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21世纪全球安全

Global Security

in the 21st Century

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Global Security after 9/11: State and Perspective of the Fight against International Terrorism

Carlo Masala

1 Introduction

This paper tacks stock of multilateral efforts to fight International Terrorism since 9/11. The fight against what is usually labeled as Al-Qaeda takes places on different levels (national/regional/global and functional). While the national level proved in the last six years to be quite successful the regional and global level suffers from several shortages which are going to be analyzed in the subsequent pages more in depth. The EU and the UN response to International Terrorism are chosen in this paper as most different cases to illustrate the main thesis which is: The diverging perceptions on how to fight International Terrorism best as well as the delicate balance between security and freedom are posing the biggest hampering blocks for an efficient and effective fight against International Terrorism via regional and/or global multilateral cooperation. To illustrate this thesis I firstly will elaborate on multilateralism as a necessary venue to cooperate in the fight against International Terrorism.

Secondly I take a closer look at cooperation within the EU and the UN and trying to highlight major achievements but also to identify major shortcomings, before the third chapter offers some practical recommendations on how to improve multilateral cooperation against what is often considered as the biggest threat to international security in the 21st century.

2 Managing the Threat: Multilateralism and Multifaceted Responses

Given the complexity and evolving nature of the threat, as well as the diversity of conditions conducive to the spread of terrorism, combating international terrorism requires a comprehensive, multifaceted response at the global, regional, and local levels. To be effective, the response must be enduring and sustainable and include a significant non-military component.

The overarching challenge in the next few years

will be to find ways to sustain the international cooperation that has so far characterized the post-September 11 counterterrorism effort, despite the significant divergence in threat perceptions detailed above. Multilateral institutions have a pivotal role to play here. So far, they have tended to concentrate on the more traditional elements of the non-military, global counterterrorism effort, e.g., combating terrorist financing, strengthening border security, improving law enforcement cooperation, and information sharing-producing modest results. The ability to maintain, and hopefully strengthen, this cooperation will depend on developing and implementing strategies and programs at the global, regional, and local levels that can address changing terrorist tactics and recruitment tools. In addition, given the increasing linkages between terrorism and other security threats posed by crime, WMD proliferation, corruption, underdevelopment, poor governance, and poverty, and the number of multilateral bodies seeking to address these issues, coordinating the counterterrorism-related efforts of these institutions will become both more important and more difficult.

To the extent that the threat continues to become decentralized, with local conditions being a significant driving force behind terrorist activities, greater attention will need to be paid to addressing the conditions that are providing fertile soil for radicalization and recruitment in communities in Europe and elsewhere. Effective strategies have yet to be developed at the international, or for that matter local, level for tackling many of them. This is partly because a number of these issues—such as local conflicts, religious extremism, lack of political freedoms—touch upon highly sensitive issues on which it is difficult to achieve con-

sensus regarding appropriate multilateral responses.

2.1 The “Battle of Ideas”

One of the reasons that international efforts to counter the growing radicalization and extremism connected to much of Islamist terrorism remain in their infancy is the very significant divergence in perceptions of the threats posed by terrorism and of the responses to it, detailed above. Countering the radicalization that leads to the adoption of terrorist tactics is made more difficult when the steps taken to deal with those terrorist tactics in turn fuel further radicalization. This is, some would argue, exactly what we see in the growing skepticism and distrust among Muslims around the globe that the US-led counterterrorism effort is targeting Islam. As the concepts and discourse of counterterrorism itself becomes a battleground for competing political agendas, what emerges is a “battle of ideas.”

Some characterize this battle as a competition between, on the one hand, the radical ideologies adopted by Islamist and other terrorists, and, on the other, the narratives promoted by their opponents. Jessica Stern argues that “we need to respond not just with guns—but by seeking to create confusion, conflict, and competition among terrorists and their sponsors and sympathizers”⁴⁶ and develop “ideas and stories that counter the terrorist narrative—and draw potential recruits away from the lure of jihad.”

Both the US and EU increasingly adopt such an approach in their respective counterterrorism strategies. Both face challenges. On Europe, an

August 31, 2006, Oxford Analytica report concludes that the background factors that make home-grown terrorism possible—youth alienation and radical Islamic ideology—are unlikely to fade away. Governments can crack down on individuals who recruit Muslim youth or otherwise preach hate, but doing so will only deal with part of the problem. Furthermore, it does not appear that existing European immigrant integration policies are designed to prevent either Muslim radicalization or terrorism, but continue instead to target their traditional aims.

Fallows argues that America's very public efforts to win the "battle of ideas" and generate support among the world's Muslim populations have been "drowned out by the implicit messages from Afghanistan and Iraq and Guantanamo (and from the State Department, as it rejected requests for student visas)." Even former US Secretary of Defense Donald Rumsfeld would seem to share the bleak assessment of how the US is faring in this "war," telling an audience at the US Army War College in March 2006 that the US deserves a "D" or "D-plus" in its efforts to fight this battle. But the "battle of ideas" cannot be so straightforwardly reduced to a battle between the West and Islamist terrorists. When the Economist referred to Iraq "as an own-goal in the battle for hearts and minds— and not just Muslim minds," it made clear that the "battle" was equally one waged within democratic polities, within Muslim communities—and perhaps one might add, within multilateral institutions.

Global institutions such as the UN in fact have a unique role in this battle, and in broader attempts to manage the threats posed by contemporary terrorism, because their global membership of-

fers a unique basis for normative legitimacy and effective action.

2.2. The Relationship between National, Regional and Multilateral Responses

Although national governments will remain the first responders to international terrorism, since they bear the primary responsibility of protecting their citizens, formal multilateral bodies, informal multilateral arrangements, and programs at the international and regional levels can, if structured properly, make a substantial contribution as well. Successes in the campaign against terrorism have, to a large degree, been a result of cooperation and mutual support among governments around the world.

At the national level, non-military counterterrorism measures now generally fall into three broad areas. The first involves law enforcement efforts aimed at "chasing and investigating terrorists and their networks across borders" and extraditing or prosecuting those that are arrested. This requires not only properly trained and equipped law enforcement and intelligence officials and exchanges and intensified cooperation with intelligence and security services worldwide, mostly through bilateral channels, but adequate legislation and an effective (and uncorrupted) judicial system. Efforts to improve law enforcement measures have paid significant dividends, making it more difficult for terrorists to move money and communicate, and have led to the arrest of hundreds of militant Islamic radicals and the disruption of a number of attacks.

A second involves protecting the homeland, including measures such as enhancing border and

transportation security and safeguarding critical infrastructure, including nuclear, chemical and petrol plants, and gas pipelines that could be terrorist targets. A key element of this is preventing WMD and related materials from getting into the hands of terrorists, which among other measures requires the protection of sensitive weapons and materials, trained customs, transportation and other security officials, and enhanced detection technology.

A third element, and one that is getting greater attention as Islamist terrorists gain increasing influence, centers around efforts to stem the radicalization and recruitment of local populations, discouraging them from turning to terrorism and other forms of violence. This includes taking steps to prevent educational, religious, and cultural institutions and the Internet from being used as platforms for incitement and recruitment and focusing more attention on tackling the underlying conditions that can breed resentment and lead to disaffection and marginalization. The worldwide web's transnational nature makes it necessary for states to harmonize their thinking, or risk creating loopholes. An effective response could include the monitoring and/or surveillance of Internet sites and requiring all Internet service providers to submit to background checks and register with the government. The need to harmonize or coordinate the response of individual states would seem to leave multilateral institutions well-placed to contribute to the development of a comprehensive response to this new threat.

In each of these three areas, many states, particularly in the developing world, lack the capacity necessary to implement such strategies, even if they are willing to do so. This lack of capacity is

particularly troubling since terrorists have proven adept at exploiting such gaps to fund, organize, equip and train their recruits, carry out their attacks, and hide from arrest. In the end, given the global and fast-moving nature of the terrorist threat, the international community's ability to deal effectively with it will only be as strong the globe's weakest link. Thus, building capacity of all states, including those in the often vulnerable global south must remain a priority-and is clearly another area in which multilateral institutions have an important role to play. Effective implementation of each of these elements involves working with regional and global partners, including multilateral institutions. US and Russian presidents George Bush and Vladimir Putin made this point clear in a joint statement in May 2002, declaring that a "successful campaign against terrorism must be conducted by nations through bilateral, regional, and multilateral cooperation, and requires a multifaceted approach that employs law enforcement, intelligence, diplomatic, political, and economic actions."

A key point here, however, is that while states in general are the primary responders to the terrorist threat, it is the globally superior powers, in particular the US, that constitute the main engine in global counterterrorism activity. More than six years into the global "war against terrorism," the Bush administration's updated counterterrorism strategy acknowledged what many experts have long recognized, namely the importance of non-military tools, international cooperation, and multilateral institutions in this "war."

3. The European Union and the Fight against International Terrorism

The European Union has already set about tightening up its fight against international terrorism through policies that, unfortunately, compound the difficulty of addressing the challenge. The problems arise partly because the policies put forward do not match the diagnosis nor do they fully comply with the principles of legitimacy, proportionality and efficiency. In addition, it is unclear how these Community measures will minimize the lack of trust among member states, which has put the brakes on the implementation of instruments adopted after the Madrid attacks. This relates to the vexed question of the extent to which intergovernmental initiatives such as the Prüm Treaty¹ are compatible with a credible EU policy in the area of terrorism.

In the following pages, I critically examine the main EU measures and legislative initiatives intending to fight what has been qualified as 'terrorism' following the Declaration on the EU Response to the London Bombings, as adopted by the Council on Wednesday, 13 July 2005. Second, I investigate how, if the freedom and justice dimensions are not set at the centre of EU policies developing an Area of Freedom, Security and Justice, human rights and civil liberties can be endangered and finally lost to the exceptional security demands.

3.1 The EU response to London

The logic behind the EU's answers to terrorism is now well known. It always serves two purposes, the first of which is psychological and the second being more operational. The psychological part of the European Security Strategy is a reassuring action, the aim of which is to reinvigorate and strengthen the bonds among member states. It is one of the EU's roles to promote solidarity and empathy among the member states in such difficult circumstances. In this light, the Council meeting on 13 July 2005 following the London bombings was vital. Indeed, by bringing together the interior and justice ministries of the member states, it has reasserted the importance of a collective strategy against the terrorist threat.

The EU operational answer, on the other hand, is geared to defensive and proactive political actions. It is often encapsulated in a set of legislative initiatives. The extraordinary meeting of the Council falls within this scope. It intended to speed up transnational cooperation through a package of security measures that are part of the EU Plan of Action on Combating Terrorism. The Council has declared "its immediate priority to build on the existing strong EU framework for pursuing and investigating terrorists across borders, in order to impede terrorists' planning, disrupt supporting networks, cut off any funding and bringing terrorists to justice".

It is important, however, to bear in mind that many of the legislative tools and initiatives in-

1 The Treaty of Prüm (Schengen III), increasing crossborder cooperation in the fight against terrorism, organized crime and illegal immigration, is an intergovernmental initiative signed on 27 May 2005 in Prüm (Germany).

cluded in the Council Declaration that came out of the extraordinary meeting are neither new nor innovative in character. Indeed, some of the 'sticks' thereby highlighted had already been included in the European security agenda before the attacks on 11 September in New York and on 11 March in Madrid. They were furthermore integrated in and promoted by the Declaration on Combating Terrorism of 25 March 2004. These initiatives are, for instance, commitments to: combat terrorism financing, improve information-sharing between security and law enforcement agencies, intensify the exchange of police and judicial information, and protect citizens and infrastructures (with the use of new technologies, e.g. biometrics and databases), and manage and reduce the consequences of acts of political violence. In addition to the much-debated proposal on the retention and storage of telecommunications data, the

Council would like to agree on the following items by December 2005: the European Evidence Warrant; the exchange of information between law enforcement authorities; the exchange of information concerning terrorist offences; a code of conduct to prevent the misuse of charities by terrorists; and, a strategy to address factors that contribute to the radicalization and recruitment of terrorist activists among 'home-grown' groups.

The problem, however, is that a substantial portion of these policies are open to discussion. Further, there seems to be a lack of relevance. Indeed, the order of priorities is not consistent with the diagnosis established after the London bombings. Although the investigations are far from being completed, the first clues are leaning towards home-grown groups of radical

individuals. Given this finding, one might have thought that the Council meeting would firmly address the driving reasons behind radicalization. Yet, in fact, when it comes to measures proposed to prevent "people turning to terrorism", the EU strategy remains somewhat truncated. Instead, most of the measures advocate the "roll-out of biometric identifiers", information-sharing, the re-introduction of internal border checks, the reinforcing of external border controls, the retention of telecommunications data, the expeditious implementation of the European Evidence Warrant and the like. This doesn't mean that these measures are wholly useless. But they do not tackle the root factors leading to violence nor do they address the many ways in which activists are recruited. Furthermore, the Council Declaration, as with former EU strategies seeking to tackle 'international terrorism', creates more problems and individual insecurity, than it solves. Taking the argument further, I analyze how and why this is the case.

3.2 What are the limitations of the EU's policy against international terrorism?

The security strategy revitalized by the Council Declaration on the EU Response to the London Bombings of 13 July 2005 hardly passes the tests of legitimacy, proportionality and effectiveness. It also shows the existence of a lack of mutual confidence and a high level of mistrust among EU counterparts regarding cooperation on security and justice.

Few would disagree that this package does not fully comply with Art. 8 of the European Convention of Human Rights and Fundamental

Freedoms, the right to privacy and data protection as guaranteed by the Council Directive 95/46 on the protection of individuals with regard to the processing of personal data² and 'liberty' in general.

Protection of the individual and liberty should be at the heart of any security measure being developed. Legal and judicial remedies for the individuals affected or potentially subject to these measures should also be put in place as a priority. The lack of political agreement within the Council of Ministers on the proposal for a framework decision on certain procedural rights of 'suspected terrorists' in criminal proceedings throughout the EU reveals member states' hesitation towards having 'more Europe' in the freedom dimension.

The main risk is that the principle of legitimacy and the rule of law are endangered by the very legal framework under which measures crafted to 'fight terrorism' are being adopted - the EU third pillar. Indeed, any cooperation in these fields continues to be carried out on a purely intergovernmental basis, falling outside the Community method. This has the negative consequence of preventing a direct and transparent involvement of the European Parliament and the European Court of Justice. Yet the European Parliament should be openly included in the decision-making procedures to guarantee the

democratic accountability of the legal instruments being adopted and implemented. The role of the European Court of Justice should be strengthened to ensure judicial review and the protection of the rule of law. Indeed, the involvement of the judiciary is of utmost importance if we want to protect our democratic values and the individual.

It is held that any security instrument adopted should be assessed through the lens of the principle of proportionality. This principle is grounded upon two assumptions. First, the European Community acts only when it is necessary or 'required' to do so in order to achieve a certain end. This entails the idea of a balanced relationship between means and ends. Second, and more importantly, it requires that the measures adopted are the least restrictive to freedom. In this light, are the security measures proposed compatible with this general principle of EC law? The answer may take the following form: Some of the legal acts proposed by the British government and the special Council meeting have been put into question by the European Parliament, civil society, NGOs and academia because of serious concerns as regards their compliance with the principle of proportionality and the human rights dimension (as provided by international and European human rights commitments). For instance, the proposal on the retention and stor-

2 Art. 8 of the European Convention of Human Rights and Fundamental Freedoms states that "1. Everyone has the right to respect for his private and family life, his home and his correspondence. 2. There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others." European Council Directive 95/46/EC of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data, *Official Journal* L 281, 23 December 1995, pp. 0031-50.

age of telecommunications data was cast out by the European Parliament on 18 April 2005. This initiative had previously been presented by France, Ireland, Sweden and the UK.

