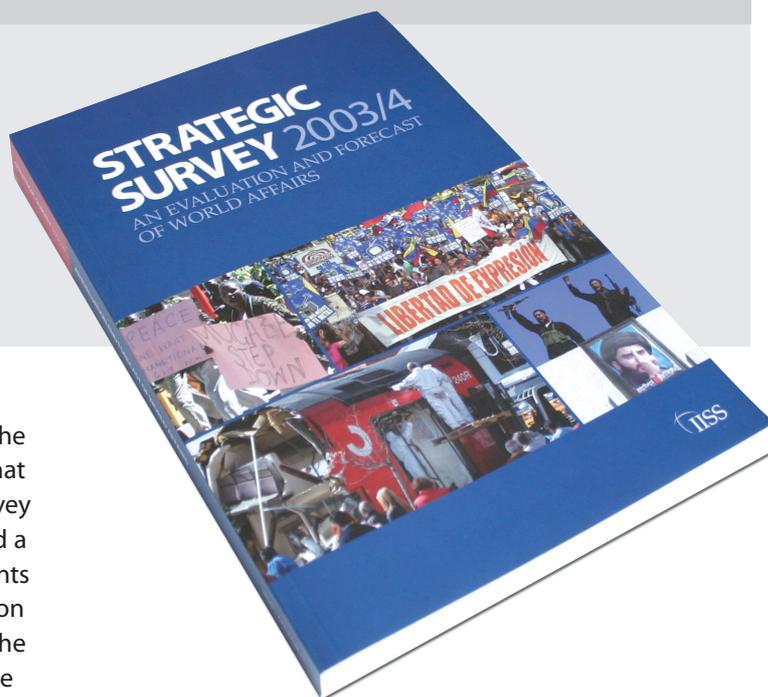


Remarks by

Dr John Chipman
IISS Director



INTRODUCTION

Welcome to the launch of the 2003/4 *Strategic Survey*, the annual analysis by the IISS staff of 'The Strategic Year That Was.' As in recent years, this book includes the best survey of events around the world of strategic significance and a look forward to the types of challenges that governments and others will face in the months ahead. The publication of *Strategic Survey* allows the Institute to take stock of the main strategic trends in the world, and alert its audience of opinion formers and policy makers to issues that need to be addressed.

This year's *Strategic Survey* 2003/4 was prepared against a complex background of world events. The military victory in Iraq was quickly overshadowed by the travails of the occupation. International terrorism struck widely and directly influenced the outcome of elections in Spain a key coalition partner in Iraq. A Road Map was produced for The Middle East Peace Process (MEPP) but the two principal parties seemed alternatively either not to drive down it or to travel in opposite directions. An initially uncertain and in any case controversial victory by Chen Shui bian in Taiwan thrust again the cross-straits tension to the centre of Asia's geo-political concerns. A surprise election victory by the Congress party in India, instantly raised questions about the peace process with Pakistan and about the future of India's embrace of the West and more extrovert foreign policy. A surprise WMD disarmament deal with Libya artfully negotiated in secret by the UK, served also to expose the inadequacies in the processes that were underway with North Korea and Iran. The domination of these issues on the strategic agenda again relegated concerns on African and Latin American security to the second rank.

As in previous years, we have developed an excellent Strategic Geography section with very detailed information on a host of different subjects including, for example: 'Cross border terrorism'; 'Opium cultivation and trafficking'; 'International arms transfers and deliveries'; 'Iraq: successful invasion; complex aftermath', and 'Russia's eastern energy resources.'

After my presentation many of the senior staff of the Institute would be happy to take questions on their areas of expertise and so I am delighted to be joined on the podium today by the following: Jonathan Stevenson,

Editor of *Strategic Survey*, Dr Gary Samore, Director of Studies, Alex Nicoll, Assistant Director, Dr Dana Allin, Editor of *Survival*, Dr Tim Huxley Editor of *Adelphi Papers*, Mr Adam Ward, Editor of *Strategic Comments*, Christopher Langton Editor of the *Military Balance*, Rahul Roy-Chaudhury, Research Fellow for South Asia, and Nomi Bar Yaacov, Research Fellow for Conflict Management.

