the internal crises affecting its four great tension and conflict areas (North Africa/Sahel; the Sub-Sahelian Zone from Nigeria to Somalia; the Great Lakes Fault Line, the Southern Wedge) and the strong presence of external powers. Since the African Union is engaged in the arduous task of growing and tackling urgent crises (almost always beyond its resources), the responsibility to give some coherence to complex and centrifugal dynamics falls on the three continental leaders and on some regional groupings.

Despite a significant economic growth and also an increased internal governance in many aspects, one must notice that, for better or for worse, the Geonetwork is cut out of major trade treaties involving the Pacific and Atlantic Oceans: paradoxically, it is more free in managing its own crises than in negotiating the opportunities that arise even in new frameworks such as the BRICS.

Egypt, at least for the next year, will remain heavily involved in three tasks: restoring its internal order; rebuilding a credible border control and ensuring that the vital water flows continue to arrive to the Delta after the completion of the great Ethiopian dam. In these conditions Egypt will not be able to contribute significantly to regional security, including in Libya, where nevertheless its influence is noticeable.

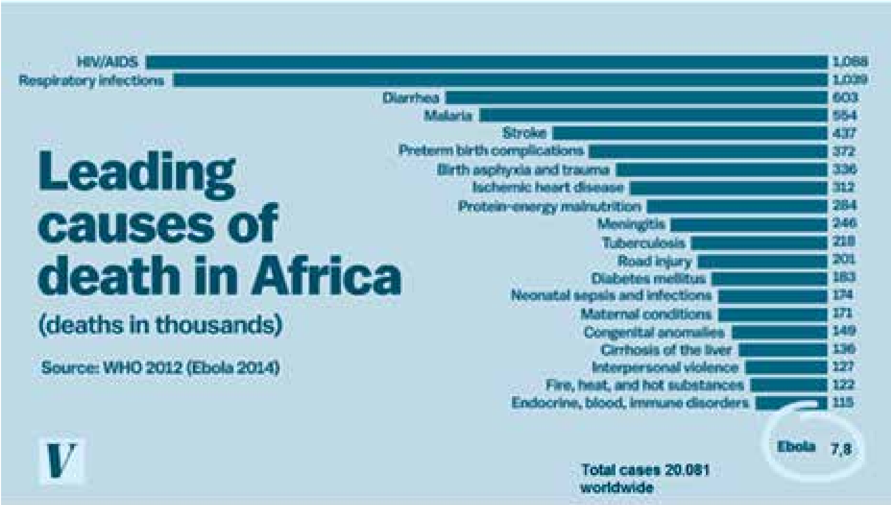
In fact, no country will be able to deal effectively with the vanishing of Saharan and Sahelian borders by itself. This phenomenon is visible at least since a couple of years and affects a vast area from Mauritania to the Sinai Peninsula, continuing quite evidently in what can be called the SYRAQ (Syria-Iraq) war theatre. Moreover this porous area continues by branching in different shades of (in)security to the south until AFPAK and to the north towards the Caucasus and Ukraine.

Unfortunately a sustained decline in oil prices is likely to add by the next year more countries to an already long list of states and regions where security is more or less compromised (Mali, Libya, Egypt, Darfur, South Sudan). Likely candidates include Algeria, Chad and Sudan because it will be more difficult to manage social discontent with less governmental funds. In this situation it is difficult to predict whether there will be a resurgence of the Saharawi issue; in any case the real stabilization of the Sahelian no man's land will definitely occupy the interested for the next two years.

Nigeria, the leading country of the continent, is equally entering a more acute phase of internal turmoil, as shown by the takeover of Nigerian companies in the exploitation of onshore oilfields. These have been left by foreign companies in favour of less problematic offshore rigs.The neutralization of the Boko Haram movement, expanding rapidly across national borders, can be considered feasible only in the medium term, given the weakness of the central government and the multiple connivances that help different terrorists groups. In this context the Ebola outbreak, despite the serious effects on

Guinea, Liberia e Sierra Leone, has no particular effect on the entire strategic theatre.

Leading causes of death in Africa



Source: WHO, update (28/12/2014) by the Author.

At the other end of the Sub-Sahelian conflict zone, the Somali al Shabaab guerrillas still show a strong resilience and are intensifying their attacks against Kenya, despite having suffered repeated military defeats. Without credible socio-political initiatives by the central government a long civil war is foreseeable.

A slightly more favourable perspective seems to emerge in the Central African Republic, but until the threat of secession in the north will persist, it is unlikely to expect a complete return to peace even in the southern regions.

This forecast also suits the Democratic Republic of the Congo during the next year: there are scant chances to see the end of the ongoing conflict in the Kivu region, and it is likely that another one will flare up due to the secessionist Mayi-Mayi Bakata Katanga movement in Katanga.

Atlantic Geonetwork

Developed economies have not reduced their debt. On the contrary, they have increased it to higher levels compared to 2006 and approximately half of the amount is made up by financial debts. Emerging economies also increased their debt, albeit at a lower order of magnitude. These premises make it realistic to forecast that in the next two years another major debt crisis will emerge in the Northern Hemisphere together with one or more crises erupting in the emerging markets. The main economic actors in the Northern Hemisphere are China and the USA, but several countries can be involved due to the numerous connections in a globalised economy. Before the explosion of this new crisis, the most indebted countries in the world will lack any serious incentive to reduce their debt by undertaking a virtuous debt reduction path.

In the short term, the decline in oil prices is likely to continue for a minimum of one year and a maximum of five, reducing the budget outlays of energy consumers and multiplying crisis factors for the energy producing governments that are geographically closer to the EU or its member states (UK, Algeria, Cyprus, KRG, Russia, Azerbaijan), and the more distant ones (Mexico, Brazil, Venezuela).

The big crises created by the partial or total collapse of countries such as Libya and SYRAQ will hardly be solved during the next year. Furthermore, pre-existing crisis factors in other countries lead to take notice of the possible destabilizations risks that may concern Algeria, Egypt and Jordan. The relative inertia of the Euro-Atlantic actors risks giving free rein to regional competitors (including Saudi Arabia, Qatar, Turkey, Iran and Israel).

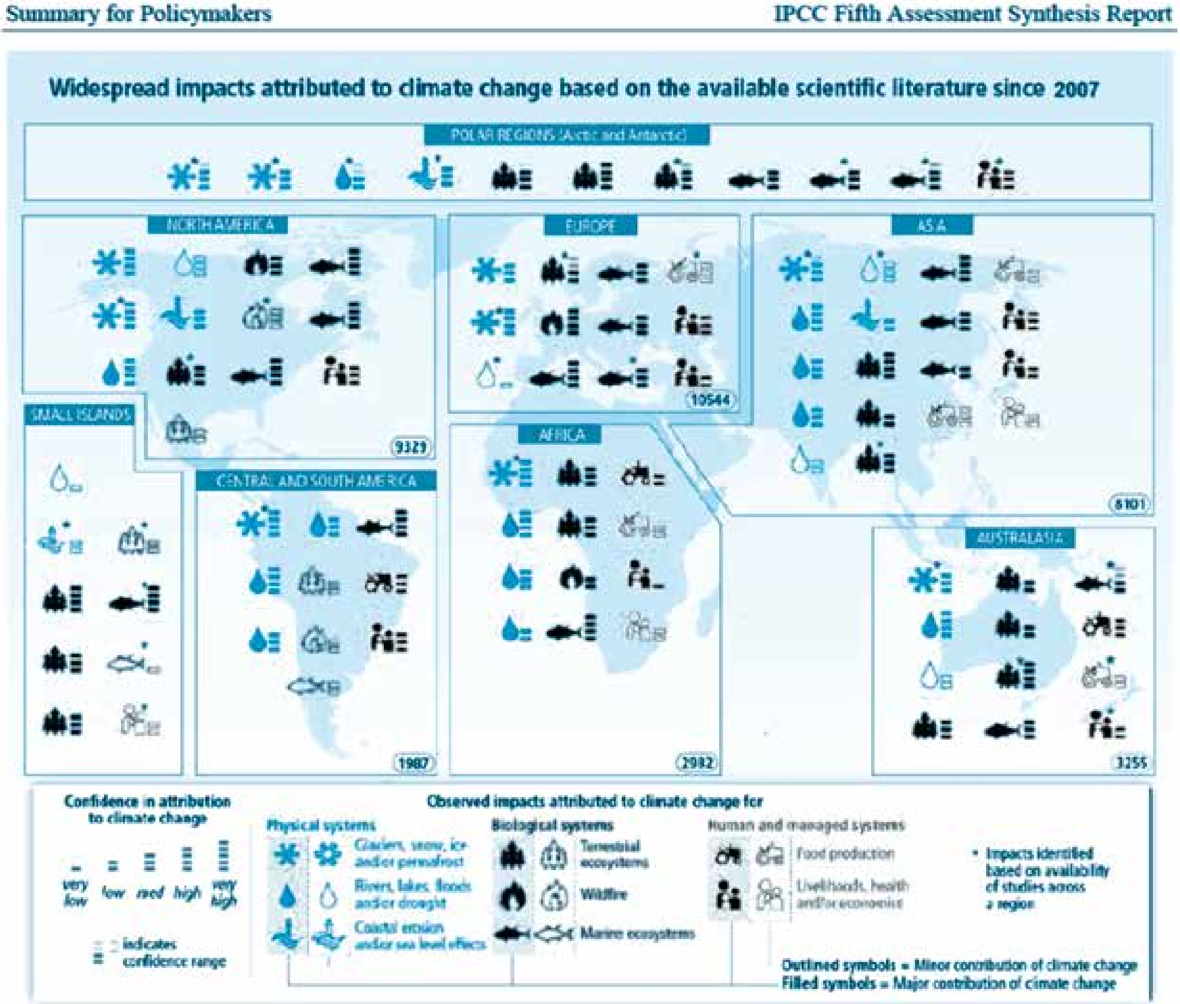
Ukraine faces the probability of becoming a frozen conflict during the coming year, possibly through the consolidation of the ceasefire, unless Moscow's proxies try a coup de main against the strategic city of Mariupol. In any case, a long period of political and diplomatic activity will be needed to try to heal the Crimean issue.

The TTIP, despite having gathered a general consensus in principle, could be particularly vulnerable on three accounts: the new US domestic political climate, the competition between different lobbies and the inherent complexity of such a wide-ranging treaty. The signature of the agreement is probable, while its stalling or its piecemeal ratification are possible.

Hopes of recovery for the EU and the Eurozone remain uncertain due to technical and economic policy motivations, despite the expected stimulus of a trillion euro. In this respect, disagreements and lack of forward-looking strategies displayed by major European states risk to seriously spoil the results of the stimulus.

Finally, the Ukrainian crisis can be credited in providing impetus to a political reorganization and refocussing of NATO around its main mission, but one should not gloss over the geo-economic constraints and fundamental differences among the main member states (USA, Germany, UK). These factors have a high probability of severely limiting military investments and operational expenses and therefore the possibility of intervention at medium and long range. Among the geo-economic conditioning factors one should include the significant Chinese presence in the geonetwork and its ability to influence selectively specific countries leveraging on existing investments or debts.

Global effects of climate change



Source: Intergovernmental Panel on Climate Change

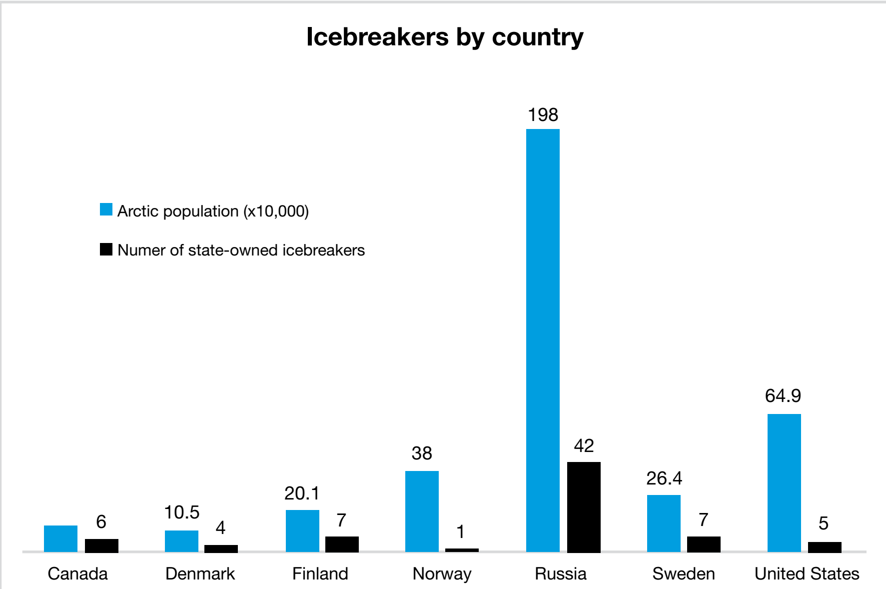
SHAPING FLOWS

The combined analysis of the shaping flows shows that the most important ones at global level in 2014 and in the short term are: ecosystem, demography and migrations, energy, capitals and knowledge.

The ecosystem flow shows two salient aspects: the increase of greenhouse gases and the competition for the access to the Arctic Sea. The China-US agreement to reduce carbon emissions is important since both countries represent two fifths of the global emission. That said, it is difficult to believe that it will have a significant impact by 2030 since emission levels are forecasted to increase by 40-110% compared to year 2000 and 2/3 of the carbon will come from countries that do not adhere to any limitation scheme. Even accepting the most positive estimates for this bilateral agreement, carbon levels will increase by 24-66%, whereas the UN requires a 40-70% decrease by 2050. Thus, it is highly probable that almost all negative climate events recently experienced will happen in the next two years.

The Arctic, despite existing agreements, is witnessing an increasing competition between Russia and China to control these territories, starting with attempts by Chinese citizens to buy land in Denmark and Iceland. The coming year should see a reduction of Russian energy programmes in the region due to the combined effect of sanctions and oil price slump.

Arctic: national settlements and icebreakers



Russia owns nearly 60 per cent of the world's icebreakers. Norway, with its primarily ice-free coast, has just one. Note: the Arctic population of Denmark includes both Greenland (57,700) and Faroe Islands (47,700). (Photo: BarentsObserver)

Source: Barents Observer, 27/11/2014.

Regarding demography, short-term trends allow to see the strong contrast between three countries with maximum population growth (China, India and Nigeria; respectively +5%, +18%, +57%) and two countries with the strongest demographic decline (Ukraine -12% and Russia -6%). This indicates a clear weakening of Russian positions in Central Asia and in the Pacific, with rather evident repercussions on the viability of the Eurasian Economic Union and on the availability of combat forces for extended operations or war.

As for migrations, the Atlantic Geonework will profit from net immigration flows that will partially compensate reduced fertility rates in individual countries (North America +22 million and Europe +18 million), even if tensions are possible for social and welfare systems already cut down by fiscal austerity.

Energy is a flow that acts not only through the oil price war, but also on the contradictory trends of non-proliferation and nuclear fuel markets. Despite the tragic Fukushima incident, India and South Africa are signing agreements with different countries to import reactors or civil nuclear technologies. Moreover the agreements between India and USA, Canada, Kazakhstan and recently Japan have the potential to weaken further progress in the non-proliferation regime, despite increasing international political pressure on India, Pakistan and Israel.

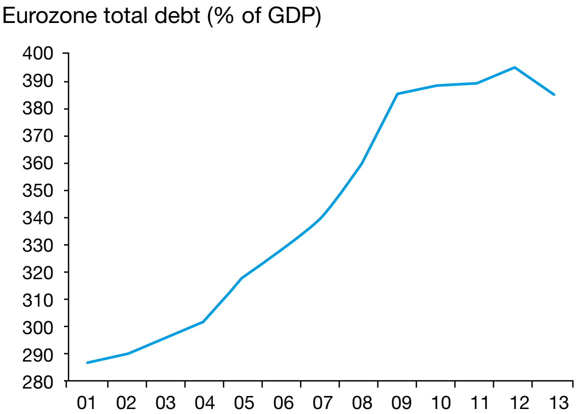
At a global and strategic level one must take note of the huge Chinese investments in India and South East Asia and in the exploration of alternative communication routes between the Pacific and the Atlantic oceans, while the Panama and Suez canals are expanding their capacity.

The most serious risks for global stability can come from the still unregulated financial environment. On the one hand, there is a political push and the attempts to rebalance the seigneurage of the dollar, nowadays less credible and convenient than in the past. This trend is shown by the use of currency swaps in commercial and energy trade or by the experiments with alternative currencies (including the bitcoin that now undergoing a crisis).

On the other hand, there is the dangerous combination between the increase of the global debt, well beyond the dangerous levels of 2006, and the increase of debts in areas critical for the global recovery. In fact, two of the high-growth regions (China and Africa) present negative developments caused by the Chinese shadow banking system (a sector worth $6 trillion in 2012 and even less scrutinised than the American shadow finance) and by the increase of sovereign debt in many African countries with rather fragile economies.

The problems that caused the global economic and financial crisis have not been solved, the global economy is more stressed and fractured than in 2006 and the most financialised countries have developed a visible tendency in the "weaponisation of finance" when implementing their economic policies. These are all serious instability factors and therefore it is probable that another financial crisis happens, followed by one or more crises in the emerging countries.

Total Eurozone debt after five years of austerity

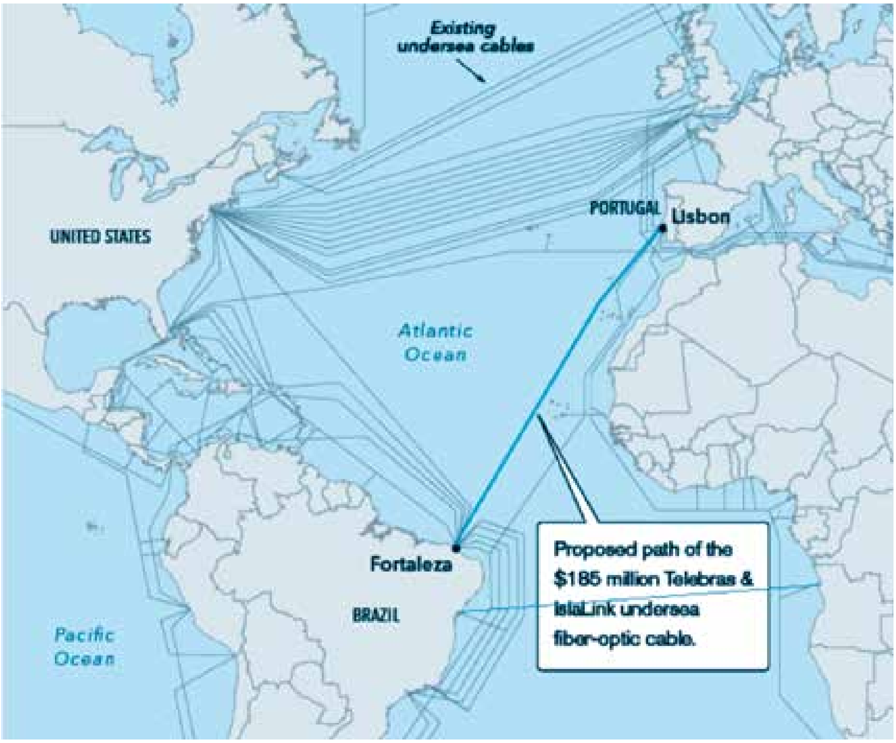


Source: Authors' calculation based on OECD, IMF and national accounts data. See Data Appendix at the end of the report.

Source: Geneva Reports on the World Economy, Deleveraging? What Deleveraging?, ICBM- CEPR, September 2014.

The scandal revealed by Wikileaks is beginning to show its more problematic effects because the providers' oligopoly together with the global exploitation of information flows by the US intelligence has caused a backlash. A re-nationalisation phase of internet (ideally a global common) is beginning via more stringent laws on the diffusion and storage of data. At the same time one can see the laying of dedicated data cables, without the usual globalised industrial partnerships, as for instance the transatlantic data cables between Brazil, Angola and Portugal.

The Brazilian projects of transatlantic cables



Sources: Bloomberg, TeleGeography; own elaboration.

The Sony affair has confirmed a growing globalization of the computer vulnerabilities market and of cybercrime. The less evident aspect of the Sony hacking has been the rising of espionage as an advanced tertiary sector (EASS – Espionage As A Service), behind the media noise regarding the fault of North Korea.

OUTLOOK BY GEONETWORK

PACIFIC GEONETWORK

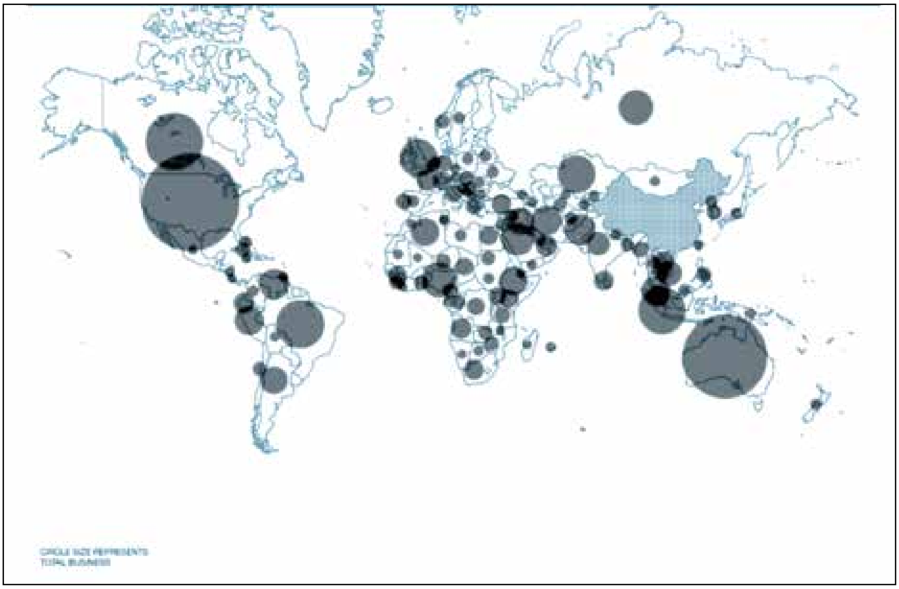
The strategic framework is characterised by the "competition" (competition/co-operation) between China and the United States, involving different interests and conflicts with major powers such as Japan and Russia and medium ones (South Korea and Australia). The role of supporting actor is carried out by India whose backing is sought by the US, China (with serious difficulties) Australia, Japan and South East Asian countries. In this situation, BRICS are rather disjointed at both strategic and economic level, due to the specific weaknesses of each member. The remaining countries in the Pacific occupy important intersection points in the political arena and each of them can be more or less influential like it happens in the "go" game.

The Pacific scenario is dominated by two policy dilemmas with global implications: 1) the uncertainty about the great free trade TPP negotiations after the Republican mid-term victory and 2) the consequences of an Indo-Japanese agreement on nuclear technologies. The TPP (Trans-Pacific Partnership) dilemma revolves around the political choices of the Republicans for the upcoming presidential election. Leaving out bi-partisan rhetoric, much depends on the political direction that congressmen will give to the negotiations by granting or denying fast-track approval procedures for the TPP.

The US partners know how difficult it is to ratify a controversial treaty, but the success of the negotiations will affect economic competition in the Pacific. In fact, the TPP is countered by different Chinese proposals of regional development, ranging from the bilateral FTA with Australia or South Korea to regional FTA in different configurations.

Against a backdrop of internal and external political confrontation, the huge US public debt remains a problem. It amounts to nearly $18 trillion and it is considered unsustainable both by the GAO and the CBO, a matter that is beginning to influence market perceptions of the dollar's reliability. This explains why currency swaps are becoming more frequent as a hedge against this risk. This enduring debt burden has an even more negative effect as BRICS, Japan and the US central banks continue adopting diverging policies, often damaging the competitiveness of exporting countries. In the meantime, global recovery is pinning her hopes to the rather weak overall performances of the United States and China.

Chinese global investments (first half of 2014)



Sources: AEI e Heritage Foundation

The second dilemma concerns the nature and the implications of possible agreements between India and Japan on the exchange of civilian nuclear technologies. This deal takes place after the problematic India-US agreement (2005) that "creatively" re-interpreted the spirit of the Non-Proliferation Treaty (NPT), putting under a limited level of international safeguards only the Indian civil nuclear reactor, without seeking New Delhi's accession to the Treaty. The Japanese initiative consolidates this precedent, jeopardising the prospects of a worldwide CTBT (Comprehensive Test Ban Treaty) because it will diminish any pressure on the USA to give new impetus to its ratification, which has already been blocked by the Republicans..

Taking into account post-Cold War nuclear balances and proliferation controls, this nuclear deal will have indirect consequences on the Iranian nuclear negotiations and increase China's negative perceptions about the developing strategic situation. Beijing believes that its competitors have already implemented their containment strategy and the agreement will be considered another step in this direction, especially if associated with specific military contacts between India and Japan and with the deployment of a new Japanese heavy helicopter carrier.

The picture of the most relevant risks or threats results from several geographical clusters. In Southeast Asia, the brutal suspension of democracy in Thailand and the vanishing of democratic hopes in Burma go together with the tensions between China and Vietnam. Hanoi, in response to Beijing's destabilizing initiatives in the South China Sea, is contemplating the purchase of American naval security systems, although this move would put its own national debt at risk.

China continues showing a worrying systemic vulnerability in its poorly controlled shadow banking system. Together with the high-leverage transnational financial dynamics generated in the United States and the United Kingdom, this risk may lead to another flash crash. As a matter of fact, since 2006 a prudent global de-leveraging has failed to materialise, despite some occasional US governmental sanctions against derivatives and commodities speculations. Regarding domestic politics, an internal power struggle caused tensions in Hong Kong, worsening the relationship with Taiwan and increasing arms sales and nationalistic tension in the whole area.

North Korea continues to crumble, but it is still difficult to spot a breaking point of the regime, although there are some signs of reform in the agricultural sector. In the meantime, the government manoeuvres between China, South Korea, Russia and Japan in order to get some economic support, but continues also to diversify its nuclear vectors. The DPRK seems to reverse-engineering a Soviet SSB (conventional ballistic missile submarine), while South Korea is purchasing submarines that can launch cruise missiles (SSG).