The main reasons the European Parliament justified its rejection of the proposal were:

The choice of legal basis, being Art. 31 of the Treaty on European Union, which deals with "common action on judicial cooperation in criminal matters" and which would fall within the rubric of 'justice' under The Hague Programme agreed in November 2004. The proposal consists of various measures that come under both the third and the first pillars of the Union. Notably, the establishment of an obligation for service providers to retain data, the definition of data and the retention period fall within the first pillar/Community law;

The inappropriateness in view of the principle of proportionality. As the Parliament's report puts it, "the ends do not justify the means, as the measures are neither appropriate nor necessary and are unreasonably harsh towards those concerned", and that "given the volume of data to be retained, particularly internet data, it is unlikely that an appropriate analysis of the data will be at all possible"; and

The incompatibility with Art. 8 of the European Convention of Human Rights, which guarantees the right of respect for private life against interference by a public authority.

Independent of the Parliament's report and several criticisms questioning this particular initiative, the above-mentioned extraordinary

Council Meeting of 13 July 2005 has reintroduced it into the policy agenda.

Skepticism persists over whether these legal instruments are effective in curbing threats of political violence. Moreover, the political struggle taking place in order to ensure that the inter-governmental method of cooperation reigns over policies on security undermines the efficacy and effectiveness of the acts themselves. As we have seen above, the EU's third pillar has three weaknesses: 1) it is based on the unanimity rule; 2) it excludes the European Parliament and the European Court of Justice; and 3) it introduces a lack of transparency in the decision-making process. The efficiency and overall usefulness of the operational setting is, as a consequence, sapped. A good example showing the predominance of the intergovernmental method of cooperation in the fight against terrorism and organised crime is the Treaty of Prüm or Schengen III, signed between seven EU member states

This Treaty aims at reinforcing transnational cooperation against organized crime, terrorism and illegal immigration while setting aside the European Community framework. The Treaty of Prüm thus proposes to cement the interchange of information between the law enforcement and security agencies of the signatories. It widens the power of these security agencies (through the creation of national contact points being appointed in accordance with national law) to have direct and automatic access to DNA and fingerprint data in another participating member state in order to prevent 'terrorist attacks'.

The danger is to turn the EU into a shadow body that legitimizes instruments ratified by certain of its members, on different occasions, within differ-

ent settings. The communitarization of this cooperation (bringing it under the Community method) and the use of the co-decision procedure (Art. 251 EC Treaty) would alleviate these weaknesses. It would also ensure the parliamentary and judicial accountability of the policy steps taken.

EU cooperation in security and justice dimensions is a case in point of the mistrust that endures among law enforcement and security agencies, as well as the judicial authorities in the EU. This is mainly ascribable to the different legal and historical traditions, visions and philosophies of each of the member states of the EU project. Trust is essential for maintaining stable relationships, and it is particularly vital for effective cooperation in the field of justice and home affairs. The establishment of a high level of trust is closely intertwined with the progressive establishment of an Area of Freedom, Security and Justice. The European Arrest Warrant (EAW) represents one of the first legal instruments implementing the principle of mutual recognition of decisions in criminal matters formally adopted by the Council. It has, however, shown the persisting lack of mutual confidence about member states' intentions and respective judicial/legal systems. The deep difficulties that surfaced during the implementation processes at the national level have greatly mined the efficiency and credibility of the regime. Lack of trust, or rather clear proof of mistrust seems to be a pervasive factor of the whole debate. The legal challenge brought by Germany and Poland before their respective Constitutional Courts questioning its compatibility with their constitutional legal settings also gives more strength to that argument. More worryingly, on 18 July 2005 the Federal Constitutional Court of Germany ruled

the act implementing the EAW into German law as void. This judgment seriously questions, and provokes a rethink about, the very pillars of European cooperation in the Area of Freedom, Security and Justice.

4. The UN and the fight against International Terrorism

The UN has struggled since its inception with how to formulate an effective response to terrorism. Its efforts have been ambivalent and produced mixed results. On the one hand, using its norm-setting authority, it has provided a solid international legal framework for combating terrorism-via the adoption of sixteen terrorism-related treaties adopted by the General Assembly and UN agencies and a number of legally binding resolutions adopted by the Security Council-thus often reinforcing efforts undertaken outside the UN. On the other hand, it has been unable to reach agreement on a comprehensive definition of terrorism. A further feature of the UN's counterterrorism effort has been its reactive nature, adopting declarations or treaties or establishing committees or programs in response to individual attacks, without developing a coherent and coordinated response to the overall effort. As a result of its largely piecemeal approach, today more than twenty different parts of the UN system deal with terrorism in one form or another, with the Security Council and its four separate counterterrorism-related bodies and three staff bodies now at the center of this effort.

4.1 General Assembly

Although the General Assembly has contributed

a handful of important international counterterrorism treaties, it is most well-known in the counterterrorism world for what it has not contributed, namely a definition of terrorism. The global body has been divided on this question since it first took up the issue of terrorism in 1972 in response to the murder of 11 Israeli athletes at the Munich Olympics by members of the Palestinian Liberation Organization. This ongoing failure, which continues to be rooted largely in the Israeli-Palestinian conflict (as well as the dispute between India and Pakistan over Kashmir), is evidenced by the still unsuccessful efforts of the Ad Hoc Committee to conclude a comprehensive convention on international terrorism, with differences surrounding the definition of terrorism continuing to impede progress. The General Assembly's inability to reach agreement on a definition of terrorism after more than three decades of discussions- with the unfortunate continuing relevance of the phrase "one man's terrorist is another man's freedom fighter"-has limited the impact of its counterterrorism efforts. Yet, its adoption of a global counterterrorism strategy in September 2006 and the uneven counterterrorism contributions of the Security Council, both of which will be discussed below, may signal a shift to the General Assembly as the central UN counterterrorism actor.

4.2 UN Office on Drugs and Crime

A number of UN offices have become involved in providing counterterrorism-related assistance and training to states. The most significant element of this assistance program is carried out by the UN Office on Drugs and Crime (UNODC), located in Vienna. Its Terrorism Prevention Branch (TPB) and Global Programme against

Money Laundering (GPML) provide states with legislative drafting and other technical assistance and have expanded their respective programs since September 11, 2001. The former focuses on helping states ratify and implement the international conventions and protocols related to terrorism and the latter on helping states implement the Terrorist Financing Convention and the FATF's special recommendations on money laundering and terrorist financing. With staff and consultants stationed in regional offices and country offices around the globe, it has been able to coordinate quite closely with regional organizations, including by co-hosting legislative drafting workshops in different regions.

4.3 The Security Council

Like the rest of the UN, the Security Council was generally reluctant to address terrorism prior to the events of September 2001. This reluctance reflected the prevailing attitude that terrorism was largely a national problem and thus generally did not constitute the threat to international peace and security required for the council to be seized with the issue under the UN Charter. The Al Qaeda attacks on the US on September 11, 2001, ushered in a new era, however, for the Council, whereby it has sought to assume a leading role in global counterterrorism efforts.

The day after the attacks, it adopted Resolution 1368, which not only condemned the acts of terrorism and urged all states to bring the perpetrators, organizers and sponsors of the attacks to justice, but linked the response to international terrorism with the right to self-defense as enshrined in Article 51 of the UN Charter. Around two weeks later, the Council adopted what still remains perhaps its most ground-breaking

resolution ever-Resolution 1373 -which imposed significant obligations on all states to, among other things, enhance legislation, strengthen border controls, coordinate executive machinery, and increase international cooperation in combating terrorism. It also established a committee, the Counterterrorism Committee (CTC), to monitor states' efforts to implement these obligations, work with countries to improve their counterterrorism capacities, and coordinate the efforts of the dozens of other international, regional, and sub-regional bodies involved in the global campaign.

Since September 2001, the Council has condemned major international terrorist attacks and used its authority to impose an increasing number of binding counterterrorism-related obligations on all states via a series of unprecedented resolutions. The resolutions established several different counterterrorism subsidiary bodies mandated to monitor states' efforts to implement their Council-imposed obligations, as well as work with states to strengthen their counterterrorism infrastructure. These include the CTC and its Counterterrorism Executive Directorate, a staff body consisting of some 20 experts; the 1540 or Non-Proliferation Committee and its group of eight experts, and the 1267 Committee or "Al-Qaida/Taliban Sanctions Committee."

4.4 Limitations of the Current UN Security Council-led Approach

The Council has succeeded in developing a broad counterterrorism legal framework, albeit via a controversial tool-resolutions that impose obligations on all UN member states. Such resolutions have circumvented the traditional interna-

tional law-making process based on the consent of states. The counterterrorism-related subsidiary bodies created by the Council to oversee implementation of these resolutions however were often hastily established in response to specific crises. The resulting proliferation of Council programs and initiatives has produced overlapping mandates, duplication of work, multiple and sometimes confusing reporting requirements for states and continuing tension between the Council and the UN Secretariat. In general, information sharing and other forms of cooperation between and among these groups have been inadequate and often redundant, which has inhibited the overall Council effort. The wider UN membership, the Secretary-General, and the Council itself have recognized many of these shortcomings since 2004. In fact, the Council has repeatedly called for improvements in numerous resolutions and presidential statements, but has yet to take the steps needed to improve the situation.

In general, the Council's approach has been narrow in focus. It has had difficulties addressing the broad range of security issues that often intersect with terrorism and developing and implementing a meaningful human rights policy that would help ensure that all counterterrorism measures are consistent with international human right norms. Finally, although the CTC now has a mandate to address terrorist recruitment and incitement and "enhance dialogue and broaden understanding between civilizations" in its interactions with states-the result of the adoption of Resolution 1624 following the 2005 London train bombing-it has so far had limited success doing so. Given the political sensitivities within the UN membership surrounding efforts

to focus on a single religion (i.e., Islam) the CTC will likely find it difficult to make a meaningful contribution to efforts to tackle these cutting-edge issues. Although all of its post-September 2001 counterterrorism resolutions were adopted unanimously, the use of this controversial law-making method has hindered the Council's ability to get the sustained cooperation from states needed to implement them. The largely under-resourced mechanisms the Council established to prod and encourage states to implement its counterterrorism framework were generally part of the Council's reaction to particular terrorist attacks, at which times the politics of the moment trumped the need to develop an effective and coherent Council counterterrorism program. Despite pockets of success, the Council has failed to develop a coherent and effective program capable of implementing the far-reaching legal mandate it gave itself in this area and has proven unable to coordinate global counterterrorism capacity-building efforts effectively. Having established a series of subsidiary bodies which generally meet once or twice a month at the expert level to focus on the implementation of generally technical mandates, the Council itself has made only limited ongoing contributions to the global counterterrorism effort, apart from broadly overseeing the work of its different committees and efforts to exert meaningful pressure on a particular country. In practice, the consensus approach has meant that the political and legal power of the different Council resolutions on terrorism adopted under Chapter VII of the UN Charter, which authorizes the Council to impose far-reaching legal obligations and sanctions on States, and the subsidiary bodies that were created using this same authority, are significantly weakened in practice.

The Council is generally focused on responding to specific, time-limited threats to international peace and security. Thus, it responds quickly and forcefully to a discrete terrorist incident, meeting at night or on the weekend to adopt the necessary resolution or presidential statement. It has found it difficult, however, to sustain the momentum of its long-term counterterrorism capacity-building program and the multitude of tasks that are involved.

The UN's comparative advantage in the field of counterterrorism lies in capacity building and standard setting, both of which have a significant technical component. Yet, because the UN's work in this area is overseen by the Council and its subsidiary bodies- and based in New York- this effort has been and will continue to be heavily (and perhaps unnecessarily) politicized, with delegations often interjecting tendentious political issues, thus slowing down the legal and technical work. Thus, when the Council is in the throes of a contentious negotiation outside the purview of its counterterrorism-related committees, the differences of views and even animosities among certain delegations can spill over into these bodies.

The problem of over-politicization of technical issues is exacerbated by the fact that the representatives on the CTC and other Council counterterrorism related bodies are usually political officers (regular diplomats or generalists), often with little or no background in the technical field of counterterrorism. As a result, rather than focusing on concrete country, regional, or thematic issues, the bodies, in particular the CTC, have tended to become unnecessarily consumed in negotiating process-oriented papers and fo-

cusing on the political rather than the technical aspects of a particular issue. This is in contrast to their expert groups—which includes convening periodic open Council meetings to solicit the views of the wider UN membership, and adopting short, standardized resolutions or presidential statements, or issuing a press statement following a major terrorist attack—the Council has tended to focus its attention on other threats to international peace and security.

With the committees generally focusing on technical issues and becoming process-oriented, paper-producing bodies, Council member ambassadors have shown less and less interest in the committees' day-to-day work. They have tended to become engaged only when there is a crisis in one of the committees or when a mandate needs to be renewed by the Council. This lack of ambassadorial-level interest has led to diminishing attention from capitals, which in turn has led at times to a lack of political direction in the committees themselves. In addition, the political, administrative, and budgetary challenges of operating within the UN system have thwarted attempts by the Council's main counterterrorism body, the CTC, to effectively coordinate global capacity-building efforts and the work of the dozens of multilateral institutional actors on the counterterrorism stage. The decision-making processes of the Council's counterterrorism committees have also presented serious challenges. The practice of taking all decisions by consensus has significantly impeded their ability to take action in a timely fashion and at times diluted their work. In order to maintain its relevance and effectiveness, the leading multilateral counterterrorism body needs to be able to act quickly and decisively on mat-

ters that are often technical in nature; it ought to avoid getting bogged down in seemingly endless political debates. The same consensus-based practice has made it difficult for any of the Council's counterterrorism related bodies to identify non-performers ("name and shame") or even to agree on a set of standards against which to measure performance. On a number of occasions, one or two committee members, including the one representing the region in which a targeted country is located, have successfully blocked any technical organizations such as the IAEA, the Organization for the Prohibition of Chemical Weapons (OPCW), Interpol, and ICAO, where member state delegations generally include domestic experts in the relevant field. While many of the CTC's shortcomings are attributable to its lackluster performance, given the limited representation on the committee, even a properly functioning CTC would lack the broad representation necessary to maintain international support over the long run. Many of the member states not on the Council at the time of the adoption of Resolution 1373 and not involved in the formulation of CTC policies would continue to feel excluded from the Council's counterterrorism program. Thus, even if it were to operate more effectively, these countries would continue to lack a sense of ownership in the program, and this would likely affect their readiness to cooperate with the CTC and other parts of the Council's counterterrorism framework.

4.5 UN Efforts to Strengthen and Streamline its Counterterrorism Program

As the above brief survey shows, since the events of September 11, 2001, the locus of the UN's

efforts shifted to the Council's intergovernmental bodies and the five UN staff bodies (three Council and two UNODC bodies). As a result, for the past five years, greater emphasis has been placed on the security related, capacity-building issues, with divisions within the General Assembly surrounding the definition question, paralyzing that body's efforts to offer a broader response.

This changed in September 2006, with the General Assembly's adoption, after a year of often contentious negotiations, of a Global Counterterrorism Strategy. The Strategy offers UN member states and multilateral bodies a blueprint for a coordinated, consistent, and comprehensive response to terrorism at the national, regional, and global levels. It calls for a more holistic, inclusive global approach to counterterrorism: one that includes not just security related preventative measures, but that also makes respect for human rights and addressing the underlying conditions conducive to the spread of terrorism priorities as well. It further provides broad guidance on practical and action-oriented measures to be taken by states and multilateral bodies.

