GLOBAL STRATEGY FORUM

Lecture Series

2010 - 2011

GLOBAL STRATEGY FORUM

President

Johan Eliasch is the first President of Global Strategy Forum. He is Chairman and CEO of Head, the global sporting goods group and ECJ Holdings, a diversified private investment group. He is an advisory board member of the Centre for Social Justice, a member of the Advisory Boards of Investcorp, Brasilinvest, Societe du Louvre and the British Olympic Association, a director of IMG and CV Starr Underwriting Agents, Co-Chairman of Cool Earth and a Patron of Stockholm University. He is a trustee of the Kew Foundation. He was part of the Conservative shadow foreign office team as special advisor on European affairs (1999-2003) and responsible for foreign relations (2003-2005). He was Conservative deputy party treasurer (2003-2007). He served as the Prime Minister's Special Representative on Deforestation and Clean Energy from 2007-2010.

Chairman

Lord Lothian is the first Chairman of the Forum. Michael Lothian was first elected to Parliament as Michael Ancram in 1974. He is now a member of the House of Lords. His political career included four years as the Political Minister in Northern Ireland responsible for the opening engagements with the IRA which eventually led to the Good Friday Agreement, Chairman of the Conservative Party for three years, and four years as Shadow Foreign Secretary and Deputy Leader of the Opposition. He remains involved in international conflict resolution.

Director

Jacqueline Jinks is the Director of Global Strategy Forum. She joined Global Strategy Forum as Research Director in June 2006 and became the Director in February 2008. From 1997-2005, she was Political Secretary and speechwriter to Lord Moynihan, then Conservative Senior Spokesman on Foreign Affairs in the House of Lords. She worked for the Rt Hon Michael Howard QC MP and the Rt Hon Francis Maude MP, during their respective tenures as Shadow Foreign Secretary. Prior to that, she worked for the Democratic National Committee during the 1996 US Presidential Election campaign.

PRESIDENT'S FOREWORD

IN RECENT British history, there has rarely been a time when the choices we make on foreign and defence policy have been so important to our national welfare, even survival. Yet at the same time, the debate about these choices has never been more narrow and conventional. It was for this reason that I founded Global Strategy Forum five years ago, together with Michael Lothian (then Michael Ancram MP). We wanted to provide something different, a platform upon which experts in both the security and international affair sectors could feel free to address serious professional audiences in an open and candid way.

From this founding ambition, GSF has evolved into a unique organisation which I believe has carved out for itself a special position in the UK field of think tanks specialising in international and security affairs. We continue to seek a fresh approach to the rapidly evolving challenges of defence and security and a new response to international affairs. Now is the time to 'shake the tree' on all these issues, to approach them from a new angle and to challenge conventional establishment wisdom on foreign policy-making.

In this context, it is with the greatest of pleasure that I introduce Global Strategy Forum's fifth annual collection of lectures, in my view a further addition to the remarkable collection of frank and often controversial views which we have garnered and disseminated over the past five years. Our speakers have been of the highest quality and our purpose, largely fulfilled, has been to explore the reality rather than the rhetoric. We have done this through a variety of formats, including lectures, debates, seminars, lunches and dinners and I am proud to report that 2010-2011 represented a record year in terms of our programmatic activities.

Over the coming months, we intend to cement GSF's reputation as an organisation which relishes innovative policy ideas and bold thinking. Our independence from government and establishment institutions has allowed us to provide the open platform which makes this possible.

This pamphlet reflects only a fraction of the activities which we undertake in pursuit of our mission and further details can be found on our relaunched website. As always, I should like to place on record our deep gratitude to all our contributors, whose immense generosity with their knowledge, their expertise and their time is at the core of GSF. Nor we would succeed in our remit as an open forum for the exchange of ideas and opinions without our strong and active membership base. As the events of the coming year unfold, we look forward to working with you to continue to generate debate, comment and discussion.

Johan Eliasch
President, Global Strategy Forum

ABOUT GLOBAL STRATEGY FORUM

GLOBAL STRATEGY FORUM was founded by Lord Lothian (then Michael Ancram MP) and Johan Eliasch in 2006 for the purpose of generating open debate and discussion on foreign affairs, defence and international security issues. As an independent, non-partisan, non-ideological organisation, GSF provides a platform to explore some of the more challenging and contentious aspects of UK foreign policy and to stimulate imaginative ideas and innovative thinking in a rapidly changing global landscape.

GSF'S core activity consists of a regular lunchtime lecture and debate series on topical issues. For more in-depth discussion of specific topics, we host seminars in the House of Lords. We also hold small roundtable lunches and dinners on key issues of the day. Separately, as well as our annual compendium of lectures, we publish an occasional series of monographs by distinguished experts, such as the pamphlet on 'The Shanghai Cooperation Organisation: A Networking Organisation for a Networking World' by Dr Shirin Akiner with a foreword by Lord Lothian, published in June 2010.

In 2010-2011 the following speakers and chairs took part in our lecture series: Stephen King, HSBC's Group Chief Economist; Rt Hon Lord Lamont of Lerwick (in the chair); Charles Farr, Director General of the Office for Security and Counter Terrorism at the Home Office; Dr Shirin Akiner, Fellow of the Cambridge Central Asia Forum, University of Cambridge and Research Associate at the School of Oriental and African Studies, University of London; Sir Tony Brenton KCMG, former UK Ambassador to Russia; Rory Stewart MP; Lord Anderson of Swansea (in the chair); Lord Lothian, Chairman of Global Strategy Forum; Rt Hon Lord Howell of Guildford (in the chair); HRH Prince Turki Al Faisal bin Abdul Aziz Al Saud; Rt Hon Jack Straw MP; and Professor Keith Jeffery, author of MI6: The History of the Secret Intelligence Service, 1909-49. Their lectures can all be found in this compendium.

In November 2010, GSF Advisory Board member HRH Prince El Hassan bin Talal also spoke on 'Social Cohesion and Human Security in the West Asia-North Africa Region' at an event chaired by Lord Lothian and held in association with Chatham House and the Anglo Jordanian Society.

We have held a record number of debates over the past year on topics as varied as China, Africa, nuclear non-proliferation and arms control, North Korea, strategy in Afghanistan, Wikileaks and the new media, and the Arab Spring. We have also hosted three seminars, all of which took place in the House of Lords, on the Strategic Defence and Security Review in November 2010; on Iran in March 2011, at which the Rt Hon Jack Straw MP gave the opening address; and on the Middle East Peace Process in May 2011, co-hosted with the Geneva Initiative and with an opening address given by Alistair Burt MP, Parliamentary Under-Secretary at the Foreign and Commonwealth Office.

We launched Lord Lothian's pamphlet, 'Farewell to Drift: A New Foreign Policy for a Network World' with a foreword by Peter Oborne of the Daily Telegraph, at the 2010 Conservative Conference in Birmingham.

In May 2011, we hosted a reception to celebrate our fifth anniversary in the Queenborough Room at the St. Stephen's Club, where Lord Lothian (then Michael Ancram MP), GSF's Chairman, gave the inaugural GSF lecture on 9th May 2006. Guests were addressed by Lord Lothian and the Rt Hon Sir Malcolm Rifkind QC MP, GSF Advisory Board member.

A full list of all the events which took place in 2010-2011 is included on page 75 of this pamphlet. Going forward, we will continue to seek the views of leading politicians, academics and opinion formers, both in Britain and internationally. Please visit our website for further information on our activities and our forthcoming event series.

THE LECTURES

The Shanghai Cooperation Organisation: A Networking Organisation For A Networking World
Dr Shirin Akiner

Losing Control: The Emerging Threats to Western Prosperity
Stephen King

Counter Terrorism Strategy in the UK: Are We Winning?
Charles Farr

Russia: A New Whiff of Optimism?
Sir Tony Brenton KCMG

Afghanistan: A Winnable War?
Rory Stewart MP

Farewell to Drift: A New Foreign Policy for A Network World
Lord Lothian

The Heart of Conflict in the Middle East
HRH Prince Turki Al Faisal bin Abdul Aziz Al Saud

Lessons from the History of MI6
Professor Keith Jeffery

THE SHANGHAI COOPERATION ORGANISATION: A NETWORKING ORGANISATION FOR A NETWORKING WORLD

Transcript of a lecture given by Dr Shirin Akiner

8th June 2010

Dr Shirin Akiner *has longstanding first-hand experience of Central Asia and has written and lectured widely on the region. In 2006 she was awarded the Sir Percy Sykes Memorial Medal by the Royal Society for Asian Affairs for her contribution to Asian studies. In December 2008 she was awarded Honorary Fellowship of the Ancien Association of the NATO Defense College. Dr Akiner has held research and teaching posts at the University of London (1974-2009) and visiting professorships at Oberlin University, Uppsala University, Kazakh National University and the National University of Seoul. She is currently a Fellow of the Cambridge Central Asia Forum, University of Cambridge, and Research Associate at the School of Oriental and African Studies, University of London.*

Today's meeting is very fortunate, because it comes on the eve of the summit of the Shanghai Cooperation Organisation, which is to be held in Tashkent, and this is a particularly opportune meeting, in that we have both here the Ambassador of the outgoing Chairman of the Organisation and the Ambassador of the incoming Chairman of the Organisation. So, two people who are very immediately concerned with this topic.

I knew that I had taken on quite a tough assignment when I agreed to speak for half an hour on the Shanghai Cooperation Organisation, and as I was just having lunch, someone said to me, 'yes but you can't possibly do that, surely you're only going to talk about two or three aspects of it?' so I nervously said, 'no, I'm going to try and give you a complete overview' and inevitably, that will be very superficial, just touching on some brief points. But I hope that when you have a chance to read the booklet, perhaps it will explain and expand on some of the issues in more detail.

To a Western observer, the Shanghai Cooperation Organisation often seems to lack focus: it is a 'fuzzy' organisation and as our Chairman has just said, this is because, above all, it is a networking organisation.

We all know in our private lives, in our public lives, how important networks are, but it is difficult to assign them a value. So when we have an organisation which has networking as its fundamental organisational principle, it is very hard to understand what it is trying to do and what it has achieved. Today we can unpick some of those points, I hope.

Looking at the organisation, I think the first thing that strikes one is the lack, or the almost complete lack, of any political, ideological bias. By contrast, it lays great stress on behaviour, on what I would call civilisational attitudes. It talks about harmony, it talks about mutual respect, good neighbourliness and so on. Words that to Western ears often sound rather lacking in substance. But in the region, these are important concepts and it is an important basic principle of the organisation that these principles are observed.

The second remarkable point about it is the way in which it espouses a holistic view of stability. It sets education, cultural exchanges and so on, on a par with defence and hard security issues.

And thirdly, it is interesting and perhaps unique in the stress it lays on the voluntary nature of the organisation. I know of no other body that, in its Founding Charter, devotes more time on procedures to leave the organisation than to join. So, in other words, it is constantly stressing to its members that they are members because they want to be members - if they don't want to be members, no hard feelings, no handcuffs, they can leave.

In the West, reactions have ranged from indifference to hostility. My favourite epithets are 'NATO'S evil twin', 'OPEC with bombs', 'beast from the East' and so on. There is bewilderment - 'what is the organisation for?' and frustration - 'why doesn't it play a more active role in resolving regional security threats?'

I think if we look at the way it has evolved, some of these concerns will be shown to be really superficial and perhaps based on a lack of understanding on what it is trying to achieve.

The organisation grew out of a series of informal meetings. It was initiated in the 1990s, soon after the collapse of the Soviet Union. The Presidents of China and its Western neighbours, the Russian Federation, Kazakhstan, Kyrgyzstan and Tajikistan began to meet regularly to regulate the border issues. The western plank of China for centuries had been unstable, a zone of conflict and a zone of hostility, and this initiative, therefore, was both bold and imaginative, to try to resolve these tensions and to create harmonious co-existence.

The manner in which this informal grouping conducted its operations was also interesting. There was a collective framework, the summit meetings of the Presidents, but there were also specific bilateral meetings to resolve issues concerning the specific players. The progress was impressive and within five years, the final delimitation of China's western border (that is to say, its border with these neighbouring states) was virtually completed.

At that point, this new body, this grouping, could have evaporated and disappeared. But clearly the members felt there was worth in prolonging its existence and therefore in reinventing it and it took a new form in June 2001, launching itself as the Shanghai Cooperation Organisation, with a Founding Charter and an organisational structure. At this point, Uzbekistan joined the organisation. Before, there had been five members, often known as the Shanghai Five and now the sixth member joined. This was significant, because it shifted the focus away from borders. Uzbekistan does not share a border with China; all the other states do. So for the first time, this broadened the geographic scope of the SCO, but it also at the same time broadened its remit and the issues that it was going to consider.

The Founding Charter is both very precise and very vague. It specifies that new bodies can be set up under the aegis of the SCO as and when needed, and a number of these have now been formed. There is, for example, the Business Council, the Inter-Bank Consortium, very importantly, the Regional Anti-Terrorist Structure, an SCO University is being formed, an Energy Club is under discussion, and so on.

It has also developed its membership. Not by adding core members - there are still only six core

members - but it has introduced a system of tiered affiliation. This is a very novel approach and it has allowed for different types of interaction. So there are observers, four observers, Mongolia, Iran, Pakistan and India and more recently, a new layer of affiliation has been added, that of dialogue partner, and Belarus and Sri Lanka become the first 'dialogue' partners. So you will see that the geographic scope has expanded enormously.

Today, when we look at the SCO family, it encompasses a huge swathe of the Eurasian land mass. It has a population close on three billion, almost half the global total, and culturally it is home to many of the world's major religions and philosophic traditions, three major language groups, many different scripts. The countries themselves differ hugely in historic experience, in resource base, in political and military stance and so on.

So what is extraordinary is that all of these very varied countries should, nevertheless, have found it worthwhile to come together within this framework of the SCO. Of course there is no time now to talk about the individual relationships, but I think it has to be borne in mind that the SCO, as in the Shanghai Five, is made up of a framework and within that framework, individual states form their own relationships. They have their own priorities, they conduct their own negotiations. There is no attempt or desire to homogenise or discipline the members into an orderly, cohesive structure.

