

# *The world in 2030*

## *Regional Trends*

**Project Director Alessandro Gobbicchi**

Military Centre for Strategic Studies – Rome

Alessandro Gobbicchi is Deputy Director and Head of Sociology Department in the Military Centre for Strategic Studies in Rome. He taught at the Universities of Rome and Urbino and now is professor of Sociology of Conflict at the University of Pisa. Among his last books: *Globalization, armed conflicts and security* (2004) and *I meandri della ragione. La guerra nel pensiero sociale del XIX e XX secolo* (2002)

Copyright by Cemiss 2007

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, or photo-copying, recording or otherwise, without the prior permission of the author.

# *Contents*

Preface

Introduction	p. 5
1. North Africa and Middle East	p. 8
2. Sub-Saharan Africa	p. 22
3. Eastern Europe and the former Soviet Union	p. 36
4. China	p. 47
5. India	p. 62
6. East and South-East Asia	p. 71
7. Latin America	p. 81
8. North America	p. 94
9. Western Europe	p. 103

List of contributors

## ***PREFACE***

This report is the result of an effort initiated in March 2006 and concluded in May 2007 under the direction of Commander Alessandro Gobbicchi, Chief of the Center's Sociology Department and professor in the University of Pisa. More than 80 experts on numerous disciplines, from academic world, prestigious international organizations, and research institutes, contributed to this effort, either via round table discussions, or paper submissions.

The objective of this study was to identify possible trends to global development up to the year 2030, highlighting factors which would contribute to it. In order to obtain the most objective perspective, this study took a comparative approach between inputs from experts coming from the area being studied at a given time, and experts in that same field residing elsewhere. The different points of view that occasionally emerged were debated during discussions which provided suggestions for more in-depth analyses.

This report does not make recommendations, nor dictates policies: this was not our goal. This work stands as an instrument of analysis and comprehension. Throughout this effort, the topics covered were progressively chosen and studied because of their ability to provide a clear picture of the world which we had set out to study. While these topics do not exhaust all possibilities and details of today's condition and tomorrow's possibilities, they do nonetheless constitute a valid synopsis.

This report paints a picture of a varied world, more static in some regions, and more dynamic in others. Some countries will successfully integrate themselves in the globalization process, while others will remain on the fringes without being able to enjoy the economic and political benefits that this process can provide. Nevertheless, while enjoying the benefits, even those regions most geared towards integration will still need to contend with internal problems caused by their participation to globalization itself. In these countries, perhaps even more than others, governments will be challenged to face complex situations and undeniable needs in order to avoid social and political chaos.

*Rear Admiral (u.h.) Luciano Callini*  
*Director of CeMiSS*

## *Introduction*

When in March 2006 the project started, it was soon clear that there would be some real risks. Some of these seemed more serious than others: to transfer to 2030 the simple analysis of present events as we perceive them today according to a general process of global change; to misvalue the reciprocal influence between local dynamics and global processes, thus wrongly placing local events in a general context, or vice-versa, without understanding possible peculiarities; to favor some perspectives over the others; to refer to general dynamics of social, or political change without being able to individuate possible local factors able to influence them and to modify their action; to produce a final report which would be useful only as a statement of fact, not as a process of critical understanding.

There were therefore the risk: of not properly considering the role of the historical processes and of possible factors not at present evident, but the genesis of which has already begun; of resorting to a serie of deterministic explanations; of producing a report not very utilizable because it was axiomatic.

It was not easy to find a research methodology to get through these risks. It was decided to proceed by organizing topical round table discussions, each of which had as its subject one of the geographical regions into which the earth had been divided. The aim of these meetings was to favor multidisciplinary exchanges between area specialists on topics they believed to be most important for the future development of the area we were studying. In this way the perspective of each of them could be compared with those of experts in other sectors. The purpose was: to achieve the most objective analysis of the present situation; to understand it in the light of an historical process that could possibly be defined; to determine the right relationship, as far as possible, between local dynamics and global processes ascribing to each of them the appropriate importance; to individuate the elements which characterized the society we were studying and the relationships that occur between them; to find out new factors which originate from these interactions and their ability to affect, or modify the existing elements and dynamics. It was necessary to understand if, apart from the natural process of change, the societies we were studying could also be subject to deviations from the standard patterns of change and to understand if and how they could affect the future development of societies.

A constant element of the study has been the research of those factors at times hidden and at others barely perceptible, which could threaten a defined direction, or an ongoing process.

We paid special attention to the intersections between the economic, social, political and cultural fields. In their turn, they were to be studied as a part of wider ones such as the environmental, demographic and resources fields. We took into consideration the present social, political, economic and cultural dynamics in a perspective as close as possible to the future environment in which people, institutions and organizations will operate.

Present trends have therefore been reconsidered in the light of the more general probable development of the context within which they take place.

A major difficulty we encountered was that of moving adequately between the interdependencies. Aware of the necessity to understand the reciprocal consequences of particular events special attention has been paid to links among events in different sectors. As a consequence, for instance, pollution, or the spread of HIV, or armed conflicts in each region have been examined in a wider perspective in order to understand the general consequences they could have on the region itself.

Every single geographical region has been studied keeping constant the sectors of analysis. Despite this some differences about the way the same sectors have been studied in different regions, or in relation to other sectors in the same region, could occur. This is a consequence of the importance given to them and relative to the region in question. In some regions, the environmental factors are examined in a more widespread way than in others, in others the economic aspects needed a deeper study, in still other it was seen as necessary to pay more attention to social/cultural aspects.

For some regions it was possible to outline a probable scenario, for some others we preferred to describe the elements that we thought will be relevant to shape their future development, pointing out what could happen if a specific event takes place, or which actions, or events, could lead to a specific development. In these last cases: relevant elements have been analyzed and relative trends have been described; the consequences of specific actions, or events have been explained.

As repeatedly stressed in various points of the report, sometimes more explicitly than others, political choices will play a determining role in defining the future of the individual countries. This is true not only in relation to the type of decision that will be taken, but also in the consequences that they will have for the government which will implement them and for the image of the state as a governing institution. Despite this, apart from particular cases, little space has been left for the study of possible trends in politics. It was preferred instead to study the possible directions of the socio-political development of the societies, in the conviction that in the majority of cases this could be indicative of future political choices on the part of the ruling classes. The assumption, we know, can be seen in different ways, but we are confident that, in the medium term, this perspective can give more precise indications than any speculation on the political struggles within each country.

Another aspect concerns the role of unforeseen events of great impact such as large scale terrorist attacks. Here also, since it was decided not to use a method based on multiple scenarios, we chose not to define the consequences of such a possibility. This was partly because innumerable options would have been opened which, without giving a clearer picture, would have made the report much complex; in part because it was believed that in the medium term, even the consequences of such an event will be absorbed, with the due influences in one sense or another, within the process of evolution of the society in question.

One last consideration. The prediction of future events constitutes in itself a problem and it is made *rebus sic stantibus*. As far as the present situations can be analyzed, the emerging trends can be reasonably interpreted and projected into the future through

rational processes and provided with a high level of logical coherence. Despite all this, the method is hypothetical and problematic and not without uncertainties.

For this reason, rather than giving a picture of what the regions in question will be like in 2030 it was decided to illustrate for each of them the elements which will contribute to their development and will concur in modifying their present situation. This in order to give the reader a conceptual path which can be a reference point with which to agree or not in each case, trusting that the more a study stimulates a precise and circumstantial critique, the more it constitutes a reference point.

*Alessandro Gobbicchi*

## ***North Africa and Middle East***

In 2030, the Middle East will exhibit two distinct profiles. One will be characterized by poverty, repression, inequality, and the incapacity of governments to address social needs, to govern effectively, or to generate economic development. The second will be characterized by increasing wealth, mercantile economies tightly linked to global markets, cosmopolitan societies, and less repressive if still autocratic regimes.

### *Economic aspects*

The region can be divided into a group of countries that have achieved high incomes through oil wealth (plus Israel) and the developing countries, the latter including mostly middle-income countries, plus Yemen, Afghanistan and the West Bank and Gaza.

*High-income countries.* The high-income oil exporters (Brunei, Bahrain, Kuwait, Qatar, Saudi Arabia and United Arab Emirates) are almost entirely specialized in oil production (the share of fuels in exports ranges from 73 percent in Bahrain to 92 percent in Kuwait). Thus their prospects depend critically on developments in the oil market (determined in part by their ability to agree on and adhere to production limits), the size and exploitation rate of their reserves, and their ability to translate oil revenues into long-term development:

Current prices include a large premium for political risks. It is unlikely that oil prices could be maintained at current levels in the long term (at constant prices) if stable supply from the Middle East could be assured. At that price level, the profitability of alternative sources of oil (e.g. extracting oil from shale deposits, oil in difficult to reach offshore areas) and alternative energy sources (e.g. wind, solar) would increase substantially, while further increases in energy efficiency would be likely. The International Energy Agency forecasts that, even given increases in demand for oil from rapidly-growing developing countries, the price of oil will remain below \$40 a barrel in 2004 dollars through 2030.

The effective management of oil revenues requires efficient allocation of investments and appropriate timing of expenditures. There is some indication that, over the long term, infrastructure investments have contributed to growth and may have helped facilitate some modest diversification (in Saudi Arabia, manufactures accounted for 12 percent of exports in 2004, and Bahrain has become the premier financial entrepot in the region). Most of the high-income oil exporters also have managed to maintain demand pressures during the current oil windfall (inflation was less than 1 percent in Saudi Arabia and 4 percent in Kuwait, although 8 percent in UAE). Nevertheless, further progress is required in setting up the institutions and fiscal rules that would insulate public expenditures from oil price volatility.

The high-income countries confront important challenges in the coping with conflicts between modernism and fundamentalism and navigating the external challenges in a turbulent Middle East. In economic terms, there are two critical adjustment issues: finding productive jobs for their young and growing populations, and managing the large stock of immigrants:

a) Several countries face high unemployment (13 percent of nationals in Saudi Arabia, 11 percent in UAE) and population growth is rapid (33 percent of these countries' populations is under the age of 14). Judging by IMF Article IV consultations, continued structural reforms are required to ensure that sufficient jobs are available for this growing workforce. Maintaining living standards for future generations will require decided efforts to achieve more balanced growth.

b) Immigration rates are among the highest in the world. The stock of immigrants ranges



from 26 percent of the population in Saudi Arabia to 71 percent in the UAE. Maintaining large numbers of people without citizenship rights over the long term may create economic and political strains that are difficult to resolve in the context of continued growth. Efforts are now underway in some of these countries to increase nationals' participation in employment (in UAE, for example, nationals have shown a preference for secure, public sector jobs, while foreigners dominate the private sector). Care has to be taken to ensure that such efforts do not cause disruptions due to turnover or impair growth from reliance on unqualified employees.

*Developing countries.* Many of the developing countries in the region also depend heavily on oil revenues, but have larger populations and much greater developmental problems than the high income countries. In some respects, these countries compare unfavorably with the other predominantly middle-income regions. Only 73 percent of the adult population is literate, compared with about 90 percent in Latin America and East Asia. Infant mortality is 44 per thousand live births (excluding Turkey), compared with 31 in Latin America and 37 in East Asia. The extremely young population (32 percent under the age of 14) provides an opportunity to accelerate growth, but only if economies become sufficiently productive to absorb new entrants to the labor force. Absent more rapid progress in structural reforms, there is a danger that population growth may simply drive increases in unemployment rates from current high levels (over 10 percent in Egypt, Iran, Morocco, Syria, Tunisia and Turkey), fueling social discontent. Even to avoid a rise in unemployment rates, these economies would have to create 80 million new jobs over the next two decades, or about 20 percent smaller than the current size of the labor force. The reforms required to drive more rapid employment growth include:

a) Non-oil export growth in the region, except for Turkey, has been feeble. Non-oil exports are below 5 percent of GDP for most of these countries (although much higher in Jordan, Morocco and Tunisia), compared with an average of more than 25 percent for developing countries as a group. In addition to competition from the oil sector, non-oil exports are constrained by high tariff rates and non-tariff barriers, along with poor transport and communications infrastructure. Significant tariff reforms have been undertaken in Egypt and Iran, while these countries, plus Morocco and Tunisia, have made progress in dismantling non-tariff barriers. Nevertheless, much more could be done to promote tradeables production through more open trading regimes.

b) Burdensome regulations constrain private sector development in several countries. For example, in Jordan, Syria, and Yemen, entrepreneurs must deposit at least 10 times the country's per capita income in a bank account to obtain a company registration number. Algeria, Egypt, Jordan, Oman, and Syria require at least 40 different legal procedures to enforce a contract. Morocco and Tunisia have made significant strides in reforming business regulations, and Turkey (spurred by the crises in 2001 and hopes of EU membership) has made substantial progress in restoring macroeconomic stability and creating a more attractive environment for investment. But otherwise progress in structural reforms has been slow.

c) Corruption is a serious issue: Transparency International's index of corruption is below 4 in every country except Jordan, Oman and Tunisia. The quality of government administration (excluding Turkey) is the lowest among middle-income regions, and an

index of public accountability ranks the region (again excluding Turkey) as the lowest among all regions (and no country improved its worldwide rank from 2000 to 2004). While several countries have undertaken reforms of public administration and improvements in public expenditure management, such reforms require considerable time and the record of success in other developing countries is limited.

### *Environmental aspects*

All over the region countries will face serious environmental problems. In Egypt the Nile River delta is at risk of salination and inundation by the Mediterranean if sea levels rise even slightly. Egypt relies on the annual flow of the Nile for nearly all its freshwater, so changes in rainfall patterns in the Nile Watershed could reduce available water resources, decimating Egypt's agriculture and undermining the hydroelectric power facility at Aswan.

Iran faces biggest environmental problems because of air pollution. A major factor behind the suffocating air pollution in Tehran and other Iranian cities is the dramatic rise in the country's energy consumption. From 1980-1998, Iran's total energy consumption registered a three-fold increase. Much of this energy is accounted for by gasoline consumption. With an abundance of oil in Iran, petroleum products are subsidized, and their cheap cost deprives producers of incentives to make them more fuel-efficient. Overall, natural gas makes up about 50% of the energy consumed in Iran, with oil (48%) making up much of the rest. Rapid population growth over the past 20 years has been a significant factor contributing to Iran's environmental problems, and continued high population growth, combined with continued reliance on fossil fuels and increased car usage, likely will exacerbate these problems.

Environmental protection issues in Saudi Arabia are strongly linked to the production, processing and transportation of oil and natural gas. Saudi Arabia is striving to minimize the impacts of the country's hydrocarbons sector on its environment (including the waters surrounding Saudi Arabia). According to the World Bank, the country will have to invest substantial capital in the environmental sector in coming years. The Bank has estimated that the Arab world will need to invest \$100 billion in its environmental sector over the next 10 years to protect the environment.

Global climate change will have significant effects on the region's environment, but will also dramatically change the political, social, and economic landscape, as well. Throughout the region, rising temperatures and diminished rainfall will bring substantial changes. Agricultural sectors will face deep crisis, with only a few states (Iran and Turkey) able to adapt to average annual temperatures. Rising temperatures in the Mediterranean and Indian Oceans will have deep repercussions on the region's fishing industry. Energy consumption will skyrocket as governments, private sectors, and citizens all seek to avoid crushing, year-round heat.

Water shortages may produce massive population movements across the region, from Yemen in the east to Morocco in the west. Cities like Tangier, Alexandria, Cairo, Tel Aviv, Beirut, Amman, and Damascus will face permanent water crisis. Yemen, which has among the lowest water reserves per capita in the 2000s and with only 3 percent of arable land, will face very critical situations. Throughout the Arab world, tight restrictions will be in place on water consumption. Recycling and re-use technologies will be widely employed. However, equipment and plant malfunctions may cause periodic outbreaks of cholera, typhus, and other water-borne diseases. Israel, too, will rely increasingly on desalination technologies, usage restrictions, and recycling technologies to provide water for drinking and agriculture. However, the entire Mediterranean coastline may suffer enormous land losses if the level of the world's oceans continues to rise.

Rich states in the Arab world will invest staggering sums to remain habitable. As a result of their development of nuclear energy sources, they will be able to partially insulate their populations from the worst effects of climate change.

Conflicts over control of water could be commonplace throughout the region. Central conflict zones could be between Turkey, Syria, Iraq, and Iran; between Egypt and Sudan; and between Lebanon, Jordan, Palestine, and Israel.

#### *Political aspects.*

Following the same distinction between rich states and developing ones it is possible to define some relevant political aspects that characterize the poorer developing states.

*Developing states.* Among developing countries, the core Arab states of the Levant, North Africa and the least developed states of the Arabian Peninsula, regimes are succeeding in de-coupling processes of economic and political reform that were often thought to go hand-in-hand. Arab regimes reject policies that link economic liberalization to increasing opportunities for political participation. Particularly in the Maghrebi countries the structures of power have not significantly changed and the old rulers do not seem willing to share their power.

A second trend is the absence of effective political oppositions capable of challenging incumbent powerholders. The Arab world's rich and vibrant civil society seem not to be able to provide the basis for a viable *political* society, on which the emergence of credible secular and democratic oppositions depends. Finally there seems to be a growing disengagement between expanding numbers of poor citizens and the state. The former live their entire lives without any meaningful contact with the state or governments.

As a result of these trends, Arab regimes are effective in preserving their hold on power in the poor states, perpetuating themselves, controlling processes of succession, and preventing the crystallization of meaningful alternatives to their own rule. Nevertheless a struggle between regimes and new social forces aiming at a new role in the society seems to characterize the future scene.

Despite these political conditions, the political logic of economic liberalization and the programs imposed by the international financial institutions will probably lead regimes in

the poor states to undertake processes of economic reform. As a result, economies in these states will be more open. Poor states will be more fully integrated into global markets. Yet economic liberalization is not likely to generate significant economic or social gains, if the benefits of economic reforms will still be captured and monopolized by limited numbers of political and economic elites, by those who already hold positions of economic privilege and by those leading regime figures who require new sources of revenue in order to preserve their hold on power .

If this happens, despite the presence of more globalized and open economies, economic reforms will fail to provide adequate levels of growth and employment. In such a situation it's difficult to imagine that governments in poorer states will succeed in achieving the goal of creating 80 million new jobs in the next two decades. By now no country has managed to achieve a real breakthrough in the implementation of reforms in development and economic spheres. Population growth will have pushed Egypt, Iran, and Turkey past the 100-million level; Algeria will have a population of more than 60 million.

The gap between social demands and government capacities will increase to dramatic proportions. Spending on social services will decrease substantially as populations grow and states become overburdened. Infrastructure will erode. Educational systems will remain under-funded and overcrowded. Economic open-ness will create new classes of successful business elites closely linked to regimes. It will also create a dramatic increase in inequality in the poor Arab states, with governments providing far less economic security to the vast majority of citizens even while permitting the enrichment of a small minority. Poverty, poor health, and unemployment at the mass level will co-exist with an economic and social elite that is larger than in the past, more modern, more globalized, yet highly insulated from the societies in which it lives.

The deterioration of social and economic conditions in the poor Arab states will generate intense domestic pressures for political and economic reforms, and create seething but disorganized sentiments of political disaffection and alienation. Young unemployed people will protest against governments looking for alternatives in radical movements. Inequality—historically low in the Middle East relative to other regions—will increase dramatically, producing social conditions closer to those of Latin America or South Asia than the Middle East of the 1960s-1980s. Managing social pressures and demands by poor mass of people and by generations of educated, but unemployed youth will constitute a core concern of governments, and will reinforce authoritarian modes of governance and limit the possibilities for democracy in the region. Regimes will respond, partially and selectively, by creating new channels for controlled political participation. Yet these channels will not lead to meaningful political change. In large measure, their response to growing domestic inequality, high unemployment, and limited state resources will be repression. They will give priority to short term stability and political considerations over long term reforms. This situation will strengthen radical opposition movements and a general willingness to mobilize against the state. In an extremely weak position with an opposition made up mostly by radical movements traditionally oriented it's difficult to believe that governments will be able to implement the reforms that would guarantee more economic growth and political participation.

One result of these circumstances is that governments will actively promote the export of

labor - especially into southern Europe and the broader European market - and will be more open to foreign investment.

Geopolitically, these states will distance themselves from the West in response to growing constraints on immigration and population flows across the Mediterranean. They will, instead, be junior partners in an "Asian Alliance," linking the Gulf states, the Levant, and North Africa to Russia, Pakistan, India, China and East Asia as principal sources of investment, labor migration, and as anchors of their foreign policies.

Strategically, the region will be less important to the West. In the next decade Western governments will probably abandon their pursuit of regime change in the region. The growth of the nuclear power industry and expanding reliance on alternative fuels in the West between 2010 and 2030 - mostly ethanol and other forms of bio-fuel - will reduce the energy dependence of the West on Arab oil and natural gas by about 25-40% from the levels of 2007.

Overall, in 2030 stability and containment will be the principle strategic objective of the U.S. and Europe. Southern European governments in particular will be active in preventing the mass movement of poor Arabs across the Mediterranean. The central issues that will define diplomatic relations across the Euro-Med area will be management of population flows.

*Rich States.* These states will be transformed by 2030 into dynamic, highly globalized, and diversified centers of economic activity. Geopolitical influence, along with resources, will shift to the east and south of the Arab world, away from its current centers. These states will anchor the "Asian Alliance", viewing poor Arab states as sources of possible instability and regional turmoil and using their resources to gain leverage and keep these states at arms length. In addition, this part of the Arab world will be the focus of American and European political, economic, and strategic concern.

Rich states will include the small number of capital-surplus oil exporters of today (Saudi Arabia, the UAE, Kuwait, Qatar, and a small number of others). Thanks to the limited size of populations to be managed and the vast resources available these state will afford a kind of "soft authoritarian" rule. For most of them, constitutional monarchies dominated by strong royal families will be effective frameworks of governance. Nevertheless institutionalized forms of political inequality, with an enormous gap separating the rights and privileges of citizens from those offered to large, nonresident labor forces will hardly disappear by 2030. Managing the social pressures associated with these gaps, will be one of the main concern of these states.

Economically, the rich states will become globalized mercantile centers for international and regional trade, investment, and development. In addition, rich states will have probably themselves developed nuclear energy facilities. Asia will become the dominant consumer of Gulf oil and gas. Overall economic policy of these states will be liberal, with very few constraints on trade, investment, and banking. Labor, however, will remain tightly controlled. The workforce in these countries will be largely constituted by a politically and socially marginal population of non citizens, ranging from well-paid expatriate specialists to poorly-paid and heavily exploited laborers and domestic workers.

This population will be almost entirely Western and Asian—as it has been for fifty years - and will include very few citizens from poorer Arab states - except for small numbers of well-educated Arabs from Syria, Egypt, and Jordan.

Socially, the rich states will reflect a “conservative cosmopolitanism”. As a consequence of the education boom of the early 2000s, driven by the interest of Western universities in securing access to the resources of wealthy populations, citizens will be highly educated overall, multi-lingual, conversant with contemporary technologies, and well-traveled. In spite of their western education the youth of these Arab countries will not be Western-style democracy, or western social values oriented. Conservative norms and values will go together with western lifestyles and consumption patterns. Poor Arab states will be looked at with sympathy, but also with fear, and steps will be taken to insulate these societies from the strains that are evident in the Levant and North Africa. They will be socially conservative, observant, and politically anti-Western.

Some present domestic and international trends will have important consequences on the geopolitics of the region. First, the demands of domestic governance will occupy more and more of the political and economic resources of poor Arab states like Egypt, Algeria, and Syria. Perhaps most important, Egypt, a former regional power, will see its influence decline. In its place, Saudi Arabia, the UAE, and Kuwait will have risen to global prominence, resting largely on their continued control of oil and their vast wealth. While preserving good ties with the West commercially and diplomatically, the weight of economic and political ties will have shifted east. The Asian Alliance will probably become more engaged with the region while the West will reduce its diplomatic and commercial profile there. This will give the Arab east greater weight in regional affairs and will change the international balance of interest in the Arab world. The rich Arab states will constitute the regional leaders of the Asian Alliance. If the Israeli-Arab conflict will be solved this will lead to the downgrading of interest in and attention to the one issue that dominated regional politics for almost 70 years, and which bolstered the regional standing of states like Egypt and Syria. Finally, the sheer economic imbalance between the poor Arab states and the rich Arab states has the effect of shifting political power toward the latter and away from the former.

In this context the core preoccupations of rich Arab states will converge on three main points: balancing Iran, economic and social stability, and insulating themselves from unsettled neighbors to the west. Governments will view their main strategic concerns as (1) managing regional tensions in the North (from Iraq) and East (Iran) to avoid threats to stability and economic growth; (2) mitigating the social and economic conditions of populations in poor Arab states, especially in nearby Yemen, to prevent them from becoming sources of domestic instability, illegal immigration, and perhaps social violence; and (3) maintaining the international relationships that will provide counterweights in the event of serious threats from larger neighboring states. Though these governments will continue to outsource important aspects of their security via military alliances, they remain large consumers of arms and military equipment, from the U.S., Europe, Russia, and Asia. However, they will look increasingly to the Asian members of the Asian Alliance as their key strategic partners.

### *Socio-cultural aspects*

Socio-cultural aspects will play a greater role in the future of the region. Even if the future of the global Jihadi effect in the Middle East and North Africa might be affected by foreign pressures, it seems that it depends primarily on internal cultural and socio-political developments within the Arab world itself. Islamist ideology remains the only valid one in the Arab world, as all the other imported ones during the 20<sup>th</sup> century - liberal nationalism, Communism, different forms of Socialism, Fascism, or economic doctrines - failed. Most regimes in the Arab world are oppressive dictatorships or kingdoms, where the national elements are linked mostly to the ruler, or his family. Relative democracies, such as in Lebanon or the Palestinian Authority, still suffer from great difficulties in consolidating a society shaped through unity of goals.

Among wide circles of the Arab world and societies there is a feeling that the fate of the region and its people is not in the hands of its inhabitants, but is shaped by the Western politics, economy, civilization, and culture. There is also a sense of social injustice that the modern independent national state is far from solving. The main factors controlling large segments of Arab Muslim societies are therefore a sense of siege, stagnation, humiliation of various forms, and search for revenge, symmetry with the “enemy,” and social relief. Above all, this is a feeling of Déjà Vu that only a radical change by reconstructing the glorious past could stop.

In this situation for the greatest part of the Arab world “Islam is the [only] solution” to all the diseases of the Arab world. The success and spread of global Jihadi doctrines and terrorism, even though they are still a very small minority in the entire Muslim world, hotwire the imagination of a growing class of groups and individuals. This class is also searching for identity that the Nation-state, or Arab nationalism failed to provide. Nevertheless it is difficult to imagine how an Islamic state will look like. By now there are no signs among Jihadi movements and scholars, of developing a clear vision and strategy of how the Islamic state, if or when established, should look like. If and when there is going to be a real Islamist government in any Arab country it will face the reality of the need for pragmatism vis-à-vis their dogmatic doctrines, which originate from the far past. So far, the Jihadis do not have an answer to such a challenge. The model of Afghanistan under the Taliban in 1993-2001, cannot work in Egypt, Syria, or Saudi Arabia.

So far the social tissue of the Arab world as a tribal society, torn also between sects, religions or religious trends - both in the field of Sunni-Shi'i conflicts or the variety of Islamic movements - by nationalities, numerous dialects, and numerous local rivalries does not show any sign of change. These elements are likely to rule the Arab world in 2030 too, with almost no change. The only way to counter, or overcome them, is either by the unity of religion as the most dominant political element, shared by more than one country; or by renovation of the Nation-State by a new kind of leadership.

It seems that leadership could be the key element for progress in the Middle East. In the Gulf states, Egypt, Tunisia and partly in Saudi Arabia modern economy, oil, world trade, or developing high-tech, are creating a wealthier Arab upper middle-class, which is going to provide the main source of leaders, government ministers, or the basis of power for the

regimes. These conservative, but reformist businessmen - instead of middle-class army personnel – will be more sensitive towards the advantages of stability and will operate for a peaceful solution of conflicts, instead of creating or supporting them as a basis for stability or unity. As a consequence conflicts such as the Israeli-Palestinian one, sectarian ones, as well as social and political tensions within society, should be solved, or at least reduced.

