

Erdogan: no reconciliation with Israel until end of Gaza siege

Haaretz, 11.02.2014



Erdogan says Israel answered several Turkish demands in negotiations, but won't agree to normalization of ties without lifting of Gaza blockade.

Turkish Prime Minister Recep Tayyip Erdogan said on Tuesday that he demands a "written protocol" from Israel pledging it will lift the siege over the Gaza Strip as a condition for signing a reconciliation agreement and normalizing relations between the two countries. Speaking at a press conference in Ankara alongside Spanish Prime Minister Mariano Rajoy, Erdogan said that negotiations with Israel have progressed, but have not ended.

He added that Turkey has received an apology from Israel, and that talks over compensation for the families of those killed and wounded on the Mavi Marmara ship in 2010 are ongoing. E However, Erdogan said the lifting of the siege over the Gaza Strip – which was one of the conditions set by Turkey for normalizing relations – has not yet transpired. "Nothing will happen without lifting the siege on Gaza," he said. On Monday, Turkish Foreign Minister Ahmet Davutoglu told a local television station that Israel and Turkey are closer than ever to normalizing relations between the two countries. "There has recently been momentum and a new approach in compensation talks," Davutoglu said. "We could say that most of the differences have been recently removed in these discussions."

Last week Haaretz reported that Israel has offered to pay \$20 million in compensation to the families of the nine people killed during an Israeli commando raid on the Turkish ship Mavi Marmara in May 2010, as well as to those in the incident. Prime Minister Benjamin Netanyahu had authorized his envoys to go as high as \$23 million in order to secure an agreement. In the interview, Davutoglu refused to state how much Israel would pay Turkey in compensation, but said that the families of the victims would be informed as soon as an agreement was reached. Noting that easing the embargo on Gaza was another condition for normalizing ties, Davutoglu said that after a reconciliation agreement is signed, Turkey would send a significant diplomatic contingent to Turkey to "monitor and to coordinate humanitarian aid to Gaza."

Last week, a senior Turkish delegation, headed by Deputy Foreign Minister Sinirlioglu, visited Israel meeting with National Security Adviser Yossi Cohen, Prime Minister Benjamin Netanyahu's special envoy Joseph Ciechanover and Foreign Ministry Director-General Ben-Sheetrit. The talks focused on the compensation amount and the steps Turkey would take to normalize relations and put an end to legal action against Israeli soldiers and officers that were involved in the Mavi Marmara raid. Israel is demanding that as part of the agreement, Turkey pass a law that will void the pending lawsuits and block such actions in the future. Jerusalem also wants normalization of relations with Turkey to go beyond the symbolic return of ambassadors to Tel Aviv and Ankara.

Turkey: Government instability will not be short-lived

About Oil, 08.02.2014



The arrest of three ministers' sons, the revelations over gold and oil trading with Iran and the supposed involvement of Erdogan's son in the scandal has seriously undermined the government's credibility

Despite Turkish Prime Minister Recep Tayyip Erdogan's extensive government reshuffle, the Turkish executive is facing the first serious financial consequences of the political crisis. On January 29, the central bank raised the daily interest rate from 7.75 percent to 12 percent but was unable to stem the decline of the Turkish lira against the euro and the dollar.

Last June, the spontaneous protest in defense of a small park in the European part of Istanbul turned into a vast movement of opposition to the government and gave birth to a new political formation – the Gezi Party, named after the Gezi park – that will stand at the next local elections. Since the start of the protest movement, the Turkish lira has lost 20 percent of its value in six months. The decline accelerated on December 17, the day the corruption scandal struck the government, and since then the national currency has lost an additional 11 percent against the dollar. The arrest of the sons of three ministers, the exposure of gold and oil trading with Iran and the alleged involvement of Erdogan's son in the scandal have seriously undermined the credibility of the government and consequently the political stability of the country.

The extensive government reshuffle and the deep purge of judges and leaders of the security forces ordered by the prime minister have not restored confidence in Erdogan, who has long accused the United States and Israel of international conspiracies. Whether or not Erdogan's theories are true, the decline of the lira is further exacerbating the slump on the Istanbul stock exchange, which has lost 20 percent of its value in lira terms since December 17 last year. Burdened with a structural balance of payments deficit, Turkey has relied on strong inflow of foreign capital in recent years, which now seems to be leaving the country. According to the Turkish branch of Deloitte, Turkish companies could lose 30 percent of their value this year, while some analysts are saying that foreign investment could be halved.

If the decline of the lira continues, the Turkish Central Bank may raise interest rates again, causing a contraction in economic growth. The other option would be for the central bank to intervene in the foreign exchange market, although this is a far-fetched hypothesis since it has less than \$40 billion in net foreign currency reserves. Tightening U.S. monetary policy has already led to a withdrawal of investments from emerging countries and prolonged pressure on the lira could push the authorities in Ankara to limit the movement of capital. The period of economic growth that has driven the success of Erdogan's seems to be under serious threat. The prime minister will face local elections in March that could bring disappointing results for him, particularly in Istanbul and Ankara.

In August, Erdogan is still planning to run for president in the first direct elections for the head of state. However, the current president, Abdullah Gul – himself installed by Erdogan – seems unlikely to give up the position easily. Gul welcomed French President François Hollande to Ankara and made an important state visit to Rome in late January, presenting himself as the man of stability and moderation on both occasions – an ideal alternative to Erdogan in the eyes of Westerners. However, the prime minister is still very strong in the polls and in contrast to Gul is popular and charismatic; a true leader. His accusations of a U.S.-Israeli conspiracy against Turkey certainly pull on the heartstrings of what is traditionally a very nationalist electorate, but might give way to a more cautious approach, as has already been mooted by Foreign Minister Ahmet Davutoglu, the “éminence grise” of the prime minister’s foreign policy.

Speaking on February 2 at the Munich International Security Conference, Turkey’s top diplomat said that Ankara could renege on awarding the development of its anti-missile system to China, putting the U.S. and the Italian-French bidders back in the frame. Davutoglu’s move seems to be too little, too late, to affect developments, but it demonstrates that Erdogan will not be easily budged, and that Turkey will not escape the current period of instability any time soon.

Turkish government working on anti-corruption reform: Minister

Hürriyet Daily News, 12.02.2014



The government is working on an anti-corruption reform, the Finance Minister Şimşek said yesterday. “We will use recent developments as an opportunity,” Şimşek said, speaking at the Housing Tax Problems and Solutions Symposium.

“It is clear we will appear before our nation with a much stronger reform for Turkey to become more transparent, more accountable, particularly in the fight against corruption.” The corruption allegations against scores of government-allied businessmen and bureaucrats, including four ministers, their sons and the CEO of a state-owned bank, are feared to have stained the country’s image for investors.

The graft probe launched Dec. 17 has also turned the government against the police department and judiciary branch, raising major concerns over the political stability of the country. The Turkish Lira has also been devastated by both the political problems, as well as the U.S. Federal Reserve’s decision to curb its bond purchasing program, with investors worried that the country may struggle to cure its large current account deficit under the strained circumstances. However, in his remarks yesterday, Simsek said Turkey’s current account deficit may contract more than expected in 2014. He said a moderate rise in domestic demand, a rise in foreign demand, the devaluation of the lira, as well as the macro-prudential measures taken, would have a considerable impact on the deficit.