So we do not find here, for example an Acquis Communautaire as in the EU. We find no single body of legislation everyone has to sign up to - it is a much freer organisation, a more open organisation. Moreover, it is one that espouses the principal of variable geometry. So you could have groupings of two countries, three countries, four countries, member states, partner states, observers, any combination which works. In other words, pragmatism and flexibility are key concepts.

There is just one relationship which does need to be mentioned and that is the Russia/China relationship. Many observers see this as a relationship that is based on rivalry and bound to fail, where there is fear and antagonism and so on between these two countries. Of course all of that is present to some extent. It would be extraordinary if it were not. But the bottom line is this: neither China nor Russia is going to disappear. They are there and they must find some way to work constructively together and the SCO gives one more forum in which to conduct and mediate that relationship.

It is noteworthy that within a month of the founding of SCO, China and Russia signed a bilateral twenty-year treaty of good neighbourliness and friendly co-operation. In other words, the SCO does not supersede any of the bilateral/trilateral relationships, it simply adds another layer of possible communication and mediation.

I will not speak either of the dialogue partners now or the observers, because I think we can talk about those in more detail later, but suffice it to say, they all have not only their relationship with the SCO, not only their relationship with individual member states within the SCO, but also broader contacts. One of the important considerations for the observers has been their relationship with the Western world and of course, in particular, with the United States and we see interestingly, how in the last couple of years, things are beginning to shift.

There is an awareness of geopolitical change, a balance in power that is taking place. Asia is rising. And although no dramatic changes of alignment have taken place, one does see that in

the observer states, it is quite noticeable that particularly India and Mongolia, who initially were somewhat cool towards the SCO, are now becoming more active and more enthusiastic about its activities and organisation.

So what are the aims and the capabilities?

If you look at the Charter of the SCO, it sets out a vast range of areas in which it is, or hopes to be, active, ranging from the international economic order to security, defence, environmental protection, culture, science, technology and so on and so on.

Of course, if this were to be understood as an action plan, it would be unrealistic and completely impossible to realise all these different aspirations. If however, it is seen as a map setting out possible areas of interaction to be mobilised, to be activated, if and when opportunities arise, then of course it takes on a very different aspect.

There is no central hub to organise these activities. As I said earlier, it is a networking organisation, so in all these different areas, one sees different sorts of projects and different sorts of undertakings being launched. Not everyone is pleased with this. It has to be said, there are some members, and Uzbekistan is one of them, who have been very critical and who would like to see more order and more planning in the organisation. This may come, but at the moment, one of the strengths of the organisation is precisely this free-for-all, this free-ranging development. There are, however, some priorities. One priority which must be headlined is the creation of trade and transport corridors and security of energy supplies.

China has long been an enthusiastic proponent of free trade, with Central Asia and Russia much more cautious on this point, but they do see the necessity of building good transport corridors and this is developing very rapidly. We see road, rail, and air corridors spanning Eurasia now. Some of the transport links are in place, some are still being planned, some will take many years to complete, but I think it is this development of transport corridors which is making a huge difference to the region. We are already seeing much freer movement of goods, of people and of investment.

One of these projects, incidentally, a very ambitious project, is to connect China across Central Asia and Russia to the E-40 highway, linking it into Western Europe and transcontinental high speed rail links are already being planned. You may have read about this recently and this is already underway. Again it will take time, but it is underway.

Energy co-operation. Yes, of course, China looks to Central Asia and is greatly interested in the energy resources of this region. Primarily Kazakhstan, but Turkmenistan and Uzbekistan too and one should not forget Kyrgyzstan and Tajikistan, especially Tajikistan, who also have major reserves of oil and gas and other valuable minerals, including of course uranium.

So it is understandable that China would be interested in developing links in the energy sector, but equally Russia is a major player. Current projects include the expansion of the existing Turkmenistan-Uzbekistan-Kazakhstan-Russian network of gas pipelines.

Russia and China have their own energy partnerships: the East Siberia-Pacific Oil Pipeline on schedule for completion in 2011 and there are pipelines going southwards to Iran and for the future, possibly,

to India via Afghanistan.

Very briefly on the Energy Club. This is often confused with another organisation, the Gas Exporting Countries Forum. This was established in Tehran in 2001 and has now been institutionalised, but in popular imagination, when the SCO Energy Club is discussed, it is often conflated with this Gas Exporting Countries Forum and there is talk of Russia and China monopolising the oil and gas production of Central Asian states. Nothing of the sort. The aim of the Energy Club (if it happens, there is still a big question mark) will be to promote consensus on a regional energy strategy among SCO producers, consumers and transit states. But, as I say, this is still under discussion for some way in the future.

Security is another priority for the SCO. The Shanghai Convention on Combating Terrorism, Separatism and Extremism was signed at the same time that the SCO was created. And in 2004 in Tashkent, the Regional Anti-Terrorist Structure, RATS for short, was officially inaugurated. It is mandated to carry out such functions as intelligence gathering, coordinating and sharing on terrorist groups and other illegal activities. Its remit though, is quite small and its financing is quite small. So far it has not proved to be very active, but it is beginning to expand its operations. One of the new areas of focus is cyber sabotage and increasingly, there are concerns about security at major international events, for example, the World Expo and so on.

So they work together, sharing intelligence, but Western concerns that this is an anti-Western military organisation are unfounded. The first official meeting of SCO defence ministers did not take place until April 2006 and no attempt has been made to establish a joint military command. There have been joint exercises - there was a large one in 2005 aimed at preventing anti-separatist activities, but since then the operations have been on a very much smaller scale.

To place the SCO contribution to regional security in context, it is important to remember that there are several overlapping security structures in the Eurasian region. Russia and the Central Asian States, minus Turkmenistan, are members of the CIS Collective Security Treaty Organisation. They are also members, very active members, of the NATO Partnership for Peace programme and they have other defence and security bilateral links. So to see the SCO as being the only defence organisation is not only misplaced, it is to misread, I think, its function.

Questions have been raised as to whether the SCO could take a more active role in resolving regional security threats. For example, to play a mediating role in Kashmir or to play a role in resolving differences between Iran and its critics on the nature of its nuclear programme. This is absolutely alien to the SCO's remit. It strongly stresses that there will be no interference in the internal affairs of any state.

Equally, in Afghanistan, the SCO only deals with legitimately recognised and constituted governments. So it deals with the government of Afghanistan. It is now playing a very important role in Afghanistan, but always within this framework of an enabling environment, involving Afghanistan, giving Afghanistan access to, for example, infrastructural projects, but not taking part in negotiations with the Taliban or any internal affairs.

I speak briefly in the paper about Baluchistan. I think Baluchistan is a key area, a potential area of conflict on the Indian subcontinent and many of the SCO members will inevitably be involved

if there should be such a conflict, in that one of the major transport routes from western China is down to Gwadar at the mouth of the Persian Gulf, so I think that Baluchistan is certainly an area to watch but again, the SCO will be very unlikely to take an active role in any kind of conflict resolution there.

Looking to other regional organisations, the SCO is, of course, not the only organisation in Eurasia. All the Eurasian states are involved in multiple linkages with other organisations to the north, to the east, to the south, to the west. For example, some SCO members are involved in ASEAN structures, others in SAARC, others in ECO (the Economic Corporation Organisation) with the headquarters based in Tehran, others in OSCE. So all these organisations are intertwined and overlap and the SCO is just one amongst all of these.

There are two organisations which I think are most significant and could potentially be rivals to SCO. On the one hand, there is the Eurasian Economic Community (EurAsEC), a CIS organisation and on the other, the Collective Security Treaty Organisation (CSTO), also CIS. But these are very different organisations. They are integrationist, whereas the SCO is very loose and very open - I come back again to the networking analogy. So in many ways, they are in fact complementary, with the EurAsEC and CSTO focused on specific short-term goals and SCO taking a much broader perspective.

So, SCO is about to turn nine in another week or so and what has it achieved?

There are those who would say it has achieved very little and to some extent this is true. SCO as such cannot point to any major successes. However, what it has done is first of all to bring about a remarkable improvements in regional relations. It is easy to overlook this. It is an extremely important undertaking, it is difficult, there are still many challenges and still a long way to go, but things are proceeding in the right direction.

Secondly, it has given a massive boost to economic development. Again, not specifically SCO investment, but it has enabled investment amongst and between SCO member states.

And thirdly, I think it is important, especially for smaller countries, that they should have a privileged status and a privileged access to China, a rising superpower. When the Prime Minister or when the President of Tajikistan, for example, visits Beijing, he does not go just as any President or any Prime Minister, he goes specifically as someone coming from a country that has a special relationship, a privileged relationship with China through the SCO and I think it is easy to overlook again, the importance of having this direct link to what is, after all, one of the major global powers of today.

The SCO has also set a blueprint for China's relationships with other parts of the world. We see the SCO format being replicated in China's relationships in Africa and in the Arab world. It would be easy to say, 'well, China could make these investments without having an organisation such as the SCO'. This is true, but having an organisation means that it is not only the economic aspect of the relationship that counts. There are many other aspects: cultural, educational, political aspects, defence, security, and all of these different issues come into play and the point that China is making, it seems to me, in projecting this model is to say, 'we are not a colonial power, we treat you as equals within this framework, whether it is the SCO, whether it is the China Africa Forum, or the China-Arab Council, within all of these organisations, you are our equal partners' and I think this is an important part of China's message and part of its projection of soft power.

So finally, will the SCO survive?

We live in an age of change, of unprecedented rate of change. There is increased interdependence and connectivity, but also new, incalculable challenges. There are massive and rapid advances in technology, but also built-in obsolescence - we know this in our everyday lives. And in the SCO, one is very aware of this. There is a sense that either we remain relevant or there is no point in continuing to exist.

So, will the SCO be able to reinvent itself?

First and foremost, it depends on China. If China were to withdraw, the Organisation would collapse. Russia and the Central Asian states could not, on their own, bear the weight of the SCO. However, having said that, one should neither overestimate nor underestimate China's interest in Eurasia. It matters to China. But so do many other parts of the world. So China will, I think, remain engaged, but much of what China originally set out to achieve, developing transport corridors and so on, much of that is underway. The process has not been completed of course, but it is underway.

What next? More of the same, more transport corridors or is there a new way in which it could develop?

Much attention has been focused on whether or not the SCO will be open to accepting new members and just recently, under the aegis of Uzbekistan's chairmanship, new procedures have been put in place for accepting new members, so it is possible that there will be new some applications and it is possible that the Organisation could be expanded in this way. However, it seems to me that this is not a key point. In any case, whatever happens, a new member could only be accepted by consensus, by agreement amongst all the existing member states.

Secondly, the Organisation would be wary of importing problems. Iran, India and Pakistan all come with their own particular areas of potential conflict. So I think that however the SCO decides to expand its core membership, whether or not it decides to expand, it will, nevertheless, be very cautious about who it accepts and when it accepts them.

Much more likely is the development of what we have already seen, new layers of affiliation. I spoke earlier of dialogue partners. I think a mechanism of that type (maybe there will be a new status that could be evolved) will be developed much more widely in the future. The way I see SCO developing as of now is through the provision of a platform for emerging economies. We see close relationships with Brazil, we see close relationships with other Latin American countries and also with African countries.

So I would not be surprised if we did not see the SCO becoming a platform for voicing shared concerns from the emerging economies of the world. We have already seen that at the Copenhagen Climate Conference and we are beginning to see it in other areas and in today's world - I come back to this question of networking - rather as Winnie the Pooh might have said, 'you need friends and relations'. You need not so much treaty allies who will leap to your defence and take up arms on your behalf, you need people who will vote for you, you need people who will support your position and who will be with you in international fora.

Looking at the way that the SCO has developed, what we are seeing is a very much new type of organisation, where it is relationships, networking, the ability to network, to make contacts, to take soundings, which count and where this is going to play the major role in the future.

Let me stop there and I hope to answer some of your questions and comments.

Dr Shirin Akiner's pamphlet, 'The Shanghai Cooperation Organisation: A Networking Organisation for a Networking World' was published by Global Strategy Forum in June 2010.

LOSING CONTROL: THE EMERGING THREATS TO WESTERN PROSPERITY

Transcript of a lecture by Stephen King

14th June 2010

Stephen King is HSBC's group chief economist and the Bank's global head of economics and asset allocation research. He is directly responsible for HSBC's global economic coverage and co-ordinates the research of HSBC economists all over the world. Since 2001, Stephen has been writing a weekly column for The Independent. He has given written and oral evidence on the economic effects of globalisation to the House of Commons Treasury Committee and the House of Lords Economic Affairs Committee. His first book, 'Losing Control' was published by Yale University Press in 2010.

In thinking about globalisation and the emergence of China and other countries, I was struck by an experience I had two or three years ago. Over the past few years I have been travelling to China quite a lot as part of my role at HSBC and in Shanghai, I normally stay in Pudong and specifically, I stay in the Jin Mao Tower which was for a while the tallest building in China.

At the top of the tower is the Grand Hyatt Hotel and so I was staying on one occasion on level 85 of this particular hotel and the great thing about staying on level 85 is that when it is not cloudy, you get a wonderful view over the old Shanghai with the Bund across the river. So this particular morning, I walked out of the shower, completely naked, over to the windows to take a big look at this view, only to discover a group of Chinese construction workers staring at me in the opposite direction. They were building the World Financial Centre, which has sprung up at remarkable speed right next to the Jin Mao Tower - it actually is now taller than the Jin Mao Tower. But it struck me that this is an important lesson in the way in which the global economy has changed and in particular, the way in which China has become such an important engine of global growth.

It is worth stressing here that you can look at the growth rate of China now (it is about 9%-10% a year in real terms), but China as an economy is about one third the size of the US. So when you think about the growth rate being three times faster, but the economy being one-third the size, actually China's contribution to global economic growth is now almost identical to that of the US. So this is a remarkable change that has taken place over the last few years, largely the result of these amazingly rapid compound growth rates.

I was also struck in writing the book that when you look at the books on globalisation that have been written in the past, most of them are written very much from a Western perspective. The idea is that it is somehow the West that sets the globalisation agenda and there are two different versions of this story, one of which you might, I suppose, describe as more free market and the other more perhaps an anti-imperial story.

The first version runs like this: the wonderful thing about globalisation is that you see the spread of liberal democracies and the spread of free markets to other parts of the world so the secrets behind, if you like, western success, are beginning to spill over into other parts of the world. The

trouble is, it is a slightly odd argument in part because the political systems in, say, China, are very different to what we see in the west and yet it still had this tremendous surge of activity over the course of the last few years.