Given the universal membership of the General Assembly, the politically sensitive nature of many of the issues involved, and the often different regional and sub-regional perspectives on both the nature of and appropriate strategy for addressing the threat, it should come as little surprise that the Global Counter-terrorism Strategy consists largely of a series of broadly worded provisions which offer few specifics to help guide implementation. Yet the Strategy is significant as it by brings together these commitments into

a single document unanimously adopted by the 192-member General Assembly, establishing a global counterterrorism framework for the first time. The test will be whether it is implemented. One of the keys to implementation will be whether there is clear improvement in the coordination and cooperation among the 24 different parts of the UN system engaged in counterterrorism and the numerous other engaged multilateral bodies and mechanisms. Within the UN, there is need for a new culture of cooperation among the many parts of the system and a rationalization of the respective roles of all the players to bring about the level of coordination and collaboration that is required. This has so far been quite difficult to achieve.

The lack of effective coordination and cooperation has almost come to define the UN's post September 11 response, leading countries such as Costa Rica and Switzerland to call, as early as in 2004, for the establishment of a UN High Commissioner for Terrorism to coordinate all of these initiatives. The fourteen-country Group of Friends of UN Reform echoed these calls in 2005 and the G8 heads of state called for a more coherent UN counterterrorism program and response to the threat in their July 2006 summit statement. To address the problems created by having multiple council counterterrorism bodies with somewhat overlapping mandates, the Secretary-General even recommended in March 2006 that the Council consider consolidating them into a single committee with a single staff body.

Unfortunately, the Strategy does not address this problem adequately. It calls for more cooperation within the UN, but its provisions are largely

directed to individual parts of the UN system. It does not identify ways in which overlapping mandates could be streamlined or redundant programs could be eliminated. The Strategy's primary remedy for improving the coordination and coherence of the UN's program is to indicate the Secretary-General's intention to institutionalize the UN Counter-Terrorism Implementation Task Force (CTITF) within the Secretariat. Yet, partly reflecting the concern of some of the permanent members of the Security Council, who want the Council to remain the focus of the UN's counterterrorism program and the need to achieve consensus, the Strategy states that the CTITF must conduct its work within existing resources. In other words, despite the recognized need for improved coordination and coherence, the General Assembly may not have provided the CTITF with the tools necessary to allow it to succeed in the long term. In addition to inadequate resources, it remains to be seen whether the CTITF has the necessary authority to get the different parts of the system to share information, cooperate, and reduce overlapping mandates, all of which are required to improve the UN effort. In short, while the adoption of the Strategy is an important step in the right direction to improve the UN's counterterrorism performance, the necessary institutional structures may not be in place to support effective Strategy implementation over the longer term.

5. Conclusion

How possible is it to adopt robust policies against 'terrorism', while maintaining a commitment to civil liberties and human right standards as well as restoring the unity amongst major powers within regional and global institutions? How pos-

sible is it to set up policies that do not concede arguments to activists? These are the challenges that the EU and the UN faces today. Let me propose a way to begin framing a policy that addresses terrorism effectively.

First, the measures adopted should match the diagnosis. Biometric IDs, the exchange of DNA, EU-wide databases, the reintroduction of internal border checks, the reinforcement of external border controls and the European Evidence Warrant would have been of no help in preventing terrorist events from occurring. Arguments to the contrary would be dishonest. By contrast, a policy of recognition (equal treatment) and integration (social inclusion), not only of tolerance, would have probably made a significant difference. This may prove more difficult if more rewarding than enacting new coercive rules. The EU needs, therefore, to rethink its discourse and overall approach towards groups of its citizens (and noncitizens) who are of different racial and religious backgrounds. This, we know, is complicated. Policies on integration and social inclusion are still largely the preserve of local authorities under the national level. The question then arises as to how the EU could have a real impact in these fields. Whatever forms these policies might take at national level, I believe that the EU can at least ensure their compliance with equal treatment and non-discrimination. Further, governmental attempts to de-politicize acts of violence undertaken by home-grown terrorists are irresponsible. This stance only makes sense in view of a stubborn refusal by certain member states to see any link between domestic radicalization and their international activities. To close this window of vulnerability, the EU should therefore seek out

the political message behind these attacks and consult with member states in order to uproot the threat. This is even more urgent if the bombings are carried out by those for whom religion and politics are intertwined. Second, the policies adopted should not be disconnected from the rule of law. They should rather start from and be embedded in the rule of law. This is the precondition for their having a democratic nature and judicial accountability. This, I do believe, will enhance transparency and safeguard the legitimacy of legislations agreed upon by member states.

Finally, a Community approach to terrorism should be given preference over intergovernmental actions that seem to compete with the EU level. Terrorism is already too complex a problem to tackle; matters related to it should be dealt with in a coherent institutional setting. Too many institutions and agencies along with too many initiatives will blur the policies adopted and affect their efficient implementation. The direct result is a more vulnerable EU. Many would have us believe that the seriousness of the threat justifies 'exceptional measures' that are neither proportionate nor in compliance with human rights and civil liberties commitments. This is a perilous posture for liberal democracies.

The role of the UN should be re-focused on its norm setting ability, that is to say to work on a unified legal framework which allows the three levels on which the fight against International Terrorism is currently undertaken to be harmonized and to ease the unavoidable frictions which also in the future might occur between the national, the regional as well as the global level. An additional role could be taken over by the

GA in which 191 states are represented and which is in my opinion the least developed.

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Nuclear Proliferation and International Order - The Reform of the Non-Proliferation Regime

Joachim Krause

Executive Summary

The nuclear non-proliferation regime is in a crisis, but it is definitely not as severely damaged as proponents of the liberal arms control school are suggesting. Their main argument is that contractual breaches (first and foremost) by the nuclear weapon states as well as by non-nuclear weapon states (Iran, North-Korea; Iraq and Libya in the past) and the ongoing abstentions of India, Israel and Pakistan from the regime are the main causes for the pending col-lapse. It is argued here that the main factor in preserving the nuclear non-proliferation regime has been the relative success of the rule of non-use of force in interstate relations and that the NPT is part of the overall international order that helps to maintain the non-use of force between states. It is more important to see to that this rule will be maintained than in making assumptions whether there was a basic deal between nuclear weapon states and non-nuclear weapon states on disarmament. In this regard, it is imperative to solve the problem cases of Iran and North Korea in a way that the basic content of the NPT - no erosion of international security as a consequence of nuclear proliferation - will be safeguarded. If the debate is tilting too much towards disarmament an erosion of the whole regime might set in.

Introduction

Concerns about the nuclear programs of North Korea and Iran, along with the controversies surrounding the Indian-American Nuclear Agreement of 2005 have generated a deep pessimism about the prospects of the nuclear non-proliferation regime. Assertions that the regime is broken and world order itself is in danger have become increasingly frequent. But it is nonetheless not yet clear just how serious the crisis is and how the different cases are inter-

connected. At present at least three different interpretations can be identified as to why and how gravely nuclear non-proliferation policy is endangered and what the consequences for world order will be:

- First, the widespread theory of the liberal school of arms control cites three threats to the nuclear non-proliferation regime: (1) the failure of nuclear states to disarm, (2) the continued existence of loop-holes in the regula-

tions of the Nuclear Non-Proliferation Treaty (NPT) of 1968 as well as (3) the danger of terrorism. The liberal school of arms control assumes that all arms represent a risk and that nuclear arms are particularly menacing ; it emphasizes the dangers of arms races and considers the greatest risk potential to originate with nuclear weapon states that have set a bad example for the others by refusing to reduce their own arsenals. Proponents of this school argue that the nuclear and non-nuclear weapon states entered into a firm agreement on nuclear disarmament in the sixties and that since the non-nuclear-weapon states have renounced nuclear weapons of their own, it is now high time that the nuclear powers completely destroy their stockpiles. They consider the difficulties in dealing with actual or presumptive treaty breakers to be primarily a consequence of the misguided policy of those states with nuclear weapons, in particular the USA.

- The opposite view is being held by the "realistic" school. Its adherents proceed from the assumption that the non proliferation regime was an anomaly: they argue that states cannot be permanently denied the right to maintain their security by whatever means they deem to be necessary. According to their assessment a world with many nuclear weapon powers was, in principle, more stable than one in which only a few have such weapons. The present nuclear non-proliferation regime reflected the hegemonial role of the USA in the international system. And should this hegemony be called into question, the non-proliferation regime would automatically collapse.

- A third school of thought, a view shared among many experts of the strategic community, asserts that the nuclear non-proliferation regime is in principle viable but that it is confronted with numerous challenges that can no longer be adequately mastered with the classical means of multilateral diplomacy. On the contrary: the established mechanisms of multilateral, global diplomacy can often actually pose obstacles, since debates in this context tend to circle endlessly around relatively insignificant problems while the true issues are left practically unaddressed. Unilateral or multiple measures should, therefore, also be undertaken, up to and including military intervention and where necessary preventive measures.

All of these schools contain a kernel of truth, but they all remain ultimately unsatisfactory. The arguments of the first school of thought are weak, because they are based on the assumption that a natural division exists between those states with and those without nuclear weapons that determined their respective security interests. But in reality no state can base its security strategy principally on its membership in the one of these groups. It is, rather, more likely that their strategies will depend on how they perceive their situation, its risks and threats at any given time. Hardly any cases (with the possible exception of India) exist in which states were motivated to acquire nuclear weapons because of the supposed bad example of the five original nuclear weapon states. It would be equally difficult to identify states that assume they have a fundamental right to nuclear arms and are only waiting for the non-proliferation regime to collapse or for the nuclear weapon

powers to offer them something as compensation for continuing to renounce nuclear weapons. The overwhelming majority of states do not wish to acquire nuclear weapons - a fact that would appear to contradict the theoretical assumption of the realistic school. Moreover, most states accept the more or less permanent inequality between states that possess nuclear weapons and those that do not - at least as long as no tangible disadvantages arise for their security interests. Furthermore, many states have in the past perceived and continue to view the nuclear weapon potential of the USA as the guarantor of their security, as was certainly the case in the Federal Republic of Germany during the East-West conflict. Granted, the voting behaviour of many of the non-nuclear-weapon states during the Review Conferences on the NPT would seem to corroborate the thesis that there are various camps. But it does not reveal the existence of any united front of non-nuclear-weapon states. Even those governments that were the most radical critics of the nuclear-weapon-states during these conferences (Mexico, Malaysia, and Nigeria) did not imply that their discontent over the behaviour of the nuclear weapon powers would lead them to seek their own nuclear weapons. The few states that are actually suspected of developing secret nuclear weapon programs usually kept a low profile during such debates.

Why has Nuclear Non-Proliferation Succeeded? In understanding the nature of the crisis one first has to ask for the reasons for the successes of the nuclear non-proliferation regime during the past 35 years. The fact that so many states that were supposed to have become nuclear weapon states rather have chosen the non-nu-

clear-weapon status still has to be registered as an outstanding success. Why have the 182 non-nuclear-weapon states that signed the NPT - with few exceptions - been satisfied with the nuclear status quo in the past? To understand this one has to overcome the conventional wisdom of nuclear non-proliferation.

The conventional wisdom states that the NPT was the result of a big deal between two groups of states involving technological assistance and disarmament:

"In essence, the NPT is an agreement between the non-nuclear-weapon states (the have-nots) and the five nuclear-weapon states (the haves): In exchange for an undertaking to refrain from trying to obtain nuclear weapons the have-nots receive technical assistance in developing their nuclear industry and an undertaking by the nuclear-weapon states to disarm."

This contention is wrong on both instances. The "technical assistance" vaguely referred to in Paragraph 2 of Article IV of the NPT should rather be called technology transfer. However, it has never been invoked to a substantial degree by the countries of the developing world. Rather, the most important technology transfers in the civilian nuclear field took place prior to the entering into force of the NPT (as a consequence of the Atoms-for-Peace policy of US President Eisenhower). Many non-nuclear weapon states joined the NPT after they had mastered critical technology advances in the civilian nuclear field. Many did this in order to put more legitimacy to their respective civilian nuclear programmes and to enable their industry and scientist to cooper-

ate in the further development of their civilian nuclear programmes. For them paragraph 1 of Article IV of the NPT was the most important one. Most non-nuclear-weapon states (more than 120) have never asked for substantial technical assistance in the civilian nuclear field, because they had neither the intention nor the capacities to embark on the nuclear technology path.

How important the aspect of international legitimacy is for the continuation and further development of civilian nuclear programmes can be inferred from the cases of India, Israel and Pakistan, the only states that have refused to join the NPT. They all had to accept major repercussions for their civilian nuclear programme. India is the most conspicuous case in kind. The price for pursuing the nuclear weapons option was that India had tremendous difficulties in fully developing its civilian programme and still has. Pakistan and Israel have both chosen the military path in the field of nuclear energy and, thus had to do without a viable civilian nuclear programme.

Similarly, the contention that the NPT was in essence a treaty on the elimination of nuclear weapons is not borne out by the relevant documents of the negotiations within the Eighteen Nations Disarmament Committee (ENDC) in the 1960s. The Non-Aligned states and, in particular, neutral Sweden, wanted the NPT to become a disarmament treaty, but they did not succeed. They were joined, rhetorically at least, by the Soviet Union; but after the Soviet Union and the United States had presented identical draft treaties in August 1967 and in January 1968, the attempt to anchor binding obligations on nuclear

weapons disarmament in the treaty was given up. In her statement to the ENDC on 8 February 1968, the Swedish minister for disarmament, Alva Myrdal, conceded that it had become impossible to arrive at legally binding obligations requiring the nuclear-weapon states to eliminate their nuclear weapons.

The case of the Non-Aligned states had been weakened by disagreement among themselves. The chief point of contention was the issue of peaceful nuclear explosions, an option that Brazil and India had voiced a conspicuously strong interest in preserving. But there was also disagreement on how far the Non-Aligned should go in blocking the conclusion of the NPT for the sake of disarmament. Some shared the Western position that the NPT was an important element of stability that could further the prospects for nuclear disarmament - a position in principle shared by the Soviet Union - and were more or less content with language that politically committed the nuclear-weapon states to negotiations in good faith towards nuclear weapon disarmament; others, such as Sweden, wanted to make the signature and ratification of the NPT by the Non-Aligned states contingent upon the conclusion of parallel treaties banning nuclear weapon tests and the production of nuclear weapon material. The Swedish position was strongly influenced by Myrdal, who fought an almost personal battle against the superpowers, which she said were acting irresponsibly and irrationally and needed to be controlled by the "world community".

The eventual wording of the NPT remained vague with regard to disarmament obligations. Article VI is directed towards all states parties to the

NPT. While imposing a specific political commitment on the nuclear-weapon states to negotiate in good faith towards the cessation of the nuclear arms race at an early date, it does so in the context of broad and vague formulations according to which nuclear disarmament (which is not necessarily tantamount to complete nuclear weapons elimination) should be the subject of negotiations, and makes clear that negotiations on general and complete disarmament under strict and effective international control are also part of that commitment. The delegations of Sweden, Brazil, India, Italy, Egypt, Nigeria, Ethiopia, Romania and Burma were dissatisfied with this language, and expressed their reservations. The draft treaty was unreservedly accepted on 14 March 1968 by only eight of the seventeen members of the Eighteen Nations Committee. These facts do not support the contention that the bargain of the NPT was in fact a unanimous agreement on a phased elimination of nuclear weapons.