In these countries more pragmatism, willingness to accept social reforms, ability to find the “golden path,” will probably reduce social tensions that feed the Jihadi-Salafi creed and appeal. If these slow changes, towards reforms, more freedom of activity, political pluralism, integration of women, development of education, and more welfare, are going to take place in the coming two decades, we might witness the emergence of the response to the Islamist and Jihadi messages, and especially reduce the appeal of Jihadi apocalyptic notions amongst the youth.

Above all, the Arab world needs the emergence of a reformist nation-state, which will unify the national efforts around national issues and will provide the people with a sense of identity and belonging. Otherwise, the Jihadi messages will not only be preserved, but also advance and Islam in the radical form will remain the main element to dominate the hopes of the people for a better future, either through the sense of the apocalypse, or through violence. At this moment in the history of the Middle East and North Africa the prospects of radical changes are very low.

### *Iran*

Iran has since the revolution gone through drastic, harsh, and still evolving stages of socioeconomic, political, and cultural changes. These changes have been the result of both deliberate state policies and external forces. The revolutionary upheaval, political instability and terrorism, the eight-year war with Iraq, the influx of Iraqi and Afghani refugees, internal migration and rapid population growth were concomitant with years of U.S. sanctions, relatively hostile international environment, fluctuating oil prices, and the flight of human and financial capital. Ironically, the turbulent early years of the revolution helped the new state consolidate its hold over the society, politics, and the economy. The state swiftly purged the opposition to its vision of an “Islamic Republic,” and then initiated a cultural revolution. Nevertheless Iranian society has been experiencing profound changes. The state-society relations in Iran has fundamentally and irreversibly changed.

On the economic side Iran’s economic performance is unimpressive given its human capital and abundant natural resources. The fundamental problem with Iran’s economy, however, is with its overextended public sector, inefficient bureaucracy, poor management, corruption, and lack of sufficient foreign investment. The result is inefficiency and low productivity in all sectors of the economy. As a consequence Iran will probably face a growing economic inequality, unemployment and economic stagnation that will generate social unrest. In spite of this no viable opposition movement seems able to emerge as the alliance of state power and theocratic authority provides a



flexible and potent framework for sustaining the ruling clerics of Iran in power. The Islamic republic will remain a fundamentalist, theocratic, electoral-authoritarian regime. Iran's domestic weaknesses will be offset by a nuclear capability that permits Iran to project its power regionally and internationally. Nevertheless the decline of oil prices, the growth of its population and the probable worsening of the economy and the balance-of-power response of Sunni states to the rise of Iran will lead, gradually but persistently, to the hemming in and reduction of Iranian influence in the region.

### *Security and Conflict*

Balancing against Iranian power will remain the central principle driving the regional policies of Sunni states. The threat, and then the reality, of Iran as a nuclear power will have widespread effects. It will provide incentives for Israel to resolve the Palestinian problem and clear the path for cooperation with Saudi Arabia and Syria. It will encourage Egypt and Saudi Arabia to support an action against the Asad regime in Damascus. It, above all, will produce a nuclear stalemate within the Middle East between Iran and Israel. In this context, Israel may become a silent partner to the Sunni alliance in its efforts to weaken and undermine the government in Iran. With high probability the struggle between Israel and Palestine will reach an accommodation in the next two decades. This will not be the outcome of a diplomatic vision of the Israeli or Palestinian vision, but a combination of exhaustion and mutual fear. The will to end struggles and terror on one side and a difficult agreement among parties on the other will probably provide the basis for negotiations among Israel and Palestine, with the latter occupying almost 100 percent of the territory occupied by Israel in 1967.

The regional balance of power dynamics among the core Arab states and how these dynamics adapting to adjust the growing power of Iran and its influence in Iraq will be relevant in determining the future of Syria. Syria has a longstanding ties to the core states of the Arab world. It has also pursued a strategic relationship with Iran that has long been a source of unease among Arab states. In the future Syria could be forced to be a member of the Sunni power bloc in order to counterbalance the presence of the Shi'ite in the region.

With the resolution of the Israeli-Palestinian conflict, Syria and Israel could also reach accommodation in the next two decades. Peace treaties will make possible collaboration on regional security issues, especially efforts to balance against Iran. Egypt, Syria, Turkey, and Saudi Arabia will value Israel's nuclear deterrent effect on Iran, even if this role, will not provide the basis for improved diplomatic, or commercial relations.

After the withdrawal of the US Iraq will probably enter a period of instability due to Shi'i and Sunni confrontation. Iraq's Kurds will probably take the chance of the weakness of central authority to consolidate their control over Mosul and its surrounding oilfields. With this internal situation, and in consideration of regional balances of power, Iraq will emerge as an unitary and independent state even if fragmented into three discrete zones of influence: Sunni, Shi'i, and Kurdish.

In this context, the main lines of regional tension and conflict will be threefold: (1) in the

zone that defines historic Kurdistan; (2) the divide between Shiite and Sunni Islam, with Iraq and Lebanon as the pivot points in these conflicts; and (3) between rich states and poor states in the region, including those states that control water resources, or have the resources to ensure an adequate supply of fresh water, and states that are water-poor and without the resources to buy or create fresh water.

*Kurdistan and Kurdish Irredentism.* In the late 2020s the politics of Kurdish nationalism and irredentism will move to the center of the political agenda in the Arab east. Kurdish opposition movements will be active in southeast Turkey, eastern Syria, and northwest Iran, anchored by the autonomous region of Kurdistan in Iraq. All of the states confronting Kurdish nationalism will develop consistent strategies: carrots in the form of greater recognition of demands for cultural and linguistic autonomy; sticks to deal with demands for political autonomy. Tensions and low-level violence will mark the relationship between Iraqi Kurdistan and surrounding states.

These conditions even if unstable and potentially explosive, will become durable elements of politics in the Levant. Kurdish nationalism will be source of concern for those states with no direct interest in the conflict, including Saudi Arabia and Egypt, because it threatens the unity of the Sunni Bloc and creates incentives for cooperation between Turkey and Syria, on one hand, and Iran, on the other.

*The Divide Between Shi`ite and Sunni Islam.* In the decades after the fragmentation of Iraq and the emergence of Iran as a nuclear power, the Shi`ite-Sunni divide will become a second major source of regional tensions. Iran, though weaker regionally and domestically, will remain a power to be reckoned with. It will dominate its border regions to the West in Shi`ite areas of Iraq and to the East in neighboring regions of the Afghan federation. It will project its influence into Shi`ite communities in Lebanon, Saudi Arabia, Bahrain, Pakistan, and India. In spite of its domestic economy, weaker than at any time in the past 30 years, it will be seen by leading Sunni-dominated countries (Turkey, Saudi Arabia, Egypt, and Syria), as well as the rich states of the Gulf and Israel, as a potent threat.

*Rich States versus Poor States.* Cutting across other regional tensions in 2030 will be the divide between rich and poor Arab states. The gap between rich and poor states in the Arab world will be an unbridgeable gulf. The politics of redistribution will become a source of intense tension across the region.

In the face of weak economies, high unemployment, and deepening social strains, poor states in North Africa and the Levant will make aggressive claims for policies and institutions that will redistribute wealth on a regional basis. Rich states will establish foreign aid programs that provide limited assistance to poorer Arab states, but will refuse to accept the idea, promoted by North African states, that Arab wealth from anywhere in the region belongs to Arabs everywhere in the region.

The vast economic and social divide between poor and rich states will probably be a key organizing principle in inter-Arab relations, and one that Iran uses to advantage, seeking influence through aid to poorer Arab states. Rich states, in turn, will adopt a defensive

posture, seeking to insulate themselves from the demands and problems of their poorer neighbors. They will maintain longstanding distinctions between citizens and non-citizens in terms of rights and access to public resources. Barriers to entry into rich states for citizens of poor states will be almost impossible to overcome. Demand for labor in the rich states will be met by Asia, not by the poorer states of the Middle East, who are desperate for opportunities to export labor.

Collectively, the large majority of poor Arabs will feel a deepening sense of isolation, despair, and frustration. Repression at home will prevent disaffection from becoming a source of political mobilization.

## *Sub-Saharan Africa*

The global factors that are likely to impact on the Southern African region during the coming 25 years are: demography, natural resources and environmental change, global trade patterns, the global economy and globalisation, national and international governance, global, regional and national conflict, the role of the United States and the global emerging powers, China, India & Brazil. No single driver or trend will dominate the global future in 2030. Each driver will have varying impacts in different regions and countries.

The above list remains valid for the countries of sSA, save for the additional variable of South Africa, whose performance is itself contingent on all the other seven factors and will be the key driving force determining the likely outcome for the region in the next 5-15 years. South Africa is, and will be, at once the touchstone for future progress while simultaneously a *de facto* threat to the region's smaller economies due to its centripetal capacity to draw capital and resources. The ambivalent status of South Africa in the region is likely to intensify over the next 5-15 years.

### *A general overview*

The sub-Saharan region is characterized by a number of distinct historic and contemporary disadvantages. Cardinal amongst these are:

- A small, fragmented and underdeveloped regional market. The gross domestic product of the SADC countries, for example, is in the aggregate, equivalent to Belgium or Thailand. The lack of individual economies of scale makes the task of accelerated economic integration of the sSA Regional Economic Communities region an urgent priority. However, many of the economies of the sSA lack complementarity thus making their integration all the more problematic. Furthermore, the region is also characterised by acute national economic inequalities.

- Unfavourable terms of trade and dependence on primary products for export.

- High levels of debt and an unsustainable debt-servicing burden. 35 of 47 most Indebted Nations are African. Of those, Angola, DRC, Malawi, Mozambique, Tanzania and Zambia are in Southern Africa. In a positive development, a number of SADC countries benefit from Paris Club and G8 debt relief (Nigeria in particular) as well as through the Heavily Indebted Poor Countries (HIPC) initiative upon meeting stringent conditionalities including a comprehensive and integrated Poverty Reduction Strategy

Programme.

- Endemic corruption has had the most corrosive effect on local and investor confidence. Many countries in the region score badly on the Transparency International Corruption Index and, in some cases, the trend is deteriorating. Only Botswana (6.0/10) and Namibia (5.4/10) score higher than 5 out of a maximum score of 10. Other ratings include, Malawi (3.2), Zimbabwe (2.9), Zambia (2.6) and Tanzania (2.2). South Africa ranks joint 38<sup>th</sup> on a score of 4.8.

- Decimated and poorly serviced regional infrastructures including roads, railways harbours and telecommunications networks. The rapid economic decline in Zimbabwe (35% of GDP since 2000) is having a deleterious effect on the region due to the decay in its infrastructure and the growth in non-tariff barriers.

- A multiplicity of overlapping regional political and economic structures, including the Common Market for Eastern and Southern Africa (COMESA), SADC, the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC), the East African Community (EAC) and the Southern African Customs Union (SACU). The challenge for the region is to drive integration, simplify regional structures and rapidly establish an integrated free trade area.

- The region also exhibits some of the lowest literacy rates in the world. Poverty, illiteracy, and education are closely linked. Similarly, these factors, economic productivity and economic wealth are directly correlated. A number of countries in the region have embarked on ambitious primary education enrolment campaigns. Such policies also have the potential to create a burgeoning cohort of semi-educated, yet unemployed youth in the short-to medium term. This phenomenon has the potential to be a destabilizing factor particularly in urban areas.

- Weak, immature and undeveloped democratic governance structures. The entrenchment and re-emergence of authoritarian political patterns in Zimbabwe, as well as threats of democratic reversals in Nigeria are key cases in point. On the positive side, South Africa and Ghana show consistently positive indicators of democratic consolidation.

- The potential for civil strife, if not war, specifically in three resource-rich countries Nigeria, the Democratic Republic of Congo and Angola. War has the effect of destabilising the region and diverting resources away from their productive use. The escalation of civil strife in Zimbabwe, together with increased tensions in smaller countries such as Swaziland will have a broader negative impact on the region and affect both trade and investment flows. Besides the direct domestic and regional cost of such conflict, (particularly where troops from other countries are drawn in as in the Democratic Republic of Congo) civil war and conflict has and will continue to have a repellent effect on international investment, trade and sentiment. Wars and social conflict in the region have also spawned a flood of refugees. South Africa is now the world's most favoured destination for refugees. The human cost of war in the region is immeasurable, but its legacy is profound. Some 3 million people have died in the DRC civil and regional war, while in Angola, the government is setting about attempting to link the names of 5 million children and teenagers that have been separated from their families by the civil war. Almost a quarter of Angolans have been displaced from their homes over the past two decades of the civil war.

- A further negative factor that shows signs of becoming stronger is that of increasing rates of crime and organised crime. Besides the direct human and economic cost of high

crime rates, this ranks as a major cause of negative investor sentiment and the primary determining factor for skills emigration.

- Acute skills shortages continue to plague the region, a phenomenon that will be exacerbated by the impact of HIV/AIDS. The International Organisation for Migration has reported that 23,000 graduates leave Africa annually. Emigration from South Africa is estimated to have cost R67.8 billion in lost human capital since 1997. The Paris-based Institute for Development Research estimates that 233,609 people left South Africa for the five major immigrant destinations during the period 1987 to 1997. This figure is now closer to 450,000. Of this, some 41,000 were professionals. Besides the direct economic cost of the loss of skills, the IOM points out that the absence of a highly qualified middle-class encourages poor governance, rights abuses, corruption and undemocratic political systems. A further acute example of skills loss is to be found in Zambia where the number of qualified doctors in practice has reduced to 400 from 1,600 a few years ago. This phenomenon will deepen the problem of effective disease treatment and thus poverty eradication in the region. Unemployment is another crucial challenge. Whilst unemployment is as high as 40% in South Africa, between 70-80% of Zimbabweans are now without work. Furthermore employment opportunities in the formal sector outside of the state sector are scarce. Even in Ghana some 67% of the economically active population are 'self-employed' informal traders.

On the other side of the coin, South Africa houses some 2-3 million illegal immigrants. Immigration from countries to the north of South Africa has led to local resentment and outbreaks of violent xenophobia. One survey reports that 23 percent of migrants had been robbed and some 42 percent assaulted. While the potential for mediation of such conflict exists, as long as the underlying patterns of jobs and, housing and land scarcity obtain the potential for such conflict will persist.

- Acute and structural poverty exacerbated by cyclical food insecurity. Poverty is a complex phenomenon with numerous dimensions. Poverty in the region is also organic as it is contingent on and feeds into a host of economic, social and political forces. The region has the world's highest proportion of people subsisting on less than US\$1 per day. Approximately 76 million or 40 percent of SADC citizens live in conditions of extreme poverty. This condition is characterised by declining life expectancy, malnutrition, illiteracy, unemployment and underemployment.

- Some of the world's lowest Human Development Index ratings. The *United Nations Human Development Programme Report* notes that of 20 countries that are currently performing worse than they were 20 years ago, nine of these are in SADC. The report also notes that the quality of life in South Africa has declined significantly over the past 10 years.

- Eight of the 14 SADC countries exhibit adult infection rates of the HIV of over 10 percent of population. Of these, five countries have infection rates exceeding or close to 20 percent. The average life expectancy for a citizen of SADC is less than 50 years, but as a consequence of HIV/AIDS, life expectancy is likely to drop even further to an average of 45 years by 2010. This is only marginally higher than life expectancy in the region during the 1950s.

Given that there has been no medical breakthrough in the treatment of any of the diseases that blight the sub-region and the picture of health policy is at best mixed, diseases such as HIV/AIDS, malaria and TBC continue to present a profound threat to human security

and development in the SADC region. By its nature, HIV/AIDS is far more than a health issue and is increasingly a defining phenomenon of the social economy of a number of SADC countries. Nine of ten countries with highest HIV infection rates globally are located in southern Africa.

- The sSA region is one of three regions in the world where population is expected to show the highest rate of growth over the next 5-15 years. Population growth will intensify the strain on natural and human resources as well as place further stress on the already inadequate regional infrastructure.

### *Environmental issues*

Africa faces unique risks and vulnerabilities. Most African countries are highly dependent on natural resources and the agricultural sector for food, employment, incomes, tax revenue and exports. Changes in weather conditions which damage the agricultural sector will thus have a major impact on incomes and livelihoods. Poor countries and poor communities tend to have a higher share of their assets and wealth tied up in natural resource and environmental assets, so anything which damages the natural resource base will clearly damage these countries more. Numerous African countries and regions already suffer from varying degrees of famine and civil strife. Darfur, Ethiopia, Eritrea, Somalia, and other countries have been hit hard by tensions that can be traced in part to environmental causes. Tribal, sectarian or nationalist conflicts are often triggered by reduced water supplies or reductions in agricultural productivity. One third of Africa's productive area is already classified as "dryland", and climate change will likely bring less rainfall and a shorter growing season, extending such drylands over a larger area. Many parts of Africa are already short of water – a shortage which will likely further increase. New studies confirm that Africa is one of the most vulnerable continents to climate variability and change because of multiple stresses and low adaptive capacity. The principal areas where climate change will bring direct impacts concern water, crops, infrastructure, and health. Though some adaptation to current climate variability is taking place, this is likely to be insufficient for future changes in climate.

As a recent report of the IPCC shows, by 2020 between 75 and 250 million people could be exposed to an increase of water stress due to climate change. If coupled with increased demand, this will adversely affect livelihoods and exacerbate water-related problems. Africa is challenged by spatial and temporal variability of climate patterns which impact directly on water supply and scarcity. The continent's geographical patterns of water distribution and rainfall present acute management and governance challenges. Northern and southern Africa receive 9% and 12% respectively of Africa's rainfall, yet the Congo watershed (with 10% of the continent's population) enjoys 35% of the continent's total run-off. Tunisia, Algeria, Rwanda, Burundi, Egypt, Kenya, Morocco, South Africa and Somalia, have all faced recent conditions of water stress. The disappearance of Lake Chad appears to be the most graphic manifestation of the impact of climate change on water resources in Africa.

Africa's water supplies are further threatened by human action. Parts of Africa suffer

from extensive water pollution, poor sanitation, wastes and decay of aquatic weeds and salination. This latter problem is exacerbated by poor land use and agricultural practices. The result is an increase in water-borne and based diseases, particularly amongst Africa's women and children. The geography of Africa's water resources exacerbates the unsatisfactory levels of water supply to population ratios. Africa has the world's lowest water supply to population ratio, with only 62% of the total population water-serviced. This masks urban-rural disparities, with a mere 47% of Africa's rural dwellers receiving water services, compared to 85% population water supply in urban areas. Sanitation coverage is equally poor, with a mere 60% of Africans receiving water sanitation services, again with a 45% to 84% rural/urban split. Given Africa's projected population growth and relatively rapid urbanization rates, a further 210 million Africans will require water services if the 2015 United World Health Organization targets are to be met. Similarly, some 211 millions more Africans will require water sanitation services by 2015.

Agricultural production, including access to food, in many African countries and regions is projected to be severely compromised by climate variability and change. The area suitable for agriculture, the length of growing seasons and yield potential, particularly along the margins of semi-arid and arid areas, are expected to decrease. This would further adversely affect food security and exacerbate malnutrition in the continent. In some countries, yields from rain-fed agriculture could be reduced by up to 50% by 2020. Local food supplies are projected to be negatively affected by decreasing fisheries resources in large lakes due to rising water temperatures, which may be exacerbated by continued over-fishing.

Towards the end of the 21st century, projected sea-level rise will affect low-lying coastal areas with large populations. The cost of adaptation could amount to at least 5-10% of GDP. As IPCC reports changes in rainfall will bring major difficulties for some of the major river basins on which many millions of people rely. For example, the watershed of the massive Niger covers more than 2 millions square Km across 10 countries. The last 20-30 years have been increased demands on the river, caused by damming for hydropower and take-off for irrigation. Further losses from climate change will have serious consequences for drinking water supplies for major cities, flood water availability for irrigation, fishing, grazing for animals, as well as transports of goods up and down the river.

Increased temperatures will bring an extension of malarial areas into regions formerly free of the disease. The highlands of East Africa for example are already seeing an increase in cases, given that people are much less resistant due to lack of exposure. As a disease, malaria is estimated to reduce GDP by over 1 percent for those countries worst affected. Other climate related health risks include dengue fever, cholera from flooding, and meningitis from heat and wind. Severe and widespread continental health issues complicate an already extremely volatile environment. And a temperature rise of 2°F could bring a malaria epidemic to Kenya.

*Economic aspects*



There are several characteristics that African economies have in common: a) the small size of individual markets both in terms of the number of consumers and the low level of disposable income, b) the dominance of the informal sector in most African countries, c) the neglect of the private sector since independence, d) the intersection between countries' aid dependence, trade and investment and their impact on economic development.

There are other characteristics, such as the reliance on the export of primary goods, lack of skills, absence of appropriate infrastructure, and political and regulatory uncertainty, but many countries have also worked on improving political and economic governance. The emergence of more reformist, technocratic political elites in conjunction with the democratic wave that has swept across Africa since the end of the Cold War has brought about a slow, but remarkable change. Africa achieved an average growth rate of 3.7% during 1995–2003, compared with 2.1% during the previous 10 years. In 2003, it achieved an overall average growth rate of 4.1%, and in 2004 this improved to 5.1%. Thus although much ground still needs to be covered in Africa, a beginning in the right direction has been made.

At the macro-economic level the sSA region has shown encouraging growth over the past five years. Whilst it has failed to reach the 7% growth target set by NEPAD and the regional economic driver South Africa, has failed to achieve its own 6% growth rate, with the notable exception of Zimbabwe (which is the fastest shrinking economy on record and suffers from the highest global inflation), the region has exhibited encouraging and real economic growth. South Africa is Africa's largest, most developed and most diversified economy. Its GDP of \$160bn is 80 times larger than the average African economy, representing 19% of the total African economy, and contributing one-third to Sub-Saharan Africa's economy and almost two-thirds of SADC's GDP.

The recent stellar performer in sSA has been Angola, which on the back of high oil revenues and substantial FDI recorded a growth rate of some 20% in 2005, albeit off a low base. Much recent economic growth in sSA has been propelled by the global demand for natural resources, ranging from petroleum to iron ore, but growth has also been somewhat more widespread than this, to include the tourism and retail sectors. Although recent World Bank *'Global Economic Prospects 2007: Managing the Next wave of Globalisation'*, long range economic forecasts predict up to two decades of solid global economic growth, questions about the sustainability, let alone increased economic growth within the sSA region, persist.

The most important challenge is the degree to which the recent economic growth can not only be sustained, but also generate sufficient revenues for substantial fixed domestic investment, thus providing the means to achieve greater diversification of economic output in sSA and enhanced beneficiation of raw materials. There are encouraging signs of such developments in some sectors, for example, in the diamond industry in Botswana, Namibia and South Africa, but much more needs to be done in the short and medium-term to give sustained momentum to this process. By definition natural resources are finite and their demand is highly cyclical, thus sSA countries need to seize the opportunities provided by the current upswing in demand and pricing to place their economies on a more stable and sustained footing. Similar challenges lie in up-stream

and down-stream beneficiation and value adding processes in the petroleum sector in Angola for example. Thus while the global boom in commodity prices has generally been beneficial for the region, the sustainability and duration of this boom remains uncertain and the thus the urgency of economic diversification policies at this time becomes even more pressing.

As primary global energy demand will double by 2030 the importance oil and gas markets in the area will grow. North African oil production will increase by 75% and natural gas will treble. The Gulf of Guinea enjoys estimated reserves of 60 billion barrels of crude oil. The gulf is already the largest growth area for French company Total. It is predicted to exceed production in the Gulf of Guinea to over 1 million barrels per day. Forecasts predict an increase in production from 3 million to 5 million barrels a day for the four key countries in the Gulf of Guinea and Chad over the next 10 to 15 years. The largest sub-Saharan producer Nigeria has proven reserves of some 40 billion barrels. The country aims to increase production from 2.7 million barrels to 4 million barrels per day by the end of the decade. The second largest sub-Saharan producer Angola has proven reserves of 9 billion barrels. Un-fettered by OPEC quota restrictions, Angola seeks to increase its production from 1.08 million barrels a day to 2 million by 2008. Nigeria and Angola are amongst the top ten oil suppliers to the United States which imports some 20% of its oil needs from Africa. This will increase to 25% of its needs by 2025. Angola is now the largest single supplier of crude oil to China.

### *Political issues and governance*

While the economic performance of South Africa and the resource-rich countries will be a key driver of the region, the political role played by the regional hegemon will also be influential. South Africa has, since democratisation, sought to finely balance its position as *de facto* regional leader with attempts to encourage regional political egalitarianism. This may not be sustainable however. There is likely to be increased pressure on the key drafter of NEPAD by the international community to play a more activist and interventionist role in the region, particularly where the principles and ethos enshrined in NEPAD are threatened or abrogated. Thus a heavy economic and political role will be played by South Africa in the future. Finally, for the sSA region, democracy is a relatively recent, fragile, uncertain and in some instances, tentative phenomenon, that opened a new and, in important respects, more challenging chapter of development. Thus the core governmental challenge facing the region in the next 10-15 years is that of meeting the heightened social and economic expectations brought about by democracy and broad political participation. In this regard, a weak signal that threatens to become a trend is the potential for democratic reversals in countries of the region. This has already manifested itself in the abrogation of the rule of law, constitution tampering including the extension of presidential terms of office, political intimidation, state corruption and poor governance. The failure of the region to strengthen, entrench and develop democratic governance would serve as a break to efforts at greater regional and indeed international integration and co-operation. This in turn, would have a deleterious impact on economic development, social welfare and finally, regional security.

From the 1960s to the 1980s Africa witnessed 70 coups and 13 presidential assassinations. As late as 1990 there were only four African countries (Senegal, Gambia, Botswana and Mauritius) in which multi-partyism was fully embraced. There are now some 31 sub-Saharan African countries that operate as electoral democracies. 2004 alone witnessed (externally validated) free and fair elections in South Africa, Malawi, Botswana, Mozambique and Namibia. Furthermore, all SADC countries, including Swaziland and the Democratic Republic of Congo, operate some form of parliamentary system. Yet few SADC countries have invested the necessary human and financial capital to make their parliaments anything more than a constitutional facade.

The region is now witnessing the emergence of a second generation of post-colonial political leadership. With the exception of Swaziland, all SADC government heads have been democratically elected. Zimbabwe represents a problematical case in which although originally democratically elected, the head of state has subsequently eroded the rule of law and presided over fundamentally flawed elections. However, while the quality of political leadership is crucial to the trajectory of sSA countries, the quality of democracy both in countries and within the region more widely is far more dependent on the performance and quality of parliaments. This is problematical in a number of respects.

Although the constitutions of most SADC countries enshrine the cardinal political principle of the separation of powers and build-in constitutional checks and balances, in practice presidents often trump parliaments. A number of sSA parliaments such as Namibia, Botswana, Lesotho and South Africa operate under conditions of single party dominance. A further area of concern is the state of political opposition in sSA. The spectrum of political opposition in sSA is as broad as its countries are diverse. The terrain in which political opposition operates in sSA is generally hostile and its performance almost universally poor.

Nevertheless despite the politically arid environment for opposition parties in most sSA countries, there are some indicators for cautious optimism. Since the collapse of Soviet communism ideology has diminished as a marker of political affiliation and has far less organisational appeal or social glue than during liberation struggles or post-colonial cold-war period. The de-ideologisation of politics is being replaced with the more prosaic, yet perhaps vital, mobiliser of anti-corruption policies. Indeed, even Islamic political movements in Africa have made anti-corruption a central plank in their political campaigns. While the political shape-shifters have tended to monopolise politics for the duration of the political life of the liberation leader, lack of delivery, graft and corruption is emerging as a stick with which to beat hegemonic parties and around which opposition parties and movements mobilise.

A threat to stability in many states in sSA comes from the non-institutionalised political opposition. That is, political opposition that operates outside the formal channels of parliament and political parties. At one extreme are non-institutionalised opposition forces that seek not just the overthrow of the existing government, but the fundamental re-definition and conceptualisation of state itself. Such movements range from terrorist organisations and religious fundamentalists to radical ideologues. Although their methods and aims may differ, guerrilla movements, rebel movements and armies engaged in civil wars in Africa such as those in Eritrea, the Ivory Coast, the DRC and Uganda all

constitute a political opposition writ large. Commonly African rebel opposition movements adopt and espouse a democratic justificatory discourse calling for the (re)establishment constitutionalism and multi-party democracy. Indeed, the absence, decline, or occlusion, of a perceived free, fair and inclusive political dispensation has been a key driver behind most post-colonial armed opposition struggles in independent Africa. But despite their democratic rhetoric and pretensions, many non-institutionalised or rebel opposition movements in Africa are animated by both grievance and greed and themselves lack a democratic grounding and foundation.