The alternative view is that the western globalisation story is really about the idea that you see multinationals effectively taking advantage of cheap resources, whether commodities or labour, in other parts of the world. It is much more a kind of exploitative view of globalisation.

But whether you take the free market view or the exploitative view, the same result tends to come true for the western world, which is that the west seems to win from this particular story, even if other parts of the world, in some sense, lose out.

I thought to myself, 'well, I'm really not 100% sure that this story is quite right'. Over the course of the last few years, surely what is really changing is the relative demise in the power, economically and politically, of the US and Europe, and the relative increase in the political and economic power of other parts of the world? The world effectively in economic terms is changing shape, and changing shape at a rate of knots that we have not really seen for many hundreds of years.

So what are those changes? The first and most obvious one is that if China continues to grow at this current growth rate and you may have some questions about that, of course, but if it continues to grow at the current growth rate and the US and Europe continue at their growth rates, there is a very good chance that in twenty or thirty years time, China will indeed be the biggest economy in the world. It will not be the richest economy, its per capita incomes will still be a lot lower than they are in the States or in Europe, but, nevertheless, it will probably be the biggest economy in the world.

The second issue is that we have seen countries experiencing economic catch-up in the past, which have gone from low per capita to high per capita incomes relatively quickly. Within Asia, the obvious examples are Japan and South Korea, which really did change dramatically from very poor countries back in the 1950s to very rich countries today. But their emergence was a relatively small story on the global stage. Japan's population is 120 million, Korea's population is about 80 million or so. When you look at China and India combined, of course their total population is over two billion. They account for a third of the world's population. So, if you like, the prototype story from Japan and South Korea was a small-scale version where their success did not necessarily have a big impact on countries elsewhere in the world, whereas as far as China and India are concerned, if they continue to grow at their current rates, they will have an enormous gravitational pull on other parts of the world and one way you can think about that is in terms of relative demand for resources. I will come back to that a little later on, but it does strike me that the kinds of growth rates we are seeing in India and China raise all sorts of questions for the West, in terms of access to oil and to raw materials of one sort or another in the years ahead.

The other big change is really the result of demographics more than anything else. It relates to the fact that, back in the 1950s, the developed world accounted for around one third of the world's population of working age. It does not sound that much, but by the standards of what went before and what has happened subsequently, that was a kind of high-water mark, the biggest contribution the developed world, the western world, made to the population of working age across the world as a whole.

By 2050, according to United Nations calculations, that number will have fallen from about a third to just 12%. So the idea that somehow the West and the western worker will set the agenda in the years ahead seems to be increasingly implausible: this is just a straightforward numbers game where we are seeing huge changes taking place in other parts of the world.

I think there are two broad consequences of this. The first one comes back to the resources story. When you look at the kind of growth that China and India have, it is a reflection of their low per capita incomes. The kind of infrastructure that we take for granted in the States or in Europe just does not exist in quite the same way in other parts of the world. Therefore the kind of growth you see is very, very infrastructure based, heavily based on building airports and roads, railways and bridges - all the stuff we take for granted in the Western world.

The consequence of this very, very commodity intensive growth is that you end up with rising rather than falling commodity prices, almost the opposite of what we have seen over the last hundred or so years. And this has all sorts of consequences, one of which you can see today.

Over the last five or six years, we have been through a fairly extraordinary experience in the Western world. If I said to you five or six years ago, if I had made a very accurate forecast (which, of course, as an economist I probably wouldn't have made) and said that by the end of this decade we would be facing the deepest Western recession since the 1930s, at a time when oil prices are about $20 a barrel, and then we had a discussion about where oil prices were likely to be as a result of this deep Western recession, I guess that most of us would have concluded that oil prices would be quite a lot lower, maybe at $10 or $15 a barrel, but no higher than that.

The fact they are currently at $70 or $80 a barrel reveals quite a lot about the way in which the dynamics of the global economy have changed. Yes, there is a deep Western recession, but commodity prices have not collapsed in the usual way. In fact, the West has been unable to pass this recession on to other parts of the world in the old-fashioned approach, because it is actually China rather than the US which has become the global setter of commodity prices.

And that makes a huge difference, because if when you have a deep Western recession, commodity prices do not come down, they continue to rise, that provides tremendous insulation for other countries around the world who are primary commodity producers. So Brazil does very well, the Middle East does pretty well, Russia does quite well and actually, within the developed world, countries like Australia and New Zealand and Canada do quite well, but not everybody, because in the Western world, the majority of nations these days are commodity consumers rather than producers. As a consequence of this shift in demand from the West to China, it means that it is actually much more difficult for the West to pass these recessions on to other parts of the world, they stay at home, and arguably it is one of the reasons why the West has struggled to recover over the last few quarters.

The other big relative change is in the cost of labour and one way to put this is that over the last hundred to two hundred years, the West has enjoyed almost a monopoly access to global capital. Of course it has been directly responsible for the production of this high quality capital, but nevertheless, it has enjoyed a kind of monopoly access. That monopoly access is now fading, because one of the key features of globalisation over the last twenty or thirty years is the free flow of capital across borders.

This is a revolution. It is the sort of thing that in economic text books thirty or forty years ago just did not happen. The assumption was that capital remained within borders and could not shift around very easily and yet the one single feature of this latest wave of globalisation which is different from the past, are these extraordinary increases in global cross border capital flows.

We surpassed the pre-First World War ratio of capital flows to GDP in 1980 after years and years and years in which capital very much stayed at home, but between 1980 and where we are today, the size of cross-border capital flows has gone up fivefold. It has been an extraordinary shift and this world we are living in today has never been seen in the past.

It raises all sorts of questions about how we cope with it and in the West, one of the problems of this increased cross-border flow of capital is that western workers are no longer able to negotiate the wages and the entitlements and the pensions that they were able to do so previously, because suddenly they are realising they are up against much greater global competition for their jobs than might have been the case in the past. This raises all sorts of domestic political concerns.

Where does this capital revolution come from? I think there are three themes that are probably worth considering over the last forty or fifty years, and they relate partly to the amazing success of the Asian economic model (and notice I mention the word 'success' rather than failure). Thirteen or fourteen years ago when we had the Asian crisis, people began to say, 'well, maybe the Asian model doesn't work, there's too much crony capitalism and free markets aren't operating properly', but that has all changed recently.

If you go back to the 1950s and look at the per capita income growth rates within Asia, they have been amazingly strong, not just by the standards of Asia's own history, but also by the standards of the West's history over the last 300, 400, 500 years. It has been an extraordinary change in a relatively short space of time.

What accounts for it? The first thing is demographics. The West went through some of this story in the 19th century and there has been a very powerful Asian story over the last fifty years. Back in the 1950s, Asian life expectancy was only about 40 or 45, similar to what we see today in sub-Saharan Africa. Things changed largely because of improvements in health care and sanitation, vaccinations and antibiotics and so on, and the consequence was that life expectancy began to rise very quickly.

Now in one sense, one of the beneficial aspects of rising life expectancy, apart from the very obvious one that you live longer, is that if you do live longer, your incentive to invest in education begins to rise, because if you live longer, the depreciation rate on your education is not so great. So consequently, you start to see literacy rates rising extremely quickly, you go from secondary to tertiary education relatively quickly and the productivity of Asian workers starts to rise at a rate of knots. It is a very powerful story over the last forty or fifty years. So you see a leap in the quality, if I can call it that, of human capital, which is a rather horrible economics phrase, but nevertheless, a huge leap in the quality of that capital over the last few years.

The second big change is technology. The whole process of outsourcing and off shoring that we now take for granted is very much the result of the collapse in the costs of information flowing around the world. We have seen an extraordinary change in just a handful of years and the consequence

of this is that it is much easier for companies to invest in 'strange' parts of the world where they can monitor what is going on much more easily than might have been the case twenty or thirty years ago.

But probably the biggest change of all, the one that everybody talks about, of course, is the change in political arrangements. The fall of the Berlin Wall in 1989 and perhaps even more importantly, the openness that came through in China under Deng Xiaoping. The consequence of that shift in political arrangements is that many of the aspects that prevented capital from travelling around the world easily through much of the 20th century have now gone, so capital can move across the world very easily, but this leads to all sorts of distortions and changes that we have not been used to in times past. What, in fact, this leads to is a couple of paradoxes in the global economy.

The first of these is a paradox associated with income inequality, which is a real challenge for politicians in the West. It goes as follows: that if you look at the wealth inequality numbers country by country, there has been a very clear narrowing of the gap over the last thirty or forty years, exactly what you would expect - if, after all, China and India are growing much faster than the growth of the US or of Europe, you would expect those gaps to close slowly over time. It has not been true for all countries, of course. Sub-Saharan Africa is still impoverished, but nevertheless, the gap for many countries is closing and that, surely, is one of the best adverts one can point to for the successes of globalisation.

But at the same time, there is also widening income inequality within nations and this is actually much more difficult to cope with because at the global level, things look a lot better, but at the local level, things have become quite a lot more awkward. One reason for this (a fairly obvious point, really) is that if capital does become more mobile across borders, there are both winners and losers within each individual country.

An example here is as follows. Just imagine you have got a US worker who works for a manufacturing company and who happens to own some shares in that manufacturing company and who happens to be a fairly big consumer. Now that American worker may be very ambivalent about the effects of globalisation on him because it may be that the competition from China pushes his wage down, which is not good news for him. But on the other hand, the competition from China means his company can outsource to China, which improves the company's profitability and as a shareholder in the company he is better off. At the same time, it may be that as a consumer, he feels partly better off because of the low price of manufactured goods coming through from China, but also, he is partly worse off because China is also responsible for driving oil prices higher. In fact, you cannot really tell on a case-by-case basis whether the person is a winner or a loser from the globalisation process. There are certain good things and certain bad things. If he drives a big gas-guzzling car and does not buy many televisions then perhaps he is going to be worse off. On the other hand, if he buys lots of TVs and does not drive around too much, then perhaps he is better off. But the story varies from person to person and it is very difficult to say that for all people concerned, globalisation is an absolute winner.

The second paradox about globalisation is that despite the massive increase in capital flows across borders, we have both more and less globalisation than we had a hundred years ago. We have more of it, because of the openness of trade and the openness of capital across borders, but we have less of it because over the last hundred years, there has been the rise of the nation state.

Back in 1900, there were only about 55 independent nations. The majority of nations that we take for granted today were subsumed in European empires for the most part. And without trying to extol the virtues of empire, it does strike me that it is relatively easy to run a global capital market if you have an empire and it is a lot more difficult if you do not have an empire. Let's face it, you have differences of view across different national sovereign states as to exactly how globalisation should work and the latest debate about how to regulate the financial industry is just one example of this particular story.

Another example, and I tend to try to deal with this paradox of lots of nation states vis-à-vis global capital flows, are currency unions like the Euro, although of course as we have seen over the last few months, that attempt to try to mix together the benefits of capital flows with a pooling of interests of nation states is not always particularly easy.

Now, given these paradoxes, given the history, given the future, what are the challenges to come from this story from specifically a western point of view? I want to think about this, both in the long-term and the short-term perspective.

The short term relates to the kinds of macroeconomic challenges that have come through in recent times. As Lord Lamont said, there has been a tendency for each country to say, 'oh, we've suffered from external shocks and oh, the global financial crisis was the result of external shocks.' But of course, collectively, that cannot really be true.

In the short term I think there are three challenges and they relate to our understanding of how to interpret economic data and economic developments.

The first of these is trade. People say, 'well, if the future is the emerging world, let's trade more with the emerging world - let's try to make sure that our exports pick up strongly to China or India, because they are the growth opportunities for the future', and that sounds entirely sensible. There is actually quite a big problem with this story. It relates to the fact that if you look at the developed nations over the last twenty years and ask which of them was the most successful at exporting to China, the answer is not the US, it is not Germany, it is not France or the UK, it is Japan.

The puzzling thing about this is that if Japan has been so incredibly successful at exporting to China, why has its domestic economy done so badly? The answer, I think, relates to the style or the type of export that is going through from Japan to China.

What has typically been happening over the last twenty years is that Japanese multinationals have worked out, sensibly, that the cost of getting supplies from China is quite a lot lower than the cost of getting supplies from Japan. The consequence of this is that as time goes by, these multinationals shut down their Japanese suppliers and replace them with suppliers in China and because Japan happens to be a major exporter of capital goods, the capital goods that are installed into the factories in China are often made in Japan. So this is very good news from the point of view of the Japanese capital goods exporters, but at the same time, because it effectively is destructive from the perspective of Japanese domestic productive potential, it ends up leaving Japan actually very much weakened, despite the fact that its trade has picked up so strongly.

So on the export front we have to be careful. What do we mean by strong exports, what do we

mean by exporting rapidly to China, India and other countries? It is not entirely clear.

A second short-run challenge, a very clear one for the last few years, is capital markets. We like to believe we live in a world of properly functioning capital markets. In fact we used to believe this up to three or four years ago, when things went rather badly wrong. But I would argue that the connections between the emerging world and the developed world are partly responsible for the distortions and difficulties we have seen in capital markets in recent times.

This relates to the so-called global imbalances, which I am sure you heard lots and lots about in the past. But the story here is very simple. China has a current account surplus, the US has a current account deficit, the Chinese lend to the Americans and there are a lot of different views as to whether this should be happening or not.

One view is to say simply, well, the reason why this exists is that China deliberately undervalues its currency and should it come to the point when the renminbi goes up quite a long way, then actually the problem is solved in that a huge Chinese currency appreciation will get rid of this large balance of payments surplus that China has.

I happen not to agree with this for a number of different reasons. But the most obvious reason is that Japan has gone for a major Yen appreciation over the last thirty or forty years, on some occasions at an extremely rapid rate (for example, in the late 1980s before the bubble burst), but despite this huge appreciation of the Yen, Japan's current account surplus has just got bigger and bigger and bigger. It raises all sorts of questions about why it is that current account surpluses and deficits exist. But the fact they do exist means that you need to ask questions as to what the consequences are.