In looking at the different groupings of states involved directly or indirectly in the negotiations, there is also no clear distinction to be made out between have-nots and haves. On the contrary, among the nuclear-weapon-states only the US was really interested in a multilateral agreement, the others were sceptical or inimical to the whole concept (most conspicuously France and China). Most developed non-nuclear-weapon states were less concerned about acquiring nuclear technology than about becoming disadvantaged in the civilian industry application of nuclear energy (most conspicuously the Federal Republic of Germany, Japan and Italy). There also was a group of Non-Aligned threshold states (such as India, Brazil, Argentina) that wanted to keep their

own nuclear weapon options open. For them a strong disarmament commitment of the nuclear-weapon-states was important since it could give them a pretext later for their own nuclear armaments efforts (a path which India actually pursued). This group was quite small, but very vocal and influential within the Non-Aligned Movement. Besides these small but influential groups of states basically sceptical against the idea of the NPT, there was a silent majority of states that for different reasons - often rooted in their limited human, economic and technological resources - could not even ponder nuclear weapon options of their own and for whom any effective non-proliferation regime promised to be a boon. The main deal was mainly made between the United States (supported by Russia, which at that time only wanted to prevent West-Germany from any control over nuclear weapons) on the one hand and the groups of doubtful states on the other hand, who grudgingly accepted the end result. The states of the silent majority remained more or less outside the negotiations; their hour came after the treaty was laid out for signature and ratification. Despite the many reservations expressed and unilateral declarations made, and despite the abundant criticism voiced against the NPT, it was promptly signed by more than 60 states and later became the most nearly universal multilateral agreement in the security field. The true bargain - the deal that has kept the NPT together - was the coalition between, on the one hand, the United States (as the only major power interested in nuclear non-proliferation) and, on the other, the silent majority of states who were happy to see a freeze put on nuclear proliferation. Most states in the other two groups were brought into the regime one by one - with

the exception of Israel, India and Pakistan. In most cases, US security guarantees and special arrangements in the field of technology transfer were the keys to overcoming security concerns.

One might argue that while during the times of the negotiations there had been no consensus on nuclear disarmament, such a consensus has come about later within the international community. It might be true that in terms of declaratory politics the disarmament aspect has been highlighted, in particular since 2000. But does this really explain adherence to the NPT? It still remains difficult to explain that the biggest increase in membership of non-nuclear-weapon states took place during the 1980s, i.e. at a time when the Soviet and U.S. nuclear arms build-up was at its top.

In order to understand the mechanism that has kept together the NPT, one has to start from more differentiated assumptions. The basic point that has to be made in this regard is that the NPT is mainly a security treaty and to a lesser degree a treaty dealing with technology distribution. The NPT's main function - besides to legitimize civilian nuclear programmes and thus to enable international cooperation - has been to freeze the status quo of nuclear-weapon possession, and it is this function which has provided for its attractiveness among the many non-nuclear-weapon states. It came at the right time, i.e. when the number of nuclear-weapon-states was small enough, and when the interest of the US and of many weak states in preventing any further proliferation was strong enough to seal an international consensus on this freeze. The NPT is unjust and unfair, but this is exactly what has made this treaty successful. It has found

broad support because the huge majority of states know that without this treaty their security would be diminished.

How could such a consensus be feasible despite the anarchic nature of international relations? In order to understand this acceptance of the inequality between states with nuclear weapons and those without we have to look at two structural developments that have shaped the past decades: respect for the principle of the prohibition of the use of force between states and the occurrence of structural changes within the states of the developed, western countries and the threshold countries of Asia and Latin America, i.e. those states that were technologically capable of being candidates for nuclear proliferation.

The prohibition of the use of force between states was established in the UN Charter and, judging by the last 60 years, it can be considered to have been relatively successful. But the continuous decrease in the use of force between states cannot be explained by the UN Charter alone. It was and is much more crucial that there are institutions and states that take responsibility for ensuring that this principle is upheld. In the more than 60 years since the UN was founded it has typically been the US rather than the UN Security Council that successfully committed itself to uphold this principle, either through multilateral diplomacy, through NATO, in cooperation with allies or as sole intermediary, as guarantor of peace agreements or of the security of its allies. US advocacy of the prohibition of the use of force marks a fundamental difference to the period between the two World Wars when there was no power willing and ca-

pable of guaranteeing the international order of collective security. Without American security guarantees and the repeated endeavours of Washington to solve conflicts in a preventive, diplomatic manner, to intervene in crisis situations and if necessary apply massive pressure in order to bring regional wars (such as in the Middle East or Southern Asia) to a quick conclusion, the renunciation of force proclaimed in the UN Charter would have had no more effect than the Briand-Kellog Treaty of 1928. That is, without the effectiveness of the prohibition of the use of force the nuclear non-proliferation regime could never have been successful.

The other development that decisively has contributed to the success of this regime was the structural change in the nature of the state in western industrial countries as well as in the industrial and threshold countries of Asia and Latin America. As the new international order emerged after World War II, a shift occurred in the functions of the state toward more intervention in the economy and modernization of infrastructure, as well as expansion of the welfare state and redistribution of wealth. Political success was no longer defined in categories of territorial expansion and security, but rather by measures such as creation and securing of employment, through the ability to compete in international markets and through greater social security. In the wake of globalization, this model calling for a primarily economic role for the state aimed at satisfying domestic needs has become attractive to other states outside the western world. The British political scientist, the late Susan Strange, attributed this trend to the influence of the USA which used its pre-eminence in the international system after World War II to

define the rules of the international economic system and brought the states of Western Europe and Northern Asia into the fold of a free trade economy. This movement has since developed such momentum that the power of the states has begun to recede as impersonal market dynamics gained sway.

These functional changes and the resultant loss of power of the state have repercussions on nuclear proliferation: States that assign great value to a functioning economy, where economic well-being depends on access for their firms to international markets and their capacity to attract foreign investors can today no longer afford to acquire nuclear weapons. In the 1990s Erwin Häckel and Karl Kaiser presented an analysis of opportunity costs of a hypothetical nuclear option for the Federal Republic of Germany. Their conclusion was clear: the political and economic opportunity costs were so high that they clearly precluded such a decision. Similar calculations can surely be made for almost every state - around 50 today-with appreciable nuclear capabilities. There are a few exceptions, but they tend to confirm the rule. This applies not only to those countries that have not joined the NPT (Israel, India and Pakistan) but to those that have broken the treaty as well. Israel is one of the few countries that actually have a massive security problem; nuclear weapons represent an existential guarantee for its survival. India is the only country to follow the example of the USA, China, France and Great Britain in an effort to underline its pretensions as a world power in the manner the liberal arms control theory has described. But as India has become more aware of its increasing interdependence within the world economy, it has

adopted a more reserved approach. The conclusion of the treaty on cooperation in the field of civilian nuclear energy with the USA suggests that New Delhi has come to recognize the signs of the times. Pakistan, on the other hand, became a nuclear weapon power because it saw no other way of dealing with the India's superior power. Iraq (under Saddam Hussein), Libya and Iran are rentier-states that share the advantage of oil producers that do not necessarily have to worry about cooperative standards. The regular flow of gigantic revenues has made it possible for adventurers, criminal family clans, religious fanatics and eccentrics to maintain power there. These states with huge assured in-comes can become potential buyers of nuclear weapons should they channel internal problems into international aggressiveness or seek to avoid international sanctions or interventions.

Being not a rentier-state, North Korea represents the special case of a state that has gone bankrupt due to its international isolation and believes that it can overcome - or at best put off - the crisis through nuclear blackmail.

Nuclear Order and the Prohibition of the Use of Force

Thus one might be tempted to agree with the third school of thought that the world nuclear order is not facing such a fundamental threat after all. It will, indeed, remain secure as long as the principles of the international political order sketched above (continued prohibition of the use of force either through the UN Security Council or the USA as well as the primacy of economic and welfare considerations) are upheld. There is some question, however,

whether or not nuclear non-proliferation could be eroded anyway as a consequence of the erosion of the prohibition of the use of force. And in the past 15 years a number of developments have arisen that suggest that this principle of prohibition is in crisis. There appear to be two main reasons:

- The increasing level of violence in domestic social conflict observable primarily in failed states has become a real factor in politics today. In most cases the universally valid principles of international law that constrain the use of force are being violated on a massive scale without triggering any appreciable intervention by the community of states.
- The failure of the central organ of collective security, the Security Council of the UN, in the face of the international crises of the past 15 years (Bosnia-Herzegovina, Kosovo, Rwanda, Congo, Sudan, Iraq, North Korea, the Middle East) has contributed in a major way to the erosion of the prohibition of the use of force in various regions of the world. Africa is the most prominent example. Where ever the USA, NATO or other al-liances of western states did intervene, with or without a mandate from the UN, this erosion was stopped.

Furthermore, the increasing acceptance of the incendiary slogans of political Islam in the Islamic world should be cause for considerable concern. If they were ever to become an integral part of the political programs of existing governments, they could potentially become a fundamental threat to the international prohibition of the use of force. Just how closely the nuclear order and the international political or-

der are interconnected becomes apparent when one considers that if representatives of radical political Islam were to gain control of nuclear weapons the entire prohibition of the use of force regime could be overturned. If, for instance, Iran were to acquire nuclear arms and the otherwise rhetorical threat of eradicating Israel became a real option, nuclear conflict in the Middle East would become a distinct possibility: Given its small size, Israel could be "eradicating" with a relatively small number of nuclear explosions.

The Precarious Role of the USA

Without the repeated US advocacy (alone or together with the Europeans and other states of the western world) for the prohibition of the use of force and adherence to the NPT, both the international political order as we know it and the non-proliferation regime would be barely existent today or limited to the western world. In this sense the argument of the proponents of the third school of thought that the USA is the guarantor of the nuclear non-proliferation regime and the international prohibition of force is logical. There is, however, one problem: The more the USA is willing to compensate for the deficits of multilateral institutions, the more resistance it generates to its efforts.

There are two reasons for this resistance: first, unilateral action on the part of a super power like the USA - no matter how justified - often triggers counter movements that develop out of a general defensive stance and an instinct to resist that reflects prejudices and animosity vis à vis that larger power. Second, American policy has never been without flaws and imponderabilities, and strong doubts as to the quality and

professionalism of those acting in the name of the USA have often been justified. This was and is the case in other fields as well, but the problem has never been as clear as under the present administration. The dilettantism with which it prepared and executed the invasion of the Iraq War (that was supposed to restore the authority of the UN Security Council but was then substantiated in detail with hair-raisingly false assertions) and the catastrophic diplomatic style and PR policy of the Bush Administration have caused many countries to view the USA as a greater threat to international security than Iran with its nuclear ambitions. This clearly demonstrates the fundamental dilemma involved in upholding the international political order (defined as the prohibition of the use of force) and the nuclear non-proliferation regime. The more the weakness of multilateral institutions causes the USA to take over these tasks, the harder it gets to win international acceptance. On the contrary: the more the USA acts unilaterally, the stronger the resistance becomes, thus creating a situation that opens up undreamt of opportunities for those states that are mounting a massive challenge to this very order.

The Iranian leadership has recognized this opportunity and is exploiting the situation to create the capabilities necessary to get as close as possible to building a nuclear weapon. Most remarkably, after the exposure of its secret enrichment programs in 2002, Iran chose the political offensive and became a vocal advocate of the right of all Third World states to nuclear enrichment. The Islamist Mullah regime in Tehran has used the divisions that surfaced between the USA and its allies since 2003 to stage a

confrontation with the USA and the UN. This, in turn, has helped it shore up its domestic power base. The leadership of North Korea has taken a similar tactic, which suggests that it shares this assessment of the international situation. The battle over nuclear non-proliferation and the international order could be lost, if this trend is allowed to continue. No less an authority than the former US Secretary of State, Henry Kissinger, has warned that both crises could mark an historical turning point. As in the 1930's, the entire international order could collapse, if those powers responsible for its preservation no longer support it. "A failed diplomacy," Kissinger asserts with regard to Iran and North Korea, "would leave us with a choice between the use of force or a world where restraint has been eroded by the inability or unwillingness of countries that have the most to lose to restrain defiant fanatics."

The case of North Korea might show that there are avenues possible. In looking back at the 1990s, the impression was that North Korea could not be prevented from acquiring a nuclear-weapon capability because the Security Council could not find the resolve needed to stand up against the leadership in Pyongyang. In fact, any attempt to even pass a resolution condemning North Korea met heavy Chinese resistance at that time. Today, things are different. During the past two years it seems that China was ready to assume much more responsibility in this field. After having called the North Korean nuclear programme a "bilateral US-North Korean problem" for many years, Beijing has since 2005 played an increasing positive and constructive role in convincing the North Korean leadership that it has to back up from their nuclear weapons programme. Today the odds are better than

ever before in the past 15 years that the North Korean crisis might be solved. This is indicating a new sense of responsibility for upholding international order shared by another member of the UN Security Council than just the US. If this is continuing, we might see a renewed role of the UN Security Council in the future.

Outlook

In dealing with the crisis of nuclear non-proliferation, a paradigm shift is needed. The dominant scholarly paradigm - the liberal arms control school - is not (or no longer) helpful in addressing nonproliferation issues. On the contrary, it has become part of the problem we face in dealing with problematic states. Their proponents' main concern is disarmament but not security under given circumstances with lesser nuclear weapons. Their understanding of the mechanics holding together the NPT is flawed. The main problem is that the more their arguments are being circulated around and the more the multilateral diplomacy is echoing their advice, the nuclear non-proliferation regime is edging towards a slippery slope. The dangers inherent in the dominance of the traditional paradigm become obvious when one looks at how much their arguments are already being used by challengers of the regime - such as the Iranian president - in order to further their case. These challengers basically want to defy an international order that has been based on US stewardship.

What is often overlooked is that without that stewardship the order of the non-use of force between states would collapse as well as the nuclear non-proliferation order. Hence, the

stakes are higher than just nuclear non-proliferation. However, the problem is not just being posed by the challengers; it is also how the US is living up to its stewardship. The past years have been marked by growing doubts as to the ability of the current US administration to meet this goal. In this regard it is of growing importance whether and how the US is supported or even substituted in its stewardship role by the member states of the European Union. It is also important to see states like China or Russia assuming responsibility for international peace by taking an active role within the United Nations or within the framework of back-channel negotiations, as has been the case with the 6-Parties talks on the North Korean nuclear programme. To date, they seem to see their main role in balancing the US within the United Nations Security Council. This, however, is not in conformity with the overall task of the Security Council, i.e. having the prime responsibility for international peace.

The inequality between nuclear-weapon states and non-nuclear weapon states will continue - and it will most likely pose no major problem as long as it does not go along with tangible security disadvantages for non-nuclear-weapon states. Indeed, many non-nuclear-weapon states do not consider the nuclear weapons option because they are under some nuclear umbrella or under a broader security guarantee given by a nuclear weapon state or because a nuclear threat is too remote to be counted as a real threat. The danger of a collapse of the nuclear non-proliferation regime is there; but it is closely related with the way non-nuclear-weapon states perceive their respective security environment and how strongly they are trusting exist-

ing mechanism of guaranteeing the rule of the non-use of force in international relations.

In the long perspective, the most likely danger for the nuclear non-proliferation regime is the combination of a political ideology that is defying the norm of non-use of force with the quest for nuclear weapons. In this regard, the most likely danger comes from extremist versions of the ideology of political Islam (Islamism). Radical Islamism is adamantly opposed to the norm of non-use of force. In case the current radical Islamist leadership of Iran would be in possession of nuclear weapons, the main problem would not be the emergence of a nuclear arms race, but the outbreak of a nuclear war in the Middle East. A similar danger is associated with Pakistan, where a takeover by Islamist forces might result in a severe international crisis with the danger of a nuclear war. For this contingency, a functioning and effective system of collective security is crucial. We are still far away from this, but it seems that some progress has been made in that direction.

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Energy Supply Security: Demands on Politics as Consequence of Changed Market Constellations

Friedemann Müller

Energy security for good reasons became a top issue in international politics. The buyers market of the 1980s and 1990s for oil, the most important energy carrier, changed into a sellers market. The question often asked is, whether this will remain so or whether the market will shift the power around again as it did after the oil crises of the 1970s. The answer is the market will not have the power to change the oil and natural gas market back into a market where the buyers can determine the rules. The reason for this lies in the following robust trends and the restricting factors that will stay on for the coming decades.