Given that the mafia mega-conflict in Mexico is a constant threat, spreading pernicious effects across several countries in Central America, the possible failure of the peace talks in Colombia is the most relevant risk for the area. If the peace process will fail, not only an important member state of the Alianza del Pacifico would remain hamstrung, but there would be also no possibility to seriously reduce the coca production that feeds the global narco-war in Mexico.

While the Brazilian leadership had been resized by the recession and the insufficient returns of World Cup infrastructural investments, Argentina and Venezuela remain critical countries. Buenos Aires is again in technical default due to a combination of US court rulings and speculators that did not accept previous conciliation arrangements.

Much more critical is the situation in Venezuela, where crime, inflation, declining oil revenue and settling of scores between governmental factions are continually eroding the credibility of president Maduro, to the point that the popular support gained during the past Chavez presidency may fritter away.

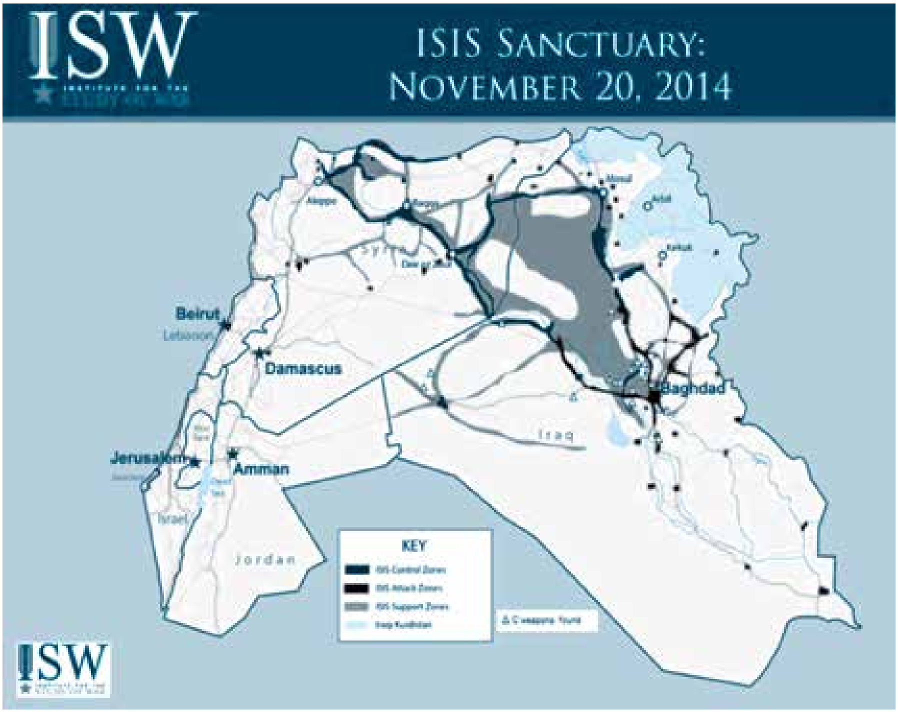
INDIAN GEONETWORK

The region is extraordinarily complex due to the interaction of factors such as: the disintegration of states, the hybrid political-economic management of oil and financial markets and the growth of regional and foreign powers. The three threats that stand out in this geonetwork are, looking from east to west: the possible development of North Korean SSB (diesel powered ballistic missile submarines) together with the increased power projection of the Japanese navy; the record production of Afghan opium; the creation of a caliphate in the vast no man's land between Syria and Iraq.

While the opium threat shows clear transnational organized crime ramifications from Vancouver to Lisbon, the other two threats could seem to be either confined to a sub-regional dimension or even to be outside the boundaries of this geonetwork, if one ignores their indirect impact. What at first sight seems a Far Eastern submarine and missile race presents much more disturbing fallouts if one considers that two large regional powers (India and Pakistan) have not signed the NPT and that they could have access to technologies comparable to those developed by the two Koreas (South Korea has cruise missile submarines). The picture is even more disquieting if one takes into account that Israel, the third nuclear state outside the NPT, has already deployed such assets and that a fourth country (Iran) is negotiating the end of a decade long nuclear dispute.

The threat of Dawla (also known as Daesh - Dawla al-Islamiya fil-Iraq wa-al-Sham; IS, ISIS, ISIL or Caliphate) is definitely the most quoted, but as

Daesh controlled territories and old chemical weapons stocks



Source: NYT, Wikileaks, Institute for the Study of War. Only relevant discoveries of stocks are reported.

a geopolitical symptom it relates back to the crumbling of three states of the old Middle East (Iraq, Libya, Syria) and to the huge refugee crisis involving an unbroken chain of states from the Bosphorus to Punjab (Turkey, Lebanon, Jordan, Syria, Iraq, Iran, Afghanistan and Pakistan).

Like the collapse of oil prices and of Yemen**,** this crisis is a major source of weakness and disruption, onto which is inserted a terrorist phenomenon more deeply rooted than elsewhere in the planet. Of the five countries in the world that suffer most from terrorism (among which Nigeria), four are in Indian the geonetwork and come up as pairs of states with porous borders like AfPak and SYRAQ. Terrorist organizations in this area are considered the deadliest in the world during 2013 (al Qa'eda has a rate of 7,8 deaths per attack and Daesh 6,3), they are inspired by religious ideologies and often financed by leading countries in the Islamic banking sector.

The deep crisis of Yemen has added a fourth failed Arab state. In such a failed state terrorist groups and militias can easily liaise with similar organizations in Somalia, fuelled by money laundering in the Gulf, and with other groups infesting a wide area including North African or Sahelian states that are already in trouble or could be potential victims of a collapse.

The oil price crisis ($48,55 per Brent barrel in the second decade of January) stems first and foremost from market factors (economic crisis, contraction of global demand, excess production, market shares protection), but it is also used for political purposes, variously defined as oil war, cutting oil revenues to Russia, Iran, Venezuela, attack against the US shale, etc..

This is likely to have very serious effects on the stability of many oil producers. If one calculates the price needed to keep the budgets balanced, one sees that the most critical producers are: Libya, Yemen, Iran, Algeria, Bahrain, Iraq, Saudi Arabia (but with financial reserves around $740 billion), UAE and Qatar. Leaving aside failed states or those on the brink of disintegration, if one designs the scenario of a full semester at a price around $45-50, followed by a long period with $60 per barrel, it is possible to predict that consequences will be serious for Iran, very worrying for Algeria, worrying for the GCC, even if Saudi Arabia acts as leader, guarantor and stabiliser. This forecast would be even gloomier, if predictions by some energy analysts that anticipate a five-year period at $60 per barrel came true.

Oil prices and fiscal/budget constraints

MAJOR OIL EXPORTERS' FISCAL CONSTRAINTS

All figures USD

COUNTRY	APPROXIMATE BREAK-EVEN PRICE	PERCENT OF GOVERNMENT REVENUE FROM OIL	CURRENT RESERVE IN BILLIONS
Bahrain	$137	87%	$5.3
Iran	$137	44%	$100
Kazakhstan	$66	54%	$27.7
Kuwait	$71	79%	$32.2
Libya	$148	99%	$100
Nigeria	$128	64%	$39.5
Oman	$105	87%	$65
Qatar	$72	33%	$43.5
Russia	$102	30%	$443.8
Saudi Arabia	$95	89%	$740.3
UAE	$75	76%	$68.2
Venezuela	$140	45%	$20.6

Sources: http://www.businessinsider.com/these-6-countries-will-be-screwed-if-oil-prices-keep-falling-2014-10
[illegible]

Source: Stratfor.

The other consequence of the decline in prices affects the relations between Saudi Arabia and the USA because of the links between traditional and shale oil. Current calculations set at $60/barrel the level blow which several shale deposits become unattractive and indeed many important companies are feeling the pressure. The first private response was to buy better hedges on future production, but Washington could directly or indirectly subsidize the producers; in any case spoiling the US oil boom will not improve relations.

These objective factors, added to the expected Republican filibuster, risk not only to water down a possible agreement with Iran on nuclear programmes and sanctions, but **also** to extraordinarily complicate the intricate balances that the USA wants to keep between India, Pakistan, Iran and Turkey, while reassuring Israel.

Putting aside risks or threats, major developments are determined by the India-Iran couple with significant influences of China and the US. The two countries are linked by a growing interchange of energy supplies against chemicals, iron ore, grain and machinery, but until now this has not been translated into common strategies, exception made for the joint development of the strategic Chah Bahar port (Sistan /Baluchistan) as a counter to the Sino-Pakistani port of Gwadar.

This project and the successful defence of Indian food security interests in the WTO are for the time being the only concrete initiatives the new government of PM Modi is supporting, as its foreign policy remains at a declaratory and symbolic level. Other Indian policies are defensive: resolution of border disputes with Bangladesh on the Eastern border, and firm management of tensions with Pakistan and China in the North and in the West, despite the attempts to reset relations with Beijing.

Iran behind the media curtain of difficult nuclear negotiations, is already profiting politically and economically by the prospective thaw with Washington and other major powers. At a regional level, Tehran plucks the best opportunities in the Caspian and Central Asia. The Caspian Sea has been strategically neutralised through an agreement that excludes the presence of external military forces, and new strategic lines of communication have been opened with Kazakhstan and Turkmenistan. In the Gulf, taking into account the Saudi hostility for the next two years, the best contacts are with Kuwait and traditionally with Oman, but the most important stakes regard the control of Islamic finance.

In this field there is a fierce undercover competition between QISMUT countries (Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey), openly favoured by transnational finance, and big Iranian banks, which mirrors in part the hybrid conflicts spanning across Iraq, Syria, Lebanon, Yemen and Bahrain.

Among the external actors, while Russia maintains its ties with Iran and Syria, trying to offer a hedge to the GCC members against a supposedly weaker American presence, China can afford a more structured approach. In the short term, there is a visible increase in interest towards Turkey and Iran, the two states with the best potential in the area. In the medium term, Beijing will continue developing a New Silk Road, which tries to dovetail economic interests between China, Russia, Turkey and Germany. This appears to be a robust symbolic revival of the strategic Berlin-Baghdad and Paris-Beijing lines devised a century ago although in fact is has scarce chances to create a true Berlin-Moscow-Beijing strategic axis.

AFRICAN GEONETWORK

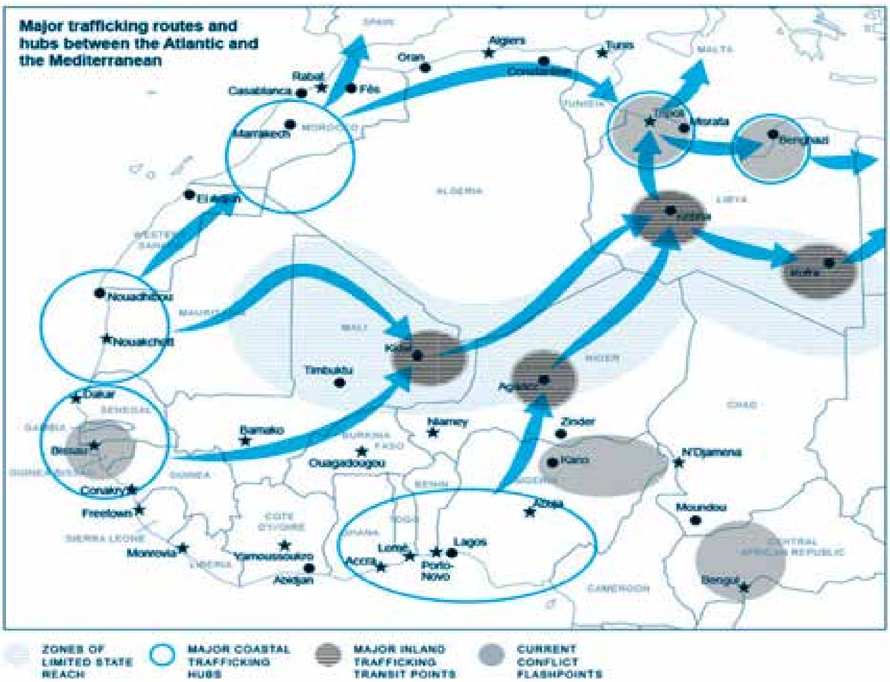
The Africa geonetwork is undergoing a phase of strategic ambiguity: on the one hand, it is a favourite investment destination, having beaten the 2013 record of FDI (Foreign Direct Investments) and being considered by Ernst & Young the second most attractive region in the world for investors. On the other hand, serious problems affecting statehood, governance, security and a growing sovereign debt should lead the very same investors to greater caution.

From a geostrategic security point of view, the geonetwork can be divided into four areas that do not follow the traditional colonial and postcolonial geography:

- A vast Sahelian and North African zone where already weak national states are likely to disintegrate and relatively stable ones run serious risks of following the same path. This area stretches from Mauritania to Egypt continuing in the great arc that touches the Levant, the Gulf, the Caucasus and Ukraine;
- The Sub-Sahelian conflict zone, ranging from Nigeria to Somalia, via Cameroon, South Sudan, Ethiopia and Kenya;
- The Great Lakes fault;
- The South African wedge, which includes Mozambique, Zimbabwe and South Africa.

These conflicts are clearly intertwined with transnational organized crime networks crisscrossing this geonetwork, as it happens elsewhere. The most important cities in this geography are Johannesburg, Nairobi and Lagos, which act as a hub for trafficking involving Cape Town, Kinshasa, Conakry (which is replacing Bissau), Dakar, Atar, the Rif area, Addis Ababa, Kismayo and Bosaso. West Africa for its part dominates the charts of regional cybercrime (Ghana, Nigeria, Cameroon).

Sahel: trafficking routes, conflicts and grey areas



Source: Globalinitiative.net, ATOM, March 2014.

And yet most Interior ministries still concentrate on terrorism, as shown by: the five-country Sahel initiative (Mauritania, Algeria, Mali, Niger, Burkina Faso); the Ethiopia-Kenya joint force to create a buffer zone in the Somali Jubaland or the collaboration between Sudan and Egypt to cut the logistic lines HAMAS. If in one third of the continent the old balances are peeling away, clearly these measures are palliatives and only deep socio-political reforms can respond to the pressure for change.

In fact the push for change is revealed by the debate on the limits of presidential re-elections: a principle strongly affirmed in Senegal and Burkina Faso, vigorously denied by the rulers in Chad, Uganda and Zimbabwe, while in Benin, Congo-Brazzaville, Democratic Republic of the Congo and Rwanda rulers are considering to do away with this constitutional limitation.

At the same time, the oil price crisis is affecting a number of potential and current producers: countries like Cote d'Ivoire or Niger will have to postpone for at least a couple of years their prospecting activities, while stability can be seriously jeopardised in Algeria, Chad, Sudan, and it has already been compromised in Libya, Egypt and South Sudan. Moving on to the great continental producers, it must be noted that neither Angola (estimated price between \$120-74 per barrel), nor Nigeria (\$102-147) can keep an even budget when oil has reached \$48,55 per Brent barrel in the second decade of January.

This implies that the situation of one of the two leading African countries (Egypt has still to recover), is particularly critical due to the following factors:

- Reduced oil revenues means less consensus in Abuja;
- Militias (especially in the Delta oilfields) or terrorist groups (Boko Haram) infest the south and the north of the country, often in collusion with local politicians;
- Boko Haram has set up a caliphate against which local militias are trying to defend themselves, diluting even more the clout of the state. Moreover the group displays a lethality that is more than twice compared to the dreaded Somali al-Shabaab (4,4 dead per attack);
- Strong corruption in the country, including in the armed forces;
- The uncertainties looming over next year's elections.

Nigerian president Goodluck Jonathan (a southerner) will run again for the post, violating the unwritten but essential rule requiring the rotation of the post between different federal regions. On top of all this, it is certain that three states (Borno, Yobe and Adamawa) will be unable to vote because they are under Boko Haram control, damaging the elections' legitimacy. In any case, a split parliament is expected, slowing the discussion of the important reform bill regarding the oil sector.

In the same Sub-Sahelian zone of conflicts the Central African Republic is still under the threat of a predatory secession aimed at controlling diamond mines through the creation of the Dar el Kouti entity (Land of Forests). The area is run by factions of former Seleka, the militias of Muslim political leaning who briefly conquered the whole country in 2013. In the meantime, the Anti-Balaka militias (Christian and traditional African religious tendency) stated that they intended to dissolve into a political party for the coming elections in August, yet not disarming by the end of December.

In the South African wedge, besides the instability in Lesotho created by a quasi-coup potentially affecting water resources for Pretoria, the greatest risks are linked to the reorganization of internal politics in Zimbabwe and South Africa.

The former is setting the stage for a para-dynastic succession to President Robert Mugabe: the one-party government is seriously split and the new political rising star seems to be Mugabe's second wife, Grace, but real power is in the hands of the newly appointed vice-president Emmerson Mnangagwa. Time will tell if the succession works, otherwise the country could risk a violent political conflict.

In South Africa, three dynamics are at work: the transformation of the labour market (mechanization of the mining industry), the recovery of a lethargic agrarian reform and the split of the old trade union unity that worked as the social transmission belt of the ruling party. If these developments will open alternative political spaces, they may also create socio-political tensions that could at least cripple the third leading country in the continent. This situation does not seem in the short term to favour the development of civil nuclear programmes in collaboration with France, Russia, China and South Korea.

External actors such as China and the USA have followed hitherto inertial trajectories, despite the mirroring rhetoric about Africa. The Beijing government, if it continues a laissez-faire policy vis-à-vis its companies instead of imposing rules for a better behaviour within local societies, risks a quick loss of consensus, just as it is happening in Latin America. The danger for China is to lose in the coming years one or both strategic regions conquered a decade ago by trade.

On the other hand, Washington risks, counter-terrorism assistance apart and firstly to dump its own internal political problems in the lap of the regional partners and secondly to see frustrated its plans in the East African Community due to the oil crisis, precisely when it was trying to create an Eastern African energy hub.

The European Union and the BRICS do not carry much weight because for the time being they are structurally incapable of agreeing on a coherent strategic project in this geonetwork. Brazil, pivoting on the Lusophone community with Angola and Mozambique, is opportunistically expanding its interests in Senegal, Benin, Nigeria, Guinea, Gabon, DRC, Namibia, South Africa, Zambia, Malawi and Tanzania. Despite that, the country lacks a political plan going beyond managing the legacy of President Luiz Inacio Lula da Silva.

Turkey, the new insider, is trying to become more important within the African Union as a multilateral framework and in Somalia as a country of choice, but its presence is still smaller than that of France or Germany. The latter is almost ubiquitous in the field of development aid, but focuses on such strategic partners as Ethiopia, South Africa and the South African Development Community and exploits the economic opportunities offered by Namibia, Angola, Mauritius, Ghana and Nigeria.

ATLANTIC GEONETWORK

The geonetwork is in a deep restructuring phase that plays out on three fronts: the financial fault line: the oil crisis; the Nouakchott-Kiev crisis arc. These three issues mark the end of the stable structures that lasted from 1991 to the 2006 global financial crisis.

The crisis has revealed a fault line between the highly financialised economies (US, UK), Japan (a mix of manufacturing and financial) and those that are mainly manufacturers or exporters of raw materials. The problem with this potentially very dangerous fracture is that it is not handled by national states, rather by private transnational financial groups, whose strategic interest is the expansion of profit margins and the parasitic recovery of the losses. As a matter of fact, the world is currently not reducing its debt stock (de-leveraging), but has re-leveraged by 30% compared to 2006 levels (at least 50% of the new debt is financial).

The second front was opened with the slump of oil prices. While the importers can reduce the cost of their consumption, natural gas included, energy exporters are facing increasing difficulties as the prices are decreasing also because for shale oil producers. Our scenario features a price reduction around $45-50 per barrel and prices should remain at this level for at least six months, with the possibility of a subsequent stabilization at $60 for a year (but some industry forecasts anticipate a five-year period at $60).

The consequences of these scenarios are negative for all existing and potential producers of the Atlantic geonetwork: Canada, USA, Mexico, Brazil, Venezuela, UK, Algeria, Cyprus, the Kurdish Regional Government, Russia, as well as major global energy suppliers (Persian Gulf, Indonesia, Australia - 2013 data) and for those that supply Italy (Netherlands, Azerbaijan, Kazakhstan).

Paradoxically, in terms of energy security, the Euro-Atlantic nations and those at their immediate periphery will benefit from a respite in terms of energy balance and payments, especially the ones that are highly dependent on state-controlled monopolistic suppliers. Unfortunately, the very same countries most in need of oil revenue to rebuild or buttress domestic stability will be strongly penalised.

The international community will face the dilemma of whether to let chaos grow along transnational lines of communication, with obvious unproductive costs included (indirect interventions, grants, increased illegal trafficking and long-range terrorism), or to hope that their direct intervention may reduce risks.

The third front is given by the arc of crisis that goes from Nouakchott to Kiev, embracing North Africa, the Levant, brushing the Caucasus and ending, for now, in Ukraine. While northern countries are struggling to balance political and economic power, southern countries show:

- a dissolution of borders (especially those more distant from the centre of national power),
- the widening of grey areas outside state control or under the control of new political entities,
- the failure of three major Arab states (Libya and SYRAQ),
- the risk of instability for other countries (Algeria, Egypt and Jordan),

The Euro-Atlantic arc of crisis

Source: Uppsala Conflict Data Program, Map of the world's conflicts in 2013; modifications and updates to year 2014 made by the Author.

The illegal annexation of Crimea is also part of this process, which, combined with the decline of energy revenues term and the medium term effects of sanctions, can create stability problems in Russia. Meanwhile, it is clear that a rift has emerged in the geonetwork.

The recipes to get out of this crisis that has exposed several rifts within the Euro-Atlantic community are known: TTIP (Transatlantic Trade and Investment Partnership), revival of European programmes through a trillion euro ECB stimulus, reshaping of NATO.

Taken the much touted TTIP benefits for granted, the main problem lies within US domestic politics because the Republican victory can slow down and complicate the ratification for purely electoral motivations. While a signature is likely, it is possible that the TTIP could stall or be ratified piecemeal. The difficulties are greater for the TTP due to the diversity of the parties and the obvious interests' divergence with Beijing.

The ECB stimulus has three problems: the division between major European countries; the ECB's problems in organizing Asset Backed Securities (ABS); the choices about where to allocate this liquidity.

It is obvious that the 2006 crisis has split Europe and the Eurozone into four parts: the UK and its associated transnational financial groups; Germany and the European core of the triple AAA countries; intermediate countries (France et al.) and the periphery (the old PIIGS more or less in recovery). This creates difficulties for a coherent European plan, exposes the continent to powers with more liquidity, like China, and has already opened the door to the risk of five years of deflation (i.e. recession).

The ECB, in the best Italian tradition, is taking on a complex role as substitute for myopic nation states, inadequate treaties and weak institutions, in order to provide orthodox economic tools to end the crisis. However, it not that sure that there is sufficient collateral as security behind the stimulus, nor that the "market" is ready to absorb it in an effective way, nor that it achieves its stated goal. If the programme will run as planned, its major result will to neutralize the disadvantage imposed to the Eurozone by other countries' quantitative easing.

The destination of this cash flow can make a difference, but if it is done under the present conditions, it will not change one iota of the crisis, as already demonstrated by six years of austerity programmes and structural reforms. The US experience shows that stimulating consumption is a reasonable but insufficient goal if not accompanied by a serious recovery of manufacturing capacities. Present market reactions show that the economic slowdown in China is more important than the US consumer sentiment.

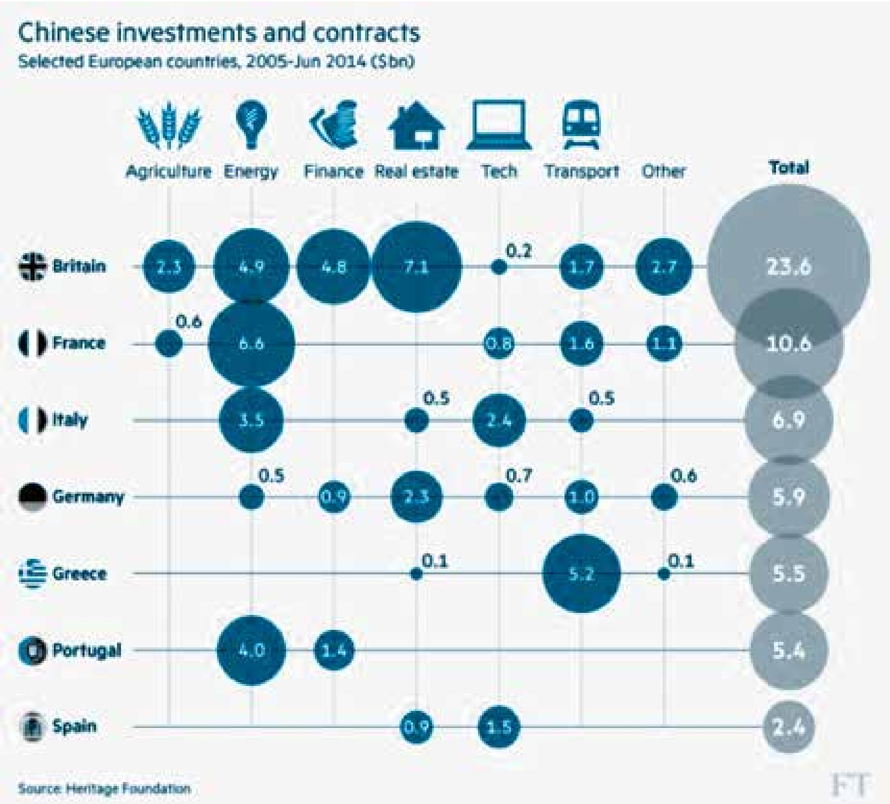
The third remedy concerns broadly the reshaping of NATO. The crisis in Ukraine, beyond giving a more concrete direction to the Alliance, has exposed divisions that go beyond the hawks-doves contrast. This organization is the daughter of a world order that is fading since the end of the Cold War and cannot ignore the centrifugal forces that affect member countries:

- The Pivot to Asia and smart disengagement from the old Middle East by the United States;
- the Pivot to China by Berlin;

• The Brexit.

The result is that, while at a political level there will be short-term political initiatives vis-à-vis a long and difficult crisis (a Russian retreat from Crimea appears improbable), security and overseas intervention expenditures will be heavily influenced by the geo-economic context and by China's influence in

Chinese investments in Europe



Source: Heritage Foundation

the geonetwork.