Now China, given half a chance, would happily buy not just US Treasuries and Agencies and all the sorts of pieces of paper, the IOUs, that the US sells to China. They would actually rather buy US companies, but Congress, of course, is not very keen on the idea, understandably, of the Chinese buying lots of US companies. So if it is the case that China cannot help but run a current account surplus, but at the same time has to invest that surplus in a very narrow range of assets, in effect defined by US politics rather than by global free market capitalism, the consequence of that is that you get a skewed demand for things like Treasuries and the price goes up higher, the yield ends up being quite a lot lower and that means that investors in the West begin to chase all manner of other kinds of assets, which give a higher return than the distorted return that is available on the US Treasuries.

And what will the consequence be?

Well, people have gone for really high quality assets over the last ten years. They have bought mortgage-backed securities in the US, they have bought Greek government debt and Spanish government debt and they have discovered that perhaps these assets were not quite so safe after all. So you have ended up with a hunt for yield, but at the same you have ended up with a huge amount of financial instability as a result. The failure to understand the consequences of China's excess savings for the global cost of capital has led to huge financial market volatility, the kind that simply was not expected just a handful of years ago.

The third big challenge in the short term and it is one that is probably the biggest challenge of all for policy makers is what to think about inflation. We have been through a remarkable phase over the last few years. We have inflation targeting, we have independent central banks and we used to believe that if you could have an independent central bank and a relatively stable inflation rate, then you would end up with a stable economy and yet over the course of the last two or three years, this has clearly not been the case.

In fact, if you go back long enough in history, you will realise that the idea that price stability leads to economic stability is not quite right. It is certainly the right conclusion for the 1970s. Go back to the 1920s: the US in the second half of that decade had remarkably low inflation, yet despite the low inflation, you had the Wall Street Crash and you had the depression that followed. Low inflation may be a necessary condition for economic stability, but maybe not sufficient.

One of the big problems with interpreting inflation these days is that increasingly much of the inflation that we see in the States and in Europe is not actually under the control of Western central banks. It is the result of sudden declines in manufactured goods prices, because of outsourcing and off-shoring to China or to India. It is the result of sudden increases in demand for commodities, which are directly the result of the success of China and India. There are all sorts of tectonic shifts going on in the development of prices, which means that sometimes inflation is too low and sometimes it is too high, but on all occasions, it may not have much to do with monetary policies domestically.

An example comes from earlier in the decade. Inflation in the UK and the States was unusually low. It was low not because the banks were particularly clever, it was primarily low because of a huge decline in manufactured goods prices, which was the reflection of what was going on in China and India and elsewhere. The sensible policy was simply to say, 'let inflation be low'. If inflation is low, but wages and profits are not quite so low, then in real terms, adjusted for inflation, people are genuinely better off and that should have been enough.

But actually what began to happen was that you saw central banks responding to this low inflation by cutting interest rates even further. So the combination of the Chinese purchase of Treasuries and low interest rates adopted by the Bank of England and the Federal Reserve and others meant that we ended up with a monetary explosion which did not come through to inflation, but did come through to house prices and to asset prices, and contributed to problems that have come through subsequently.

So those are the short-run issues.

The long-run issues relate first of all to this whole story of income inequality. The politics of this process will become more rather than less difficult in the years ahead. The reason for saying this relates partly to data in the US, which shows fairly clearly that over the last twenty or thirty years, although the economy itself has become richer, the people who have really benefited from this process of enrichment have been primarily the top 1%-2% of the population. College graduates who have got plenty of qualifications have typically found themselves with wage increases, which have not gone along with their increases in productivity, which raises all sorts of questions about the social stability of the States and in other parts of the world.

The way this is dealt with was through a very simple trick. Up until maybe three or four years ago, the fact that you had growing income inequality did not really matter that much, because those who had lost out from globalisation were nevertheless still able to tap the credit markets and they were able to borrow an awful lot. But with the credit crunch beginning to come through, suddenly that opportunity to equalise consumer spending has fallen away and the reality of these increases in income inequality has become much starker.

One way you can see that in the States currently is through a massive increase in long-term unemployment, the highest it has been since the Second World War. I think this raises a lot of questions about America's willingness to continue trading with China without resorting to protectionist policies over the next few years.

The second big question is what kind of capitalism will we have in the future?

The kind of capitalism we have had in the past is the western style, but I would suggest the western style itself has gone through a number of changes over the last two or three hundred years.

Two hundred years ago, we had a lot of experiences of what you might these days call state capitalism. Think about the British East India Company: it was a fantastic example of a commercial enterprise which happened to pursue its government's interests in a lot of different ways, sometimes for the benefit of the UK, other times at the cost of the UK. But nevertheless, it was a good example of state capitalism.

I would suggest that the kind of capitalism that Russia, China and others are thinking about using in the future is not the free market capitalism of the late 20th century, but instead a return to the 18th and 19th century model. The connections between government and commercial interests are getting stronger and stronger. The fantastic example of this, of course, is Gazprom, 51% owned by the Russian State, formerly headed by one Dmitry Medvedev.

The third key long-term change is demographics and this is partly a question of how you deal with ageing populations in the West. I have mentioned before that the share of the working age population in the West is going to diminish rapidly over the next few years. This raises some very big questions, one of which is, if you really are running short of workers, what do you do?

Well, one option is to save more, to run a current account surplus and export your savings to other parts of the world. It is what Germany has done over the last ten to fifteen years. But unfortunately the Germans did not invest in the emerging world where there are lots of cheap workers. What they did instead was to invest in some really excellent stuff which I mentioned before – mortgage-backed securities in the US and Greek government debt, so it is all very well running a savings surplus, but you have to make sure you invest in the right rather than in the wrong places.

The other alternative, if you are running short of workers, is to just import more of them from elsewhere in the world. Actually more rather than less immigration could be a solution to this particular issue and this, of course, is one of the reasons why the US demographic model looks a whole lot better than the European model currently. So it is funny that, just at the point when immigration might be an answer to these long-term questions, it becomes politically less and less acceptable.

In the book, I refer specifically to the US in some detail for one simple reason, which is that the way in which the US has dealt with these problems so far is in many ways to abuse its reserve currency status. It hugely benefits from the fact that it can raise funds from the rest of the world relatively cheaply. And it does so because everyone currently wants to have dollars.

I liken this to the behaviour of catholic priests back in the 14th and 15th centuries, when they sold indulgences, they sold promises to people who hoped for a happy life in the hereafter. It was a brilliant way of raising funds for a while, until they got caught out and Martin Luther came along and came up with the Protestant Reformation.

In many ways, the US does a similar thing sort of thing. It sells Treasuries, IOUs, promises to the rest of the world that, at some point in the distant future, the US taxpayer will pay back these foreign creditors. But I think it is in danger of going wrong and the reason why it is in danger of going wrong is that we have a lesson again from past history of where the abuse of the reserve currency can damage your own economy, even though it benefits others over the very long term.

The example I want to use is Spain in the 16th century. Back in the 16th century, at the beginning of the century, Spain was the global superpower. It had conquered Mexico, it conquered parts of Latin America and importantly, from the reserve currency story, it had discovered huge amounts of silver in mines across parts of Latin America. The great thing about silver was that it was the equivalent of dollars back then, it was the world's reserve currency.

The Spanish brought the silver back across the Atlantic and then spent the rest of the 16th century living the good life, not all of them did because the Inquisition was going on at the time, but some of them were living the good life and the consequence of this was that they effectively got other people in Europe to supply things to them.

So the English and the Dutch and the Italians made more and more stuff in exchange for the silver and it worked for a while, but there were two problems with it. The first, of course, was that the value of silver eventually fell away. People lost their faith in that particular currency, as I think they will lose their faith in the dollar in the years ahead. And the second problem was that effectively you learn by doing. Through the course of the 16th century, the English and the Dutch in particular, became better and better at making things, stimulated by the fact that the Spanish were providing them with all this silver. So as they became better and better at making things, their economies grew relatively rapidly, they became stronger economically, and they became stronger politically and also militarily.

What I would like to argue is that the US today is pursuing a very similar strategy to 16th century Spain. It is fine in the short term, it allows it to consume beyond its means but, ultimately, the process of it consuming beyond its means allows China, India and other emerging nations to grow much more strongly in the years ahead. That is one of the key reasons why they will end up being the dominant force in the global economy in the 21st century.

As they become stronger, we will also see the creation of new trading patterns around the world. A lot of what we think about today is all based on the idea that China or India only trades with the States or only trades with Europe, so if the US and Europe are weak, that is bad news for China and India and elsewhere. But in actual fact, what we are going to see in the years ahead is the creation

of new trade linkages. So-called south-south trade linkages which might be described as the 21st century equivalent of the Silk Road: countries trading with each other because they can. Countries like China, Brazil, sub-Saharan Africa, the Middle East, all creating new trade connections which have not been there in the recent past, but which have actually diminished the relative importance of the West in the years ahead.

This gives the West a choice. At the end of the day, there are two options for the West. Choice number one is effectively is to grow old gracefully, to accept that our place in the economic sun is over and that the baton of economic growth has been passed to other parts of the world. We should embrace that in many ways, because it means that countries that were confined to poverty in the past will actually become richer and richer and slowly catch up with the lifestyles that we take for granted in the West.

The alternative to growing old gracefully is actually for the West to try and disentangle itself and to disengage from globalisation, because if it does not work for the West, if it creates income inequality and social disorder and political difficulties, if we are faced with years of austerity because of the excess borrowing from the last decade or so, in those circumstances, it is easy to see how politically the West might choose to disengage.

But ultimately the really big losers from Western disengagement would be the West itself. The lesson from the first half of the 20th century is that if you disengage from the process of globalisation, if you become closed rather than open, you end up with extreme populist politics beginning to come through. You end up with booms and busts and more frequently busts rather than booms. You end up with a much higher cost of capital. You end up with all sorts of deteriorations in terms of trade and you end up basically in an economic and financial mess.

The extent to which the West has become dependent on the ongoing success of the emerging world strongly suggests that ultimately, it is engagement rather than disengagement that will matter for the years ahead, no matter the fact that the West will be struggling to cope with all the domestic implications of globalisation over the next few decades.

Thank you very much indeed.

COUNTER TERRORISM STRATEGY IN THE UK: ARE WE WINNING?

Text of a lecture given by Charles Farr

6th July 2010

Charles Farr *was appointed Director General of the newly-formed Office for Security and Counter Terrorism (OSCT) at the Home Office in June 2007. Charles joined the Diplomatic Service in 1985 and has served at British Embassies in South Africa and Jordan. He was awarded an OBE in the Queen's 2002 New Years Honours list for his service overseas for the Foreign and Commonwealth Office and a CMG in 2009. Since 2003, he has held a number of senior posts across Whitehall concerned with Security and Counter Terrorism. As Director General of OSCT, Charles is the senior official responsible for the UK counter terrorist strategy, CONTEST. OSCT co-ordinates the development, direction and implementation of CONTEST; delivers parts of the strategy which directly fall to the Home Office; oversees, on behalf of the Home Secretary, the Security Service and Police counter terrorist work; and (since January 2009), is responsible for the £650 million Olympic Security Programme.*

Thank you for the invitation to address the Global Strategy Forum.

Your question is a good one. But I want to approach it by considering the terrorist threats we face, the progress we have made in dealing with them and the challenges which remain. I will draw some conclusions which will take us back to the question you ask.

First of all, some remarks about the threat.

We believe the international terrorist threat we face in this country comes from four connected but distinct quarters. They are, first, the leadership group of Al Qaeda, a few hundred people located along the Afghan/Pakistan border; second, groups affiliated to Al Qaeda, notably in the Maghreb, East Africa, Yemen and Iraq; third, regional terrorist organisations, some of them old - notably those associated with the Kashmir - and others more recent; and fourth and finally, what we call 'self-starting organisations' or 'lone individuals', who operate largely on their own and without guidance or further advice from others.

All these terrorist groups are active in this country. They are not mainly engaged in the planning of attacks here. Some of them are preparing attacks overseas; others recruit, spread propaganda, raise money and engage in other types of criminal activity.

The relationship between these aspects of the threat and their relative importance has changed significantly since 9/11.

The AQ leadership group is now weaker than it has been for a very long time. Attacks by American Predators, coalition operations in Afghanistan and action by the Pakistani military have led to the death or detention of many key people; law enforcement and other operations in many countries

around the world have disrupted Al Qaeda cells and attack planning. AQ continues to try to conduct operations in and against this country, but it is in a state of some disarray. It has of course failed to meet all its strategic objectives: it has been unable to change regimes in the Muslim majority world or to force us and other states to change our policies in these areas.

The relative weakness of Al Qaeda does not mean the threats we face are necessarily less; but they have certainly changed.

We now see affiliates of Al Qaeda – notably Al Qaeda in the Arabian Peninsula - operating free of a sometimes stifling Al Qaeda command and control and with an initiative and speed which we have rarely observed before.

Consider the attempted bombing of an aircraft heading for Detroit on Christmas Day last year. This operation was directed entirely from Yemen and had no apparent connections to Pakistan; it was conducted by a Nigerian who had lived in this country and who volunteered not to Al Qaeda itself but to its affiliate; it was developed in a matter of weeks or months; it bypassed two airport security systems, one in Western Europe; it came close to success, and yet it seems likely that the leadership of Al Qaeda knew nothing about it.

But the space created by a weaker Al Qaeda has been filled, not only by its own affiliates but also by an array of other groups, many operating from the tribal areas of Pakistan and by self-starting entities – lone individuals or small groups – inspired by Al Qaeda but free of its direction.

Two examples (but there are many others): over the past two years we have seen the emergence of the Pakistan Taliban, the TTP, an entity largely distinct from its Afghan counterpart but which in May 2010 tried to detonate a car bomb in Times Square in New York and now claims to have its own overseas operational network.

Much closer to home we have seen this week the sentencing of a man here who used the facilities of a public library to set up 'Al Qaeda Great Britain'. He had no connection with Al Qaeda and, at the time of his arrest, his group had very few members. But his purpose was to encourage attacks against western interests and in particular politicians in this country.

So there has been what we might describe as a widening and a flattening of the terrorist threat: widening because there are more groups involved and they come from a number of different countries; flattening because the hierarchies which once controlled them are being dispersed.

I have imposed some sort of structure on this description to try to make sense of the threats we face. But we should be cautious about this way of way of thinking.