Other non-institutionalised movements are the secessionist opposition movements. They do not seek the overthrow of the existing nation state, but rather the establishment of a new, separate, but usually geographically contiguous nation state, that recognises and protects the claims to statehood, usually of an ethnic group. Although such movements can and do engage in violent struggle and even acts of terrorism in furtherance of their aims, the destruction of the neo-colonial, post-colonial or 'mother state' is generally not one of them. Although about one third of all African countries have secessionist movements, operating as far afield as Algeria to South Africa and Nigeria to Ethiopia, such movements have been spectacularly unsuccessful. Such movements may not only be animated by reasons of ideology or national self-identity, however. Particularly in cases where regions of mineral, oil or other natural resource wealth overlap with ethnic group habitation, (for example the Niger Delta, Katanga in the DRC and Kabinda in Angola) such claims are common. These claims tend to amplify into secessionist impulses when the federal or national state fails to equitably distribute revenues and adequately compensate local claimants and inhabitants.

### *The role of NEPAD*

The success or failure of NEPAD and the African Union is likely to have a significant impact on the medium to longer-term progress of the region. Such is the scope of NEPAD that it becomes a variable that has the potential to significantly and positively influence developments. Conversely, its failure has the potential to entrench Afro-pessimism, repulse potential investment and to harden North-South disengagement.

Over the past five years, NEPAD has been widely accepted as the accepted and defining, if still somewhat contested, macro developmental blueprint for the African continent. Considerable progress has been made in establishing the institutional architecture of NEPAD and in so doing; a political and administrative platform has been laid that has the potential to place the programme on a stable footing to achieve the accelerated development of the African continent. Institutionally, the Heads of State and Government Implementation Committee (HSIC) has met regularly and developed a coherent programme of action underpinned and supported by the NEPAD Steering Committee.

The NEPAD Secretariat has employed a range of economists and developmental experts and has established a framework for co-operation with UNECA. In its January 2006

report to the NEPAD HSIC, the NEPAD Secretariat was able to report progress in 51 key areas, including expenditure of some US\$500 million on Short Term Action Plan (STAP) projects.

Nevertheless while NEPAD has become the accepted macro-policy framework for focusing and prioritising African development, to date it has failed to deliver on any of its macro investment objectives for the continent. Africa's share of global FDI and trade has not increased since the establishment of NEPAD.

A final, but no less important area of concern with respect to the growth and sustainability of NEPAD is the lack of buy-in and ownership from individual countries in Africa and civil society more generally. NEPAD remains a largely elite conceived, managed and implemented process, with little evidence of popular ownership amongst many of Africa's 53 AU states. There is little evidence of NEPAD being deliberated over to any serious degree in the continent's parliaments, apart from the necessary ratification of protocols and Acts. There is a degree of buy-in and commitment from entities such as the NEPAD Business Group and the NEPAD Business Initiative, but no such continental-wide support from trade union and civic bodies. More substantively, unless NEPAD can demonstrate its effectiveness in improving the day-to-day existence of the majority of Africans it will remain an elite driven programme functioning at the level of politician and technocrat.

### *China and the future of sub-Saharan Africa*

China structured its relationship with the continent through the establishment of the Forum for China-Africa Co-operation in 2000. Since then, trade between China and Africa has grown rapidly, particularly the importation of African resources. Although only 2.5% of Chinese trade is with Africa, during the 1990s Sino-African trade grew by 700% and since the first FOCAC in Beijing in 2000, more than 40 agreements have been signed, doubling trade to more than US\$ 40 billion by the end of 2005. By the end of 2005, China became Africa's third most important trading partner, behind the US and France and ahead of the UK. Trade volume raised from US\$ 10 billion in 2000 to US\$ 29.46 billion in 2004 and is expected to grow to US\$ 50 billion by 2007. US-Africa trade was US\$ 44.5 billion last year, according to the Commerce Department. Chinese investments now represent more than US\$ 1.2 billion of the US\$15 billion of foreign direct investment (FDI) in Africa.

China is now the world's second largest consumer of crude oil, bringing in more than 25% of its oil imports from the Gulf of Guinea and Sudan. By 2020 it will be forced to supply 60% of its energy needs from abroad. Sudan alone supplies nearly 5% of China's oil needs. As the world's largest oil importer behind the US, China has oil interests in Sudan, Chad, Nigeria, Angola, and Gabon.

Of concern, however, are China's relations with un-democratic and authoritarian regimes, including most notably Sudan and Zimbabwe. China provided a radio-jamming device for a military base outside Harare, preventing independent stations from balancing state-

controlled media during the 2005 election campaign. It has begun to deliver 12 fighter jets and 100 trucks to Zimbabwe's Army amid a Western arms embargo. China is also an arms supplier to the government in Khartoum and has a military presence in that state. In Angola, the recent extension of a US\$2 billion line of credit from the Chinese export bank has secured it a stake in exploration rights in the shallow offshore oil fields. While the US remains Angola's largest trading partner, China is a clear second with US\$ 4.9 billion in trade in 2004, up 113% from 2003.

In countries where relations with the West are problematic, China is benefiting from its policy of non-interference in internal politics. Its relationship with Sudan, condemned by the United Nations over the situation in Darfur, is emblematic of a strategy untroubled by ethical foreign policy considerations. Today China is the dominant player in the oil industry of Sudan and growing presence in Nigeria and Angola.

### *The religious factor*

Islam is the second largest religion in Africa with about 45% of the population being Muslims, in contrast to 46% being Christians and less than 10% being non-religious or adherents of African religions. They are concentrated mainly in the West African Sahel zone, the tropical zone along the Gulf of Guinea, the Sudanese Nile region, Ethiopia, the East African coastal strip, Somalia, and the Cape region.

In the last decades Islam has been spreading, but mainly as from the beginning of the 2000s, into several regions in Africa, especially, the southern African countries, which were predominantly Christian with a Muslim minority or with no Muslims at all. Such is the case of Angola, where in the 1990s there were no Muslims at all, whereas now Muslims comprise 2% of the population. In Malawi, where the Muslims comprised in 1995 only 12.5% of the whole population, while nowadays their numbers are estimated to be 20% of the whole population.

In spite of this conflicts between ethnic groups are the main source in Africa for religious conflicts and not the other way around. The religious fault-lines existing in Africa between Islam and Christianity correspond in most cases to ethnic fault-lines. The social conflicts in the coastal states of West Africa are increasingly developing along a north-south divide that is largely similar to the geographic division between Christians and Muslims. This phenomenon can be noticed particularly in Nigeria, Ghana, and Côte d'Ivoire. Thus, for example, the long conflict in Sudan between the Arab north and the Black south developed into conflict between Islam and Christianity. This is the case also in Côte d'Ivoire, Ghana and Nigeria.

What seems to gain interest for the future development of SS Africa is the radicalization process. There are in fact some factors that could facilitate it.

Lack of economic perspectives, social deprivations, a loss of cultural identity, political

repression, and dysfunctional state—are virtually omnipresent in Sub-Saharan Africa. These conditions together with poverty, corruption, social inequality, political alienation and isolation of certain groups on religious and ethnic grounds facilitate the phenomenon of radicalization that is taking place among Muslims in sub-Saharan Africa as it is manifested, for example, by the introduction of Shari'ah law in twelve northern Nigerian states beginning from 1999; the rigid adherence to Shari'ah within the Union of Islamic Courts in Somalia; and the extremist tendencies among Muslims in South Africa. These examples show that this radicalization process is spreading now in various regions throughout Africa, and is not limited to one region alone. By now the balance of power between radical and moderate Muslims is still turning clearly towards the moderates. Overall, the radical Muslims comprise a small minority in Africa, compared to the overwhelming majority of the moderate Sufi Muslims.

In terms of international terrorism therefore the importance of Africa, will focus in the next couple of years on two factors. First, the weak and desolate states of Africa provide an excellent space to draw back to, and their informal economies offer superb conditions for money-laundering and parking capital. Second, ineffective state security apparatuses create a convenient environment for carrying out attacks. In Africa there are more failing states than in any other region in the world. But even in more or less functioning and stable states, such as Kenya and Tanzania, the state is hardly capable of effectively maintaining a monopoly on violence and controlling the entire territory of the country. Border areas and the slums of the big cities are already de facto zones outside of the state's control. The security forces' training and equipment are entirely insufficient and corruption and criminalization of the police is far advanced. The shadow economy of these crumbling states makes possible capital transactions and trafficking in weapons, raw materials, and consumer goods.

So far it appears that, rather than being directed outwards, the potential for violence arising from the interplay of these factors in Sub-Saharan Africa is, for the most part, directed inwards against one's own society in the form of increasing violent crime, civil wars, and plundering warlords. Nevertheless all the elements are on the ground for those who want to re-direct violence externally.

Throughout Africa, one can still find enclaves of radical Islam, in almost every country where there are Muslims. Yet, as is the case of South Africa, due to the differences between the brand of Islam prevalent in the Middle East and the one prevalent in Africa, which includes also animistic beliefs and due to the racism prevalent among the Arab towards the Black African Muslims, the question is about which brand of Islam will win over the Black Africans: the Middle Eastern or the African? From the recent past and from the present, it seems that the process beginning in the Republic of South Africa—where African Islam is proliferated very rapidly among the Blacks by other Black African, while they seem to be alienated to Middle Eastern Islam, because of racism problems—will win more and more Black African souls.

## *Eastern Europe and the former Soviet Union*

Overall, the region's prospects are likely to reflect the rich getting richer. The new EU entrants and a few of the Southeastern European countries are in a position to integrate rapidly with the global economy and achieve rapid increases in growth. The countries of the former Soviet Union remain dependent on primary commodities, relatively isolated from the rest of the world in terms of trade flows, with high initial levels of poverty that will be difficult to reduce dramatically, significant environmental problems, and challenges in achieving political stability in the context of democracy. While some of these countries are benefiting from the current boom in oil and minerals, any downturn in prices could have severe implications for prospects.

### *Economic aspects*

The wrenching process of the transition to capitalism drove these countries into a deep depression from 1990-1996, when GDP fell by a total of almost 5 percent. The beginning of a recovery in 1997 was interrupted by the economic crisis in Russia. However, owing to dividends from the reform process in many countries, the promise of entry into the European Union for some of the Eastern European countries, and the rise in the price of oil (particularly benefiting Russia and Kazakhstan), GDP has increased by over 5 percent per year since 1999. Nevertheless, most countries within the region confront very significant challenges in providing for stable development including:

*Difficult labor market conditions.* The ratio of employment to the working age population, a summary indicator of labor utilization (which reflects both unemployment and discouraged job seekers who have left the workforce), remains below 1992 levels in all transition economies except Slovenia and Bulgaria, despite the substantial rise in per



capita GDP levels. In the poorer countries of the Commonwealth of Independent States, underemployment is more prevalent than open unemployment, given the limited social safety nets. At the same time, the growth of market opportunities has contributed to a widening of wage disparities, while the share of formal sector jobs has fallen and that of temporary and casual, informal sector jobs increased.

*Poverty.* The available data at the country level show a split between two groups of countries emerging in post-communist world. There exist striking intra-regional disparities in levels of national wealth, economic growth, poverty and social expenditures. The sharp rise in poverty following transition has been ameliorated by strong growth since 2000, but still 12 percent of the region's population lives on less than \$2 a day. The eight new member states of the European Union have poverty rates of less than 5 percent, countries in Southeast Europe and the middle-income countries of the Commonwealth of Independent States from 5-20 percent, and the poorer countries of the CIS more than 40 percent. As the reduction in poverty since the late 1990s is the result of unique circumstances (recovery in the CIS and reductions in inequality in some countries), the prospects for rapid poverty reduction are uncertain, although World Bank forecasts show absolute poverty declining from 61 million people in 2002-03 to 40 million by 2007. Non-income indicators of economic progress are mixed: 98 percent of the adult population is literate, thanks to the widespread network of schools established under communism; child and maternal mortality rates are improving from the post-transition fall; the region has one of the most rapidly growing infection rates of HIV/AIDS in the world (although the *level* of HIV prevalence—0.7 percent of 15-49 year olds—remains well below Sub-Saharan Africa's), and tuberculosis is a growing threat (83 cases per 100,000 people, or much higher than the other predominantly middle-income regions).

*Demography.* Aging, and in some cases declining, populations will constrain growth in the medium term. Thirteen percent of the region's population is over 65, with only some of the lower-income CIS countries having significantly lower shares. Population declined from 2002-2005 in about half of the countries, with the largest falls in Georgia (3 percent), Ukraine (2.3), Bulgaria (1.6) Belarus (1.5), Russia (1.5), and the Baltic republics (1 to 1.6). Immigration trends may speed population decline in some of the Eastern European countries through large flows to the European Union, and help cushion decline in Russia if the poorer CIS countries remain net exporters of emigrants. In Russia the health crisis and high premature mortality rates are coupled with declining population. Since 1992, deaths have outnumbered births and, in recent years, Russia's population has been dropping by some 800,000 people per year. Russia's authorities have described this demographic decline as one of the most important challenges facing the country. Indeed, if it persists, it may have serious economic and political consequences. It has been argued that if these trends are not reversed, Russia's military and economic capabilities and its geo-political position could be seriously threatened.

*Governance.* The necessity to simultaneously establish new political and social institutions and redistribute social assets greatly contributed to corruption. Considering only developing countries, the region has the second-lowest average score on the

Transparency International index, after Sub-Saharan Africa. Every country in the region, except Estonia, Hungary, and Slovenia, scored below 5, the threshold for serious problems due to corruption, and most of the countries formed from the Soviet Union have scores of below 3. Criminal syndicates, drug smuggling, and trafficking in migrants in many countries of the former Soviet Union help to impair long-term prospects by reducing security and trust in legal processes. On a brighter note, surveys find that regulation, taxation, infrastructure, access to finance, and macroeconomic instability became less onerous constraints to business activities between 1999 and 2005. However, country experiences differ significantly across the region (e.g. corruption is viewed as a major constraint on business by over 30 percent of a sample of firms in Albania, Kyrgyz Republic, the Former Yugoslavian Republic of Macedonia, and by Romania, but by less than 10 percent of firms in Uzbekistan, Slovenia, Latvia, Hungary, Estonia, and Belarus).

*Integration with the global economy.* The collapse of communism has led to a rapid integration with the global economy, and merchandise exports now account for 38 percent of GDP. Foreign direct investment increased from \$16 billion in 1995 to \$59 billion in 2004, with the bulk going to either the oil or mineral rich FSU republics or the new EU members. The eight Eastern European countries that are new members of the European Union, as well as some of the southeastern European countries, have greatly increased their trade ties to Europe, while the countries of the former Soviet Union tend to gravitate around Russia. The former countries tend to have higher incomes and to benefit from more rapid productivity growth due to competition with Western European firms and opportunities to improve productivity and diversify, in part through participation in global production-sharing networks. In the latter countries, the concentration in primary commodities remains large and is rising. Energy is playing an increasingly important role in the Russian economy, as well as some of the Central Asian republics. Both Russia and Kazakhstan, have experienced windfall gains from their oil resources, while sourcing their energy needs remains a significant problem for some of the more prosperous countries. In 2004 fuels took up about half of Russia's merchandise exports. To the extent that the government continues to assert a greater role in the economy; that the business climate remains uncertain due to corruption, arbitrary governmental decisions, and crime; and that the price of energy remains high, the prospects for diversification appear grim.

The division within the region into higher-productivity, more diversified countries integrating into global markets and commodity-dependent, more isolated countries trading predominantly with Russia is a source of concern for the latter's long-term prospects. The possibility that some of the FSU countries will become more integrated into the global economy will depend both on the economic policies they pursue, and the extent of Russian assertiveness. Certainly recent trends are not very positive, given political difficulties in some of the republics and the growing willingness of Russia to use its economic, and to some extent military, strength to gain power and influence.

Russia has the much of the necessary human and physical capital to integrate with the global economy, but progress will depend wholly on political developments. Russia has a highly-educated population — the adult literacy rate is close to 100 percent, and 93 percent of the relevant age group enroll in secondary school. Russia has always had relatively advanced scientists. The share of people with personal computers exceeds the

average of upper middle-income countries. Access to infrastructure is not a serious problem: nearly 100 percent of the population has access to electricity and water, and railroad traffic density measured as passenger traffic units per route kilometer is five times the EU average. The main challenge facing infrastructure is making the massive stock of infrastructure investments from the Soviet era functional in the new economic and financial environment, and after the sharp decline in output and related deterioration in infrastructure during the early 1990s. For example, it is estimated that infrastructure providing hot and cold water supply, sewerage, district heating, gas and power supply at the municipal level is deteriorating at between 2-3 percent per year, and that investments on the order of \$36 billion are needed for rehabilitation. In addition, some further progress is required in ensuring financial sustainability, after many years of services being provided at well below cost. But given appropriate organization of the sector, infrastructure is not likely to be an insurmountable obstacle to progress in integration with the global economy. What is holding Russia back, and is likely to continue to do so, is the deplorable business climate.

*Conflicts.* Disputed regions within or between countries, including Chechnya in Russia, Transdnistria in Moldova, Abkhazia and South Ossetia in Georgia, and Nagorno-Karabakh between Armenia and Azerbaijan, reduce the supply of investment and entrepreneurial initiatives, as well as maintaining people dependent on assistance. Refugees, internally displaced persons, asylum-seekers, and other persons of concern to the UN High Commission on Refugees total 2.8 million people.

Even if Russia and some other energy rich former Soviet republics have registered robust economic growth recently, this phenomenon can be attributed, by and large, to transient factors not likely to persist in a long run, such as high oil and minerals prices. Most of the economic reforms introduced since 1991 have been frozen or abandoned or reversed. These high rates of growth can also be explained by low starting points after 15 years of economic depression as well as by factors that may have adverse impact on the future economic performance and growth, such as consolidation of unaccountable state institutions, growing turn to resource nationalism and re-statalization of large segments of the economy, including, most importantly, major energy companies.

In the next decade or so many of the factors supporting current economic growth and expansion of state revenues can be exhausted. Moreover, consolidation of emerging authoritarian institutions and state controlled markets will have a negative impact on economic policies, performance and growth. One could plausibly argue that the current economic boom is just a short-term departure from the long-term developmental trajectory: the post-Soviet part of the former communist world will resume its relative economic and social decline marked by authoritarian politics, possible political instability (especially at the peripheries of Russia and in new post-Soviet states), serious social and economic problems, and low, or declining, productivity and economic growth. In the long run, the distance between prosperous and democratic new member countries of the Eastern flank of the European Union and their immediate neighbors to the East is going to increase markedly with all the obvious political and security consequences, including illegal immigration and increase in trans-border crime and drug trafficking among others

### *Energy and environment*

At nearly twice the size of the United States, and encompassing 11 time zones, Russia is by far the world's largest country. Russia also contains some of the world's most abundant natural resources. In addition to huge deposits of fossil fuels, Russia's *other* natural resources include boreal forests that comprise over 20% of the world's forest cover; a vast Arctic tundra; seemingly endless steppe lands (the 'taiga'); and Lake Baikal, the world's largest inland lake, which alone accounts for 20% of the world's freshwater. Russia inherited a legacy of environmental problems from the demise of the Soviet Union in 1991. The Soviet Union's emphasis on industrial production and disregard for the environment has left Russia grappling with numerous environmental problems, from severe air pollution to radioactive contamination.

Russia increasingly has come under international pressure, particularly from the European Union, to improve its environmental conditions. Neighboring countries are concerned with cross-border pollutants, nuclear waste, and water pollution. Air pollution is a significant problem in several major Russian cities, including Moscow and St. Petersburg, but also in some smaller cities, where industrial facilities are under less scrutiny for environmental compliance. Russia's air quality standards remain below US and European norms and will probably worsen as private ownership vehicle will increase. Most power plants in Russia are aging and lack modern pollution control equipment, resulting in large amounts of toxic emissions and waste. Several major cities are threatened by these problems, as are delicate ecosystems such as Lake Baikal, the world's largest freshwater lake.

The older nuclear power plants with inadequate safety equipment are major sources of concern for accidents or terrorist attack, and radioactive contamination has damaged several regions. Nuclear waste from both civilian and military nuclear power installations is a severe threat to Russia's environmental health. Adding to the problem, in 2001 the Russian parliament approved legislation to allow the storage of foreign nuclear waste on Russian soil. Atomic energy authorities claim that between 10,000 and 20,000 tons of high-level nuclear waste could be imported for storage and reprocessing over the next decade.

As Russia continues its transition to a full-fledged market economy, it faces great environmental challenges. While government policies that take the environment into account are an important first step, environmental improvements to date have been more a result of economic problems (i.e., the shutdown of many energy-intensive, highly-polluting heavy industrial plants) rather than policy successes. Environmental issues may not constrain growth over the next decade or two, but are likely to substantially degrade the quality of life and destroy irreplaceable ecosystems. Currently, health care expenditures account for 5.6 percent of GDP in Russia and 6.5 percent for the region as a whole. Pollution, as measured in the adjusted savings figures, costs 2.6 percent of gross national income in Russia and 2.1 percent for the region as a whole. But these figures refer to carbon dioxide and particulate emission damage. In Russia, the legacy of environmental disasters from the Soviet regime, coupled with the dangers inherent in

numerous nuclear power facilities that do not meet minimal safety standards (Russia has 10 operating nuclear power plants, some of which similar to Chernobyl), point to a large overhang of future costs. This will either be reflected in severe declines in living standards of affected areas, or very large increases in costs.

Eventually Russia will have to devote more resources to cleaning up its environment, and the longer the country waits the more costly this exercise is likely to be.

### *Political aspects*

— Since 1989 there has been striking divergence in political outcomes across the post-communist space. The result is the emergence of two very different types of political and economic systems across the region. A cross regional comparison of the progress of democratic consolidation shows that the former Soviet Bloc splits into two distinct groups: in one group democracy is more advanced than in any other region that experienced the third wave democratization, with the exception of Southern Europe. In the other group, comprising both semi-reformed and authoritarian states, democracy is lagging behind all of the other regions. Thus, post-communist countries can claim both the best and the worst record in transition from authoritarianism to democracy.

As far as the progress of economic reforms and the extent of political rights and liberties are concerned recent data show a growing split between the new members of the EU and other Balcan countries and other countries that emerged from the former Soviet Union.

On the one hand, there is a striking convergence among the new members of the EU and official candidate countries. They have introduced comprehensive reforms overhauling their states, economies and welfare systems; they are wealthier with faster growing economies and lower levels of income disparity; and they benefit from liberal democratic standards safeguarded by a consolidated democratic system. On the other hand, the majority of former Soviet republics, including Russia, are poorer, more unequal, plagued by economic difficulties, choked by massive corruption, and increasingly authoritarian. Some countries in this group have ended up as “consolidated autocracies,” in Freedom House’s terminology, while others muddle through as semi-reformed democratic-autocratic hybrids.

In the new EU members rapid democratic gains stabilized at a high level; there were no significant setbacks to democracy in these countries (though Slovakia and, in areas related to the treatment of ethnic minorities, the Baltic states took longer to consolidate liberal democracy than the others). By contrast, many countries that emerged from the Soviet Union, including Russia not only showed lower initial gains but also have been declining persistently in recent years, in some cases producing troubling authoritarian reversals.

The most obvious fact is that fifteen years after the collapse of communist regimes, there

is a wide range of political systems in the region that can be grouped in three categories: democratic, semi-democratic, and autocratic. While some countries enjoy high quality democratic institutions, others suffer under authoritarian regimes of various hues. More importantly, despite the welcome phenomenon of “colored revolutions” - an attempt to renew the commitment to democracy in several post-communist countries - the prevailing tendency in the countries that emerged from the Soviet Union is toward “competitive authoritarianism”. Russia and other resource rich post-Soviet states have turned solidly authoritarian, joining others, like Belarus or Turkmenistan, which never had a democratic interlude. These new authoritarian regimes seem to be largely immune from the virus of “colored revolutions” and have taken a number of preventive measures, ranging from legal changes affecting the activities of political parties and domestic and transnational NGOs to overt political repression, to prevent any potential political challenge. The fundamental question, however, is whether these trends will persist in the future and, if so, what kind of authoritarian regimes is being consolidated in these countries and what consequences this may have for their domestic and international policies.

Another aspect that may have relevant consequences for the future of the region is connected to the centrifugal forces that exist in the post-soviet space. After fifteen years of deep transformations four aspects characterize the state of the post-soviet space: 1) the post-soviet space has become the arena of fierce struggle involving many participants; 2) the consolidation of newly independent states is continuing, moving from political to economic sovereignty; 3) market institutions and businesses have achieved considerable progress; 4) the clash of centrifugal and centripetal tendencies is continuing and gaining even greater momentum.

All attempts to integrate the post-soviet space have so far failed. The process of its disintegration and fragmentation continues. At the beginning of nineties when the CIS was created the share of internal trade was higher than 70%. Now it's below 20%. The political imperative of nation-building prevails over economic logic, pushing new states further apart. In the face of political sovereignty economy has to take a back seat. Forces that continue to unite post-soviet countries are few. Only geographical proximity seems to be the reason for integration. The awareness of a common past is losing its meaning and cultural backgrounds are going to diverge.

The asymmetry of national power between Russia and other post-soviet states is the stumbling block in every integration project. Russia is too big to create an integrated system on an equal basis, at the same time her partners seems to be too independent to accept Moscow's rule. The common past under Russian hegemony, mutual grudges and recriminations with centuries old roots make it very difficult to establish a new kind of relationship. There are few chances that Russia would easily overcome its “great power” complex and build its relations with the former Soviet states on the basis of equal partnership.

Even if CIS played a significant role for the states of the former Soviet Union, safeguarding them from a difficult situation after the collapse of the Warsaw Pact, the former Soviet republics are becoming full-fledged independent states making headway on the world scene. Under the circumstances CIS will transform into something new. There is a wide range of possibilities.

The attitude toward Russia, and her role on the post soviet space has become a major

factor of the self-determination of the post-soviet states. Here, a distinct divide is emerging. Some CIS countries see Russia as the guarantor of their independence, internal stability, and steady economic growth. For others it's the main obstacle on their road to the euro-atlantic community. Central Asian countries (with the exception of Turkmenistan), Belarus, Armenia, and unrecognized (self-proclaimed) states gravitate toward Russia. Meantime the alternative center of power is forming around Ukraine. Georgia, Azerbaijan, Moldova are gravitating to it.

Fragmentation of post-Soviet spaces will draw dividing lines within it: some of them will be the borders between different political systems (Russia – EU), some will probably cut the territory of countries (case of Ukraine), while other can develop into borders between civilizations (border between Russia and Central Asia region).

Some of post-Soviet states (like Ukraine and Georgia) will fluctuate between “Russian” and “Western” choices. The system of intergovernmental relations in Central Asia is based not only on Soviet and post-Soviet administrative, political and trade structures, but also on traditional (basic) civilization and cultural components. Thus, Russia and the Central Asian states will become more distant and peripheral for each other (with the only exception of Kazakhstan). To the year 2030 the border between Russia and Central Asian states has real chances to develop into a civilization divide.

Inside the post-soviet space Ukraine deserves special attention. Ukraine is an historically divided nation. Moreover absence of internal consensus in the ruling circles and society in a whole on the key aspects of internal and external policy, widespread corruption of Ukrainian political elite, absence of consistent strategy of development for the future and competitive understanding of national security priorities by the different social and regional groups seem to be the main factors that characterize the internal political situation. The main consequences of his situation are: ineffectiveness of social and economic reforms, systemic chaos in the internal and external policy, decline of social and economic standards and national security level for all social groups without exception.

Under these conditions the future of Ukraine will depend heavily on international politics (Russia-West relations and Russia-Ukraine relations) rather than on autonomous political development. Due to its geopolitical location and inner cleavages, Ukraine is going to stay under double influence – Western and Russian – currently and in the future.