1. Trends and restricting factors on the oil market

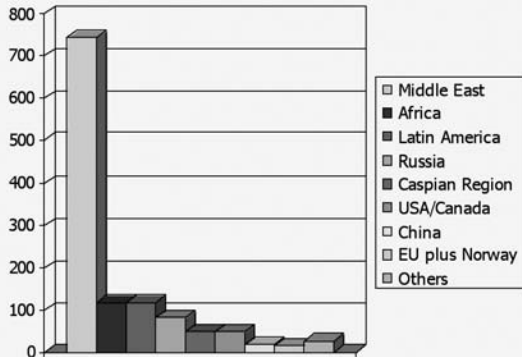
First Trend: The oil reserve concentration in the Middle East. As chart 1 spells out we have to realize an extreme concentration of the remaining oil reserves in the Middle East, more than 60 percent of all global oil reserves are located here.

This concentration will become even stronger. Chart 2 compares the shares of reserves of each region (grey) with the share of production of the same region (black). All regions besides the Middle East and the Caspian region have a higher share of its production in world production than the share of reserves in world reserves.

The inevitable conclusion from this comparison means that the other regions besides the Middle East and Caspian are exploiting their reserves much quicker so that the remaining reserves of the Middle East and Caspian region will get a further growing share in world reserves. Another conclusion is that the market becomes increasingly monopolized on the supplier side and this transforms the economic potential of the resource availability into political power. We have seen already the political instrumentalization of resource availability in Venezuela as well as in Russia and in future we will see more of it.

It is quite clear that the Caspian region plays a

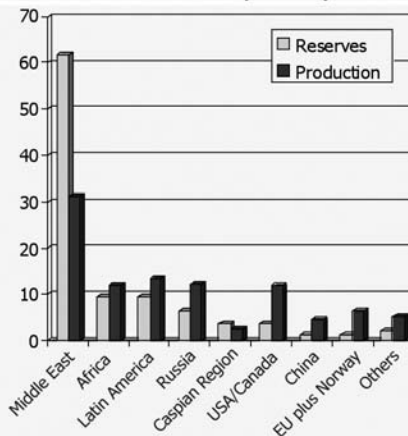
Regional Concentration of Oil reserves (2006) billion barrel



Source : BP Statistical Review of World Energy, June 2007.

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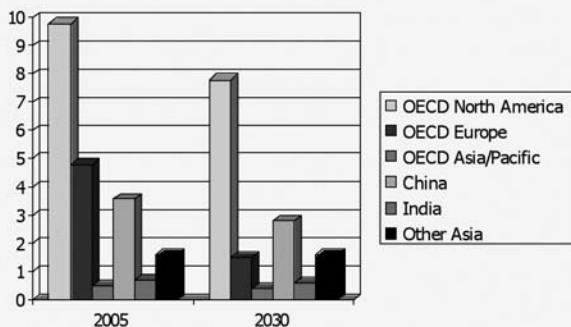
Regional Shares in World Oil Reserves and Production (2006) million barrels per day



Source : BP Statistical Review of World Energy, June 2007.

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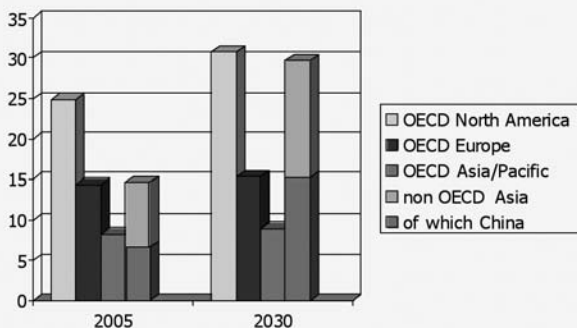
Oil Production in Demand Regions 2005-2030 million barrels per day



Source : IEA, World Energy Outlook 2006, p. 92.

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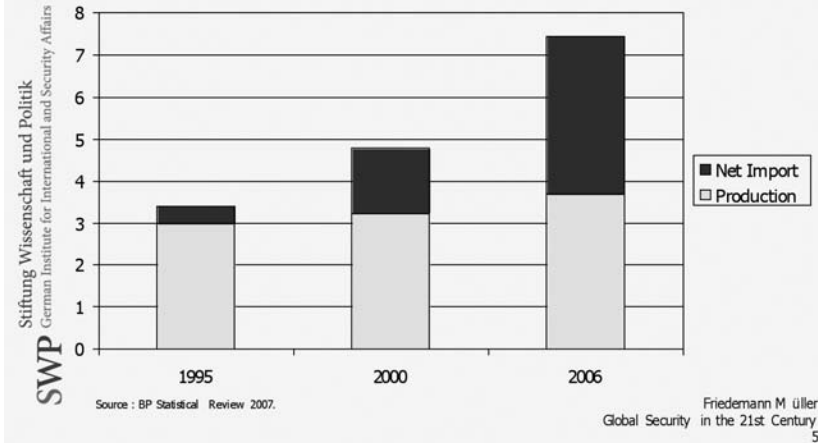
Oil Demand in OECD regions and Asia 2005-2030 million barrels per day



Source : IEA, World Energy Outlook 2006, p. 92.

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China's Oil Production, Consumption and Net Imports (1995-2006) million barrels per day



minor role for the supply of the world market in comparison to the Middle East but the very fact that the Caspian region can expect a considerable growth in its production is quite meaningful for the future oil market. It can also mean that the region might become a battle field for oil and natural gas distribution.

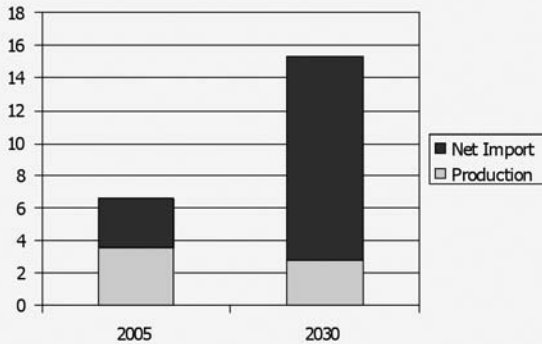
Second trend: The decline of production in demand regions. The big oil consumer regions, the Western industrialized (OECD) regions as well as the newly emerging economies such as China and India will have to calculate with an absolute reduction of their respective oil production (chart 3). This means that even if the consumption of oil will stay stable the import share and the import dependence has to grow.

Third trend: The demand growth in Asia. The demand, however, will grow (chart 4), particularly in the Asian emerging markets.

The case of China indicates what this means for the international oil market (chart 5). While in 1993 China still was a net exporter it is now the second largest consumer and third largest importer and thus has a major influence on the demand side of the internationally traded oil.

The projection of the International Energy Agency (IEA) until 2030 shows a further continuing rise of China's oil imports (chart 6) which will be a strong burden for the distribution of the international oil supply.

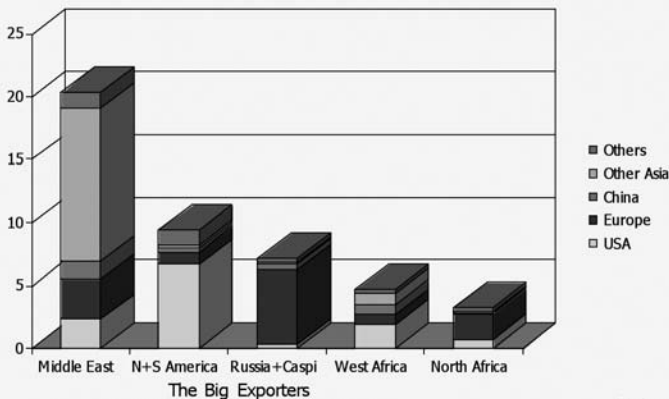
China's Oil Production, Consumption and Imports 2005-2030 million barrels per day



Source IEA, World Energy Outlook 2006, p. 86, 92

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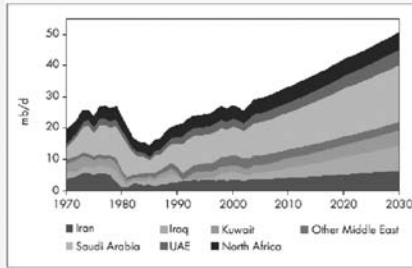
Inter area oil trade 2006 million barrels per day



Source : BP Statistical Review of World Energy, June 2007, p. 20.

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MENA Crude Oil Production by Country in the Reference Scenario



Notes: Includes NGLs and condensates.
Other Middle East includes Qatar in addition to Bahrain, Israel, Jordan, Lebanon, Oman, Syria and Yemen.

Source : World Energy Outlook 2005, p. 138.

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Besides the three trends we have two factors which restrict the flexibility of the market. One is the inflexibility of the oil trade. The structure has been relatively fixed over many years.

As chart 7 shows most of the oil exported in the Western hemisphere goes to the U.S. market. Most of Russian, Caspian and North African oil goes to Europe. Most of the Middle East oil goes to Asia. The problem is that this fixed structure does not reflect the future demand- supply relation. This embraces a major conflict potential. All major oil consumer markets will try to get more oil from the Middle East but this region probably will not provide the required supply.

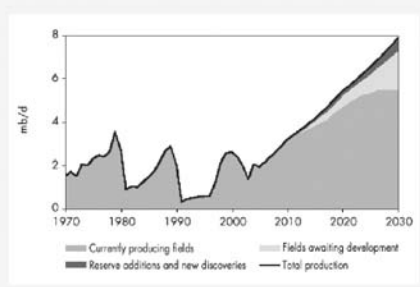
Chart 8 shows how the Middle East and North Africa (mainly Algeria and Libya) should increase its

energy production so that the future demand can be met. Looking at the production development of the past 30 years it looks improbable that the development will be as indicated in the graph. This might become even clearer if we look at the required oil production of Iraq only (chart 9).

One has to be an extreme optimist in order to believe that the oil production will follow this projection.

The second restriction comes from the fact that different from the 1970s when about 80 percent of oil production was in the hands of private business following the company's economic interests, today about 85 percent of the production is run by state companies. They adjust to the rules of monopoly behaviour and they have a political

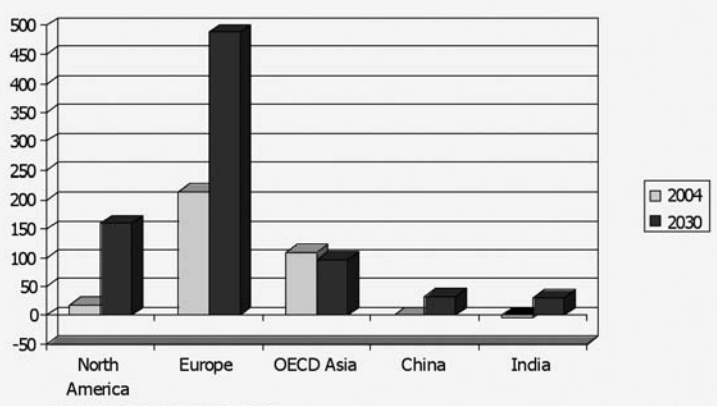
Iraq's Oil Production by Source in the Reference Scenario



Source : World Energy Outlook 2005, p. 395.

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Natural Gas Imports of Demand Regions 2004-2030 billion cubic meters

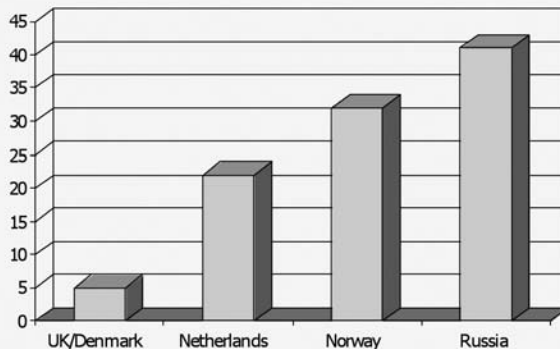


Source : IEA, World Energy Outlook, 2006, p. 118.

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Distribution of Germany's Natural Gas Imports 2005

Stiftung Wissenschaft und Politik
German Institute for International and Security Affairs
SWP



Source : DIW Berlin, Wochenbericht 8/2007 p. 113

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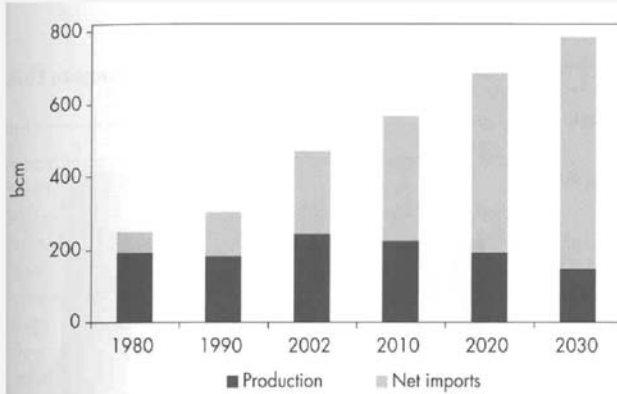
agenda. The presidents of Venezuela, Iran or Russia, three of the largest oil export countries, do not hide this political agenda. Saudi Arabia the largest oil producer and exporter follows a clear cut monopoly constellation.

The dependency of the consumer countries thus is a twofold, an economic due to the price manipulations of the suppliers and a political one due to the ability of suppliers to realize their political agenda. Europe feels this very much in its negotiations with Russia on different issues such as the Russian access to the membership of the World Trade Organization (WTO).

2. The Natural Gas Market

The structure of the natural gas market and its conflict potential differs substantially from those of the oil market. Natural gas is - due to the higher transport costs - internationally traded only over shorter distances than oil and mostly by pipeline. The effect is that up to now we have three almost strictly separate markets, a North American market, a European-Russian- North African market and a Pacific market including Australia and East Asia. The increasing share of Liquefied Natural Gas (LNG) transportation will gradually remove the borders separating these three markets. What will stay for two to three decades are the dominant role of Europe as the largest importer and a comparably small role of the Asian consumer markets (chart 10).

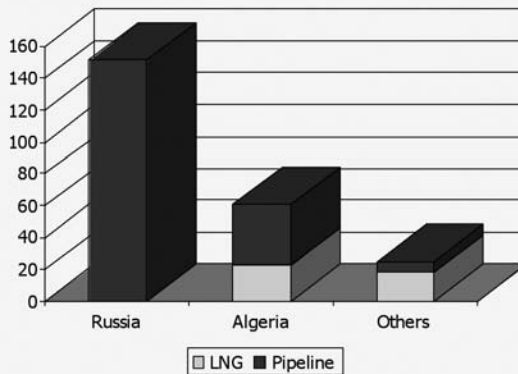
Natural Gas Supply in Europe 1980 -2030



Source : IEA, World Energy Outlook, 2004, p. 155.

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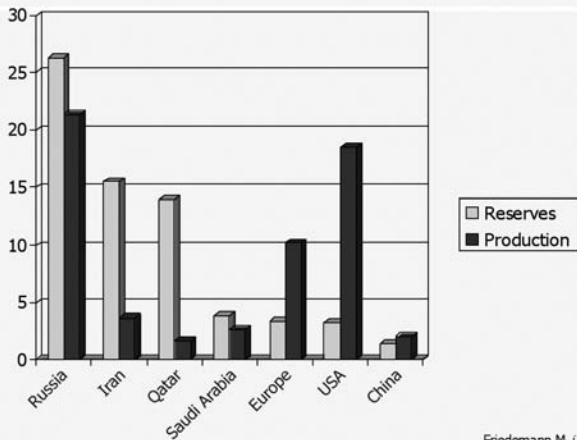
Europe's Natural Gas Imports 2005 billion cubic meters



Source : BP Statistical Review of World Energy, June 2006, p. 30.

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Shares of Regions in World Natural Gas Reserves and Production 2006



Source : BP Statistical Review of World Energy 2007.

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The largest import market within Europe is Germany. Its imports are diversified as shown in chart 11.