All these four entities evolve and interact. They talk to or are inspired by each other and associate and combine forces in ways that we cannot always predict or understand. They come together for specific operations. They get funding from the same sources. Self-starting organisations absorb lone individuals and then establish contact with known networks. Networks break up and go their own way.

So the separate boxes in which we like to organise threats are often of our own making. They

give a coherence which we find helpful and even familiar, but which can be misleading. A threat assessment based around groups and organisations is often less accurate than an assessment based on movements and on the common ideology which glues them together.

Now: strategy. We are approaching the 5th anniversary of the London bombings. In that time we have made great headway dealing with the threats we face. Terrorism has killed thousands of people around the world. But there have been no fatalities here. So without doubt there has been success and I think it is worth pausing to identify four key factors which may explain it.

The first is the expansion of and closer coordination between the police and Security Service, leading to better capabilities, organised around a common set of operational priorities. Regionalisation has followed: we no longer believe that counter terrorism can be run remotely from within three miles of this building; specialist teams are now better integrated into local policing units and even into the work of local authorities. This has happened largely since 2005 and probably represents the most profound shift in policing and Security Service work on counter terrorism since the re-allocation of responsibilities in Northern Ireland.

Second, we have become much better at working 'upstream', in countries overseas where plots against us here are being devised and directed. Almost every terrorist attack in this country has had some foreign connection, even if only down an internet line, and the term 'homegrown threat' for that reason can be misleading. So upstream work, wherever it might be, is correspondingly important; and of course with upstream work goes upstream collaboration: the further we range afield the less we can do on our own.

The third point is that we are increasingly aware that we are not going to arrest our way out of the terrorist threats we face. We recognise that counter terrorism must involve more than the investigation, arrest and prosecution of people engaged in terrorist-related activity. Challenging ideology - the narrative that welds people into groups and movements and then sustains it - is vital.

That perception is new. I doubt it would have been shared across both the agencies and law enforcement in 2005. Even in 2007 I believe that our commitment to a meaningful, well-funded and resourced Prevent programme was not significant and under the headlines there was little of substance. What has happened since reflects a further significant change in the setting of priorities, allocation of resources and ways of working.

I think the fourth factor in our success has been having a single counter terrorist strategy, which includes all the relevant Government departments, makes a practical difference to what people do and which has tangible real world impact. I believe that this is due not just to the quality of the strategy itself but also to the rigour with which we police it, ensuring that we are working to a common set of objectives and measuring our performance in a similar way. People work on CONTEST in High Commissions and Embassies around the world, in Departments in London, in local authorities and in policing units up and down this country. They talk about the strategy and they refer to it. I wonder of how many other strategies the same can be said.

I want to talk briefly now about the challenges and the difficulties faced by any government dealing with counter terrorist issues. Some of these challenges derive from the threats we face and its

drivers; others from the way we have to respond.

The first is perhaps obvious. What I described as flattening and widening in many ways makes the threat more rather than less difficult to manage. We now deal with many more terrorist organisations, whose methodology and personnel are often unfamiliar and who operate from a wider range of countries.

An attack by the Pakistan Taliban in New York – arguably the most protected city in the world – is in its own way as iconic a moment for this phase as 9/11 was for the phase which preceded it. It should be no surprise that some strategists in Al Qaeda have argued that a centralised organisation is a mistake and that dispersal and decentralisation will make terrorism more effective. Their vision is of a terrorist campaign conducted by people who are independent – the fourth category I mentioned earlier - and not under their command and control.

The second challenge is radicalisation. Although we have come to recognise that radicalisation is a key issue, we are not yet dealing with it as effectively as we should. I am not sure that anyone else is doing very much better.

I don't think this is altogether surprising. It has taken this country many years to develop an effective counter narcotics programme for addicts and offenders and some people would argue that we still have a way to go; we have been working on counter radicalisation for a fraction of that time and the task seems to me to be at least as complicated.

Polling indicates falling levels of support around the world for bin Laden, Al Qaeda and for terrorism. But it also suggests very significant support remains - and much greater support for the political objectives with which Al Qaeda has become associated. So in many countries some 20% of people surveyed will claim to support Al Qaeda and 50% or more will endorse some of its views. In particular, the notion that the West is at war with Islam and not with Al Qaeda is pervasive and very damaging.

The third challenge is presented by two apparently very different drivers for terrorism, which we have seen over the past ten to twenty years and which will prove very hard and are perhaps impossible to resolve. One is technology and the other is state failure and fragility.

Some aspects of technology are making terrorism easier. High street products and services we now take for granted – in particular the internet - enable the planning of attacks, recruitment, secure communications and the construction of sophisticated weapons. This is 'off the shelf terrorism'. It has made state sponsored terrorism look largely redundant: why bother?

Failed, failing and fragile states are the geographical counterpart to the virtual world of the internet. They also enable terrorists to plan operations with impunity, to mobilise and to train beyond the reach of the law and a judicial system. In areas around the world where terrorists are now most active they are least likely to be brought to justice. Think of Somalia, Yemen, sub-Saharan Africa and the tribal areas of Pakistan.

We cannot, of course, stop the forward march of technology. Nor can we easily prevent the failure of states. These challenges are also conditions around which we will have to work.

Let me turn now to a separate set of challenges which are less to do with the environment and more to do with the manner of our response.

First of all, international collaboration. No one disputes that international collaboration is a cornerstone of counter terrorism and, like others, we spend a great deal of our time promoting it. So it seems perhaps counter-intuitive that collaboration is the source of many of the problems we face.

The reasons are plain enough. Counter terrorism demands intelligence and security cooperation which is much wider and closer than was the case during the Cold War. It takes us way beyond the comfort zone of Europe and NATO. But extensive collaboration exposes very different legal systems and procedures and the many ways in which Governments conceptualise and deal with the threats they face.

This is new. That we had different legal systems mattered less for much of the post war period when our security derived from a few strong international partnerships, the threats we faced were state based and when the purpose of intelligence work was rarely to detain, prosecute and convict.

It is of course also true that the internet has in any case given the term 'international' a new meaning. Our work – security, intelligence and military counter terrorist operations - is not only visible to, but scrutinised and reinterpreted across hundreds of websites, many established, funded and staffed by extremist and terrorist organisations. The internet enables the mobilisation of opposition in a way that was previously unthinkable and has in one sense made the international virtual (or perhaps the virtual international). That will be the context for our work in the future.

Second, domestic issues. Successful counter terrorist work requires technical and human surveillance. It also depends on the collection and analysis of data, in particular about travel, communications and the movement of money. But surveillance and the collection and analysis of data are necessarily intrusive. They raise real and substantive issues about the appropriate balance between measures needed to ensure security and the right to life – the highest duties of Government – and the protection of other rights and freedoms. (By the way I use these terms deliberately: I do not accept we balance 'security' against 'liberty').

Government has to navigate an appropriate path, often falling back on concepts of necessity and proportionality: what is necessary to deal with threats we face; what is proportionate?

But in truth these concepts are less than scientific and permit very different conclusions. The families of people killed in terrorist attacks may have views about the degree of surveillance and intrusion which would be justified to stop attacks in future or would have been justified to stop attacks in the past. They are often very different from the views of people who have never experienced terrorism and are unlikely ever to do so.

Views about necessity certainly depend on knowledge of the threats we face. But conveying the reality of the threats we face is hard. Counter terrorism is necessarily secret: disclosing threats can increase them. The absence of successful attacks here has suggested to some people that the powers we have are redundant. I would argue that these powers have contained the threat and made attacks less likely.

My final point is about resources. This is an issue often couched in terms of the amount of money which has been made available for police, the military or the agencies. But this is in danger of missing the point. Responding to terrorism requires a short-term immediate response to deal with imminent threats. But it also demands a long-term response to deal with underlying drivers – radicalisation, state failure, fragility, technology. We will never be able to deal with these challenges alone and they will always dwarf the resources we have available to address them. Our security remains dependent on the security of other states.

So, back to your question: are we winning?

Remember what we are trying to do. The aim of our strategy – accepted by each Government since it was developed in 2003 - is not to eliminate terrorism. It is rather to reduce the risk of terrorism so that people can go about their lives 'freely and with confidence'.

I believe that has been done. We have had considerable success. That success has been due not only to work by the security and intelligence agencies and by many others, but also to a presence of mind, an attitude if you will, which accepts that confidence is not inconsistent with a degree of threat and which will not be obsessed or paralysed by it.

But - as I have tried to explain – the threat remains even as it changes shape. We face challenges which seem likely to be resolved only in the longer term, which relate to, but extend way beyond narrow matters of security and which will continue to create difficulties for Governments of any persuasion. The language of war – winning and losing - seems inappropriate. It implies a definitive beginning and end, a conflict whose scope is clearer than now seems to be the case, an enemy who can be more easily defined and a certainty which it is hard to have. Its very use in the environment which I have described can be counter productive. So I stay with success against the aim we have been set.

Thank you very much.

RUSSIA: A NEW WHIFF OF OPTIMISM?

Transcript of a lecture by Sir Tony Brenton KCMG

20th October 2010

Sir Tony Brenton *worked for over 30 years for the British Foreign Office. In 2004 he was posted to Moscow as Ambassador where he had to manage the course of British relations with Russia over a turbulent four year period. He was awarded a KCMG in 2007. He is now a Fellow of Wolfson College, Cambridge and is writing a book on Russian history. He is also acting as an advisor to Lloyd's Insurance, and is a Director of the Russo-British Chamber of Commerce.*

One of my favourite definitions of a diplomat is of a man who thinks twice before saying nothing. Happily, I am no longer a diplomat, so I rather hope to say something substantial to you in the course of this afternoon. But I chose my title, 'Russia: A New Whiff of Optimism' back in July and on reflection, I should have been a little bit more cautious. It should have been 'Russia: Maybe A New Whiff of Less Pessimism', unless of course you accept the Russian definition of an optimist, who is a man who thinks tomorrow will be better than the day after tomorrow.

Anyway, what I am going to do is go back to the last time we were all feeling positive about Russia, which actually was a long time ago, in August 1991 or just after, and come from there up to the present day, by way of painting a picture of where we now are and exploring a little bit where we may go from here.

You will, of course, remember August 1991. Communism fell. There was the coup in Moscow itself. The Soviet Union fell apart and we all looked forward to a new democratic, free market Russia emerging from the fragments in exactly the same way as all our new, democratic, free market Eastern European friends - and now EU members - did, out of the former Soviet empire. It did not happen and it is worth asking why it did not happen in the case of Russia, particularly vis-à-vis the Eastern Europeans, and there is a whole range of rather obvious reasons.

A central one was the hugely botched economic reform which first of all led essentially to the breakdown of the Russian economy, an economy which had been built on people trading according to the Plan, and caused a lot of trouble to people trading according to money and demand.

In the course of transferring most of the Russian economy into private hands, an awful lot of that economy found itself in very few hands, so there was also at the same time, huge social stratification in Russia and huge resentment by the vast majority of the Russian people, who found themselves having previously been moderately well off citizens of a proud upstanding superpower, suddenly deeply impoverished, faced with a new upper class of oligarchs whom they on the whole hated and still hate, deeply insecure about their jobs and about their income and deeply resentful of their country's much shrunken place in the world, and this poisoned the initial phase of Russian democratic politics.

What you had was President Yeltsin saying to the people, to the provinces, to everyone, 'take as

much power as you can handle, let's get away from the old monopoly of power in the Kremlin, let's get into much more pluralistic politics', but the reaction at all levels was 'we will take power to benefit ourselves, personally, economically'.

There were none of the underlying understandings upon which real democracy depends. There was a huge tendency towards nostalgic politics if I can put it that way, towards bringing back communism. It was only by really quite dark manipulation that Yeltsin succeeded in winning the 1996 presidential election against the biggest competitor whom he was facing, which was the Communist party. There was also a very sharp upsurge in a rather nasty nationalism exemplified by Zhirinovsky, anti-Semitic and revanchist, in the worst possible way.

So democratic politics for a variety of rather obvious reasons in retrospect, simply did not work at that stage and on top of all that, there was international humiliation. The balancing factor, it is the wrong way to put it, but the other half of the Cold War having suddenly collapsed, the West moved into space and moved with self-confidence on various international issues, which was deeply, deeply uncomfortable for the Russians.

Our war in Kosovo, fought without Security Council authority, was done in the teeth of massive Russian objections. The expansion of NATO steadily eastwards to take in first of all East Germany, then the Eastern European states and then indeed, former bits of the Soviet Union, Estonia, Latvia, and Lithuania was very, very threatening in Russian eyes, particularly since they claimed that they had assurances at the time that they were pulling out of Eastern Europe, that we were not going to do it.

In addition to all that, the Russians felt that their country was falling apart. They had a very nasty series of wars going on in Chechnya about independence, Tatarstan felt as if it was edging away from the rest of the Union, geographically impossible though that is, Sakha out in the depths of Eastern Siberia also was looking for more and more autonomy. So everything was going wrong - national cohesion, internal politics, international standing, money, all of that. And the Russians, in this situation, went back to what may be a sort of ancestral instinct: they looked around for and found, a strong man to begin to pull the place together again.

The strong man was, of course, Vladimir Putin. You could have arguments about how he got the job of President at the beginning of the year 2000, but having watched a bit of the process both here and in Moscow, I am pretty clear that Yeltsin in his mind as he picked Putin was looking for someone who had the FSB experience, had the security experience, had the toughness to begin to remedy some of the things which he, Yeltsin, appreciated had gone wrong under his own rule.

So Putin arrives and in really quite short order begins to pull the place together and what this was about was about power and was about taking control over the various forces which were acting in vociferous ways in Russia at the time.

So he dealt with Chechnya, unpleasantly, brutally, but although there are still problems there, Chechnya is now no longer a threat to the integrity of the Russian Federation.

He dealt with the threats and the damage that democracy, in the wider sense, was doing. The key thing to bring under control for this purpose was the press and in particular, Russian language

television, which is the sole nationwide glue which drives the political process. By getting rid of a couple of oligarchs who had troublesome TV shows, notably Berezovsky who lives here now and Gusinsky who lives in Israel now, he took very firm control of the press and therefore, in effect, of the political process.