Davutoglu pays critical visit to Bosnia

Today's Zaman, 11.02.2014



Turkish Foreign Minister Ahmet Davutoglu is scheduled to make a one-day official visit on Wednesday to Bosnia and Herzegovina, which has been rocked by anti-government demonstrations for several days.

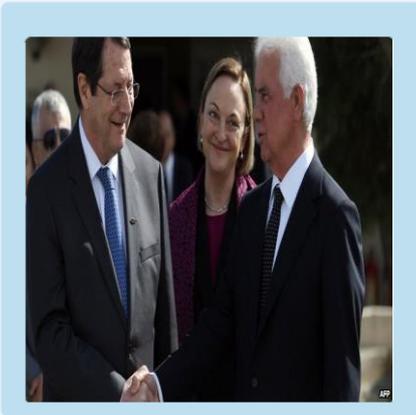
Davutoglu will hold talks with Bosnian political leaders and is expected to express Turkish support for Bosnia and Herzegovina. Additionally, he is scheduled to hold separate talks with the three members of the Bosnian presidency; Bosniak member Izetbegović, Serb member Radmanović and Croat member Komšić. The Turkish minister is also scheduled to meet with his Bosnian counterpart, Lagumdžija.

During the visit, Davutoglu will come together with Grand Mufti Husein ef. Kavazovic, and the European Union's high representative for Bosnia and Herzegovina, Valentin Inzko. A statement released by the Turkish Foreign Ministry on Tuesday announced that "Turkey gives great importance to the security and stability of Bosnia and Herzegovina, with which it has close historical ties and deep cooperation. Turkey will continue to maintain its efforts for the prosperity and welfare of the people of Bosnia and Herzegovina." The statement further added that "with this understanding, Turkey believes that the contribution of international community is important in overcoming the political difficulties faced by Bosnia and Herzegovina, which has a vitally important role in the stability of the region."

Demonstrations calling for the resignation of the government have broken out in several parts of the country and buildings were set on fire in Sarajevo, Mostar and Zenica. In Sarajevo, demonstrators gathered outside the presidency building, which had been set on fire on Friday. Due to the mass protests, the heads of four regional cantons have already resigned. The unrest is unprecedented in postwar Bosnia, where Serbs, Croats and Bosniaks have tolerated political stagnation for years rather than risk a return to conflict.

Cyprus peace talks resume with renewed hope

Today's Zaman, 11.02.2014



The leaders of Turkish and Greek Cyprus met in Nicosia on Tuesday to resume peace talks with the aim of reunifying the long-divided island. Negotiations started after overcoming a deadlock last week on a joint statement which would sets a framework for the peace talks, with intense diplomatic efforts, particularly by the United Nations, the US and Turkey.

Cyprus is divided into a Turkish north and an internationally recognized Greek south. KKTC is recognized only by Turkey, which does not recognize the Greek Cypriot administration. Greek Cypriot President Anastasiades and KKTC President Eroglu met at the UN compound in Nicosia on Tuesday.

The Cyprus talks have been stalled since January 2012 due to postponements by Greek Cyprus for various reasons. "The leaders expressed their determination to resume structured negotiations in a results-oriented manner," said Lisa Buitenhuis, the resident United Nations envoy on the island, reading from a joint statement following a meeting between Turkish Cypriot and Greek Cypriot leaders. "Today's joint statement outlines the basic principles for a solution," Anastasiades told press outlets after meeting with Eroglu, adding, "What's required now is for the vision and determination of the leaders and the people of Cyprus to rebuild trust, and also to achieve a settlement that leaves no winners or losers." Turkish Prime Minister Erdogan said on Tuesday that he is hopeful that there will be no backward steps after this point, and that the Cyprus problem will finally be resolved.

European Council President Herman Van Rompuy and European Commission President Jose Manuel Barroso issued a statement on Tuesday saying that the joint statement "lays a solid foundation for resumption of negotiations for a fair and viable comprehensive settlement of the longstanding Cyprus problem." "This joint declaration should help them to swiftly address matters of substance and to achieve rapid results in the negotiations. President Van Rompuy and President Barroso congratulate and salute the courage the two leaders have shown in agreeing (on) it. At the time of (the) accession of Cyprus, the EU declared its readiness to accommodate the terms of a settlement in line with the principles on which the Union is founded," said the statement.

"As previously announced, the European Commission is keen to play its part in supporting the negotiations, conducted under UN auspices, and to offer all the support the parties and UN find most useful," the statement emphasized. It is said that Barroso's personal representative will contribute actively to finding a constructive solutions to overcome problems in compliance with the EU acquis. "In parallel, the European Commission will also step up its efforts to help the Turkish Cypriot community prepare for implementation of the acquis. The European Union also supports the efforts to reach an agreement between the two parties on a package of Confidence-Building Measures which can help to create momentum towards a settlement to the benefit of Cypriots.



The European Union stands ready to look creatively at how to contribute to this objective in the prospects of a final settlement,” the statement said. German Foreign Minister Frank-Walter Steinmeier also made a statement on Tuesday, welcoming the start of the negotiations in Cyprus and praising the “political courage” of both leaders of the island. “Finally the Cyprus issue has gained momentum. I welcome President Nikos Anastasiades of Cyprus and Turkish Cypriot community leader Derviş Eroğlu being ready to find a solution to this ongoing dispute in a difficult time with a new effort and the political courage that they have shown in this matter,” said Steinmeier. He added that a divided Cyprus is a problem for the people of the island as well as for the whole region, and Germany is ready to provide support to both sides to overcome the division.

The Turkish Foreign Ministry has welcomed the start of the negotiations for the island on Feb. 11 as a chance to find a comprehensive solution under UN auspices. The ministry made a statement on Tuesday saying that Turkey supports a just, lasting and viable solution based on a new partnership consisting of two politically equal states in Cyprus. “Turkey will continue its determined and productive support to the efforts of the UN secretary-general in creating a new partnership on the island by the will of both communities, based on reconciliation and equal status. Turkey hopes that with a just and lasting solution, the island of Cyprus and the east Mediterranean will turn into a peaceful, stable and cooperative region,” said the statement.

The ministry’s statement also praised the efforts made by Eroğlu and his leadership, as well as the productive attitude of Turkish Cypriot parties in order to start the negotiations. “Turkey, as it has done in the past, will cooperate closely and provide support to the KKTC with all its institutions for the success of the process, and it will continue to be one step ahead in meeting its obligations,” said the statement. On Monday, Turkish Foreign Minister Ahmet Davutoglu said there is a highly positive atmosphere on the Cyprus issue, adding that it had been discussed comprehensively in the recent EU-Turkey Political Dialogue meeting in Brussels.

Davutoglu said that there had been a few deadlocks while discussing the joint statement, but thanks to the productive efforts and good intentions of Turkey and Turkish Cypriots, the problems have now been overcome. Stressing that Turkey wants to see an accelerated negotiations process within a certain time frame, Davutoglu said the efforts of the UN, the EU, Greece, Turkey, England and the US played a role in overcoming the deadlock in Cyprus. He added that Eroğlu’s special representative Osman Ertug has visits to Athens planned, and reciprocally, Anastasiades’ special representative Andreas Mavroyiannis to Ankara, which will add momentum to the negotiations.

US welcomes moves to end division of Cyprus, praises ‘courage and vision’

Hürriyet Daily News, 11.02.2014



The US welcomed the re-launch of peace talks between Greek and Turkish Cypriot leaders, and vowed to work to with both sides to try to reach an accord. The U.S. administration also pledged to help revitalize the region around Famagusta, long a ghost town after Greek Cypriots fled the city four decades ago.