The short-sighted management of the financial assault against the Euro in 2006 has enabled Beijing to consolidate its presence into the Chintoderranean (meaning the main function of the Mediterranean since 2004 as main terminal of the commercial flows from China, India, Gulf, Africa via Suez), with a series of strategic and targeted investments precisely in the marginalized countries (in PIIGS they totalled $ 20,35 billion, second only to the United Kingdom with $ 23,6 bn, the majority of state-owned enterprises by). Levers that are still relatively small, but that allow to pass key messages such as the strict non-interference in the affairs of existing governments.

Part II
Regional Analyses

Middle East

Nicola Pedde

EXECUTIVE SUMMARY

The political and economic instability continues to be the dominant factor of the entire Middle East, along an area of crisis that expands from the Atlantic coasts to the Iranian deserts.

A widespread fragility of the political systems and the local economies is coupled with a growing potential for conflict in the three major areas of crisis: North Africa, the East Mediterranean and the Persian Gulf.

As pointed out in the Global Perspective of 2014, the slow and troubled process of the local elite's generational transition represents the main factor of instability, affecting different types of crisis. This will be the main factor of destabilization in the region for many years to come.

Purely local elements of political evolution are also linked to these dynamics, where some of the major players compete on the ground of the ideological and military supremacy, with the intention of creating a bulwark to the expansion of the opponent.

The political dynamics of the Middle East – both internal to the States and more in general among regional actors – have always been dominated by a *zero-sum game* logic. Therefore preventing political cooperation and any form of inclusive policies, and as well the rights of the minorities. With the effect of a constant and widespread conflict at every level of the political, economic and social life, both inside and outside the boundaries of the individual States.

These factors are particularly evident in North Africa, where the major area of crisis in Libya is sided by the interests of the Gulf monarchies, which supply the ambitions of Egypt and shakes the very foundations of the delicate Tunisian social equilibrium.

These dynamics are visible also in the Mediterranean Levant and the Persian Gulf, where conflicts continues in the entire Syria and large part of Iraq, in the wider and more complex regional contrast between Saudi Arabia and some of the monarchies of the Gulf, on the one hand, and Iran and the Muslim Brotherhood on the other.

What is mistakenly read by most of the Western media as a struggle between Sunnis and Shiites for ideological and religious supremacy in the Middle East, however, represents a much more delicate and particular fracture. In fact, it is not a religious war between the two main religious confessions of Islam, but rather a desperate attempt at continuity and survival of the Arab Gulf elites, where an extremely difficult and complex process of generational transition is clearly visible.

The symbiosis between the Saudi crown and the Wahhabi clergy has been weakened by the presence of disintegrating elements within the immense family structure of the al-Saud. This has significantly risen the dimension of the regional clashes.

Two threats are considered as “existential” by Saudi Arabia and most of the Gulf monarchies: the Islamic Republic of Iran and the Muslim Brotherhood. Although they have little in common, both Iran and the *Ikhwan* represent a regional model for popular participation in political life, with a schemes of participation “from below”, opposed to the one “from above” of the monarchies.

The crisis between Israel and Palestine does not seem to be oriented toward a solution. In the last months of 2014 further elements of crisis are even visible on the horizon, as both systems seems to radicalize favouring the growth of leaderships little prone to dialogue. The proposal of emending the Israeli Constitution in order to magnify the Jewish identity of the State, in addition, could represent one of the most difficult and potentially dangerous threats for local stability in 2015.

SITUATION

In the North African region, Morocco still represents in 2014 the only area of relative stability, largely because of the openings of the King to the Islamic organizations, a more efficient and credible governmental apparatus, and a substantially stable economic framework.

Less exciting, on the contrary, the panorama in the nearby Algeria, where President Bouteflika was re-elected at the age of 77 years for a fourth consecutive mandate, after a long and debilitating disease. The Algerian political paralysis seems to constantly fail in identifying a mechanism to facilitate the transition from the system of power of the post-independence elite. Always ending in supporting extensions to the mandate of the president, which the old cadres continue to see as a barrier against Islamic extremism and the dissolution of the political system.

The armed forces are inextricably linked to the power structure of the National Liberation Front, and are constantly offering an image of themselves as the shield for the preservation of the secular State. Without however considering how largely diffused the religious forces are in the country.

A more vigorous action of protest by the religious movements in favour of political pluralism cannot be considered as a remote factor, as well as the following violent reaction of the government. In perpetuating again and again the incapacity of the Algerian political system to evolve toward pluralism and a post-NLF political order.

Not many members of Algeria's political apparatus hide the fears for a new wave of violence resulting from the renewed role of the Islamic organizations, without being able to conceive any social and political strategy of integration for these forces, sheltering behind the now fragile shield of the defence of secularism. Which in Algeria has only guaranteed the continuity of the ruling class of the National Liberation Front.

The most relevant crisis in North Africa is in Libya, where more than three years after the fall of the Ghaddafi's regime, instability does not appear to be diminishing in any way, transforming the local conflict in one of the most dangerous crisis of the entire region.

Once again, even in the case of Libya, the dominant narrative leads to the dangerous mistake of considering the clash on the ground as a mere conflict between the Islamic radical forces, on one side, and the secular and democratic on the other side. On the contrary, what has emerged in Libya is a clash among militias, mostly linked to tribal entities and town's interests, desperately fighting for political recognition, social rooting and individual institutionalisation.

The primary goal of these militias is that of affirming its own genuine revolutionary identity, as a tool to dominate opponents militias and to achieve a political and economic recognition of their authority. The religious identity is visible in almost all of the major tribal components and their militias, although with different degrees of radicalisation. Groups linked to radical jihadism are also present in Libya, although not in number and capacity to concretely represent a threat to the transformation of the country into a sort of new Syria.

These units, often quoted by many of those highlightening the risk of radicalisation, are largely composed of foreign fighters, and by some sporadic cells of the local Libyan jihadists. They could have been easily eliminated at this stage, without any particular problem, but at the same time they represent a useful "tangible evidence" which is justifying the action of numerous other national and regional groups.

In the Libyan scenario, then, two distinct blocks are vying today the territory and the recognition of the governmental authority. The first is represented by most of the militias of the Tripolitania area, and the other by those of the Cyrenaica region. None of the two has the full control of the territory, and both are looking for a formal international recognition through the appointment of governments and institutions on which drastically weighs the doubt of the legality and the genuine representativeness.

Egypt is a destabilizing element in the Libyan crisis, and along with the United Arab Emirates and Saudi Arabia it shares the goal to erase the Muslim Brotherhood from the region. General al-Sisi's government – which have been established after a coup in 2013, when the previous government of the Muslim Brotherhood was deposed – is presented as a stable and politically reliable ally of Israel and the monarchies of the Gulf, guaranteeing the eastern and western borders as a containment force against the Islamist drift.

The reality of the Egypt, however, is quite fragile and unstable. The deep economic crisis, political instability and the growing dissent among the youngest generations have transformed Egypt into an social bomb. The political and social base of the *Ikhwan*, in addition, although repressed and outlawed, has not ceased to exist and can still count on millions of supporters.

Egypt is also affected by a growing terrorist phenomenon in the area of the Sinai, where qaedist-inspired groups incessantly lead attacks against the local military installations, threatening as well tourism on the coast.

Not less pronounced are the conflicts in the East Mediterranean and the Persian Gulf, where the main areas of crisis remain Syria and Iraq. The Syrian civil war continues, although with less interest by most of the western media, consolidating an extremely heterogeneous and fragmented map on the ground. The central government in Damascus, with the support of the Lebanese Hezbollah and the increasing international pressure on the ISIS in Iraq, has been able to consolidate its control on the capital's province and in large areas in the west of the country, where traditionally most consistent has always been the presence of the Alawites and Christian communities.

The city of Aleppo, although reduced to ashes, is largely in the hands of government's troops, while most of the areas close to the borders of Iraq and Jordan remain in the hands of the jihadist forces. Poor, on the other hand, is the control of the territory by the units of the so-called Free Syrian Army, the less credible among all the actors of this crisis.

The American military intervention, and occasionally that of the other regional players gathered around the unlikely anti-ISIS coalition, has drastically reduced the production of oil under the control of the jihadist groups, reducing the capacity of generating profits for most of the Syrian units.

Somewhat ambiguous proved to be the role of Turkey, accused by many of openly assisting groups clearly affiliated to the jihadists and ISIS. The government of Ankara has kept a constant discretion on its own operations along the border areas, although it was clear that it had facilitated some Islamic groups around the border city of Kobane.

The new face of regional instability is therefore Iraq, where the ISIS forces have occupied a third of the national territory, creating a sort of autonomous radical government. What is raising the biggest concerns, however, is the capacity of ISIS forces to consolidate their roots in Iraq, with a large base of consensus among the civilian population. As often happens, in fact, also in this case the West has wrongly interpreted the reading of what was considered as an invasion by the militias of the Islamic State coming from Syria. On the contrary, most of these forces were already there, and were indeed enthusiastically welcomed by the local Sunni majority of Iraq.

ISIS is then more the product of the inability of the previous al-Al Maliki government to promote an inclusive government with the Sunni minorities, which has been systematically subject to all sorts of discriminatory actions.

The triumph of ISIS forces in western Iraq, then, is in reality a simple manifestation of power of an already existing organised structure, today driven by the common interests shared with other jihadist units. ISIS is in fact an organization that was already active between 2004 and 2006 with other names, bringing together a significant part of the units of the former Saddam Hussein's Republican Guard and the special forces. United in hiding to counter the emerging and suffocating role of the Shiite majority.

Despite the international outcry for the brutal acts of violence perpetuated by ISIS forces, and the call for a more incisive action of the international community against the phenomenon of the Islamic State, the only forces that are visibly fighting the jihadists on the ground are those of the Iraqi's Shia militias, the Iranian special units and the militias of Kurdish Peshmerga. All involved in a conventional conflict which tends more to consolidate fronts rather than demolishing it.

OUTLOOK

Many of the expectations of the international community for 2015 are oriented toward the definition of the agreement between the countries of the so-called 5+1 (United States, Russia, China, Great Britain, France and Germany) and Iran, for the solution of the nuclear program of Tehran. The November 25 deadline has expired, and it has not been possible to sign the long-awaited agreement between the parties, eventually extending for other seven months the terms of negotiation and the Joint Plan of Action.

Although the terms of the docuement have been essentially agreed, with just mere technicalities to be defined, it must be noted that on both fronts there are divergences among each of the various domestic oppositions. In the United States a growing fringe within the Congress complains about the difficulty of establishing a credible agreement with Iran, while on the contrary in Iran an ever-greater number of members of the first and second generation of power express their concerns about the true intentions of the United States. *De facto* freezing the process in a limbo of difficult solution.

The year 2015 will be therefore characterized by the same international and local factors of crisis which have determined the pronounced instability of the previous two years, leaving little room for improvement in the solution of the different crisis.

In particular, there will be an increase in the process of generational transition of the regional elites, and as well of the clash among actors with different ideological and religious positions. Indefinitely perpetuating the confrontation between Saudi Arabia and the United Arab Emirates on one side, and Iran and the Muslim Brotherhood on the other.

Afghan theatre

Claudio Bertolotti

EXECUTIVE SUMMARY

2014 was the year of the substantial breakdown of the 'military's approach'; January 2015 is the formal beginning of the NATO's new commitment to Afghanistan: the NATO 'Resolute Support Mission' (RSM) represents the medium-long term activity of the Alliance, a direct but reduced support to the Afghan Security Forces (ANSF).

The foreign military presence will continue, on the one hand, with the NATO's contribute – 'advise', 'assist' and 'train' – and, on the other hand, with the US enduring effort on the battlefield – a separated 'combat mission' (formally 'counter-terrorism') under US responsibility.

Prospective analysis imposes to look at 2015-2016 taking into account the elements influencing the development of Afghanistan for the next two-years: international political and economic support, regional country's interests, political power-sharing involving the power groups (diarchy Ghani-Abdullah), NATO residual military presence, reduced international interests for Afghanistan, a weak State based on endemic corruption, lack of a capable administrative leadership.

Several threats to stabilization can be identified: firstly the enduring permanent conflict and the inadequate Afghan National Security Forces (ANSF); in particular, the stepped-up transition of security responsibilities from ISAF to Afghan forces and the closure of international forward operating bases was met with increased attacks by AOG.

Potential encouraging development are also on the ground: the International community commitment to Afghanistan, the natural and mineral resources, the commercial-export businesses, and the primary role of China and Iran. Furthermore, cooperation and support offered by Italy, Germany, Turkey and US represent another important variable.

The threats to Afghanistan stability are: the reduced presence of international troops – which lead to a lack in security conditions – and the increased operational capabilities of the Armed Opposition Groups (AOGs) able to destabilize the country.

From a political-social perspective, it is assessed the consequence of dynamics effects generated by:

I. Capability to create a 'balance of power';
II. Power-sharing process;
III. Constitutional revision;
IV. September political election.

Additionally, the AOGs dynamics and strategy could determine the State collapse.

In brief, the 2015-2016 scenario may be characterized by:

I. General increasing of conflicts (consequence of internal actors – Afghan AOGs – and external newcomers – ISIS),
II. Reduction of the role of the Afghan State,
III. Political and social instability.

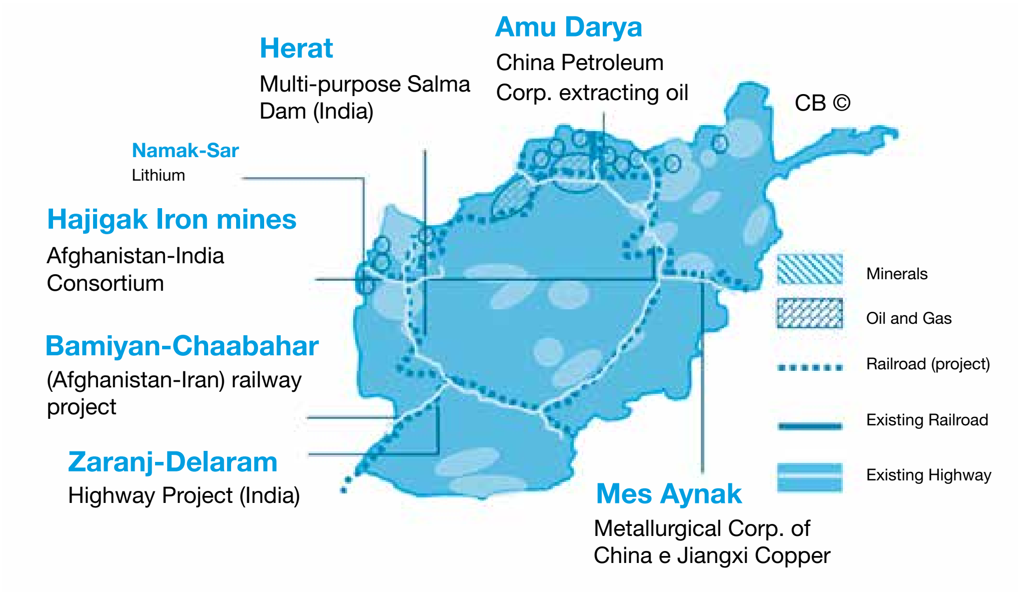
Furtherly, the Afghan State is:

- politically weak and unable to manage the balance of power;
- vulnerable to AOGs pressure;
- unstable from the security perspective;
- not capable to manage the financial budget.

It is clear that:

- the International Community and NATO were not able to win the challenge,
- the 'counterinsurgency' (COIN) strategy did not work, and
- the Afghan government will not be able to resist to the AOGs' offensive (from periphery to the centre).

The Afghan state – limited in governance, economically dependent from International Community and unable to contrast the insurgency – is looking for a political compromise with the AOGs. *Realpolitik* imposes limits to its ambitions.


Amu Darya
China Petroleum
Corp. extracting oil
Herat
Multi-purpose Salma
Dam (India)
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Namak-Sar
Lithium
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Consortium
Bamiyan-Chaabahar
(Afghanistan-Iran) railway
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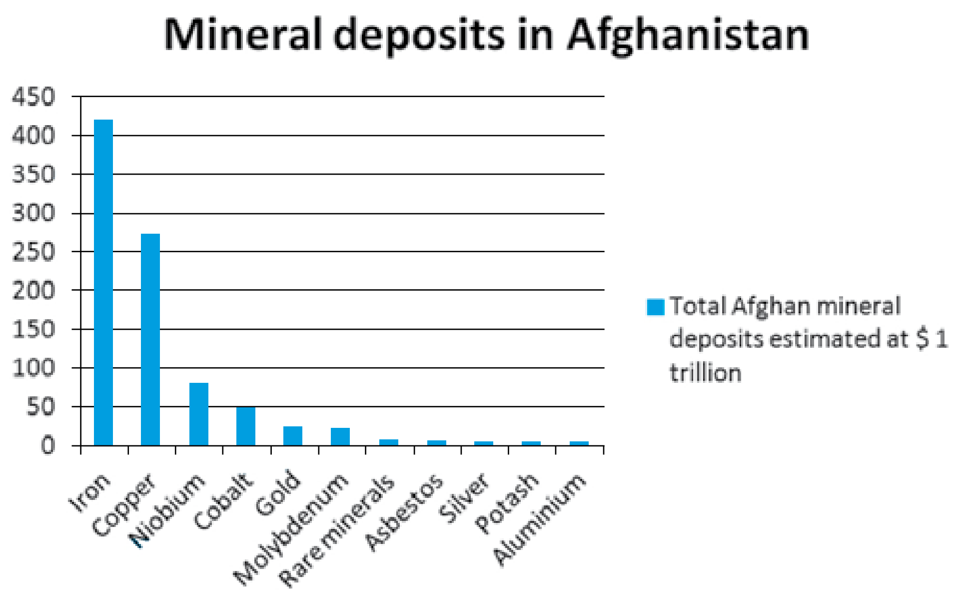

Mineral deposits in Afghanistan
450
400
350
300
250
200
150
100
50
0
Iron
Copper
Niobium
Cobalt
Gold
Molybdenum
Rare minerals
Asbestos
Silver
Potash
Aluminium
Total Afghan mineral deposits estimated at $ 1 trillion

SITUATION

September 2014: the new Afghan political phase. At the end of a difficult and questionable electoral process, Ashraf Ghani was nominated president of Afghanistan, replacing Hamid Karzai. Abdullah Abdullah, second competitor, has been appointed chief executive officer (CEO) in the Ghani government, a role that can be considered the equivalent to prime minister position, in a power-sharing deal brokered by the US. A temporary position that officially does not exist and that was formally introduced until the constitution will be amended suitably to create the prime minister post.

The power-sharing solution represents a possible solution to face the consequences of a worsening civil war. Ghani and Abdullah currently share the control over key institutions such as the Afghan army and other executive decisions. The new administration faces huge challenges in fighting an emboldened AOGs insurgency and paying its bills amid plummeting tax revenue. This solution represents the most credible opportunity to open up talks with the AOGs, a necessary requisite for ending the ongoing civil war.

From a security perspective, the AOGs are conducting an offensive in Afghanistan peripheral provinces and districts: violence is worsening after US-led troops withdrawal. Last year's fighting season has seen an AOGs advance in several provinces, exploiting a prolonged political deadlock in Kabul over disputed presidential election results.

The Security and Defense Cooperation Agreement (SDCA) signed by US and Afghanistan, and the Status of Forces Agreement (SOFA) signed with NATO are fundamental formal acts with substantial effects: post-2014 foreign military presence is now officially legitimate. As reported in the previous 'Global Outlook 2014', remaining troops will be 12.700, which could be augmented in case of necessity (SDCA).

From a political and economic perspective, China and Iran are likely to be the main players in Afghanistan; China has obtained access to important mining and energy resources on the Afghan soil and Iran gained important commercial agreements. At the same time, other regional actors concerned about NATO disengagement, worried about violence escalation and Afghan state weakness.

In general, the consequence of the NATO's new role and troops reduction is the augment of AOGs actions against the ANSFs and this trend will be confirmed in 2015-16.

The presence of a newcomer which is attempting to penetrate the South Asia, ISIS (Islamic State of Iraq and Sham) represents another destabilizing factor. This new presence – recently reported in the Afghan province of Helmand – is splitting up of the most dangerous Pakistani AOG: the Teherik-e-Taliban Pakistan (TTP). It is assessed an increasing of conflicts in the area in consequence of the creation of a 'free mujahidin alliance' able to provoke a strong media impact.

Confirming a consolidated trend, the consequence of the NATO's disengagement is the decrease of the territory under the Afghan government control and, because of the reduction of foreign troops, a lack in security conditions following increased AOGs operational capabilities.

In general, the Afghan situation is progressively worsening, from all points of view. The end-state of the Afghan stability was not achieved.

The political scenario is particularly uncertain. The new Afghan leadership is limited because of power groups' ambitions and competition, the economic situation is dramatic, corruption is endemic, the opium-trade is out of control, connections among transnational criminalities and AOGs are strong. All these elements can nurture an already instable political situation which is furtherly conditioned by constitutional revision in agenda; a revision functional to formalize the new institutional position of the prime minister and the power sharing process, driving to a modification of constitutional rights.

The Afghan state is unable to maintain the control, is powerless, economically dependent from the International community but without a strong and extensive NATO's military support. The ANSF are not able to contrast the AOG offensive and to guarantee adequate presence and security to peripheral areas.

On the basis of the SDCA, a limited support to the Afghan state will be guaranteed by US commitment to remain on the Afghan soil with residual combat troops aimed to contrast al-Qaeda and its potential affiliates. A role that will be maintained thanks to the availability of strategic long-term military bases.

On the other side, NATO will be no longer able to guarantee an adequate operational support to ANSF, because of the nature of the 'Resolute Support' mission – 'train, advise and assist' – and the limited number of troops (12,700).

NATO will no longer be able to assure a widespread operational support, but will ensure, thanks to the military strategic bases, the medium-long term presence on the Afghan soil.

OUTLOOK

The thirteen year's long ISAF mission is concluded. NATO and US troops' presence will continue within the new NATO's commitment to Afghanistan: the 'Resolute Support Mission'. The new mission will be flanked by the US 'counter-terrorism' operation. Both tasks are scheduled to be achieved by the end of 2017, even if is realistic to hypothesize an enduring US presence in Afghanistan until 2024, in accordance with the SDCA.

An analysis process focused on the Afghan developments for the next two years imposes to take into consideration the strengths of the country.

Firstly, the international political and economic support which is accompanied by the interest of the regional actors to maintain a stable Afghanistan because of their direct interests in this option and because of domestic dynamics connected with political, economic and security factors.

From a security perspective, NATO residual presence is a key factor for the stability of the country.

Major weaknesses are counterbalancing these strengths. First of all, the progressive decrease of general interest and the will to conclude a long-term and expensive engagement have switched Coalition members' focus to domestic difficulties; the Afghan state is still too weak, lacking in competent political and administrative leadership, the corruption is endemic, there is a high-rate unemployment, poverty, criminality, drug-trafficking, and adequate strategic infrastructure for the economic and social development are missing.

As far as security is concerned, the ANSF are not able to contrast AOGs presence and dynamism. AOGs have kept expanding their presence and operational capabilities, as the recent attacks conducted by 500/1000 fighters have confirmed.

Remarkable opportunities can be listed as follows: the International community commitment to Afghanistan (US is the main donor), the natural and mineral resources, the commercial-export businesses (for the example the Iranian 'Chabahar Port', important for export activities to India, Iran, Kazakhstan, Gulf and European countries), and the possibility to use the Afghan soil for the transit of regional natural resources (the TAPI pipeline project, involving Turkmenistan, Afghanistan, Pakistan and India).

China and Iran are meant to play a crucial role. The strategic partnership between Kabul and Beijing shows the Chinese intention to protect its economic interests, in particular as far as natural resources access (Afghan minerals, gas, oil) are concerned.

Teheran and Kabul confirmed their bilateral partnership on economy and security.

Italy, Germany, Turkey and US are also keeping their important cooperation and support role, continuing to be part of the NATO's effort to sustain the following plan covering the next three years:

- Phase 1 – 2015, approx. 12,700 troops: 'Regional limited' ('North' Germany, 'South-East' US, 'West' Italy, 'Capital region' Turkey);
- Phase 2 – 2017, approx 5,000 troops: 'Kabul-centric', centralization of residual troops within the Capital region.
- Phase 3 – 2018, total withdrawal: excluded the residual 'counter-terrorism' component based on US troops (not exceeded 3,000 unities).

The threats to the stability of Afghanistan are the reduced presence of international troops – which lead to a lack in security conditions – and the increased operational capabilities of the AOGs (and the reported presence of the newcomer ISIS) to destabilize the country.

A substantial absence of political reaction to social crisis can be also identified. In other words, the Afghan state is not able to respond to national social needs and requests.

Concluding, some trade-offs, i.e. factors able to influence social-political and diplomatic-military developments, can be recognized. Among them, the connected and/or antagonistic interests of the regional countries and the Afghan power-groups; the role of the International community; and the more general political dynamics in MENA (contrast to ISIS) and East-Europe (Ukraine crisis).

From an internal perspective, political and social stability can be influenced by:

I. Capability to create a 'balance of power';
II. Power-sharing process;
III. Constitutional revision;
IV. Political election (September 2015).

On the topic of security, formally and substantially undefeated AOGs are militarily able to collapse the Afghan state. Because of this, president Ghani should focus on a 'negotiation process' aimed to establish a political compromise alternative to the 'state collapse' and oriented to 'power sharing'.

In brief, the 2015-2016 scenario may characterized by:

I. General increasing of conflicts (consequence of internal actors – Afghan AOGs – and external newcomers – ISIS),
II. Reduction of the role of the Afghan State,
III. political and social instability.

Furtherly, in the two following years the Afghan State risks to be:

- politically weak and unable to manage the balance of power because of an unclear power-sharing process involving antagonistic power groups linked with the diarchy Ghani-Abdullah;
- vulnerable to the AOGs pressure;
- unstable from the security perspective;
- not capable to manage the international financial budget.

The International community is concluding the expensive Afghan engagement because of its costs and substantial fiasco. What is clear is that the International community and the NATO have not been able to win the challenge, the 'counterinsurgency' (COIN) strategy did not work, and the

Afghan government will be not able to resist to the AOGs' offensive (from periphery to the centre) without external support.