### *Russia*

Russia is becoming less “Russian”, more multinational and more multiconfessional. This process is evolving due to several reasons. First, due to migration flows from the post-

Soviet republics. Second, due to low birth rates among Russians and relatively high rates among the other ethnicities. And third (and this reason is probably the most important) – the reason lies in the break of the Soviet Union: now Russia excludes regions like the Crimea or Northern Kazakhstan, where the ethnic Russian population, culture and language predominate; but it includes the republics of Northern Caucasus (like Dagestan, Chechnya, or Ingushetia) which are ethnically and culturally far from the Russian culture. The problem of growing “non-Russianness”, as well as the problem of decreasing of inhabited space of the country are inseparably linked to the problem of identity

On the political side three trends have influenced political life during the last years: consolidation of state institutions and increase of presidential power and influence, institutional changes to the political infrastructure of the country (de facto re-centralization of the country administration and increased political control by the center over country’s regions), and emergence of the hegemonic political party. Furthermore, the soaring prices of energy in recent years have provided ample resources for authoritarian restoration and offered possibilities to ignore international pressures and constraints. They also offered opportunities to abandon governance, economic and social reforms that could increase accountability of the state and created foundations for future economic growth and improvement of living standards. Since the rise of oil prices we have witness consistent deterioration of commitments to reform and democracy in all four energy-rich post-Soviet states – Russia, Turkmenistan, Kazakhstan, Azerbaijan – and growing restriction on media, civil society organizations, judiciary and political opposition.

What seems to be an authoritarian turn at the institutional level may be facilitated at the social level by two trends. They include: first, historical legacies of the authoritarian past, ambivalent view of the West, feeble civil society, as well as the weakness and marginality of liberal ideas and forces. Familiarity with the authoritarian regime, uncertainties produced by democratic competition and markets, Russia’s multiple failures with political and economic reforms and expanding inequalities (now quite similar to most unequal Latin American countries) de-legitimized liberal political forces and ideas and produced popular nostalgia for the authoritarian past.

Second, the democratic transition in Central Europe and the collapse of the Soviet Union set in motion diverging paths of political and economic transformations. There is a growing political, economic and social divide emerging in the post-communist world, affecting all dimensions of social, economic and political life. This divide is reinforced by geographic locations, historical traditions, and institutional arrangements of global economics and politics.

On the economic side present Russia’s “prosperity” is based on its natural resources (oil and gas) and favorable performance on that markets. Russia’s resources are vast indeed, but they demand substantial technological investments. Besides, this exclusive orientation on extraction of mineral resources without profound economic modernization makes the country’s economic position vulnerable, unstable, depending from external variables. With high probability Russia’s developments will follow the boom and bust logic that most of resource rich, authoritarian countries experienced in recent decades. The most uncertain and dangerous moment will come if the regime will have to face the fiscal crises consequent to an energy prices collapse.



Russia is emerging as a well-institutionalized, dominant party authoritarian regime. The future of Russia and other post-Soviet states seems to be one of increasing instability, state failure, disruptive political transitions, protests, ethnic and religious conflicts. Russia most likely will emerge as the stable and durable authoritarian system with a poorly diversified and underperforming economy, huge state bureaucracies, high military spending, massive social problems, and low living standards. With a high probability Russia will remain an authoritarian regime for years to come. If the oil and gas prices decline substantially from the current levels (and they are very likely to do so in the mid to longer term in response to a technological innovations and increased production) Russia's ambition to regain a world power status will be frustrated and the entire economic fortune of the post-Soviet space will be seriously threatened.

## *China*

### *Demography*

By 2030, China's population will be nearing its peak of around 1.52 billion (it will rise to 1.54 billion in 2040 before starting to drop) but it will be seriously skewed in terms of dependency ratios. The birth rate will have dropped to 11.89 per thousand down from 14.67 in 2007 and with a natural increase rate of 2.41 down from 7.67 currently. At the end of the twentieth century, China officially entered the aging stage in terms of internationally recognized criteria with 10 percent of its population over 60 years of age. By the end of 2005, there were almost 144 million people over 60, accounting for 11 percent of the population. This aging population will set serious policy challenges in terms of dependency ratios and pension obligations that the state will have to meet.

Certain consequences arise from these demographics. First, China will have a significant pension obligation to deal with amid a declining workforce to cover the costs. Unless policy is changed, which it certainly will, contribution rates for workers that are currently around 20 percent of payroll will rise to around 40 percent by 2030. This would be economically intolerable and thus policy shifts will have to be made such as raising the retirement age significantly and cutting the amount of benefit available. The second consequence also has strong fiscal ramifications. Aging and especially the increase in the oldest old will lead to a significant increase in medical costs. China will have to hope that the economy keeps growing fast enough to generate the revenues to cover these costs. China's future leaders will find themselves in the usual "guns versus butter" debates. Social welfare expenditures will increase further if democratization is set in trend; as has been the experience of other countries within the region. Third, with the lower fertility rate there will be a lower domestic savings rate but there will also be a higher return to labor because of its relative scarcity and a lower return to capital.

In addition to aging another adverse consequence of the one-child policy has been a distortion of male-female ratios. This will have significant policy and social consequences. Family structures will be distorted further and the capacity of families to take care of the elderly will be undermined. This will place a greater burden on the state and civil society organizations. Other consequences will be the increase in dowry price in the rural areas, increased illegal trade in women and in prostitution and the spread of HIV.

Over the next two decades China will become much more urbanized than now. In world terms, China is "under-urbanized" as a result of the controlled urbanization and the household registration system that was associated with it. Over the next decade the rate of urbanization should increase from around 35 percent to 40 percent at current growth rates but it may even increase to 55-60 percent; a level that would be appropriate for its level of industrialization. The hope is to move between 300 and 500 million people from the rural areas to towns and cities by 2020, providing an urban population of around 800 million. By 2030 urban population could hit 910 millions. These new comers will require living space and livelihoods in the country's already over-crowded cities, and old cities and towns thus will have to be expanded and new ones to be built up. Therefore, more farmland will be gobbled up, more urban old houses will be pulled down, and more non-agricultural jobs will have to be created to absorb some 24 million job-seekers each year. Meeting this goal will present major challenges for the government in terms of investment in urban infrastructure and planning. It will also present significant challenges

for job creation and the provision of social welfare. In part, the programs for infrastructure will provide employment opportunity, but whether the service industry can be expanded sufficiently to deal with this expanded urbanization and accommodate the estimated 150 to 200 million surplus labor in rural China remains to be seen.

### *Economic aspects*

China's per capita GDP has risen by over 9 percent since the beginning of the market-oriented reforms in the late 1970s. This remarkable, and almost unprecedented, performance, has transformed China into a middle-income country and a major player on world markets. The share of population living on less than \$1 a day has plummeted from 65 percent in the early 1980s to 10 percent in 2004. Estimates of total factor productivity increases since the beginning of reforms in the late 1970s range between 2 and 4 percent per year. High and increasing investment rates (private sector investment has risen from 13 percent of GDP in 1980 to 23 percent in 2004) have also increased growth, while the contribution to growth of rising employment has been modest. Rapid growth has also introduced strains that need to be addressed to avoid a growth slowdown as resource constraints are met or social conflicts intensify.

Particularly since the mid-1990s, productivity increases have occurred more through increases in sectoral productivity (labor productivity in industry has almost tripled since 1994, and now stands at about 9 times agricultural productivity, among the highest ratios internationally) than through the movement of labor from industry to agriculture. This has reflected more limited rural to urban migration than would be expected given income differentials, which has helped to rein in the already rapid growth of China's urban centers, but at the same time has led to a dramatic rise in inequality and contributed to high levels of poverty in rural areas. The Gini coefficient has increased from a low of just over 25 in 1983 to more than 40 in 2003. In part, rising inequality has reflected a response to market-based incentives and is thus an essential part of economic progress. In part, however, rising inequality has resulted from geographic poverty traps, patterns of social exclusion, unequal opportunities to learn or to access credit, and corrupt officials. Efforts to improve agricultural productivity (through rural infrastructure investment and better delivery of health and education services in rural areas), to improve the ability of the rural poor to access markets, and to facilitate greater migration out of agriculture (through easing official limits on rural-urban migration and ensuring security of tenure for agricultural land) are necessary for China to sustain rapid growth in the future. Further, the dismantling of the socialist system has meant the destruction of the safety net, including health care, pensions and education, that protected basic needs. This has meant that those who have lost out in the transformation to capitalism have seen a marked deterioration in welfare, exacerbating social tensions.

China has maintained rapid growth with low inflation through a relatively fixed exchange rate, resulting in a large trade surplus (\$134 billion in 2005) and sharp build up of official reserves (to \$925 billion in mid-May 2006). This policy stance has its limits, for two reasons. First, abundant liquidity in the banking system (owing to less than full

sterilization of foreign exchange reserve accumulation) has contributed to rising asset prices and fueled a continuing investment boom, which is probably leading to a rise in non-performing loans. Second, China's trade partners are growing increasingly restive towards what is viewed as an undervalued exchange rate. A major challenge over the medium term is to introduce greater exchange rate flexibility while moving away from administrative controls and towards more market-based means of controlling bank lending and the money supply. Exchange rate appreciation would be consistent with a greater reliance on domestic demand by encouraging a reduction in savings. Chinese households currently save close to 30 percent of their disposable income, and improving the quality and scope of health care, as well as the soundness of the pension system, would help reduce the precautionary demand for savings.

Ensuring the banks operate on a commercial basis responsive to market signals (rather than through administrative fiat) and encouraging capital market development would improve the efficiency of investment and raise consumption by increasing households' ability to borrow. An essential step is to complete the clean up of the major state-owned banks, although substantial progress has been made (the ratio of nonperforming loans to total loans fell from 13 percent at end-2004 to 8.5 percent at end-2005). Capital markets play only a limited role in China, as the stock market has languished since 2001 due to uncertainty over whether the government would sell its large holdings of non-tradable shares. Progress in converting these to tradable shares contributed to a rebound in stock prices in 2006. But further steps are required to reduce the complexity of regulations and improve governance in stock markets, and to remove legal impediments to the corporate bond market. Further government efforts to exercise stronger control over state-owned enterprises, including seeking dividends from profitable enterprises, would also help improve the allocation of investment.

Unemployment is going to be an issue. It is clear that the state sector will never again be the main engine for urban employment neither for those laid off, nor for the estimated 11 to 12 million new entrants each year on the job market. Even with an improved growth rate, it is clear that growth in employment generation has been dropping as enterprises have been forced to become more efficient. Employment growth over the next decade will be 1.4 percent per annum slightly up from the 1.1 percent in the decade prior to 2000 but well below the annual employment growth of 4.2 percent in the previous decade.

This means that there is a clear policy priority to expand other avenues for employment growth but producing sufficient jobs will remain a major headache for the leadership over the next decade. Official accounts from the Development Research Center of the State Council calculate that currently the Chinese economy needs to generate around 24 million jobs to absorb the new labor force, including migrants and college graduates. Current growth is generating around 10-12 million jobs per annum. They do not see the employment pressure alleviating for 20 to 30 years. Yet while the former major sectors of the economy have been shedding jobs, the more vibrant sectors of the economy are prevented from sufficiently rapid expansion because of the lingering state bias against the non-state-sector of the economy. How destabilizing these trends will be depends in part on the continued growth in the economy, the ability of the non-state sector to generate sufficient employment and the capacity of the authorities to keep unrest in check.

The best option for employment growth is the service sector, which in China employs a low percentage of employees in comparison with other countries at a similar level of

development. Allowing effective foreign investment into this sector could generate a boom of 40-50 million jobs. The other main option for employment expansion is enhanced development of the private sector. Geographically private enterprises are heavily concentrated in the coastal areas with Jiangsu, Guangdong, Zhejiang, Shanghai and Beijing home to 54 percent and the western provinces with only 14 percent. It is clear that those provinces with a higher growth rate and standard of living are also those with a higher level of private enterprise.

### *Prospects for the economy*

Much depends on the future trajectory of the economy and the potential to diversify further its structure to enhance job opportunity. Obviously, future economic development depends on a number of assumptions being fulfilled while a number of problems could throw these assumptions off course. First, it is presumed that there will be no domestic or external shocks that would derail growth. These would include a global economic downturn resulting in major trading nations deciding to raise significantly trade barriers significantly to Chinese products. Second, it is presumed that the current policy of increased marketization will continue together with global integration and that the necessary institutions to support these trends will be developed.

Even with these conditions, the growth rates of the Chinese economy of 9-10 percent of the last years will decline to around 4 to 4.5 percent by 2025-2030. Growth should remain high until around 2015 by which time the demographics noted above will begin to impact together with other factors such as rising production costs in China and a rising exchange rate. The Chinese currency should have doubled or tripled in value over this period of time. As the economy matures, as in other countries the growth rate should settle down to a lower more sustainable level; something that will be aided by a shift to domestic consumption as the main driver of growth. However, this would still mean that the Chinese economy will be the second largest in the world by 2030 having overtaken Japan by around 2015. This is, of course, in total GDP not per capita and China will still remain far short of 2007 OECD levels. Its GDP in \$ billions (at current rates) should grow from 2,170 in 2007 to 4,754 in 2015, 7,070 in 2020 and over 14,000 by 2030. This would mean a GDP per capita of \$9,800 in 2030 (not PPP) about the same as Hungary and the Czech Republic in 2007. GDP per capita should be around \$3,500 in 2015 (Brazil, Romania and Bulgaria in 2007), and around \$5,000 in 2020 (Malaysia in 2007, but still considerably below Mexico and Poland

The structure of the economy will also look different with a higher percentage engaged in the service sector and less in primary production. The Development Research Center calculate that already by 2020 less than 5 percent of the labor force will be engaged in the primary sector with 45.5 percent in the secondary sector and 49.5 percent in the tertiary sector. In the future, continued growth in the economy will have to rely increasingly on capital stock and increases in total factor productivity. It is clear that China needs to shift the main engine of growth. The bottom-line is that despite the reassessment of the GDP figures on the basis of the new economic census, the development strategy that has worked for the China in the past will not function so effectively in the future and a

revamped strategy for growth will have to be developed. To realize growth potential China must generate the demand that will impel increased production. Over the last decade, the two principal drivers have been the growth of state investment and of net exports followed by consumption. If we look to the future, investment, especially in infrastructure and industry will remain important, but there is little room for the ratio of investment to GDP to rise much further. While China's exports are likely to continue expanding given the current scale, the rate of increase is bound to diminish. China's total trade is around 70 percent of GDP, a ratio usually only found in small, export-driven economies (ASEAN and Taiwan) and not in continental economies. Meanwhile with its production needs imports are booming and the overall trade surplus will be small if not eroded all together.

As a result this leaves consumption as the main force that can drive the economy forward. Effective expansion of consumption has been held in check by the high rates of savings because of people's legitimate fears about social security, medical care and education and this in turn shifts more responsibility for growth back on to investment. The savings rate in China climbed to over 43 percent of income in 2004 from about 26 percent in 1985 and this may well increase further. In major OECD economies, the savings rate averages around 10 percent (with the notable exception of the US at below 1 percent). China is on a par with Singapore but much of Singapore's savings consists of mandatory contributions to a social security program. To meet the objective, China will have to integrate better its domestic market and to develop more effective financial instruments.

The shift to domestic consumption as the primary driver together with the changing demographics will lead to slower growth rates over time. Further constraints will be set by access to and the prices of energy resources as well as water supply. Last but not least, the growth runs the risk of creating an environmental nightmare. What is worrying is that such major environmental problems of water and air pollution (2 out of 3 cities fail to meet resident ambient air quality standards and 10 percent of adult deaths in Shanghai have been attributed to air pollution) have developed so early in the transition—per capita income is only \$1100 and still over half of the population is living in rural areas. To reduce energy demand, the government set a target of using 20 percent less energy for each percentage point of output growth: a target that stands no chance of being met.

### *Energy outlook*

There are many factors influencing future energy consumption and carbon emissions, including population growth, economic development, industrial structure changes, technological progress and a shift in the energy mix. China is a developing country in its industrialization stage. With economic development, population growth and higher living

standards, the amount of primary energy consumed will undoubtedly increase in the future, as will the resultant carbon emissions. These absolute increases will occur despite continued technological improvements and reductions in energy intensity.

China surpassed Japan in late 2003 to become the world's second largest petroleum consumer. In 2004, Chinese demand grew 15 percent annually to 6.37 million barrels per day (b/d), about one-third the level in the United States, fueled by rapid industrialization. Imports now account for over 40 percent of Chinese oil demand.

China's 1.3 billion people currently consume only one-half the energy as the 300 million citizens in the United States. Even though Chinese oil demand is only one-third as large, per capita oil consumption in China is only one-fourteen the level in the United States, indicating that strong growth could continue for many years. The transport sector in China will likely experience the strongest demand for oil over the next two decades. Currently, there are roughly 24 million vehicles in China, with projections anticipating 90-140 million by 2020. This would push transport demand from 33 percent of total Chinese petroleum demand to about 57 percent (from 1.6 million b/d in 2004 to roughly 5.0 million b/d in 2020). Without measures to limit demand or create alternative fuels, Chinese oil consumption appears set to grow rapidly for the foreseeable future. The IEA forecasts Chinese petroleum demand in 2030 at just under 14 million bpd, about one-third less than current demand in the United States. China's import dependency will continue to grow, however, reaching 75 percent. In 2030, China would be importing as much oil as the United States did in 2004.

Coal accounts for about 69 percent of China's total primary energy consumption, and China is both the largest consumer and producer of coal in the world. This trend is likely to continue, with heavy reliance on coal for electric power, as well as on liquid fuels as a replacement for imported oil. The Chinese government is actively promoting the development of a large coal-to-liquids industry. The drive to coal liquefaction is very water-intensive, since about 40 gallons of water are required to produce one gallon of coal-derived liquid fuel. This approach has already led to serious stresses on water resources in Inner Mongolia. China is also adding electric power capacity at the rate of one large power plant every week, or about 70,000 megawatts per year. This is equivalent to adding the capacity of the United Kingdom every year, or the current capacity of India every two years.

In order to improve urban air quality China has taken major steps since 1997 to boost natural gas use. Chinese policymakers envision gas use rising substantially through 2020, when demand would reach 200 BCM and account for 10 percent of total energy demand. Natural gas used in place of coal can help China address environmental problems that have become urgent economic and social issues. Important gas projects have been launched to support China's ambitious development targets for natural gas. A 3,900 kilometer, \$24 billion West-East Pipeline started commercial operation in late 2004. LNG imports in China became an extremely hot topic in 2004 as coal prices rose substantially, along with incomes and air pollution. If even half of the LNG terminals currently under discussion are built, China could be importing 30-35 BCM of natural gas by 2015.

## *Environmental issues*

China's rapid economic growth over the last two decades has also brought with it several energy-related environmental problems. Environmental pollution from fossil fuel combustion is damaging human health, air and water quality, agriculture, and ultimately the economy. One of China's main priorities as it enters the 21st century is developing and utilizing technologies to solve the major environmental challenges it is currently facing and will face in the future

China is the world's second-largest source of carbon dioxide emissions behind the United States, and will equal the US in carbon emissions by 2009. EIA forecasts predict that China will experience the largest growth in carbon dioxide emissions between now and the year 2030. A report released in 1998 by the World Health Organization (WHO) noted that of the ten most polluted cities in the world, seven can be found in China. Sulfur dioxide and soot caused by coal combustion are two major air pollutants, resulting in the formation of acid rain, which now falls on about 30% of China's total land area. Industrial boilers and furnaces consume almost half of China's coal and are the largest single point sources of urban air pollution.

According to the International Water Management Institute, by 2025, 1.8 billion people will live in countries or regions with absolute water scarcity. Most countries in the Middle East and North Africa can be classified as having absolute water scarcity today. By 2025, these countries will be joined by Pakistan, South Africa, and large parts of India and China. This means that they will not have sufficient water resources to maintain their current level of per capita food production from irrigated agriculture—even at high levels of irrigation efficiency—and also to meet reasonable water needs for domestic, industrial, and environmental purposes. To sustain their needs, water will have to be transferred out of agriculture into other sectors, making these countries, or regions, increasingly dependent on imported food. In parts of China, rise in temperature and decreases in precipitation along with increasing water use, have caused water shortages that have led to drying up of lakes and rivers

Land and water are key agricultural inputs that will be limiting factors in China's agricultural production capacity, and the current level of use of these inputs is unsustainable. Surface water supplies have dwindled in much of northern China, and ground water is being depleted through heavy agricultural, industrial, and household use. Environmentally fragile cultivated land is being returned to forests and grass cover, while some highly productive agricultural land is being lost to urbanization.

The land tenure system in China is equitable, but the lack of land markets impedes the readjustment of land to its most efficient use. The development of improved institutions to manage and allocate scarce land and water resources will be crucial to expanding China's agricultural production capacity.

Climate change acts as a threat multiplier for instability in some of the most volatile regions of the world. Asia, where hundreds of millions of people rely on waters from vanishing glaciers on the Tibetan plateau, could be among the hardest hit regions. Almost 40 percent of Asia's population of nearly 4 billion lives within forty-five miles of its nearly 130,000-mile-long coastline. Sea level rise, water availability affecting agricultural productivity, and increased effects of infectious disease are the primary climate effects expected to cause problems in Asia.



The Inter-Governmental Panel on Climate Change (IPCC) has confirmed that climate change has the potential to exacerbate water resource stresses in most regions of Asia. In North China, irrigation from surface and ground water sources will meet only 70% of water requirement for agricultural production due to effects of climate change and increasing demand. Climate change related melting of glaciers could seriously affect half billion people in the Himalaya-Hindu-Kush region and a quarter billion people in China who depend on glacial melt for their water supplies. As glaciers melt, river runoff will initially increase in winter or spring but eventually will decrease as a result of loss of ice resources. Consequences for downstream agriculture, which relies on this water for irrigation, and on livestock, will be unfavorable. The increase in area affected by drought has exceeded 6.7 M ha since 2000 in Beijing, Hebei Province, Shanxi Province, Inner Mongolia and North China. This is expected to increase, as are dust-storms associated with increasing desertification, and an increase in frequency of short-duration heat waves. All coastal areas in Asia are facing an increasing range of stresses and shocks, the scale of which now poses a threat to the resilience of both human and environmental coastal systems, and are likely to be exacerbated by climate change. The projected future sea level rise could inundate low lying areas, drown coastal marshes and wetlands, erode beaches, exacerbate flooding and increase the salinity of rivers, bays and aquifers. With higher sea level, coastal regions would also be subject to increased wind and flood damage due to storm surges associated with more intense tropical storms. (The number and intensity of strong cyclones increased since 1950s; 21 extreme storm surges occurred over the period 1950-2004, of which 14 occurred during 1986-2004.

Climate-related disruptions of human populations and consequent migrations can be expected over coming decades. Such climate-induced movements can have effects along migration routes and often well beyond national borders. Periods when precipitation shortfalls coincide with adverse economic conditions for farmers (such as low crop prices) would be those most likely to lead to sudden surges in rural-to-urban migration levels.

Without a sound management of the environmental issues many problems could arise. In about 10 years drought could hit Northern China leaving about 200 million people without adequate drinking water. Stringent water rationing would be imposed in a majority of cities in the North, causing not just inconvenience but also serious health problems and growing urban discontent. Massive crop failures would strike Hebei, Henan, Shanxi, Shaanxi, and parts of Sichuan, forcing China to import large quantities of grains. Because of global warming and severe water pollution in the South, insufficient amount of water could be transferred from the southern parts of the country to the north. Environmental degradation, caused by run-away industrial pollution, could reach the tipping point. Water shortage could force the government to spend hundreds of billions of yuan to treat polluted waterways and build desalination plants along the coast (another expensive but ineffective proposition because the seas would be seriously polluted as well). Health spending could skyrocket, due to rising incidence of the respiratory diseases caused by polluted air. The economic consequences of the environmental collapse could be catastrophic.

### *Political aspects*

There are some serious problems that pose difficult challenges for the Chinese government in years ahead. a) weak regime legitimacy: the Chinese state rests on a type of performance-based political legitimacy that lacks enduring appeal. Rapid economic growth seems to be the base for gaining the support of the population. As a result, faltering economic performance will greatly diminish the regime's appeal and undermine its support. b) endemic corruption: the ruling CCP has suffered serious problems of political accountability. Its local agents, having amassed tremendous power in the last three decades, have become difficult to monitor, police, or control. Corruption is endangering key sectors of the economy, such as banking, infrastructure, and real estate. It is turning local governments into the private fiefdoms of local elites. It is also contributing to environmental degradation and the deterioration of the public health system. c) structural inefficiency: because the state dominates the economy, massive investment has flown into less productive sectors and contributed to pervasive overcapacity in most capital-intensive industries. d) imbalanced growth: economic expansion is driven mainly by massive investment in fixed assets, causing low level of consumption and rising current account surpluses. Imbalanced growth fuels asset bubbles, overcapacity, trade tensions, and underinvestment in social goods. e) inequality: income inequality is rising fast and contributes to widespread perception of social injustice. This perception has serious political consequences. The public views the current system as rigged to benefit the elites. f) social neglect: three decades of underinvestment in public goods (public health, environmental protection, and education) will hamper China's future growth prospects. Most worrisome is massive environmental decay, the price China has paid for low-quality high growth. The economic effects of the social neglect have not been punitive enough for the regime to adopt serious response. But such neglect has increased the level of systemic risks significantly.

Beside this very big and profound domestic challenges the one characterized as "three types of have-nots" is particularly relevant. It refers to the peasants who have lost their land, the urban residents who have lost their homes, and those who have lost their jobs before reaching retirement age. These problems are particularly disturbing because they are both structural and of large-scale: while they spread all over Chinese society, affecting the rural and the urban, the old and the young, and the illiterate and the educated, it seems that these problems are structured in the very process of modernization and transformation of China and thus do not disappear soon. As a consequence social discontent has sparked tens of thousands of riots each year and become a source of political instability.

In this situation the key question is whether the party can develop the governing capacity to deal with these multiple challenges, or whether they will reach a level that will overwhelm the politico-administrative system.

The current leadership has adopted a form of populist authoritarianism with policy gestures to those who have not benefited so well from the reform to date combined with attempts to tighten control over state and society in the name of preserving social stability as the key foundation for continued economic growth. Absent external shocks policy direction is liable to follow along these lines until a new generation of leaders can

consolidate their power in around ten years time. However, the key question is whether simply trying to crack down on dissent, eradicating political alternatives and placing primacy on maintaining social stability will be sufficient to deal with the issues confronting the party over the medium-term. It is clear that unrest is increasing.

In the medium term strong raw economic momentum is expected to continue fuelling China's resurgence. During this period the Chinese government will have the opportunity to initiate liberal political reforms to address growing governance challenges and create legitimate and peaceful channels for political participation. It will also have to address important pressing issues such as the looming banking crisis, environmental decay, worsening drought in the northern parts of the country, and unsustainable external trade imbalances. There is nevertheless the possibility that the government prefers to achieve short-term political stability, delaying critical reforms while financing many costly and unsustainable development and political strategies. In this case government politics will be characterized by heavy investment in law enforcement forces intended to suppress domestic unrest and dissent, protection of inefficient state-owned enterprises in critical sectors, such as banking, telecom, energy, civil aviation, and natural resources, continued investment in massive infrastructural projects and excess capacity in key industries with dubious economic returns, and continual neglect of the environment, public health and education.

In this case enormous *systemic* risks and social deficits could accumulate in the high-growth period, threatening future growth and fuelling social tensions. These tensions could begin to take a toll on economic growth and social stability around 2012. If for that time, when the long investment boom, which is responsible for high rates of growth in China for 2003-2012, will have finally ended, China will not have managed to re-orient its economy from one driven by investment to one sustained by domestic consumption, falling savings and credit supplies will quickly lead to deteriorating growth rates.

As a result of falling growth, unemployment could begin to rise. The problem would become especially destabilizing in urban areas, where millions of newly minted college graduates cannot find coveted professional jobs. Employment opportunities for migrants would also become less abundant, due to the overall weakness of the economy.

The change of leadership to the "Fifth Generation" that will begin in 2012 and should be consolidate by 2015 will not only lead to a possible shift of power in elite politics, but also will lead to adjustments in national development strategy and policy. This generation of leaders will preside over a time when demographic challenges become apparent, economic growth may slow and the demands for political reform will increase as an even more diverse population develops.

The "Fifth Generation" leaders will be posed with the challenge of not only maintaining sustainable economic growth but also a more durable political system that is less driven by individuals and is more accommodating of the socio-economic pluralism that is a product of economic reform. This may cause a retreat from the current progression towards the Rule of Law with a greater emphasis on Rule by Law and legal rights, including greater protection of property rights (including intellectual property rights), stricter enforcement of anti-corruption rules, and greater consumer protection.

