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LEADOFF

Liebe Mitglieder,

Zug um Zug manifestiert sich die Finanzkrise und verändert nicht nur den Lauf der Welt, sondern berührt mit steigender Intensität auch das Leben eines jeden Einzelnen. Die Beiträge dieser Denkwürdigkeiten zeigen: alles hängt mit allem zusammen – die Finanzkrise, russischer Energie-Imperialismus, iranische Außenpolitik und Regierungskunst a la Barbara Tuchmann, die sie in ihrem Buch "Die Torheit der Regierenden" so anschaulich beschrieben hat.

Ralph Thiele, Vorstandsvorsitzender

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Sind Krisen voraussehbar?

Was wir aus der Finanzkrise lernen können

Am 7. Oktober 2004 berichtete der Assistant Director des FBI, Chris Swecker, dem House Financial Services Subcommittee on Housing and Community Opportunity des US-Senates. In seinem Statement beschrieb er die Bemühungen des FBI im Kampf gegen Hypothekenkriminalität. Hierbei geht es um Betrug im großen Stil. Da es nicht zwingend gefordert ist, solche Fälle zu melden, ist die Höhe der Schäden nicht exakt zu beziffern. Allerdings sprach Chris Swecker von über 17.000 Fällen, die das FBI untersucht, im Jahre 2003 waren es noch 7.000 Fälle. Die aktuellsten Zahlen für 2007 liegen bei 47.000

Fällen. 2004 wies das FBI auf die Folgen dieser drastisch ansteigenden Fälle von Betrug im Hypothekenmarkt hin: Swecker sagte, dass diese Entwicklung kurzfristig Finanzinstitute bedrohen und drastische Auswirkungen auf den Aktienmarkt haben würde. Auf Dauer würde eine solche Entwicklung den Finanzmarkt mit Wucht treffen und die Stabilität der Banken in Frage stellen. Das FBI, so Swecker, werde seine Ermittlungen massiv verstärken. Und er forderte, Kontrollmechanismen einzuführen, um diesem Trend entgegenzuwirken, allen voran eine Regelung, welche die Hypothekenindustrie zwingt, illegale Transaktionen zu melden. Das ist nicht passiert, und das Resultat ist die Hypothekenkrise von heute.

Die Kreditkartenschulden der Amerikaner beliefen sich im Juli 2008 auf ca. 970 Milliarden US-Dollar. Im Juli 2007 waren es noch stolze 680 Milliarden US-Dollar. Das Pro-Kopf-Einkommen der US-Amerikaner hatte sich in der Zwischenzeit nicht wesentlich verändert, auch nicht der Schuldendienst, was darauf schließen lässt, dass die Schulden nur unwesentlich zurückgeführt wurden. Alleine die Bank of America hat ausstehende Schulden in Höhe von 154 Milliarden US-Dollar, bei der Citigroup sind es 151 Milliarden US-Dollar. Für die Bank of America, aber auch für die Citygroup, ist das Kreditkartengeschäft nicht ganz unwichtig, es trägt zu 27 Prozent bzw. 16 Prozent zum Geschäftsergebnis bei. Ist eine neue Krise im Anmarsch? In vielen Fällen haben Amerikaner zur Kreditkarte gegriffen, um die letzten Hypothekenraten zu bezahlen. Nun ist das Haus zwangsversteigert, der Job in Frage gestellt oder schon weg und die Kreditkartenfirmen wollen ihr Geld. Das Ende ist schon jetzt absehbar: es wird zu Ausfällen kommen und die Banken, die im Kreditkartengeschäft engagiert sind, werden auch dieses Geld abschreiben müssen.

Auch Europa ist wesentlich in die Krise hineingelaufen. Trotz der Warnung der Isländischen Zentralbank im Jahre 2006 haben Regierung und Banken an einem immer größer werdenden Rad gedreht und eine massive Ver-

schuldung der Bevölkerung zugelassen. Bedingt durch niedrige Zinsen und eine vermeintlich starke Währung gegenüber dem britischen Pfund und dem Euro konnten Isländer sich hochgradig in Fremdwährung verschulden und haben das Währungsrisiko in Kauf genommen. Die Zentralbank hat auf diese Risiko hingewiesen, niemand, auch nicht die Banken in Europa, haben dies beachtet. Nun liegt die Wirtschaft danieder und die Schulden sind bedingt durch den Sturz der Isländischen Währung um ein Vielfaches gestiegen.

Waren diese Ereignisse voraussehbar? Um diese Frage zu beantworten, muss zwischen zwei Arten von Krisen unterschieden werden, der „abrupten“ und der „kumulativen“ Krise. Eine abrupte Krise ist in der Regel nicht voraussehbar. Hierbei handelt es sich um einen plötzlichen Vorfall, beispielsweise einen Flugzeugabsturz oder Autounfall. Kumulative Krisen sind aber voraussehbar, da sie sich, wie im Falle der Hypothekenkrise, langsam aufbauen und dann mit voller Wucht eintreten. Bei einer Finanzkrise haben vier Hauptfaktoren einen wesentlichen Einfluss auf das Entstehen der Krise:

1. Verschlechterung der Vermögenswerte im Finanzsektor
2. Anstieg der Unsicherheit auf den Finanzmärkten
3. Verschlechterung der Vermögenswerte im Nicht-Finanzsektor
4. Unangemessen hohe oder niedrige Zinsen

Alle vier Punkte waren im Verlauf der heutigen Finanzkrise zu beobachten: Die Vermögenswerte im Finanzsektor waren überbewertet, und dies wurde von den Ratingagenturen nicht gesehen. Die Unsicherheit ist mangels Transparenz gestiegen. Die Vermögenswerte im Nicht-Finanzsektor, beispielsweise Londoner Immobilien, waren stark überbewertet. Und die US-Zinsen waren jahrelang zu niedrig. Man kann davon sprechen, dass der Markt ausgesetzt wurde, um kurzfristig Wachstum zu erzeugen, was bekanntlich geschehen ist.

Gerade die Ratingagenturen haben hier versagt. So haben die Agenturen bei Lehman Brothers bis kurz vor dem Zusammenbruch keine Risiken gesehen. Nach der Krise ist man schlauer und Standard & Poors hat nachträglich schlechtere Noten an hypothekenunterlegte Wertpapiere im Wert von 680 Milliarden US-Dollar verteilt. Hier muss das Geschäftsmodell der Agenturen verändert werden. Noch lassen sie sich von den Anbietern der Finanzprodukte für ihr Urteil bezahlen, nicht von den Investoren. Das ist so als würde sich ein Arzt die Approbation selbst ausstellen.

Risiken findet man aber nicht nur auf den Finanzmärkten. Während alle gebannt auf den Ausgang und die Entwicklung dieser Krise blicken, werden die Zeichen neuer Krisen am Horizont ignoriert. Gerade in der globalen und vernetzten Welt von Heute verursachen Entwicklungen am einen Ende der Erde Krisen am anderen Ende. So haben zunehmend weniger Menschen Zugang zu genug sauberem Trinkwasser. Dies führt zu Hungersnöten, Anstieg der Kindersterblichkeit und Ausbruch von Krankheiten. Im schlimmsten Fall führt eine solche Entwicklung zu Kriegen um die wertvolle Ressource Wasser. Schon heute droht ein solches Szenario in den Anrainerländern des Nils. Wenn wir heute nichts unternehmen und der Entwicklung freien Lauf lassen, werden wir in wenigen Jahren mit einer Wasserkrise konfrontiert sein, die uns alle betreffen wird.