For these reasons, the Afghan state – limited in governance, economically dependent and unable to contrast the insurgency – is looking for a political compromise with the AOGs. *Realpolitik* imposes limits to its ambitions.

Africa

Marco Massoni

EXECUTIVE SUMMARY

Africa is moving from dependence on international development assistance to economic growth based on trade and anchored to economic globalization. Africa is not aid and international solidarity's final destination, rather the perfect place for global investment (Business-First Strategy).

Africa – geographically as large as China, Mexico, Europe, India, Japan and the US together – presents numerous problems, including a weak statehood, despite overall improving safety. Due to its colonial history of fragmentation and rearrangement of nations states Africa has a great intra and inter-state heterogeneity.

By 2020, the following areas will boost African economies: consumer goods, natural resources, agriculture and infrastructure, followed by telecommunications, banking and tourism.

Infrastructures in Africa are undersized in relation to its needs. More and more African nations are entering the club of crude oil and natural gas exporters (Ghana, Uganda, Kenya, Tanzania and Mozambique). The arable land in Africa is the largest in the world with over 200 million hectares of available land.

The relationship between *Italy* and Africa is old, yet inadequate to meet the challenges of the future. Foreign trade is about 14 billion euros, representing only less than 2 percent of the entire national commercial exchange. Italian export's excellences – Food, Clothing, Furniture, Automation – have a chance to encourage support for environmental governance and the research and production of renewable energy, promoting environmentally friendly farming practices, and to support the protection of communities intellectual rights through the enhancement of local knowledge.

The Italian government has identified a three areas strategy – Energy, Cooperation, Export – addressed to eight top priority African countries, with which to strike up a mutual diplomacy growth: Angola, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Senegal and South Africa. Prime Minister Matteo Renzi's

visit to Mozambique, Republic of the Congo and Angola confirms Rome's interest in strengthening a new partnership based on economic development and shared values with Africa, and especially Southern Africa, where ENI is also developing an exclusive link with Lusophone nations.

Yet, if Italy wants to excel and catch up on the time it lost in Africa, it must offer an attractive portfolio, promoting its added value compared to that of other far more aggressive international competitors, because Africa knows the external assistance it needs to its policies is decreasing.

In 2050, Africa will have two billion people, while *Europe* only half a billion; nowadays, certain European countries have lower GDPs compared to some African States. As far as the newly approved EU Strategy on the Gulf of Guinea is concerned, it would be appropriate for Rome to promote an Italian candidate for the task of EU Regional Coordinator for the Gulf of Guinea. Besides, no particular outcome is to be reported on the Fourth EU-Africa Summit IV, held last April in Brussels.

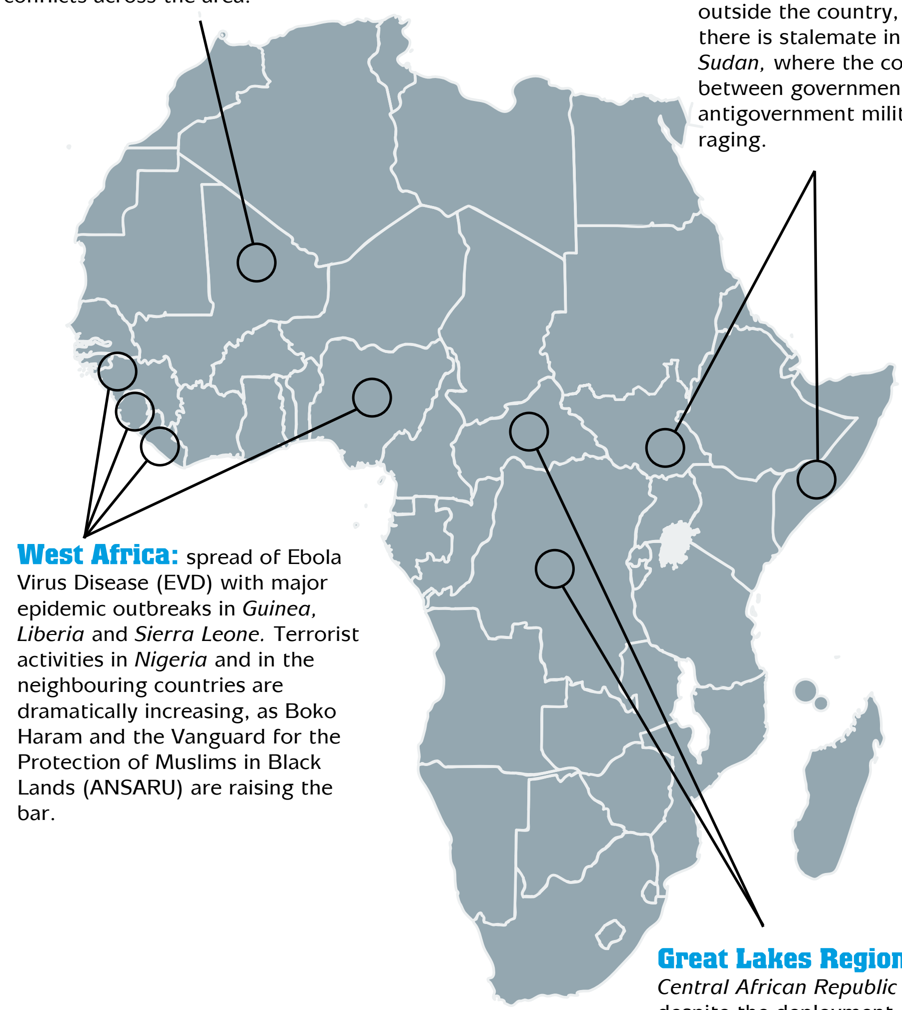
EU national interests are currently undermining any pan-European unity of purpose, making the effectiveness of European foreign policy in Africa intermittent, confirming the urgent need to shape a more political and less technical-bureaucratic EU-Africa Dialogue. Actually, there is a common European security policy, but not a common European economic policy, which means that Europeans are both partners and competitors in Africa. The realpolitik of some individual EU member states is the other side of the coin of paternalism, ambiguity, double standards, inconsistency and schizophrenia through which Europe keeps on looking at Africa, ergo the prejudices with which the European external action is perceived by Africans.

In this framework fits the delayed international response to contain the Ebola Virus Disease (EVD). The international community made the mistake of downscaling the chance for the epidemic to spread beyond African borders, up to the point of lapping and 'infect' Nations that were considered immune from any risk arising from the impoverishment in which Africa has to be kept.

In some African countries, China has opened the Special Economic Zones (SEZ), to overcome the obstacles and constraints of international trade to the detriment of EU and US. Europe persists in misunderstanding China's strategy and opportunism, insisting on the complementarity of roles to be played in Africa, whereas the truth is completely different. The Chinese model for total control of Africa is aimed to persuade its major competitors of its good faith by the so-called 'simulation of multilateralism'© or 'simulated multilateralism'©, an ingenious system according to which Beijing would not consider its relationship with Europe as a competitive one.

Sahel: instability persists in the northern regions of *Mali* despite the ongoing negotiations in Algiers between the central government of Bamako and the delegates of the North. Peaceful transition in *Burkina Faso* after the ousting of former President, Blaise Compaore, and subsequent suspension of Ouagadougou's leading role in the mediation of conflicts across the area.

Great Horn of Africa: *Somalia* is still unstable because of repeated Shebaab attacks inside and outside the country, while there is stalemate in *South Sudan*, where the conflict between government and antigovernment militia is raging.



West Africa: spread of Ebola Virus Disease (EVD) with major epidemic outbreaks in *Guinea, Liberia* and *Sierra Leone.* Terrorist activities in *Nigeria* and in the neighbouring countries are dramatically increasing, as Boko Haram and the Vanguard for the Protection of Muslims in Black Lands (ANSARU) are raising the bar.

Great Lakes Region: in the *Central African Republic (CAR),* despite the deployment of the European Union military mission CSDP-EUFOR RCA, the conflict between the Anti-Balaka (Christians) and the Séléka (pro-Islamic) is still irresolute. In the *Democratic Republic of the Congo (DRC)* the Katanga rebellion overlies the Kivu's never soothed conflict.

SITUATION

In *Western Africa*, the new Chairman of the Economic Community of West African States (ECOWAS) is the Head of State of Ghana, John Mahama. The former President of Burkina Faso, Blaise Compaoré, was forced by a popular protest to flee to Morocco and then to Ivory Coast; Since November 16^{th}, Michel Kafando is the President of the transition of the former Upper Volta.

In Mali, with a budget of € 5.5 million, Brussels has launched a new CSDP mission – the EUCAP Sahel Mali – to assist the Malian security forces and to better fight both terrorism and cross-border traffic in the region. The French Operation Barkhane, replacing Serval and Épervier, kicked off in cooperation with Burkina Faso, Chad, Mali and Mauritania. Not without difficulty, negotiations between the two Malian delegations – the Government of Bamako and Northern groups –are continuing in Algiers, with the aim of achieving fair and lasting peace. All northern territories are not secure yet, due to the sill active Tuareg's irredentism and to continuous terrorist Qaedist infiltrations.

Overcoming South Africa, Nigeria, one of the MINT countries (Mexico, Indonesia, Nigeria and Turkey), became the first African economy with an annual GDP of over 500 billion dollars. This result has been achieved thanks to its significant economic diversification (telecommunications, finance, insurance, airlines and entertainment) compared to the conventional energy and agricultural sectors. A growing number of countries (EU, China, France, Israel, UK and USA) is getting involved in an information sharing process about the activities of Boko Haram and the Vanguard for the Help of Muslims in Black Africa (ANSARU), who have recently extended their working range to Cameroon, Chad and Niger. The idea of establishing an African multinational force, to counter the two Nigerian Islamist terrorist groups, expressed by the Member States (Cameroon, Chad, Niger, Nigeria, Libya and RCA) of the Lake Chad Basin Commission (LCBC-CBLT) remains a wishful thinking.

In *Eastern Africa*, Italy and Germany have initiated the so-called 'Process of Khartoum' (PK), an initiative involving African migrants' countries of origin and the ones through which they transit on their way to Europe (i.e. Libya, Egypt, Sudan, South Sudan, Ethiopia, Eritrea, Djibouti, Somalia, Kenya, Tunisia), whose outcomes resulted in the 'Rome Declaration', grounded on a four pillars strategy: legal migration / mobility; irregular migration and fight against organized crime (smuggling & trafficking); nexus between migration and development; international protection. The outcome was preceded by a trip to the region of the Italian Vice-Foreign Minister, Lapo Pistelli, who also met there Isaias Afewerki the President of Eritrea.

Paris has activated in Djibouti the Special Operations Command (COS) – the third French detachment in Africa after those in Burkina Faso and Mauritania – in order to streamline its projection capability in operational theatres overseas. Djibouti is home to many foreign military bases: Italian, American, Russian, Japanese, Chinese and European.

Abdiweli Sheikh Ahmed is the new Prime Minister of Somalia, where a resurgence of hostilities resulted in a long series of terrorist attacks of Al-Shebaab. Besides, Beijing opened its embassy in Mogadishu. Somalia is preparing to enter into the production of hydrocarbons.

Islamist proselytism is increasing tensions in Kenya. President Uhuru Kenyatta appeared before International Criminal Court (ICC) in The Hague, charged for 2007-8 post-election violence.

The President of Sudan Omar al-Bashir is preparing the ground for the next presidential election, showing benevolence towards his opponents. However, his real intentions are suspicious: although amnesty was granted to several armed groups, fightings in Darfur, Blue Nile and South Kordofan are continuing.

All attempts to settle the ongoing conflict in South Sudan remain largely on paper. The fight is between the supporters of President Salva Kiir and the followers of the former Vice-President, Riek Machar. The two groups have de facto split the ruling party, the Sudan People's Liberation Movement (SPLM).

In *Central Africa*, Equatorial Guinea joined the Community of Portuguese Language Countries (CPLP).

The crisis of the Central African Republic (CAR), which sees the Anti-Balaka (Christians) against the former pro-Islamic former rebels' coalition Séléka, is reverberating across the border. A new transitional government has been formed, under the leadership of the Muslim Prime Minister Mahamat Kamoun. On the 15th of September, the African-led International Support Mission to the Central African Republic (MISCA) handed over to the United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA). Italy is participating to the European Union military mission CSDP-EUFOR RCA under French-German leadership with fifty people. Smaller EU countries such as Estonia, Poland, Latvia, Lithuania and Romania, together with Georgia, a non-EU member, are also contributing to this mission. Finally, Brussels is debating, whether to deploy a mission of military advisers for the security sector reform (SSR).

The National Army of the Democratic Republic of the Congo (DRC) is fighting against a number of militias based in the Eastern provinces: the Rwandan Hutu rebels of the Democratic Front for the Liberation of Rwanda (FDLR), the Ugandan Allied Democratic Forces–National Army for the

Liberation of Uganda (ADF-NALU), and some other Mayi Mayi groups. An important reform of the Armed Forces is also on the agenda. Its aim is rebalancing forces in order to better support emerging destabilized areas such as Katanga, a new hotbed of instability because of its rekindled claims for autonomy.

In *Southern Africa*, Angola was elected non-permanent member of the UN Security Council, Rome having supported the nomination. By 2016, Luanda will emerge as the first oil exporter in Sub-Saharan Africa, overcoming Nigeria.

Malawi intends to diversify political and economic partnerships through strategic alliances with the BRICS, moving away from its dependence upon the United Kingdom.

On the 25th of October, the ruling party's – FRELIMO – candidate Filipe Nyusi won the presidential and legislative elections in Mozambique. Italy will participate in the international observation mission on the reintegration of main opposition party's – RENAMO – former combatants into national Armed Forces.

The President of South Africa Jacob Zuma was confirmed in office by May 7th elections. Pretoria has signed agreements for the civil use of nuclear power with Moscow and Paris, so as to build a dozen nuclear plants during the next fifteen years.

Marufu Grace Mugabe, the second wife of President Robert Mugabe, has been designated presidential candidate for the Republic of **Zimbabwe**. While growing military cooperation with Russia and China, Harare has adopted its first sovereign wealth fund (SWF), thanks to the thriving mining sector.

OUTLOOK

Italian involvement in the Great Horn of Africa is growing: the Rabat Process or Euro-African Dialogue on Migration and Development launched in 2006 to strengthen the relationship between the EU and the Great Western Africa©, has been recently backed up by the so-called Process of Khartoum (PK) or EU-Horn of Africa Migration Route Initiative (HoAMRI) launched in November during the ministerial conference in Rome under the leadership of the Italian Presidency of the European Union.

As a matter of fact, the Joint Africa-EU Strategy will be very difficult to be implemented. To be successful in Africa, **Europe** should revisit and update its historical legacy in the continent focusing on new strategies aimed at linking African growth to the one of Europe. To achieve this aim, a series of guidelines should be followed: infrastructure's financing in Africa; strengthening the financial capacity of the African economy; increasing EU's intervention capacity for Africa; supporting regional and continental integration in Africa; and transforming Europe into a favourable reception's space for any financial, industrial, trading and cultural African investments. Along the lines of the existing 'Back to Africa' French strategy, it would be advisable to approve Co-localization that is industrial Euro-African partnerships able to integrate local production capacities initially regionally and then globally, in order to concentrate production-chain transformative processes and to add a unique value to the final product, which will be made on site.

The African Peace and Security Architecture (APSA) will no longer be formed by five regional, independent African Standby Forces (ASF), rather by the African Capacity of Immediate Response to Crisis (ACIRC), a single capacity made available on a case-by-case basis by spontaneous coalitions of the willing, thus reflecting variable-geometry and inherent political weight of various African contributing countries. In addition, during the US-Africa Leaders Summit, Washington announced the African Peace-keeping Rapid Response Partnership (A-Prep). So far, it is hard to predict any development of both the initiatives.

Morocco's newly adopted investment strategy towards Sub-Saharan Africa, capitalizing on both Arabophone and Francophone shared background, is structured according to geodiplomacy, economic growth and Islamic symbology. In the medium term, Rabat is trying to present itself as a mediator for the Saharan-Sahelian crisis, seeking to reduce Algeria's role in it. Yet, it is too early for this strategy to be fruitful and no immediate solution for the Western Sahara seems to close in either.

The disputed creation in Burkina Faso of a Senate and the attempted modification of the Constitution brought to an end one of the most enduring political leadership in Africa, that of the former President Blaise Compaoré, in power since 1987, accused of being unable to address local population's needs and to listen to foreign partners' demands. Tensions among ruling and opposition parties are very high in other countries where governments are trying to approve several constitutional amendments. Benin, Rwanda, Burundi, the Republic of the Congo and the Democratic Republic of the Congo are among them.

The geopolitical reshuffle on the African arena is moving from West Africa to Central Africa. Yet, this shift cannot stem Islamic and Chinese expansion. The Central African Republic (CAR), lying on the border between Central African French speaking countries and the mostly Anglophone Greater Horn of Africa, is at the heart of a macro-region in which not only the East African' instability is linking up with that of the Great Lakes region, but where it is also necessary to contain both Chinese economic spreading out and Islamist religious expansion.

Finally, Nigeria's effort to gain ground as the new economic African hub clashes with a still inadequate domestic governance, unable to curb terrorism. Although other countries, such as Ethiopia, Ghana and Mozambique, can embrace a more balanced development, in the long run, Nigeria is destined to become a key player for anyone willing to interact with the last global frontier: Africa.

Balkan-Danubian Region and Turkey

Paolo Quercia

EXECUTIVE SUMMARY

The events occurred within South East Europe (SEE) during 2014 were mostly overshadowed by the strategic relevance of the developments of the two major conflicts exploded at the margins of the region, in Ukraine and in Syria. 2015 will be largely characterized by the relapses of these conflicts on SEE and by the political consequences they could produce on these countries.

The magnitude of external geopolitical shocks on SEE has increased because of the geopolitical weakness of the region; it remains suspended in a limbo, representing a half-finished/half-failed Western geopolitical project, crossed by unresolved conflicts and divided by multiple identities. Despite South-Eastern Europe resurfaced as geopolitical concept more than 25 years ago, the process of integrating the whole region into the Euro-Atlantic community remains a problematic and apparently hard to solve geopolitical rebus. The core of this rebus lies around the Western Balkans (Serbia, Bosnia and Herzegovina, Montenegro, Kosovo and Albania), still suspended in a triple transition: democratic transformation, economic modernization, conflict resolution.

From 2008 onwards, after the unilateral independence of Kosovo, the integrationist pull of the West appears to have exhausted its potential for transformation, becoming unable to bridge the region's divisions, leaving room for remerging alternative geopolitical projects. And just in the same year, Erdogan's Turkey and Putin's Russia have strengthened a parallel process of differentiation and alienation from Europe and the West, closing de facto the window of strategic dialogue that both countries have been keeping open with Europe since the nineties. A time frame that has been used by both Moscow and Ankara to increase, through different channels and strategies, their respective soft power and socio - economic leverage on the region deepening their penetration in the European Balkans.

Being SEE wedged between Asia, Europe and Middle East, the region is contiguous with both areas of conflict, actually representing itself an element of separation between the two scenarios. 2014 saw the parallel escalation of two crises that experienced a territorial revisionist phase: the annexation of Crimea by Russia and the proclamation of the caliphate by the proto-state ISIS. These two revisionist events will produce consequences on SEE, since both conflicts have the capacity of influencing the geo-strategic posture of Turkey and Russia, the two non-Western powers outside the region that have an important political and economic role on two distinct halves of Western Balkans: the Christian Orthodox one (Serbia, Republic of Srpska of BiH, Bulgaria, Macedonia, Greece, Cyprus), and the Muslim one (Federation of BiH, Albania, Kosovo).

SITUATION

A positive opening of the year, but an uncertain closure

2014 was an eventful year for South Eastern Europe, not only because of the numerous elections that have occurred in many countries of the area (Serbia, Bulgaria, Kosovo, Bosnia and Herzegovina, Romania, Turkey) but mainly because of a series of geopolitical tensions with global reach that have spilled over from the Black Sea to the Eastern Mediterranean.

The year opened with an encouraging signal representing an historic step, that is the establishment of a process of political dialogue between Belgrade and Pristina, the trilateral talks brokered by the European Union which allowed the opening of Serbia's accession negotiations on January 21st.Unfortunately, the year closed on a more pessimistic tune, as it was indirectly confirmed by the remarks of the new president of the European Commission Jean-Claude Juncker, who stressed that "no new enlargement will take place in the next five years".

Repercussion of the Ukrainian conflict and relations with Russia

A sign that 2014 would have been a difficult year for the enlargements process occurred in April 2014, when England, following the start of the separatist conflict in Ukraine, was quick to put an extraordinary political pressure on the Serbian government, to push it toward anti-Russian position. In a letter written to compliment the newly elected Serbian government, British PM Cameroon stressed to his counterpart Vucic the need for Belgrade to be "aligned to the more general action of EU foreign policy. (...). I hope that Serbia will join as soon as possible to the European Union condemns of the illegal actions carried out by Moscow". Cameroon was de facto asking Serbia to adopt economic sanctions against Moscow; such a request to adopt the EU policy against Russia before Serbia has opened Chapter 31 (common foreign and security policy), indicates that many EU states ¬consider the enlargement an objective per se, rather an instrument to achieve other broader political actions. At a time when geopolitics with capital "G" seems to be returning, the soft concept of enlargement is losing some of its autonomous significance, and it may become hostage of the new geopolitical framework. It was not compulsory for Serbia to adapt to it and it did not.

Just to show how many different options can harbour in the region under similar circumstances, it is worth mentioning that Montenegro government decided unilaterally to adopt the EU sanctions against Russia for Crimea, although it was not required to do so and its economy and its political and financial system is strongly controlled by Moscow. Podgorica did it while hoping to earn the invitation to join NATO during the Alliance Summit in September 2014 in Wales, but the expected invitation did not come.

Apparently, the failure to invite Montenegro should be considered a spill-over – despite leaked information about the unreliability of the structures of the Montenegrin intelligence – of the Ukrainian crisis, which acts as a further obstacle to possible NATO expansion in the Balkans. The case for keeping Montenegro candidacy frozen was based also on internal weaknesses, but it had an undeniable extra regional and exogenous nature whose magnitude could increase in the coming months/years becoming as relevant as the country's capacity of modernising.

For the time being, the conflict with Moscow is pushing the Alliance towards greater caution to avoid Russia from reacting with new acts of destabilization in the region itself or in neighbouring areas, such as the Caucasus; at the same time, it makes the enlargement more problematic for countries that have multiple affiliations and geo-political orientations, such as Montenegro.

Small signs of Russian nervousness in the Balkans for NATO presence were recorded in November at the Security Council of the United Nations, when the Russian representative abstained from voting on Resolution 2183. This act that provides for the renewal of the military mission in BiH "EUFOR Althea", was rejected by Moscow because it mentions in a paragraph "the importance of emphasizing Bosnia and Herzegovina's progress towards Euro-Atlantic integration". The evidence that this choice has to be linked to a change of posture comes from last year vote for Resolution 2123, which contained the same sentence and it was approved unanimously by the Council, with the Russian vote.

Repercussions of the Syrian conflict and relations with Turkey

The Syrian conflict, compared to the Ukrainian one, may seem less crucial for South Eastern Europe equilibrium. However, there are at least two reason why the Syrian conflict is strongly connected to these two scenarios.

First, Turkey's involvement in the Syrian conflict bridges it, with SEE. An involvement that appears to be more intense and deep than it was assumed in the past and that is going to shape Turkish new and old security problems. Ankara's Syrian policy is not only an issue of self-defence and insecurity spilling over its southern border. Turkish involvement in the Syrian conflict is much more than this. It is the point of arrival of a long process of exposure of Turkey's foreign policy to the post Arab spring Middle-East, a long path created during many years of AKP rule.

This explains why Ankara has consolidated a leading role in the Syrian and Iraqi conflicts whose complex interactions will shape the future of Turkish international posture. The dominant relevance of the Southern border of Turkey will progressively increase the distance between Turkey and the Balkan region, as well as it has relegated on a secondary level the issue of Russian annexation of Crimea, an event that, only few years ago, would have been addressed much more carefully, also because of the traditional policy of Turkey to protect Turkic minorities that reside there.

Second, the Syrian civil war has reactivated in the Balkans an important security issue from the time of the Bosnian conflict, that of jihadist radicalisation and the flow of foreign fighters. The issue of Islamic radical fighters from the Balkans to Syria via Turkey has been a growing phenomena that has particularly affected the Albanian area (mostly Kosovo, but also Albania and Macedonia) and that has produced great concern throughout the region, bringing a revival of policies of control and repression not only of jihadist but also of political Islamism.

The confused regional energy game after South Stream

The year ended with Putin's decision to denounce the South Stream project, which had already been weakened and put in jeopardy by US and EU financial sanctions against Russia.

The pipeline was supposed to cross – and link – both Western and Eastern Balkans and the project was enthusiastically supported by many regional countries, such as Bulgaria, Serbia and Hungary. The abandonment of the South Stream project implies a revolution in terms of both energy priorities in the Balkans and Russian presence there, as energy has been used by Moscow as the main weapon to influence its political affiliations in the region for more than a decade.

The construction of South–Stream was already halted at the beginning of the Ukraine conflict, when the joint technical table "Commission – Russia" created to resolve contentious normative issues related to the passage of South Stream in EU member countries was abandoned by the EU due to Russia's annexation of Crimea. It was made clear to Moscow that the completion of the project was not compatible with Moscow militarily active role in Ukraine and its annexation of Crimea. Moscow appeared to consider its Ukraine front as more important than South Stream, and it de facto sacrificed it on the altar of nationalism and historical revisionism in Ukraine. This indicates a clear hierarchy of geopolitical priorities for Russian leadership and underlines how, apparently, the Balkans play a secondary and instrumental role and instrumental in these strategies.

The shocks produced by the Ukrainian conflict on South Eastern Europe and the process of weakening the Western and Atlantic vector of Turkish foreign policy in favour of a posture dictated by the Middle-Eastern foreign policy vector, should be also read also in the light of the process of reconciliation initiated by the important visit of Putin to Turkey in winter 2014. At this point, The future of the Russian-Turkish relations will be heavily influenced, if not determined at all, by the outcomes of the unpredictable Syrian conflict. Although Russia and Turkey appears doomed to disagree and conflict over the Syrian dossier – and, less evidently, over the Ukrainian one – both countries are engaged in parallel processes of drifting away from the West that appears to be consolidating. A process that produces this process is producing a natural tendency to maintain, notwithstanding their strategic differences notwithstanding, a significantly high level of cooperation and agreement.