If there are no major surprises, we might expect the "Fifth Generation" leadership to attempt to keep growth rates as high as possible combined with interventionist policies and fiscal transfers to moderate inequality. However, the "Fifth Generation" of leaders

will want to put their own stamp on policy and this might be reflected in substantial legal reforms and milder political tinkering. They will have to strike a balance between allowing the coastal areas to grow while developing the economies of the hinterland. This will make life more complicated for foreign companies operating in China but not impossible. Most “Fifth Generation” leaders are cosmopolitan in outlook and understand full well the importance of maintaining global trade and investment. Their challenge is to harness this more directly to the national interest. One major issue to deal with is how to move Chinese industry and the foreign-invested sector up the production chain as factor prices such as land and labor rise. They will also have to pursue a more active foreign policy in order to preserve access to the natural resources that will be needed for domestic use.

### *Future Scenarios*

Future scenarios for China’s development depend to a large extent on the capacity for the economy to keep developing smoothly. Obviously economic growth will slow eventually but over the next ten years at least there is no reason why firm growth cannot be maintained if correct policy choices are made. However, the Chinese economy is more integrated into the world trading system than ever before and this makes it more vulnerable to general trends within the global economy. A major slowdown in the US economy or rapidly rising prices for natural resources could cause problems for the Chinese economy. Domestically, the unrest that is local and isolated at the moment could always boil over into a major conflict between state and society. It needs to be remembered that the Chinese economy does not need to slow by too much before the state will lose its capacity to dispense largesse to its followers and for the costs of buying social peace to become problematic. There are a number of potential scenarios for China’s political future and one cannot rule out systemic collapse even though this seems least likely. History does not offer much comfort for a peaceful transition as communist regimes unlike some other authoritarian systems have only changed with the collapse of the ancien regime. There are two potential causes that could trigger systemic collapse and while both are possible, they are not probable in the foreseeable future. The first would stem from economic collapse. While there are systemic distortions in the economy and an extremely vulnerable banking system, wise policy choice should ensure continued high level economic growth over the next decade. China could also be extremely vulnerable to a pandemic such as Avian Flu. The weakness of the health system, especially in the rural areas, would exacerbate any problems and it is unlikely that the brittle political system would be able to absorb the shock. The second catalyst would be if the social tensions and inequalities led to sufficient unrest to force the leadership to undertake significant political reforms to retain control. Here we shall just sketch three possible scenarios.

1) The most likely scenario over the short to medium term is a continuation of the politics of muddling through. Bold initiatives are unlikely. An essentially technocratic approach will prevail while the leadership tries to maintain an authoritarian political structure combined with growing economic liberalization. Minimal reform is likely in the political system with a continued focus on strengthening the legal system and building

capacity and skills within public administration. The main potential for promoting reform would lie with the ability of people and organizations to exploit the deliberate vagaries of official pronouncements to experiment with cautious reform initiatives. Here the national consensus will be weak and the corruption will continue as will the lack of social cohesion. The party would still flirt with a strident form of nationalism in order to bolster the national consensus. This will mean that frictions with the US and Japan will continue and any genuine rapprochement is unlikely. Policy will continue to harbor the tensions between appeasing the new economic elites and trying to provide support for those who have been left behind by the reforms. However, history suggests that the status quo does not endure indefinitely.

2) This scenario would see the leadership responding to the increasing diversity in society and the rising protests by moving to accommodation with society and to try to form a new social compact. Instrumental in this process would be a reevaluation of the events of 1989 and a return to the reform agenda put forward by Zhao Ziyang in 1987. Optimists would like to see China following in the footsteps of its East Asian neighbors with a transition to 'soft-authoritarianism' followed by a democratic breakthrough following as a natural corollary from economic growth. This does not seem likely over the short to medium-term. However, by 2030, as we have seen China will have a per capita income of almost \$10,000 and would be at the same level as the Czech Republic and Hungary in 2007. This shows that a nascent democracy might be possible but a number of conditions would have to meet. A major problem will still be the large inequalities across China that might cause the elites to resist introducing democratic reforms. A democratic breakthrough would require a section of the ruling elite to be willing to break with the old system and to form a new compact with progressive forces in society. One could argue that there was such an opportunity in 1989 but that it was rejected by orthodox party members. Some argue that economic growth is creating a middle class that will support change and that the increase of marketization will cause the rule of law to be taken more seriously. However, it is hard to see what would cause the current elite willingly to reject the beneficial system. Democratization would be a positive scenario not only for many in China but also for the international community as the new leadership would adopt a much more friendly posture to the US and Japan and it would lead to considerably reduced tensions over Taiwan and would also provide a potential route to reunification.

3) A third scenario would see the current and future leaderships becoming sufficiently disturbed by the potential for unrest and what it interprets as US attempts to isolate it internationally that it would adopt a more xenophobic nationalism combined with an inefficient authoritarianism domestically. Here the party would be dominated by the new elites who would read any opening up of the political system as leading to erosion of their privileges and benefits. The CCP maintains that without it chaos would ensue. By consistently cracking down on alternatives and restricting the growth of a vibrant civil society that could form the basis for a new system, the CCP has created the possibility that the 'uncivil society' might take power. The most probable outcome would be rule by the new economic elites backed by the military in the name of preserving social stability and national sovereignty. A strident nationalism might provide a minimal level of social glue to give the new regime a residue of support. A more likely variant would be the emergence of a pre-democratic Latin American-style political system. Under this

scenario the inequalities would continue to rise with the party becoming the preserve of the elites and with their power backed up by the military. The lack of political reform would produce a permanent underclass in both urban and rural China that would be portrayed as a threat to stability and continued economic progress. The party dominated state would be in continual friction with society.

## *India*

### *Economic aspects*

India's post-1991 economic reforms which have helped the economy grow at more than 6

percent on average since 1992, will be difficult to reverse. India's average annual rate of growth of GDP raised to more than 7 in the last 4 years boosting India's \$700 billion economy – the world's tenth largest in 2005 (and third largest in Asia). Economic growth which has translated into significant increases in per capita gross domestic product - from the 1978 GDP of \$1,255 to \$2,732 in 2003 - will continue its upward swing.

India's economic growth is fueled by extraordinary growth in services, primarily in the IT sector that has allowed India to benefit from globalization. This will continue to be the engine of growth for the foreseeable future. In the fiscal year ending March 2005, India's export revenues from software outsourcing far exceeded targets reaching \$17.3 billion, and the number of people employed in India's outsourcing industry reached one million for the first time. Export growth has pushed India's foreign exchange reserves to a record high of \$120.78 billion in July 2004.

Economic growth will translate into further poverty reduction. Progress in reducing poverty has also been steady, as the share of the population living on less than \$1 a day has fallen from about 55 percent in 1981 to under 40 percent by 2001. The proportion of Indians living in extreme poverty (on \$1 a day or less) has fallen from 55% in 1981 to about 25 percent today, even though the overall population has grown. This means that about 100 million people have been lifted out of this extreme level of poverty over the past 10 years. Middle class will become a very substantial share of the population – about 580 millions by 2025 - with important consequences for growth through demand for higher education and thus higher productivity, and support for more open policies, but also through increase in demand for “middle class goods”.

Nevertheless, India confronts significant economic difficulties. Reforms (and prosperity) have generally bypassed India's agricultural sector – which accounts for about 20 percent of GDP and provides the livelihood of roughly 70 percent of the population (or 700 million people). Hampered by severe price distortions and dependent on the fortunes of the monsoon, annual growth in the agricultural sector in the previous six years has averaged less than 1 percent. With annual population growth of about 1.9 percent rural incomes have been stagnating. This has slowed down both productivity growth and job-creation in the rural sector. The share of agriculture in the overall economy has declined from 55 percent in 1950-51, to 38 percent in 1980-81, 31 percent in 1990-91 and about 25 percent by 2000.

While Indian manufacturing firms have upgraded technology and adopted more efficient scales of production, manufacturing growth and exports has been modest. This is in large part due to incomplete reforms in this crucial sector – still characterized by high rates of protection and resultant high production costs. Underscoring the symbiotic relationship between agricultural and industrial growth, the lack of a dynamic industrial and manufacturing sector has meant that the scope for mobility of low-skilled labor out of the agricultural sector has been limited by the absence of robust and sustained growth in the industrial sector.

The IT led growth has its consequences. Since India's services sector tends to create jobs for the relatively educated urban based populace, they have had limited impact on income distribution and poverty reduction. In fact, the majority of the rural population not only perceived that the new affluence had bypassed them, but that economic inequalities had

sharpened. They particularly resented the fact that the real beneficiaries of the reforms were the educated urban-based middle classes. Inequality in India is in part rooted in low farm productivity, inadequate access to credit, low rural living standards relative to urban areas, and poor basic education, which limit the ability of the poor to participate in the higher growth of non-farm activities.

With a current labor force of an estimated 370 million people India will need to generate in excess of 100 million jobs in the next decade alone to simply keep the unemployment rate from rising. Clearly, high-techs jobs by themselves will not be enough. India cannot grow into a major economy on services alone without first becoming an industrial power. If it is to provide tangible benefits and meet the needs of a growing and expectant population India will have to significantly improve the competitiveness of its manufacturing base – in particular, the backbone of its industrial manufacturing and employment: the small and medium-sized enterprises (SMEs), and reform its highly distorted agricultural sector that is still burdened with excessive regulations on private trading and most market activities. Moreover, India's expansive state-owned companies in the small-scale industrial sector remain a drain on government resources. With roughly two-thirds of industrial output of the organized sector in these enterprises, it will be difficult to stimulate industrial growth without privatization.

If the ambitious goal of India's Prime Minister Manmohan Singh of more than doubling India GDP from \$0.56 trillion in 2003 to \$1.75 trillion by 2020 is to be achieved India must expeditiously deal with the number of core challenges: to accelerate the pace of economic growth over the next two decades in order to further reduce poverty, improve living standards and provide employment – especially to the large group of young people who will soon be entering the labor market. Equally important, growth has to be more equitable and balanced in order to lessen the income gaps that have opened up between the urban and rural areas and the different regions -- the so-called "two-India's." The poorest seven states (accounting for 55 percent of the population) had a per-capita GDP that was two-thirds the national average, while in the richest seven states (33 percent of the population) per-capita GDP was nearly double that of the poorest seven states. It would take vigorous efforts to redirect resources to poorer areas to overcome this natural tendency towards growing regional inequality.

Education is going to be an issue. Notwithstanding the commitments of successive governments to make India hundred per cent literate and to systematically raise the budgetary allocations for education, as a percentage of the GDP, its share is consistently declining. According to the *Report of Task Force on Employment Opportunities* of the Planning Commission (2001): "If we define the minimum level of education necessary to function in a modern economy as schooling up to the middle level, then only about 33.2 percent of the labour force had schooling of that level and above. The percentage was higher at 57.4 percent for the urban labour force, but it was correspondingly worse in rural areas, with only 25.4 percent for the rural labour force meeting these standards".

The condition of higher education is no better. In the world university rankings reported by *The Times Higher Education Supplement* only 3 Indian universities figure in top-200 list while China has 6 to its credit, Japan 11 and the United States 55.

India won't be able to sustain economic growth if it will not continue to strengthen the economy's structural and institutional underpinnings. The combined fiscal deficit of the



central and state governments has remained at around 10 percent of GDP since the early 1990s. This deficit has negatively impacted national savings, crowded out private investment, circumscribed the government's ability to deliver much needed public spending, and put macroeconomic stability at risk.

Progress has been made in reducing the large public sector deficit and limiting growth in public debt. The general government deficit fell below 7.5 percent of GDP in 2004/05, down from 10 percent in 2001/02. Further reductions in state deficits, encouraged by some debt relief from the central government (as recommended by the Twelfth Finance Commission) would place state finances on a sounder basis. Expanding the tax base through reducing exemptions, as well as limiting tax incentives and establishing a more efficient pension scheme for public servants, are key steps towards improving central government finances.

Rapid growth has been supported by trade liberalization, and exports have increased by over 13 percent per year in real terms since 1995. The government has continued to reduce tariffs (the peak non-agricultural tariff rate fell to 15 percent in 2004/05, from 20 percent earlier). Nevertheless, further progress to reduce tariffs to ASEAN levels and to improve the efficiency of customs would enhance competitiveness. Employment has remained flat in recent years, despite rapid growth, in part due to rigid labor laws, which particularly constrain FDI in manufacturing. Poor infrastructure services continue to hamper production, particularly in the power sector. India loses 27 percent of its electricity in transmission and distribution, more than twice the average rate in Sub-Saharan Africa, and low tariff rates for industrial users impair the finances of utility companies. Administrative impediments greatly constrain business activities. Compared to the average for low-income countries, it takes 20 percent longer to open a business, and closing a business requires almost three times more (10 years).

### *Energy and environmental aspects*

As a consequence of its impressive economic growth India has become a significant consumer of energy resources, and was the fifth largest consumer of oil in the world during 2006. India's energy consumption has tripled over the period from 1980 to 2001. Higher energy consumption in the industrial, transportation, and residential sectors continues to drive India's energy usage upwards at a faster rate even than China. India's rapidly developing economy will lead to an increase in electricity demand. Despite the rapid growth between 1980 and 2001, India's energy consumption is still below that of Germany, Japan, China, and the United States, and India's per capita energy consumption is well below most of the rest of Asia. High-ash coal accounts for just over 50% of India's energy consumption, and will continue to be the dominant energy source. With the high capital costs associated with replacing existing coal-fired plants, and the long lead time required to introduce efficient and advanced coal technologies, many of India's highly-polluting coal-fired power plants will remain in operation through 2030. The power generation sector uses the majority of this coal, with heavy industry a distant second. Natural gas is growing in importance, and India is actively exploring a gas pipeline from Iran via Pakistan, as well as gas from Central Asia and from Myanmar and Bangladesh. Today, India imports over 70 percent of its oil, and this figure is projected to rise to over

90 percent by 2030.

While industrial development has contributed significantly to economic growth in India, it has done so at a price to the environment. Air pollution is one of India's most severe environmental problems. India has about 20 cities with populations of at least 1 million, and some of them--including New Delhi, Mumbai, Chennai, and Kolkata--are among the world's most polluted. Urban air quality ranks among the world's worst. Of the 3 million premature deaths in the world that occur each year due to outdoor and indoor air pollution, the highest number are in India. Increased vehicular ownership will contribute to existing air pollution problems. By 2030 India is projected to have 200 million vehicles, compared to 40 million in 2006. Apart from the fact that road-building is very unlikely to keep up with vehicle demand, air pollution is likely to continue to worsen considerably by 2030. In 2001, India, with 251 million metric tons of carbon equivalent emitted, ranked fifth in the world in carbon emissions, behind the United States, China, Russia and Japan. India's carbon emissions are expected to increase throughout the period to 2030. The absolute increase in emissions will depend on the degree to which coal consumption is reduced through efficiency, renewables, and natural gas consumption. Per capita emissions are expected to quadruple by 2030.

Deforestation, soil erosion, water pollution and land degradation continue to hinder economic development. Though India increased its agricultural yields significantly in the 1970's and 1980's, the growth in yield has slowed significantly in the last fifteen years. Currently, India's average yield per hectare is only about half that of China. Raising agricultural productivity will require the implementation of reforms: creating a market for voluntary land sales so that the average plot size becomes appropriate for modern technology; allowing farmers to sell to whom they choose, rather than to government-appointed buyers; abolishing agricultural price controls; and liberalizing India's retail sector. Crop diversification would increase rural employment. But this will not occur unless there are incentives for utilities to deliver affordable water and electricity to rural areas. Currently, it is estimated that over 70 percent of India's rainfall runs off into the sea. The current system of subsidies for electricity and water benefits rich farmers and does little for rural poverty or productivity.

Observations and climate models suggest that aerosol air pollution has decreased monsoon rainfall in India since the early 1960s, while the build up of greenhouse gases has increased night time temperatures. Both changes can be expected to reduce rice harvests. Data shows that that mean annual rice harvests would have been 10-15% higher during 1985-98 if these negative climate changes had not occurred. Air pollution thus provides a hitherto unrecognized explanation for the slowdown of the Green Revolution. Reductions in air pollution could be a new source of growth for the Indian rice sector.

According to the IPCC some of the most vulnerable regions in the world to sea level rise are in southern Asia, along the coasts of Pakistan, India, Sri Lanka, Bangladesh, and Burma. India and Pakistan have long, densely populated and low-lying coastlines that are very vulnerable to sea level rise and storm surge. Coastal agriculture, infrastructure, and onshore oil exploration are at risk. Possible increases in the frequency and intensity of storm surges could be disproportionately large in low-income rural areas and in heavily developed coastal areas such as Mumbai, Dhaka and Karachi.

By 2050, regions dependent on glacial melting for water may face serious consequences. Climate change has the potential to exacerbate water resource stresses in most regions of Asia. Most countries in Asia will experience substantial declines in agricultural productivity because of higher temperatures and more variable rainfall patterns. According to the IPCC, net cereal production in South Asia, for example, is projected to decline by 4 to 10 percent by the end of this century.

The location and topography of Bangladesh make it one of the most vulnerable countries in the world to a rise in sea level. Situated on the Bay of Bengal, it has a population of almost 150 million, and has a coastline exceeding 300 miles. About 10 percent of Bangladesh is within three feet of mean sea level. Over the next century, population rise, land scarcity and frequent flooding coupled with increased storm surge and sea level rise could cause millions of people to cross the border into India. Migration across the border with India is already such a concern that India is building a fence to control illegal immigration. Too much water can also be a problem. By 2050, snow melting in the Himalayas and increased precipitation across northern India are likely to produce flooding, especially in catchments on the western side of the Himalayas, in northern India, Nepal, Bangladesh, and Pakistan.

Climate change is expected to increase the geographic range of infectious diseases such as malaria, dengue fever and schistosomiasis, and increase the risk of water-borne disease. Climate projections indicate the Asia/Pacific region as a whole is likely to become warmer and wetter in the coming decades, creating conditions more conducive to malaria and dengue fever. South Asia will continue to be a hot spot for these diseases in the decades ahead.

### *Demography*

During the past few decades the proportion of Hindus in the population has been declining, and correspondingly, that of the Muslims has been rising. Between 1961 and 2001, the Hindu population declined from 83.45 per cent to 80.46 per cent while the Muslim population increased from 10.69 to 13.43.

Sound projections estimate that the Total Fertility Rate (TFR) would reach the replacement level (2.1) for Hindus by 2021 and for Muslims by 2031. In any case, the higher growth rate of Muslims would inevitably become a political issue particularly in those areas which have greater Muslim concentration, namely, Uttar Pradesh, West Bengal, Bihar, Maharashtra, Assam, Kerala, Andhra Pradesh, and Jammu and Kashmir. The situation in Assam would be particularly interesting for it has 30 per cent Muslims and it borders Bangladesh, which has recently displayed 'fundamentalist' tendencies. The Muslims of Assam have not shown any such tendency so far, but the emergence of the Assam United Democratic Front (AUDF), a predominantly Muslim party that won 10 seats in the April 2006 assembly election, could have relevant consequences for the future of the region.

### *Societal tensions*

The main issue is whether India will be a prosperous and peaceful nation, or if, rather, one mired in political instability and insurmountable social tensions, caused at least in part by lop-sided economic growth. There are the bases for social discontent. Economic and social disparities between the haves and the have - nots are increasing. Economic deprivation and social exclusion clash with growing aspirations and this can threaten social stability. The scheduled castes (17% of the population), the scheduled tribes (8% of the population) together with the backward castes (27% of the population) share poverty ratios well above the national average. Moreover the Scheduled tribes are ethnically different with distinct cultures, languages and social organisations. The Indian constitution has provided for reserving 22.5 per cent of seats in schools and colleges as well as reservation in government funded jobs for the scheduled castes (SCs) and scheduled tribes (STs), but this raised protests among the upper classes.

Ethnicity could potentially be an issue. Identity is become more and more ethnicized and politics is increasingly becoming identity centric. These processes are facilitated by the perceived sense of economic deprivation that certain ethnic groups suffer as a consequence of uneven distribution of the benefits of economic growth. As a matter of fact in the last 20 years ethnic boundaries have gained more relevance and the number of conflict along ethnic lines has increased. Indian politics is increasingly getting polarized on caste and communal lines. Every district and every block is becoming a potential battleground, frequently violent, between and among castes. Dalit anger is no longer a localized phenomenon and their movement has assumed a pan-Indian character.

Regional disparities have virtually divided the country into several Indias. While the south and west generally speaking are growth regions, large parts of central and eastern India, and almost the entire northeast present a scenario of perpetual underdevelopment. The underdevelopment in the North East is particularly threatening to the country's stability for not only is it infested by all kinds of ethnic insurgencies (reportedly 130 insurgent groups operate in the region), its tenuous link with India (a 30 km wide corridor connects it to India) presents a complex foreign policy challenge to the country. Neighbouring Bangladesh, a veritable demographic and Islamic time bomb, only serves to make the region even more vulnerable.

North East is not the only insurgent belt. Naxalite (Maoist) insurgencies have spread their wings in a vast area spreading from Andhra Pradesh in the south through the entire central and east-central India up to Nepal. About 175 districts of the country are now facing a serious Maoist militancy, behind which is the deep-seated disaffection of impoverished farmers and deprived castes and tribes. The unprecedented success of the Maoists in Nepal may give further encouragement to their Indian counterparts. In 2001 nine South Asian Maoist parties met in West Bengal and formed a Coordination Committee of Maoist Parties and Organizations of South Asia (CCOMPOSA). The Maoist struggle draws on the impoverishment of farmers, deprived castes, and tribes. Large sections of Indians remain very poor. According to government estimates it is at least 300 million. Some studies demonstrate that the per capita absorption of food grains is lower than even during the British rule. By estimating poverty on the basis of the calorie intake 75 percent of the rural population in 2000 was below the poverty line, a figure which is 19 percentage points higher than what it was in 1974.

Another aspect is connected to the overlapping of poverty and religious affiliation. Over 60% of the Muslim population are concentrated in six states and are on the average at lower levels of the socio-economic ladder. Discontent among Muslim population and the rise of Hindu religious fundamentalism in the political sphere could have potential dangerous consequences.

### *Political aspects*

The question seems to be: can democracy survive over the next two decades? It has been said that there are inherent in India separative and disruptive tendencies. Nevertheless there seems to be no apparent danger to the country's political stability, nor is there any social turmoil potential enough to rend the nation asunder.

In this country of over a billion, about 14 per cent are Muslims, ranking it among the largest Muslim countries in the world, almost at par with Indonesia, Bangladesh and Pakistan, the three largest Muslim countries of the world. Christians, who number about 20 million, are in majority in three of 27 federal states. In spite of inter-religious and inter-ethnic tensions, integrative forces remain more powerful on the balance. The proliferation of satellite TV together with the growth of regional language channels contributes significantly to the nation building process. The traditional north-south divide in India seems to have substantially given way to pan-Indian sentiments.

Paradoxically, the core challenges will come from the progressive empowerment of popular sectors and the deepening of democratic practices. That is, even as India's subaltern sectors enjoy the rights to exercise popular sovereignty, and its parliament has become ever-more representative of society, this "deepening of democracy" also seems responsible for exacerbating political fragmentation and the nation's inability to produce stable and effective government and efficacious governance.

Potentially divisive tendencies towards particularism and localism tend to define India's associational life as the patterns of associationism usually correlate to the narrow caste, ethnic, regional and religious-communal chauvinism, including patriarchy, class domination and other tyrannies which are deeply embedded in civil society. Political party competition has become increasingly along caste, religious-communal and ethno-regional lines, with such loyalties the most significant determinant of electoral outcomes.

The devolution of power and resources to the states, districts and "local communities" however salutary, do not always ensure efficacious democratic governance and programmatic national development. The current wave of devolution or decentralization taking place amidst institutional fragmentation and politics based on shifting alliances, splits, mergers and unstable and precarious political coalitions (even as it corrects the excessive centralization at the center over the last two decades), does not always portend well for efficacious governance and national development - especially reformist and distributive development. Specifically, contrary to the facile equations of decentralization with participatory governance, the decentralization and devolution of power from the national to the provincial and local levels have hardly brought the government any closer to the people, or improved the quality of government and governance.

More than ever before crucial decisions regarding the allocation of resources, at all levels

of the polity are heavily influenced by political considerations, rather than on sound technical and developmental criteria. Such a system has accentuated deep-seated communal and caste allegiances and antagonisms, and produced widespread graft and corruption, with little resources left over for meaningful human development.

Thus, even if India's national parliament and state assemblies have become more pluralistic and representative of the diversity and numerous cleavages in society, this has also raised enormous challenges for India's political and economic development.

The inability of any single party to capture a parliamentary majority on its own after 1989 has forced larger parties like the Congress and the BJP to form coalitions with state-based parties representing different social groups and coalitions. Prospects are that India faces an indefinite period of unstable coalition governments, even if this will not weaken or destroy Indian democracy.

## ***East and South-East Asia***

### *Climate Change and Security Impacts*

According to the IPCC, Some of the most vulnerable regions in the world to sea level rise are in southern Asia, along the coasts of Pakistan, India, Sri Lanka, Bangladesh, and Burma. India and Pakistan have long, densely populated and low-lying coastlines that are very vulnerable to sea level rise and storm surge. Coastal agriculture, infrastructure, and onshore oil exploration are at risk. Possible increases in the frequency and intensity of storm surges could be disproportionately large in low-income rural areas and in heavily developed coastal areas such as Mumbai, Dhaka and Karachi.

By 2050, regions dependent on glacial melting for water may face serious consequences. Climate change has the potential to exacerbate water resource stresses in most regions of Asia. Most countries in Asia will experience substantial declines in agricultural

productivity because of higher temperatures and more variable rainfall patterns. According to the IPCC, net cereal production in South Asia, for example, is projected to decline by 4 to 10 percent by the end of this century.

The location and topography of Bangladesh make it one of the most vulnerable countries in the world to a rise in sea level. Situated on the Bay of Bengal, it has a population of almost 150 million, and has a coastline exceeding 300 miles. About 10 percent of Bangladesh is within three feet of mean sea level. Over the next century, population rise, land scarcity and frequent flooding coupled with increased storm surge and sea level rise could cause millions of people to cross the border into India. Migration across the border with India is already such a concern that India is building a fence to control illegal immigration.

Too much water can also be a problem. By 2050, snow melting in the Himalayas and increased precipitation across northern India are likely to produce flooding, especially in catchments on the western side of the Himalayas, in northern India, Nepal, Bangladesh, and Pakistan.

Climate change is expected to increase the geographic range of infectious diseases such as malaria, dengue fever and schistosomiasis, and increase the risk of water-borne disease. Climate projections indicate the Asia/Pacific region as a whole is likely to become warmer and wetter in the coming decades, creating conditions more conducive to malaria and dengue fever. South Asia will continue to be a hot spot for these diseases in the decades ahead.

As a result of reduced precipitation and increased evaporation, water security problems are projected to intensify by 2030 in southern and eastern Australia, and in New Zealand. Significant loss of biodiversity is projected to occur by 2030 in some ecologically-rich sites including the Great Barrier Reef and Queensland Wet Tropics. Other sites at risk include Kakadu wetlands, south-west Australia, sub-Antarctic islands and the alpine areas of both countries. Ongoing coastal development and population growth in areas such as Cairns and Southeast Queensland (Australia) and Northland to Bay of Plenty (New Zealand), are projected to exacerbate the impacts from sea-level rise and increases in the severity and frequency of storms and coastal flooding by 2050.

Production from agriculture and forestry by 2030 is projected to decline over much of southern and eastern Australia, and over parts of eastern New Zealand, due to increased drought and fire. However, in New Zealand, initial benefits to agriculture and forestry are projected in western and southern areas and close to major rivers due to a longer growing season, less frost and increased rainfall.

### *Economic aspects*

The region can be divided into two groups of countries:

*High income countries.* To this group belong Australia, Hong Kong, Japan, Korea, New Zealand, Singapore and Taiwan. While similar in income level, this is still a grab bag of countries. At per capita income of \$37 thousand, Japan is by far the richest and most technologically advanced. Since 2002 the economy has expanded by over 2 percent per

year, recovering from the collapse of the asset price bubble of the early 1990s. Low inflation, which had long been an important strength of the Japanese economy, coupled with an aging population and uncertainty over prospects, had threatened to plunge Japan into a deflationary cycle, which could result in severe income declines. This threat, while receding, has not disappeared. Gross public debt now equals 170 percent of GDP and the budget deficit is 5 percent of GDP, so that increases in revenues and some restraint on spending are essential. Thus Japan must attempt to maintain economic expansion and avoid deflation while reducing the fiscal deficit, a delicate juggling act.