The problem with the European suppliers, however, is that this growing consumer market will have a decline of domestic production which means that the share of imports from outside Europe has to grow rapidly (chart 12).

Looking at Europe as a common market it has an extremely bad diversification of its imports (chart 13)

Russia plays a dominant role in supplying the European market. Considering the dramatic increase of import demand in Europe Russia alone will not be in the position to keep its market

share on the big European market. Therefore, Russia tries to keep its dominant position by buying Caspian natural gas and trying to establish a natural gas equivalent to OPEC on the oil market.

What are the alternatives for Europe for diversification and satisfying its demand? Chart 14 compares the share of world natural gas reserves with the share in world production in different regions.

It is obvious that the big consumer markets North America and Europe will eat up its reserves quickly while there are exactly two countries that can increase their production substantially: Iran and Qatar with together a roughly 30 percent share in world natural gas reserves. The fact

that these two countries have a huge production growth potential and their geographic location allows a supply by pipeline and LNG not only of Europe but also of South and East Asia makes these countries to objects of a potential distribution conflict. It puts, for instance, Iran into a powerful position with regard to its nuclear program and the international objections against it. It might play with its export diversification according to the importers' political adjustment to the Iranian position with regard to this conflict.

3. Options for Conflict Prevention

The analysis so far should have made clear that the international energy distribution has produced a serious political dimension and conflict potential. The market is no competitive market any more but monopolized under control of the major supplier countries. Due to the tremendous demand rise in emerging economies and the hesitant supply rise in those few countries that still can increase their oil and natural gas production this control of the supplier countries will remain for decades to come. We, the consumer side, have to cope with it. We have mainly four options to reduce the tensions on this market

- A consumer-consumer dialogue: Until a few years ago the oil market was dominated on the demand side by OECD countries. They followed OECD rules that are more or less identical with WTO rules. This has changed. The new importers, particularly China, have introduced their own rules in the market. Different from OECD importers China is acting on the international market with state owned energy

companies. In their bidding behaviour they follow not just rules of profitability but also of state interests such as security of supply and they can count on government support for instance to protect the oil exploitation in Sudan. They also can be a part of a state strategy to link the political interest of development in the region and good political and economic relations between China and the respective country. All this makes the behaviour of Chinese companies for multinational oil companies less calculable and leads to frustration on the company's side. It is quite understandable and has to be recognized that China with its huge demand growth needs to open the traditional market structures to its own favour. On the other hand nobody is served to the better if, for instance, the mix of economic and political interests leads to a stabilization of a corrupt leadership as in Sudan. Therefore, we need a dialogue between the traditional (Western) demand side and the new Asian emerging economies in order to establish rules that serve both sides and prevent the fuelling of conflicts.

- A consumer - producer dialogue: The international oil market is full of uncertainties, not just because of the monopolization and politicization of this market but also due to the different rules according to which both the demand and supply side organize the procurement supply policy and the influence of the climate policy on the energy mix in industrialized countries. A consumer - producer dialogue could be helpful to bring more transparency into this market. This dialogue should not only introduce rules to depoliticize the market but offer also security of demand options for the producers with re-

gard to the post-oil age. It is obvious that the oil production peak that happened in North America and Europe already years ago and will also occur in China and Russia in a few years will take place on the global level within the next 25 years. The producer and consumer side has to prepare for that being aware that the time of oil available as the most important energy carrier is limited. If the main oil producers could be convinced to invest a significant share of their revenues into solar energy they might become again the market leader in this new age. The whole question of managing the energy change in the 21st century should be put on the agenda of this dialogue. We need to bind the producers, particularly the OPEC as one of the wealthiest and stable international organizations, into a structure of global responsibility and we should do it in a way that is to the favour of the producers.

- Improving the supply infrastructure for natural gas transportation: Many in Europe blame Russia for exploiting its monopoly position of a natural gas supplier as a political weapon. Not so many ask why Russia could receive this position. It very much has to do with the lack of infrastructure that would enable Europe to buy natural gas elsewhere. Natural gas plays an increasing role in the energy mix of Europe but also worldwide. Therefore, it is indispensable to provide a transport infrastructure which allows a competitive market structure. It is obvious that in the future the Persian Gulf region, particularly the two countries Iran and Qatar will increase their share in world supply. We should support a transportation infrastructure which allows all interested consumer countries to get access to this emerging export re-

gion without insisting in exclusive contracts. Natural gas can, to some degree, be a substitute to oil in a transition period when a conflict over the oil distribution might become serious.

- Managing the decarbonization of the energy supply: The most important approach to prevent conflicts generated by deficiencies in oil and natural gas distribution, however, is a long-term exit strategy from fossil energy, particularly oil. We have to improve the energy efficiency continuously in all countries and at the same time we have to move from fossil to non-fossil energy. Otherwise we will have rising conflict constellations in Africa, the Middle East and Latin America. The economic and political costs will be much higher if we continue to give oil a share of more than 35 percent in the global energy mix than if we make use of the options to switch continuously to non-fossil energy carriers and to make use of the potential for improving the energy efficiency. This requires particularly new technologies in the transportation sector where most of the oil goes to.

The internalization of the social costs of further wasting fossil energy is the challenge for national and international policies. What we certainly need is a cooperative not a confrontative approach to solve this major global problem of the 21st century and China is a key player in this game.

Table 1 (Chart 2)
Regional Concentration of Oil Reserves
2006

	Quantities billion barrel	Share of World Reserves percent
Middle East	742.7	61.5
Africa	117.2	9.7
Latin America	116.4	9.7
Russia	79.5	6.6
Caspian Region	47.3	3.9
USA/Canada	47.0	3.9
China	16.3	1.3
EU plus Norway	15.6	1.3
Others	26.2	2.2
Total	1208.2	100
Oil Sands	163.5	+13.5

Source: BP Statistical Review of World Energy, June 2007.

Table 2 (Chart 3)
Regional Shares in World Oil Production
2006 million barrels per day

	quantities	share in world production (percent)
Middle East	25.59	31.2
Africa	9.99	12.1
Latin America	10.56	13.5
Russia	9.77	12.3
Caspian Region	2.24	2.7
USA/Canada	10.12	11.9
China	3.68	4.7
EU plus Norway	5.19	6.4
Others	4.52	5.5
Total	81.66	100

Source: BP Statistical Review of World Energy, June 2007.

Table 3 (Chart 8)
Inter-area Oil Trade 2006
million barrels per day

To From	USA	Europe	China	Other Asia	Others
Middle East	2.28	3.21	1.49	12.12	1.24
N+S America	6.71	0.99	0.27	0.27	1.19
Russia + Caspi	0.37	5.89	0.49	0.15	0.26
West Africa	1.92	0.80	0.74	0.95	0.30
North Africa	0.74	1.95	0.08	0.12	0.35

Source: BP Statistical Review of World Energy, June 2007, p.20.

Table 4 (Chart 15)
Shares of Regions in World Natural Gas
Reserves and Production 2006

	Reserves trillion cubic meters	Share percent	Production billion cubic meter	Share percent
Russia	47.65	26.3	612	21.3
Iran	28.13	15.5	105	3.7
Qatar	25.36	14.0	50	1.7
Saudi Arabia	7.07	3.9	74	2.6
Europe	6.25	3.4	294	10.2
USA	5.93	3.3	524	18.5
China	2.45	1.4	59	2.0
World	181.46	100	2865	100

Source: BP Statistical Review of World Energy, June 2007

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Climate Change as a Challenge: Possibilities of Shaping an International Climate Policy

Friedemann Müller

The climate change problem is probably the most extensive challenge for a global regime building in the 21st century. There is no doubt that a solution cannot be found without the participation of all big powers such as China, India, the United States, Russia and Europe. Although all these political powers are committed to the Climate Convention of 1992 and all of them signed the Kyoto Protocol in 1997, even if the U.S. did not ratify it, the differences in the position of the major powers towards the climate change problem are still huge while the time left to find a reasonable solution is rather limited. Let me divide my presentation into the following short chapters

- What is the global problem?
- In which direction do we move?
- Why is it so difficult to find a burden sharing that brings us closer to a solution?
- What sort of approach do we need?

1. The global problem

When during the 1980s the existence of the cli-

mate change problem became obvious among natural scientists, the Intergovernmental Panel on Climate Change (IPCC) was founded in 1988 under the auspices of two UN organizations. It consists of hundreds of experts, mainly climatologists from all over the world that represent the collective wisdom of natural science on the phenomenon of climate change. The IPCC has published since 1990 every five to six years extensive assessment reports. The Fourth Assessment Report consisting of different reports of the three IPCC Working Groups has been published, at least in a preliminary version, in 2007. Working Group III presented in May during a conference in Bangkok a 35 pages paper called "Summary for Policymakers". The following chart 1 is taken from this paper and reduced to its core message.¹

It says: Human activities which increased the greenhouse gas concentration in the atmosphere since the beginning of industrialization from about 280 to about 380 parts per million (ppm) today will continue to increase the concentration. Such a further rise of the concentration can be

1 The extensive table is to be found in the annex of this paper as table 1

GHG Stabilization in the Atmosphere Average Data of Five IPCC Scenarios

Temperature increase	Peaking year of CO ₂ emissions	Change in emissions 2050/2000 (%)
2.2° C	2008	-70
2.6° C	2010	-45
3.0° C	2020	-18
3.6° C	2040	+35
4.5° C	2065	+55

Source : IPCC, Bangkok, May 4, 2007

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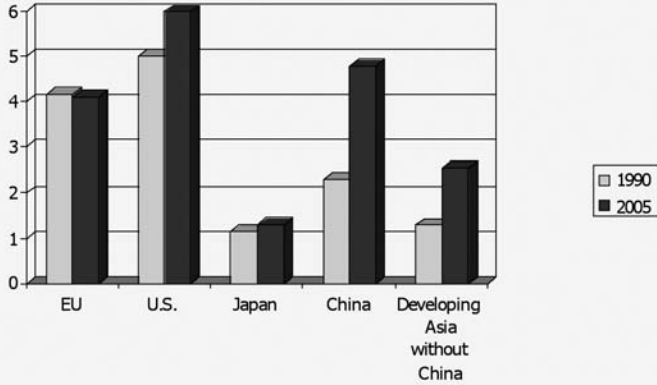
translated into increases of the global mean temperature. We, the human mankind, have to take a decision which rise of temperature will be the utmost acceptable. The table will show which measures have to be taken to keep the rise of temperature within these limits.

As I mentioned earlier practically all countries in the world including China, the U.S., India, the EU and Russia have signed the Climate Convention of 1992 and are bound to the goal of its article 2 which says: "The ultimate objective of this Convention ... is to achieve ... stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate sys-

tem"² The European Union has decided that this limit is to be defined by a 2 ° Celsius increase of the global mean temperature. Chart 1 shows that such an ambitious goal requires an immediate peak of the global emissions and a reduction of global emissions until 2050 by 70 percent. Less ambitious goals leave more time but even a 3 °C increase requires a peak within the coming 13 years and a significant reduction until the mid of the century. A 3 ° Celsius increase will, however, have serious impacts such as a significant sea level rise, droughts, floods, storms etc.

2 United Nations Framework Convention on Climate Change, Article 2 (signed in Rio de Janeiro 1992)

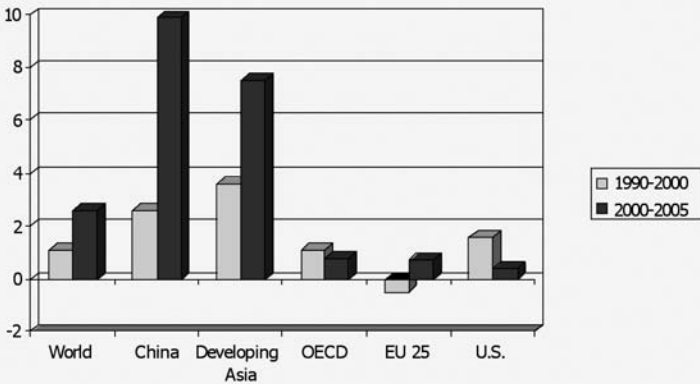
CO₂ Emissions 1990 -2005 Different Regions billion Tons



Source : DIW, Berlin August 30, 2006.

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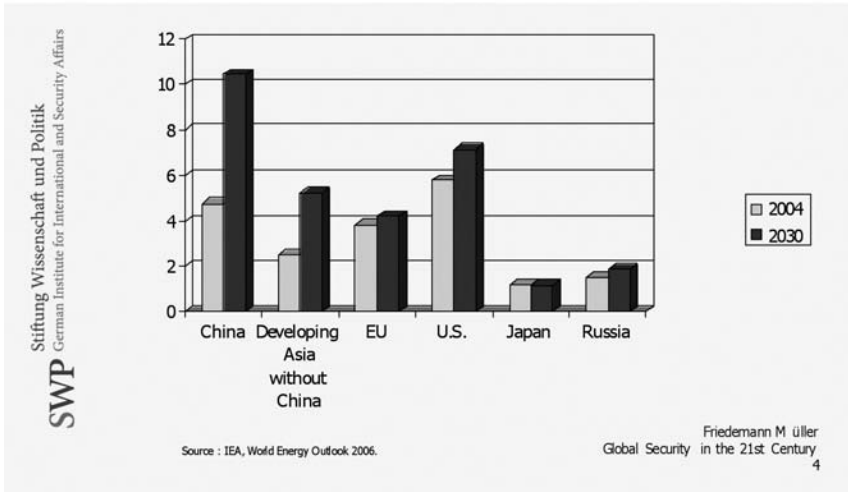
Annual Average Growth of CO₂ Emissions (percent)



Source : DIW, Berlin August 30, 2006.

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CO₂ Emissions of different regions 2004-2030 IEA Reference Scenario billion tons



2. Into which direction do we move?

The reality is that we are moving in a very different direction than towards a peaking of global emissions in the foreseeable future and a substantial decline afterwards.³

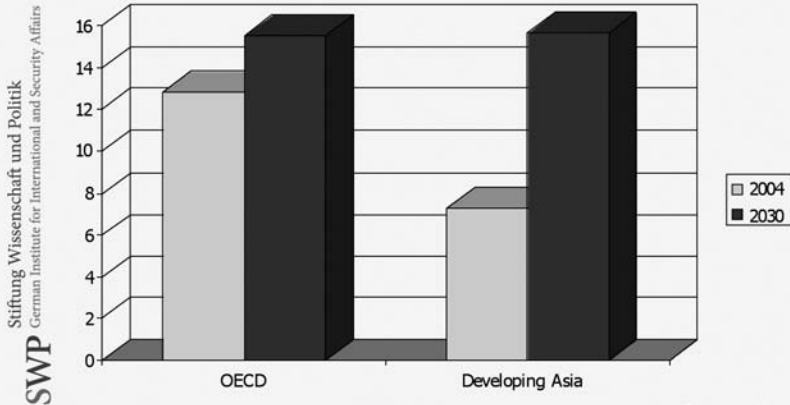
Table 2 (see Annex 2) shows that industrialized countries started in 1990 - which is considered as the base year in the Kyoto Protocol and other climate change relevant commitments - from a high level of emissions with relatively low growth rates during the past 15 years, while China and

the Developing Asia started at a low level of emissions with relatively high growth rates. The result is a 27 percent global growth of CO₂ emissions within these 15 years.

Table 3 makes, however, the problem more explicit. It expresses a huge concern by showing that the annual average emission growth rate worldwide after the year 2000 is more than double as high (2.6 percent) as before 2000 (1.1 percent). This increase of the growth rate is especially visible in the case of China and developing Asia but on a smaller scale also even in Europe. Nothing indicates that a peak of global

³ The following data refer to energy related CO₂ emissions which represent currently 84 percent of all greenhouse gas emissions. Not all countries report exact data on non-energy related greenhouse gas emissions which makes comparisons between countries or over time impossible.