TRANSNATIONAL TERRORIST THREATS

Overall, risks of terrorism to Westerners and Western assets in Arab countries appeared to increase after the Iraq war began in March 2003. With the military invasion and occupation of Iraq, the United States sought to change the political status quo in the Arab world to advance American strategic and political interests. Al-Qaeda seeks, among other things, to purge the Arab and larger Muslim world of US influence. Accordingly, the Iraq intervention was always likely in the short term to enhance jihadist recruitment and intensify al-Qaeda's motivation to encourage and assist terrorist operations. The May 2003 attacks in Saudi Arabia and Morocco, the gathering of foreign jihadists in Iraq, and the November 2003 attacks in Saudi Arabia and Turkey confirmed this expectation. The Madrid bombings in March 2004 reinforced the perception that al-Qaeda had fully reconstituted, set its sights firmly on the US and its closest Western allies in Europe and established a new and effective modus operandi that increasingly exploited local affiliates. Al-Qaeda must be expected to keep trying to develop more promising plans for terrorist operations in North America and Europe, potentially involving weapons of mass destruction. Meanwhile, soft targets encompassing Americans, Europeans and Israelis, and aiding the insurgency in Iraq, will suffice. Given the

group's maximalist objectives, its ubiquity and its covertness, stiff operational counter-terrorist measures, inter-governmentally coordinated, are still acutely required. Progress in marginalising transnational Islamist terrorists will come incrementally. It is likely to accelerate only with currently elusive political developments that would broadly depress recruitment and motivation, such as the stable democratisation of Iraq or resolution of the Israeli-Palestinian conflict.

WMD PROLIFERATION

In the year since the invasion of Iraq, there have been mixed results in diplomatic efforts to deal with nuclear proliferation concerns.

Most successfully, Colonel Qaddafi agreed in December 2003 to abandon Libya's clandestine nuclear weapons programme in exchange for pledges from London and Washington to lift economic and political sanctions, once they were completely satisfied that Libya had irreversibly and verifiably disarmed. The Libya deal was a brilliant success for British diplomacy, and removed a potential threat that Libya might eventually acquire nuclear weapons, adding to instability and proliferation in the Middle East.

Moreover, the revelations provided by Libyan authorities provided Washington with the ammunition it needed finally to force President Musharraf to put the A.Q. Khan nuclear network out of business. The dismantlement of A.Q. Khan's network, which has been responsible for assisting nuclear weapons programmes in Libya, Iran, and North Korea since the early 1990s, was a significant accomplishment for counter proliferation efforts. It also reinforced the need for stronger measures to tighten export controls and protect sensitive materials, that helped create consensus for UN Security Council Resolution 1540 of April 28, 2004.

For Washington, the Libya agreement was held up as a model for the type of deal it was prepared to support with Iran and North Korea. Unfortunately, neither Tehran nor Pyongyang seem inclined to follow Libya's path. In both cases, relative to Libya, the underlying motivations to retain a nuclear option appear more deep-seated and nuclear capabilities are more advanced, making a diplomatic solution along the lines of the Libya model more difficult to achieve. In addition, Washington's leverage over both Tehran and Pyongyang has eroded, as the US found itself pre-occupied with an increasingly desperate situation in Iraq and as the Bush Administration remained deeply divided over policies towards Iran and North Korea.

As a result, the US ceded diplomatic initiative to third parties: to China in the case of North Korea and to Europe in the case of Iran. Limited progress was made on both

fronts over the past year, but the ultimate outcome remains in doubt. In October 2003, the EU-3 (UK, France and Germany) reached agreement with Iran fully to disclose past nuclear activities, accept stronger IAEA inspections, and suspend its fuel cycle programme. Since then, however, Iran's commitment to the October agreement has been suspect, and the Europeans have not been able to negotiate Iran's agreement to permanently suspend its fuel cycle programme in exchange for guaranteed access to nuclear power fuel and other technologies. Instead, Tehran appears to be taking a harder line, perhaps believing that the US is sidelined by Iraq and the Presidential elections and that the Europeans are reluctant to press for sanctions in the Security Council. For now, the challenge for the EU-3 is whether they can deter Iran from resuming work on its enrichment plant while the IAEA continues efforts to verify Iran's nuclear declarations. Also unclear is whether the US will eventually enter into nuclear negotiations with Iran, as it has done with Libya and North Korea.