White House spokesman Jay Carney praised Greek Cypriot leader Nicos Anastasiades and his Turkish Cypriot counterpart Dervis Eroglu for their “courage and vision” in reaching a joint statement “which embodies key principles to guide their further work.”

Carney also praised a package “of bold and innovative confidence-building measures” put forward by Anastasiades, who met Eroglu in the U.N.-patrolled buffer zone that divides the capital, Nicosia. “The United States will engage in diplomacy with all stakeholders to explore possible initiatives to reinforce settlement negotiations, including measures aimed at the future revitalization of the Famagusta region, when agreed by the two communities,” Carney said in a statement. Negotiators are to meet later this week to push the process forward with the aim of reaching an agreement “as soon as possible.” The talks came just after the top U.S. diplomat for Europe, Victoria Nuland, visited Cyprus last week. Cyprus joined the EU in 2004 after Greek Cypriots rejected a U.N. reunification blueprint that was approved by Turkish Cypriots.

But the island’s untapped offshore gas and oil riches and a huge natural gas find in waters off neighboring Israel have changed the region’s dynamics. Carney stressed Washington believed “the island’s oil and gas resources, like all of its resources, should be equitably shared between both communities in the context of an overall settlement.” It remained unclear whether U.S. Secretary of State John Kerry would also become involved, although State Department spokeswoman Jen Psaki said: “There’s no challenging issue he doesn’t like to get his teeth into. “We’ll see what time he has and whether there’s an appropriate supportive role he could play,” she said, while stressing it was a U.N.-led process.

Iranians rally to mark 35 years of revolution

Aljazeera, 11.02.2014



Thousands gather in streets of Tehran to mark day that created Islamic Republic, ending the reign of US-allied shah. Hundreds of thousands of people gathered on the streets of the Iranian capital and cities around the country to mark the 35th anniversary of the Islamic Revolution.

In Tehran, huge crowds thronged central Azadi square on Tuesday for a speech by President Rouhani, his first major address to the public since his election in August. Rouhani launched into the traditional anti-US rhetoric despite a significant political shift in Tehran, which resulted in his election as a leader pursuing a policy of outreach to the West.

“The people’s vote had no role in running this country. This was a huge humiliation,” Rouhani said, referring to the period when Iran was a constitutional monarchy. “People wanted their views to be an influence (but] the big powers were interfering in the internal affairs of this country ... The Americans thought the country of Iran belongs to them. They interfered everywhere even on security issues.” The revolution was set in motion in 1979 after a siege began some 10 months following the fall of the US-allied shah. Radical students stormed the US embassy, taking 52 people hostage. They were released after 444 days, and the seige ended Washington’s diplomatic relations with Tehran. More recently, Iran reached an interim agreement with Western powers to curb its nuclear programme, which the West suspects is meant to develop a nuclear bomb.

But while Tuesday’s mood in Tehran is one of celebration, Al Jazeera’s Soraya Lennie reported that Iranians still feel there is a lot that needs to be done to strengthen relations between the US and Iran. “Yes, they want better relations with the United States, they’re happy with the government and the diplomatic push from the government, but there’s still so much anger in the people towards the history of Iran and the United States,” Lennie said. The slogan’s of Tuesday’s celebration express Iran’s current feelings towards the US and include “we’ll stand to the end”, “we will stand up against and we are ready for all options on the table”, and “we are ready for the great battle”. The first slogan is “obviously a reference to the United States and external pressures on Iran”, Lennie said.

The second one is “of course a reference to President Obama, John Kerry and all options on the table including military ones”, she said. Lennie added that the third, like the first slogan, is also about external pressures on Iran. Activities to mark the anniversary come a day after Iran “successfully tested” two missiles, according to the official IRNA news agency. Political scientist reacts to President Rouhani’s speech Iran’s ballistic missile programme has long been a source of concern for Western nations because it is capable of striking its arch-enemy Israel. “The new generation of ballistic missile with a fragmentation warhead, and a Bina laser-guided surface-to-surface and air-to-surface missile, have been successfully tested,” Hossein Dehgan, the defence minister, said.

Rouhani critics step up opposition to Iranian nuclear deal

The Guardian, 11.02.2014



Leaflets criticising interim deal are distributed at rallies marking 35th anniversary of Islamic revolution. Opposition inside Iran to the interim nuclear agreement between the administration of Hassan Rouhani and six world powers has gathered strength after the Iranian president labelled his domestic critics “a bunch of uneducated people”.

As hundreds of thousands of Iranians rallied across the country to mark the 35th anniversary of the Islamic revolution on Tuesday, Rouhani’s critics distributed leaflets asking whether his government had made too many concessions in the Geneva negotiations last year.

“Did you know that all sanctions imposed by the UN Security Council, the European Union and the US will remain in place despite the agreement?” reads one of the leaflets. It makes several claims that are untrue, including that economic sanctions and oil embargo will not be lifted even if Iran settles its nuclear dispute with the west. Another asks: “In the final stage of the negotiations, did you know that only nuclear-related sanctions will be removed and not main punitive measures such as banking and oil sanctions?” Last week Rouhani urged university professors and elites to publicly support his diplomacy. “Why is the university silent? Why are the professors silent? What are you afraid of?” the president said, according to quotes carried by the conservative YJC news agency. “Why should only a small number of people talk?”

The fiery speech was met with criticism among Rouhani’s own supporters, some of whom said the language was inappropriate and echoed that of his predecessor, Mahmoud Ahmadinejad. The semi-official Isna news agency reported that a statement issued by “the people’s movement for defending Iran’s independence” alleged there was a secret agreement between Iran’s foreign ministry and the US and EU. Rouhani’s government has vehemently denied claims about a secret agreement parallel to the interim deal. It was not immediately clear which political group in Iran was behind the leaflets, but much of the criticism of Rouhani’s nuclear diplomacy in recent months has come from supporters of the former nuclear negotiator Saeed Jalili.

Jalili, a hardliner who negotiated with the west under Ahmadinejad, ran against Rouhani in last year’s presidential elections but performed poorly. As part of the Geneva deal, Tehran agreed to roll back its nuclear programme and accept more scrutiny of its activities, in exchange for partial relief from sanctions. Last month both sides made the first step in implementing the interim deal, with Iranian scientists halting all enrichment of uranium to 20% concentration. In return, the EU eased restrictions on trade in petrochemicals, precious metals and on the provision of insurance for oil shipments. The US treasury released \$550m (£335m) to Iran, the first instalment in \$4.2bn of frozen oil revenues that the Islamic republic is expected to receive as part of the deal.

Conservatives who have dominated the Iranian parliament have voiced opposition to the agreement and criticised the government for not involving them directly in the negotiations. But an apparent blessing for the six-month agreement from the supreme leader, Ayatollah Ali Khamenei, who has the final say on all state matters, has limited their room to attack Rouhani. In a speech aired live on national television last week, Rouhani defended the interim agreement once more, prompting some MPs to ask the broadcaster to give them airtime to respond. A number of placards carried by people in Tuesday's demonstrations displayed similar messages to those of the leaflets. "We promise to open our eyes in the next elections," read one, according to images posted on Twitter.

"Centrifuges spin no more, but for what price? A basket of food?" read another, referring to Rouhani's initiative for distribution of food rations among people. "We uneducated people who have obtained our nuclear energy by sacrificing our blood will not change it with a piece of bread," said another placard. "I'm uneducated but I will not accept tyranny." Some participants in the rallies also shouted "death to America" and set fire to the US and union flags, local agencies said. Some carried placards reading "we are eager for the options on the table", referring to comments made by US officials in the past that all options were on the table about the future of Iran's nuclear activities.