The fiscal challenge is further complicated by Japan's elderly population (20 percent of the population is older than 65), which will increase pressures for pension and health care expenditures. Further increases in contribution rates will risk boosting the evasion rate, already 33 percent for those not part of the employee pension system. Thus any slippage in expenditure targets should be met by raising the retirement age.

Japan must also confront a rise in inequality. The Gini coefficient has risen from below the OECD average in the mid-1980s to slightly above the average, and the rate of relative poverty is one of the highest in the OECD area. Greater inequality is mostly due to increasing dualism in the labor market, as part time workers, who earn on average only 40 percent as much as full-time workers, now make up over 30 percent of employment. Reducing inequality will require reducing employment protections for full-time work, thus curtailing the incentive to hire temporary workers.

Japan also must become better integrated into the world economy. The stock of inward FDI (about 2 percent of GDP), import penetration (15 percent of GDP), and the share of foreign workers in employment (about 1 percent) are the lowest in the OECD. Opening the market for mergers and acquisitions, lowering tariff rates and reducing non-tariff barriers, and expanding admissions of immigrants are high priorities for increasing growth. Nevertheless, given Japan's relatively closed social system, the integration of large numbers of foreign workers presents a substantial challenge, reducing the likelihood of policies that would allow large flows of immigrants, and increasing the potential for social problems should these flows occur.

Australia and New Zealand are more open economies and less threatened by demographic trends. Australian GDP has increased by about 3 percent per year over the past 3 years, New Zealand's slightly below that, buoyed by strong commodity prices. Australia's terms of trade have improved by about 30 percent over the past two years, while ensuring macroeconomic stability once the terms of trade decline is a major challenge for the short term. Structural reforms to strengthen macroeconomic stability, ease labor market rules, and improve the competitiveness of the Australian economy have improved productivity, maintained inflation at 4 percent (despite the commodity boom), and reduced unemployment to 5 percent of the labor force. Australia is one of the few countries where general government's net debt has been eliminated. While like other industrial countries Australia must cope with population aging (13 percent of the population is over 65), the absence of government debt places the country in a better position. Major long-term challenges include further work to clarify responsibilities between federal and state governments in the provision of services, improvements in infrastructure, devoting more resources to training to maintain the skill set of the labor force, and overcoming the scarcity of water.



The other Asian high-income economies have lower incomes and greater potential for growth through catching up with technologies employed in the more advanced economies. While Hong Kong, Korea, Singapore and Taiwan all face long-term political challenges, they also have well-educated, highly-skilled populations, strong institutions, widespread Internet access (Korea has 657 Internet users per 1000 population, higher than the United States) and an impressive record of economic achievement (GDP per capita growth from 1990-2005 averaging 4.6 percent in Taiwan, 3.8 percent in Singapore, 4.7 percent in Korea). To some extent these economies face common challenges. A large share of the population is over the age of 65 (10 percent of the population exceeds 65 years of age in Taiwan, 9 percent in Korea, 12 percent in Hong Kong, 8.5 percent in Singapore), which will lead to a decline in the labor force over the next few decades, tending towards a fall in per capita growth. In Korea, for example, IMF and the government estimate that potential growth has fallen from 8 percent before the East Asian crisis to about 4.5 percent, and could drop further over the next several decades, due to falling labor supply, lower productivity, and a decline in investment. Boosting productivity will require establishing a first-class financial sector, as capital markets remain underdeveloped, improving service sector productivity by easing restrictions that limit the scale of service sector activities, and lifting constraints on firing to spur formal sector employment, while devoting more resources to social safety nets to protect the unemployed.

These economies have relied heavily on external demand for manufactures for their rapid growth. Continued growth will require their transformation to high-technology and service-oriented economies. Thus boosting productivity through the absorption and creation of advanced technology remains a priority. Taiwan and Korea face significant shortages of highly-trained workers, but are having some success in increasing the supply through: (i) encouraging the return of highly-educated nationals residing abroad, through establishing strong research and development environments and infrastructure investments (e.g. the industrial parks in Taiwan); and (ii) devoting more funds to expanding higher-level education.

*Developing countries.* Developing East and South Asia includes a wide diversity of income levels (ranging from Laos' \$400 per capita income to Malaysia's \$10,300), population sizes (even ignoring the island economies, Bhutan has less than 1 million people, while China has 1.3 billion), and economic policies (these countries have varying ranges of state interventions in economic activities, with Vietnam one of the few remaining socialist countries). Yet not only has the region as a whole enjoyed extremely rapid growth on average (6 percent rise in per capita income from 1990-2005), but most countries (excluding Mongolia, Nepal, Pakistan, Papua New Guinea and the Philippines) has achieved per capita growth in excess of 2 percent over this period. The countries hit by the 1997-98 East Asian crisis have recovered sharply, India since 1981 and China since 1978 have continued to achieve remarkably strong growth, and even some of the low-income countries (Lao PDR and Vietnam) have recorded per capita growth rates exceeding 3 percent. Poverty has declined precipitously since the mid-1990s (the share of people living on less than \$1 a day has declined from 52 percent in 1981 to 31 percent

in 2002 for the countries in South Asia, and from 58 percent in 1981 to 12 percent in 2002 for the countries in East Asia).

Some of the low-income countries, excluding India, face considerable development challenges due to past or current conflicts. Cambodia has never recovered from the massacres under the Khmer Rouge, and rampant corruption combined with ineffective government provide little hope of an improvement in prospects. Myanmar is subject to international isolation. Sri Lanka has made impressive achievements in reducing poverty and providing for basic needs, despite low levels of income: about 90 percent of the adult population is literate (compared with 73 percent of the adult male population in India), 91 percent of the population has access to improved sanitation facilities (compared with 35 percent in all of South Asia) and infant mortality is 12 per thousand live births (66 in South Asia). Nevertheless, the civil war threatens to derail economic progress.

Vietnam, by contrast, has achieved rapid growth through the introduction of market reforms in a socialist context. Major challenges going forward are to achieve debt sustainability, given the difficult-to-estimate contingent liabilities involved in the banking system's nonperforming loans; continuing to strengthen the independence of state enterprises from government interference with business decisions; phasing out administered prices to strengthen reliance on the market; and improving Vietnam's integration with the global economy by securing WTO accession. Bangladesh has achieved reasonable economic growth (average of 5 percent over the past three years) and some improvements in social indicators (infant mortality has fallen from 100 per thousand live births in 1990 to 56 in 2004). Nevertheless, poverty remains high (36 percent of the population lives on less than \$1 a day), and growth continues to be adversely affected by inadequate investment in human capital, infrastructure bottlenecks, the high cost of doing business (35 days and 81 percent of per capita income are required to open a business), and poor governance (rating of 2 in Transparency International's index).

The major middle-income countries (Indonesia, Malaysia, the Philippines, and Thailand) have largely recovered from the East Asian crisis of 1997-98:

(i) Indonesia was hit worst by the crisis and has been the slowest to recover, but even there growth averaged more than 5 percent per year over the past three years, while confronting the conflict in Aceh, the recent tsunami, and a severe earthquake in central Java. Nevertheless, Indonesia lags behind the more dynamic Asian economies, unemployment has risen to over 10 percent, and foreign direct investment remains low (only 0.4 percent of GDP, one of the lowest in the region).

(ii) Malaysia's adoption of capital controls helped to stave off the worst of the crisis, and has since sustained strong economic growth (5.5 percent per year since 2001). However, private investment has been weak owing to regulatory barriers (especially for services) and skill shortages. These issues are particularly serious, given Malaysia's need to compete with regional economies that are working to boost competitiveness and upgrade skills.

(iii) The Philippines boasts what is perhaps the most successful use of emigration as a development strategy, in part thanks to a conscious effort to train workers for foreign jobs and to help with placement through bilateral agreements. Remittances now

contribute 10 percent of GDP. A large rise in public debt and in external financing requirements over 2002-04 increased the vulnerability of the economy, although efforts by the new government reduced the fiscal deficit from almost 6 percent in 2002 to 2 percent in 2005. Major policy challenges include making progress with the privatization of state enterprises (particularly in the power sector), reducing the banking system's heavy burden of nonperforming loans (over 20 percent of total loans outstanding), and improving the regulatory climate facing private business (the country's Transparency International rating is only 2.5, it takes 48 days to start a business and 5.7 years to resolve a bankruptcy).

(iv) Following the 1997 crisis, Thailand implemented substantial reforms in its financial sector, strengthening corporate governance, reforming lending practices, and boosting incentives for increasing competition. GDP increased by almost 5 percent in per capita terms from 2001-05. Major challenges include uncertainty (after the coup) over the future of economic policy and the ambitious infrastructure investments planned by the previous government, slowdown in the tourism industry due to avian flu, and the continuing unrest in the south of the country.

### *Internal conflicts and terrorism*

At present, Asia ranks very high in terms of propensity for both intra-state and inter-state conflicts. Internal conflicts could make multi-ethnic societies essentially fragile, leading to social disintegration. Similarly, internal conflicts, particularly those that involve ethnic groups straddling national boundaries, risk escalating into regional conflicts. Terrorism and internal conflicts could significantly increase the security costs associated with international commerce, encourage restrictive border control policies, and adversely affect trade patterns and financial markets in growing economies. Unfortunately, many countries in Asia are fairly exposed to secessionist and irredentist movements arising from contested nationalism or assertions of distinct ethnic identities such as in Kashmir and many parts of North East India and in Sri Lanka as well as in Indonesia, The Philippines and Thailand. In some cases as in Kashmir, southern Thailand and in Indonesia such as in Aceh, Ambon, Malukus these are often layered over communal conflicts. Though Asia's tryst with terrorism predates September 11, the threat of Islamist terrorism has introduced new dynamics to the strategic and security policies of the regional states.

There is a growing salience of terrorism in the national threat perceptions and the security strategies of the states in the region. This has changed the nature of domestic politics and state-society relations of the regional states and relations among them significantly. Importantly, the 'war on terror' has pushed democratic projects- human rights, human security- to the backyard and substituted development goals in favor of militarization. The purported universality of the campaign against terrorism since September 11 has significantly changed the communal dynamics in many regional countries where age-old contentions have resurfaced along with new tensions specifically over the role of religion in the public sphere.

Two developments are particularly noteworthy in respect of the evolving Islamist terrorist threat in respect of Asia. Historically Islam in Asia had a more liberal face adopting itself to the local cultures and traditions. However, there is now an increased cultural conservatism - focusing on the form rather than the substance of religious belief. Secondly there is greater awareness of Islam's global identity in Asia. This would not explain the emergence of transnational terrorist networks nor the desire to establish exclusionist Islamic states in the region. What is important here are the global linkages that home grown groups developed under the influence of the pan-Islamist ideology.

Terrorism remains high on the list of concerns for many regional governments, as most find themselves threatened by the religious extremism. But their response has not been uniform. The countries in the region differ widely about how they perceive the terrorist threat. This is reflective of the domestic constraints and political inhibitions of respective governments. In the aftermath of September 11, Pakistan became what Washington called 'a frontline state' and a key ally in global campaign against terror. Threat of transnational terrorism became the catalyst for New Delhi to decisively break out of the isolation caused by its nuclear tests in 1998 enabling India to improve its ties with the US much better than what were being projected before September 11. However, the immediate success of the 'war on terror' could not alter much the terrorist matrix in the sub-continent. Nor could it have any deterring or dissuasive effect on the terrorists operating especially in Kashmir. Conversely, Islamist terrorism helped catalyze the fundamentalist tinge in Hinduism in India. It now appears that much of Islamic militancy in the sub-continent is linked not to the issue of liberation of Kashmir alone, but also to the greater issues of rise in Hindu fundamentalism which in recent years have been keeping the minority Muslims on a perpetual state of insecurity. Thus continued militancy in the sub-continent would keep both India and Pakistan on the edge. This is problematic especially as the threshold of major conflicts including those involving terrorism, has been dangerously low in the region given the historic animosity between the two.

Developments in Afghanistan, Bangladesh and Sri Lanka also do not bid well for security of the region in near future. In Southeast Asia similarly, threat of terrorism continues to be the most "immediate security threat" facing the region. Even if moderate Islam is much more widely supported than radical/Islamist Islam fundamentalist Islamic theology is growing in popularity in some parts of the region with radical groups exploiting many of the internal problems in their respective countries. A classical example is the simmering insurgency in southern Thailand. Even though the insurgency in the Muslim majority provinces of Narathiwat, Yala and Pattani has largely remained local so far, there are increasing indications for it to escalate into a full-blown regional conflict with significant security implications for states in Southeast Asia.

### *The role of Islam in the region*

In Indonesia there is clear evidence of a growing Islamic consciousness as a source for identity. On the other hand rival sources of identity are also strongly present, notably nationalism, and strong regional cultures especially in Java. Here many are proud of their

pre-Islamic heritage of high civilization and may state that they are Muslims, but not “Arab” Muslims. There is also a strong attachment to democracy and resistance to all forms of authoritarianism. Up to now none of the Islamic parties proposed adopting a caliphate system, thus acknowledging the nation-state, nor did they propose the establishment of an Islamic state such as those of Iran, Egypt or Saudi Arabia. Confidence in the Muslim parties, especially Islamist ones, has declined rather than increased. If there were some electoral reform, it is likely that the small radical/Islamist parties would be eliminated and the moderate ones would be better placed to work on developing a modern democratic system. Even if in 1955 the two biggest Islamic organizations in Indonesia, Nahdlatul Ulama and Muhammadiyah, pushed for an Islamic state in 1955, now they no longer support even the insertion of *shar’iah*. The Pancasila survived all proposals to replace and amend it, and Indonesia still follows a middle way between a secular state and a state based on religion, compatible with the “substantive” approach to *shar’iah*.

Things are different in the provinces. There has been considerable decentralization in Indonesia, and some provinces have implemented *shar’iah* in some areas, often to the detriment of women, by making it more difficult to earn a living in areas such as marketing which were traditionally female-dominated. Islam can also be an element in separatist movements, for example in Aceh, though some would argue that this conflict is essentially over resources. Apart from actual separatist movements, there are cases of serious civil strife like Maluku. Here the intervention of the national-level organization Laskar Jihad escalated the conflict which originated in the competition between Muslim and Christian groups for resources. These groups were not so much “religious” in nature as highly corrupt patronage networks. However, intervention by outsiders, either Muslim or Christian, tends to make religion a major issue, and also to have the effect of raising religious animus across Indonesia – for instance making Christian communities more insecure. Indonesia has such a high level of resource conflicts and uncontrolled endemic violence that armed Islamic movements have plenty of scope to operate. The worst-case scenario would be the development of a widespread general perception of a conspiracy between indigenous Christians, particularly the Chinese, and Christians overseas to oppress the Muslim majority.

In Malaysia there is an inherent ambiguity, if not tension, between Malays as an ethnic community separate from all non-Malays, and Malays as Muslims belonging to a universal brotherhood or *ummat*. Malay ethnic interests have generally taken precedence over Islamic considerations and values. The Chinese Muslim is condemned as not being a true Muslim because they lack the markers of specifically *Malay* identity.

In the southern Philippines and in southern Thailand the Muslim minority community feels under threat from a majority community with alien values that is apparently bent on imposing these values and/or reducing the minority to the status of second-class citizens. This is leading to a specific Islamic identity.

An issue that must be dealt with as possible source of concern is the long history of antagonism between the Chinese and Muslim Indonesians. In Indonesia the Chinese community, though numerically tiny (about. 3% of the population) compared to the Malaysian Chinese community, has an overwhelming economic dominance. Economic

growth has been to a large extent generated by the Chinese community. This means that there is an underlying structural tension that has the potential to cause political instability. Muslim business, despite some band-aid measures, has not been significantly assisted to enable it to reclaim some of the Chinese domination of the economy, and it is this circumstance that ensures that anti-Chinese sentiment is likely to flare up in hard times. This domination of the economy is also perpetuated by the restrictions, formal and informal, on Chinese taking up jobs in the public service, the military, and the universities. If there is another major economic upheaval like the 1997-8 crisis, there could be more anti-Chinese violence leading to another episode of flight of Chinese capital. Of course, as the Chinese are not predominantly Muslim and many engage in activities prohibited by Islam, this exacerbates anti-Chinese feelings.

There is thus a conflict in the economic sphere between growth and equity. The dilemma is that shifting control of the economy out of Chinese management may well reduce growth, but maintaining the Chinese in their present dominance is likely to lead to further anti-Chinese violence and capital flight.

As far as the effect of economic growth on Islamization are concerned, it seems that the electorate both in Indonesia and Malaysia is prepared to vote for secular governments oriented towards economic growth within a capitalist economy, and is prepared to put up with quite a lot if growth is achieved. If the capitalist world fails to deliver economic growth, then it is likely that radical Islamist movements will gain support. This is borne out by the fact that PAS's major constituency has traditionally been rural shareholders who suffered, rather than benefited, by Malaysia's integration into global capitalism. In Indonesia, the bombings of indigenous Christians and of Westerners, carried out by young rural males under the influence of Islamic leaders preaching *jihad*, followed the economic crisis and the vindictive and ill-judged measures taken by the IMF against a deeply stricken Indonesia. Though it is impossible to establish a causal, rather than temporal, link between these events it remains true that economic development and education are vital to the containment of inter-ethnic and inter-religious violence and xenophobia.

## *Latin America*

### *Environmental aspects*

The IPCC report asserts with “high confidence that climatic variability and extreme events have been severely affecting the Latin America (LA) region over recent years. Highly unusual extreme weather events were reported, such as flooding in the Argentinean Pampas, Amazon drought (2005), hail storm in Bolivia (2002) and the Great Buenos Aires area (2006), the unprecedented hurricane Catarina in the South Atlantic, and the record hurricane season of 2005 in the Caribbean Basin.

During the last decades important changes in precipitation and increases in temperature were observed with high confidence. Increases in rainfall in southeast Brazil, Paraguay, Uruguay, the Argentinean Pampas and some parts of Bolivia have had impacts on land use, crop yields and has increased flood frequency and intensity. On the other hand, a declining trend in precipitation has been observed in southern Chile, southwest Argentina, southern Peru, and western Central America.

Increases of temperature of about 1°C in Mesoamerica and South America and of 0.5°C in Brazil have been observed. As a consequence of temperature increase glaciers will retreat. Loss of glaciers will strain water supply in several areas, particularly Peru and Venezuela. Rising sea levels will threaten all coastal nations. The primary security threats

arise from the potential demand for humanitarian aid and a likely increase in immigration from neighbor states.

The melting of glaciers at an accelerated rate in Venezuela and the Peruvian Andes is a major problem because of the direct reliance on these glaciers for water supplies and hydroelectric power. The Peruvian plains, northeast Brazil, and Mexico, already subject to drought, will encounter droughts in the future that will last longer. That would lead to further land degradation and loss of food production, a setback for Latin America, which is particularly dependent on food production for subsistence, and to Brazil, whose economy is fueled by food exports.

This issue is critical in Bolivia, Peru, Colombia and Ecuador, where water has already been allocated for consumption or hydropower generation. These problems with supply are expected to increase in the future, becoming chronic if no appropriate adaptation measures are implemented. Over the next decades, Andean inter-tropical glaciers are very likely to disappear, affecting water availability and hydropower generation.

Land use changes have intensified the use of natural resources and exacerbated many of the processes of land degradation. Almost three quarters of the drylands are moderately or severely affected by degradation processes. The combined effects of human action and climate change have caused the natural land cover to decline at very high rates. In particular, rates of deforestation of tropical forests have increased during the last five years.

By mid-century, increases in temperature and associated decreases in soil water are projected to lead to gradual replacement of tropical forest by savanna in eastern Amazonia. Semi-arid vegetation will tend to be replaced by arid-land vegetation. There is a risk of significant biodiversity loss through species extinction in many areas of tropical Latin America.

In drier areas, climate change is expected to lead to salinization and desertification of agricultural land. Productivity of some important crops are projected to decrease and livestock productivity to decline, with adverse consequences for food security. In temperate zones soybean yields are projected to increase. Sea-level rise is projected to cause increased risk of flooding in low-lying areas. Increases in sea surface temperature due to climate change are projected to have adverse effects on Mesoamerican coral reefs, and cause shifts in the location of south-east Pacific fish stocks. Changes in precipitation patterns and the disappearance of glaciers are projected to significantly affect water availability for human consumption, agriculture and energy generation.

### *Economic aspects*

Latin America's performance over the past two years has been quite good. The continent's economy has grown around 5% and all forecasts are that growth will continue at a relatively high clip of 4% through the end of the decade. Despite some isolated scares, inflation appears to be tamed throughout the continent. Perhaps most important, exports have grown enormously in the past two years and in 2006 reached almost \$700 billion. Nevertheless, there are critical weaknesses in the economic performance to make one doubt any long term boom. These have to do with (in no particular order): geographic distribution, commodity dependence, trade structure, savings rates, and economic



informality.

First, it is important to disaggregate the economic figures by country (and in some cases, a sub-national perspective is warranted). For some countries, the last two years have represented a spectacular bonanza. Argentina has grown at an annual pace of 8%. This helped neighbor Uruguay to also grow at a rate of 5.5% in 2006. Venezuela may be growing faster than 10% a year, while the Dominican Republic grew by 11.3%. A middle range of countries (5-6% p.a. growth) includes Chile (continuing a remarkably steady progress since the 1990s), Peru, Colombia, and Nicaragua. Two sets of countries did not fare so well: the relatively poor and the regional centers of Mexico and Brazil. Regarding the first, Bolivia (despite the rise in gas prices) grew by slightly more than 3%, Paraguay did not do as well as that, and El Salvador, Panama and Guatemala had fairly disappointing years. Most worrisome is that growth in Brazil and Mexico was relatively low (3-4%) and is expected to decline. So, while the region as a whole appeared to be doing better, the critical players remained somewhat moribund as did the poorest. In terms of inflation, while it remained at historically low levels in almost all countries, it did increase to double digits in Argentina, which of course is the country with arguably the most dramatic record in inflationary spirals.

With the significant exceptions of Brazil and Mexico, moreover, the countries in the region have not been able to generate significant growth in the exports of higher value added goods, which is the key step for long-term development. Chile, despite all its economic accomplishments, still depends on copper and fruits for 50% of its exports. A similar list for Peru also accounts for half. In Bolivia, oil, gas, zinc and soya\_ accounted for 63% of exports. Countries such as Argentina with developed manufacturing centers still depend on primary products for 70% of exports and rely on domestic markets for a significant part of their manufactures demand. Construction remains a central economic driving force in these economies and while it has significant multiplier effects, it also fails to make any significant inroads into a global market. Brazil (35% of exports manufactures) and Mexico (82% of exports non-maquila manufactures) are the significant exception. In the former case, the economy has also developed global leadership positions in complex industries such as aerospace. In terms of services, Latin America has not been able to develop any significant sector other than tourism. Even in this industry, only Mexico and some of the Central American countries have been able to develop significant international centers.

The integration of Latin American trade, supported by groupings such as the Andean Pact and more recently Mercosur, have had some limited success. Despite considerable progress on creating a regional trading zone, however, the Latin American countries remain relatively isolated actors, as each deals with the global market at a significant disadvantage of scale and scope. One indicator of the limited success of regionalization is the fact that South and Central America's regional share of its trade (that is, the share of Latin American trade that occurs within the continent) has remained fairly constant at around one-fourth. This compares to an equivalent measure of three-fourths for Europe and over half for North America including Mexico. The latter has for all intents and purposes left the Latin American orbit and is almost totally integrated into the NAFTA zone (the US accounts for 85% of Mexico exports and 60% of its imports). Overall the

region remains inexorably tied to the US economy. Venezuela sends 58% of its exports to the US and buys 29% of its imports from that country. An important development in this regard is the arrival of China as a major buyer. Yet two important qualifiers need to be kept in mind before discussion of a “China option”: It is almost exclusively interested in primary products, and because of distances involved, its relative percentage of trade remains low compared to the US. Overall, the US buys 47% of Latin America’s exports (to China’s 4.1%) and sends it 37.7% of its imports (compared to China’s 4.7%).

One bright spot in the trade picture for the continent is that it has, at least temporarily, switched from running a significant trade deficit to enjoying a regional surplus of \$36 billion (1.5% of GDP). Much of this, however, is a direct product of the commodity boom. Despite this surplus, however, the relative dearth of capital available in the region remains a severe constraint on development. Estimates of external financing needs for the next decade range around \$75 billion dollars. The region still carries a significant foreign debt burden of nearly \$700 billion in 2005. Nevertheless, thanks to improving economic performance, adroit negotiations, and the switch from foreign to domestic debt in the two largest markets (Brazil and Mexico), the relative burden of the debt is expected to decline to just over 20% of GDP and a debt service ratio of slightly over 10% by 2010. One positive development over the past decade has been the dramatic rise in remittances, totaling \$55 billion in 2005. For some countries (El Salvador and the Dominican Republic in particular) these represent a very important part of the national economy. The generation of domestic savings remains a critical weak spot in the region. Both private and government savings rates are far below that of Asia and the developing countries. The state’s ability to serve as an accumulator is further constrained by the low levels of taxation, which is a product of both regressive policies and low institutional capacity.

Two further concerns cloud the economic picture of the continent. The first has to do with the fact that the increasing concentration of economic success in relatively limited geographical territories. This is an old pattern in the region, but may be getting progressively worse. In addition to the traditional “entrepot” outposts of commodity production, economic vitality seems increasingly centered on a few areas which enjoy dramatically better living standards: the north of Mexico and the southeast of Brazil are the two most important examples. In order to create viable national economies, these countries must expand economic opportunities beyond these locales. A second source of concern is the fact that even when economic growth does appear, its overall impact is severely constrained by the limited employment generated. This had produced a double economy model where nearly half of workers are employed in the informal economy. While this sector often accounts for some of the most dynamic activity, severe structural limitations bound the possibilities for it serving as a leader in future economic development.

Overall, Latin America remains a relatively minor player on the global economic stage. Despite recent growth, its share of global GDP is slightly less than 6%. This is a significant under-representation given that Latin America includes more than 8% of the world’s population. Its relative centrality is increased by its proximity to the US, the important role it still plays in debt markets, and its possession of some strategic resources.

### *Social Conditions*

The region is highly unequal. The top 5% of the income ladder receives twice the comparable share of their OECD counterparts while the bottom receives half of what they would in those same countries.

The consequences of this distributive system are made even worse by the fact that with some significant exceptions, these are relatively poor societies. Thus, not only do the poor, the non-whites, and the female receive a smaller slice, but also the pie is not overly large to begin with. The combination makes Latin America a unique island of a particular form of misery. What is especially striking about Latin America is that even the distribution of its misdistribution is skewed. The Gini index for the bottom 90% of the population is comparable to countries of the same level of development. It is the concentration in the top decile that sets Latin America apart. The UNDP calculates that over half of the population in several countries lives on less than \$2 per day. The United Nations CEPAL estimates over 200 million living in poverty with an incidence of 46%. In Haiti one third of the population not expected to live to age of 40. Even with all this, Latin Americans live worse than they need to. Based on UNDP data, the correlation between GDP and the Human Development Index declines when the Latin American countries are added to a sample, indicating that living standards are worse than the national incomes would predict. Evidence indicates that a significant part of the misery for large parts of the population does not necessarily stem from poverty in and of itself, but from the consequences of the radically asymmetrical distribution.

The actual numbers for poverty and inequality may actually be much worse than indicated, as the data fail to take into account a process of increasing “auto-exploitation” featuring a higher percentage of household members working for longer hours and depending on non-monetary transactions. Some speak of a breakdown in the “distributive equilibrium” in Latin America with a subsequent disintegration of public life. This has produced a veritable crime wave in every Latin American city. Police response has been brutal and, of course, closely correlated with income.

Some studies indicate that the boom of the early 1990s did reduce the levels of poverty in some (but not all) countries, but it also produced greater inequality. The erosion of the middle class is a clear and practically universal trend throughout the region. During the 1980s, the second and third quartiles saw dramatic declines in their incomes, in some of cases losing 30% of their income.

Social inequality is made even more complex and divisive by the existence of racial hierarchies. As in the case of blacks in Brazil, as one moves up the stratification system, the significance of cultural signals recedes and that of phenotype increase. Upward mobility is fluid and possible, but remains characterized by the advantages of racial “whiteness”. There is no question that there are very strong causal relationships between ethnicity and education and income. Even when achieving high occupational status, non-whites make less money and are treated less well.