Zuhause steuern wir auf eine Humanvermögenskrise zu. Eine der sichersten Methoden, ein Land herunterzuwirtschaften, ist, sich nicht um die Bildung der Bürger zu kümmern. Wir vernachlässigen etwa ein Fünftel der jungen Menschen eines jeden Jahrganges und kümmern uns nicht darum, dass aus ihnen etwas wird. Wir haben sie aufgegeben und bauen dadurch eine Bevölkerungsschicht auf, die wir auf Distanz halten. Ein Aufstand der Unterschicht? Heute erscheint dies wenig wahrscheinlich. Doch wenn wir hier nicht eingreifen, wird ein solches Szenario tatsächlich

denkbar und immer wahrscheinlicher.

Kumulative Krisen sind voraussehbar. Allerdings gibt es einen großen Unterschied zwischen dem Erkennen einer kommenden Krise und dem Handeln, um eine solche Krise abzumildern oder gar zu vermeiden. Die Finanzkrise, in der wir uns heute befinden, hat sich angekündigt und genug Leute haben schon frühzeitig gewarnt. Allerdings wurde aus politischen Gründen und auch aus kurzfristigem Profitdenken nicht gehandelt. Auf der G8-Konferenz in Heiligendamm hat die Bundesregierung mehr Regulierung der Finanzmärkte gefordert, aus kurzfristigem Eigeninteresse wurde dies vor allem von den USA und von Großbritannien abgelehnt. In Nachhinein wäre ein Eingreifen in diesem späten Stadium vielleicht schon zu spät gewesen, man hätte aber auf jeden Fall die Wucht der Krise abmildern können.

Was wir aus dieser Krise lernen können: Wir müssen losgelöst von der politischen und wirtschaftlichen Konsequenz völlig unabhängig Risiken aufdecken und wirkungsvolle Gegenmaßnahmen einleiten können. So haben Ratingagenturen diejenigen beurteilt, die sie bezahlt haben, hier sind die Agenturen in einem klassischen Interessenkonflikt geraten. Politiker wollten verbissen an den Marktkräften festhalten, da dies Teil ihrer politischen Agenda war und ist. Warnende Stimmen, wie die von George Soros, der die Magie des Marktes schon seit längerem kritisiert, wurden ignoriert. Vor allem aber haben die Regierungen erst auf die Krise reagiert, nachdem sie eingetreten war.

Krisen im Frühstadium zu erkennen bedarf Erfahrung, Wissen und einen Sinn für Geschichte. Schon Winston Churchill war der Ansicht, dass man die Zukunft nur verstehen kann, wenn man die Geschichte kennt. Wenn man die Geschichte der Nilanrainerländer nicht versteht und über kein aktuelles Wissen über politische, wirtschaftliche und soziologische Fakten aus dieser Region verfügt, kann man die Krise auch nicht in

einem frühen Stadium erkennen, geschweige denn: darauf reagieren.

Die Regierungen trifft eigentlich die Hauptschuld in der Finanzkrise, da sie nicht frühzeitig erkannten, was sich anbahnt, und keine Gegenmaßnahmen ergriffen haben. Dies ist aber nichts Neues. Die gesamte Geschichte durchzieht das Phänomen, dass Regierungen eine Politik betreiben, die den eigenen Interessen und den Interessen der Bürger zuwiderläuft. In ihrem Buch „Die Torheit der Regierenden“ hat dies Barbara Tuchmann eindrucksvoll geschildert. In der Regierungskunst, so scheint es, bleiben die Leistungen der Menschen weit hinter dem zurück, was sie auf anderen Gebieten vollbracht haben. Weisheit, die man mit dem Gebrauch der Urteilskraft auf Basis von Information, Erfahrung und „Common Sense“ definieren kann, kommt bei Regierungen zu kurz. Schon John Adams, der zweite Präsident der Vereinigten Staaten, meinte, die Regierungskunst würde auf der Stelle treten, und sie würde heute kaum besser geübt als vor drei- oder viertausend Jahren.

Engstirnigkeit ist ein Faktor, der eine überaus wichtige Rolle in der Politik spielt. Sie besteht darin, eine Situation nach festen Anschauungen einzuschätzen und Gegenmeinungen zu missachten. Daraus erwächst eine Kultur des „wishful thinking“, die sich von den Tatsachen nicht beeindrucken lässt. Wenn das so ist, dann ist nicht zu erwarten, dass die Politik in Zukunft imstande sein wird, Krisen vorzusehen – dies muss von den Marktteilnehmern kommen. Auch ist vom Staat bei der Leitung von Finanzinstituten wenig zu erwarten, schließlich sind jene Finanzinstitute, die unter staatlicher Kontrolle stehen, mehr von der Krise betroffen als Privatbanken. Es gibt genügend Menschen und Organisationen, die Krisen voraussehen können und Gegenmaßnahmen einleiten und Gegenmaßnahmen einleiten könnten – wenn nur die Politik mitziehen würde. Die Politik sollte strengere und vernünftiger überprüfbarere Regeln einführen und

dafür sorgen, dass diese auch eingehalten werden. Gleichzeitig muss sie lernen, flexibel zu regieren und zu reagieren, losgelöst von Ideologie. Unser Problem ist weniger, dass wir Krisen nicht erkennen können. Vielmehr haben wir das Problem, dass die Regierenden nicht auf unangenehme, warnende Stimmen hören, wenn diese nicht in ihre politische Agenda passen.

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THEMEN

The Prince of Rosh¹

Russian Energy Imperialism and the Emerging Eurasian Military Alliance of the Shanghai Cooperation Organisation

After the end of the Cold War and a period of *Perestroika*, the post 9/11 world ushered in once more a period of *Realpolitik* in the international security environment. However, Russia's prime minister and former president Vladimir Putin appeared to have the foresight that *Perestroika* would not last: his 1997 Ph.D. dissertation at the St. Petersburg Mining Institute viewed the demise of the Soviet Union as the 'greatest catastrophe of the 20th century and argued for

¹ This title is taken from the Bible's Book of Ezekiel about a coalition of countries from North Africa and Eurasia that invades Israel over spoils (possibly oil & gas). Ezekiel 38:1-6--"Son of Man, set your face against Gog, of the land of Magog, the prince of Rosh, Meshech, and Tubal... Behold, I am against you, O Gog, the prince of Rosh, Meshech, and Tubal. I will turn you around, put hooks into your jaws, and lead you out, with all your army, horses, and horsemen, all splendidly clothed, a great company with bucklers and shields, all of them handling swords. Persia, Ethiopia, and Libya are with them, all of them with shield and helmet; Gomer and all its troops, the house of Togarmah from the far north and all its troops – many people are with you." This coalition has an uncanny resemblance to countries currently aligned to Russia via its 'arms for energy' policy: Magog=Russia; Meshech=Turkey; Tubal=Turkey; Persia=Iran; Ethiopia (Cush)=Sudan; Put=Libya; Gomer=Germany or north central Asia Minor.

utilising the Russian resource sector to once again reassert Russia's imperial status.