He dealt with the regional barons. One of the legacies of Yeltsin were very powerful figures, notably out East, but not only there, in Tatarstan as I have mentioned, and we have just seen the last of them go from Moscow itself. He changed the law so that they were no longer directly elected by their regional electorates, but chosen by him and astonishingly they therefore became much more co-operative with the central authorities than they had been before.

He dealt with the oligarchs. The oligarchs were the other great source of countervailing power in Russia, very rich, very powerful. As I have said, Berezovsky was sent off and Gusinsky was sent off. The real demonstration event for the oligarchs was in fact Khodorkovsky at about the time that I arrived in Russia as Ambassador. Russia's richest man, running Russia's largest and most successful oil company, Yukos, suddenly facing a series of tax evasion charges. A questionable legal process follows and he is now serving eight years in a Siberian jail and moreover, even as we speak, is coming to the end of a further trial, in which he is accused of stealing the money which he was previously accused of not paying taxes on and may well - I think the odds are will – face an extended further period in Siberia, whereupon of course all the other oligarchs suddenly become much more attentive to what the Kremlin wants in their business behaviour.

And he dealt, eventually, with relations with the West. He was very cautious here, but this did happen while I was Ambassador. Suddenly, after putting up with a lot of what they saw as humiliation by the West the worm sort of turned. They suspended their observance of a Treaty which no one had ever heard of before, the Treaty on Conventional Armed Forces in Europe, but this made an impact in the arms control community. He gave a Munich speech which in effect said 'we are a proud nation and we are not going to knuckle under to the West any more'.

They became very critical of various NATO and other activities, but the key moment where they most effectively blew a raspberry at the West, was of course in 2008, in Georgia. Georgia was a war which I had spent four years as Ambassador predicting, so I am slightly relieved that it took place whilst I was still there. The Georgians in a sense brought what happened on themselves, but nevertheless the Russians seized the opportunity which the Georgians gave them to demonstrate that small pro-Western troublesome countries wanting to join NATO had to take Russia's essential national interests into account. The question of Georgia joining NATO was now being put off *sine die*, and there is much more attention around Russia's borders to making sure that Russia's interests are taken into account, as they frame their various policies towards it.

So Putin took control of Russia, dealt with the various problems and in particular, I leave this last quite deliberately, turned the economy around.

Now, the turning around of the economy was partly luck. He arrived more or less at the time that the oil price began to recover and if there is a single parameter which drives Russia's economic health, it is the oil price. As the oil price recovered, so that fed into all of the big deficits which Russia had previously had. It had a huge external deficit, a huge government deficit and those disappeared and it became possible for Putin to deliver a rising standard of living for the Russian

population and that, of course, helped his popularity magnificently.

The stronger feeling of order also helped. The feeling that there was a grip on the economy helped potential investors to take Russia seriously as an investment destination, helped companies thinking of expanding, consolidating or diversifying to do so in a much more stable environment. It was by no means a perfect environment - there are all sorts of things wrong with the Russian business environment - but it was, by comparison with the anarchy which had prevailed under Yeltsin, a much clearer environment within which to do business.

Putin therefore yielded for Russia almost ten years of really quite fast economic growth from 2000-2008 and it was a very good thing of course, very popular and very successful, Russia feeling its oats and in the views of everybody, doing rather well. One of the BRICs is how they think of themselves now - you remember the great Goldman Sachs group, Brazil, Russia, India, China? The Russians are really rather proud of the fact that they are in that group, that they are seen as a leading emerging economy and they attach a lot of value to being in that company.

It was all going great until 2008 when we had the great banking crash and so on. I was actually at the St. Petersburg Economic Forum which the President always comes along to speak at, in June 2008 and I heard Medvedev speak, who by then had become President (I say this with Putin actually retaining his grip on most of the levers of power). I recall Medvedev saying at that forum, 'we are sorry that the West has all its banking and other problems, we are sorry the Anglo-Saxons have these problems, we sympathise with the economic difficulties they are going through, but of course this is not going to affect us, we have got lots of oil, we are doing lots of trade around the world, why do we care?'

And it did affect them. It was a very, very nasty shock for Russia which, of the four BRICs, did much, much worse than any of the others. Their economy in 2009 actually shrank by 8%, a huge contraction in economic strength.

Two reasons for that: firstly, oil prices, of course, fell quite substantially as a result of the recession. Secondly, Russia, unlike any of the other BRICs, has a completely open capital economy. The rouble is entirely convertible, there are no controls and at the first hint of trouble, lots and lots of capital fled for safety and Russia found itself obliged to spend 200 billion dollars on keeping the rouble afloat until they got over that period of fear, with all of the knock-on effects it had for internal economic activity.

I should say the shock was bad, but they are now beginning to emerge from it. Growth this year is going to be about 4%, self-confidence is beginning to re-establish itself, the oil price is back up.

So, in the aftermath of that, if I can leave you with one question to ask yourself looking at Russia going forward, it is, 'have they learnt anything from the recession?', because in the period of high growth and all the money and all the success, they got over-confident. They stopped worrying about the views of international investors in their economy and they were actually quite nasty to a few international investors. You will remember the sagas we had over TNK-BP and over Shell's Sakhalin project.

They stopped reforming their economy. There is, as I said, an awful lot wrong with their economy.

It is very corrupt, it is very bureaucratic. The measure is that buying assets in Russia by comparison with buying assets in, say, Brazil or China, Russian assets are priced at about 25% less and that reflects the costs of the lack of legal system, the bureaucratic uncertainties, the corruption and the sheer difficulty of doing business there.

So, they got over-confident. They had the shock. Question: have they learnt anything? Are they now, as a result of the shock, going to sort out those key underlying infrastructural and systemic problems which have held them back in the past?

Half of the answer is that they are talking as if they have learnt the lessons. You will find with Medvedev now and with Putin now, the key word on both of their lips is modernisation. It is creating a hi-tech, highly industrialised, modern economy, thus replacing the excessive dependence on oil and on natural resources, which they see as being part of the problem which led them into the major collapse in 2009.

They have taken some rather hesitating and unproven steps to deal with the bureaucracy and the corruption. They passed a couple of laws, earlier this year actually, which limit the number of certificates and bureaucratic approvals you need to start a new business and that sort of thing – it is untested and we will see.

They placed First Deputy Prime Minister Shuvalov, a very good guy, in charge of improving business conditions for international investors, making it a place that is safe for international companies to invest in.

Medvedev has worked up a very good line in talking about the importance for Russia of dealing with what he calls 'legal nihilism' which means the absence of a dependable legal structure and court system there.

Talking of the importance of dealing with corruption, one of the justifications which has been offered for the removal of Mayor Luzhkov from Moscow in the course of the last few weeks, is that he (Luzhkov) ran a very corrupt regime, which of course he did, and this explains why they needed to change him. There is a lot more to it than that and I would not actually put the removal of Luzhkov down to corruption, since there is corruption in a lot of other places as well, but the fact they are talking about it is a sign that they recognise the seriousness of the problem.

So they are certainly talking the talk of an administration which appreciates that they underperformed in the latter part of the first decade of the 21st century. They appreciate the need to modernise, as they say, the economy, to make it a much less one-dimensional, resource-based economy.

The question is, do they mean it? Can they deliver? And on this, I have to say, opinions are very divided and that there are good reasons to be doubtful.

This whole modernisation thing, if you begin to unpick it, what it is about, what it looks like and what the concrete plans are that have emerged, is top down. The state is putting money (eight billion dollars) into an outfit called Rusnanotech, which is designed to create a Russian nanotechnology industry, with a hi-tech concentration at a place called Skolkovo. Through tax incentives and others, the idea is to generate a hi-technological hub like the one I live in, Cambridge, and to inject that

sort of dynamism into the Russian economy.

All of which sounds very fine, except one automatically asks two questions. Anyone who knows anything about Russia instantly asks why should it work this time if it didn't work under Gref ten years ago and under Stolypin a hundred years ago? Why, when these great top down modernisations of Russia have never worked in the past, why should it work now?'

And secondly, this does not feel proportionate to the scale of the problem. You do not deal with massive corruption, with massive bureaucracy, with a deep lack of legal certainty, by creating a hi-tech hub and a hi-tech company. I am still left faintly wondering, I have to say. These people are not stupid. They know very well that you do not deal with the depths of the problems by creating a Skolkovo and a Rusnanotech. There are two possible explanations in my mind and I offer them both to you.

One is that this is simply political pabulum: they have had a rough time through the recession, they need to be seen to be doing something, so modernisation is it.

The alternative, more encouraging explanation is that the no doubt deep bureaucratic fights that have gone on about Skolkovo and about Rusnanotech are a preliminary to conducting those fights on a wider scale for more worthwhile outcomes. If you can get a sensible tax regime for Skolkovo, then why can't you get a sensible tax regime for the whole country? If you can get a sensible management import/export regime for Rusnanotech, then why can't you get a sensible import/export regime for the whole country? And I like to think that these are more in the way of pilot projects for a much bigger reform project which one hopes is coming down the line.

But the real reason to doubt why all of this talk of modernisation might work is because first of all the pressure to reform the current system radically has diminished. With the oil price back up again, the deep economic concerns which hit them last year are dissipating; and secondly, an awful lot of people do very well, insiders do very well, out of the current system and have no interest in a more transparent, more legally defined Russian economic system than they have got at the moment. For me the jury is out. There is an awful lot of pessimism about whether the reform push is going to work, but there are reasons for optimism, Russians being Russians.

Let me tell you a joke I heard, which tells you a little bit about Russia.

Three people are looking at a picture of the Garden of Eden with Adam and Eve - an Englishman, a Swede and a Russian. And the Swede says, 'well, they are obviously Swedish, they are love-children, celebrating in the open air'. The Englishman says, 'this is obviously England, look at that beautiful garden' and the Russian says, 'look at these two people, they can't afford clothes, they are obviously homeless and they've only got one apple to eat, they're obviously Russian', and that tells you quite a lot about Russia's sort of gloomy self-presentation which feeds quite a lot into the wider self-presentation.

But there are hidden reasons why my original title of optimism, I think to some extent, holds true.

We all spotted the big forest fires in Russia recently and we all spotted that they therefore put a limit on grain exports and we all spotted that this had quite a dramatic effect on the world's grain

markets - prices went up by 5% or so. I invite you all to just think a little bit about that. Agriculture was the most catastrophic single bit of the old communist economy. When I first went to Russia in 1994, the one bit of the economy that we took no interest in at all was agriculture. It was broken down; the countryside was full of drunks living on kolkhozy doing as little as possible.

In the course of the last twenty years, unnoticed by us, agriculture has to some extent consolidated and to some extent let outsiders in. I met, while I was there as Ambassador, these two wonderful Nottingham farmers who had somehow put together 20,000 hectares of land at the top of the Black Earth and were producing agricultural produce at six times the Russian average. And that revolution, unnoticed, gone on behind the backs of all of the people who are vying for oil profits and nickel profits and all of that, now makes Russia the third largest grain producer in the world.

Similarly, on the corruption point, at about the time that I arrived as Ambassador, there was a big law passed to close down all of the casinos, virtually all over Russia. Now I do not know if many of you visited Moscow at the beginning of the 21st century. It had more casinos per head than anywhere except Macau and Las Vegas. It was an extraordinarily glitzy, corrupt, gambling capital, and of course, when they passed this law, we all said, 'that's not going to happen, far too much money is going to go into people's pockets, it's going to be put off and off and off'. I was back in Moscow a couple of months ago and the casinos have closed. They have actually succeeded in moving them. They can do these things, even in the teeth of establishment interests, when they choose to.

Let me finish with a bit of the Russian picture which I think is of most interest to this particular audience, which is their external relations, because, as I said, when Putin was President, these were very prickly, culminating in the Georgia war. Since then, we have had the US reset and hesitant as I am to become a spokesman for President Obama, I have to say that the reset looks as if it has worked. It has worked, not only because the Americans have themselves have become more attentive to Russian prickliness in the way they have conducted their foreign policy. There is also one other very big reason why Russia is having to pull itself together and why Russia is becoming more sensible internally and more emollient externally, which is China.

People have not really focused enough on the effect of China on Russia, but if you imagine yourself as a Russian, looking at your eastern end, you are looking at a very fast growing neighbour. You are looking at a neighbour with which, although you have an agreed border, actually 350,000 miles of your territory has been denounced in the past by the Chinese as the product of an unequal Treaty, which is a slightly implied Chinese statement to the moral right to take back in particular Vladivostok and Khabarovsk in the Far East.

Let me just give you another example. The Primorsky province, which is the province of Russia where Vladivostok is, has a population of about two million people. The province of Heilongjiang, which is the bit of China immediately on the other side of the Amur River from the Primorsky Province, which is about the same size, has a population of 38 million people. This issue of population pressure and different economic dynamism, because Heilongjiang is an extremely dynamic part of China, while Vladivostok, Khabarovsk and all of the Far East are all very broken down parts of Russia, means that the fear that there is going to be a sort of swamping is very real in Russian minds.

So, various reasons - a more emollient West and a China that, while there is no overt hostility, I

suspect in the deep recesses of the Russian security establishment they are getting more and more worried about, combine to give us a Russia which I suspect is going to become more and more interested in getting on with this in all sorts of ways. And a number of those ways are already becoming apparent.

Over the time that I was Ambassador and since, despite all the headlines about how unhelpful Russia was being over the Iranian nuclear issue, in fact, at the end of the day, they have always gone along. They have very real economic interests in Iran which they have to some extent have placed at stake. They have been reasonably helpful on the Security Council and in establishing sanctions and they have been co-operative in our efforts to deal with Iran. They have good national reasons for doing it - they do not want the Iranians to acquire a bomb any more than we do, but, nevertheless, that is a very clear example of Western/Russian co-operation, invisible but important.

A rather more important issue, and equally invisible, is Afghanistan. Russia has had its own bad experiences in Afghanistan and does not like the idea of NATO winning a war anywhere really, but as the Afghanistan operation has proceeded, has become more and more conscious of the very damaging implications for themselves if NATO loses.

If I had to identify two big security fears in the Russian mind, one is, as I say, the rising China and the other is Islamic fundamentalism. The latter was part of Chechnya, it is part of problems in Tatarstan, it is part of problems in the north Caucasus, and they are very, very keen to limit that. They take quite vigorous action, intelligence and others, in their old empire in Central Asia and Afghanistan is a real worry for them if the Taliban prevail there.