In this context, energy seems to work as a compensatory desk, has it appears the case of the offer brought by Putin to Erdogan for replacing the South Stream project with a new underwater gas pipeline between Russia and Turkey. A new purchase of huge quantities of Russian gas by Turkey could be partially funded with an increase in Turkish exports of food products toward Russia aimed at replacing part of European exports blocked by Russian retaliatory sanctions.

OUTLOOK

The events of 2014 have confirmed the geopolitical fragility of South Eastern Europe from the perspective of Euro-Atlantic integrations, this region remains incomplete, fragmented, subjected to fluid zones of influence characterized by polymorphic memberships, geopolitical identities and strategic affiliations. Next year Russia and Turkey's regional policies will be shaped by the way in which these two countries will handle respectively the conflict in Ukraine and the one in Syria. The repositioning of Turkey and its bilateral relations with Moscow, the risks for the stability and security environment in the Balkans and the fluid issue of energy security will be the three macro themes of South Eastern Europe in 2015.

The Turkish reset passes through Moscow

Moscow's decision to suspend South Stream and replace it with a "Turk stream", opening for Ankara the opportunity to become a true Eurasian hub of energy, represents an "indecent proposal", a gambling move that bets on the determination of Erdogan to keep on differentiating the geopolitical future of Turkey from that of the rest of the West, and especially Europe. The offer appears advantageous for Ankara but certainly it is geopolitically "bulky" and such a strong bilateral energy relation clashes with several strategic issues and areas on which Russia and Turkey appears to have conflicting interests: in the Balkans, in the Middle East, in the Caucasus and the Black Sea. This does not imply that this approach is not possible, rather it indicates its complexity and the fact that it can hardly be accomplished in a fluid and unstable environment like the present one.

Russia and Turkey will spend the majority of 2015 to find a way to maximize their complementarity on any dossier not related to Syria, starting from the energy one.

If the relation with Moscow does not offer many options for improvement, it is likely that an improved Russian – Turkish relations is doomed to stay such mostly at tactical level, while in the medium-long term Ankara remains forced not to change its traditional multi-vectorial foreign policy that is more fit to produce dividends to Ankara while playing a pivotal role in different geopolitical tables, without compromising herself in special or privileged bilateral relationships.

The political vote scheduled for June 2015 should not produce great changes in Turkish foreign policy, as the AKP remains the major party unrivalled by its competitors, with a consensus that in 2014 fluctuated between 40% and 50% and a stable margin of +15% from the second party, the CHP.

Stability and security in the Balkans

[Some analysts and governments fear that the Balkans could become hostage in the conflict between the West and Moscow, and that a spill-over of the Ukrainian war could re-ignite the unresolved conflicts in the former Yugoslavia - such as an attempted secession of the Srpska Republic from Bosnia and Herzegovina or inter-ethnic attacks in Kosovo. This would probably not happen in 2015, as far as Belgrade remains the main potential troublemaker. In the present situation Serbia appears to be able - and willing - to control its own extremists, since it has no interest in losing the good credit obtained with Europe. In this sense, an increased active role of Germany on the bilateral cooperation with Belgrade is expected.

2015 is expected to be a year when more resources and energies will be devoted to micro-stabilization and development of closer integration between the countries of the area, but it is unlikely it will be the year in which significant improvements can be achieved, especially in the countries that still suffer with an incomplete state building, such as Bosnia Herzegovina and Kosovo. Further progress in the enlargement of NATO are not plausible, although Montenegro and Macedonia could see an increase in technical assistance and political support to their diplomatic and political stabilization transition.

Vigilance will remain high on the issue of the return flows of jihadist fighters from Syria to the Balkan region. Countries in the region will remain under pressure for the adoption of increasingly stringent regulations on the movement of people and to increase preventive actions to impede the flow of foreign fighters from the Balkans to Syria. For the moment, it does not seem that enough attention will be given for contrasting the flow of former foreign fighters from the Balkans to Europe.

Regional energy security

Energy security for Balkan countries will represent the dominant theme in 2015, and it will be largely devoted to the assessment of the effects of the abandonment of South Stream project and its consequences on regional energy security and economic development. Embracing the South Stream project, countries like Bulgaria and Serbia aimed to differentiate their supply track, but they also wanted to obtain royalties for the gas transit and attract investment for the construction of infrastructure projects.

For the stagnant economies of the region the construction of South Stream-represented also a chance to boost growth, a flywheel for an economic recovery otherwise difficult to achieve. Although the project is not to be regarded as permanently cancelled, it is clear that the games of energy security are re-opening on a post South Stream scenario, where each country will adopt different strategies to diversify its gas supplies. Countries such as Croatia, Montenegro and Bulgaria are likely to increase research and exploration, especially offshore, in their Exclusive Economic Zones (EEZ). Countries like Greece and Cyprus are trying to exploit the offshore discoveries in the Eastern Mediterranean in Cyprus EEZ, projecting alternative ways to transport this gas – and the Israeli one – into the Balkans and then to Europe. Until last year, an eventual Balkan – Eastern Mediterranean (Cyprus and Israel) gas pipeline, appeared to be an unrealistic option due to its high costs and its geo-political complexity. Now, after Russian dismissal of South Stream, it may emerge again as a possible alternative for South Eastern Europe, especially if Turkey and Greece will not reduce their political gap in 2015.

Russia, Eastern Europe and Central Asia

Lorena Di Placido

EXECUTIVE SUMMARY

The evolution of Ukraine's situation is interesting for the results it may produce beyond the mere regional framework. The country will hardly be able to return to a status quo similar to the one preceding the crisis.

Crimea is destined to remain an integral part of Russia, while the separatist republics are likely to become *de facto* states, with or without the recognition of the international community. Russia shall appear, therefore, to be winning in Eastern Europe, having assured its position in the Black Sea – despite Kiev's leadership shift unfavorable to Moscow - and having built a buffer zone on its western border. Russian leadership's assertiveness is bearing popularity and consensus fruits for its president, but the economic and financial crisis is forcing Moscow to review its investments, social and military spending programs, and social tentions may grow in the medium term. In the meanwhile, 2018 presidential elections are approaching.

Russia's attempt to revise the traditional lines of its economic and commercial policy, reducing trade with the European Union - which are have been further complicated by the Ukraine crisis - and searching for new markets in East Asia and inregions which used to be considered secondary is confirmed by the stronger partnership Russia recenly consolidated with China and Turkey. Moscow's relationship with China is not immune to troubles. Because of its current problems of political and economic order, Russia does not appear in a position to handle, on equal terms, the negotiations with China, an assertive partner with financial solvency. Therefore, this unbalanced partnership could prove more favorable to Beijing than to Moscow.

In this complicated background, another scenario is looming: the termination of the South Stream project offers Turkey the chance to open the way to Russian gas exports to Southwest Europe, bypassing Ukraine. Although the regional reach would be more limited, given the size and the spending capacity of the new partner, the perspectives of Russian-Turkish cooperation are of great interest, at least for the better balance between the two protagonists.

Caucasus and Central Asia are affected by the phenomenon of extremist foreign fighters. At the moment, the threat posed by veterans jihadists is more potential than imminent, but the real capacity of countries with a fragile state structure to deal with the new threat is in question.

SITUATION

2014 ended with a general crystallization of the Ukraine crisis although its evolution throughout the year led to a re-orientation of international relations whose repercussions went far beyond the mere regional context.

October 26 elections consolidated a new political framework for the country. the substancial consensus to the pro-West leadership led by Petro Poroshenko (President of the Republic since the 25thof May) and Arseny Yatsenyuk (interim President since 26th February, confirmed on 27th November, with the vote of confidence of 341 out of 390 representatives of Verkhovna Rada) was confirmed. The support to the pro-West leadership was evident from the protests which began in late November 2013 and ended (in their most massive and violent form) with the agreement signed on 22nd February.

Ukrainian international position changed completely throughout 2014. On 21st November 2013, Viktor Yanukovych (the then President with a pro-Russian political orientation) decided to stop the integration process into the European Union. Ukraine new leadership, instead puts on the top of its agenda Kiev's integration into EU structures (hopefully, within 2020) and the interruption of the neutrality policy related to Ukraine participation in military blocs (introduced in 2010), paving the way for Kiev's integration into NATO structures. The strenghtened concept of state unity implies Yatsenyuk's second government commitment to regain sovereignty over Crimea (lost with the annexation to Russia, decreed on 21st March) and the separatist republics of Donbass, Luhansk and Donetsk (that expressed their intent to part from Ukraine with the referendum held on 11th March, which was supported but not openly recognized by Russia).

Despite this new commitment, it is important to stress that some of Kiev's decisions contributed to facilitate these territorial losses:

- the lack of an efficient military response to the occupation of Crimea, probably due to the awareness of being inferior in men and means, compared to the hostile forces which,since the 27th of February occupied strategic and military positions and institutional branches in the peninsula;
- the inability to regain the eastern regions controlled by separatists;
- the replacement, from February to November, of five ministers of Defense and three chiefs of staff, together with hundreds of documented desertions, do not show Kiew could count on a strong political-military leadership at that time;
- the decision to set up passport checks at the border with Donbass (on 6th November), which basically decrees the moving back of national borders;
- the disruptionof the payment of pensions and social benefits to Donbass people.

On the one hand, these decisions have shown Ukrainian government inability to exercise control over the separatist regions. On the other hand, these alienating rather than including measures have implicitly allowed other countries (such as Russia) to seep in as a military and security entity offering protection to the weakest sections of the population.

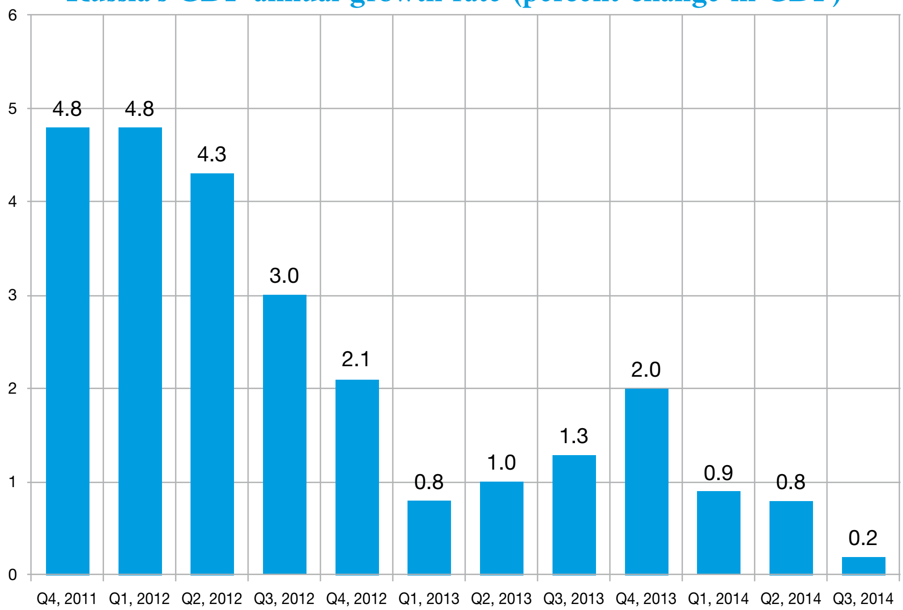
Russia is struggling with an economic situation not easy to handle, which is dictated by both contingent and long-term problems, and inserted in a context of substantial closure from the West and the re-definition of regional alliances.

On 10th November, the Russian Central Bank announced the imminent start of economic stagnation (with a possible stagflation in 2015), characterized by a GDP growth of 0.3% in 2014, 0% in 2015, 0.1% in 2016. According to the Russian institution sustained recovery might start in 2017 with a GDP growth of 1,3%. The ministry of Economic Development, instead, has forecasted a 0,8% contraction for 2015, downgrading its former 1,2% estimate.

Russian economic problems are directly related to:

- Western sanctions imposed to condemn Crimea annexation and military and humanitarian support to Ukrainian separatists;
- decreasing export revenues due to oil prices drop (Brent fell below $49 a barrel on 9th January 2015)
- rouble devaluation (20% in 2014);
- foreign exchange markets increasing volatility;
- the limitation of access to Western financial markets;
- entrepreneurs and consumers' loss of confidence;
- huge capital flights.

Russia's GDP annual growth rate (percent change in GDP)



Source: Federal Statistic Service of Russia

The United States, the European Union and other Western countries reacted to Russian involvement in the Ukrainian crisis approving sanctions aimed at influencing Kremlin policies. Different sets of sanctions have been introduced in March, April, July and September. They froze financial assets and prohibited Russian political figures and Ukrainian senior officials close to Moscow from entering both the US and the EU. Cooperation in the fields of industrial, technology and energy was also limited.

At the same time, relation with NATO and negotiations concerning visa regime to be introduced in the new partnership agreement with the EU were suspended; the G8 summit planned in Sochi for June 2014 was also cancelled.

These sanctions impacted on an already difficult situation for the Russian economy, burdened by long-term structural problems, such as excessive dependence on the energy sector, the decline in birth rates, the high mortality rate of the working age male population.

Russia opted for reciprocity to respond to sanctions, restricting the access to the country to prominent Western personalities. A Presidential decree announced on August 7th imposed a year ban to food imports (fruits, vegetables, meat, dairy products) from countries which had previously implemented sanctions against Russia.

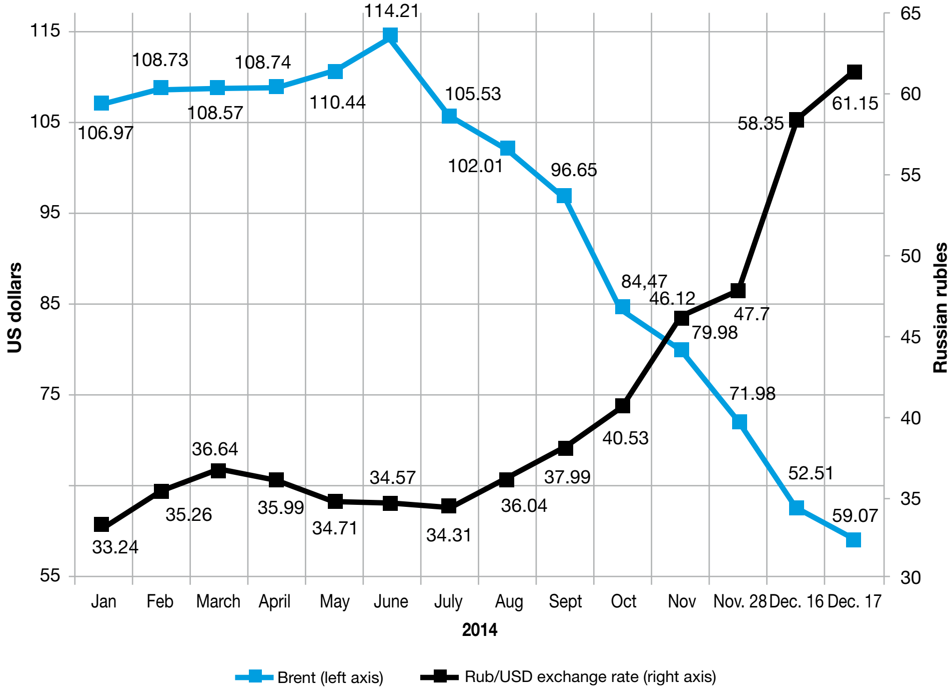
Before the embargo, the value of EU food exports to Russia was about \$16 billion, about 10% of total European exports while US-Russia exports amounted to nearly \$1.3 billion). For many European economies, food exports to Russia represent an important quota of their total exports with hundreds of thousands of jobs depending on them (Germany 363.000; Poland 305.000; Italy, UK and France between 100 and 200.000 each).

Baltic states have been deeply affected by the Russian embargo. Their GDP forecasts have been downgraded because of the consequences created by the loss of the Russian food market and the cascade effect to other related sectors (most notably that of transport). Forecasts for Estonia were reviewed from 2,5 to 0,3%, the ones for Lithuania from 3% to 1%.

The fall in crude oil prices had a major impact on Russian economy and called into question the federal budget for the period 2015-17 (which was based on a \$96 per barrel price) and the possibility to fulfil social and military spending, with an oil production of 525-526 million tons, which should not be subjected to any reduction in 2015, compared to 2014. Oil prices' fall caused Russia a loss of \$100 billion in 2014, while sanctions an additional \$40 billion.

At the beginning of 2015, a further decrease of oil prices (below \$ 50 per barrel) occurred. This is the worst case scenario with an investment paralysis and a big impact on people living standards.

Oil price and RUB/USD exchange rate



Source: Central Bank of Russia, Bloomberg

To reduce the impact on Western isolation, Russia has re-launched its energy partnership with China and Turkey. On the 21st of May, Moscow and Beijing signed a thirty-year agreement of $400 billion, which includes: the construction of infrastructure for the production and transportation of gas in Eastern Russia and the supply of 38 billion cubic meters of gas at the price of $350-380/m3to be started in 2018.

This framework was further strengthened on the 10th of November 2014, when the presidents of the two countries Xi Jinping, and Vladimir Putin signed a new agreement for the supply of 30 billion cubic meters of Russian gasper year. Unfortunately, the sudden fall in the price of oil affected the negotiations, and the details of the agreement have not been finalized, yet. Oil exports revenues decrease may affect Russian capacity to build the infrastructures needed to bring gas to China, while Beijing is keen to exploit the situation to renegotiate prices.

Putin's decision (1/12/2014) to abandon the project of the South Stream gas pipeline, whose aim was bringing Russian gas to Europe through the Black Sea bypassing Ukraine, raised Turkey status to the one of a promising energy partner for Russia.

Gazprom is now oriented at building a new pipeline from the Russkaya pumping station (one planned for the South Stream project on the Russian coast of the Black Sea), reaching the border between Turkey and Greece, with a total capacity of 63 billion m^3.

Moscow renunciation to the South Stream project is related to its financial sustainability ($50 billion), and the EU opposition to it. According to Brussels, the bilateral agreements Russia signed with Bulgaria, Serbia, Hungary, Greece, Slovenia, Croatia and Austria to authorize infrastructure building related to the project were incompatible with the European law requiring pipeline operators and gas suppliers to be different subjects. In the South Stream project, Gazprom was the only operator involved.

Another challenge to Russian security is linked to constant terrorist activities in the Caucasian republics. A more recent phenomenon, common to the entire region of the Caucasus and Central Asia, is that of the volunteers travelling to Syria and Iraq to embrace the jihad. According to various estimates, the total number varies from 5-700 to 2.000 fighters.

In Caucasus, the Chechens are more active than the Dagestanis, who are still a few dozen. In Central Asia, the phenomenon seems to involve primarily Kazakhstan and Tajikistan, which, as well as Uzbekistan and Kyrgyzstan have tightened anti-terrorist legislation and imposed strict controls on religious practice and education. Turkmenistan instead, is suffering more for the infiltration of Taliban fighters -which are difficult to control–coming from the Afghan border.

Authorities fear that once back home, foreign fighters could use the skills acquired and the solid radical military training to carry out activities which could be detrimental both by threatening national security and by approaching most sensitive part of population with a radical preaching.

OUTLOOK

The Ukrainian crisis has created two new de facto states in Eastern Europe, Donetsk and Luhansk. The evolution of the situation leaves no room for a federal solution (rejected by Kiev and separatists), nor for the return of these regions under the control of the central government. Moreover, the lack of effectiveness of Ukrainian military operations (compared to a constant supply of weapons to well-equipped and highly motivated separatists) does not facilitate the re-conquest of these territories.

On the other hand, the establishment of an autonomous area to the western border is congenial to the interests of Moscow, which would obtain, in this way, a buffer zone between its border and the territory under Kiev sovereignty, in a sort of protective isolation.

Throughout the crisis, Russia has strengthened its conviction of being in a condition of progressive marginalization/isolation, deliberately induced by the United States and European Union, which backed Ukrainian supporters of the new Orange Revolution.

The annexation of Crimea restored Russian control over Black Sea naval bases, and strengthened Russian public opinion support for Putin. The help provided to Donbass separatist forces was functional to the creation of a territorial separation with a problematic neighbour.

In fact the expulsion of Yanukovych was perceived as a treacherous breach of the status quo and represented a potential vehicle of instability for Russia itself, because it had to deal already with a wave of anti-government protests and demonstrations between 2011 and 2012.

Once the western border assured, the security needs of Moscow should be satisfied and demonstration actions (such as flying over the unauthorized airspace of some European countries, recorded several times in the course of 2014) should not go beyond the mere provocation. The aspirations of Kiev to regain the control over Crimea does not seem to be satisfied, since the integration process of the peninsula into Russia is fully consolidated

Ukraine has clearly expressed its desire to integrate to both NATO and the EU. While the former has not shown any interest in supporting this aspiration (it just strengthened its military presence among the allies in the region), the latter has accepted Kiev's request, taking an enormous political and strategic responsibility. Beyond the financial guarantees to assure energy supplies to Ukraine until March 2015 and to support its national economic recovery, the approval of the sanctions and the filibuster to South Stream by EU are producing -and probably will continue to produce - tensions and rifts within the EU members. Pleading for the Ukrainian cause means absorbing its enormous problems and further exacerbating relations with Russia.

While this may be in line with EU ideological orientation or, at least, to its values and principles, the position of several national members is different, as the implications of losing partnership with Russia are difficult to endure. The negative consequences of Moscow counter-sanctions and revenues losses related to huge energy infrastructure projects such as the South Stream, which had the potential to generate earnings for both EU members and its future partners, explain why recovering relations with Russia appears profitable to many countries. In the long term, Moscow's "retreat to the East" is a trap more than an opportunity. China is an assertive partner and its strong financial solidity may put Russia in a position of substantial disadvantage. Therefore, if today a stronger partnership with Beijing appears as a solution to capitalize hydrocarbons sales and to implement other energy related infrastructure projects, retreating on the Asian dimension may consolidate an unbalanced partnership, which could encourage Beijing to assert its international leadership to the detriment of Moscow.

The new and more balanced partnership between Russia and Turkey is promising. This connection allows Moscow to safeguard its exports through a Southern route through Greece, overcoming both financial difficulties related to the South Stream, the European opposition to the project and the substantial closure of relations with European countries, as a consequence to the imposition of sanctions. It remains to be seen if all EU members will enforce EU energy policy prohibiting a single operator to control both transportation and gas production to all member states.

In the short and medium term, both growing international isolation and the economic recession may have deep political and social repercussions in Russia. President Putin consensus has been growing since the beginning of 2014 and reached its highest peak after Crimea annexation. Today, this support is challenged by the crisis impact on people, resulting in increased consumer prices, social benefits reductions, rising unemployment, banking and finance problems. A new season of protests and demonstrations may occur, which would lead to a severe repression of civil rights. Nevertheless, the general institutional set-up should not be affected considering Russian leadership ability to manage dissent.

For Russia, overcoming present difficulties is likely to be further from the deadline fixed in 2016, which was proposed by the studies of the Russian Central Bank, based on a stabilization of oil prices, like necessary premise of a subsequent increase.

Unfortunately, these studies do not take into due account long-term unresolved issues affecting Russian stability, such as the development of productive sectors different from hydrocarbons. In this context, the eventuality of suspending energy supplies to Western Europe, repeatedly envisaged by Moscow, does not seem a viable hypothesis: the need to capitalize on hydrocarbon exports, which represent 60% of Russian exports, is too important at this stage and the threats of disruption of flows should not be implemented. The infrastructure projects involving Turkey and China will be fulfilled in an extended period of time, during which Russia shall face the urgent need to maintain exports active.

The crisis between Russia and Ukraine could, however, produce stabilizing effects on the edge of the Russian territory: forced to focus on the developments all along its Western border, Moscow may reduce any possible causes of instability in other areas on its periphery, with consequential re-balancing effects. the conflict between Armenia and Azerbaijan concerning Nagorno Karabakh, as its escalation could be stemmed by a favourable regional context.

The foreign fighters phenomenon will likely continue to arouse serious concern from countries involved in it, although at present the only area seriously challenged by it is Chechnya.

In Central Asia, with the exception of Tajikistan, more than to a possible evolution of the extremist phenomenon, stability is linked to the governments' ability to maintain high levels of consensus, which on its turn depends on the living standards they can guarantee more than on the impact of extremist movements. At the moment, the situation seems to be stable, but two factors have to be carefully monitored: Kazakhstan socio-economic conditions (plagued by oil price, the consequences of national currency devaluation and the suspension of the exploitation of Kashagan oil field), and Turkmenistan's new forms of discontent (which do not have a real destabilizing power, but represent new and interesting phenomena for this country).

India and the Indian Ocean

Claudia Astarita

EXECUTIVE SUMMARY

During the last few years, India has been relatively isolated in the Asia-Pacific region. "Modi's revolution" may change this trend, although with mixed achievements. People's strong dissatisfaction with poor economic results that ended up being even worse than expected, and the broad disappointment with Arvind Kejriwal and his Common Man's Party (AAP) failure to "clean and re-launch" India pushed the country into Narendra Modi's arms. Indeed, right after Kejriwal resigned as New Delhi Chief Minister in early 2014, the Bharatiya Janata Party (BJP) leader started being identified as the only politician who could offer India a different future.

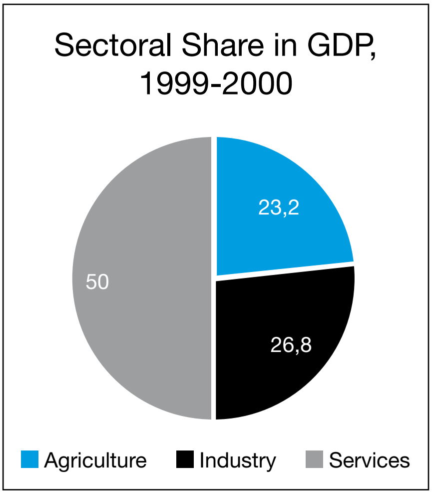
Modi's government, which is supported by a strong majority, has currently identified five priorities for India: reviving its national economic growth; promoting social stability through education, job opportunities and redistribution of wealth; strengthening stability in South Asia, reconnecting with small powers there and introducing India as the new regional power. Still, Modi started redefining Indian regional alliances also beyond South Asian borders, seeking out partners who can support the country both economically and strategically, such as Japan and Australia. Finally, he stated as long-term goal the one of establishing India as a major global emerging power. Those priorities will not change in the next few years, unless external threats and challenges force Modi to do so.