Rouhani has stood firm over the agreement so far. In his speech, he said: "I say explicitly to those delusional people who say the military option is on the table, that they should change their glasses. Our nation regards the language of threat as rude and offensive." He added: "I want to expressly announce that the movement of the Iranian nation towards the peaks of scientific and technical progress and advancement, including peaceful nuclear technology, will be forever." The next round of talks between Iran and Britain, France, Germany, China, Russia and the US – the group known as P5+1 – over a comprehensive accord is scheduled for 18 February in Vienna.

Iran ready for ‘decisive battle’ with U.S. and Israel, says army chief

Haaretz, 12.02.2014



Iran’s chief of staff says Tehran is ready for ‘decisive battle’ with Washington and Tel Aviv, and dismisses American ‘threats’ as ‘political bluffing.’ Iran’s Chief of Staff General Hassan Firouzabadi said Wednesday that Iran is ready for a “decisive battle” with the U.S. and Israel, and dismissed threats against the Tehran regime as “political bluffing.”

“We are ready for the decisive battle against the U.S. and the Zionist regime,” the commander said, according to Iran’s semi-official Fars news agency. “If any war is launched against Iran, we won’t give any ground to the enemy and they themselves know this very well,” he said.

According to Fars, he stressed that Tehran has made sure it is prepared for this “battle” against Washington and Tel Aviv by “staging different war games.” Iran’s enemies have been preparing themselves to invade Iran, Fars cited the commander as saying. “They even moved their troops to the region, but eventually came to the conclusion that they lack the ability (to wage war on Iran) and left the region,” he said. He went on to describe U.S. and Israeli threats against Iran as “just political bluffing.” “Yet,” he continued, “We warn that if an attack is launched on our troops from any territory, we will invade all the positions of the enemy.” “If we are targeted from the U.S. bases in the region, we will hit those bases. “On Saturday, Fars reported that Iranian warships were “approaching the U.S. maritime borders” in order to send a message to the Obama Administration from Tehran.

The Pentagon said on Monday it was unconcerned by the announcement, noting that lots of countries operated in international waters in the Atlantic. The Pentagon has no information the ships are approaching the Atlantic yet, spokesman Colonel Steve Warren said, adding that “to our knowledge, this is an announcement only at this point.” “We are not concerned about their announcement to send ships into the Atlantic. As I said earlier, freedom of the seas applies to every nation,” Warren said. He said if Iranian ships do head into the Atlantic, “they should not be surprised to find many other navies also sailing in the Atlantic.”

Israel attacks two sites in Gaza Strip

Aljazeera, 11.02.2014



Army claims to have hit an underground rocket launcher and a “terror site” in Gaza in response to an earlier attack. The Israeli military says it has hit an underground rocket launcher and a “terror site” in two air strikes in the occupied Gaza.

An unnamed Israeli army spokesman told the AFP news agency on Tuesday that the overnight attack came in response to a rocket fired from Gaza that struck the Hof Ashkelon Regional Council. “In retaliation the IAF [Israeli Air Force] targeted an underground rocket launcher in the central Gaza Strip and a terror site in the northern Gaza Strip,” he said.

Palestinian security sources said the first Israeli raid targeted a training camp of the Ezzedine al-Qassam Brigades, the armed wing of Hamas, near the Nuseirat refugee camp in the centre of the Gaza Strip. The second raid struck in the northern part of the strip near the community of Beit Lahiya, the security sources said. No injuries were reported from Gaza or Israel. Violence has spiked in recent weeks along the Gaza-Israel border after a period of relative calm following a 2012 battle between Israel and Gaza’s Hamas rulers. The military says more than 30 rockets have been launched toward Israel since the start of 2014, AP news agency reported. Israel this week targeted a fighter accused of carrying out numerous rocket attacks on Israel. The man, identified as Abdallah Kharti, was critically wounded in the strike. The increase in Israeli raids and Palestinian rocket attacks as well as border incidents in the last few weeks raise the possibility of a major new confrontation between Israel and the Hamas movement, which has run Gaza since 2007, AFP reported.

Egypt’s Sisi heads to Moscow for talks

Aljazeera, 12.02.2014



Military chief Abdel Fattah el-Sisi and his foreign minister will meet with Russia’s top diplomat Sergei Lavrov. Egypt’s military chief Abdel Fattah el-Sisi has left for an official visit to Russia to discuss bilateral cooperation with the Kremlin, the Associated Press news agency reported.

Sisi and Nabil Fahmy, Egypt’s Foreign Minister will hold “2+2” talks with their Russian counterparts on a two-day trip that started on Wednesday, military spokesman Colonel Ahmed Ali said in a statement. The trip comes “in response to the historic visit of the Russian defense and foreign ministers to Cairo” last November, the army statement said.

Russia says Syria aid resolution creates ‘grounds for future military action’

Hürriyet Daily News, 12.02.2014



Russia said it would veto a U.N. resolution on humanitarian aid access in Syria in its current form, denouncing the draft as an effort to lay a foundation for military strikes against President Bashar al-Assad’s government.

Moscow had already dismissed the Western-Arab draft debated in the Security Council on Feb. 11, but a senior diplomat’s unequivocal condemnation indicated Russia would seek major changes before dropping its opposition. “Its whole purpose and aim is to create grounds for future military action against the Syrian government if some demands it includes are not met,” Deputy FM Gennady said.

“It is unacceptable to us in the form in which it is now being prepared, and we, of course, will not let it through.” At the United Nations on Feb. 11, French Ambassador Gerard Araud told reporters that Russian U.N. Ambassador Vitaly Churkin told the council Moscow was prepared to work on some kind of resolution on aid access, but not the present draft. Meanwhile, U.S. President Barack Obama warned Feb. 11 that Russia would be to blame for keeping aid from desperate Syrian civilians if it blocked the U.N. resolution designed to lift the siege of Homs. Obama also heaped pressure on the Kremlin as U.S. concern grows about the pace of Syrian compliance with a deal to hand over its chemical weapons stocks for destruction.

He branded the Kremlin as a “holdout” against a Security Council resolution which would allow the delivery of food, shelter, medical aid and water to Homs and other cities where thousands of civilians are trapped by fighting. “There is great unanimity among most of the Security Council on this resolution,” Obama said. He said Secretary of State John Kerry had told Russia that “they cannot say that they are concerned about the well-being of the Syrian people when they are starving civilians.” “It is not just the Syrians that are responsible, the Russians (are) as well if they are blocking this kind of resolution,” Obama said at a White House press conference with French President Francois Hollande.

Western states want Russia to back a draft resolution which calls on all parties to “immediately end the sieges of the Old City of Homs” and other Syrian cities. “Syria must meet its commitments and Russia has a responsibility to ensure that Syria complies,” Obama said. Since the civil war began in Syria in 2011, Russia and China have vetoed three Western-backed Security Council resolutions condemning Assad’s government and threatening it with sanctions. Moscow has adamantly opposed any Western military intervention.

Yellen says emerging market turmoil will not sway the Fed

Financial Times, 11.02.2014



Janet Yellen has turned a cold shoulder to the pleas of emerging markets by signalling that only a domestic slowdown will influence US monetary policy, in comments that suggest there will be no relief for those countries being battered by the Fed's reduction of its asset purchases.