So they have gradually become much more co-operative in assisting even the dreaded NATO in its operations in Afghanistan. There are now two major transport corridors across Russia, one by rail for non-lethal items and one by plane for lethal items, deliberately intended to assist, in particular, the US war effort in Afghanistan.

So, to finish: I cannot finish, sadly, on a totally optimistic note. There are reasons why they might revert into the old lazy resource dependency, corrupt Russia, in which case they are going to be left behind by their fellow BRICs and are going to see China as more and more of a looming threat.

Or, the nation's internal strengths, its dynamism, its consciousness of its own interests vis-à-vis China, vis-à-vis the West, vis-à-vis economic strength will prevail, and we will be dealing in ten, twenty years' time, possibly not yet with a democratic Russia, but with a Russia with a decent economy, that is moving as Korea did and as lots of countries have done, in a democratic direction for the good Marxist reason that once you have got a decent middle class, you then tend to get democracy after it.

I err on the optimist side, hence, as I say, my original title, but I leave you with the question as to which way we are going to go.

Thank you very much.

AFGHANISTAN: A WINNABLE WAR?

Transcript of a lecture by Rory Stewart MP

2nd November 2010

Rory Stewart *joined the British Diplomatic Service and served in the British Embassy in Indonesia and, in the wake of the Kosovo campaign, as the British Representative in Montenegro. From 2000-2002 he walked on foot across Pakistan, Iran, Afghanistan, India and Nepal, a journey of 6000 miles. In 2003, he became coalition Deputy Governor of two provinces in the Marsh Arab region of Southern Iraq. In 2004, he was awarded the Order of the British Empire and became a Fellow of the Carr Centre at Harvard University. He lived in Kabul from 2006-2008, where he was the founder and Chief Executive of Turquoise Mountain, a non-profit, non-governmental organisation. Rory was appointed to a professorial chair at Harvard University as the Ryan Family Professor of Human Rights on 1st January 2009 and became Director of the Carr Center for Human Rights Policy at the Harvard Kennedy School. He was elected as the Conservative MP for Penrith and the Border on 6th May 2010.*

Thank you all very much indeed for coming. It is a very intimidating room to be addressing. This seems to be an increasing phenomenon in my life: I can see a number of my bosses sitting in the room from previous parts of my life and many, many people who know a great deal more about Afghanistan than I do.

I was last in Kabul on Thursday and then flew to Canada and just landed from Canada this morning. So I apologise if I am a little bit confused as I talk. I suppose what I am really here to do is to try to share a little bit of my confusion and to take advantage of some of the expertise in this room to have more of conversation than a pontification.

What many of you will have found in your visits to Afghanistan recently is there is an astonishing gap between the kinds of experience that appear to be happening in Helmand, the kind of language in the British and American military which is predominantly at the moment quite cautiously optimistic, and the sentiment around Kabul, around the NGO community and around many of the civilians, which is much more gloomy.

The same sorts of schizophrenic dichotomies exist in Pakistan as well, where, it seems to me (and again this is really one person's experience rather than a great final statement on the matter), but many, many of the Pakistanis that I saw last week seem to be privately, extremely doubtful about our operations in Afghanistan, while publicly speaking a very fine line about the global war on terror and the importance of crushing the Taliban.

So it is a very, very odd dichotomy and it is one that I want to explore a little bit more.

In other words, if I sit down with ex-Director Generals of the ISI, for example, of whom I saw two last week, they will say privately that they are not quite sure what the United States thinks it is

doing in Afghanistan and they will speculate, 'is it something to do with China, is it something to do with having strategic bases, is it something to do with gas?' But, in public, when talking to the United States, they will say, 'we fully understand that the security of Pakistan depends on Afghanistan and it is vital to crush the Taliban.'

The two central questions, though, as we look at this issue, are:

Firstly, why do we think we are there, what is it we are trying to achieve and why do we think this place is important? And secondly, what can we do?

These two things are distinct. We often confuse them. We often assume, if something is really, really important, it must be possible to do it. We do not like the idea that there could be something that we really cared about, something that really mattered, which we might be unable to do.

My guess is, and this is pre-empting what I am about to say, is that of course Afghanistan does matter, but perhaps not as much as we imagine. It is not an irrelevant place, it is a place that has certain kinds of significance and we have certain kinds of obligations to the Afghan people. Afghanistan does pose some kind of threat to regional stability, but it is only one country amongst many. Perhaps in a category of twenty or thirty countries, to whom we have those forms of responsibility or which pose those kinds of threats.

And as for what we can do about it, again the answer is not entirely black and white. It is not that we can do absolutely nothing and that rather than cutting and running, we must just run, but nor is it true that we are likely to be able to create a legitimate, effective, credible Afghan government and leave behind the kind of stability of which we once dreamt.

All of that seems like platitudes because, as you heard from Lord Anderson as he introduced me, we are very accustomed to having said, over the last five or six years, that we are being more realistic. In fact actually, I am going to be unfair and just deconstruct what he said on introducing me because it now represents very much the central theme of British descriptions of Afghanistan – it is a very, very good summary of where I think we have arrived at over the last five years.

If you remember, he said firstly that we have moved away from the fantasies of democracy-building towards more realistic expectations, that we have now properly supported and equipped our troops, that they now feel cautiously optimistic, that we are moving into negotiations with the Taliban and the question is, will the Taliban or will they not defend the rights of women?

Almost all of these statements, unfortunately, can be questioned. It is true indeed that we have gone from where I was in 2002, when I sat in rooms like this and heard people say, 'every Afghan is committed to a gender sensitive, multi-ethnic, centralised state based on democracy, human rights and the rule of law', to the point President Obama arrived at last year where he talks about a credible, effective and legitimate Afghan government.

So, certainly the language and the rhetoric appear to have become more realistic. Unfortunately, even that more realistic rhetoric of a credible, effective, legitimate Afghan government is likely to be out of our reach.

As for the statement that we are 'supporting and equipping our troops properly', well, that too, to some extent, is true. It is certainly true that the British military in particular and the American military even more dramatically, were extremely dissatisfied with the troop numbers and the resources given to them from 2005 to 2009.

The British story is very well known. Discussions about helicopters and the gradual transition that took us from roughly 300 special forces sitting in a base in Helmand in 2005 (so quite recently) to 3,000 to 5,000 to 7,000 to 9,000 to 10,000 and to today, 31,000 soldiers in that same province of Helmand - up from 300 in 2005. And it is true that we have also become better at providing helicopters and military equipment.

On the American side, the story is even more dramatic. President Obama often appears to be a man who is somewhat reluctant and moderate in his approach and that is certainly true rhetorically, but in actual fact, the contribution that President Obama has made to troop numbers and resources in Afghanistan far outstrips that of the much more hawkish and melodramatic President Bush. President Bush talked a huge game, but in fact only increased troop numbers in Iraq by about 30%.

President Obama took over a situation in January 2009, when American troop numbers were under 50,000, committed a further 17,000, then a further 30,000, so American troop numbers are now, with their coalition allies, up at about the 120,000 level, so that is certainly right. We have a much better equipped and better-resourced military and what I observed in Helmand this week, is very, very high morale. Soldiers who feel at last they have got the right kinds of inputs and resources to do the job, in particular the British, who have given up on the much nastier parts of the province. Some of you in this audience, I know, were fighting in Sangin and of course we have moved out of Sangin. The American Marine Corps has now taken over Sangin.

We are now focused around Lashkar Gah with about 10,000 soldiers dealing with an area which I guess is about 62 kilometres across, from Nadi-Ali across to Gereshk where the Danes are. And with the very large troops numbers that we have there, about 10,000 people in this rather small area, we have begun to grow the ink spots, we have begun to connect some of the roads. Not entirely, it is still not possible actually to drive from Lashkar Gah up to Gereshk, let alone drive safely from Kandahar towards the Iranian border, but there has been a small increase, as you would expect.

And you would expect that, if you put 30,000 troops into Helmand, which has a population of about 800,000 people, very difficult to tell because of Afghan statistics, but approximately 800,000. To give you a comparative indicator, when I was in Maysan in Southern Iraq, which had an almost identical population size, in 2003-2004 we had one battle group. We had approximately 1,100 troops dealing with an area with a population size in which we now have 30,000. So, as you would expect, some improvements in Helmand.

That optimism extends to General Petraeus and to DCOM ISAF and to some extent, to the Secretary of Defense and the Secretary of State, all of whom feel that they are beginning to make progress. They are killing a lot of mid level Taliban commanders. They are feeling that bazaars are opening and people are able to move through the streets. They are optimistic about the new achievements and about training the Afghan National Army and the Afghan National Police.

The whole counter-insurgency theory with which you are all familiar, but for those of you in the

audience who are not familiar, is roughly a theory of 'clear, hold and build'. In other words, a theory whereby international troops go into this area, clear out the bad guys, hold the ring, bring in the Afghan government, get the economy going again, get governance going again, hand over to the Afghan army, then the Afghan police and move on outwards. And this seems to be happening in the areas where we have very large numbers of troops.

At the same time, if you are to talk to almost anybody in Kabul, almost anybody working in an NGO, a charity, or a civilian organisation, they are worried and depressed. I was in Kabul as I said last week and I was also there three weeks ago. I did not meet a single civilian in Kabul who thought that things were going well. From their point of view, the situation is deteriorating.

Just to give you an anecdotal example. The Director of the Aga Khan MicroCredit Bank was complaining that they had been unable to open 17 branches of their bank in Northern Afghanistan. There is a sense that it is like a water balloon. As we squeeze Helmand, the problem is popping up somewhere else. In particular, roads that used to be entirely safe going from Kabul up to Mazar-i-Sharif or out to Kunar are now impossible to travel down for any normal civilian. And despite the very large military presence in Helmand or Kandahar, I would not recommend any of you getting in a taxi to Helmand at the moment.

The improvement is there, but let us look at what this improvement really is. Let's get down to the brass tacks.

We talk a lot about educational improvements in Helmand. There have been serious educational improvements in Helmand. The number of children in school in Helmand has gone from approximately 50,000 in 2005 to approximately 80,000 in 2010. That is a great developmental achievement. But it is not a step change. That move from 50,000 to 80,000 is not a total transformation and the question is, of course, as with all these things, how sustainable is it?

Let us look at police training. I went to see the police training in Helmand. The police training, which is very, very impressive and is currently being run by a battle group from the Argylls, involves Afghan local policemen coming in on an eight-week course and then graduating and going back to their villages as policemen.

What is an eight-week course? An eight-week course means taking people, of whom they estimate 92% (the colonel actually estimated 95%, but then revised that to 92%) are entirely unable to read and write when they enter that course. They cannot write their names, they cannot recognise numbers up to 10, they have never been to school. If you take people in their 20s and 30s who have never been to school and put them through an eight-week course, they find it very difficult to concentrate in classrooms. We are now focusing on basic literacy. We give them 64 hours of basic literacy, which is about two weeks of their eight-week course. At the end of that, the brighter students are able to read at the level of a five year old. In other words, they can write their names and they can recognise numbers up to about 100. And we give them some basic weapons training. They can clean their weapons and we talk a little bit about police training and then we put them back in the villages.

I am not sure whether what I have just described is a policeman. And the reason that I am being a little bit pedantic about these kinds of things is that when you hear these great claims about

massive achievements in police training or military training, it is quite important to ask questions about exactly how long those courses are and exactly what skills they are emerging with.

At the base of the whole thing, the whole anxiety that everybody feels, an anxiety which expresses itself, of course, in this question about negotiating with the Taliban, is the fear that we are not creating anything sustainable.

Where the blame rests on this hardly matters. I am tempted to say, and everybody in this room would be tempted to say, that the blame does not rest with us. There is very good reason for us to feel that the British military, in particular, has done a very good job. If it is not sustainable, we tend to say, and we can understand why we like to say these things, it is not our fault, it is the fault of the Afghan government or, it is not our fault, it is the fault of Pakistan. Who knows whether this is true? Whether it might not be partly our fault as well? But whether it is our fault, or whether it is simply that the Afghan government has failed to make the necessary progress and remains in many ways, corrupt, unpopular, illegitimate, ineffectual, or whether it is that the government of Pakistan is failing to play its full role in securing the borders and excluding safe havens, or whether it is that because the Afghan National Army is predominantly officered by Tajiks and even when it has Pashtun soldiers, very few of them are southern Pashtun and therefore their presence in provinces like Helmand is unlikely to be sustainable, whatever the reasons are, after 8½ years we are not yet in a situation where anyone in this room would be comfortable walking away, which is why we talk about negotiating with the Taliban.

What do we mean by negotiating with the Taliban? We don't know. We really do not know. Governor Mangal in Helmand said to me, 'negotiating with the Taliban is absolutely straightforward. All we need to do is crush them, kill their mid level commanders, totally grind them into the ground, and then we will reconcile on the following terms. They disarm, they accept the Afghan constitution, and they break their links with Al Qaeda.'

This is not a negotiation, this is a surrender. And the question is, what are we actually doing? How much give have we got? What do these guys want? What are our levers, how do we control them, how do we bring them to the table?

It is these kinds of anxieties that make me feel that we need to be more realistic about our own capacity, our own limitations, what we cannot do. It is an academic issue why we have not made much progress for 8½ years, but the reality is, we have not made much progress over 8½ years.

Anyone in this room can talk about the things we have done. It is true. There are now two million girls in school who were not in school earlier. There is now access to health clinics in the region of 85% in Bamiyan. We all know these statistics, we can all talk about them but, ultimately, Afghans are pretty depressed, civilians are pretty depressed, and people are rather doubtful about whether there is anything that is created in this country which is likely to fulfil our kinds of ambitions for Afghanistan.

What then do we do? Well, if you are the Canadian government and my slightly frenzied state reflects the fact that I have just got off the plane from Canada, but if you are the Canadian government, what you do is you say 'enough'. The Canadian government announced that in 2011, they cease combat operations. Their argument is by then, they have been on the ground for ten

years. They do not want to be dragged into the discussion about exactly why it did not work, but it did not work and after ten years they are going to draw back. They have taken sacrifices. They have lost over 170 soldiers in Kandahar, they have fought very bravely, but the Canadian government has decided enough is enough.