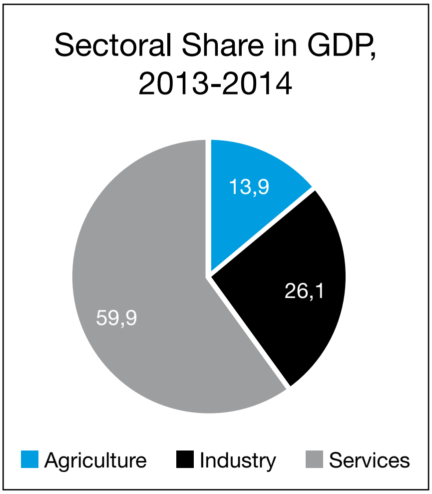
The success of this ambitious strategy depends on Modi's ability of promoting himself as a reliable leader. In order to do that, the BJP leader needs to keep his promises, consolidate his current consensus within the country, highlight and promote Indian economic opportunities to both national and international investors, and advertise the dynamism of the country as its new source of strength.

Achieving so many results in a limited amount of time will not be an easy task. Modi's work will be further complicated by a series of uncertainties related to the most recent evolutions of Indian relations with Pakistan, China and the United States. Assuming that the problem of Islamabad could be temporarily frozen, it is a matter of fact that Pakistan instability could force Modi to deal with it earlier than expected.

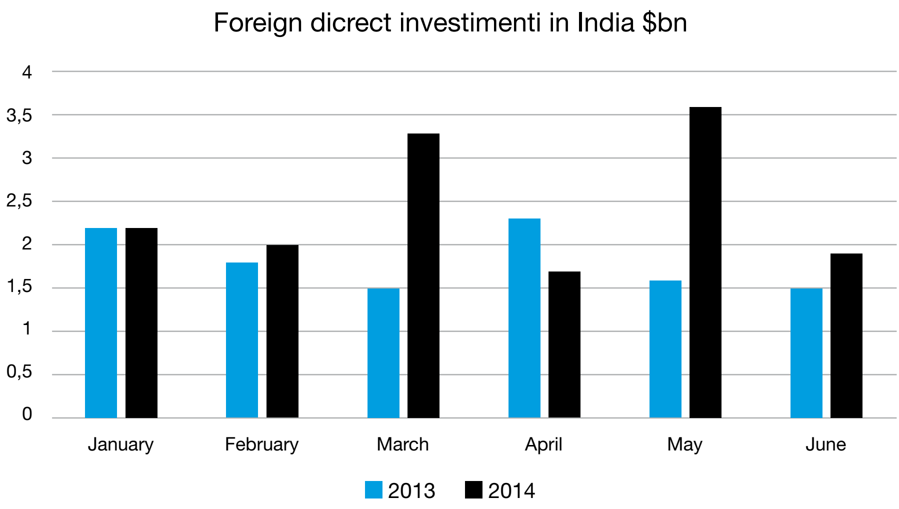
Regarding China, New Delhi aims at increasing its regional weight to convince Beijing that India is no longer a second-tier power, implying that bilateral relationship should be rebalanced. Accordingly, Modi is trying to strengthen China-India economic partnership, although highlighting the solution of unsolved border disputes as an irrevocable precondition for any further engagement.

It is realistic to forecast that in case Indian Asian partners ask New Delhi to take a more explicit anti-China stand in the region, Modi will have to be careful in supporting their request, as any false step may prove negative and problematic for him. If such a request comes at a stage in which India and the United States have not finished redefining the priorities of their strategic partnership, it will be compulsory for Modi to be even more reluctant in assuming a stronger anti-China position.





Source: Economic Survey 2014 / Business Insider



Source: DIPP / Quartz

SITUATION

All along 2014, and despite its internal social, political and economic difficulties, India succeeded in laying the foundation for acquiring greater strategic autonomy, political and economic credibility, putting itself in a position to change its regional and global weight. These achievements are the direct consequence of "Narendra Modi's revolution". Narendra Modi is an Indian controversial political leader who grew up politically in Gujarat, where he supported the BJP, and was elected in May as new Indian Prime Minister. He is also a very controversial leader, as he is blamed for failing to stop the 2002 Gujarat riots in which more than 1.000 people, mainly Muslims, were massacred.

Before the Prime Minister appointment, Narendra Modi was identified by his supporters as the only political leader who could save India from a destiny of poverty and decline. His detractors, instead, were used to describe him as a very dangerous leader, who, as the 2002 Godhra incident had already shown, could lead the country towards nationalism and extremism.

In order to understand the political, economic, and strategic consequences of Narendra Modi's success, it is useful to refer to how analyst explained it. In particular, it is interesting to underline the reasons why Modi's appointment can be considered "necessary" for India, from a national, regional as well as international perspective.

Why India needed Narendra Modi? Modi's victory endowed the BJP with its first political majority on its own, and India with its first one of the last three decades. As it is claimed that most of Indian problems in terms of governance effectiveness and efficiency depends on its weak and contentious governments, there is now a vast number of Indians expecting Modi to deliver immediate and significant results thanks to his political clout.

Modi's electoral success is the direct consequence of the strengthening of Indian youth global aspirations. The anger and the impatience of 600 million young Indian people started emerging when the AAP leader Arvind Kejriwal launched his anti-corruption campaign in 2013. The number of people who decided to support his fight and contribute to tear down what is still perceived as a deeply corrupted system, increased very rapidly, and in early 2014 Kejriwal was elected Chief Minister in Delhi. Paradoxically, his incapacity to abandon protest grounds to embrace effective governance when the country gave him the chance to do that in Delhi proved India how difficult it could be to ask an inexperienced outsider to run a country. The AAP leader resigned from his Chief Minister position a few weeks after the appointment, stressing his frustration for the obstacles put in the way of an anti-corruption bill he had proposed, and indirectly opening for him the chance to compete for national elections.

When the Kejriwal star fell, national hopes turned to Modi. Indian youth identified the BJP man as the only leader who could re-launch India, fighting corruption, creating new economic opportunities, supporting wealth and democracy. Modi is indeed a unique prime minister for India. He has a low-caste background with which many of his supporters tend to identify themselves. Further, he is a man with real political experience as he has been guiding Gujarat as Chief Minister for more than ten years. His achievement in transforming Gujarat into one of the most efficient economic engines of India appears as particularly promising in terms of future economic performances on national bases.

What Modi's supporters hope is that what the Prime Minister has been able to deliver in a state that re-elected him twice can now be extended to the whole country. What they like most is that Modi is used to stress that economic growth should not be achieved per se*,* that is to help India climbing GDP-based international ranking, rather to increase the quality of life for its own people.

It is also important to stress how smart Narendra Modi proved to be in exploiting Indian youth foundation of hope and consensus to further consolidate his support as prime minister candidate. Aware that there are 800 million under 35 living in India, Modi cleverly used IT and social media to reach every corner of the country. He also exploited his background of poverty and exclusion to emphasize the strong connection between democracy and success in India. If a tea-seller's son can become the PM of India, than India can become a strong regional and global power. Stressing that the protagonists of this "new" India will inevitably be todays' under 35 was another clever choice, as it convinced still doubtful young people that Modi represented the best option for them.

OUTLOOK

It is evident that the future of India is now strongly connected to Narendra Modi's ability to keep his promise, that is transforming India in a stable and prosperous country. To better understand what India will probably do in the near future, it is useful to analyse Modi's priorities as well as the variables that may affect the strategies he has chosen to support them.

BJP priorities are summarized as follows:

- Re-launching national economy;
- Promoting social stability and internal consensus;
- Promoting stability and balance of power in South Asia;
- Restructuring regional and international alliances, focusing on partners whose economic and strategic interests are aligned to the Indian ones;
- Transforming India in a global emerging power.

Modi has been broadly recognized as the man who can re-launch the Indian economy extending to the whole country a recipe that proved extremely successful in Gujarat. Modi's plan is based on an investment friendly environment, an accountable bureaucracy, an efficient governance and a broader accessibility to basic resources such as water, electricity, education and health. These landmarks confirm how deeply his support and consensus depend on his economic performance.

To better understand what Narendra Modi can realistically achieve in India, it is important to highlight that Indian economic and financial troubles emerged a long time ago.

In the early '90s, economic reforms allowed India to emerge as a promising economic power thanks to sustained GDP growth rates, whose average has remained close to 8 per cent for decades. However, from the '90s until the early 2000s, New Delhi missed its chance to exploit this growth to implement a sustainable and efficient long-term economic strategy, probably because of the weakness of the governments that alternated in office. The last attempt to proceed in this direction was made in 2004, when Manmohan Sing, the former Finance minister who unveiled successful economic reforms in 1991, was elected as prime minister. Unfortunately, Mr Singh failed: the Congress Party and the Gandhi family suffered a lot from his poor performance in terms of both consensus and people's support.

Right after his appointment, Modi stressed the importance to boost internal growth not only through markets liberalization, new infrastructures, and foreign direct investments, but also focusing on internal optimism and international trust. Modi introduced these new concepts as useful and efficient multipliers of reforms' effects. The new prime minister cleverly pointed out since the very beginning that to achieve his aims international cooperation is needed, indirectly identifying United States, Japan and Australia as Indian new strategic and economic partners.

Modi is aware that internal growth is crucial to maintain social stability in India, and that social stability today is grounded on job opportunities and redistribution of income and wealth, due to the huge impact they can have on people's quality of life. At the same time, economic development is crucial to increase Modi's political consensus, as well as to strengthen the image of India as a transparent and reliable economic and strategic partner.

The Prime Minister of India is aware that his success depends also on regional stability and on Indian foreign partners' support. Modi's economic and strategic priorities have been emerging towards the end of 2014, and it is unrealistic to predict that they will change during the next few years.

The significant number of official visits Modi organized in the very first months following his appointment further confirm his idea that Indian future is deeply interconnected to the Asian one. This is the reason why the Indian

Prime Minister is trying to convince South Asian countries, that is the nations that used to consider India their major enemy, that the country has changed, and it is now committed to protect them from any sort of threat, either economic or strategic (China and Pakistan). In in the Asia-Pacific, Japan and Australian emerged as Indian new partners. Towards the end of 2014, India signed trade and industrial agreements with Japan and significant progress were made in the negotiations on a bilateral civil nuclear agreement. Mr Modi also started a new energy partnership with Australia, confirming New Delhi interest in introducing itself as a more pragmatic, active and independent global power.

Indian new global network of alliances hides three uncertain variables: Pakistan, China, and the United States. Narendra Modi is known for his anti-Islamabad approach, which dates back to the time in which Pervez Musharraf was the President of Pakistan and Modi Chief Minister in Gujarat. The Indian Prime Minister has already clarified his ideas about Kashmir, stressing that Pakistan will pay a high price if it continues raising border tensions. Despite its declared inflexibility, it is realistic to assume that will not allocate many resources to solve this issue, although the instability of this country may force Delhi to change its mind and approach.

It has already been emphasized that India is trying to project itself as a reliable regional power as well as a viable alternative to China. The interest foreign powers are showing for India is confirming its success in promoting this view, but it is also paving the way for a deterioration of China-India relations. Although Beijing and New Delhi will not get any benefit from such a development, recent bilateral meetings have shown that India wants to rebalance its relationship with China. New Delhi's claim that Sino-India economic partnership will reach its full potential only when border disputes are permanently solved is definitely confirming Indian reluctance to compromise. Although it remains difficult to imagine India openly condemning China's assertiveness in Asia, New Delhi's choice to strengthen its relations with Japan and Australia can be interpreted as a subtle anti-China move. However, until India decides to revise the order of its priorities, it is unrealistic to expect New Delhi to be more threatening than it is today.

Economic growth, fight against poverty and the consolidation of Indian regional weight can definitely help India to be recognized as an emerging global power, although this achievement could be thwarted by the way in which New Delhi and Washington will decide to interact among themselves. India-US relations have been historically penalized by the so called *middle-of-the-road-policy*. Today, both countries have the chance to reshape their partnership to address some contemporary challenges together. Unfortunately, the fact that during the first meeting between Narendra Modi and Barack Obama in late 2014 no agreement was signed, indirectly confirmed Modi's indecisiveness in terms of Indian American strategy. If India becomes economically and strategically stronger, at least in its region, her bargaining power will inevitably increase, and Modi will be able to interact with the US on (more) equal terms.

China

Nunziante Mastrolia

EXECUTIVE SUMMARY

The long power struggle inside the Chinese communist party (CCP) between Xi Jinping faction and those who are hostile to reforms is at the origins of political and security tensions that developed in China in 2014 at both internal (a long series of terrorist attacks) and external level (involving China relations with Japan, Vietnam and the United States). A strong anti-corruption campaign allowed Xi Jinping to reduce the authority and power of the opposing faction: Zhou Yongkang's official incrimination embodied the turning point of this internal struggle and the signal that the balance of power inside the CCP was [eventually] changing in favor of the Xi Jinping faction.

During the year, regional tensions (South China Sea, East China Sea and the border disputes between China and India) were used by internal opposition to weaken the reformist leadership. Beijing needs a stable international and regional environment to fulfill the ambitious reform program released after the CCP's Third Plenum. By adding fuel to the fire of the-disputed areas, the opposition inside the CCP has pushed regional states and the United States to forge an increasing political and military cooperation in order to counter Chinese expansionist ambitions. From Beijing's perspective, a strategic nightmare was evolving along China's borders: the one of hostile powers' encirclement. Consequently, avoiding this evolution from happening became Beijing major priority, forcing the government to put aside the reformers' plan: security first, reforms then, or never.

With the defeat of the opposition inside the CCP, a decrease of regional tensions and a progress in economic integration and political cooperation, especially between, China and the United States, can be predicted for 2015.

Moreover, having weakened the internal opposition, Xi Jinping is now free to implement the reforms plan announced with the Third Plenum in October 2013. The reformist leadership is aware that the essence of reforms, which the country and its economy need, is political. Xi Jinping's political reformist program consists essentially in the full realization of rights and institutions enshrined in the Constitution, at the top of the agenda as stated by the Fourth Plenum in October 2014.

However, given the incompatibility between the liberal principles enshrined in the Constitution and CCP hegemonic position, a full implementation of the Constitution would cause the political extinction of the CCP. Therefore, either the reformist leadership will continue to consciously weaken the CCP or it will backtrack. In the meantime, the possibility that the opposition could get stronger and resume its own program (stopping the reformist process and weakening Xi Jinping's leadership) cannot be excluded.

On the other hand, stopping the reformist process would not be painless. The hopes that were once nourished and then betrayed could easily change into rage and feed social dissent, facilitating the spread of protests in China's mainland, similar to those in Hong Kong.

SITUATION

After last year Third Plenum, Xi Jinping's leadership drawn up a liberal program of political reforms which, if realized, would have so radically altered the status quo, chipping away vested political and economic interests, to cause strong reactions in those who would have been damaged by the reforms.

For this reason the *Global Outlook 2014* postulated the existence of this first equation: the greater the reformers' will to achieve their program, the greater the resistance and reactions to their actions would be.

To better specify this equation, other variables have been included to the analysis: the strength of the factions in the field (reformists and conservatives) and the areas in which the greatest and most visible frictions, between the two opposing forces, could have arisen:

A revised equation followed: the greater the force and the hold that the reformist leadership has on the CCP and on the State, the less frictions there will be at internal, regional and global level: Similarly, the lower the power of reformist leadership, the greater the regional (in South China Sea and in East China Sea) and global (with the United States in particular) tensions would have been.

The hypothesis underlying this second equation is the following: to successfully pass the delicate phase of the reforms, the reformist leadership needs stability in the country and a peaceful regional and global environment, as well as the full control over the CCP and the State

It is assumed that those who opposed the reformist process should be interested in adding fuel to regional tensions in order to obstruct the reforms path.

This is precisely what happened in 2014. Hu Jintao was forced to wait for three years before becoming the president of the Central Military Commission. Xi Jinping formally obtained [the same responsibility when he was appointed Chinese President. However, reality was different from what has been officially shown. Indeed, to strengthen his status, Xi Jinping has been forced to create new political bodies and carry on a massive anti-corruption campaign, whose secondary purpose was the one of defeating his opponents in the CCP.

To sum up, China has been deeply influenced by a necessary but dangerous reformist program able to deeply affect vested political and economic interests; and by a weak new leadership against a strong opposition determined to stop the reform program. Based on these elements, last year's *Global Outlook* ended with the following words: "If the leadership is not firm and cohesive, more tensions are expected. At national level, these tensions may weaken the leadership of reformists. Should the new reformist leadership fail to succeed in removing the obstacles impending the carrying out of the reforms, one may assume an increase in tensions with the neighbouring countries may happen, which will ensure further fragmentation of the regional chessboard".

As a matter of fact, 2014 was a year of tensions: the relationship with Japan, as well as those with Vietnam, further deteriorated. Frictions with Vietnam worsened in May on the South China Sea issue, when China's unilaterally deployed an oil rig into Vietnamese-claimed waters, sparking deadly anti-Chinese riots in Vietnam.

In the meanwhile, Sino-Japanese relations also slumped to "their lowest point in history". All these regional tensions damaged the relationship between Beijing and Washington. : moreover the indictment by the U.S. Department of Justice of five PLA officers for cyber espionage, sharp disagreements over territorial disputes brought Sino-American relations to their lowest point since1989. As a consequence, an axis between China and Russia started strengthening, and a deeper cooperation started solidifying among those regional countries which had more to fear from the increasing Chinese assertiveness (the United States, Japan, Vietnam, the Philippines). A system of rival coalitions with destabilizing effects on the regional framework consequently emerged.

In the meanwhile, and for the first time in its modern history, China was hit by a series of internal attacks. Moreover, the outbreak of the "Hong Kong question" exacerbated China's fears that the United States and other foreign power were trying to destabilize China.

The opposition also succeeded in undermining Xi Jinping's prestige: Chinese troops encroached in the territory under Indian control while Xi Jinping was in New Delhi trying to weave new and more profitable relationships with the Modi administration. Furthermore, according to *The South China Morning Post*, Xi Jinping has already survived six assassination attempts: "Xi himself may have lent credence to these rumors in a speech in which he reportedly said that he was prepared to put aside considerations of «life, death, and reputation» in order to pursue his campaign against corruption".

It's important to clarify that there is no firm evidence that behind these facts there is the hand of those opposed to reforms, nor a set of coordinated actions. It is an interpretative hypothesis generating a logical framework to explain a fact: the stagnation of reforms in 2014.

OUTLOOK

Xi Jinping's reformists are the winners of the long struggle between the two souls of the CCP. Xi Jinping's massive anti-corruption campaign is the main weapon the President used to win this battle. It proved effective in hitting corrupted officials as well as in dismantling the opposite faction: in July Zhou Yongkang's incrimination confirmed that Xi Jinping's reformists were overtaking the internal opposition. A number of new elements reflected this change of equilibrium.

For the first time in Chinese history, the Fourth Plenum of the Central Committee of the CCP focused on building rule of law for China, focusing on a more accurate implementation of the Chinese Constitution. This was a priority Xi Jinping started stressing since he came to power, but that disappeared from the political agenda during the years.

A few more elements are expected to trigger a new course in China's international relations: the signing of the climate agreement between [Barack] Obama and Xi Jinping represents an important political milestone, keeping alive the "Sunnylands spirit" and strengthening the cooperation between US. and China. The new effort to improve relations between China and Japan [proved by] the meeting between Xi Jinping and Shinzo Abe after more than two years of severe tensions. The beginning of slackening tensions with Hanoi; the free trade agreements between China and Australia and China and South Korea, which may become effective in the second-half of next year.

These evolutions testify that the internal opposition, which expertly fueled tensions with regional countries, has been weakened and Xi Jinping can now work on easing regional tensions–and building the stable international and regional environment needed to advance the reform program.

If the reformist leadership will be successful in consolidating its own power inside the CCP and the State, an improved political scenario for China, the region and the United States can be hypothesized for 2015.

More solid improvements could be observed in the relationship between Beijing and Tokyo: the two countries could conclude their free trade area negotiations and try to find a way to resolve the long lasting dispute in the East China Sea.

The South China Sea could also yield positive surprises: improved relations between Beijing and Hanoi could lead to the definition of a new Code of Conduct (on which Beijing is working) which could greatly reduce the number of accidents in the disputed waters .

It is important to note that the improvement of the political and security environment is not an end in itself for Beijing, rather is a tool to achieve two objectives: creating a peaceful political and security environment, a condition functional to reforms process implementation, and inverting or weakening the growing political and military cooperation between Japan, the United States, the Philippines, and Vietnam generated by China's increased assertiveness in the disputed areas, the purpose of which, although not stated, appears to be the containment of Chinese expansionism.

If the process of strategic integration involving these countries does not] stop and if Beijing continues feeling threatened by such growing political and military cooperation and by the increasing American presence in the area, the will to alleviate tensions could diminish.

Overcoming the internal opposition and brightening up the regional environment, there are the conditions implement the reform program outlined at the Third (October 2013) and the Fourth Plenum (October 2014).

Major sources of concern may arise from the internal front. The CCP leadership is aware that the most useful tool to prevent China from stumbling into the "middle-income trap" is a political reform able to give more freedom to the market, greater autonomy to civil society, more rights and freedoms to citizens and more autonomy to trade unions and professional organizations.

But in order to preserve and strengthen these freedoms and autonomies, more elements are necessary: rule of law, separation of powers, judiciary's independence and autonomy. In brief, as stated during the Fourth Plenum, China needs to fully implement its Constitution and needs to establish a Constitutional Court with the power to quash laws that conflict with constitutionally established rights and freedoms.

However, the reformists' "constitutional program" poses a number of problems. Firstly, if we exclude the preamble, the CCP is not in the Chinese Constitution, as it is not a constitutional body. The Constitution contains rights and freedoms that belong to that Western liberal tradition that the CCP contrasts: such rights and freedoms are antithetical to the institutional structure which actually rules the country, that is the CCP's absolutism. There is another contradiction: the Fourth Plenum has recognized the primacy of the Constitution, but has placed the primacy of the Party next to it. In Beijing, efforts to explain this contradiction include the argument that only the CCP, as the more faithful interpreter of the national interests, can fully implement the Constitution. Yet between the Constitution and the CCP there is an absolute incompatibility: giving full effect to the Constitution means creating the conditions for the political extinction of the CCP. For example: if the judicial power truly gains its full autonomy and independence, and if a Constitutional Court is established, it will create a mechanism that will inevitably erodes CCP role and power. At that point, either the reformists will continue to knowingly weakening the CCP or they will have to return to where they started. It is not inconceivable that in the meantime the opposition could get stronger and resume its program: block the reform process and weaken Xi Jinping's leadership.

However, stopping the process of reform would not be easy. Hopes which were encouraged and then betrayed could be quickly conveyed into Chinese citizens' anger. What happened in Hong Kong on a small scale could occur on a much larger scale in mainland China: the contradiction between the Western rights and freedom enshrined in the Constitution (or in the Hong Kong Basic Law) and the closure of the CCP against Western tradition are actually the same in China and in Hong Kong, where there is no compromise that could possibly solve the stalemate: either the Party gives in to the protesters, or uses force to suppress them.

The country is in mid-stream: it can either advance by implementing the constitutional program, which is incompatible with the hegemonic role of the CCP, or roll back the clock of history and reinforces CCP absolutism. Tertium non datur.

Asia-Pacific

Stefano Felician Beccari

EXECUTIVE SUMMARY

While China and the United States are cautiously struggling for supremacy in the Asia-Pacific, the rest of the region remains a dynamic and "liquid" area where it is difficult to identify a clear hierarchy of powers.

To understand the current situation and the political and geostrategic evolutions of this region it is necessary to analyse it from a political as well as a military perspective.

From a political perspective, the analysis should consider both internal or domestic variables and external or geopolitical ones.

In terms of domestic politics, Asia has not been very successful in 2014: in Thailand the military has ousted civilian authorities in a *coup d'état*; in Myanmar the political openings of the regime are still very limited; and in Malaysia many citizens are protesting against some repressive laws that the government is trying to enforce. Other authoritarian regimes are still in power in the region, such as Vietnam, Singapore, Laos and Brunei; North Korea (DPRK) is a different case. Here, after three years from the seizure of power, Kim Jong Un is still keeping the country under a tight politico-military dictatorship. On the other side, there have been some openings in Indonesia, with the election of the first president without a military background, and in the Fiji, with the end of the dictatorship.