In her first appearance before Congress as Federal Reserve chairwoman, Ms Yellen noted emerging market turmoil for the first time, saying that the Fed was "watching closely the recent volatility". However, she showed no sympathy for complaints that the Fed has failed to co-ordinate its policy with other countries.

Last month India's central bank governor, Raghuram Rajan, hit out at the US for "washing their hands" of emerging markets. He is one of several central bankers to have to increase interest rates following a turbulent start to the year that saw a sharp sell-off in emerging markets currencies. "Our sense is that at this stage these developments do not pose a substantial risk to the US economic outlook," said Yellen. "We will, of course, continue to monitor the situation." In her prepared remarks, Yellen pledged "a great deal of continuity" with the simulative policies of her predecessor, Ben Bernanke. Markets cheered the new chairwoman's performance before the House Financial Services committee with the S&P 500 rising steadily as she spoke. It was up more than 1 per cent at 1,818 by lunchtime in New York.

The new Fed chairwoman ignored patchy recent US economic data in her remarks, forecasting moderate growth this year and next, and highlighting the need to look beyond the unemployment rate when judging the economy. "I was surprised that the jobs reports in December and January showed that job creation was running a little under what I had anticipated," she said in response to a question. "But we have to be very careful not to jump to conclusions about what those reports mean." Her remarks on Tuesday suggest the Fed has enough confidence in the economy to keep tapering its asset purchases, now at \$65bn a month, and signal that new forms of forward guidance about interest rates will rely less on the unemployment rate.

"Those out of a job for more than six months continue to make up an unusually large fraction of the unemployed, and the number of people who are working part-time but would prefer a full-time job remains very high. "These observations underscore the importance of considering more than the unemployment rate when evaluating the condition of the US labour market," she added. That is another indication the Fed will continue to keep interest rates close to zero even after the unemployment rate – currently at 6.6 per cent – drops below its 6.5 per cent threshold for considering a rate rise. The unemployment rate has come down more rapidly than expected, partly because of workers dropping out of the labour market, but Ms Yellen's remarks suggest she still thinks there is labour market slack beyond the unemployed.

“It seems to me, based on the evidence I’ve seen, that some portion of that does reflect discouragement about job opportunities,” she said. Treasury yields were higher after her testimony, with the 10-year note at 2.72 per cent, up from 2.67 per cent. The dollar was broadly unchanged, while gold retreated from its early high to stand 0.6 per cent firmer at \$1,281.75 an ounce. “Despite the reaffirmation of the Fed’s tapering agenda, the overall tone of her remarks could be characterised as dovish,” said Millan Mulraine, strategist at TD Securities. “In particular, she reiterated the Fed’s expectation that “a highly accommodative policy will remain appropriate for a considerable time after asset purchases end”, which in effect reinforces the message that despite tapering, the Fed is not remotely close to tightening policy.” Ms Yellen will repeat her testimony on Thursday at the Senate Banking Committee

NATO’s new frontier

Politics Syndicate, 11.02.2014



An American ship sailing into a Spanish naval base this week is making history. The arrival of the USS Donald Cook from Norfolk, Virginia, to its new home port in Rota, on Spain’s Atlantic coast, marks the first time that a US Navy ship equipped with the high-tech Aegis ballistic missile-defense system will be permanently based in Europe.

The arrival of the USS Donald Cook marks a step forward for NATO, for European security, and for transatlantic cooperation. It clearly demonstrates the strength of the bond between America and Europe in dealing with the complex and unpredictable security challenges of our age.

The arrival of the USS Donald Cook marks a step forward for NATO, for European security, and for transatlantic cooperation. It clearly demonstrates the strength of the bond between America and Europe in dealing with the complex and unpredictable security challenges of our age. Steady progress has been made since November 2010, when, at its Lisbon summit, NATO decided to develop a missile-defense capability to protect all NATO European populations, territory, and forces. In April 2012, at its summit in Chicago, NATO announced an interim capability as an operationally significant first step. Full capability is expected to be attained in the years ahead. The purpose of NATO’s missile-defense system is to defend Europe against a real threat. At least 30 countries around the world either have ballistic missiles or are trying to acquire them.

The know-how needed to build them is spreading, and their range is increasing, with some from outside the Euro-Atlantic region already capable of targeting European cities. The USS Donald Cook and the three other US destroyers have advanced sensor capabilities and interceptors that can detect and shoot down ballistic missiles directed at Europe. In the future, other important components of the missile-defense system will include additional radars, sensors, and interceptors – and more ships. Already, thanks to the US European Phased Adaptive Approach to missile defense, NATO can rely on powerful radar based in Turkey.

Work has already begun on construction of a land-based interceptor and radar site in Romania. Poland has announced plans to build up its air and missile-defense capabilities. The Netherlands is upgrading four radar frigates to make them capable of missile defense, and has offered its Patriot anti-missile systems. The Netherlands, Germany, and the US have already deployed Patriot missiles on NATO's southeastern border to help defend and protect Turkey from possible missile attacks from Syria. And, by hosting the four US Navy destroyers, Spain is making a vital contribution not just to NATO's missile defense, but also to security throughout the Mediterranean region. To link all of these national assets together, NATO has developed, and is expanding, a technologically advanced command-and-control system, based at Ramstein Air Base in Germany. The system already can connect satellites, radars, and interceptors to defend against missile attacks and that capability will grow more complex and agile in the years ahead.

This makes NATO unique: it is the only multilateral organization that can combine the most complex systems from the world's most capable countries to create an effective whole. Above all, this deployment is a step forward for transatlantic cooperation, because the US ships represent more than a military capability. Each one is an eight-thousand-ton reminder of America's commitment to security in Europe. At the same time, NATO's missile defense demonstrates European allies' commitment to security as they develop their capabilities in this area. I encourage all allies to consider how they can contribute further to a system that will defend all of us in Europe. Missile defense heralds a new form of cooperation, with new capabilities against new threats.

Cold War Structures and Tectonic Shifts

The Diplomat, 12.02.2014



Recent events in Northeast Asia have undermined the prospects for regional cooperation in the near term. These include Beijing's ADIZ pronouncement, Prime Minister Shinzo visit amidst Tokyo's larger defense reforms, and concerns over Pyongyang's internal stability or external provocations.

Although heightening concerns, these events can be seen as an outgrowth of existing tensions and disagreements in the region. Despite heady claims of a coming regionalism following the end of the Cold War, Northeast Asia remains marked by historical animosities and increasingly divergent security and economic logics.

It would appear Gilbert Rozman's assessment remains as appropriate today as it was ten years ago. In short, Northeast Asia lingers in a state of stunted regionalism, suffocated by the residue of the Cold War. The din of current events and diplomatic recriminations can make it difficult to understand current trends. Thus, a shift in focus to larger historical and systemic frameworks may help clarify matters. The contention here is that the current state of affairs, of regional tension, is partly the consequence of the incongruity of a Cold War U.S. alliance structure with a post-Cold War Northeast Asia.



Paradoxically, the historical success of the alliance structure contributed to the formation of this same post-Cold War regional architecture. While the latter continues to evolve, Seoul and Tokyo's enduring subordination within the U.S. alliance structure distorts the process thereby exacerbating the divergent economic and security logics noted above.