The crime wave has had serious social implications. Most importantly, the reality and perception of urban criminality has led to a dramatic decline in the quality and quantity of social contact. Once vibrant city streets and neighborhoods are now deserted and quiet. Opportunities for commonality and inter-class and inter-racial communication are further

reduced and families (from the rich to the poor) are increasingly atomized. The reduction on collective social capital and its effects on what possibilities exist for collective action are of increasing concern to policy makers.

All of these social conditions are fueling yet another Latin American social constant: intensive out migration. The number of emigrants from the region is over a million annually. By 2005, there were at least 15 million Latin Americans living in the United States and close to two million living in the European Union. While these migratory waves provide important safety valves for and support of the home societies, the departure of so many of the most entrepreneurial and young people (as well as the creation of rentier societies living on remittances) are sure to have unexpected consequences in years to come.

### *Political aspects*

Perhaps the most pertinent fact of political life in Latin America is the robustness of its electoral democratic rules. Every country (with the exceptions of Cuba and Haiti) has recently experienced a relatively peaceful transfer of power brought about through the open and free expression of popular preferences and institutionalized elections. In the past two years, Peru, Chile, Brazil, Colombia, Ecuador, Venezuela, Bolivia, Costa Rica, Nicaragua, and Mexico successfully and peacefully conducted internationally monitored and sanctioned elections. While some contested the results (Mexico) or the fairness (Venezuela) of these contests, and others saw significant social tensions (Bolivia, Ecuador), others served as models for electoral process anywhere (Chile, Brazil). In 2007 and 2008, elections will be held in Argentina, Guatemala, Paraguay and the Dominican Republic, and we do not expect any problems with these, as well.

There is no question that the elections of the past two few years reflect a real disappointment on the part of large part of the Latin American population in the results of the grandly welcomed “great transition” to democracy and the market begun in the 1980s. All public opinion indicators agree that many do feel that the liberal economic policies have not delivered material benefits nor have electoral politics improved their sense of representation. There is, however, absolutely no sign of a coherent alternative appearing in the region.

In the case of Argentina the election of Kirchner was by no means a “left” response so much as a reflection of political desperation after two years of crisis, and the simple fact that the Peronists remain the only institution resembling a political party in that country. The rise of Chavez in Venezuela was similarly a result of the paralysis and corruption of the traditional parties. The inclusion of Chile’s Bachelet and Brazil’s Lula in a “left turn” betrays an ignorance of the long-standing position of their respective parties in their own political arenas and the “taming” of these since the collapse of the Wall in 1989. In the case of Peru, Alan Garcia had largely repudiated his earlier anti-market policies and beat a candidate whose rhetoric was much more populist and nationalist. Likewise, the victory by Ortega in Nicaragua has to be understood in terms of the dynastic politics of that country. In Bolivia, Evo Morales’ willingness to negotiate with oil and gas companies

indicates that he is much more moderate than might first appear. In any case, his rise cannot be understood outside of the context of regional and racial politics in Bolivia as well as the unintended backlash of US drug policies. Finally, the elections of Uribe in Colombia and of Calderon in Mexico indicate that in two of the continent's major economies, the appeal of the market as a basic principle remains strong.

There remain, of course, the special cases of Cuba and Haiti. The viability of the latter as a political and economic entity is in serious doubt. Haiti is on the border (if it has not already crossed it) of those regions of the world where political authority and economic functions have for all intents and purposes broken down. Sadly, given its marginal position on the world stage and, to be perfectly frank, the apathy of most of the Western world to the fate of non-white victims, the future of Haiti appears to matter to few. The only scenario in which the country would gain world attention would be if its population is pushed into another great exodus towards the US or other regional destinations. The strategic dilemmas this would pose for the United States would be considerable. Similar dilemmas apply to the Cuban case. The so far successful transition to a post-Fidel (if not necessarily post-Castro) regime should not lead to an overly-optimistic scenario for that island. It is probable that political conflict there will escalate and the likelihood of violence is high. Any US intervention would be a disaster for the region, and would only exacerbate tensions and encourage possible terrorist responses.

The political situation in Latin America can best be understood outside of the realm of "official" politics. What is perhaps most worrisome is that in the face of the many crises and disappointments of the past decade, many in Latin America seek salvation, yet again, in an individual leader. While it is tempting to blame this on some Hispanic cultural proclivity, the reasons for it are much more complicated. With the failure of institutional politics, it is natural for people to look for stability and solutions personified in a single leader. The fact that such persons may be able to cut the various Gordian knots of Latin America's challenges further enhances the appeal of the *caudillo*. The main danger of such a situation is obvious: it gives the single individual too much power. In the longer term, the likely disappointment in the ability of a single person to accomplish so much will only exacerbate the frustration with political life throughout the continent.

A parallel development over the past two decades has been the rise of political movements outside of historical institutions. Less dramatically, groups representing environmental interests as well as racial and gender identities and discrimination have become ever more critical players in the political stability of each Latin American country. To this we could add the increasingly important role of immigrant communities, not just as sources of income, but as critical pressure groups.

These two trends are likely to continue as the formal institutions of power lose relative weight. This includes many parts of the state itself. For practically every country in Latin America (with prominent exceptions such as Chile and Costa Rica) the viability of the state as a political institution may represent their most important political challenge. The combination of frantic urbanization, debt crisis, neoliberalism, and the rise of industrial level of narcotrafficking have further contributed to the "deinstitutionalization" of the state. Nowhere is this clearer than in the recurring battles between central powers and provincial authorities.

The insecurity is no longer purely a social problem, but one which daily undermines the political authority of the state and its ability to deliver services to significant parts of the population. The absence of the state then makes it more difficult for it to provide the services which can win it legitimacy and support. The retreat of the state from a variety of zones makes the appeal of social movements and other agglomerations ever more attractive, as these might be able to get something done. This in turn further weakens the state, and creates a truly vicious circle.

The Latin American state is not only threatened from within, but also has to consider its broader regional and international environment. While tensions continue to exist in the Andes (and particularly, between Chile and Bolivia), the likelihood of inter-state war remains low. It would be a dramatic reversal of institutional cultures for these countries to go to war. In any case, their individual capacity to maintain military forces in the field for any extended period of time is severely limited.

In all of these countries, the United States represents the largest market for their exports (85% in the case of Mexico). This means that any constraint on the entry of their goods into the US would be catastrophic. Moreover, all of these countries depend on remittances from migrants who live in the US in order to sustain their economies. (In the case of El Salvador, remittances account for perhaps a fifth of GDP). Further south, the role of the US remains critical, particularly for the Andean countries who have used the ATPDEA to increase their agricultural exports to the US sevenfold. For all of his bluster, Chavez depends on American consumers for his continued economic well-being. While much is made of the threat of a Venezuelan embargo on the US, a buyers' boycott would be disastrous for Venezuela given the difficulties it would face selling its "dirtier" petroleum across the Atlantic as opposed to the Gulf of Mexico.

On the continent, Brazil also exercises a powerful if not dominant role. For the smaller countries on its borders, Brazilian points of view cannot be ignored. Bolivia and Paraguay's freedom of action, for example, are constrained by what may be acceptable to Brasilia. The recent negotiations regarding the nationalization of gas properties between La Paz and Petrobras have made it clear how far Bolivian policy could stray.

More than any other threat, Latin America faces increasing irrelevance in a globalized world. No more indicative moment exists than in the disappearance of the so-called special relationship between George Bush and Vicente Fox after September 11, 2001. That Mexico and the rest of the continent could so easily be shunted aside (and remain there for the past five years) provides an accurate picture of the region's relative position. In terms of world trade (more below), Latin America plays a relatively small role. While it produces some critical materials for some key markets, it dominates few. As a consumer market, it is extremely limited due to the fact only 15-20% of the population (at most) has the money to purchase global goods at any significant level. As an investment destination, Latin America has been supplanted by East Asia, India, and Eastern Europe, and is no longer the prized location. In short, what happens in Latin America need not concern a significant part of the world.

Given these challenges we should expect the region to continue its slide into increasing global marginality. Part of the reason for this is the fact that Latin America's growth has not kept up with that of other developing countries in the world. Combined with the continuing inequality, this means that the relative weight of Latin American markets has therefore declined. The region also does not possess critical thresholds of any natural resource (with one possible exception, which is discussed below) and thus cannot be a larger role than that dictated by its economic size.

Moreover, Latin America has the misfortune of being the immediate neighbor to the global hegemon. In some cases, this has represented an advantage as it has provided Latin America with some amount of privileged access to the American market (including the labor market), but the region has also suffered from simultaneously too much attention and too much neglect. This will almost certainly continue during the next 25 years. There is no indication that the United States will change its perception that Latin America is largely a secondary concern over which it will allow no competition. In many ways, this is the worst of all possible worlds. On the one hand, the US appears reluctant to permit the development of indigenous solutions to problems or to allow the development of external links that may threaten its supremacy. On the other hand, the US is not willing to invest in the kinds of resources and assistance that would encourage the region's further development.

A comparison of the basic EU model with NAFTA is revealing. While the latter focuses almost exclusively on freeing trade flows, the former also features significant assistance for poorer members and a broader labor market. The different fates of Spain and Mexico during the corresponding first decades of regional integration are both startling and indicative.

One US policy in particular that will have significant effect on Latin America concerns migration. Should the US decide to limit the flow of Latin Americans on a systematic basis, it could have disastrous effects on Latin America in a variety of ways. First, the corresponding short to long term decline in remittances would have very strong negative effects in particular countries. This would have serious implications for both the poverty and inequality scenario on the continent, and could very well result in significant political unrest.

Over and above the relations with the US, two other "region wide" phenomena need to be kept in mind for Latin America for the next 25 years. On the optimistic side, Latin America does possess a disproportionate amount of a critical global resource: 42% of global renewable water resources and a third of the world's annual rainfall. This does not mean that everyone in the region has adequate access to water. Because of regional, and more important, socioeconomic, differences, many in the region do not enjoy ready and easy access to water. But as a strategic resource, water could make the continent the next Middle East (in a variety of ways, not all positive) and Brazil could become the next Saudi Arabia.

Less optimistically, one trend that seems to be increasing throughout the continent is the fragmentation and illegibility of power, particularly political authority. In many ways this is a positive step, as it breaks down historical gender, racial, and class hierarchies. Yet even these steps come with the danger that basic social order could become increasingly difficult to maintain. The dramatic increase in crime, particularly in the urban centers, is a very worrisome manifestation of this trend. On a larger scale, the

continent is also experiencing increasing regionalization. This is partly due to the concentration of resources and development in particular areas, but also reflects the breakdown of central authority. The concept of the nation state has always been more *de jure* than *de facto* on the continent, and it is possible that we will observe a break-up into smaller units, or the creation of “gray zones” of contested authority in years to come.

Within these regional patterns we can identify several trajectories for different states and different levels of likelihood:

*Brazil.* There is no question that Brazil is increasingly coming to play the important continental role many have predicted for 100 years. While it is not certain to claim a global position in the near future, it will become even more of a critical player in South America. The centrality of Brazil as a consumption market for the regional economies has given it a dominant voice in continental policy forums. The partnership with Argentina has allowed it to speak with the extra weight of all of Mercosur without a significant dilution of autonomy. Brazil stands right behind Russia, China, and India as the next candidate for global leadership and will most likely assume that role for the entire South Atlantic. While it does not appear to have any territorial ambitions, its military capacity will also make it more of a central player in (re-)defining regional political life.

Despite this promise, Brazil will remain a fragile hegemon. First, its economy has suffered from too many oscillations in the past decades to not be constrained by significant uncertainties. The possibility of a return to high inflation remains, as does that of a severe economic downturn. While democracy is well established and there is no probable scenario under which the military would return to power, enough social conflict remains unresolved as to make social peace an ever elusive goal. Brazil remains the most unequal country in the most unequal region on earth. Most of its cities suffer from an extreme version of the urban violence plaguing other parts of Latin America. Until these domestic issues are resolved, Brazil’s dominance will be severely constrained.

*Chile, Costa Rica, and Mexico.* Chile and Costa Rica are well positioned to continue their 150 year exceptionalism and be the first countries in Latin America to make the leap into the developed country category. While Costa Rica will not approach these levels of wealth in the next 30 years, it is possible that Chile might advance to the point where poverty rates decline to OECD levels and where development assumes its own inertia. In both cases, the foundations of both democracy and the market appear extremely solid. Their relative small size, however, will limit the gravitational pull they can apply to the rest of the region.

Mexico’s case is much more uncertain. On the one hand, its continuing integration into the American economy will no doubt have aggregate economic benefits. Already the northern region is beginning to approximate the lower levels of American standard of living. Regional and class inequalities, however, will constrain its potential as a market and will make political outcomes increasingly socially divisive. It is in Mexico where the US could accomplish the most. If the US begins to think strategically on the level of NAFTA, as opposed to its 50 states, it could provide the resources and opportunities for Mexico to make a leap. If it does not, Mexico faces either a bifurcation or at least



increasing social conflicts resulting from the variance in the fates of its population.

*Argentina, Venezuela, Colombia, and Guatemala.* There are no indications that major changes are imminent in any of these countries. As long as oil is available, (and that should take us to 2030) Venezuela will be able to continue on a consumption fueled binge. Whether that takes place in a populist setting *a la* Chavez, or whether it becomes re-institutionalized through political parties may not matter very much. Colombia's future is driven by the failure of the central state to impose its will on its paramilitaries and the guerillas. Neither is likely to be able to topple the government, but neither seems ready or likely to disappear. The strategic situation in Colombia seems to be approaching a disastrous equilibrium.

Argentina has certainly bounced back from the disasters of the turn of the century, but many of its longstanding problems do not appear to be going away. These include de-institutionalized and personalistic policies, and lack of economic dynamism. With the apparent final death of the Radicals, only the Peronists remain and they barely resemble an organized political party anymore. Kirchner has once again proven that what matters is creating a personalist client network centered on the current president. There is no indication that this pattern will change. On the economic front, Argentina still enjoys the fruits of its natural resources, but the country has failed to create a parallel to Brazil or Mexico's export dynamism. In some ways, Argentina may be hampered in the long term by Mercosur, as Brazil occupies the central manufacturing niche. Despite the inequality and real poverty that oppresses many, the country is still wealthy enough to meander on for some time.

Guatemala may be the best example of a dysfunctional equilibrium on the continent. The country is poor, horribly unequal, and violent. And yet, partly as a product of the horrors of the civil war, partly because of the willingness of the elite to use drastic methods to maintain their control, the country does not appear to be on the verge of any significant change.

*Bolivia, Peru, Ecuador, and El Salvador.* Each of these countries is defined by extreme political instability combined with regional, class, and racial divides. Add to this mix, the absence of any institutions enjoying broad-based trust and you have the most likely scenarios of spectacular collapse. Peru is perhaps the case with the best chance to avoid this fate. Its electoral system is functioning well and its democracy survived the disaster of Toledo and the threats from a populist upsurge. It has enjoyed a significant period of aggregate growth and this will be further supported by the development of oil and gas resources. The inequalities that pervade Peruvian society at one point or another will no doubt produce a return to conflict. Based on the evidence, there is no indication that the state would be able to contain it. Ecuador is merely a few years ahead of Peru in this process.

In some ways, Bolivia represents a way forward for Latin America. The empowerment of someone like Evo Morales and the possible use of gas wealth for the benefit of the country could create an opportunity for Bolivia to escape its tragic 500-year history. But the backlash from the "crescent" of Santa Cruz and affiliated provinces, and the misfortune of having the natural distribution of wealth parallel racial and ideological lines may limit their ability to create a new sense of collective identity and purpose.

El Salvador may represent the most violently tragic case in the region. The appearance of the *maras* after the long years of political violence is a misfortune of Jobean proportions. The capacity of any institution in El Salvador to survive the everydayness of violence and the apparent randomness of its effects does not speak well for the future of that country. Despite some protection in US markets (which are always under threat) El Salvador's economic future is threatened even more than most economies by the rise of the Chinese trade hegemon. The fragility of its dependence on remittances also does not inspire confidence.

*North America*

### *Economic aspects*

With its open trading system, relatively light regulatory requirements in both product and labor markets, and competitive corporate culture, over the past 25 years the United States has had higher growth (3.1 percent per year) than other industrial countries (except Australia, Ireland, and Luxembourg) and lower unemployment (6.2 percent) than most European countries. It also has the most unequal distribution of income among industrial countries (as measured by the Gini coefficient) and a weaker social safety net than most other industrial countries.

There are three main economic issues that need to be solved in the next twenty-three years – providing a health-care system that has greater coverage for Americans, but avoids the mounting costs that will bankrupt the federal medical insurance programs for the elderly and the poor and burden Americans and their employers; maintaining the security of the federal pension system (social security); and recovering a balance of tax revenues and spending such that deficits remain in a reasonable range rather than spiral out of control.

One critical question for the future is whether likely further increases in inequality (as technical change continues to increase the relative return to skills and facilitates the exporting of jobs through trade and outsourcing) will be consistent with social peace and limited controls on labor market and commercial decisions by firms. The answer will be greatly influenced by both initial conditions and policy choices:

*Demography.* The share of people above 65 years of age is projected to rise from 12.4 percent in 2000 to almost 20 percent by 2030 (U.S. Census 2006). Demographic trends are not as unfavorable, and the country is more open to immigration, than in most industrial countries. Nevertheless, the aging of the US population will strain the extremely costly health care system and challenge the finances of pension systems. Labor force growth is expected to slow to 0.6 percent per year from 2000-2050, compared with 1.6 percent from 1950-2000, and decline further thereafter. Slower labor force growth could reduce the growth rate of potential output (forecast at 2.8 percent over the next ten years by the Congressional Budget Office), although output growth also will depend on trends in productivity (highly sensitive to the development of new technologies) and on changes in labor force participation (for example, less reliance on early retirement).

*Immigration.* The decline in the labor force could be offset by encouraging increased immigration (immigrants currently account for about 13 percent of the population). US immigration policies will have to adapt to the reality that the US both is a magnet for migrants seeking economic opportunities, and that the US needs those migrants to fuel its economic capacities. This is true both for unskilled low-paid workers, and for highly demanding technically gifted workers. The reality of opportunity and need has meant that despite current rules, America has acquired more than ten million illegal immigrants. Their sheer numbers as well as their vital economic role means that a way must be found to accommodate them into the fabric of American life. In addition, the aging of the baby-boomers and Americans' own reluctance to embrace science and technology studies

means that America will continue to need both unskilled young workers and highly skilled creative workers from abroad in the years ahead. Most Americans are in fact in favor of more reasonable immigration policies, and the current political deadlocks are likely to be overcome in the next few years.

The perceived contribution of immigration to the decline in wages of low-skilled natives has increased pressures for more forceful efforts to curtail illegal immigration.

*Macroeconomic stability.* While inflation has been low since the shift to a more restrictive monetary policy at the beginning of the 1980s, two challenges could sharpen the tradeoff between inflation and growth. First, the US current account deficit has risen from roughly balanced in the early 1980s to about 5 percent of GDP from 2000-2005. A gradual fall in the deficit through a moderation of domestic demand in the United States, an acceleration of demand in other countries, and some depreciation of the dollar would facilitate continued growth. However, a sharp break in the dollar as foreign investors lose confidence in maintaining the value of their assets could require a rise in interest rates and a recession.

The US deficit is an issue that relates to the future implications of the US government's dependence on foreign savings to finance the deficit. Foreign lenders have been financing more than 80% of the growth in the federal budget deficit and more than half of all Treasuries are held by non-residents, a good fraction of which by foreign central banks. It does not appear that this situation has afforded foreign governments much political leverage so far. The central banks that hold the lion's share of outstanding Treasuries have as much interest in a stable international monetary system and a growing US economy (to buy their exports) as does the US government, so it is not clear that threats to sell off Treasuries and perhaps create a stampede out of the dollar would be very credible, even if made. However, it is true that in some future period of great tension with China (say a dispute related to Taiwan's independence), that country could decide to damage US economic interests even at the cost of its own. Knowledge of this possibility could, in turn, constrain US actions. So the US growing dependence on foreign lenders is not without risks.

The balance of Social Security and Medicare is forecast to decline from a surplus of about 0.6 percent of GDP currently to a deficit of more than 4 percent of GDP in 2030, with the deficit widening thereafter. This deficit will force some combination of changes in benefits, increasingly expansionary fiscal policy and attendant inflationary pressures, rising taxes, and declines in other expenditures that could erode government services, thus reducing growth.

*Long-term fiscal policy.* Fiscal policy will face other difficult tradeoffs than those posed by aging. The government deficit shifted from a surplus at the end of the last decade to a deficit averaging more than 3 percent of GDP in 2003-06. Foreign policy has greatly increased the burden of military expenditures, and current policies, along with the deterioration in the security climate since 9/11, are likely to perpetuate the military's demands on government resources. Reductions in marginal tax rates have helped spur investment and entrepreneurial efforts, but also contributed to the widening of the fiscal deficit and (along with the heavy reliance on payroll taxes) shifted the burden of finance towards the middle class while putting pressure on safety net expenditures. The extent to

which the general public is willing to see a rise in the burden of taxation and a deterioration in domestic services to finance a greater share of income going to the rich is unclear. The mix of higher taxes, changes in the relative tax burden, and reduced expenditures adopted to reduce the fiscal deficit will have important implications for the stability of macroeconomic policy, for pressures for other means of controlling income distribution (minimum wage, limits on CEO pay, corporate taxes), and for the quality of infrastructure and the workforce. All of these choices could have important implications for future growth.

Canada's small (economic) size and openness to economic interactions with its southern neighbor mean that it (and of course the regional aggregate) will be greatly affected by developments in the United States. Deutsche Bank (2005) anticipates that Canada's per capita GDP growth will be only slightly below that of the United States through 2020. In some respects Canada is in a more advantageous position: its geographical location makes it less a target for illegal immigration, and it has managed to structure productive immigration policies that increase the supply of foreign workers in sectors where they are needed; it is a less unequal society, and less plagued by urban crime; education levels are higher; the demands on its military are less; and its fiscal position is approximately in balance. Nevertheless, productivity growth remains below that of the United States (business sector productivity averaged 1.5 percent from 1990-2000, versus 1.9 percent in the United States), due to Canada's smaller size (and hence reduced benefits from agglomeration effects, particularly in high-technology sectors), relatively slow growth of business investment, and limited innovation, as represented by expenditures on research and development.

### *Income inequalities and political polarization*

Income inequality and wealth inequality in the United States have returned to levels not seen since the beginning of the last century. The *New York Times* recently reported that the top 25 hedge fund managers on Wall Street earned in one year more than all 80,000 public school teachers in New York earn in three years. Teachers, if poorly paid, are nonetheless not at the bottom of the income distribution. The ratio of family income at the median, or 50<sup>th</sup> percentile, to family income at the 80<sup>th</sup> percentile gives a picture of how "average" families are doing relative to those in the upper-middle class. The position of average families relative has deteriorated somewhat. Overall, average families had incomes that were 61 percent of the 80<sup>th</sup> percentile in 1972 but only 52 percent in 1996.

As income inequality has risen over the past three decades, so has political polarization. The linkages can be seen in data on voting behavior. In 1960, voters in the top quintile of the income distribution were no more likely to have identified themselves as Republicans than were voters in the bottom quintile. Nor were they more likely to have voted for Eisenhower over Stevenson for president. By 2000, they were twice as likely to be Republicans and twice as likely to have voted for Bush over Gore. Survey data covering 1997-2004 shows that, in all of the 50 states, white voters in the top quintile are more

likely to identify as Republicans than are voters in the bottom quintile. Analysis of actual election returns for the 3000 counties in the United States confirm the increasing linkage of income to voting. No income effect on the county percentage voting Republican in presidential elections in 1968 and 1972. The effect then increases sharply. From 1988 onward, the higher the median income of a county in a state, the higher the Republican vote. Similarly, the higher the median income of a congressional district, the more conservative the position of the district's representative in Congress. Here polarization, like income inequality, has returned to the level reached a century ago. Since about 1970 the difference between the average position of Republican party members and that of Democrats has increased, and the presence of moderates in both parties has decreased. Indeed, presidents can be arrayed with the members of Congress. The analysis discloses that George Bush is substantially to the right of Ronald Reagan while Reagan was to the right of Nixon and Eisenhower.

Polarization has more general and important consequences for domestic, as well as foreign policy. Immigration policy, being played out in a polarized Congress as largely a domestic policy issue, of course has important consequences for foreign policy with regard to the integration of the American economy with those of developing nations. Shutting the door on unskilled immigrants will impact Latin America, chiefly Mexico. Opening the door to skilled immigrants will impact economic integration with India and East Asia.

Foreign policy in the United States clearly reflects domestic political polarization. During the Cold War, the Democrats were often the hawks. Truman kept the Korean peninsula from being overrun by Communist forces, Kennedy initiated the Bay of Pigs fiasco, and Johnson began the Vietnam War. Today the Democrats are doves. Bill Clinton engaged American ground forces only in two relatively minor operations, Bosnia and Haiti, both cases where human rights arguments were used to justify intervention. It is widely believed that Iraq would not have been invaded had Al Gore won the 2000 election.

Policies that can moderate, or restrain inequality are unlikely to arise in the United States without events that would create a strong Democratic majority in Congress. If conservatism is seen as a failure, as happened in the Great Depression, not only might government policies become more redistributive, but the Republicans would be forced to moderate, to restore competitive electoral balance.

Beside this a foreign/military challenge may, perhaps surprisingly, further polarize the nation rather than uniting it. Certainly, polarization has continued to increase since 9/11/2001. In the 2006 election the Democrats—just narrowly—gained majorities in Congress because the Bush administration failed in Iraq. Concerns about income inequality played a minor role, if any.

Only an economic disaster is likely to affect polarization. If the Democrats were to win the presidency in 2008, they would court electoral disaster if they used the victory to create a sharply redistributive tax code and to increase social spending. The Clinton tax increase of 1993 was likely to have been a major contributor to the Republican victory in the midterm elections of 1994. The other avenue for change would be a curtailing of immigration. This, if it occurred, would have only long-run effects. For the short- and medium-run, a high level of income inequality and a high level of polarization are very likely to persist.

This is not to say that American foreign policy will continue to be as polarized after the

2008 elections as it is today. Ideology, however, may not change very much. Similarly, events in Iraq are likely to discredit aggressive, conservative foreign policy ideologies. The next president, from either party, is likely to be more seeking of cooperation in the international arena. This will contrast with the position of the “neo-conservative” ideology that has influenced American foreign policy so much since 2000. Foreign policy hawks are unlikely to vanish, but are more likely to wait to reemerge after an opportune political event.

### *The political consequences of immigration*

During the last twenty-five years, more immigrants have arrived in the United States than at any other time in the nation’s history. By 2003, nearly 12% of the U.S. population was foreign born, and together with their children born in the United States, they constitute more than a fifth of Americans. Unlike the European migration to the U.S. in the late-19<sup>th</sup> and early-20<sup>th</sup> Centuries, immigrants come to the United States from all over the world, primarily Latin America and Asia. The influx of these new Americans has produced a polity of ethnic and racial diversity unlike any other the United States has ever seen where more than a third of Americans now call themselves something other than “white.” Furthermore, immigrants are arriving in locations in the United States outside of the traditional metropolitan and coastal gateway cities. Internal migration from urban locations to suburbs and rural areas, as well as movement toward the American south and west create additional sources of potential political upheaval.

The political consequences of this bundle of changes brought by immigration could be relevant. Viewing the implications from the perspective of individual-level politics, there are 3 potential consequences. The first is the alteration of longstanding categories of race. With a few exceptions, the racial politics of the United States has been defined by distinctions between white and black. The new migration from Latin America, Asia, and the Caribbean have not only expanded the categories of race, but complicated existing ones. How will new Americans identify with these altered racial categories? How and with whom will the growing population of multi-racial Americans identify? A second implication of immigration to the United States is one that is based in the distribution of political representation within the context of U.S. Congressional districts. With the new racial and ethnic diversity, it is less clear who is a “minority,” which groups can be classified as “disadvantaged.” The political manifestations of this complex racial politics extend to the nature of race-based coalitions and competition. How will political representation be negotiated in districts with large proportions of both African American and Latino residents? A final potential political consequence of the high rates of immigration to the United States has to do with transnational political participation. The ability of immigrants to retain voting and citizenship rights in the home countries combined with the ease of communications and the magnitude of remittances, raises the question of the extent to which concern with political issues in sending countries will influence the political views and participatory activities of new Americans in the United States. While all three have potentially significant political implications, change and expansion of the U.S. electorate creates a dynamism that can hopefully strengthen

democracy and enhance political equality.