Indeed, under his leadership beginning in 1999², he has systematically established Gazprom and energy as the bedrock of Russian foreign policy and power projection around the globe, and through the bloc of the Shanghai Cooperation Organisation (SCO)³, is asserting its power in the Eurasia region spanning from the EU to Iran in the Middle East, to the Caspian Region/Central Asia and onto South Asia and the Far East. Its foreign policy of *weaponisation of energy* is demonstrated by invasion of Georgia in 2008 over the BTC pipeline that bypasses Russian control, cutting gas and oil supplies to former Soviet Republics, dividing New Europe and Old Europe via bilateral energy deals with Germany (e.g., Nord Stream), Italy (e.g., South Stream to undermine Nabucco⁴), at the expense of Ukraine, Poland, Czech Republic, Belarus, etc.

Moreover, Russia has emphasised SCO interests over UNSC interests, and have, along with its SCO partner China, consistently watered down UNSC sanctions against Iran (SCO observer member) and the Democratic People's Republic of Korea (DPRK) nuclear issues. Given that China needs Iran's energy, Russia needs Iran as a foothold into the

² Putin was acting president from 1999-2000 and subsequently became president during 2000-2008, then moving onto his current position as prime minister.

³ SCO was established in 2001 and consists of Russia, China, Kazakhstan, Kyrgyzstan, Uzbekistan, and four observer states of India, Pakistan, Iran, Mongolia. It is an expansion of the Shanghai Five established in 1996 to settle border disputes, and have grown into a formidable economic-security organisation that (with observer members) includes 4 nuclear weapons states (Pakistan, India, China, Russia), major energy producers, consumers, and transit countries.

⁴ Nabucco pipeline bypass Russian control in order to decrease dependence on Gazprom pipeline monopoly, and will bring gas from the Caspian region to W. Europe through Turkey. The projects' founder gave it this name at a dinner in 2002 after they saw Giuseppe Verdi's opera of the same name. The story is about Jewish plight for freedom and independence from the Mesopotamian tyrant Nebuchadnezzar, or in Italian, Nabucodonosor-- "Nabucco" in short. Zeyno Baran, "Security Aspects of the South Stream Project", Center for Eurasian Policy, Hudson Institute, October 2008. P.7.

Middle East, and Iran needs SCO membership to counter international isolation as well as Russia and China's UNSC votes, these SCO actors seem to act more cohesively within the SCO framework vis-à-vis other regional and international organisations. With Iran's recent calling for a SCO currency and SCO bank to undermine U.S. and western influence, and SCO's increasingly ambitious military exercises and recent defence agreement with CSTO⁵, this emerging Eurasian economic and security alliance will challenge NATO and western interests and thus bears watching.

Russian Energy Imperialism and the SCO

Russia appears to have a three-prong approach in re-asserting itself as an imperial power: energy, financial/economic, and military.

Energy Weapon

As Marshall Goldman portrayed in *Putin, power and the New Russia Petrostate*⁶, he was privy to visit Gazprom's dispatching centre headquarter in Moscow, and witnessed the map covering 100-foot wall of a room with a spiderweb-like maze of natural gas pipelines reaching from East Siberia west to the Atlantic Ocean and from the Arctic ocean south to the Caspian and Black Seas. With a flick of a switch these dispatchers could freeze entire countries and have indeed done so in the past with former Soviet Union republics and most recently with Ukraine in January 2009.

Russia's energy strategy is to create energy dependence via monopolistic control of pipelines and acquisition of transit countries' internal distribution network. For example, Gazprom offered to cancel debt and charge lower prices if Ukraine, Armenia, Moldova,

Georgia would give Gazprom equity stake in their domestic pipeline networks. By owning the networks, Gazprom can maintain monopoly control and economic rent.

Due to the high sunk cost and entry barrier of building pipelines, there is rarely a second standing pipeline from another supplier reserved for emergencies. As such, consumers tend to be locked into long-term contracts and therefore dependency on a dominant supplier. Ronald Reagan understood the vulnerability of monopoly tendencies in natural gas pipelines and tried to prevent USSR from building them to W. Europe. In 1984 he asked Thatcher to stop the English firm, John Brown Engineering, from selling Soviets the compressors they needed to move the gas through the pipeline from the Urengoi natural gas field in West Siberia to Germany, but the efforts failed and the pipeline was completed in 1985.

Today, Germany imports 40 per cent of its natural gas from Russia, the highest in any W. European country, and is projected to reach 60 per cent in the next decade. Despite EU's efforts to foment a common energy policy to decrease dependency, Russia has been effective with its "divide and conquer" strategy in dividing Old and New Europe with lucrative bilateral deals with Germany, Italy, France that bypass many transit countries in New Europe.

Economic Weapon

In tandem with this energy prong of Russian strategy is *weaponisation of currency* and mercantilist economic policies within the SCO framework. Iran has recently proposed to create an SCO currency and bank to strengthen intra-regional ties.⁷ Given that China has \$2 trillion in foreign exchange reserves⁸ – the largest in the

world – a move to a common currency (including reserves of 4 observer members) would significantly reduce the influence of U.S. dollar and western currencies in the global capital market. Additionally, Russian President Medvedev in a January 2009 visit to Uzbekistan also called for a stronger SCO and increase economic ties with CIS' Eurasian Economic Community (EurAsEc) and CSTO.⁹ This emerging China-Iran-Russia axis has been noted and dubbed "that other axis" by *Asia Times* Jephraim P. Gundzik, who wrote in 2005 that "Beijing's increasingly close ties with Moscow and Tehran will thwart Washington's foreign policy goal of expanding U.S. security footholds in the Middle East, Central Asia and Asia."¹⁰

Military Weapon

Indeed the creeping *militarisation* of SCO and 2007 defence ties with CSTO merit further investigation. Although not yet a military alliance, SCO is moving towards that trajectory as measured by: (1) Increased security cooperation; (2) Increased CSTO-SCO ties; (3) Energy Security; and (4) Connection with the West.¹¹ Firstly, despite denials of the military nature of the SCO, in 2007 for the first time a political summit (Bishtek 2007) was amalgamated with war games (Peace Mission 2007). Hitherto defence ministers were the highest-ranking officials to participate in the military exercises; the heads of states presence at the war game was perhaps signalling SCO's determination to be in command of regional security. This is further demonstrated by the increasingly ambitious nature of SCO military exercises from bi-

⁵ CSTO-Collective Security Treaty Organisation, the military alliance of the Commonwealth of Independent States (CIS). On October 2007, CSTO and SCO signed an MOU in Dushanbe to address regional and international security issues. Marcel De Haas, "The Shanghai Cooperation Organisation's Momentum Towards A Mature Security Alliance", *Scientia Militaria* 36 (1), 2008, p.23.

⁶ Marshall I. Goldman, *Putin, Power and the New Russia Petrostate* (New York: Oxford University Press, 2008), p.2.

⁷ "Iran proposes using SCO currencies" in *Persian Journal*, 28 August 2008, <http://www.iranian.ws>.

Iran is also motivated by its desire to bypass UNSC sanctions on its banking sector targeting terrorist financing of groups such as Hamas, Hezbollah, IRGC, as well as to counter western efforts for its international isolation.

⁸ China has often been accused of currency manipulation and persistently undervaluing its cur-

rency against the dollar that contributes to its trade surplus and vast foreign exchange earnings.