Historically the essential makeup of the alliance structure has been two-fold. First, the U.S. provides a fundamental security guarantee to both Tokyo and Seoul backed by the full panoply of U.S. conventional and nuclear forces. Second, the two allies remain subordinate partners within the U.S. strategic framework, characterized by truncated sovereignty and occasionally intense pressure to adhere to U.S. interests. To be fair, the contours of both bilateral alliances have evolved significantly over time, resulting in much greater independence on the part of Tokyo and Seoul. Moreover, U.S. pressure is often unnecessary or masked by the fact that Japanese and Korean policymakers view their own interests as overlapping with Washington's. Nevertheless, these qualifications do not alter the fundamental dependence and truncated sovereignty that characterize both bilateral alliances.

The original Cold War rationale behind this hub-and-spoke system consisted of two logics of containment: George Kennan's realpolitik logic and Dean Acheson's world economy one. These two logics, that of power and that of plenty, worked reciprocally in Northeast Asia. While the Korean War delayed execution of the vision embodied in earlier drafts of NSC-48/2, it provided a much needed boost to Japan's "reverse course," kick-starting Japan's economy as an engine of growth within the capitalist "grand area." In the words of Prime Minister Shigeru Yoshida, the Korean War was "a gift from the gods." Moreover, the war opened Congressional floodgates to fund the military Keynesianism of NSC-68, cementing the foundation of the U.S. national security state at home and global power projection abroad.

Lastly, the war firmly embedded South Korea within the U.S. orbit as a heavily militarized bulwark on the perimeter of the so-called free world, to which the U.S. would provide enormous amounts of economic and military aid over ensuing decades. The ROK's own growth and modernization was given much needed support with both the normalization of relations with Japan in 1965 (resulting in the transfer of formerly leading Japanese technologies in a steadily advancing product cycle) and the war-induced incubation of key Korean chaebol during the Vietnam War. Each event facilitated President Park Chung-hee's developmental (and dictatorial) push into heavy and chemical industries in the coming years. In a matter of decades, both Japan and South Korea would move from postwar destruction and occupation to high-speed economic growth and modernization backed by unique developmental state policies.

Over time, U.S. protection, payments and tolerance of each ally's closed economy turned to pressure, not only to take on a larger share of the defense burden, but also to lower barriers to trade and engage in internal economic reform. Meanwhile, Japan and South Korea's own remarkable growth and nationalism, and the increasing complexity of Cold War politics propelled both allies to take more assertive roles based on their own interests. The end of the Cold War cleared away the conditions that had provided the original rationale for the alliance structure, namely, a global geostrategic and political economic standoff. With the dissolution of the Soviet Union and the normalization of relations with China, containment as a power-political standoff simply withered away. Moreover, the ascendance of free-market capitalism proved capable of battering down even Chinese walls, ending containment as a world economy project.



In short, Kennan and Acheson's joint visions proved masterfully successful. Yet the U.S. presence and alliance structure remained intact, backed by explicit U.S. policy aimed at preventing the rise of another regional hegemon on the "Eurasian land mass" (read: China). Additionally, with all the major villains gone, Washington shifted its attention to the lesser sort (read: Kim Il-sung), citing the twin dangers of weapons proliferation and rogue states. In facing new threats, U.S. leadership would be indispensable, backed by an unequivocal military plan for "full spectrum dominance." In sum, the U.S. presence and therefore its alliance structure was turned to new purpose following its success in fulfilling its original *raison d'être*. The problem, though, was that the new purpose cut against the very conditions the original arrangement had so successfully helped bring about.

What has emerged is a highly contradictory set of logics: one geared toward further economic integration, the other toward a classic security dilemma. If the Cold War alliance structure fused power and plenty in symbiotic fashion, its post-Cold War iteration split one against the other. Seoul and Tokyo are caught in the middle; both bound to their longstanding strategic partner, yet simultaneously faced with shifting realities that this same relationship complicates. Each country's position is explored in turn. The winding down of the Cold War shifted the economic and strategic calculus for Seoul. In addition to its normalization of relations with the Soviets in 1990 and China in 1992, it has faced a new political economic geography. The regional dynamic shifted from a Japan-led "flying geese" model to a "swarming sparrow" model, wherein Korean firms moved toward more value-added, capital- and technology-intensive industries, such as semiconductors and computers.

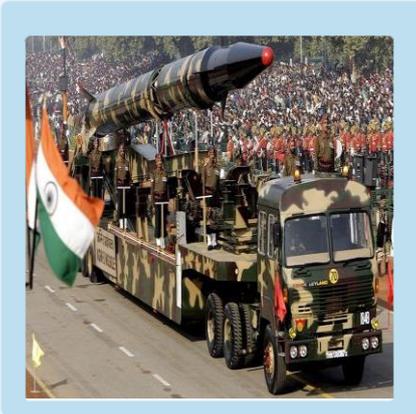
They were no longer adopting Japan's formerly advanced products in a "harmonious intra-industrial division of labor," but were engaging in a highly competitive race to stay ahead. To be sure, Japan remains an important economic partner. Moreover, Korea's transition has been marked by continued U.S. pressure and severe crisis. Still, Seoul has achieved greater relative autonomy from U.S. political pressure and Japanese technological hegemony. Crucial to this process has been South Korea's relationship with China. Starting in 1991, Seoul and Beijing opened mutual trade offices, followed by full normalization of relations a year later. The realignment would spur a rapid boost in investment and trade over the next twenty years based on the obvious complementarities between the countries' economies.

Beyond the sheer size, proximity, and gravitational pull of the burgeoning Chinese market, it was a source of natural resources, cheap labor and low-cost consumer goods for the ROK's technologically advanced, export-oriented economy. Conversely, the ROK served China as a lower cost competitor to Japan, providing both medium- and high technology-goods and significant foreign direct investment. By 2004, China surpassed the U.S. as South Korea's largest trade partner. In 2012, China received 24.8 percent of the ROK's exports and was the source of 15.5 percent of its imports, and export numbers are on the rise. Meanwhile, South Korea is China's fifth largest export destination, third largest source of imports, and third largest source of FDI.

Strategically, the South Korean government remains firmly wedded to the U.S.-ROK alliance, stressing that its very survival depends upon it. Nevertheless, relations remain beset by doubts over the credibility of the U.S. commitment as well as the strategic orientation of same. While Seoul is undoubtedly concerned about North Korea's nuclear program and its external provocations, it would like to broaden the agenda by stressing the relationship between security and the North Korean economy. In addition to Washington's overriding focus on denuclearization and nonproliferation, Seoul is most concerned with peace and stability on the peninsula, a view it shares with Beijing.

India's rising regional military engagement

The Diplomat, 10.02.2014



New Delhi has been strengthening defense ties with countries across the region. Sometime in the latter half of 2013, the top brass of the Indian military had a short but effective brainstorming session with other stakeholders in the national security architecture.

The participants were drawn from the National Security Council Secretariat (NSCS) which functions directly under National Security Adviser (NSA) Shiv Shankar Menon, senior officials from the Ministry of External Affairs (MEA), the Research and Analysis Wing or RAW, India's external intelligence agency and of course the Ministry of Defence.

For the past decade, India has been receiving increasing requests for joint exercises and training slots from what are described as "Friendly Foreign Countries" in the bureaucratic parlance of South Block, the colonial style building that houses both the defense ministry and the external affairs ministry. Considering these requests, a review was called for. At the end of the high-level meeting, a six-point formula for stepping up the nation's military diplomacy was finalized. Specifically, the officials decided to: leverage the military element of national power towards the furtherance of the national interest; contribute to the national security environment by developing a shared confidence amongst the armed forces; strengthen defense relations to promote India's influence in the region; establish a presence commensurate with India's strategic interests and the comfort level of the host nation; assist friendly foreign countries in developing defense capabilities consistent with India's security needs; exploit India's presence in UN Missions to further the national interest.