In the case of North Korea, it seems clear that Pyongyang took advantage of the invasion of Iraq last spring to reprocess its stockpile of spent fuel and extract enough plutonium for a handful of nuclear weapons. To avert a crisis on the peninsula, Beijing successfully orchestrated Six Party Talks (the US, China, Russia, Japan, ROK and DPRK) in August 2003, followed by a second session in April 2004. A third session is expected this summer. However, the talks have yielded no significant progress, even in reaching agreement to restore a freeze on North Korea's nuclear programme, mainly because Pyongyang refuses to acknowledge its secret enrichment programme, which led to the crisis in the first place, and because Washington refuses to provide any substantial 'inducements' to North Korea until it disarms. At the same time, both Washington and Pyongyang appear inclined to keep the process alive for the time being, without making any significant concessions. Increasingly, the Six Party Talks look like buying time until a new Administration takes office in Washington in January 2005. However, as North Korea continues to enhance its nuclear capabilities during this diplomatic stalemate, it will become even more difficult to negotiate an agreement that achieves disarmament.

IRAQ

Progress in Iraq since the occupation of Baghdad on April 9th last year has been undermined by a lack of troops, poor institutional links between the Coalition Provisional Authority (CPA) and Iraqi society and the inability of the Iraqi Governing Council to act as a rallying point for political support or loyalty from ordinary Iraqis. Problems with both security and politics look set to continue and

even increase in the six weeks to 'hand over', and then the six months to the proposed date for national elections.

Order, is the most serious problem facing Iraq during this interregnum. There appears to be little chance in the immediate future that the security vacuum that has dominated Iraq since liberation can be filled by either coalition troops or by the nascent military and police forces hastily stood up since liberation. The inexperience, poor training and lack of discipline of the new Iraqi army and police force was highlighted by their reaction to the violence in Fallujah and the revolt of Muqtada al Sadr and his Mahdi army. In both cases the Iraqi police force either did not challenge the insurgents or joined them. The Iraqi army when deployed in Fallujah refused to fight. The coalition's solution to the insurgency in Fallujah, the creation of a town-based militia, provided temporary respite but also added to the weakness of central government.

This proliferation of militias in Iraq is the major problem facing the new government. If the security vacuum cannot be dealt with then ordinary Iraqis will increasingly be required to look to the militias for some sense of order. In return, these militias will demand political loyalty from their new constituents. And yet, it is not the case that Iraq is moving irrevocably towards the Lebanon of the 1970s and 1980s. The militias, as they stand, have little or no popular support in the country. They also do not have solid links within the communities they claim to represent. These facts make a sectarian civil war very unlikely in the short to medium term. However, if this situation is not dealt with these fighting forces will develop increasing influence on and a potential veto over any decisions made by a transitional government in Baghdad that threatens their interests.

With few functioning institutional links between the new government in Baghdad and the wider population, the nation-wide election campaign in late 2004 or early 2005 will be the crucial test of the ability of Iraq's new political parties to build a national base and gain a popular following. If they fail to do this or resort to the politics of patronage and violence then the Iraqi polity will be fractured to an even greater extent than it is today.

Against this background the new government, as its top priority, must first build a new army and police force. This however, is a long term venture. The danger is that in seeking short cuts it will succumb to the temptation of relying on militias, either totally, or by integrating them into the new security forces. This would undermine the national nature of the new Iraqi forces, potentially sowing the seeds for sectarian divisions. Secondly, it must push ahead with elections in the face of increasing violence. Democratic elections, however rough and ready, will mobilise the population rallying them behind national

parties and national institutions. It will also give the population a peaceful way to express their disappointment with the pace of reconstruction to date. National parties seeking to build a national electorate will shape the Iraqi polity in the only safe direction, tempering the extremity of political demands while forcing the parties to act as a responsive link between the population and the government.