⁹ "Russia want stronger SCO", 6 January 2009, World Futures Info, http://www.worldfutures.info/index2.php?option=com_content&task=view&id=2400&pop=1&page=0&Itemid=10072.

¹⁰ Jephraim P. Gundzik, "The US and that 'other' axis", *Asia Times*, 9 June 2005, <http://www.atimes.com/atimes/china/geo9ad08.html>.

¹¹ Marcel De Haas, "The Shanghai Cooperation Organisation's Momentum Towards A Mature Security Alliance", *Scientia Militaria* 36 (1), 2008, p.17.

lateral to multilateral to joint all-SCO level.

Secondly, the concept of “military assistance” (e.g., attack against one is attack against all) may be included in the SCO policy documents. In October 2007 SCO (a political-economic organisation) signed defence agreements with CSTO (a political-military organisation). Because “military assistance” is a key element of a mature security alliance such as CSTO, and because SCO signed a defence agreement with a purely military organisation, there may be a pull of the SCO towards a more military trajectory. This is tied into the increasing military aspects of energy security. Security organisations tend to be involved in energy security such as guarding security of oil & gas pipelines against terrorist attacks, protecting railway lines and deploying rapid reaction forces. In light of SCO’s new cooperation with CSTO, this may lead to eventual standing of reaction forces in the near future regarding energy security.

Finally, SCO is increasing ties with NATO – which has arrangements for cooperation with all SCO states except China. Since the 1990s, NATO has had bilateral cooperation with five Central Asian states within the Partnership for Peace (PfP) framework, as well as a special relationship with Russia since 2002 called NATO-Russia Council. In November 2005 SCO developed a contact group in Afghanistan and have had operational cooperation with NATO. It is looking to expand its military operations westwards from Central Asia and may join NATO with contingents in ISAF (International Security Assistance Force) in Afghanistan.

The SCO is a formidable organisation that brings together almost half the world’s population (including observers), with several nuclear weapons states (China, Russia, India, Pakistan and perhaps Iran), and includes key energy exporters in Central Asia as well as some of the world’s fastest growing economies. Because recent indicators point SCO towards a trajectory of mature security alli-

ance, it behoves the U.S. and EU to closely monitor this trend and hedge against Russia and Iran from using it for anti-western policies.

Russian Energy Imperialism in EU

In Europe, Russia is pursuing an aggressive “divide and conquer” strategy to prevent the EU from fomenting a common energy policy and increase energy diversification. Germany is the top importer while Italy follows behind. As such, Russia has partnered with Germany to build Nord Stream and with Italy to build South Stream pipelines in order to control the flow of Russian and Central European energy supply to W. Europe. Despite some pundits arguing that these two projects are based on purely commercial reasons of supply and demand, in light of recent Russian invasion of Georgia and gas supply cut-off to Ukraine, these two projects must also be examined within the security dimension as they have important strategic implications for the U.S. and EU.

Nord Stream: Russian Military Presence & Intelligence Surveillance in the Baltic Region

The Nord Stream project in 2005 proposes two natural gas pipelines from Russia to Germany under the Baltic Sea. Legally it is a Swiss company, but economically it is a joint venture between Russia, Germany and Netherlands, driven by Russia geopolitical interests.¹² Although it has invested

¹² Nord Stream is also controversial in terms of the nexus between Russian and German intelligence in placing siloviki and former stasi officers in Gazprom and key energy projects. Not only is Matthias Warnig a former stasi officer placed to be managing director of Nord Stream, *Die Welt* highlighted another stasi officer Felix Strehober in Gazprom Germania and Hans-Uwe Kreher. Robert Amsterdam, “The Stasi-ification of Germany Energy Supply” in *Robert Amsterdam Perspectives on Global Politics and Business*, 6 May 2008. Similarly for South Stream, Putin and Italian PM Romano Prodi first discussed the project over dinner in the Black Sea port of Sochi in late 2006, and later was offered a key post in South Stream similar to Nord Stream offer to German Chancellor Gerhard Schröder. Alexander Litvinenko, the former Russian spy and fierce critic of Putin’s Kremlin who was murdered in London in 2006, had accused Prodi of being a friend of the KGB. Before his death Litvinenko had collaborated on a KGB mole-hunt in Italy and access to highly classified information on KGB operations. Guy

€8 billion to the project, due to its lack of transparency, some experts project the cost may reach €10-15 billion. Additionally, there are negative implications for this proposed pipeline – increased EU energy dependency on Russia, reduction of ability of small members to act as security providers in region if energy security is undermined, and increased Russian military presence in the Baltic region.

Sweden for one fears the risk of Nord Stream as a catalyst for increased Russian military presence and intelligence surveillance. Putin has proclaimed that during construction phase, Russia Baltic Sea Navy would protect Nord Stream pipelines. Additionally, the risers and pipelines are excellent platforms for sensors of various kinds – radars, hydro-acoustic systems and sonars to act as eyes and ears for monitoring the system as well as intelligence surveillance. This would give Russia an intelligence edge in the Baltic Sea concerning all air, surface, and sub-surface activities – especially around Estonia, Finland, Sweden, and Denmark, and NATO members’ military exercises. This is a realistic risk, given Russia’s past history of installing fiber optic cable along the Yamal pipeline without informing the Polish government in advance.

As such Sweden has insisted Nord Stream need approval of all countries whose territories will be traversed by the pipeline. Should the Russians build pipelines without approval of countries in the region, the Swedish military has drawn up plans and are fully prepared to sabotage the pipeline if and when it is built.

South Stream: Undermine Nabucco and EU Energy Diversification

South Stream is a project between Russian Gazprom and Italian Eni. If constructed, South Stream is projected to be the most expensive pipeline at €12.8 billion and impact EU security relations. The project was announced on 23

Dinmore and Isabel Gorst, “Prodi declines South Stream post”, *Financial Times*, 28 April 2008.

June 2007, in reaction to EU's 2004 decision to focus on Nabucco for energy diversification. When Russia cut off gas to Ukraine in January 2006, the project was elevated and included in European Commission's Strategic Energy Review, released 10 January 2007, calling for priority of energy supply diversification. Nabucco is non-Russian controlled and a direct Caspian Sea-Middle East-EU southern gas corridor, and South Stream's route is almost identical to Nabucco. The pipeline has a planned capacity of 31 billion cubic metres to begin in Beregovaya, Russia, and cross the Black Sea to Varna, Bulgaria. Both Nord Stream and Nabucco will bring gas to Austria's Baumgarten gas storage and distribution hub, a clearinghouse for gas coming to Europe. In January, Austria's OMV signed a deal giving Gazprom 50 per cent ownership in Baumgarten and its trading floor, and is leading efforts to bring Gazprom into the Nabucco project in order to undermine EU energy diversification from Russia.

Russia is also consolidating its control over energy sources elsewhere in Middle East and North Africa (MENA countries). Russia and Iran had called for forming a gas cartel. While Russia, Qatar and Iran hold 56 per cent of the world's gas reserves, with addition of Venezuela, Algeria and Libya the cartel would have 2/3 of the world's reserves. Indeed, Russia's duplicitous stance in the UNSC is highlighted by the 13 July 2008 energy partnership between Gazprom and Iran's NIOC, at a time when Russia was supposedly working with the U.S. and EU to ensure Iran has no room to manoeuvre in its nuclear weapons ambitions.