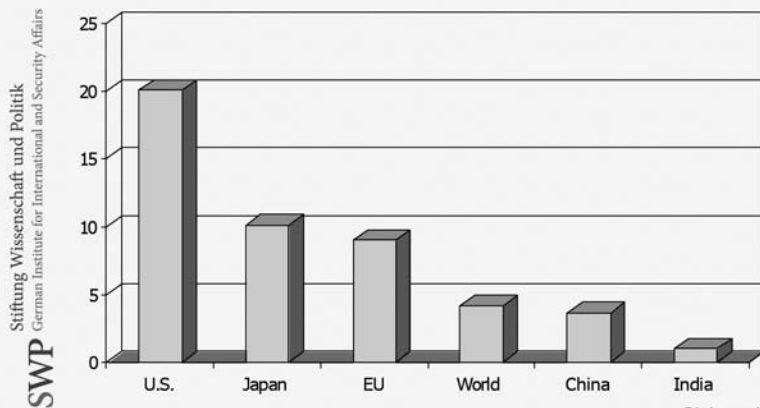
CO₂ Emissions OECD Asia 2004-2030 IEA Reference Scenario billion tons



Source : IEA, World Energy Outlook 2006.

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Per Capita CO₂ Emissions 2005 tons



Source : DIW, Berlin August 30, 2006, author's calculation .

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emissions is to be expected in the foreseeable future.

The International Energy Agency, the energy branch of the OECD countries, has presented a projection to the year 2030 in its latest "World Energy Outlook". The reference scenario which reflects the current climate policy including "Kyoto" and other agreements and commitments says that global CO₂ emissions will increase between 2004 and 2030 by 55 percent. All big emitters besides Japan will contribute to this growth as chart 4 (or table 3) shows.

The two regions that will contribute almost 80 percent (exactly 77 percent) to the global emissions in 2030 are the OECD countries and Developing Asia as chart 4 (or table 3 in the annex) shows. Both regions will have a share of close to 40 percent to worldwide emissions according to this projection.

These two regions share a major responsibility to solve the global problem.

3. The disproportion of any burden sharing

The experts are aware that the problem cannot be solved unless the positive growth rates of global CO₂ emission turns into a negative growth rate soon. The question how to reach this offers different answers in different regions of the world. The main arguments are the following two

- It is true that historically the OECD countries are the main emitters; they should do the first step to solve the problem. As long, however,

as the emerging economies particularly in Asia with the high emission growth rates are not part of a commitment structure the turn from positive to negative growth rates is not manageable. This is an American argument increasingly shared in the community of OECD countries, even if European countries understand the rationale of argument two;

- as long as the differences of per capita emissions are as high as they are in reality (chart 6) and the per capita emissions in Asian emerging economies are below world average there is no reason to restrict emissions and put thus a burden on economic growth in these countries; an argument spread in China, India and other emerging economies.

The advocates of argument 1 say that per capita emission is an important indicator but the efficiency of energy consumption and emission abatement is also important and this efficiency is much higher in OECD countries. They are also the pioneers that are taking the R&D burden of developing alternatives to the carbon emitting energy consumption. Therefore, they need a bonus in an agreement.

The advocates of argument 2 say that emerging economies are making up for what industrialized countries have developed in the 20th century, now under conditions of much higher raw material prices. The efficiency of energy consumption is higher than in industrialized countries during the comparable period of development.

No solution to this urgent problem will be found if both sides stick to their position and do not compromise.

4. Approach to a solution

It is obvious that a global emission peak within the coming ten years requires a peak in OECD countries before and in Asian countries after this date but both sides have to make major efforts not only to decouple the CO₂ emission growth from economic growth but gradually to decarbonize the energy consumption at least the emission relevant energy consumption.⁴ Even China's per capita emissions have in the year 2050 to be significantly below today's if a mean temperature increase of 3 °C is to be avoided. Any realistic solution has to observe the following frame:

- Even if the rigid European position of a 2 °C mean temperature increase finds no consensus we need a decrease of CO₂ emissions until 2050 by at least 30 percent which means a per capita emission of 2.1 tons in 2050, roughly 40 percent below China's today's per capita emission.
- Equal emission rights per capita should be the main guideline for the mid century. Since an immediate equal distribution of emission rights per capita would mean a breakdown of the world economy a transition path from today's distribution to a desirable distribution in 2050 should be found. This follows, for instance, a recommendation of the German Advisory Council on Global Change (WBGU).⁵ This path is a matter of negotiations. It is clear that the

path is organized in a way that forces the OECD countries with high emissions per capita a relatively sharp reduction of emission right after the year 2012 while emerging economies should be given increasing emission rights until about 2030.

- In addition to the per capita criteria, the efficient use of energy should also be given a premium in order to support pioneer development of efficient technologies.
- An international system of monitoring the emissions and for the distribution of emission rights should be established.

Without such a frame it is hard to imagine that a global regime for solving the climate change problem can be developed. If the frame is accepted and the regime should follow the least cost principle, a global emission trading system is to be established. The global bank which administers the allocation and supervises the trade of emission rights should auction a share of the emission rights and redistribute the proceeds from the auction in order to support further projects for global efficiency improvements.

It is obvious that economies with high per capita emissions would have to buy emission rights from those economies with low emission rights. The system implies a significant net transfer of money from rich to poor countries, from North to South, or from industrialized countries to

4 Coal is more available in most regions of the world than other fossil energy carriers together. If it can be made feasible to capture the CO₂ before emission and sequester it in caverns, this could be a climate neutral use of fossil energy

5 Wissenschaftlicher Beirat der Bundesregierung Globale Umweltveränderungen, Über Kioto hinaus denken, Sondergutachten, Berlin 2003, p.3

emerging economies and least developed countries. It is also obvious that each country must be interested to improve its efficiency of energy use with regard to carbon emission. The developed countries in order to minimize the amount of payment in the emission trading and the less developed countries in order to maximize the available emission rights they can sell. The challenge to political negotiation is to balance the interests of those who will be the main buyer and those who still can sell emission rights.

on all economies including the Chinese. Not acting has an even bigger impact as serious studies including the Stern Report⁷ have proven. Stern argues that not acting would bring a more than 5 °C temperature rise with more than 50 percent probability and cost about 5 percent of the global GDP while keeping the greenhouse gas concentration under 550 ppm only about 1 percent. The world needs China's cooperation and China needs, like the rest of the world, a solution of the climate change problem.

How can such a solution be processed? The time is urging not only because the limitation of emission is to be managed but also because the international negotiations within the Climate Convention framework make decisions necessary. The Kyoto Protocol is running out in 2012. A successor regime has to be negotiated so that all stakeholders are informed about the future regime sufficiently early before 2012 when it has to come into force so that all the necessary preparations can be put in place. The next Conference of Parties of the Climate Convention (191 parties including China and the United States) will take place in Bali in December 2007. Yvo de Boer, the executive secretary of the UNFCCC said. "What I hope Bali will agree on is a negotiation agenda over the next two years that will craft an effective long-term post-2012 regime."⁶

China must articulate its interest and take responsibility as one of the two largest emitter worldwide. Efficient measures in order to solve the global climate problem will have an impact

6 CO2-Handel, 14.08.2007, http://www.co2-handel.de/article184_6451.html

7 Stern Review on the Economics of Climate Change, Cambridge 2007, http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm

Table 1:
Greenhouse Gas Concentration in the Atmosphere
IPCC Stabilization Scenarios

Category	CO ₂ equivalent Concentration ppm	Global mean temperature increase degree Celsius	Peaking year for CO ₂ emissions	Change in global CO ₂ emissions 2050 vs 2000 (%) year
I	445 - 490	2.0 - 2.4	2000 - 2015	-85 to -50
II	490 - 535	2.4 - 2.8	2000 - 2020	-60 to -30
III	535 - 590	2.8 - 3.2	2010 - 2030	-30 to - 5
IV	590 - 710	3.2 - 4.0	2020 - 2060	+10 to +60
V	710 - 855	4.0 - 4.9	2050 - 2080	+25 to +85

Source: IPCC, Working Group III, Summary for Policymakers, Bangkok May 4, 2007, p. 23

Table 2:
CO₂ Emissions 1990 - 2005
billion tons

	1990	1995	2000	2005	change 2005/1990 (%)
EU-15	3.36	3.28	3.36	3.50	4
EU-25	4.15	3.94	3.96	4.11	-1
U.S.	5.01	5.33	5.86	5.99	20
Japan	1.14	1.22	1.25	1.29	14
OECD	11.69	12.17	13.06	13.56	16
China	2.29	3.01	2.97	4.77	108
Developing Asia ¹	3.57	4.72	5.09	7.32	105
World	21.57	22.49	24.02	27.35	27

1: Asia minus OECD Countries Japan, South Korea, Turkey

Source: H.-J. Ziesing, DIW, Wochenbericht 35/06, Berlin, August 30, 2006, p. 488/493

Table 3:
CO2 Emissions 2004 - 2030
IEA Reference Scenario
billion tons

	2004	2030	growth absolute	percent
EU	3.85	4.22	0.37	10
U.S.	5.77	7.14	1.37	24
Japan	1.21	1.15	-0.06	-5
OECD	12.83	15.50	2.67	21
China	4.77	10.43	5.66	187
Developing Asia	7.27	15.65	8.38	115
World	26.08	40.42	14.34	55

Source: IEA, World Energy Outlook 2006

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Stability of the International Financial Sector - Considerations of Reform with regard to the International Financial Architecture

Sebastian Paust

Political and security implications of financial crises

This year's financial turmoil which had its origin in a tumbling US housing market had severe negative impacts not only in the US but also on global financial markets. But history proves that developments in financial markets can have much more far-reaching consequences not only for markets but also for politics, societies and national as well as international security - in a positive as much as in a negative way:

Examples from Germany

Germany delivers two striking examples for an answer:

1. Following the creation of the German Empire in 1871, a single currency based on the Prussian currency standard and later linked to gold was introduced and the Berlin-based Preußische Bank was turned into the new central bank of the Empire. This helped creating a climate of political stability and regulatory certainty in the

financial sector, what became an important factor for the economic success and political solidity of the new German Empire in its first decades.

2. A clearly negative example is Germany after the shocking stock market crash in 1929. The world economic crisis resulting from that led to a tidal wave of insolvencies, massive unemployment and broad poverty in all kind of society segments in Germany. These were decisive catalysts for a development which enabled a further rise of anti-Semitism and political extremism, particularly fascism, in Germany and ended ten years later in World War II.

Examples from Asia

It is unfortunately in Asia where we find another striking example from the recent history for a crisis which posed not just widespread financial economic but also political and security implications. The Asian financial crisis of 1997/1998 has washed away decades of economic growth, social achievements and poverty reduction especially in Thailand, Indonesia and South

Korea. Hundreds of thousands of workers in these countries had lost their jobs with little social security support beyond that by families and friends. The crisis deepened the marginalization of these poor and vulnerable groups.

Simultaneously the crisis had stimulated new political currents in many parts of the region. Political dissent and social unrest increased. In some countries like Indonesia, people started questioning the legitimacy of governments which has been built upon their economic performance. Criticism of the government's management or sensitive issues like corruption has been met with a hardline response by the government. Military officials had publicly equated currency speculation and food hoarding with subversion, an offence punishable with death. The media had been attacked for its allegedly negative reporting. Hundreds of peaceful critics had been rounded up, many of whom have been charged under various laws. At the same time the Malaysian authorities had stepped up operations to stem the tide of economic immigrants from Indonesia who were fleeing escalating unemployment, food shortages, rising prices and social unrest in Indonesia. Thousands of illegal Indonesian immigrants were deported back into their country, sometimes under quite harsh and violent circumstances. Equally, particular in Indonesia, ethnic Chinese minorities had to face intimidation, harassment and even fatal mob attacks on account of their prominent position in the local economy and deeply entrenched suspicions in prejudice.

Experts are concerned that, as with other Asian countries, a major economic downturn, not to mention economic collapse, might produce a po-

litical crisis even in a big and powerful country like China. A deepened recession in Japan in combination with a similar crisis in China may bring about economic and political turmoil all over East Asia. This could trigger a wave of nationalism, xenophobia and economic protectionism rippling through the region. It may as well lead to a demise of regional organizations like APEC or ASEAN plus 3. The absence of such cooperative structures and the weakening of traditional alliances may make Asia even less stable and more prone to conflict - a frightening scenario which will hopefully never become reality.

Reasons for the Asian Crisis 1997/98

To avoid future crises we should try to learn from the past. Experts consider a combination of factors responsible for the outbreak of the Asian financial crisis. The most immediate cause was an investment boom bubble, combined with a massive, volatile inflow of mainly short-term foreign capital and a weak banking system under inadequate supervision. The fragile banking system in East Asia simply could not withstand the onslaught of speculative international capital. The crisis revealed the fundamental weaknesses in the underlying conditions of countries that had long been heralded as the development miracles of the late 20th century. The governments of several rapidly growing economies had implicitly supported widespread mismanagement and chronically weak regulation of financial activities, a by-product of the collusion between public and private interests to promote overseas internal investments and highly competitive trade sectors. The tragedy occurred because, although these economies were not big, strong and stable,

they opened up their capital markets. In hindsight, they should have opened their capital markets according to a properly sequenced schedule. But they apparently simply miscalculated the force of globalization.

The current international financial architecture

The global level

It was back in 1944 that global financial players tried to react to the risk of financial crises by setting up the principal pillars of an international framework in form of the Bretton Woods institutions. That has been 63 years ago but the key aim of today's policy makers has not changed compared to those at the Bretton Woods times - it has been, and still is, global prosperity and stability. But the environment in which we are acting has changed profoundly. The founders of the International Monetary Fund (IMF) and the World Bank wanted to create institutions that prevent countries from falling back into autarky and protectionism and that help them to raise growth and increase stability in a world of fixed exchange rates with still a large degree of capital controls. Today we are striving for stability of the international financial system in a world of free capital flows with an overwhelming importance of private flows and increasing trade and financial integration. Among the major factors that we have to take into account, I would like to mention in particular:

The financial globalization phenomenon: capital market liberalization, both domestically and internationally, technological advances and buoyant financial innovations have contributed to set up a totally unknown degree of financial globali-

zation - with great benefits, but also new risks.

The policy responsibility which still lies mainly with sovereign states; thus, the challenge is to promote global financial stability very largely through national actions enlightened and coordinated through a larger degree of intimate international co-operation.

A very large consensus on giving the private sector and markets a central role on the one hand, and relying upon sound public institutions to provide market participants with the appropriate environment on the other hand. This shift from direct public involvement to private activities is particularly striking when looking at financial flows to emerging markets: in the 1980s, official flows were dominant, reaching on average over 60% of total flows to emerging markets. By contrast, the 1990s saw a dramatic increase in private flows, which on average accounted for around 85% (in the period from 1990 until 2003). Equally important is the shift from bank loans to negotiable securities as the major financing tool for the developing countries.

It was on the basis of the experience with the Mexican crisis in 1994/95 that there grew a common understanding that called for

- enhancing transparency and accountability
- strengthening domestic financial systems
- managing international financial crises, namely by crisis prevention as well as crisis mitigation and resolution

and pushed international financial institutions to more effectively take care of surveillance, assistance as well as standard and code setting.

Surveillance and Assistance

In this context of the international financial architecture the International Monetary Fund is in the focus.

It is an international organization of 185 member countries, located in Washington. It was established to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment. Since the IMF was established its purposes have remained unchanged but its focus has been shifted much more toward crisis prevention and its operations-which involve surveillance, financial assistance, and technical assistance-have been considerably reformed to meet the changing needs of its member countries in an evolving world economy. Nevertheless discussions about the future role of IMF are going on.