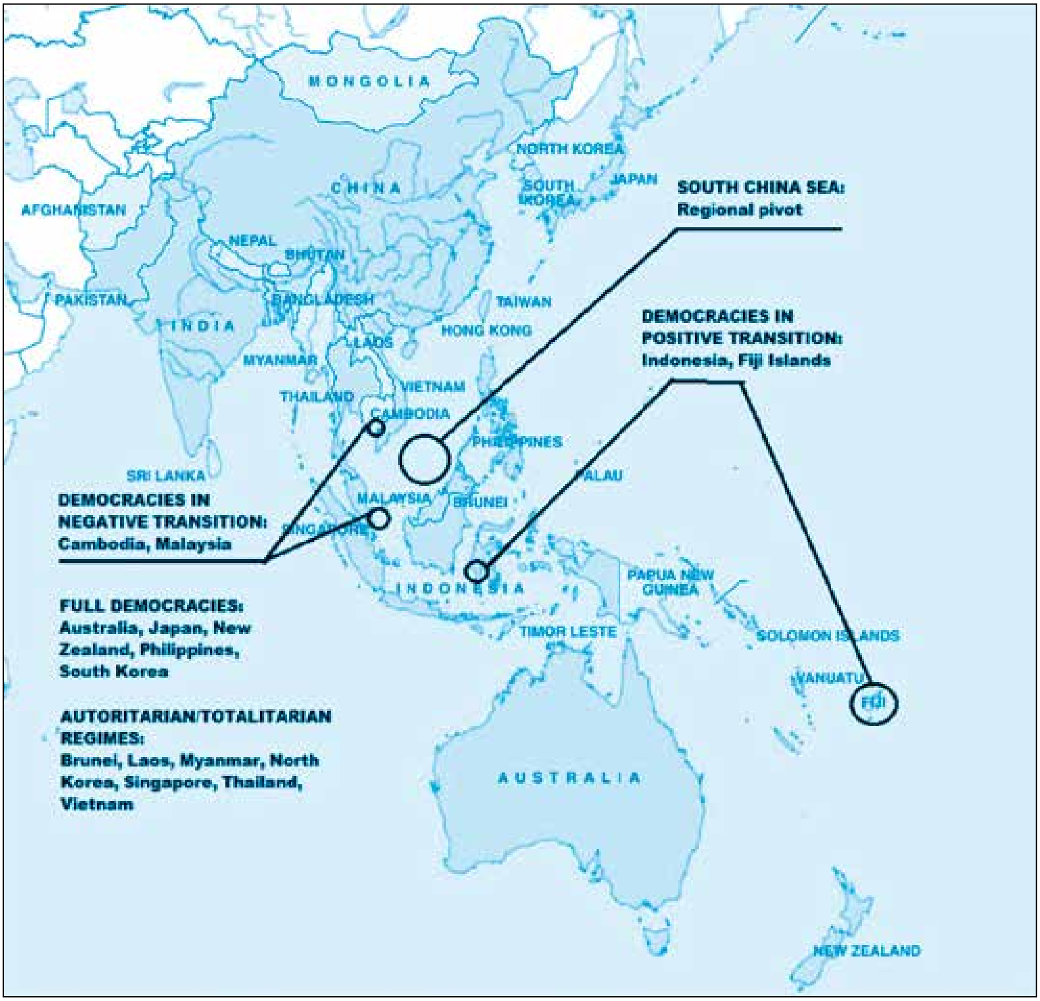
The external or geopolitical level still presents many open issues in the maritime environment; these tensions are mainly located in the South China Sea. Here Beijing is attempting to strengthen its position, while the other actors are trying to limit China's ambitions as much as they can. Russian-Japanese relations' improvement or the maritime border agreement signed by the Philippines and Indonesia represent limited signals of *détente*. The "chess game" played in the South China Sea will be crucial for the stability of the whole region; the states entangled in this game prefer to avoid military solutions, but in the meanwhile they are strengthening their defences.

The military level presents two critical elements:

- Many states in the South China Sea are increasing their military expenditure and the pace of their defence modernization. The most striking case is Vietnam: in 2014 Hanoi has officially established a brand new submarine fleet, equipped with Kilo-class submarines purchased from Russia
- Terrorism is still a relevant but stable threat, especially in South East Asia. Many foreign fighters (mainly from the Philippines, Indonesia, Malaysia, Singapore) are currently serving in the Islamic State of Iraq and Syria (ISIS), and this entity is perceived as a serious threat for the region by many countries. The return of many Asian foreign fighters could trigger a new phase of violence, especially favouring some existing radical groups. There have been some attempts to establish some regional and bilateral agreements to track and monitor the local ISIS supporters; the People's Republic of China, which deals with the Uyghur terrorism, is also involved in this dialogue.

DPRK remains a fragile state, but the peninsula in 2014 did not suffer the same tensions of 2013. In the fall of the year a new nuclear test was threatened by the government, but was not carried out by December 2014. The denuclearization of the country continues to be unlikely.

THE POLITICAL LEVEL



Author's elaboration from www.petroleum-economist.com

THE MILITARY LEVEL

Author's elaboration from www.petroleum-economist.com

SITUATION

During 2014 the Asia Pacific balance did not change much. In this uncertain situation, with the US-China confrontation still running in the background, other regional powers (Indonesia, Vietnam, Australia, Japan, Thailand) are trying to defend their own national interests. On the regional level, the Association of Southeast Asian Nations (ASEAN) is still a weak catalyst of political integration.

On the **domestic political level**, 2014 registered a dramatic "rollback of democracy":

- In May, the Thai military ousted the civilian government and imposed a military dictatorship;
- In Myanmar, the awaited end of the dictatorship and the opening of the regime are still far, while the ethnic and religious clashes between the Buddhist majority and the Muslim minority do not predict a bright future for the country;
- DPRK has been the target of a recent UN report emphasizing how the systematic violations and repressions of human rights are used as a tool to control the population;
- In Malaysia, despite the announcements, the government has still to abolish the controversial "Sedition Act": according to the opposition, this law does not allow citizens to criticize the government.

Some positive developments can be also identified, such as the end of the dictatorship in the Fiji islands (September 2014) and the election of Joko Widodo as new president of Indonesia. After a long series of former generals, this *homo novus* is the first political leader without a military background.

In December 2014, following a snap election, Shinzo Abe has been confirmed Prime Minister of Japan.

From a **geopolitical level,** many tensions and territorial disputes, especially in the South China sea, remain unsolved. The competition between China and Vietnam has further escalated between May and July 2014, when Beijing sent a mobile oil platform in the contested waters around the Paracel islands. This event has triggered angry protests and violent manifestations in Hanoi and in the whole Vietnam. After some months China removed the platform, but Hanoi felt deeply humiliated by this issue. The improvement of the Japanese-Russian relations and the pacific settlement of the maritime border between Indonesia and the Philippines are also positive news Unfortunately, they represent an exception in the current mood of the region.

This widespread diffidence has a clear impact on the **military level.** From one side there have not been the peaks of 2013 (as the nuclear test in DPRK or the crisis in the peninsula), but from the other side there are some quiet but interesting trends that cannot be underestimated. The modernization of many national armed services and especially navies, is the current Asia

Pacific *Leitmotiv.* For many years the navies of several countries had a limited technological content and have been involved only in the coastal patrolling.

Today, following the growth of the Chinese presence in the area and some other developments that have been perceived as "aggressive" (i.e. the issue of the "Air Defence Identification Zone" with Japan, the case of the Second Thomas Shoal with the Philippines and the oil platform with Vietnam), many states in 2014 have continued to increase their investments in modern military (mainly naval) technologies. This trend involves also Australia and New Zealand, which are also worried about these developments.

Since summer 2014 many states (especially the Philippines, Indonesia, Malaysia and Australia) started focussing on ISIS, its connections with terrorism in South East Asia and the volunteers who are currently fighting in Middle East. In this field many states have already launched new joint projects: they encompass both police and intelligence exchange of information.

Eventually, DPRK in 2014 has been a special case, but not for its traditional nuclear blackmail. During the year, a few drones (allegedly from North Korea) have conducted intelligence activities beyond the South Koreans borders. Without any national emblem and equipped with basic commercial cameras, these small drones were able to quietly sneak across the South Korean aerial defences and collect a considerable amount of Imagery Intelligence (IMINT), including pictures of classified targets and areas, like the presidential palace in Seoul. Pyongyang has promptly declined any responsibility regarding the drones.

OUTLOOK

2014 has been a volatile year for the geopolitics of the Asia-Pacific. This attitude is not supposed to change, until an internal or external event imposes a precise political hierarchy in the whole region. Despite the vast geographical area, geopolitical spaces are very limited if not absent. ASEAN itself is unlikely to increase its political weight: there are too many political divisions in the region, therefore the member states are reluctant to transfer some powers to this institution. The combination of these elements weakens the regional system, and makes it vulnerable to major shocks, that can easily and quickly destabilize the whole balance of power. The most evident major variable, able to influence the region, is the confrontation between the US and the People's Republic of China. This challenge is now limited to political and economic aspects, but the developments of this relation will have a direct effect on the whole Asia-Pacific.

In the meanwhile, economic growth is backing a restless urbanization and demographic growth. These two factors will impact on sustainability, transportation, pollution, quality of life in the human settlements, and, more broadly, on local populations' health.

In the sphere of **domestic politics** the Asia Pacific will continue to be very multifaceted in the next years. Therefore, states should be classified as follows:

– Full democracies, stable and fully compatible with "Western" standards: South Korea, Japan, The Philippines, Australia or New Zealand;
– Democracies in positive transition, or with some possible improvements: Indonesia or the Fiji islands;
– Democracies in negative transition, or democracies that can slide towards some kind of authoritarian regimes: Cambodia or Malaysia;
– Authoritarian regimes: Singapore, Laos, Brunei, Myanmar or Vietnam. Thailand should be also included in this category, following the military *coup d'état*;
– A totalitarian regime, where human rights and the basic civil liberties remain neglected: North Korea.

In the next years it is possible that some states will shift from one category to another; but this does not always imply a positive shift. From one side there are some elements that are favouring the expansion of democracy, like citizens' low average age, the expansion of telecommunications and of the Internet, the growth of the "middle class".

But from another side other elements have caused a retreat of democracy itself. The main reason of this "retreat of democracy" can be found in the difficulty to manage the sudden changes that many societies are facing. Incompatible political tensions (Thailand), conservative positions of the ruling elites (Myanmar, Vietnam, Brunei, Laos), or, more broadly, corruption and slowness in managing the numerous economic and social challenges have disrupted the democratic transition in which some states were involved. In the next years this situation will not necessarily favour the strengthening of democracy: more likely, the Asia Pacific will remain a highly diverse region, where different kind of states and regimes will co-exist together.

These differences will also have an impact on the **geopolitical level** and on the relations between the different states. As time goes by, the crucial role of the South China Sea is becoming increasingly evident for the geopolitical balance of the whole region: the PRC will continue to strengthen its positions in the area also enlarging the existing islets or building artificial islands, as the Fiery Cross Reef. The other actors have few instruments to counter Chinese proactivity: the states can rely mainly on soft power tools, because nobody has military assets capable to oppose Beijing's moves.

On the **military level**, an open conflict in the region is unlikely. Limited tensions cannot be ruled out in some hot areas (as the Korean peninsula or the disputed islands), but a general or conventional use of the military force is a remote option, mainly due to the clear asymmetry between the Chinese and American forces and the military assets of the other states. The perception of this strategic gap (especially about naval capabilities) will continue to fuel a robust array of military investments in the whole region. The government of the Philippines has announced its intention to increase military expenditures, Vietnam should complete its new submarine fleet by 2016 while Japan will continue to procure advanced assets for maritime patrolling as well as anti-ballistic missile systems. It should be also noticed that the existing tensions in the region will favour the traditional military exporters (Russia, China or the US) but will also boost the intraregional military exports. This is the case of some Japanese naval units sold to Vietnam, the South Korean submarines exported to Indonesia or the South Korean fighters that soon will upgrade the capabilities of the Philippine Air Force.

Terrorism is another relevant threat for the region, in particular as far as the connections between the local groups and the ISIS are concerned: allegedly some hundreds of people coming from different parts of Asia are now fighting within this group. China itself is in favour of a stronger regional cooperation to limit or contain the return of the so-called "foreign fighters", the "volunteers" that are currently fighting in the Middle East. It is clear that this terrorist threat cannot be faced anymore from a national point of view. The most affected countries (Thailand, Malaysia, Indonesia, the Philippines, Australia) are trying to improve their efforts using both bilateral channels as well as regional fora, like the ASEANPOL, a kind of ASEAN EUROPOL. The success or failure of antiterrorism policies will be deeply influenced by joint efforts to find and repress -terrorist groups and cells currently active on the regional level.

In conclusion, the next years will not be so positive for the long-desired disarmament of the Korean peninsula. The recent threat of a possible nuclear experiment, although not carried out in 2014, does not give so much hope for the future of Pyongyang's atomic weapons, still considered an important asset by the local elites. In a mixture of promises, flatteries and intimidations, DPRK's denuclearization is an unlikely option; a more likely possibility could be a limited strengthening of Pyongyang's small atomic arsenal. North Korea and Myanmar, despite their diversities, are the most fragile states in the Asia Pacific, and could suffer from internal turmoil or, in the worst scenario, a political collapse (implosion), with negative effects for their neighbours and probably the whole Asia Pacific. The different small archipelagos of the Pacific are living in the background of these complicated dynamics, like passive spectators of the transformations that are quickly changing the whole Asia-Pacific.

Latin America

Alessandro Politi

EXECUTIVE SUMMARY

Latin America, to date fairly isolated in the Monopoly game of large regional agreements, may get a mixed result because it is quite probable that the EU-Mercosur FTA will be concluded. There is also a certain probability that the TTIP (Transatlantic Trade and Investment Partnership) will be signed, unless it stalls under the complexity of the matters at stake, if the Republican Congress cooperates with the administration. It is also possible that an agreement could be reached on the first part of the Treaty, leaving to the next US presidency the task of negotiating the others.

As far as the TPP is concerned, to evaluate its chance to be signed, it is necessary to consider variables such as the US internal political problems, the great differences between the parties involved and Chinese initiatives in the region to undermine its success. The other two treaties do not have such obstacles to overcome.

If the scenario combining TTIP with the EU-Mercosur FTA occurs, South America will be able to anchor itself to the Atlantic market, and thus indirectly to the US, in a more balanced framework. If the TPP would not materialize, Latin America would prevent the rift between the Alianza del Pacifico subgroup (including Mexico, Colombia, Peru, Chile) and the rest of the region. Among the consequences of this negotiations, there is the emergence of a multi-speed Mercosur, but Argentina would probably be a very strong obstacle to this development.

Beijing will develop its position in the region despite its economic slowdown and its awareness of local crises: Venezuela and Argentina are countries where China risks being overexposed, while in Cuba the thaw with the USA opens a new competition arena.

The threat of organized crime and drug trafficking remains a heavy burden for many Latin American countries, except perhaps for Colombia. Throughout 2014 peace negotiations with the FARC showed concrete progress, propped up by the re-election of President Santos. However, the reaction of right-wing criminalized and paramilitary groups is intensifying and the command fragmentation of the FARC is such that there is a risk that the success of the negotiations may be downgraded from fairly probable to probable.

In Mexico, despite the scandal of the desaparecido students and an important speech of President Peña Nieto, there is a persistent risk of consolidation of the two big cartels (Sinaloa and Zetas), against the backdrop of the fragmentation of those minors with adjoining proliferation of citizen militia. Furthermore a tripartite division of Mexico it is likely to emerge, featuring three areas: special economic zones, strongly protected; areas with a more visible legality and areas uncontrolled by the state.

SITUATION

During the last year, due to the sharpening of the global economic crisis and its repercussions on the region, Latin America lost for the time being the opportunity to gain further strategic autonomy. Today, it is torn between the USA, China and the] weaknesses of the great Latin American capitals.

In 1994, promoting the NAFTA (North American Free Trade Agreement), an American Democratic administration engineered the split of the subcontinent attracting a pivotal country like Mexico into its orbit. Eleven years later, another Democratic administration decides to cut off a large part of Latin America in favour of just four-six countries (members of the Alianza del Pacifico) that were entitled to take part to the Trans-Pacific Partnership.

The Monroe Doctrine and its Cold War variants are of course over, as well as the failed attempts during the Bush administration to create a large Pan-American free trade area. Therefore, the Obama administration did not change much of its approach of keeping good relationships with every country, allowing China's penetration into these markets, avoiding the rise of strong regional blocs, favouring instead few countries deemed of primary interest: Brazil, Chile, Colombia, and Mexico.

At the beginning of this century, China represented an apparently more convenient alternative to the usual US presence and in fact exports to Beijing have considerably improved the balance of payments of different states, In 13 years, the volume of trade increased from $12,6 billion to $26157 bn, while FDI exceeded the $83 bn mark by 2013.

The flip side was represented by the increase in social frictions, a strong trade imbalance, scarce technology transfers and considerable environmental damage. These situations have led some rulers in the region to the explicit rejection of the Chinese development model also due to a wave of protests by public opinions outraged by Chinese companies' offhanded methods. Pressure was particularly strong when the opposition of workers and peasants was reinforced by indigenous movements.

Mirroring Washington, Beijing also borders its "Pacific" interests to the four countries of the Alianza del Pacifico (Mexico, Colombia, Peru, and Chile).

Latin American political powerhouses faced several crisis in 2014. Mexico, despite its positive growth rates and its free-market oriented reforms, is under the heavy burden of an unparalleled mafia war. At the end of 2014, the total death toll was of 120.000 people plus 23.000 desaparecidos, and the country is permeated by a strong corruption and by worrying infiltrations from the illegal economy into the legal one.

After the death of its charismatic president Hugo Chavez and the collapse of oil prices ($125-110 per Brent barrel until summer 2014 and then going constantly down to $56 by the beginning of January 2015), Venezuela has taken an increasingly unsustainable course that is leading to serious social and political repercussions. Petrocaribe, the Venezuelan energy assistance scheme to the countries of the Caribbean Sea and to some Central American ones, has objectively become a grant, since the reference price was $100 per barrel. Today Venezuela simply cannot aspire to be the antagonist of Brazil in South America.

Brazil, despite the continuity in the administration, has to face: a slump from a 7% GDP growth in the past years to the present 0,5%; the disappointing result of the infrastructural and social investments for the World Cup; the oil crisis; the economic slowdown of China itself and the strong dissension within the Mercosur (the South American single market, see map).

Argentina has defaulted again after 12 years (although it is a technical default) due to a combination of US courts' rulings, speculators who refused

The Latin American trade blocks

Source: Stratfor.

any compromise and also own economic mismanagement. In these conditions, the region is inevitably entering a phase of political weakness at a continental and global level.

OUTLOOK

In terms of shaping flows, it is clear that in the short term much of Latin American evolutions depend on the outcome of three large commercial treaties: EU-Mercosur, TPP and TTIP (Trans-Atlantic Trade and Investment Partnership). In both TPP and TTIP Latin America is underrepresented to say the least, whereas the first agreement is more inclusive and more likely to succeed due to Brazil and Germany interest in achieving a positive conclusion.

If the EU-Mercosur treaty is signed in 2015 and survives the ratification process, Mercosur and its leading country Brazil will gain some breathing space in the global competition for access to markets and could enjoy a more balanced relationship vis-à-vis today's large Chinese and US presences. It remains to be seen whether Mercosur will continue in its current form or will emerge as a market with different speeds.

The TTIP agreement is important for its potential to influence the triangular US-EU-South America interaction. Opposition from different political and social actors is growing, and, like all big commercial treaties, it has an inherent complexity that favours stalemate in negotiations.

Thanks to a general and generic political consensus regarding TTIP's economic and also strategic functions, the likelihood that it will be signed is fair, but the element of unpredictability lies in the ratification process. A fast track ratification is conceivable in different parliamentary systems, but it is not a given when there is a Republican majority, when bipartisan consensus is lacking.

It is possible that, in front of serious opposition, the proponents of the treaty will content themselves to pass with a first package of provisions, leaving to the next presidency the mission to carry on the negotiations.

Although including only the Alianza del Pacifico (probably also with the two applicants Costa Rica and Panama), the TPP would be a success for Washington, because it would consolidate a smaller but more cohesive sphere of influence. The result would be a continuous Pacific front made by Central and South American countries, excluding anyhow the least profitable or interesting ones (Ecuador, Nicaragua, Guatemala, El Salvador and Honduras).

If and how much the TPP will live up its economic development claims, without taking into account the unavoidable Chinese variable, is an unknown. This will be a medium-term problem once the treaty comes into force, and things could go badly like they went with Mexico in the NAFTA.

Three are the problems that objectively make the TPP a difficult negotiation achievement: the complexity of the matters discussed; the subtle interaction with the competing network of Chinese initiatives; the uncertainties of the ratification among countries with very different political systems and less common ground than the transatlantic allies.

Still at a level of shaping flows at regional and global one should keep in mind the economic and monetary policies of the United States and the BRICS.

Notwithstanding the weak global recovery signs one has to acknowledge that the world economy is flying with two engines at half power (the US and the Chinese one), while the monetary policies of the United States, Japan and the BRICS are strongly divergent (code word: currency war) in a context where the petrodollar begins to be bypassed by currency swap agreements among other countries.

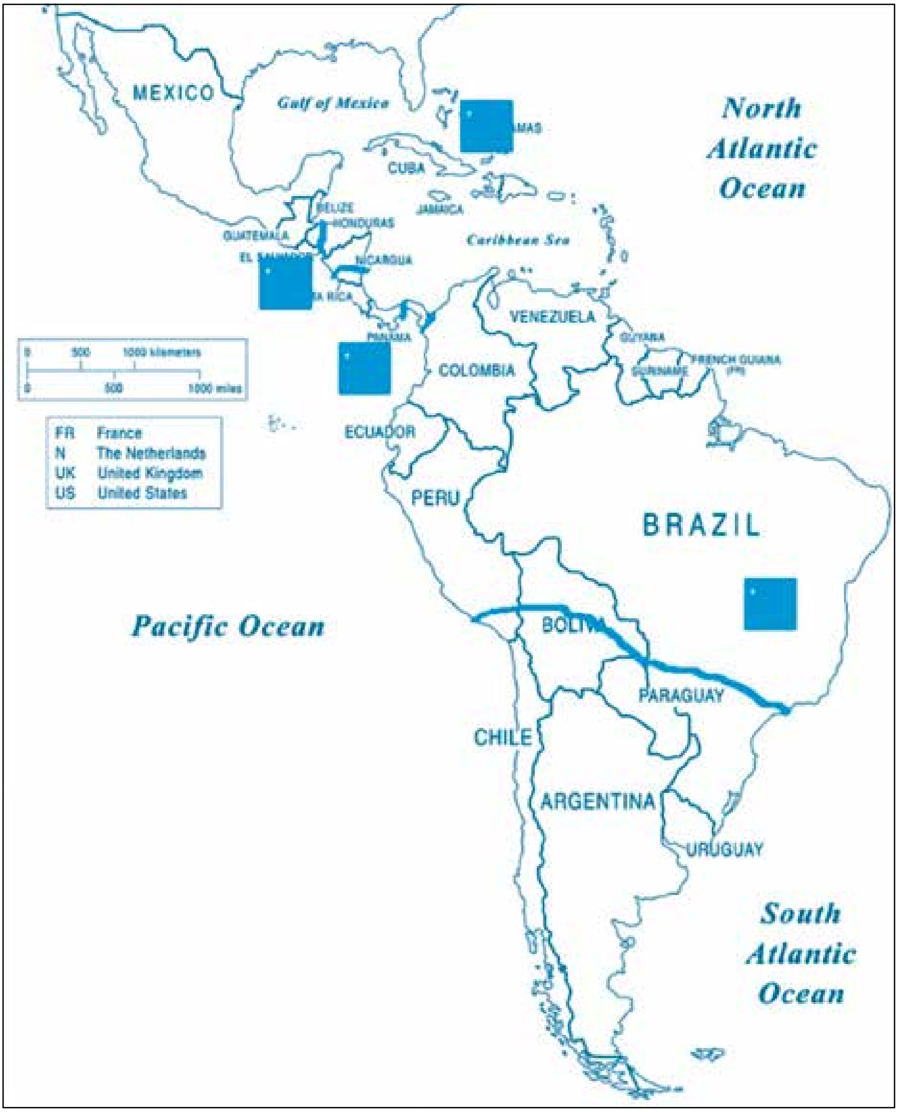
The consequence is that petrodollars are no more recirculated by international finance, becoming instead capital imported by the producing countries, entailing sometimes negative consequences that affect the cost of borrowing money. This means more drag on the growth of both energy producing and consuming countries in addition to the diseconomies caused by a very uncertain transition from one petrocurrency to another.

Before touching some of the major risks for the region, it is interesting to mention some opportunities that present a various range of problematic aspects. The major developments in transport and strategic communication infrastructures include:

- The opening of the large Miritituba-Barcarena port in Brazil especially dedicated to soya exports;
- The opening of a new modern cargo terminal in Cuba;
- The continuing interest in the projects of the Grand Canal of Nicaragua and the Transoceanic Railroad between Peru and Brazil.

These three developments have in common the objective dependence on Chinese imports or/and private capital. Leaving aside the talk about some Chinese strategic threat against the Western Hemisphere, it is clear that Beijing, together with the management of the terminals in and out from the Panama Canal, is attempting to create alternative transoceanic routes and support very important partners as minor supporting countries like Cuba (where it is collaborating also on computer security). China's economic growth and integration in the global economy are crucial variables in these matters.

Chinese interests and communication infrastructures



Source: Elaboration by the Author

Another great opportunity has arisen in Mexico thanks to the partial opening of the state oil company Pemex to private and foreign investors in November, followed by an oil prospection MoU with China. However, this positive situation is likely to be compromised not only by theft of crude oil perpetrated by the Gulf Cartel and the Zetas with techniques similar to the Nigerian bunkering ($1 trillion damage was estimated in 2013), but also the risk of organized crime infiltrations in the sector, as already happened for the Texan shale.

Organized crime and drug trafficking are the most important regional threat because they are pervasive, persistent, virulent: between 2000 and 2010, the subcontinent has lost one million lives due to criminal violence. Despite the various plan Colombia and Mérida (USA antinarcotics assistance), the only initiative that promises a certain incisiveness for the next half year is the coordinated action of US, Mexico, Guatemala, El Salvador and Honduras against the smuggling minors from South to North.

The repeated captures or killings of the Mexican narcocartels' bosses have instead led so far to the fragmentation of minor cartels, but not to the crisis of the major ones (Sinaloa and Zetas) also because law enforcement and social rehabilitation strategies remain unaltered. The ten new measures proposed by president Enrique Peña Nieto, despite promising to change several aspects in order to strengthen the rule of law (merging at state level the local polices, dissolving mafia-infiltrated local councils, demographic and missing persons registers) are silent on how tackle and win the cartels' threat.

In Colombia, a wise peace initiative vis-à-vis the FARC (Fuerzas Armadas Revolucionarias de Colombia) narcoguerriglia is likely to be torpedoed on the one hand from the "strategy of tension" implemented by right-wing paramilitary groups through the intimidation of key left-wing activists. On the other hand, the FARC have implemented a unilateral cease-fire without a fixed an expiry date.

Argentina is at the centre of the dispute with the so-called "vulture funds" and its technical default could contribute to worsen the public finances possibly with social consequences. However, the risk lies not so much in the relatively limited size of the default or in the negative effects on society (prevented by a strong social spending), rather in the existence of developed networks of corruption and money laundering that are helping Colombian and Mexican criminal groups deepen their roots in the international drugs circuits.

Venezuela is more affected by broader social risks that can turn into security threats. The collapse of oil prices from a break-even point of $120 per barrel to around $56 can cause a further squeeze on imports of essential goods, an increase of crime and the strengthening of organized crime also in the notoriously uncontrolled prison system, not to mention a rise of corruption within the political apparatus.