It also courted Turkey to be a participant in a Russian-Iranian partnership as the third investor to develop Iran's South Par gas field, which culminated in the November 2008 Turkey-Iran \$12 billion deal. Finally, in the Africa region, in March 2008 Italian Eni agreed to share with Gazprom its development quotas for Libyan gas deposits. Eni holds LNG processing facilities in Libya and this gives

Gazprom control over another alternative European energy source. In April 2008, Putin cancelled \$4.5 billion Libyan debt and oversaw the signing of arms sales and joint ventures agreement between Gazprom and Libyan National Oil Corporation. Gazprom is looking to control Libyan gas and southern Mediterranean transit route that would further threaten Europe energy security, as well as engaging in talks to pipe Nigerian gas to Europe across the Sahara Desert.

Russia Energy Imperialism in Middle East

Iran as Foothold in the Middle East

Russia has longstanding interest in the Middle East, and a key Russia-Iran 1921 treaty stipulates that if a country attacks Russia via Iran, Russia can invade Iran to counter this threat.¹³ In the 1980s Ariel Sharon warned Americans the danger of USSR using Iran-Iraq war to enter Iran and taking over its energy resources. Russian military intervention remains a plausible threat should the U.S. and Israel conduct air-strikes against Iran's nuclear installations, and even more so should Iran become a member of the SCO. Moreover, Russians had planned to meddle in Israel during the June 1967 Six Day War and flew Soviet photo-reconnaissance MiG-25 "Foxbat" aircrafts directly over the Dimona reactor in May 1967. The Soviet Union engineered an operation to provoke Israel into war in order to provide cover for Soviet destruction of Israel's nuclear programme. Soviet nuclear-missile submarines were poised off Israel's shores, ready to strike back in case Israel already had a nuclear device. However, the war was over so quickly within six days that the Soviets did not have the chance to carry out its mission.

Despite Russia's support of Iran, it is concurrently making overtures to moderate Arab states in the region to allay their fears of a resurgent and possible nuclear Iran.

¹³ Russo-Persian Treaty of Friendship was signed on 26 February 1921. Trita Parsi, *Treachorous Alliance: The Secret Dealings of Israel, Iran, and the U.S.* (New Haven, CT: Yale University Press, 2007), p. 106.

Saudi Arabia and Iran have been historical rivals for regional hegemony and throughout the Cold War Russo-Saudi relations were chilly, but recently there has been a shift of Saudi Arabia towards Russia as evidenced in the 2007 \$4 billion arms deal and increased shuttle diplomacy. In the 1980s, CIA director William Casey worked with the House of Saud to target Russian energy sector by flooding the market with cheap oil, thereby weakening the Russian petro state's economic power that was over 50 per cent dependent on energy foreign exchange earnings. As such, Russia appears to hedge itself against this risk and is courting many traditional U.S. allies in the Middle East, especially Saudi Arabia and the GCC.¹⁴ And, it is reinforcing this hedge with military power by establishing naval ports in the region.

Russian Naval Ports in the Middle East

In January 2009 Russia announced that it would establish navy bases in Syria, Libya and Yemen. The Syrian port of Tartus could be revived as during the Cold War, the Soviet navy had a permanent presence in the Mediterranean and used Tartus as a supply point. The redeploying of the Russian Black Sea Fleet to the Mediterranean may provide a deterrent to NATO forces, U.S. Sixth Fleet, and may threaten the Suez Canal and Israel.¹⁵ These new ports would allow Russian navy to challenge U.S. CENTCOM, U.S. EUCOM, and NATO. Tensions were high in August 2008 after Russian invasion of Georgia when a build up of NATO and Russian naval forces were underway in the Black Sea, and the expansion of Russian naval power via these new ports would escalate tensions in the future. With Russia's 1921 defence treaty to Iran and Iran's 2004 defence treaty with Syria,

¹⁴ The Gulf Cooperation Council (GCC) was established in 1981 as a security body to balance against Iran during the Iran-Iraq War. Marat Terterov, "A New Era for GCC-Russia Relations", Gulf Research Center, Saudi-US Relations Information Service (SUSRIS), 24 November 2007, <http://www.saudi-us-relations.org>.

¹⁵ Ariel Cohen, "The Real World: The Russian Navy Back in the Med", *Middle East Times* 25, 17 October 2008.

these three countries are bound to act collectively against aggression to any one of them. Should Iran join the SCO as a member, the U.S., EU and NATO members would need to consider not only countering aggression by either one of these three, but also other members in their collective security alliance.

Given Iran's persistent threat to annihilate Israel and Russian backing with nuclear technology and arm sales to Iran, some pundits have argued for Israel to join NATO as a deterrent against aggression. The case is more compelling given Israel's recent discovery of massive natural gas reserves offshore near Haifa¹⁶ and potential oil reserves onshore by Haifa¹⁷, which could entice Russian invasion due to Russia's own energy depletion and attempts to seek new reserves by staking territorial claims: August 2007 claim in the Arctic region¹⁸; 2008 claim to Sergei's Courtyard (former KGB base) in Jerusalem¹⁹; August 2008

¹⁶ Three massive gas reservoirs estimated at over 3 trillion cubic feet were discovered 80km off the Haifa coast in January 2009. "Huge gas reserves discovered off Haifa", *Jerusalem Post*, 19 January 2009; Avi Bar-Eli, "Israel's largest-ever reserve of natural gas discovered off Haifa coast", *Ha'aretz*, 18 January 2009; "Large quantities of natural gas found off Haifa coast", *Ynet news*, 18 January 2009.

¹⁷ Zion Oil is drilling in the Mannit site in northern Israel. This company has received wide press coverage over the years due to its unique story of the founder drilling for oil based on Bible prophecy. John Brown, an evangelical Christian, relied on Old Testament books of Deuteronomy and Genesis as a mp to drill for oil. Although seemingly far-fetched, he may have the last laugh as scientific studies have shown a 'high probability' of a commercial oil find up to 500million barrels – enough for 15 years production. Zion Oil is publicly traded on the American Stock Exchange under the symbol ZN. "Lo, there came oilmen from the West", *Tlmesonline*, 28 March 2005; "Oil baron seeks gusher from God in Israel", *Reuters*, 4 April 2005; "Texan's prayers for oil may just be answered", *Ha'aretz*, 12 February 2007.

¹⁸ In August 2007 Russia sent two mini-submarines to plant a titanium capsule with a Russian flag under the North Pole and claimed ownership of 460,000 square miles of the Arctic Ocean floor. The region is thought to contain as much as 10 billion tons of oil and gas deposits, equal to perhaps 25% of the world's as yet undiscovered oil & gas. Marshall Goldman, *Putin, Power, and the New Russia Petrostate*, p. 207; Matthias Schepp and Gerald Traufetter, "Russia Unveils Aggressive Arctic Plans", *Spiegel Online*, 29 January 2009.

¹⁹ Tia Goldenberg, "Russia's Jerusalem land claim worries Israelis", *USA Today*, 7 October 2008; Ashraf Khalil and Batsheva Sobelman,

invasion of Georgia over BTC pipelines that bypass Russian control; ongoing territorial disputes with Japan over the Kurile Islands. Given Russia's pattern of aggressive territorial claims the past years and Iran's consistent belligerence and support of Hamas and Hezbollah against Israel, Israel has in fact entered into strategic partnership with NATO and held joint military exercises since February 2005.