MIDDLE EAST PEACE PROCESS

The war against terror and the state building project in Iraq has sapped the US of much of its diplomatic energies with the result that there has been underinvestment in the Middle East peace process. The President laid out a bold vision in 2002 that openly made a two-state solution US policy, and yet implementation of that policy has been left to those in the region. We argue in *Strategic Survey 2003/4* that this was the year the Likud Party, the institutional keepers of the flame, surrendered the dream of Greater Israel. At the same time, Palestinian institutions, under attack from outside and corroded from within, appear scarcely able of responding to this momentous shift in Israel's world view.

Moderate, Arab states have nevertheless remained active. The last Arab summit in Beirut endorsed Saudi Crown Prince Abdullah's plan for a two state solution, known since as 'The Arab Initiative', and the fact that 22 Arab states de facto recognised the right of Israel to exist is a significant new reality.

Still, nearly two years after the US President declared his goal of a two-state solution by 2005, that solution still seems much more than a year away. Dangerously, there is a risk that this outcome will become even more distant, unless the US intervenes more comprehensively to implement, rather than just restate, its preferred outcome. The US could do more do shore up moderate Palestinian leaders and train their security forces, and guide the Israeli leadership towards policies more obviously consistent with the Road Map. Sadly, the understandable pre-occupation with the deteriorating situation in Iraq has meant that the rules of diplomatic engagement have been framed more by Israeli unilateralism and Palestinian incompetence than by the one power most able to influence both regional parties.

CHINA

In China, the contrast between an anxious domestic scene and an increasingly confident foreign policy has become sharper. Leadership changes produced a more unwieldy administration tested by the SARS emergency, mass protests in Hong Kong against anti-subversion legislation, and an economy showing worrying signs of overheating. Beijing showed greater sureness of touch

abroad. In the North Korean standoff, it made itself the arbiter to whom both Pyongyang and Washington must appeal. It sought to put a greater strategic accent on relations with Southeast Asia, India and Europe - where France and Germany reciprocated by lobbying for the repeal of the EU's arms sales ban. Washington's shocked reaction to this, and its renewed protests about China's human rights, proliferation and trade practices, were nonetheless insufficient to destabilise Sino-American relations. America's reliance on China in diplomatic efforts towards North Korea, and China's hopes for American pressure to be used against Taiwan, are part of a broad set of calculations keeping the relationship on track.

But there is a growing sense in Beijing that the cross-strait situation is becoming more prone to unravelling. President Chen Shui-bian's re-election is regarded as an unmitigated disaster. Chen's inauguration address last week, which bore traces of American tutelage, did offer Beijing a number of olive branches: planned constitutional reforms will not touch on the issue of sovereignty; neither will they be approved by a referendum, which Beijing feared would have entirely detached the new charter from the old and marked a step perilously close to formal independence. But Beijing's instinctive distrust of Chen will continue to overwhelm any sense of relief about such assurances. China will thus seek to reinforce military deterrence against Taiwan and work hard to ensure that American pressure on Chen is kept up. It will hope that the continuing controversy surrounding the circumstances of Chen's re-election will drain his administration both of legitimacy and radicalism, producing gains for opposition parties more acceptable to Beijing in December's parliamentary election. But none of this offers Beijing any great comfort. It will worry that a failure by opposition parties to inflict a defeat on the government in December might cause Chen and his supporters to rediscover their radicalism. Beijing's doubts about the effectiveness of US pressure will also persist, since Chen has shown himself capable over the last year of openly disregarding Washington's wishes. If Beijing comes to believe that two pressure points against Chen are weakening, its emphasis on the third - military deterrence - is likely to grow, albeit with the risk that this in itself may embolden pro-independence sentiment on the island.