Part III
Sectorial Analysis

European Defence Initiatives

Claudio Catalano

EXECUTIVE SUMMARY

The initiatives for the Common Security and Defence Policy (CSDP) European Union (EU) have been planned for 2015. These will focus on the implementation of the conclusions of the European Council of December 2013, by taking note of the NATO Wales summit.

The European Parliament and the Commission have been appointed for the next five years, and since 1 November 2014, Federica Mogherini is the new High Representative of the Union for Foreign Affairs and Security Policy.

The crisis in Ukraine is the main threat to European security, and this causes two opposing trends in European defence: on the one hand the Northern and Central-Eastern Europe raise their defence budgets and rearm, and on the other hand a defence budget downtrend in Western Europe. It is expected that, if the crisis in Ukraine persists as it is now, these opposing trends will be maintained in the medium term.

Poland, Baltic States, Czech Republic, Romania, Bulgaria, Sweden and Finland are rearming and seeking protection. Poland is the most active Member State: it increased its defence budget, it reorganised the command structure, and it approved a new national security strategy and plans of armament. Sweden and Finland, non-NATO EU Member States, are considering accession to NATO. According to NATO collective defence (art. 5 North Atlantic Treaty) or CSDP (art.42.7 EU Treaty) Western Europe must intervene in case of aggression to these countries. In this framework, the UK acquires a role in protecting Northern and Central-Eastern Europe, and Scotland, after the failed referendum on secession, assumes strategic importance for the British at the defence of Northern Europe.

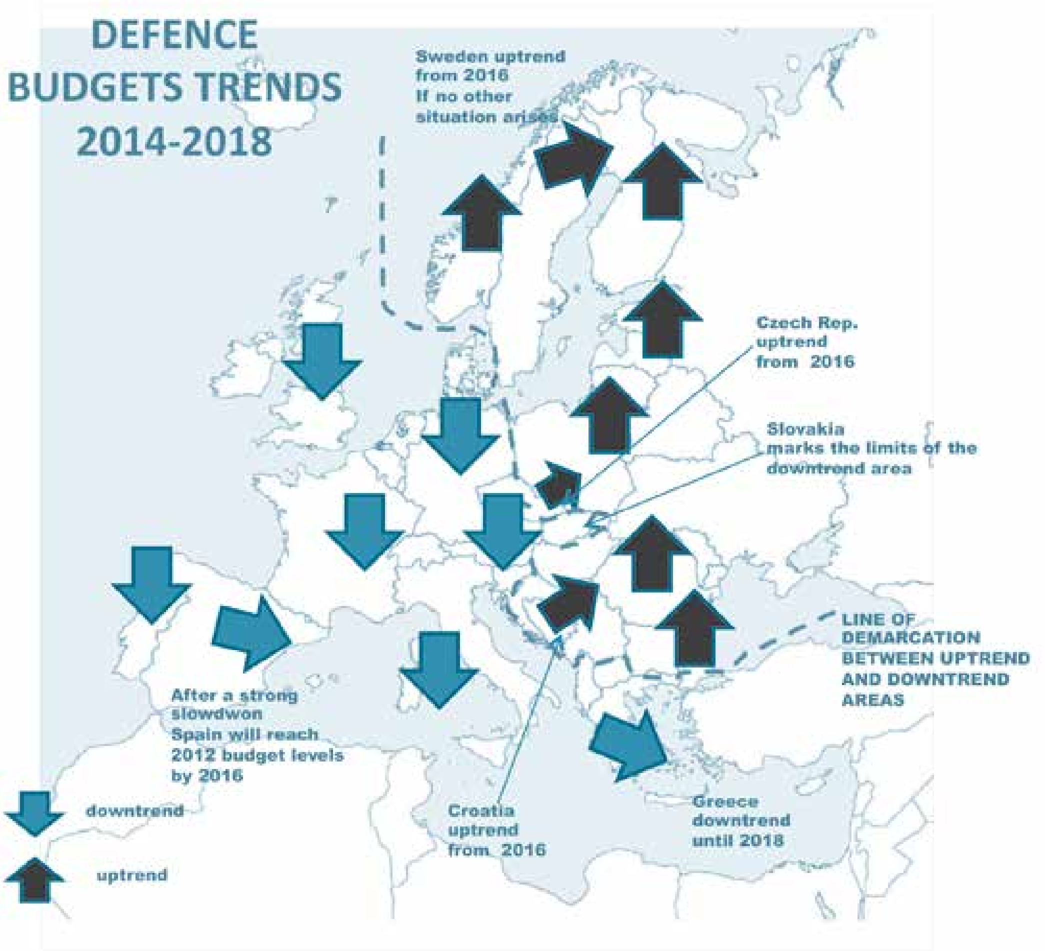
In the UK, there are concerns about cuts to the defence budget, and their influence on the reorganization of the military (Future Force 2020). In 2015, the National Security Strategy (NSS) and the White Paper Strategic Defence and Security Review (SDSR) are expected. These will define British defence policy until 2020.

France has limited the extent of cuts to the defence budget, considering their negative effects to the Armed Forces and defence industry. It maintains a role of ‘honest broker’ between the UK and Germany.

In Germany, despite its ambitions, the economic might does not match a politico-military might. Armed forces have a reduced projection capability due to operational gaps. These gaps are not due to shrinking budgets rather to a mismanagement of military capabilities.

Spain seeks to maintain an operational capability of 10 per cent of the total.

The European industry continues the reorganization of its specific sectors, which will lead to consolidation and deconsolidation of business across Europe.



Source: Author's elaboration of official data

SITUATION

The EU shall implement the conclusions of the Council of December 2013 for the CSDP. In June, the Commission published its Communication on European defence industry COM (2014) 387, which is the 'roadmap' with the action plan for its communication COM (2013) 542. The Council approved the EU Maritime security Strategy on the sly. Its 'action plan' has been adopted in December by the Italian presidency. The Italian Presidency has also approved: EU Cyber Defence Policy Framework; coordination between CSDP and the area of freedom security and justice for horizontal issues such as illegal immigration, organized crime and terrorism. Therefore, in November, the Frontex 'Triton' operation for maritime patrolling has been launched with limited tasks, if compared to Italian 'Mare Nostrum' operation.

The Ukrainian crisis is focusing the attention towards Northern and Central Eastern Europe. Although NATO should manage the security dimension of the crisis, the EU has imposed sanctions on Russia in March and July, and in Decmber further sanctions have been imposed on investment, services and trade with Crimea and Sevastopol. The EU decided to send as of December 2014 the EU Advisory Mission for Civilian Security Sector Reform in Ukraine.

Poland is the most active European country as far as defence is concerned. This is related to the fact that it is one of the most dynamic economies in Europe and a very influential actor in the crisis in Ukraine, a country with which it already launched a military cooperation in May 2013. The Army command structure was reorganized in January and in November the new national security strategy was published. The plan for the modernization of the military from 2013 to 2022 is on course, with an allocation of an amount equal to at least 1.95 per cent of GDP and a procurement increase to 1/3 of the total budget.

The UK continues reorganizing the Future Force 2020 and reducing defence budget. After Scottish referendum of September 18, the nuclear deterrent 'Trident' is to stay in Scotland, where the Trafalgar-class nuclear submarines and troops returned from Germany will be based. With the crisis in Ukraine, Scotland acquires a more strategic role with the Quick Reaction Alert North based at RAF Lossiemouth, which in 2014 has intercepted the Russian air incursions. In addition, the UK has become a promoter of initiatives in favour of the countries of Northern and Central-Eastern Europe, especially through the 'Northern Group' and air patrolling in the Baltic countries, in addition to selling to the Baltic states its surplus of armoured vehicles.

France remains a pivotal country, by means of its bilateral cooperation with both the UK and Germany.

The Anglo-French summit in January, the first after the election of Hollande in 2012, confirmed a few objectives of the 2010 Lancaster House Treaty, but the results are less ambitious than the original intentions. Noteworthy are the nuclear and space cooperation, and the Future Combat Air System (FCAS) feasibility study.

The Lancaster House Treaty has weakened Franco-German military relations, though it was mainly the difference in economic vision between President François Hollande and Chancellor Angela Merkel to create a rift between the two countries. In December 2013, Merkel received her third mandate, and the coalition government is more proactive in foreign policy than the previous. At the Franco-German summit in January, foreign minister, Frank-Walter Steinmeier proposed a common agenda for foreign policy, the institutionalization of Franco-German meetings in view of Councils of Foreign Affairs Ministers, and common official trips in countries of common interest.

France and Germany have gaps in air transport, caused by delays in the delivery of A400M meant to replace the ageing C-160 fleet, but while France maintains its projection capability and it is still the European country most active in missions abroad, Germany's operational capability is minimal.

Germany would have a projection-based foreign policy, but operational gaps reduce its ambitions. In January, the annual report of the Parliamentary Commissioner for the German Armed Forces called for a revision of the reform of the military started in 2013, because the *Bundeswehr* has reached its limits and operational staff cuts undermine the morale of the troops. In July, defence minister, Ursula von der Leyden, appointed an independent commission to review the nine major weapons programmes, because she retains that the career of his predecessor has been wrecked by the 'Euro Hawk' case. The report published in October assesses the general management and the individual programmes, thus noticing major gaps in armoured vehicles, strategic transport, and above all in helicopters. Considering this, Germany reduces its military deployments, and after the withdrawal from Afghanistan, it will not launch new missions.

Spain has decided that given the budget reductions its operational capability will be limited to 10 per cent of the total, and defence minister, Pedro Morenes, stated that it is better to have 10 per cent of operational capability, than a 10 per cent of Armed Forces available.

OUTLOOK

Until December 2015, the CSDP has been planned by the programme of the three Presidencies of Italy, Latvia (1st semester 2015) and Luxembourg (2nd semester 2015). In 2016, these will be followed by the Dutch Presidencies (1st semester 2016) and Slovak (2nd semester 2016). The following projects are scheduled in 2015: the revision of Regulation 428/2009 on the export of dual-use goods, a comprehensive approach in Afghanistan to follow-on ISAF, with a role for the EUPOL, and maintaining military operations in Africa. The European Council of June 2015 will assess progress on the conclusions of the Council of December 2013, including the two communications on defence industry.

The Latvian Presidency could focus more on the Ukrainian crisis. In 2015, a EU common strategy towards Russia will be drafted, and in May the Riga Eastern Partnership summit will discuss the relation between the EU and partner countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine). Moreover, a few eastern EU Member States would like to raise further sanctions, which are to date the main European countermeasures to the crisis. They would also review the current EU's European Neighbourhood Policy.

Poland will increase its defence budget to 2 per cent of GDP from the 2016 also to support national industry and to implement the plan for the modernization of the military from 2013 to 2022 and the plan for the Navy to 2030, thus replacing much of the inventory which today is represented by a 60 per cent of Soviet-era weapons, and by 2022 Poland will update about 80 per cent of its inventory. By 2020, Bulgaria too will have replaced all the Russian-made aircraft in service, thus becoming self-sufficient from Russia.

The Baltic countries are increasing their defence budget - Lithuania has decided to double it by 2020 – Romania will increase its defence budget to 2 per cent of GDP by 2017, and the Czech Republic will increase its defence budget to 1.4 per cent of GDP by 2020.

Sweden and Finland may abandon neutrality and join NATO. Finland has already signed on 22 April a Memorandum of Understanding with NATO. On the basis of a study expected in 2015, Sweden and Finland will coordinate their military operations and acquisition. Finland has set up a committee to select the fighters from 2030, and the committee will decide whether Finnish air defence will have to be independent, in common with Sweden, or assured by joining NATO.

In 2015, the NSS, followed by SDSR will define the UK defence policy until 2020, including the air-sea projection. British Prime Minister, David Cameron, has announced that both Queen Elizabeth-class carriers under construction will enter in service, so the UK will always have one ready at sea. Earlier it was planned to sell abroad the second carrier. The UK will be the second European country after Italy to have two carriers in service, France and Spain have one each. This decision will also affect the number of F-35B to be acquired by the UK. Spain, instead, had decided to extend the operational life of its AV-8B until 2025.

The Future Force 2020 is likely to be cut, because the contingency funds of £ 4.7 billion will be available only from 2017, and the 2013 Spending review requires cuts of £ 1 billion until 2016.

After Scottish referendum, the referendum on EU membership is expected in 2017. This may have possible negative effects on the defence and the role of the British in NATO.

The UK will also have to define its long-term strategic decisions (beyond 30 years) on the nuclear deterrent called 'successor' of the Trident, and its nuclear cooperation with the United States and France.

In France, the budget reduction endangers the continuation of operations in Mali and the Central African Republic, and the preservation of the armed forces readiness.

In May, French defence minister, Jean-Yves Le Drian, sent to Prime Minister, Manuel Valls, a letter expressing concern for the shrinking budget, and the chiefs of staff announced their resignation in case of further cuts. Budget cuts have adverse effects on training, state of real estate, and a deferral of deliveries to 2016 with effects on the regular payment of bills and level of employment in the industry. For this reason, the *Projet de Loi de Finances* authorised a 2015 defence budget almost equal to 2014, but with an investment share increased to € 1.5 billion. The *Projet de Loi de Programmation Militaire* 2014-2019 establishes a budget of € 31.4 billion from 2013 to 2016, to be increased to € 31.56 in 2017, € 31.78 in 2018 and € 35.51 in 2019, with a decline in real terms of 7.9 per cent in six years, and the implementation of cuts already planned in particular to civilian and military personnel.

In Germany, the defence budget will further decline in 2015, but additional funds from the Ministry of Finance raise it to € 33 billion. The operational gaps are not a consequence of budget reductions, but these are an effect of how money is spent. As a matter of fact, German military expenditures have always been lower than the authorised budget.

According to the report on major weapons acquisition, German government is unable to make the industry respect costs, timelines and requirements. Moreover, contractual changes in multinational programmes, such as the A400M, have to be negotiated with other participant States, thus accumulating delays and additional costs.

The report conclusions contain 180 recommendations, which state that Germany should review its armament policy in both national and multinational programmes so as to meet the costs and operational gaps. The military review based on the report's recommendations will commit the *Bundeswehr* for at least two years.

In the coming months, the industry will continue its reorganisation of specific sectors and the transnational consolidation. Airbus has already been reorganised on three divisions, and Finmeccanica will organise its military activities on three divisions. On the other hand, BAE systems is deconsolidating its military activities to balance with civil activities. As a consequence, BAE sold it shares in Patria of Finland, which bought back its stock. ThyssenKrupp too is concentrating in the steel sector thus deconsolidating shipbuilding, and its Swedish subsidiary TKMS AB was acquired by Saab. As a result of rearmament plans, Finland and Sweden are consolidating their national defence industries. Spain too will consolidate its defence industry and shipbuilding through Indra and Navantia.

Companies' divestments have potential for acquisitions or transnational mergers of companies operating in specific sectors. For instance: the merger between the German Krauss-Maffei-Wegmann and French Nexter in land systems, the joint venture of Airbus and Safran in space launchers, and the Anglo-French reorganization of the MBDA in the missile sector.

France may be concerned by case of two Mistral class ships, which have not been sold to Russia; the issue of Dassault Aviation, whose survival depends on new orders for the Rafale, such as the contract under negotiation in India – that Indian Defence Minister, Manohar Parrikar, would cancel in favour of an upgrade of Indian licence-built Sukhoi SU-30MKI; and the duplication in military aircraft with Airbus. A solution would be given to the redundancy and fierce competition between Eurofighter, Gripen and Rafale by the common development of unmanned aerial systems in 2020-2025, with a first project represented by FCAS of France and the UK, which could be joined from 2016 by Germany, Italy, Sweden and other European countries.

NATO and Transatlantic Relations

Lucio Martino

EXECUTIVE SUMMARY

The sudden drop in oil prices is realigning the global economic system and seems destined to help the Obama Administration achieve at least some of its major foreign policy goals. Countries heavily dependent on oil exports can only be damaged by a sustained collapse in prices. The downturn could push the Russian Federation into not intervening in Ukraine, promote Iranian flexibility regarding their nuclear programme, weaken the finances of the Islamic State and diminish the influence of Venezuela in the Caribbean. However, other areas of the Obama Administration foreign policy could be negatively impacted, beginning with the ambition to reduce global fossil fuel consumption in order to slow down climate change. Objectives of the current Administration continue to be the consolidation of political and strategic supremacy in the Western Pacific and archiving what remains of the great military engagements typical of the last decade.

Across the Atlantic, many European countries appear to remain in recession. British parliamentary elections scheduled for next May, the European Court of Justice (ECJ) decision on Outright Monetary Transactions (OMT), and a constitutional crisis in Spain provoked by the independence ambitions of Catalonian separatists all represent factors which will have a greater impact on E.U. policy dynamics. Although it is impossible to predict what the ECJ will decide, it seems almost certain that any decision will either strengthen popular support for Euro-sceptical political formations such as the Allianz für Deutschland, Podemos and Front National, or prompt a series of legal challenges. With France and Germany more or less in discord and waiting for a revision of the Treaties, scheduled no earlier than 2018, it will not be the central governments but the European Central Bank which dominates the political landscape in 2015.

Returning to the United States, the approach reserved by the White House to the recent proposal for immigration law indicates that bipartisan cooperation levels are likely to remain very low in the next future. This is not a good omen for Congress's approval of the Trade Promotion Authority, which President Obama truly needs for a rapid negotiation of the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership.

International problems, if reduced to realities, are not extensive. The three largest, Ukraine, Iraq and Syria, are implosions, not explosions threatening world trade or comfortable lives in the West. Solutions for Syria remain unknown, and the restoration of Iraq depends on the new Iraqi government, with the help of the U.S. other willing States. At the commencement of 2015, the time has come to accept that the nature of the transatlantic relationship has changed much over the past two decades. The European countries and the United States now appear to base their political and policy relationship not on their strengths but on their common vulnerabilities.

SITUATION

The news from the United States is all good. The economy is growing and unemployment is down to less than six percent. Given that at the midterm elections only thirty six percent of voters turned out, Democrats in particular stayed home and the Republicans as a result won hands down, the United States probably faces two years of Congressional inaction.

The Obama Administration's foreign policy has always been conditioned by an attempt to reconcile the need to change which was embodied by President Obama's election, with the enormous political prudence characteristic of the man himself. President Obama appears to have been sincerely idealist, when possible, and shrewdly realpolitiker, when necessary. Given recent national and international circumstances, it is impossible not to recognize how well pragmatism has by far dominated choices made by the Obama Administration.

This approach, almost unusual in the American political tradition, has pleased a few and has encouraged criticism from many, both domestically and beyond the United States. The Obama Administration has often been described as particularly weak. The lack of immediate results has been equally often interpreted as a sign of incompetence. Attempts at dialogue with old and new opponents have seemed disrespectful of the needs of more traditional allies. This particular approach to foreign policy has fostered the image of an Administration lacking a real strategy and, therefore, only capable of being re-active internationally, instead of leading the way.

Such a representation, however, misreads the facts. The Obama Administration is neither naive nor re-active. It has sought to shape a new liberal order in which the United States is kept firmly at the top of the international system while sharing ever more responsibility and burdens with other protagonists of international events, where ever possible or necessary. The tone of the Obama Administration is devoid of that triumphalism and exceptionalism typical of many administrations of the past, while it avoids presenting the United States as a declining power. In addition, the Obama Administration's foreign policy has effectively protected national interests. However, as far as the achievement of a new world order is concerned, the road ahead is still very long.

Despite limitations resulting from the management of a severe and long economic crisis, the Obama Administration's strategic vision has been, and continues to be, based on three major pillars: a new relationship with the emerging powers in Asia Pacific; a new approach towards the Islamic world where cooperation replaces the conflict; and a renewed impetus towards non-proliferation and nuclear disarmament.

To overcome the boundaries imposed by the economic crisis, the Obama Administration has turned in good part to the international community, involving not only the traditional great powers but also the emerging economic powers in U.S. moves. The risk that each great protagonist of the world economy would act only to protect its national economic dimension at the expense of that of others was largely avoided thanks to the remarkable degree of international collaboration shown by the Obama Administration. Recognizing the growing relative importance of China, and that it would be impossible in the long term for the United States to exercise the degree of regional influence it had inherited from Cold War era, the Obama Administration has facilitated the process that has made China a responsible player of the liberal international order, one that accepts the basic objectives of the system and its main rules, and which contributes to its overall success.

The most unsatisfactory results have been those regarding relations with the Muslim world. However, it is not really clear how a different Middle East policy would have produced better results. The combined effect of the recent tumultuous developments in the Arab world, of the management of the always and consistently difficult Israeli-Palestinian problem, and of the great determination Turkey, demonstrates in intending to play a regional leadership role even at the expense of its relationship with Israel, all these have forced the Obama Administration to adopt a strategy that cannot go beyond the realist policies of these last years.

Although the new START was not followed by other, similar agreements, the Obama Administration has strengthened the international community's commitment to non-proliferation and nuclear disarmament. As a result, Iran and North Korea have been left to face a climate of growing international isolation. The success of the new world order, as slowly moulded by the Obama Administration, probably depends on the accomplishment of this particular aspect of U.S. foreign policy.

OUTLOOK

Perhaps the most important legacy of 2014 is that the economic and political international system seems to have developed a high degree of immunity to the series of small and large regional crises typical of recent times. Looking forward, the inevitable question is then, what could alter this very particular state of affairs. A recent surprise, if one can describe it as such, is a decisive return to a type of political nationalism which has almost been forgotten. Nationalistic impulses within States such as China, India and Japan are pushing for a redefinition of national borders. But the situation is not very different if we examine the cases of the annexation of the Crimea by the Russian Federation, the upsurge of national sentiment in the Islamic Middle East, or even the slow but constant attrition seen in the building of Europe.

The next British elections will be the most unpredictable in a generation. Although Scottish voters turned down independence in September, the Scottish Independence Party is gaining popularity and, together with the United

Kingdom Independence Party, stands to have a significant impact on the May general elections. Whatever the results, another hung parliament seems the most likely outcome. A talk of a renewed threat to the Euro risks overstating the current situation, but the rise of anti-system forces cannot be ignored in a troubled country like Greece or in a Spain wrestling with the push for independence in Catalonia. Like the United Kingdom, both countries are facing general elections in 2015. Without underestimating the importance of any of these themes, in the next year the behaviour of the European Central Bank is still widely believed to remain the strongest European driver.

Meanwhile, the Russian economy has begun to cause some concern. The persistent difficulties experienced by small and medium Russian entrepreneurs have made the Russian Federation dependent on imports from Europe for almost all its consumer goods, including food. And with the Russian ruble losing value, inflation will only rise, making European goods more expensive or even unaffordable. Recent tensions regarding the future of Ukraine appear to have reduced the space for a safe and constructive policy dialogue. In this situation, both sides of the Atlantic ask themselves what else the Russian Federation authorities might attempt in the coming months to distract their public from these enormous economic and social problems. The answer is probably very little, perhaps nothing. All major hypotheses today conceivable for this purpose, such as the annexation of Mariupol, the establishment of a corridor to connect the Crimea to the rest of the Russian Federation, and the very likely continued testing of NATO air defense in the Baltic region, seem to have only negative impact on a Russian Federation that does not really have alternatives to its trade relations with the European Union. Domestic pressure permitting, a soft-pedalling by the Russian authorities in the hope of seeing the E.U. sanctions expire by default would now make sense.

Western observers do not equate the Russian Federation with the Soviet Union of the past. The mainstream western view is that the Russian economic situation makes it impossible for a repeat of the military effort which committed the Soviet Union to its ruin. Nor is it feasible to speculate that the Russian Federation could ever produce an alternative political vision of the international system. The imposition of fresh sanctions against the Russian Federation by Congress last December was hardly surprising, but most of the measures in the bill are deferred and would only be implemented if the crisis escalated further. As a result, the risk of a transatlantic rift over Ukraine seems low. Anyhow, the United States and the Russian Federation continue to cooperate on issues such as the stability of Afghanistan and the Iranian nuclear programme, and seem willing to face future challenges in the collaborative manner typical of recent years, such as in the case of the nuclear proliferation of North Korea.

The situation in the Asian States of the Pacific is, in many ways, not unlike the one in the peripheries of the Russian Federation. With North Korea under increasing UN pressure for human rights, and bearing in mind that the annual South Korean and American spring military exercises habitually raise tensions thorough the entire region, a surge in North Korean rhetoric and new missile launches seem probable. Regarding China, the more than evident slowdown in growth seen in recent years seems to be feeding social and economic tensions still insufficient to power a serious military adventurism. In any case, the lack of transparency typical of the Chinese authorities is likely to increase the distrust that has always characterized the other countries of the region, and therefore promote the success of that shift in the direction of the Pacific Asia that has characterized the Obama Administration.

An agreement to resolve even in principle the Iranian nuclear imbroglio could be a major boost for the image of President Obama, and the Democrat ambitions, in the 2016 general elections. It could validate the President's foreign policy approach and discredit many of his Republican opponents, always convinced that only a military option could produce a satisfactory solution for both the Iranian and for other strategic issues yet to be resolved. A similar logic also applies to the peace process between Israelis and Palestinians, and could also serve as a basis for sudden new diplomatic action to reduce residual tensions in the Western Pacific. For most Democrats, the Obama Administration has already achieved important objectives in foreign policy. It closed the wars in Iraq and Afghanistan, taken steps to address the Iranian nuclear threat, avoided the use of military force in Syria and, most recently, it has mobilized international public opinion over the Ukraine issue. Nevertheless, the perception that President Obama has failed to fulfil his promises, could strengthen the position of those who dismiss his presidency as failed, condemning the hopes of Democrat candidates. Obviously, the Obama administration is still far from achieving all its goals. Much remains to be done, particularly as regards a contrast to climate change that will be the subject of a major United Nations conference scheduled for next November in Paris.

From this point of view, as in the recent Quadrennial Defence Review 2014, the impact of climate change is now seen as able to increase the frequency, scale and complexity of the missions in which the Department of Defense will find itself committed, while at the same time it cannot avoid undermining the capacity of the U.S. military system. With the increase of the greenhouse effect, sea levels and average temperatures will continue to rise, devastating farmland, undermining housing and industrial infrastructure, exacerbating water shortages, and leading to sharp increases in food costs. Furthermore, the despair that entire populations will face against this backdrop could lead to new conflicts, new epidemics, and new terrorist activities.

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