However, there remain obstacles and reservations about Israel joining NATO as a full member, due to their doctrine of self-reliance and freedom of military action, which would be encroached upon in a collective security arrangement. Nonetheless, the notion of free democracies such as Israel, Australia, Japan, South Korea joining NATO to form an arc of freedom to counter emerging threats from totalitarian and rogue regimes continues to be debated and while viewed with reservation by Israel, may be more receptive in Asia.

Russian Energy Imperialism in Asia

Russian Energy Diplomacy in East Asia

Russia is interested in using energy security as an anchor to assert itself as a regional hegemon in the Asia Pacific via oil & gas resources²⁰ in the Russia Far East (RFE). RFE consists of 40 per cent of Russia landmass but only 10 per cent of its population. Over the years there has been a trend of RFE integration into Northeast Asia and disintegration from the rest of Russia that in 2006 Putin described the situation in RFE as "a threat to national security" and stressed the need "to invest money in the Far East".²¹ Regional

"Jerusalem land transfer raises fears", *Los Angeles Times*, 14 October 2008; "Sergei's Courtyard", *Jerusalem Post*, 5 October 2008. Many fear this would set a precedent for additional land claims by Russia, including land with oil & gas reserves.

²⁰ East Siberia and RFE have 13.5% of Russia's total initial oil reserves and 10% of gas reserves. Nina Poussenkova, "All Quiet on the Eastern Front" in *Russian Analytical Digest*, No. 33, 22 January 2008, p.13.

²¹ Nina Poussenkova, *Ibid*, p.14. Russia is compiling a targeted aid program entitled *The Development of the Far East and the Trans-Baikal Region up to 2013*.

unrest is most recently demonstrated by violent protests in Vladivostok on 31 January 2009 and officials admitting that RFE is "completely cut off from the rest of Russia" and must "orient itself" to Asian countries rather than to European Russia. RFE imports 90 per cent of goods from Asian countries and there is a trend the area may become a raw material supplier for China and Japan. As such, Russia is attempting to reverse this trend by using energy projects to anchor the RFE and supply energy goods to Asian consumers such as China, Japan, South Korea and Taiwan. It is hoping to tie East Asia, RFE and the rest of European Russia together via the Iron Silk Road, which would connect the Trans-Siberian Railway to the Trans-Korean Railway to supply European goods as well as energy exports. Moreover, it is also offering incentives such as interest-free loans for Russians to settle in the RFE.

However, Russian energy diplomacy in East Asia is still fraught with many obstacles. Oil & gas exploration and production in the greenfield province of East Siberia is expensive due to harsh climatic condition, lack of infrastructure, investment, and western technologies. The East Siberian Pacific Ocean Pipeline (ESPO) that would ensure Russian oil supply to China has faced considerable delays. Even if the pipeline is launched, Russia cannot easily supply Korea and China with gas due to lack of regional grid in East Asia.

Given Russia's end goal of asserting itself in East Asia via energy resources, and the obstacles facing RFE's near-term energy delivery to East Asian consumers, Russia appears to resort to other means to access and control energy resources for East Asia – e.g., "lock in" long-term bilateral deals with Central Asian energy exporters and asserting control over energy supply; aligning with Iran and courting other Middle East suppliers via 'arms for energy' policy; aggressive territorial claims in Arctic Region; forming SCO Energy Club in 2007 and

proposing a gas cartel to control supply and coordinate prices. With the increasing militarisation of Russia's energy policy and alignment of totalitarian regimes in the Eurasian SCO bloc, this has important security implications for U.S. and its allies in the region.

U.S. Alliance Relations and NATO Global Partnership

It is no coincidence that in August 2005 SCO kicked off their first joint military exercises in Vladivostok in RFE, underscoring Russia concern with RFE secession and China's angst over Taiwan independence under the then pro-independence President Chen Shui-Bian.²² In fact China had proposed Zhejiang province across from Taiwan as the site for the military exercise, but when the Russians rejected it as being provocative, they concurred to hold it in Shandong province.

The Taiwan contingency is a key flash point for military clashes in East Asia, especially in light of rapid Chinese military modernisation and a recent report by U.S. State Department's International Security Advisory Board (ISAB), chaired by former Deputy Secretary of Defense Paul Wolfowitz, illuminating the strategic significance of Taiwan in both China and U.S. geopolitical calculus.²³ Given that SCO is a proxy to advance China and Russian interests and the 2000 Dushanbe Declaration has specific wording to establish formal support for China regarding "One China Principle," there is a possibility in a Taiwan scenario for the U.S., under the Taiwan Relations Act, to be drawn into conflict with China and perhaps Russia, Kazakhstan and other SCO members. Indeed Victor Corpus, a retired brigadier general and former chief of the U.S. intelligence service in the Philippines, provides an eerie pre-

dition of war resulting from a Taiwan contingency and how SCO allies could become involved. Corpus writes: "*On yet another major front in Central Asia, Russian troops lead the other member countries of the SCO into a major offensive against US military bases in Central Asia. The bases are first subjected to a simultaneous barrage of missiles with fuel-air explosives and electromagnetic pulse (EMP) warheads before they are overrun and occupied by SCO coalition forces.*"²⁴

The increasing militarisation of the SCO bloc has strategic implications for U.S. alliance relations in East Asia – Japan's territorial disputes with China over Senkaku Islands and with Russia over Kurile Islands, the nuclear crisis on the Korean Peninsula, territorial disputes in the South China Sea are flash points that will potentially draw China, Russia and their SCO allies against U.S. and her allies. In face of creeping SCO projection onto Asia Pacific region and an emerging bloc of totalitarian regimes, some scholars have proposed the U.S. and her allies counter this bloc by aligning various bilateral defence alliances into NATO Global Partnership.

With the upcoming NATO summit in Strasbourg and Kehl in April 2009, this would be a good possibility to review criteria of new members. As Eckart von Klaeden, the Foreign Policy Spokesman for Chancellor Merkel's CDU party posit, it is important to expand NATO relations with partners in Asia who have already contributed troops to the ISAF mission in Afghanistan and admit democratic like-minded countries such as Japan, India, Australia etc. to the fold.²⁵ And, India is a key country for NATO's mission and reach onto the Indian Ocean.

The Prize: India in the Indian Ocean

Both NATO and SCO are courting India due to its geo-strategic significance in the Indian Ocean. India is an observer member in the SCO and in the past has been represented by its energy minister to discuss energy deals. At the same time NATO is also cooperating with India with hopes for its entering into a Partnership arrangement.

The Indian Ocean is an important region as it is home to U.S. naval base Diego Garcia and naval power projection to secure energy SLOCs from the Middle East to Asia. The U.S. has been encouraging India to forge partnership with NATO and in October 2008 NATO's Standing Naval Maritime Group was deployed to the Indian Ocean to address the problems of piracy. In 2007, after the Malabar Exercise encompassing, U.S. India, Japan, Singapore and Australia, India was invited for the first time to participate in the 2008 U.S.-NATO Red Flag war games.