### *Foreign policy*

The long term status of the United States and of American foreign policy is now far more open to question than it was only a few years ago. Events in areas such as Iraq, Iran, North Korea and Darfur, as well as long term developments in regional power balances and global security, reveal a far more uncertain future for the world's remaining superpower and with it a less clear conception of its role for the next half century.

What is already evident is that the United States will have to rely more upon its capacity to negotiate and to bargain with other powers in conditions where international power is becoming increasingly diffused. The value of diplomacy and constructive engagement set within a framework of 'soft power' is undergoing something of a revival in the final period of the Bush presidency. This does not necessarily mean that the ideological project of the neo-conservatives has been extinguished. There remains concern that the Bush White House is not fully immune to the advice of neo-cons like Norman Podhoretz who advocates the bombing of Iran to prevent it from acquiring nuclear weapons. Nevertheless, it is almost inconceivable that the United States will commit itself to any further large scale adventures of 'democratization' by military occupation and forcible nation-building.

The United States is likely to continue to have a mixed approach towards the United Nations and many other aspects of global governance. While it retains a historical attachment to the founding principles of international institutions, it is probable that the US will remain torn between the benefits of multilateralism and the costs of joint action to its national autonomy and its identity as a model social order. The logic of collective responses to chronic problems like nuclear conflict, climate change, environmental degradation, ethnic conflict, energy scarcity, mass migration and global poverty is accepted as an abstract proposition – and this basic position is likely to deepen as these problems become more apparent. However, the co-operative impulse on the part of the United States will be tempered by a renewed awareness that emergent forces such as Russia, China, India and Brazil will be driven by the national interests of their international ambition. This dynamic is already evident in Russia's resistance to sanctions upon Iran because of its numerous defense and nuclear contracts with Iran. China is also reputed to have delayed international action in Darfur because of its oil interests in Sudan. The competitive nature of these developments has already aroused a greater appreciation in Washington of the virtues of hard realism in the conduct of international relations.

A growing skepticism and impulsive withdrawal can be perceived on a number of fronts. Whether it is the emphasis laid upon the need for domestic security at the expense of civil liberties and individual rights, or the anxiety induced over illegal immigration, or the concern over terrorism, or the skepticism over the effects of globalization on jobs and income security, the accent is increasingly one of inward perspective and even withdrawal.

For the future four important contrary themes need to be underlined. *First*, America's



economic pre-eminence is set to remain a constant feature of the international system until at least the middle of the century. In contrast to the 1970s and 1980s when the United States was thought in many circles to be in process of decline, current projections indicate that the American economy will continue grow at a rate that will ensure its premier position in the world. In 1980 for example, America's share of global GDP was 20 per cent. Now its share stands at 29 per cent. *Second*, in contrast many of its competitors, the United States has a very healthy demographic profile which is helped by a continuing profusion of young immigrants flowing into the country. *Third*, the United States accounts for 48 per cent of all military expenditures in the world. Its dominance in military research and technology is projected to continue into the 21<sup>st</sup> century not least because of the long lead-times and immense costs of developing new weapons systems. *Fourth*, because the United States is central to the production and distribution of popular culture, it has a central and long-term influence upon the appeal of an open and liberal society to the rest of the world. This has helped to create a distinction between American foreign policy that can arouse fear and resentment, and the United States as a social entity that can be the subject of popular appeal and cultural emulation.

These factors provide a basis to the continuing significance of America's structural position in the world during the foreseeable future. They will contribute towards, and condition, the future course of American foreign policy and the responses to it around the world. They will also act as a partial antidote to the 'Iraq syndrome'. This is not say that the position of the United States will be one of stability and continuity. There will be shocks and crises at both local and regional levels. Large scale issues will continue to attract political attention and resources that will exert great pressure upon American policy makers (e.g. energy scarcity, nuclear proliferation, climate change, the Middle East).

As American foreign policy shows increasing signs of reversing into a more realist outlook of American interests in the international sphere, its future in the global competition of ideas looks uncertain. It is likely to consolidate its position in relation to those sectors that can be characterized as soft power, while developing its positional advantages in the hard power categories of research and development in military technology and force projection. Its transformative agendas are likely to be more guarded and recalibrated towards economic incentives and the long term construction of civil institutions and liberal infrastructures in a strategy that prioritizes liberal society over the surface features of democratic polities. Its rapprochement with the institutions of global governance will moderate its unilateral claims of direct action and allow it revise its credentials of global leadership on the grounds of democratic constraint and republican virtue. The exception to this more graduated movement towards global engagement will be when the US faces new security threats (e.g. energy security, environmental degradation). In such cases, its renewed realism as far as the national interest is concerned could lead to a volatile mix of outright force rationalized either as an extension of American values, or as a necessary and temporary exception from principle. The gap between American idealism and material policy will once again create severe tensions over consistency, authenticity and integrity over the role of a hegemon with a conviction that its power is a both a moral force and an embodiment of progress.

*Western Europe*

### *Economic aspects*

Western Europe, with 400 million people and a total gross national income of almost 12 trillion is the world's largest economic bloc. It includes the world's richest country (Norway, at \$52 thousand per capita income) and the world's most desirable place to live (Switzerland, according to the Economist Intelligence Unit). However, the average per capita income is only about \$30 thousand, or three-fourths of the US level, due to the lower-income countries of Southern Europe. Even on average Europe is in some respects a more desirable place to live than the United States: life expectancy is 79 years (77 in the United States), infant mortality is 4.3 per thousand live births (6.7 in the United States), and the distribution of income is more equal (average Gini index of 30.8 for countries with data, versus 40.8 in the United States).

Despite these advantages, Western Europe has had slower growth (per capita income rose by 1.6 percent from 1990-2005, versus 1.9 percent in the United States), higher unemployment (average of 6.7 percent in 2004 versus 5.5 percent in the United States), and average productivity per person of about a third lower. And several studies forecast that the importance of Europe in the global economy is set to decline over the next few decades. High tax rates and burdensome regulations, which have contributed to more equal income distribution and greater security of employment have limited the dynamism of European economies (the United Kingdom is an important exception). The costs of such policies are likely to rise in the future, given Europe's demographic position, large and marginalized immigrant (and second generation) populations, and the continuing intensification of global competition. Improving productivity while preserving the European lifestyle will require overcoming the following challenges:

*Inflexible labor markets.* European governments must strike a better balance between job security and flexible labor markets. Europe's employment protection legislation (e.g. constraints on firing, mandatory severance, limits on hours worked) worsens the employment prospects for women, youth, and older workers, and increases the average duration of unemployment spells. Steps to improve flexibility have focused on easing constraints on temporary contracts only, which has placed the burden of adjustment on these workers. Policies that reduce protections of specific jobs, while improving insurance arrangements for workers and supporting education and training, would move towards a more dynamic labor market while limiting the costs of adjustment to workers.

*Global and European integration.* Reducing agricultural subsidies (the Common Agricultural Policy), reducing tariff rates (the EU-15 weighted average tariff rate is 2.4 percent, versus 1.8 percent in the United States), and supporting progress in WTO negotiations while entering into bilateral agreements on free trade could ease budgetary pressures, reduce unemployment and raise output. Abolishing the CAP and eliminating tariffs on merchandise trade would increase EU GDP by 2 percent. Increasing integration of European financial markets and reducing barriers to services trade would further boost

the productivity gains from the single market.

There is no doubt about the extent of import competition from China and India. For example, the EU-15 countries' deficit with China alone has risen to about 0.5% of GDP. Overall, however, Europe EU-15 trade has remained in broad balance with the rest of the world from 1992 to 2003, with its position somewhat improving over time. There seems to be some complementarity in competitiveness trends between China and Europe, in that China and Europe have had success in different industrial sectors. Nevertheless, continued growth in exports from China and India, particularly if accompanied by a slowdown in demand from the United States, could put many European industries under pressure. If one thinks in terms of developments over the next 25 years, however, it is very difficult to forecast the implications of trade with China and India. Over such a long time span we are likely to see an appreciation of these countries' currencies and continuing rise in demand, which should facilitate greater demand for Europe's goods. It is more likely that competition from China and India will have implications for the structure of production, perhaps placing greater pressure on low-wage industries, which could be one factor leading to greater income inequality.

*Increasing dynamism.* Europe needs to promote greater innovation and more flexible economic arrangements. High administrative requirements impede the development of new businesses, a major source of productivity gains in the United States. In the EU area, it takes 10 days and the devotion of 10 percent of per capita income to start a new business, in the United States only 5 days and 0.5 percent. Europe also needs greater support for research. Patenting costs are higher in Europe than in the United States, due to translation and maintenance costs and the need to defend patents in each European country. While in some respects European economies are the most advanced in the world, Europe spends about 2 percent of its GDP on research and development, while the United States spends 3 percent and Japan is not far behind. Product market regulations also can reduce productivity, by limiting the incorporation of new technologies in production.

*Demographics.* Currently 17 percent of Europe's population is over 65, and by 2010 the working age population is expected to begin declining. By 2030 every 2.5 working age people will support one elderly one. While this problem will affect all countries in the region, some are in more precarious position than others. In 2030, Germany, Italy and Austria will have 30 percent of their population over age 65, and France, Greece, Spain, the Netherlands, Portugal and Finland 25 percent. Assuming no changes in labor productivity growth, or labor force participation (which is unrealistic), this could imply a reduction in per capita growth of 0.6 percent per year by 2020, and more into the future. Steps to compensate for pressures for reduced growth would include measures to improve labor productivity, raise hours worked, encourage greater labor force participation by the elderly and women, improve the flexibility of labor markets to reduce unemployment, and raise migration rates.

The aging of the population may also reduce savings (although this effect is disputed), reduce demand for equities (also subject to dispute), and increase the role of institutional investors as pension funds take a greater share of savings. Aging also will put pressures on public finances by increased expenditures on pensions, health care, and long-term care, only partly balanced by lower expenditures on unemployment benefits and

education. Overall, the European Commission forecasts that aging will raise expenditures by 1.6 percent of GDP for European Union countries. Pension savings are equal to little more than 10 percent of GDP in the euro area, versus more than 70 percent in the United Kingdom and about 65 percent in the United States, despite the former's worse demographic position. Absent reforms, pension contribution rates would need to rise above 40% of wages to keep these systems in balance in many countries.

Continued increases in immigration are likely to have broadly positive economic impacts, although the social dimensions are more problematic. The aging of Europe's population will substantially increase the demand for low-skilled services that could be filled by immigrant labor. The challenges in financing Europe's pension systems could be eased, at least in the medium-term, by a further influx of younger workers. Europe's largely high-income population could greatly benefit from the availability of workers willing to work for low wages. But all this has high potential costs. According to the UN Population Division, immigrants make up 8 percent of Europe's population. Several European countries have made little progress in integrating long-time immigrant (and second generation) populations into society, leaving concentrations of in some cases poor and disaffected, in other cases ideologically hostile people. Without any indication that greater progress can be made in opening European society, achieving more rapid economic growth and improving pension finances through immigration could be a perilous strategy

*Debt sustainability.* Aging has important implications for the sustainability of public finances. Of the major European countries, Germany, France, Italy, Belgium face high risks to the ability to finance expenditures, while the United Kingdom, Spain, and the Netherlands face medium risks. Current fiscal arrangements within the Euro area may impart an expansionary bias to fiscal policy, as the inflationary impact of monetary financing is felt within the area as a whole, rather than limited to the country running a deficit. The Growth and Stability Pact is designed to limit fiscal expansion by imposing fines for exceeding a deficit of 3 percent of GDP. This limit is imposed with some flexibility, and penalties must be voted on. Past decisions to permit some countries to exceed this budgetary limit may erode the credibility of the Pact, thus raising the potential for more expansionary policies, and hence more volatility in the euro exchange rate, in the future.

By 2030, on the basis of present trends, the EU will import 90 percent of its oil and 80 percent of its natural gas. Europe has shown substantial ability to adjust to higher energy prices. From 1971-2000, GDP doubled but energy demand rose by only about one-third. Past success does not guarantee that future energy savings can be achieved as easily. But continued high prices are likely to generate further technical improvements in both production and demand sides, so that some further rise in energy prices may be accommodated without great cost. Indeed, Europe's commitments under the Kyoto Protocol will require further efforts to improve energy efficiency. High volatility of prices would be more disruptive, increasing uncertainty over price trends, and thus discouraging investments that would be profitable at higher prices. This is not to say that Europe's energy outlook is necessarily rosy. Certainty of continuous supply is a critical aspect of energy markets, and political developments in the Middle East and recent

disputes involving Russian oil and gas supply do raise questions about energy security.

### *Institutional issues*

The EU is a unique regional institutional arrangement for integrating the states of Europe. In the decades after the May 2004/2007 reunification of East and West, with 10 new member states from the former Eastern bloc having joined the former Western bloc, this multilevel-polycentric and non-state polity has still to prove whether it is capable of settling three questions: First, how to define the borders where the community definitely ends. Second, whether it can resolve the imbalance between economic integration and social Europe that is entrenched in its current constitutional settlement. Third, whether it is capable of increasing the democratic legitimacy of EU decision-making and bringing the EU closer to its more than 470 million citizens. Solving these questions is all the more pertinent, if the EU - given its scarcity of energy and military resources - wants to assert its role as a “normative power” in shaping the global order, vis-à-vis the U.S. superpower and Russia as well as the emerging powers of India and China.

First, it is uncertain whether the current EU-27 will be able to find a new compromise between enlargement and deepening of the Union. The landmark agreement of the 1957 Rome Treaties had provided the basis not only for creating a common European market based on the freedom of movement of goods, capital and workers, but also for subsequently advancing common regulations in the areas of environment, consumer protection, health standards at work, etc. Several treaty reforms accompanied the enlargement from 6 to 15 members, most importantly that of Maastricht (1992, creating the current three pillar structure of the Union and introducing European citizenship), and the 1999 Amsterdam Treaty (right to equal treatment and non-discrimination). But neither the 2003 Nice Treaty (adopting the Charter of Fundamental Rights), nor the 2004 “Treaty establishing a Constitution for Europe” (signed by the states, but by 2007 ratified by 18 MSs out of 27 and rejected by two) were capable of making EU institutions fit the new complexities of the EU-27, let alone to absorb the potential accession of further members (Turkey, Ukraine, etc.).

Second, despite an ambitious broadening and deepening of its competences with each subsequent treaty reform, the EU’s impact is first and foremost economic, and has still to prove to what extent it will be capable of crafting a cooperative foreign policy, integrating national defense capacities and developing a European wide regime of social welfare standards. Thus far, the EU’s strong economic powers (Euro - zone; as biggest trading entity before the USA, the single European market) are in stark contrast with the weak instruments and resources member governments have given themselves for dealing with socially negative externalities of the opening up of its internal markets. Yet, unless it does, the unequal distribution of social risks, unemployment, social exclusion, disruptive impacts of immigration and contentious social movements will progressively undermine the social integration of Europe.

Third, the EU will have to construct remedies to its “democratic deficit” in the next decade to come. This may include or not a Constitution for Europe: Unless the EU’s semi-parliamentary arrangement - with its mix of supranational organs (European Court

of Justice, European Commission, European Parliament, special agencies), with intergovernmental institutions (Council of Ministers, European Council Presidency) and, in addition, with transnational devices of cooperation (Social Dialogue, Committee of the Regions; COSAC; Comitology, operating below the national governmental level) – will not become more transparent and accountable, growing Euroscepticism, shrinking confidence and weakening support by citizens will threaten to undermine the EU's legitimacy. Yet, for generating democratic legitimacy, the EU will need to construct a European public sphere and promote political participation through a European civil society.

### *Europeans and the EU*

During the last years a new rationale for European integration has been emerging: the global role and presence of Europe. A Common Foreign and Security Policy is in the making, incoherent but increasingly present across the globe. The EU is speaking with one voice on matters of global trade. The EU Diplomatic Service is in the process of being built up pre-empting one of the ideas enshrined in the European Constitution. The EU Foreign Minister may not even get this formal title, but the High Representative is as active since 1999 as any Foreign Minister could be. The EU has been involved in more than a dozen military and policing missions across the world. European integration has become a role model in several regions of the globe and is being emulated in many parts of this globe. Europe is more present as a global power as the internal debates suggest.

Nevertheless we witness conflicts of cohesion inside the EU. In five decades, European institutions have been established, but Europeans are not widely present in the EU. In spite of the formal introduction of Union citizenship with the Maastricht Treaty in 1992, trans-national notions of solidarity and citizen commitment are rare across the EU. The deep socio-economic asymmetry that characterize European countries does not help. The gap between the Romanian village and the City of London is not going to be bridged by 2030, probably not even by 2130. It may take seventy, or so years for Romania to achieve the average level of the current EU economic development. But by then, the EU average will also have developed further. In such a condition to organize solidarity across the European Union will require to go beyond social gratifications and economic promises in order to generate trust and common action. This can only work should a trans-national sense of citizen commitment grow. At the moment, the situation does not look too promising. The ratification crisis of the European Constitution in 2005 triggered the first Europe-wide debate about the constitution of Europe, way down to the level of ordinary citizens. Eurobarometer findings in February 2004 showed that for the total of 25 EU member states, 62 per cent of all respondents agreed that their country had to get ready to make concessions in order to enable the constitution of the EU come into life. Eurobarometer findings in December 2006 found a majority of 53 per cent of EU citizens in favour of a European Constitution, with the highest level of support (63 per cent) in Poland. The smallest gap between those in favour and those against a European Constitution was in the United Kingdom (40 per cent in favour, 35 per cent against). In a certain sense, the constitutional debate, the ratification crisis of the first ever European

Constitution and the final outcome of the crisis demonstrated a paradox: Europe experienced its belated emergence of a public sphere, but when it finally arrived, it worked out in favour of those who said “no” to the European Constitution. The consequence was a setback for the idea of a stronger Europeanized public sphere.

This could be a problem in so far as the role of EU in the age of globalization will depend on the strength of its common political interests. Presently EU has two options: a) The European Union might decide to consider globalization a threat. Dynamic economic systems on the one hand, failing states on the other hand pose challenges that the European society might not like and the European political leadership may not be able to properly define. b) The European Union might decide to consider the age of globalization an opportunity. Managing the world economy, managing world affairs and global conflicts, regional peace keeping issues and geo-economic questions that affect the world community on every level.

The attitudes of Europeans towards globalization are an indicator of how Europe could deal with the new challenges emerging from it. The attitudes of European citizens, so far, are mixed. While globalization is often perceived as a threat to local cultures, the majority of Europeans is not in general support of the anti-globalization movement. According to Eurobarometer polls taken in 2003 (that is to say before EU enlargement to Central and Eastern Europe), 64 per cent of EU citizens are “rather” (51 per cent) or even “totally” in favor (13 per cent) of globalization, while only 28 per cent were saying that they were “rather” (20 per cent) or “totally” (8) opposed. The strongest opposition to globalization was expressed in Greece and Austria, the strongest support for it was found in the Netherlands, in Germany, and in Ireland. A solid number of EU citizens felt that their country’s economy was properly equipped to encounter the global economy (41 per cent). A third of EU citizens (31 per cent) argued that their country’s economy was rather “too closed” compared with 20 per cent arguing that their country’s economy was “too open” to the effects of globalization. The vast majority of EU citizens (62 per cent) believe that globalization can be effectively controlled and regulated, compared with 35 per cent who did not think so. In fact, a large majority of EU citizens (56 per cent) believes that globalization needs more regulation. 61 per cent of EU citizens have confidence that the European Union – better than their own country - will guarantee that globalization moves into the right direction, compared with 34 per cent not having this confidence in the EU’s capacity to act.

### *Cultural issues*

The past few years have witnessed attempts at a crystallization of the cultural commitments that characterize European culture such as: a commitment to peaceful conflict resolution; a commitment to personal liberty that goes along with a commitment to democracy and collective self-determination; an emphasis on values such as human



dignity and solidarity. This happened concomitant to steps towards strengthening the political institutions of the European Union, and visible not least in the debates around the Charter of Fundamental Rights and the Constitutional Treaty of the European Union. However, these years have also spelt increasing strain on the cultural commonality within a rapidly changing Europe. The main novel features are: (1) the rather surprising return of strong national orientations in some societies of the 'old' European Union; (2) the recent EU membership of countries and societies whose post-Second World War experiences were markedly different from those of Western Europe; (3) the increased move into Europe of migrants from regions of the world with rather different predominant cultural orientations. These features, in some combination that cannot be predicted as it will also depend on politico-institutional and socio-economic developments, are likely to give a strong imprint on European cultural developments in the next few decades.

(1) The recent dynamic moment of European political integration has passed, as became most evident in the rejection of the Constitutional Treaty in the referenda in France and the Netherlands. For many citizens, the European Union currently fails to convey a sense of being able to maintain established levels of security and solidarity. Policy failure does not necessarily translate into cultural fragmentation, but many Europeans tend to resort to national cultural resources in this problematic moment, as both opinion polls and election results show in countries as different as Belgium, Denmark and Poland, representing different historical layers of EU membership.

While deep cultural conflict remains inconceivable at least among the older member societies of the European Union, the risk of cultural fragmentation is significant. Few Europeans would currently reject those commitments mentioned above, but an increasing number sees them better embodied in national institutions than in European ones. Further analysis suggest that the cultural fragmentation visible in these recent developments is not very profound as such, but it tends to be exacerbated by political calculations. Thus, a reversal of this recent trend, which is clearly possible, would require a greater expression of commitment to European cultural commonalities on the part of the national political elites.

(2) The cultural cleavage between the 'old' European Union and the majority of the new member states, in particular the countries formerly dominated by Soviet socialism, goes deeper, because it is based on the significantly different experience during the relatively long post-Second World War period from 1948 to 1989. Forty years do not create entirely new cultural universes, but they span a sufficiently long period to shape the minds of more than one generation and thus put a rather lasting cultural imprint on a society. This is most clearly visible in the case of Germany in which any idea of a cultural homogeneity that both pre-existed and survived political division has proven wrong. Even though this cultural cleavage is considerably deeper than the ones among West European cultures, it is likely to be overcome provided that overall political and socio-economic developments are relatively smooth in the near future – which is far from certain, of course.

(3) Intra-European migration, at least within the area of the 'old' European Union, is now seen as rather unproblematic because of assumed cultural proximity. Immigration from outside Europe, in contrast, is discussed rather critically, and this for the combination of two reasons: First, there is seen to be a strong immigration pressure due to global socio-

economic inequalities and to political and religious oppression. Second, this pressure is on Europe (and the United States of America) from regions of the world that are perceived as culturally highly different.

The cultural diversity of Europe has increased with recent immigration, and the very scale of that immigration – likely to further increase in the future – entails that the experience with that diversity is far from settled, neither for the ‘established’ European residents nor for the immigrants. There is a clear need for both a rethinking of the existing integration policies and for broad public debate about living with cultural diversity. As regards the former, recent developments have changed the terms of the debate. For many years, the so-called multi-cultural model of integration, as practiced most clearly in the United Kingdom and the Netherlands, was often valued to be superior to the so-called republican model, critically also referred to as ‘assimilationist’, as it used to be dominant in France. Now, the former is seen as entailing the risk of creating closed cultural communities that have little contact with the rest of society and, in the worst case, may provide the background for strong rejection of certain values and practices prevailing in Europe, including not least personal liberties. The recent attacks in UK are the proof of the failure of an integration model and of the way this failure can be exploited by those who have interest in breaking off the intercultural dialogue. In turn, some more need for ‘assimilation’, which had long been regarded as subjecting cultural expression to undue majority constraints, is again accepted, at least in terms of the necessary acceptance of the values of European political culture.

Nevertheless the debate between the two models will characterize the political life in the next future. Cultural aspects and historical experiences will influence it and it’s difficult to say today which the out comes will be. But Europe will be deeply shaped by the answers that will be given.

### ***List of contributors***

Abootalebi Alì (University of Wisconsin)

Acharya Amitav (Nanyang Technological University - Singapore)

Allison Roy (London School of Economics)

Amanat Abbas (University of Yale)

Archibugi Daniele (Italian National Research Council)  
Ayittey George (George Washington University)  
Barghava Vinay (World Bank)  
Birdsall Nancy (Centre for Global Development - Washington)  
Bozoki Andras (Central European University - Budapest)  
Brendow Klaus (World Energy Council)  
Brueckner Uli (Stanford University)  
Busygina Irina (Moscow State University of International Relations)  
Carmignani Francesco (UN Economic Commission for Africa)  
Caselli Graziella (Università di Roma “La Sapienza”)  
Centeno Miguel (Princeton University)  
Cerutti Furio (Università di Firenze)  
Chandler David (University of Westminster)  
Colombo Alessandro (Università di Milano)  
Dadush Uri (World Bank)  
Dolcini Donatella (Università di Milano)  
Eisenstadt Samuel (The Hebrew University of Jerusalem)  
Ekiert Grzegorz (Harvard University)  
Ellis Stephen (University of Leiden)  
Faath Sigrid (Universitaet Hamburg)  
Failla Federico (Italian Ministry of Foreign Affairs)  
Foley Michael (University of Wales)  
Genov Nikolai (Freie Universitaet - Berlin)  
Goldstone Jack (George Mason University - Washington)  
Guanciaie Orazio (Italian Ministry of Foreign Affairs)  
Heydemann Steven (Georgetown University - Washington)  
Honcharenko Alexander (Centre for International Security and Strategic Studies - Kiev)  
Hourani Hani (Al Urdun Al Jadid Research Center - Amman)  
Hughes Tim (South-African Institute of International Affairs )  
Huxley Tim (International Institute for Strategic Studies - London)  
Jelen Igor (Università di Trieste)  
Jhirad David (World Resources Institute)  
Junn Jane (Rutgers University - US)  
Karthick Ramakrishnan (University of California)  
Koen Vincent (OECD)  
Kuhnhardt Ludger (Universitaet Bonn)  
Kumar Ann (Australian National University)  
Kuvaldin Viktor (Gorbacev Foundation)  
Lahusen Christian (Universitaet Siegen)

Liebert Ulrike (Universitaet Bremen)  
Lopes Filomeno (Guinea-Bissau)  
Mayer Thomas (Deutsche Bank)  
Morgan Glyn (Harvard University)  
Mourad Fayez Mina (Ain Shams University - Il Cairo)  
Muenz Rainer (Erstebank - Wien)  
Niraja G.Jayal (Jawaharlal Nehru University - New Delhi)  
Palmisano Antonio (Università di Trieste)  
Parakhonsky Boris (National Institute of International Security Problems - Kiev)  
Partha Gosh (Jawaharlal Nehru University – New Delhi)  
Paz Reuven (Gloria Research Center - Israel)  
Pei Minxin (Carnegie Endowment for International Peace - Washington)  
Plummer Michael (John Hopkins University - Bologna)  
Pomfret Richard (National Defence University - Adelaide)  
Prantl Jochen (University of Oxford)  
Rosenau James (George Washington University)  
Rosenthal Howard (University of New York)  
Roy-Chaudhury Rahul (International Institute for Strategic Studies - London)  
Russett Bruce (University of Yale)  
Saich Antony (Harvard University)  
Schnabel Albrecht (Swisspeace)  
Sharma Shalendra (University of San Francisco)  
Shaw William (World Bank)  
Sommers Dixie (Bureau of Labor Statistics, U.S. Department of Labor)  
Stamoulis Kostas (FAO)  
Stevenson Jonathan (US Naval War College)  
Tassoni Nicolò (Italian Ministry of Foreign Affairs)  
Thomas Richard (Department for International Development, UK)  
Trefon Theodore (Royal Museum for Central Africa - Bruxelles)  
van Dijk Kees (Leiden University)  
Vobruba Georg (Universitaet Leipzig)  
Wagner Peter (Università di Trento)  
Williams Michael (University of Wales)  
Willis Micheal (University of Oxford)  
Xueliang Ding (Hong Kong University of Sciences and Technology)  
Yamani May (Saudi Author)  
Ying Ma (Shanghai Institute for International Studies)  
Yueh Linda (London School of Economics)

Zoubir Yahia (Euromed Marseille Ecole de Management )