INDIA-PAKISTAN

There is some optimism on the India Pakistan front. The ceasefire along their borders - operative since last November - continues to be scrupulously observed. Cross-border infiltration into Kashmir is down - even in summer - and President Musharraf has hardened his

stance on terrorism. High Commissioners have returned, communication links (bus, air and train) restored, and people-to-people contact, including cricket matches, resumed. In January there was an agreement to resume their official dialogue - including on the Kashmir dispute - after a three-year hiatus.

But, the peace process remains fragile. Violence in Kashmir continues, formal talks are yet to begin, nuclear-capable ballistic missiles are tested regularly, and possibilities of misperceptions and miscalculations are high. There is deep mistrust between the two countries. The outcome of the peace process appears to have rested on two individuals - Musharraf and Vajpayee - and their ability to deliver.

The risks of such a policy are only too apparent with the astonishing electoral victory of the Congress-led alliance, and the formation of a minority centre-left coalition government in Delhi. Both Congress leader Sonia Gandhi and Prime Minister Manmohan Singh have indicated support to the peace process. Nonetheless, its pace is expected to slow down as the new Government comes to grips with the new post-September 11 world and the requirements it places on the leadership to adjust a world-view that is derived from a different era. The new government's dependence on the support of the left parties could also affect the burgeoning strategic relationship with the US, and weaken the US role in facilitating the peace process.

SOUTH EAST ASIA

In Indonesia, Jemaah Islamiah (JI) attacked the Marriott hotel in Jakarta last August killing 14 people. In the southern Philippines, strong evidence connects JI with local separatist groups. In southern Thailand, complex local factors underly the serious upsurge in violence since January, but the Thai security forces heavy-handed responses may help JI to strike deeper roots among the local Muslim population.

Counter-terrorism co-operation, both among Southeast Asian governments and with states from beyond the region, has remained patchy. Despite notable successes, especially in terms of bringing to justice the immediate perpetrators of the October 2002 Bali bombings, Southeast Asian intelligence and law-enforcement bodies are all too often under-funded, under-trained, lacking in specific counter-terrorism capacity, and focussed on other pressing concerns. Nevertheless, one promising recent development has been the establishment of the Indonesia Centre for Law Enforcement Cooperation, expected to be operational by the end of this year. ICLEC will have both capacity-building and operational roles and, though led by a senior Indonesian police officer, will be Australian-funded.

Regrettably, however, it may take further major terrorist attacks in the region to galvanize more comprehensive counter-terrorism collaboration between regional states.

In two weeks, from 4–6 June 2004, the IISS will hold the Third Shangri-La Dialogue in Singapore bringing together the defence ministers and senior defence and military officials of some 20 countries. The Shangri-La Dialogue has become the principal forum in the Asia-Pacific for multilateral defence diplomacy. Inevitably the terrorism issues in South East Asia and the problems of proliferation in East Asia will garner substantial attention. Press enquiries about accreditation to this event can be directed here to Tanya Conyers-Silverthorn.

CONCLUSION

Let me add this thought by way of general conclusion.

The British diplomat Harold Nicolson once noted that 'although you cannot acquire prestige without power, yet you cannot retain prestige without reputation.' This is why reputation is so central to power. He went on to say that 'a prestige which contains a high percentage of reputation is able to withstand a loss of power - whereas even a temporary decline in power will destroy a prestige that is devoid of reputation.'

The US today is finding it difficult to balance the exercise of its power with the retention of its prestige. Achieving that balance is essential to maintaining its capacity both to do good in the world, and create international security.

The present US administration is becoming acutely aware of the fact that reputation, prestige and power can easily be squandered through mismanaged interventions and peacekeeping operations. The US is realising the awful truth that the first law of peacekeeping is the same as the first law of forensics: 'every contact leaves a trace.' Unfortunately, too many bad traces have been left recently, and many good ones will be needed for the US to recover its reputation, its prestige and therefore effective power.

An efficiently executed plan for the full handover of sovereignty to Iraq and stronger international support for that strategy as symbolised by a new UNSC Resolution will be key ingredients for the recovery of US authority and the reassertion of some, though one can no longer hope all, of the more idealist goals of the initial intervention in Iraq. The next six weeks and six months will test US and coalition power - and reputation - substantially.

Thank You.