Many of the elements in the policy are part of India's ongoing engagement with its friends and neighbors, but the fact that a reiteration was considered necessary signifies renewed interest in making full use of Indian military's standing across the world. One of the first decisions flowing out of the new thinking was to post defense attachés in the Central Asian Republics. Accordingly, three new attachés have been placed in Turkmenistan, Uzbekistan and Kyrgyzstan in the past three months. These three countries are of particular immediate interest because of their proximity to Afghanistan, currently in the middle of an uncertain transition.

By posting defense attachés, India wants to make sure it remains engaged with the military leadership there as it has done for years with Tajikistan, another country that borders Afghanistan. In fact, after initial difficulties, India has helped Tajikistan build an air base at Ayni, besides intermittently basing some of its own Russian-sourced helicopters there. A 60-bed, state-of-the-art hospital built by India is manned by military doctors and paramedics at Ayni, and is seen as a major Indian contribution in Tajikistan. The new Indian defense attachés are expected to offer similar, if smaller projects to the other Central Asian Republics. But it's not just about placing military officers in friendly countries.



New Delhi also plans various joint exercises that keep strategic interests in mind. In 2012-13, India was perhaps the only country to have conducted joint drills with all P-5 countries—the permanent members of the United Nations Security Council. While many of the exercises—like the Yudh Abhyas series with the U.S. and Exercise Ajey Warrior with the U.K.—are part of a long-term engagement, India is increasingly focused on offering its expertise to its immediate neighbors too. In keeping with that policy, Indian forces have conducted joint drills, maneuvers and exercises with Nepal, Bangladesh and Sri Lanka, as well as with Singapore, Vietnam and Indonesia.

Living in the shadow of an increasingly assertive China, most ASEAN and East Asian nations want New Delhi to be a counterweight to Beijing. Philippines, Thailand, Indonesia and, particularly, Vietnam and Myanmar, have time and again asked New Delhi to help them both in terms of military training and weapons supply. On a four-day visit to India last July, Myanmar's navy chief, Vice Admiral Thura Thet Swe held wide-ranging consultations with top officials from the Indian Ministry of Defence. Apart from increasing the number of training slots of Burmese officers in Indian military training establishments, India has agreed to build at least four Offshore Patrol Vehicles (OPV) in Indian Shipyards to be used by Myanmar's navy. The Indian Navy, far larger than its Vietnamese counterpart, has been supplying critical spares to Hanoi for its Russian origin ships and missile boats. However, New Delhi is now more open about supporting Hanoi.

Last year it offered a \$100-million credit line to Vietnam to purchase military equipment. The money will be used to purchase four patrol boats. Then there is the renewed closeness between India and Japan. When Japan's Prime Minister Shinzo Abe came to India in the last week of January there was more than usual interest around the world because Abe has not hidden his intention of stitching together a broader alliance in Asia, not necessarily directed at China but certainly designed to balance its rapid rise. Not surprisingly, one key element of the joint Indo-Japan statement was preserving maritime freedom and respect for international laws in Asia. New Delhi and Tokyo reiterated their commitment "to the freedom of navigation, unimpeded commerce and peaceful settlement of disputes based on the principles of international law." In the context of the rising tension between China and Japan over the disputed island and Beijing's assertiveness in the South China Sea, the reiteration is important.

For the first time the two countries have decided to step up their defense cooperation. Japan is at an advanced stage of talks with India to sell the ShinMaywa US-2 amphibious aircraft. If that goes ahead, this will be the first Japanese defense export since World War II. New Delhi has also invited Tokyo to participate in the annual Exercise Malabar held between the U.S. and the Indian navies. Last time Japan—along with Australia and Singapore—joined the maritime man oeuvre in 2007, Beijing protested vehemently. Seven years down the line, China is unlikely to react as vociferously, at least judging by the measured response emanating from Beijing to this new India-Japan tango. It is certain, though, that New Delhi's new thrust to push military cooperation more vigorously as part of its diplomatic outreach will be watched keenly around Asia.

What would Chinese hegemony look like?

The Diplomat, 10.02.2014



East Asia is becoming, in the language of international relations theory, “bipolar.” That metaphor, from magnetism, suggests two large states with overlapping spheres of influence competing for regional leadership.

The Cold War was a famous global example of bipolarity. Most states in the world tilted toward the United States or the Soviet Union in a worldwide, zero-sum competition. Although analysts have hesitated for many years in applying such strong language to East Asia, this is now increasingly accepted. A lengthy twilight struggle between China and Japan, with U.S. backing, seems in the offing.

Until recently, Asia was arguably “multipolar”—there was no one state large enough to dominate and many roughly equal states competed for influence. China’s dramatic rise has unbalanced that rough equity. China is now the world’s second largest GDP. Although its growth is slowing, it is still expanding at triple the rate of the U.S. economy and six times the rate of Japan’s. By 2020 China is predicted to be the world’s largest economy. Its population, 1.35 billion, is enormous. One in seven persons on the planet is Chinese. Were China’s GDP per capita to ever reach Japanese or American levels, its total GDP would match that of entire planet today. These heady numbers almost certainly inspire images of national glory or a return to the “middle kingdom,” in Beijing. They help account for China’s increasingly tough claims in the East and South China Seas.

Until recently, China pursued a “peaceful rise” strategy, one of accommodation and mutual adjustment. This approach sought to forestall an anti-Chinese encircling coalition. China’s rapid growth unnerves many states on its perimeter, from India, east to Vietnam, Indonesia and Australia, north to Taiwan, Japan, and Russia. Were these states to align, they might contain China in the same way the Japan, China, and NATO all worked to contain the U.S.S.R. The peaceful rise seemed to work, especially in Southeast Asia, where Chinese generosity has successfully blocked a united ASEAN position on South China Sea issues. Since 2009 however, China has increasingly resorted to bullying and threats. The 2008 Olympics appears to have been read in Beijing as a sign of China’s newfound might and sway.

In the South China Sea it has pushed a very expansive definition of its maritime zone of control, and it recently faced down the Philippines in a dispute over the Scarborough Shoal in that sea. Indeed, one possible explanation for China’s expansion of its air defense identification zone (ADIZ) in the East China Sea is that a hard line seems to be working in the South China Sea. But China’s northeast Asian neighbors are far stronger and more capable than its southeast Asian ones. Most observers expect Japan, South Korea and the U.S. to push back, as indeed they have. The U.S. flew bombers through the new ADIZ without warning, and both Japanese and South Korean civilian airlines have been instructed by their respective governments not to comply.



All this then sets up a bipolar contest between China and Japan, in the context of China's rapid rise toward regional dominance. A common theme in the literature on China's rise is its apparent inevitability. Westerners particularly tend to get carried away with book-titles such as *Eclipse* (of the U.S. by China), *When China Rules the World*, or *China's New Empire*. History is indeed filled with the rise to dominance of powerful states. China and Japan both sought in the past to dominate Asia. Various European states including the U.S., Germany, and France did the same. But frequently these would-be hegemonies collided with a counter-hegemonic coalition of states unwilling to be manipulated or conquered. Occasionally the hegemonic aspirant may win; Europe under Rome was "unipolar," as was feudal Asia now-and-again under the strongest Chinese dynasties. But there is nothing inevitable about this. Hegemonic contenders as various as Napoleon or Imperial Japan have been defeated.