Indeed, without India, NATO's partnership in the Indian Ocean region would be limited. India has traditionally been a non-aligned nation, but should Russia use energy to bring India into full SCO membership at a time when SCO is on a trajectory of increased militarisation (e.g., CSTO-SCO ties, increasingly aggressive military exercises), it could become bound by an eventual SCO 'mutual assistance' clause to the detriment of U.S., EU and NATO interests.

Two days after NATO deployed its naval forces to the Indian ocean in October 2008, Russia scrambled to project influence onto the region when Moscow stated that a missile frigate from Russia's Baltic fleet was already heading to the Indian Ocean "to fight piracy off Somalia's coast," and shortly afterwards the Upper House of the Russia Parliament announced plans to resume its Soviet-era naval presence in Yemen.

It also announced intentions to return to its naval base in Socotra Archipelago, located off the Horn

²² Stephen Blank, professor at U.S. Army War College's Strategic Studies Institute, observed this exercise was aimed as much at Taiwan or Korea as any potential Central Asian contingencies. "Bruce Pannier, "Eurasia: U.S. Security Expert Talks About SCO Exercises, Summit", *RadioFreeEurope RadioLiberty*, 9 August 2007.

²³ *China Strategic Modernization: Report from the ISAB Task Force*, U.S. Department of State. The draft report was covered by Bill Gertz from *Washington Times* in October 2008.

²⁴ Victor N Corpus, "If it comes to a shooting war," *Asia Times Online*, 20 April 2006.

²⁵ Eckart von Klaeden, "German American and Transatlantic Relations under President Barack Obama: What can we expect?", *Institut für Strategie- Politik- Sicherheits- und Wirtschaftsberatung, Berlin (ISPSW)*/ ISN ETH Zurich, 21 January 2009.

of Africa.²⁶ The Socotra base was established by the Soviet Union in 1971, and the location is expected to play a role in fighting piracy due to the ability to use small vessels, trawlers and other boats of minor rank as well as providing a reliable logistics system for major ships to allow operations in the Indian Ocean.

Given the recent Kyrgyzstan decision, under Russian pressure, to close the Manas airbase, Russian military projection via the Horn of Africa into the Indian Ocean may likewise jeopardise U.S. Counterterrorism efforts. The Horn of Africa is watched through U.S. AFRICOM headquartered in Germany, and Djibouti hosts the Combined Joint Task Force-Horn of Africa. With Russian inroads into the Horn of Africa via the Socotra base and new defence cooperation with Somalia²⁷, its former Cold War ally, this pattern of recruiting allies whose interests diverge from those of the U.S. risk bringing Russo-U.S. relations onto a collision course in the region.

Conclusion

Over the past years the world has witnessed a disquieting trend of Russia's weaponisation of its energy policy to reassert itself as a global superpower. Admittedly the recent global financial crisis has knocked that off course for the moment, but this is likely to be temporary. After Russian invasion of Georgia, Moscow's stock market plummeted by more than 50

per cent since its highs in May 2008, and Russia's strong dependence on energy export revenues and speculative investments render its economy very volatile. Given Putin's goal of increasing military budget by 28 per cent within the next year and modernising its military²⁸, its current economic and budget woes may hinder that ambition.

Nonetheless, despite the financial crisis, defence orders remain strong. According to data revealed by Deputy Prime Minister Sergei Ivanov, Russia earned more than \$8 billion in arms sales in 2008, with \$33 billion more in the pipeline. It is to resume arms sales to Lebanon, intensify defence cooperation with Saudi Arabia, and competes with British, U.S. and French defence contractors for orders from Lebanon, Algeria and elsewhere. It is also looking to increase intra-regional trade of SCO and CSTO members and create a new economic architecture to maintain its economic and military power.

Sino-Russian bilateral trade reached \$50 billion in 2008, and given that China provides a large energy and trade export market for Russia, in the medium and long-term Russia may be able to ride out the current financial crisis and continue on its military modernisation and strategic ambition.

Although SCO is not yet a mature security alliance, under Russian lead it is moving towards that trajectory – aggressive military exer-

cises, agreement with CSTO (a purely military alliance), and possible "military assistance" clause in SCO policy. The U.S. and her allies therefore need to monitor the close nexus between energy security and military alliances as manifested through SCO-CSTO ties, and put in place countermeasures to safeguard against Russia-China-Iran axis from using SCO for anti-western policies.

To that end, the U.S. and EU need to work together to reduce Russian energy dependency and seek diversification via non-Russian controlled pipelines, renewables, conservation/efficiency measure as well as alternative geographic suppliers from West Africa, Canada, and elsewhere.

Additionally, U.S., EU and Asian allies should strengthen NATO enlargement to include democratic countries as a deterrent against Russia's "divide and conquer" strategy of bilateral energy deals to undermine regional common energy policy.

Despite cultural, historical, geographic and linguistic differences in Europe and Asia, like-minded democratic countries should be able to come together and cooperate towards a higher goal and stand against global ambitions of totalitarian regimes. The SCO is an organisation that is able to override vast ethnic, religious, and cultural diversity of member countries united by their common goal of energy security; there is no reason why an "axis of democracy" in Asia and Europe partnered with NATO cannot emerge and stand for similar values of freedom of commerce and navigation, liberty and democratic values.

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²⁶ Ilya Kramnik, „Russia Sets Sail Again for Overseas Military Bases“, RIA Novosti, 22 January 2009. Socotra Archipelago is 350km to the south of the Arabian Peninsula – enabling control of navigation in Gulf of Aden to the west, along African coast to the south, and along the Arabian Peninsula to the northeast. Russian ships made frequent appearances in the Red Sea and Indian Ocean after opening of the Suez Canal. Prior to the opening of the Trans-Siberian Railway and the North Sea Route, this was the only way to establish fast and regular connection to the remote Russia Far East regions.

²⁷ One week after the 26 September 2008 Somali hijacking of the Ukrainian ship, the Somali government announced recognition of South Ossetian and Abkhazian independence, as well as talks with Russians for military training and assistance. Somalia was allied with the Soviets during the Cold War, but relations fell apart after pro-Soviet President Mohamed Siad Barre was overthrown in 1991. „Geopolitical Diary: Somalians, Russians and Pirates,“ *Stratfor Global Intelligence*, 2 October 2008.

²⁸ *Ibid.* Vladislav Putilin, who oversees weapons industries, states that Russia is looking to order 70 strategic missiles in the next 3 years, more than 30 short range Iskander missiles and large numbers of booster rockets and aircraft. Military procurement would also include 14 naval vessels, 48 combat jets, and more than 60 military helicopter and almost 300 tanks. „Russia boosts military spending“, *BBC News*, 23 December 2008. Russia's new military doctrine is not expected until end of December 2009, which would reflect current and forthcoming international developments including changes to NATO, missile defence deployments and WMD proliferation. Its priorities would focus on defending national territory as well as increasing expeditionary capabilities such as UN peacekeeping missions or EU disaster relief operations, and providing expeditionary support abroad or monitoring activities along the main trade routes. Irina Isakova, „Analysis: Russia ready to work with Nato“, *BBC News*, 2 February 2008.