Surveillance

In today's globalized economy, where the economic and financial policies of one country may affect many other countries, international cooperation to monitor economic developments on a global scale is essential. With its nearly universal membership of 185 countries, IMF surveillance provides the mechanism for this cooperation.

The importance of effective surveillance was underscored by the Asian financial crisis. In response, the IMF has undertaken many initiatives to strengthen its capacity to detect vulnerabilities and risks at an early stage, to help

member countries strengthen their policy frameworks and institutions, and to improve transparency and accountability.

Let me mention the most important examples: Exchange rate, monetary and fiscal policies remain at the center of IMF surveillance. The IMF provides advice on issues ranging from the choice of exchange rate policies to ensuring consistency between the regime and fiscal and monetary policies.

Financial sector issues have received greater emphasis under IMF surveillance. This enables the IMF to assess the strengths and weaknesses of countries' financial sectors.

Assessment of risks and vulnerabilities stemming from large and sometimes volatile capital flows has become more central to IMF surveillance in recent years. While crisis prevention has always been a focus of IMF surveillance, the growth and development of global capital markets has made it necessary to expand the scope of surveillance to encompass complex financial relationships.

Institutional and structural issues have also gained importance in the wake of financial crises and in the context of some countries' transition from planned to market economies. The IMF, but also World Bank play a central role in developing, implementing, and assessing internationally recognized standards and codes in areas crucial to the efficient functioning of a modern economy such as central bank independence, financial sector regulation, and policy transparency and accountability.

A prominent institutional newcomer is the Financial Stability Forum (FSF), which was set up in 1999 to enhance policy coordination among national financial supervisors, the International Financial Institutions, and international standard setters with the aim of promoting international financial stability. Its creation came also as a major response to the financial crises of the late 1990s. They had exposed numerous weaknesses in the interaction of national authorities in charge of supervision and regulation of financial institutions operating in increasingly globalised markets and had underlined the need for improved information-sharing and harmonisation of national rules. Already one year after its creation, the FSF presented important findings and policy recommendations on three key systemically relevant issues, namely risks stemming from large and volatile capital flows, concerns relating to offshore financial centres, and highly leveraged institutions. The FSF is serviced by a small secretariat housed at the Bank for International Settlements in Basel, Switzerland.

Financial Assistance

Over the years, the IMF has developed various loan instruments, or "facilities," that are tailored to address the specific circumstances of its diverse membership, mainly to address balance-of-payment-problems, e.g. in form of the Stand-By Arrangements (SBA) for middle income countries or the Poverty Reduction Growth Facility (PRGF) for low income countries. The IMF also provides emergency assistance to support recovery from natural disasters and conflicts. New facilities have been added in recent years to enhance the IMF's ability to respond to a rising demand for crisis prevention. In 1999, it introduced the Contingent Credit Lines (CCL), an in-

strument which was not considered to be very successful and which was replaced in 2007 by the Reserve Augmentation Line (RAL). Similar to the CCL, the RAL was designed to act as a "seal of approval" to shield qualifying countries from contagion capital account crises originating in other countries. It is targeting emerging market countries that have strong macroeconomic policies, sustainable debt, and transparent reporting and that are making progress in addressing remaining vulnerabilities to shocks.

A special issue in the late 1990s had been the complaint against IMF that it would favor moral hazard among recipient governments and private investors by bailing them out in financial crisis via further loans, increasing by that the country's debt load in an irresponsible way. This led to increasing discussions about the appropriate involvement of the private sector in crisis management and, as a result, to considerable progress in the international financial architecture.

First, specific criteria and procedures were set up to make exceptional access to IMF resources subject to rules and hence more predictable. The IMF's debt sustainability analysis plays now an important role in that context, since clear limits to official financing must be respected especially when a country faces an unsustainable debt burden and therefore requires debt restructuring.

Second, so-called Collective Action Clauses (CAC) have become more and more standard in newly issued international sovereign bonds. These CAC have the aim to create a legal framework within which creditors and debtors could achieve more orderly debt restructuring. Although this put

more financial risk burden on investors no discernible negative impact on borrowing costs and no decrease in investors' interest could be detected.

Technical Assistance

The IMF provides technical assistance mainly in its areas of core expertise: macroeconomic policy, tax policy and revenue administration, expenditure management, monetary policy, the exchange rate system, financial sector sustainability, and macroeconomic and financial statistics. But there are also other international financial institutions delivering assistance and support to developing countries in financial matters. The World Bank is closely cooperating with the regional developing banks (Asian, African and Inter-American Development Bank). All these multilateral banks undertake comprehensive activities to strengthen the financial sectors in developing countries.

Debt relief

Additionally World Bank, in cooperation with IMF and donor countries, started an important debt relief initiative in form of the Heavily Indebted Poor Countries (HIPC) Initiative in 1996. This meanwhile enhanced HIPC Initiative is designed to provide assistance to eligible countries that are following sound economic policies, to help them reduce their external debt burdens to sustainable levels in a way that promotes effective poverty reduction. The enhanced HIPC initiative is now complemented by the Multilateral Debt Relief Initiative (MDRI) established in 2005 under whose roof World Bank, IMF, the African Development Fund and since shortly also the Inter-American Bank provide full debt relief to the circle of eligible countries.

Standard and Code setting

It has been a very important development in the financial architecture that the international community has strongly supported the generalization of standards and codes. The various standard setting bodies, including

- Basel-based committees, namely the Basel Committee on Banking Supervision (housed
- by the Bank for International Settlements) with its Basel II Framework focusing on capital adequacy and risk management,
- IMF and World Bank and
- Financial Action Task Force on Money Laundering, established by the G7 in 1989,

have managed to develop many international standards and codes, which have been agreed upon by a rising number of countries. These standards and codes cover a broad range of fields such as transparency in fiscal, monetary and financial policies, banking supervision, corporate governance, accounting and auditing and reflect the growing interaction between the macroeconomic and the financial sphere. Moreover, compliance with international standards and codes makes national policies more transparent and mitigates the risks of disruptive developments. All of these effects contribute to the resilience of national economies as well as the global financial system. One of the challenges that the standard-setting bodies are faced with is to ensure that the various standards and codes are mutually consistent and regularly updated so that they keep pace with the changing global financial environment.

Global political dialogue

As you see e.g. with the just mentioned Financial Action Task Force on Money Laundering, the G7 has been instrumental in shaping the international financial architecture as it reacted to the need to better involve emerging market economies. The creation of the Group of Twenty (G20) forum of finance ministers and central bank governors in 1999 was inspired by the necessity to give major emerging market economies their place and have them participate in a dialogue on global macroeconomic and financial issues. This new international forum brings together representatives from 19 industrialized countries and emerging economies as well as the European Union and the Bretton Woods Institutions. As regards the promotion of global economic and financial stability, which is its main aim, the G20 has been a remarkable forum for serious dialogue on a wide range of highly relevant issues such as exchange rate regimes, prudent debt management, domestic financial deepening and international codes and standards. Peer review of members' policies has been a helpful approach used by the group. The G20 has also played an important role in forging consensus on reforms of the Bretton Woods institutions and has been constructively involved in helping shape new mechanisms of crisis prevention and resolution.

The regional level in Europe and Asia

The international financial architecture does not only consist of a global level but also reveals important integration approaches on the regional level. Nevertheless their depths still differ very

much from continent to continent. Europe has already gone very far towards a complete and comprehensive financial and monetary integration whereas Asia has just taken the first steps in direction of this ambitious target.

Europe

Let me start with an interesting historical hint dating back to the already mentioned fateful year 1929: It was surprisingly already in that year that the then German Foreign Minister Gustav Stresemann requested the introduction of a European currency. Would World War II have happened with the birth of the Euro in 1929? We will never know - but Minister Stresemann's dream became true 70 years later with the establishment of the European Central Bank in 1998 and the European Monetary Union in 1999. From the start of 1999, the Euro became a real currency, and a single monetary policy was introduced under the authority of the European Central Bank. A three-year transition period began before the introduction of actual Euro notes and coins, but legally the national currencies had already ceased to exist. The Euro notes and coins were finally introduced in January 2002. Apart from that, in 2001, Greece and in 2007, Slovenia joined the third stage of the European Monetary Union as the 12th and 13th member state. The European Monetary Union is underpinned by the Stability and Growth Pact (SGP), adopted in 1997. It is an agreement by European Union member states related to their conduct of fiscal policy, to facilitate and maintain the Economic and Monetary Union of the European Union. The actual criteria that member states must respect include an annual budget deficit no higher than 3% of GDP (this includes the sum of all public budgets, including municipalities, regions, etc.)

and a national debt lower than 60% of GDP or approaching that value.

One should not forget that this impressive financial and monetary integration process happened, in contrast to Asia, with the background of an already economically and politically profoundly integrated European Union. Nevertheless the result was not only the most profound change in the international currency system since the transition to flexible exchange rates at the beginning of the 70s but also the largest monetary union in human history and one major factor in the integration and competitiveness of the European financial system. What D-Mark and Yen were not able to achieve in the 70s and 80s seems to become possible for the Euro today: to challenge the US Dollar as the so far undisputed international lead currency. The Euro has gained remarkable importance as an international trade-, investment-, anchor- and reserve-currency and could establish itself as the clear No. 2 behind an increasingly shaky US dollar.

Once the introduction of the Euro was secured, however, political attention has turned to making improvements to the single market in financial services for it was understood that greater integration on the financial markets was crucial to the success of the Euro and to European Economic and Monetary Union. In order to create an adequate framework for this market, equally in 1999, the Financial Services Action Plan (FSAP) had been installed by the European Commission as a vehicle for developing the European Single Market in financial services. It has three objectives: a single wholesale market, an open and secure retail market and adequate pruden-

tial rules and supervision. It comprises 42 measures designed to harmonize the member states' rules on securities, banking, insurance, mortgages, pensions and all other forms of financial transaction.

It is complemented by the so-called Lamfalussy-process (elaborated by an expert panel chaired by Baron Lamfalussy), an approach designed to speed up the legislative process and to foster supervisory cooperation in the EU.

But a lot still needs to be done. Integration of EU financial markets is hampered by the failure of too many member states to act on the commitments they agreed to in the framework of the FSAP and the Lamfalussy-process. So the vision of an integrated EU market for financial services has only been marginally implemented - a fact which reduces the EU's competitiveness and growth perspectives in an unnecessary manner and implicates a so far missed chance to further increase the EU's financial stability and investors' trust in EU's financial markets. What is already needed today but will still need considerable time to be shaped is a new strong and independent European Financial Services Authority with adequate competencies and powers.

Asia

The financial crisis in 1997/1998 was a wake-up call to East Asia governments that their financial markets and institutions were insufficiently prepared to manage globalized capital flows. Apart from reforming domestic financial markets governments were encouraged to consider establishing regional financial facilities, as in their view the provision of international financial help through existing multilateral arrangements had

been neither timely nor sufficient to put a rapid end to the crisis. Not only were the East Asian countries discontented with the IMF approach, but there was also growing consensus among them that a collective response to similar critical situations in future would be necessary because of their growing regional integration, evidenced in part by the mutual susceptibility to contagion. After first initiatives in form of the Manila Framework Group in 1997 and the ASEAN Surveillance Process in 1998, finally, in 2000, the finance ministers of ASEAN plus 3 (the 10 southeast Asian ASEAN members and China, South Korea and Japan) reached an agreement on the Chiang Mai Initiative, which was the first significant regional financing arrangement to enable countries to cope with disruptive capital flows and maintain exchange rate stability.

Under the Chiang Mai Initiative all participating governments were allowed to swap their own currencies for major international currencies for a period of up to six months. The idea was that a country under speculative attack can borrow foreign currency, usually the US dollar, from another partner country and use the funds to buy own currency so as to stabilize the exchange rate. Even with the fact that the amount of liquidity currently available through this initiative is relatively small it had a strong symbolic effect to market participants and it served as an important step towards establishing a pool where these countries invest part of their reserves to create new credit facilities for themselves. It was then at the annual meeting of the Asian Development Bank in Kyoto in 2007 that ASEAN plus 3 members agreed to an ambitious plan to pool part of the region's vast foreign currency reserves in form of a self-managed pooling arrangement

to help secure cash for distressed nations in times of future financial crises. This agreement whose concrete arrangements have to be worked out in the coming years would expand the Chiang Mai Initiative and boost the arsenal of defensive funds remarkably. It would allow ASEAN plus 3 countries to first countering a local crisis themselves before resorting to outside help from IMF and others. This would surely mark an important breakthrough in financial integration for the region.

An interesting parallel initiative is the ASEAN plus 3 Asian Bond Markets Initiative (ABMI), which was endorsed at the ASEAN plus 3 Finance Ministers Meeting in Manila in 2003. It aims to develop efficient and liquid bond markets in Asia, enabling better utilization of Asian savings for Asian investments and reducing the dependence on US Dollar denominated US treasury bonds.

And there are already people bold enough to discuss a potential Asian Currency Union (ACU). Japan seems to be the prime mover behind this ambitious idea but with view of Asia's still low level of overall regional integration and of the current lack of international support for this vision this long and difficult ACU process will more likely take decades rather than years.

The future perspectives

As you have seen there are comprehensive approaches to a reformed international financial architecture on the global level as well as there is a rising trend to regional financial architecture models on a more or less advanced level.

The decisive question is now if these regional

approaches can and should replace the architecture on the global level or if these different levels should be interlinked as closely as possible to reinforce each other optimally.

No doubt, there is considerable dissatisfaction with the global financial architecture, namely the IMF, particularly on the side of emerging economies. This cumulated in a recent speech given by the Russian president Putin during the World Economic Forum Russia in June 2007 in St. Petersburg where he requested a new global economic framework that would play down the role of institutions like IMF and WTO and instead would emphasize regional alliances. But critique comes also from other actors: The governor of the Bank of England, Mervyn King, warns that the IMF "could slip into obscurity"; the former IMF's Managing Director, Rodrigo Rato, called for more voting rights for IMF's Asian members, for a strengthening of the IMF's global ("multilateral") surveillance role and for a rethinking of its relations to the poorest countries of the world; important large-debtor countries such as Brazil and Argentina carry out an early repayment of outstanding obligations; due to the relative stability of the financial markets the IMF is losing some of its traditional functions and now, for the first time since the early 1970s, the declining interest income means that the IMF is once again faced with the prospect of deficits. Others argue that more and more countries have established sound and transparent policy frameworks. From that they draw the conclusion that policy dialogue at the international level therefore has lost its relevance and that the fora and institutions dealing with global financial issues have become redundant.

These views ignore that, as I outlined above, the governance of the international monetary and financial system has been upgraded in a number of important ways to remain relevant and effective in the ongoing quest for global financial stability. Only one argument could rightly be put forward: that these reforms were not far-reaching enough. Of course, keeping one's domestic system in order and putting in place rules-based policy frameworks are decisive contributions to the stability of the global economic system. However, given the rising degree of global integration, these efforts alone do not eliminate the potential for spillovers from one country to another, adversely affecting the stability of the global system. In parallel proper regional approaches are to be welcomed any time because they support the regional financial integration, improve conditions for economic growth and wealth in the respective region and strengthen the region's competitiveness. But spill-over effects happen as well from one region to the other and that makes a solid, transparent and predictable global financial architecture so important. Policy cooperation at the international level is vital to strengthen the ability of the global economic system to absorb shocks and hence to deliver the public good of global financial stability. Therefore the key question is not if to go either the global, the regional or the domestic way. The truth lies in an international architecture which properly integrates structures and activities on the domestic, regional and global level. Of course a *conditio sine qua non* is that the various fora and institutions that form this international financial architecture on these three different levels are designed and constantly upgraded so that they are up to the task. This is an important and ongoing responsibility that

policymakers from around the globe are faced with. Living up to this responsibility will ensure that, going forward, global economic integration will lead to further global economic prosperity and in parallel to more global stability.

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