To be fair, it is not clear yet if indeed China seeks regional hegemony. But there is a growing consensus among American and Japanese analysts that this is indeed the case. By Chinese hegemony in Asia we broadly mean something akin to the United States' position in Latin America. We do not mean actual conquest. Almost no one believes China intends to annex even its weakest neighbors like Cambodia or North Korea. Rather, analysts expect a zone of super-ordinate influence over neighbors. For example, in 1823, U.S. president James Monroe proclaimed the Monroe Doctrine, which warned all non-American powers to stay out of the Western Hemisphere on pain of U.S. retaliation. This has worked reasonably well for almost 200 years. The U.S. has variously used force, aid, covert CIA assistance, and trade, and so on to eject foreign powers from what Washington came to call "America's backyard."

Today, of course, such language seems disturbingly neocolonial, but many assume that the fundamental illiberalism of such spheres of influence do not worry non-democracies like China. This is not going to happen soon of course. This is a project for the next several decades, just as U.S. power over Latin America came slowly through the nineteenth century. But such goals would broadly fit with what we have seen in the behavior of previous hegemonies, including Imperial Japan and China, Rome, the British Empire, the U.S. in Latin America, and various German plans for Eastern Europe in the first half of the twentieth century. The era of U.S. preponderance in Asia is coming to an end.

Reviving China's rebalancing

Politics Syndicate, 08.02.2014



China is at a crossroads. After experiencing three decades of unprecedentedly rapid GDP growth, the country weathered the global economic crisis exceptionally well. But it sustains considerable economic imbalances, which are undermining its ability to achieve high-income status.

The question is whether China's leaders – preoccupied with challenges like financial instability stemming from risky shadow-banking activities and a heavy burden of local-government debt – have the policy space to put the economy on a sounder footing. After the global economic crisis, China appeared to be on track to complete such a rebalancing.

Its current-account surplus fell from more than 10% of GDP in 2007 to 2.6% in 2012, and it ran a large capital-account deficit for the first time since 1998. Moreover, China added only \$98.7 billion to its foreign-exchange reserves in 2012, compared to an average annual increase of more than \$435 billion from 2007 to 2011. That meant diminishing upward pressure on the renminbi's exchange rate. But, over the last year, China's imbalances returned with a vengeance. Its 2013 trade surplus likely exceeded \$250 billion; its capital-account surplus exceeded \$200 billion in the first three quarters of the year; and its foreign-exchange reserves soared by \$509.7 billion. Meanwhile, the lower current-account surplus (as a share of GDP) could be a result of its increased investment-income deficit.

And, while recovery in the advanced economies boosted exports, persistent overcapacity, combined with slower household-consumption growth than in 2012, caused investment growth, though still rapid, to decline to its lowest rate in the past 11 years. In principle, a country can run a current-account deficit or surplus continuously for decades. But China's chronic surpluses are problematic. Given that China remains among the world's poorest countries, with per capita income amounting to less than \$7,000, its position as the world's largest exporter of capital signifies a gross misallocation of resources. In fact, after running twin current- and capital-account surpluses persistently for two decades, China's foreign-exchange reserves are poised to break the \$4 trillion threshold, with the marginal cost of every dollar accrued vastly surpassing its potential benefits.

In this context, the continued accumulation of foreign-exchange reserves is clearly counterproductive. Of course, rebalancing China's economy will take time, and it will entail some risks and sacrifices. But China's leaders must recognize that the country faces massive welfare losses, and thus should be willing to accept slower growth in the short term in exchange for a more stable long-term growth path. In fact, with a well-designed policy package, the duration and impact of the growth slowdown could be minimized. A critical first step is for the People's Bank of China to stop intervening in the foreign-exchange market, which would halt the growth of the country's foreign-exchange reserves. In other words, China should adopt a floating exchange-rate regime as soon as possible. Although this transition would have a negative impact on China's economic growth, it would not be nearly as dire as many seem to believe.



For starters, while it would likely cause the renminbi to strengthen, the consensus in China is that the current exchange rate is not far from the equilibrium level, meaning that the appreciation would likely be moderate. Likewise, although renminbi appreciation would diminish export growth, the slowdown would probably not be dramatic, given that China's export sector is dominated by the processing trade (specifically, the assembly of intermediate inputs imported from countries like Japan and South Korea). And the accompanying increase in imports is unlikely to damage China's economic growth significantly; it is more likely to complement, rather than substitute for, domestic demand. In short, China can afford the costs of rebalancing.

Given that the liquidity flowing into China over the last several years was increasingly short-term capital aimed at exchange-rate and interest-rate arbitrage (so-called "hot money"), there may be a surge in capital outflows when appreciation expectations have disappeared. To prevent large-scale capital flight from threatening China's financial stability, cross-border flows must be managed carefully. A flexible exchange rate dictated by market forces would eliminate the opportunities for currency speculators to make one-way bets on renminbi appreciation, thereby diminishing the stock of hot money that currently accounts for the bulk of China's capital-account surplus. Even if China's current account remained in surplus for some time, the shift from twin surpluses to a more normal external position would boost the efficiency of resource allocation considerably.



Announcements & Reports

► *Democracy Process and Problems in KRG*

Source : ORSAM

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► *Middle East Daily Bulletin*

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Weblink : http://www.orsam.org.tr/en/enUploads/MiddleEastBulletin/2014213_13%20%C5%9Eubat%202014.pdf

► *Syrian Turkmens: Political Movements and Military Structure*

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► *Intractable Peace 2013: Israel - Palestine*

Source : SETA

Weblink : http://file.setav.org/Files/Pdf/20140128105826_intractable-peace-2.0.1.3-israel---palestine-pdf.pdf



Upcoming Events

► *9th International Turkish - African Congress*

Date : 24 – 25 April 2014
Place : Turkey
Website : http://www.tasam.org/en/Etkinlik/592/9th_international_turkish_-_african_congress

► *3rd World Turkic Forum*

Date : 28 – 30 May 2014
Place : Edirne – Turkey
Website : http://www.tasam.org/en/Etkinlik/579/3rd_world_turkic_forum

► *Feeding the World Summit*

Date : 13 February 2014
Place : London - UK
Website : <http://www.economistsinsights.com/sustainability-resources/event/feeding-world-2014?region%5B4%5D=4®ion%5B7%5D=7>

► *The Lisbon Summit*

Date : 18 February 2014
Place : Lisbon - Portugal
Website : <http://www.economistsinsights.com/countries-trade-investment/event/lisbon-summit?region%5B4%5D=4®ion%5B7%5D=7>

► *Arctic Summit 2014*

Date : 4 March 2014
Place : London - UK
Website : <http://www.economistsinsights.com/sustainability-resources/event/arctic-summit-2014?region%5B4%5D=4®ion%5B7%5D=7>

► *The CFO Summit 2014*

Date : 6 March 2014
Place : London - UK
Website : <http://www.economistsinsights.com/business-strategy/event/cfo-summit-2014?region%5B4%5D=4®ion%5B7%5D=7>

► *The Azerbaijan Investment Summit*

Date : 11 March 2014
Place : Baku - Azerbaijan
Website : <http://www.economistsinsights.com/countries-trade-investment/event/azerbaijan-investment-summit?region%5B4%5D=4®ion%5B7%5D=7>

► *9th International Turkish - African Congress*

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