THEMEN

Iran's Tactical Foreign Policy Rhetoric

Shaped during their coming of age in the Shah's prisons and at the frontlines of the Iran-Iraq war, Iran's leadership harbors fundamentalist and anti-Israeli beliefs that are deeply ingrained in their revolutionary identity. Nevertheless, Iranian leaders have often combined their ideological fervor with pragmatic calculations to achieve their strategic objectives. While Iran's geopolitical power has increased considerably since the beginning of the wars in Iraq and Afghanistan, it faces old territorial and new international challenges. As a non-Arab Shi'a state, Iran suffers from strategic isolation in the Middle East. Its geopolitical importance is limited by growing ethnic and sectarian divides in the region.

Ayatollah Khomeini, who was keenly aware of these challenges, directly appealed to the umma by deliberately bypassing the leaders of other Muslim states. Although partly successful in the Persian Gulf states and southern Lebanon, the revolution's appeal did not reach Iran's Shia brethren in Saddam Husayn's army during the Iran-Iraq War (1980-88). After Khomeini's death in 1989, Presidents Akbar Hashemi Rafsanjani and Muhammad Khatami employed more conciliatory tactics and less extensive use of revolutionary rhetoric. Ending with a declaration of Muslim unity and solidarity, the December 1997 Organization of the Islamic Conference (OIC) summit in Tehran marked a high point of Iranian success in terms of regional public diplomacy.

After September 11th and Iran's inclusion in the "Axis of Evil" by the Bush Administration in January 2002, conservative hardliners slowly returned to prominence. After his election in June 2005, Mahmud Ahmadinejad, recognizing the power of anti-imperialist and anti-Israeli rhetoric both as a foreign and domestic policy tool, broke with the conciliatory rhetoric of his predecessors and returned

to the early revolutionary rhetoric of confrontation. With the backing of Supreme Leader 'Ali Khamene'i, Iran's new nuclear policy team ordered the restarting of uranium enrichment in August 2005. Concurrently, Ahmadinejad and his advisors seized the chance to internationalize the nuclear conflict by attacking Israel and questioning the Holocaust, a subject which previously had not played an important role in the Iranian domestic debate. This rhetoric not only paralyzes Ahmadinejad's domestic opponents, but also fits into a national security concept promoted by hardliner elements. Their goal is to overcome Iran's strategic isolation in the Middle East by extending Iran's security perimeter to Lebanon and the Palestinian territories.

Moreover, by re-positioning Shi'a Iran as a pan-Islamic force fighting for the (Sunni) Palestinian cause, Iran seeks to reduce the growing ethno-sectarian divide caused by the Iraqi civil war. Ahmadinejad chose the venues for his anti-Israeli outbursts carefully. During the December 2007 Organization of the Islamic Conference summit in Mecca, he elaborated on his idea for relocating Israel to Europe in an interview with Iranian state television. Through his rhetoric, Ahmadinejad managed to endear himself to the Arab "street" and dominate the agenda. By using regional and international gatherings such as the OIC and the Gulf Cooperation Council meetings, he has forced the pro-US Arab regimes to walk a tightrope between their allegiance to the US on the one hand, and a growing Islamist opposition and a considerable Shi'a minority in Saudi Arabia and the Gulf states on the other.

However, Ahmadinejad's belligerent rhetoric soon backfired, leading the consensus-oriented Supreme Leader to balance the demands of the moderate reformers and the conservative pragmatists with those of Ahmadinejad's Neo-conservative power base. By establishing a new foreign policy-making council (Strategic Council for Foreign Relations) in June 2006, Khamene'i created a counterbalance to Iran's main foreign

policy decision-making body, the Supreme National Security Council, which is chaired by the President. The new council is headed by some of the Islamic Republic's most experienced foreign policy officials. After the December 2006 local elections, which brought defeat for the President's supporters, the Supreme Leader reasserted himself as the main arbiter on foreign policy matters and started to keep Ahmadinejad's belligerence in check. However, if the appointment of Saeed Jalili as the new top nuclear negotiator in fall 2007 is any indicator, Ahmadinejad's influence in foreign policy decision-making is still considerable.

In response to this setback in the internal foreign policy-making struggle, Ahmadinejad started to increase Iran's international outreach. The strategy towards the international community centers on a message of self-sufficiency in technological progress and justice in world affairs. The main targets were the members of the Non-Aligned Movement (NAM). In September 2006, Iran's public diplomacy scored a victory when 118 NAM members issued a statement at their summit in Havana in support of Iran on the nuclear issue. Since then, Ahmadinejad has seized every occasion to assert Iran's leadership of the developing, nonaligned states. During a January 2007 tour of Latin American states, Ahmadinejad proved that Iran is willing to add substance to the rhetoric of creating a "backyard of loneliness" for the US. At a meeting with Venezuelan President Hugo Chavez, both leaders pledged to set up a fund worth \$2 billion to support countries which oppose US foreign policy. Even though it is not clear whether the fund is in place, both states have intensified mutual investments and the exchange of technology. At a June 2008 UN summit on world food security in Rome, Ahmadinejad stressed that "the competitions for power and wealth need to be changed to competitions for serving humanity and friendship and the unilateral and oppressive relations must be replaced by just mechanisms."²⁹

²⁹ President Ahmadinejad's speech at the High-Level Conference on World Food Security,

Due to its effective public diplomacy and anti-imperialist rhetoric, Iran has been much more successful than the Arab states in reaching out to different parts of the world. In July 2008, Iranian Foreign Minister Manoucher Motakki announced Iran's bid for a seat on the 2009-2010 UN Security Council at a meeting of the group of 57 Islamic nations. Iranian diplomats have claimed the support of the "Asian Group" and general agreement from other factions. Even though this application ultimately failed, it demonstrated the difficulties that the US and Europe face as they attempt to isolate Iran from the "international community" for its nuclear program.

The use of anti-Israeli, pan-Islamic, and anti-imperialist rhetoric has been a deliberate tool in the conduct of Iran's post-revolutionary foreign policy. President Ahmadinejad's administration has reintroduced and amplified Ayatollah Khomeini's rhetoric as a tactical means, which include overcoming Iran's isolation in the region and internationalizing the standoff over its nuclear program. Ahmadinejad's Holocaust denials and his efforts to tie the Israeli-Palestinian conflict to Iran's nuclear program have increased Iran's pan-Islamic reach into the Arab street and have put Arab governments on the defensive. On the international stage, Iran's leadership has succeeded in internationalizing Iran's nuclear program by tying it to the North-South conflict and stressing the themes of international justice, state sovereignty, and technological self-sufficiency.

Nevertheless, Iran's foreign policy approach has not been entirely successful. It has increased Iran's international isolation and led to three UN Security Council resolutions and economic sanctions. Some Arab governments, such as that of Saudi Arabia, have become more vigorous in their opposition to Iran's nuclear program, raising the prospect of a regional arms race. Ahmadinejad's rhetoric also

has backfired within Iran, strengthening the more pragmatic conservatives around the influential former President Rafsanjani and the former nuclear negotiator and new Majlis speaker Ali Larijani. Though Iran has managed to win the hearts and minds of the Arab populace and some NAM members, a different approach is required to establish trust with Arab and Western governments. Iran is facing challenges to its security ranging from a possible failed state in Iraq, a resurgent Taliban in Afghanistan, and international pressure over its nuclear program. It is likely that historic pragmatism will once more prevail over its revolutionary identity in the Islamic Republic's foreign policy conduct.

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