But the American government - and this is really what matters to us in the room - is in a very different situation. It appears from Bob Woodward's book that President Obama was very, very doubtful about the adventure in Afghanistan. Having set off during the election campaign saying, 'Iraq is the wrong war, Afghanistan is the right war, we must be in Afghanistan, it is an existential threat to American national security', by 2009 he began to be a little bit doubtful. And Woodward at least describes an astonishing confrontation between President Obama and his Generals about troop deployments. At the end of this painful nine-week process in the fall of last year, President Obama agreed to send the additional 30,000 troops and then said that they would begin drawing down in July 2011.

What does this mean? Is the President serious? Is he going to draw down and what is Britain going to do? Let us imagine, hypothetically, that we in Britain thought that this thing was a bit of a mess. Our dream, in this room, would be that we remain shoulder to shoulder with the United States. Our dream would be that we go in with the Americans and as they withdraw, we withdraw with them. We never have to have any uncomfortable conversation in which the United States continues to do something which we are not doing. So the dream scenario (if, hypothetically, anyone in this room was sceptical about this whole event) would be: July 2011, President Obama begins to draw down, the British draw down with him and we are all out of combat operations by 2015.

But what if that does not happen? What if the United States for whatever reason - the midterm elections, the position of General Petraeus - in the end, finds itself unable to extract American combat troops from Afghanistan by 2015? What if, just hypothetically, General Petraeus says, 'okay, I will remove 850 logistics people in July 2011, or 2,000 soldiers out of 120,000, but basically the surge is continuing through 2012'? And why is he going to do this? Well, he is going to do it because he believes, as do many, many senior figures in the British military, that Afghanistan is an existential threat to global security. President Obama is being told by General Petraeus that there is a phenomenon called Transnational Global Islamic Extremism and that this phenomenon must be defeated in Afghanistan for a whole series of reasons but chiefly, I suppose, for one reason.

There are two subsidiary reasons. One of them is the fear that terrorists might return and you occasionally hear that from senior British Generals who say, 'if we withdraw from Afghanistan there will be bombs at Stansted and bombs at Heathrow.'

The second subsidiary reason is some people believe the stability of Pakistan depends on Afghanistan so, if Afghanistan falls, some domino effect will ripple across. Mad mullahs will get their hands on nuclear weapons in Islamabad and the end of the world is nigh.

But the real thing that concerns senior American Generals, I believe, is American credibility. They are terrified at the thought that if they are perceived to have been defeated in Afghanistan, this will shake to the foundations the reputation of the superpower and empower and encourage Islamist extremists all over the world by this apparent victory.

So for all these reasons, it seems to me that General Petraeus is likely to dig his heels in and for all these reasons, I think it is going to be very difficult for President Obama to argue against him. Petraeus is the hero of Iraq. The most celebrated American soldier since Eisenhower with his own presidential ambitions, perhaps, in 2016. The President has already sacked two generals in quick succession and brought in Petraeus as his third. If Petraeus says he wants to stick with it, he believes in the strategy, counter insurgency can work, give me some more time, have a bit of strategic patience here, the President is likely to sign off. In which case, what is Britain going to do?

The Prime Minister has made it very, very clear that we are committed to ceasing combat operations by 2015. That does not mean that we leave entirely. We can keep Special Forces there, we can keep intelligence people there, we can continue to train the Afghan National Army and the Afghan National Police, but we are to cease combat operations by 2015.

How are we going to get there? I personally think that is terrific. I think the Prime Minister is absolutely right - there needs to be a point where you say 'enough' and General Caldwell, who is the three-star who is training the Afghan National Army at the moment and the Afghan National Police, who again I saw on Thursday morning, is desperate for trainers and is begging us to send people to train its troops.

I would have thought this is the most fantastic opportunity for Britain. It gives us an opportunity to stand up there and say, 'yes, we're volunteering for the training'. We all agree that our exit strategy is through training, transition is through training, we must build up the Afghan National Army and the Afghan National Police and we are shifting ourselves out of Helmand towards a training role by, let us say, 2013.

But we do not yet have, as far as I can see, the plan in place to make that transition. I think there are many people in the military who will continue to want to have a two-star divisional command in Helmand when the American command ends. We will continue to fight to try to control the PRT, the Provincial Reconstruction Team, in Lashkar Gah, and I have not got any insight to what our training is for 2013-2014, but I would not be at all surprised to discover that our own military is still proposing to be conducting counter-insurgency operations in Helmand by 2013-2014.

We need to now start having a conversation here in Britain about how we are going to shift towards that end of combat operations by 2015. Because what I do not think we want to be in a position of doing is being pins on the ground in an American fight where American anxieties about credibility or domino theories or stretched global wars on terrorism are going to hold them on the ground longer than seems commensurate with our capacity. Right, that very pompous phrase, intended to mean that by 2015, we will have been there for 14 years. If we have not managed to achieve what we set out to achieve in 14 years, my guess is that we are probably unlikely to ever achieve it. And at some point, we need to find a way of drawing a line under things.

The question then for the room, and it is at this point I am going to stop talking and open it up to questions, is, how do we, pragmatically, realistically, in a textured, detailed fashion, get Britain into a situation where we do not repeat the fiasco of Basra? We do not want to be humiliated again, we do not want to be in a situation again where, at very short notice, we pull the rug, the Americans think we are a bunch of wimps, they go in and clear up all our troubles and we feel miserable.

We have got four years to sort this out. Four years to have a grown up conversation with the United States to make sure that by the time we cease combat operations in 2015, they are ready for it and we are performing an honourable role, in intelligence, in Special Forces operations and in training, but we need to do that now.

Thank you very much indeed and I am looking forward to questions and discussion.

FAREWELL TO DRIFT: A NEW FOREIGN POLICY FOR A NETWORK WORLD

Text of a lecture by Lord Lothian

(Introduced by the Rt Hon Lord Howell of Guildford, Minister of State, Foreign and Commonwealth Office)

6th December 2010

Michael Lothian *was first elected to Parliament as Michael Ancram in 1974. He is now a member of the House of Lords. His political career included four years as the Political Minister in Northern Ireland responsible for the opening engagements with the IRA which eventually led to the Good Friday Agreement, Chairman of the Conservative Party for three years, and four years as Shadow Foreign Secretary and Deputy Leader of the Opposition. He remains involved in international conflict resolution.*

Rt Hon Lord Howell of Guildford, Minister of State, Foreign and Commonwealth Office: Welcome to this very significant and important meeting of Global Strategy Forum. I just want to offer you one or two introductory thoughts.

The Prime Minister is fond of saying that on domestic affairs and how we run our nation, we need a new mindset. We have to think about things quite differently and possibly change the whole pattern of our thinking about cause and effect.

The same applies, I would say, even more so, in thinking about our positioning in the world and how the UK, our nation, our union, fits into the fantastically fast-changing landscape where entirely new power centres are forming, entirely new accumulations of wealth are developing, entirely new trade routes are opening up in a way that has not been seen for centuries, entirely new capital flows are developing and new relationships creating a completely different pattern from the sort of pattern assumptions we have known for the last two or three decades and certainly very different indeed from the 20th century.

If you ask me where some of the most imaginative and best thinking has gone on about how we adjust and create and improve and maximise our position in this new landscape, I would say it is right here, in the Global Strategy Forum and very much with its leader and inspirer, Michael Lothian, whom you are going to hear in a moment.

Someone was saying to me with great confidence the other day something that Jim O'Neill had said. I used to work with Jim O'Neill in the City and of course, he came up with the concept of BRICs, and was I absolutely up to speed on BRICs? And I said, 'well, I am up to speed, but now I have just been told that that was last week'. We are now hearing about new things called CIVETs and SCOs and Trans-Pacific Partnerships and Partnerships for this, that and the other.

A vast new network, not merely of countries, but of institutions and structures, has grown up, which already makes our network of friends (with whom we must always work, of course, our old friends

in NATO, the European Union of which we are an active and positive member, our alliance across to our friends in Washington) seem not passé, but definitely in need of refurbishment to adjust to these new institutions.

So a completely new scene and one in which Michael's latest pamphlet brings a marvellously refreshing illumination across that scene. He has taken all this on board and I am thrilled that he has, indeed he has developed the concept of it being a network world, words which William Hague put right at the front of his opening strategy speech the other day. In that network world, we need to work the new networks very vigorously.

Of course one of them, which I am very fond of, is the Commonwealth, which people have just discovered that far from being a club of the past is actually a platform for the future, but there are other networks as well. All of these we are ideally placed to develop.

There was a fashion for saying that in this new world, 'it's managed decline for us, boys, we are going to have to face shrinkage of influence'. I think the opposite. It seems to me that in this new world, islands like ours in positions like ours are better placed than many, indeed most, to make the most of the new relationships and new patterns to our advantage and indeed to the advantage of the stability and peace of the globe as a whole.

So there are my general thoughts, marvellously elaborated and developed by Michael. I think it is his turn to speak to you and we are looking forward to it very much.

Lord Lothian: It was during the four years that I was Shadow Foreign Secretary between 2001-5 that I began to realise how much and how quickly the world was changing and that we needed to develop a new foreign policy to match those changes. During those four years we were still in the grip of the philosophy of hard power which had found physical expression in the Balkans previously and which now led us into two further foreign wars in Afghanistan and Iraq. It seemed to me even then that by following this philosophy we were in danger of getting bogged down.

Since then I have been considering the nature of the changes that have taken place and I am more than ever convinced that the time has come to explore a new direction. That is what my pamphlet, 'Farewell to Drift', sets out to do, to provide a basis for debate which hopefully might lead to a change of direction. Its title comes from a lecture given two years ago by my friend and colleague, David Howell, Lord Howell of Guildford, whom I thank for his very kind introduction. He entitled his lecture in the Churchillian phrase 'Adamant for Drift', which I have used as my starting point.

Howell's thesis was that recent British foreign policy has been marked by a distinct sense of drift. Uncertainty and ambivalence in Europe, inconsistency and contradiction in the wider world, and an over-reliance on American foreign policy as our default position.

The time for change is now. The moment for real commitment and direction to bid farewell to drift, for a clear and comprehensive foreign and security policy which is centred on British national interest more in keeping with the circumstances we face today, has come.

This pamphlet was largely written in the run up to the last election and was completed in the summer. Since the election our new Foreign Secretary William Hague has made a number of major

speeches which I have welcomed as beginning gradually to recognise the changing world and to move away from the drift of the past. I hope he will go further and that some of the ideas in this pamphlet might help to inform his future thinking.

Why do I press for change now?

First, because with a relatively new government, this is the best time for change before the dynamic of drift begins to exert its malign influence again.

Secondly, the changing world has not waited for us and will not do so now. We have to keep up with it. The age of the great blocs and hard power is fading giving way to a new network world which requires engagement rather than confrontation, cooperation rather than coercion. This network world is one in which you no longer have to be strong to talk to the strong. We have to be ready to engage rather than confront, to form alliances in various forms through which we can achieve our strategic purposes. British foreign policy must now urgently reflect these changes.

Thirdly, we have just apparently completed a rushed and in my view flawed comprehensive defence review in the middle of a major deficit reduction exercise. We need to revisit it urgently and this time to work out not only what we want to do, but what we can afford and to make sure that the two are reconciled. It is better to punch effectively at our true weight than to try to punch above it and fall short.

We need to assess and define our capabilities and then structure our foreign and security policy to meet them in the light of available resources and in a way which is based exclusively on our national interest.

Our defence and security policy which is central to our foreign policy must be one of the starting points. It must reflect capability and resources rather than nostalgic aspiration. It must ensure that we play to our strengths rather than patch over our weaknesses. The Strategic Defence and Security Review should have concentrated resources on those areas where we can be most effective in the future. Sadly it did not.

We do not need a Navy of great and massively expensive aircraft carriers with their inference of renewed large-scale and almost certainly unwinnable foreign adventures. We do not need a vastly expensive renewed Trident nuclear deterrent which is becoming increasingly incredible in our new world. Instead we need a Navy of vessels and technologies which can deliver basic protection and security for our island nation from potential adversaries, including drug runners and piracy.

We need an Army which is predicated on the defence of the realm but able where required to expand and deploy overseas our particularly successful and widely admired military and 'hearts and minds' capability through our special forces; and we need an Air Force reconfigured to support both.

We should urgently explore more flexible, less costly and ultimately more credible systems of deterrence whether nuclear or otherwise, tailored to meet the threats which we are most likely to face in the future in a way that shortly Trident will not.

We need also urgently to encourage a review of the shape and purpose of NATO. In our straitened times we need NATO as part of our overall defence strategy. Without NATO Europe would become unacceptably vulnerable. But NATO has to an extent lost its way. Its clear purpose of being there to come to the assistance of any of its members who found themselves under external attack has become shrouded in the uncertainty of NATO's role and the varying degrees of its members' commitment to it in Afghanistan. Its recent conference in Lisbon did little to resolve this.

We need to refocus NATO back to its clear role as a defence alliance including the US and away from being part political talking shop and part global police force. It should be a matter of rule that all its members are fully committed to it both in terms of the resources they are prepared to commit to it and their readiness to participate fully in any actions it undertakes. As Afghanistan has shown, this is not always the case today. It should be a given that every member of NATO has the right to expect the military intervention of other members under Article Five if it is attacked, and where that is in reality not the case then those countries should not be members. And we should nurture the continued participation of the US in NATO.

At the same time we need to re-examine our recent almost unthinking adherence to our American allies, our foreign and security policy default position. When the reality of the 'special relationship' becomes the unquestioning supportive response of the junior partner in the relationship, it becomes meaningless. Intelligence sharing and shared military objectives such as NATO will ensure that close cooperation continues, but the increasingly illusory myth of the special relationship should be buried. The truth is, as the recent Wikileaks have reinforced, that it no longer exists except in rhetoric. We should work with the US when it is our interests to do so, but not otherwise; just as they will and already do with us.

British foreign policy must also now finally get a grip on Europe and the EU. Current obsessions with the integrationist Lisbon process totally ignore the reality that the Lisbon Treaty was about a world of powerful blocs that is now fast diminishing. The Europe of Lisbon is now eight years out of date, and the Europe of the new network world needs to be much more varied, flexible and relaxed. The recent crisis in the Eurozone has starkly demonstrated this.

We should constructively, urgently and without rancour, work for a Europe of varying speeds and levels of integration. If the core of the EU wishes to integrate we should not stand in its way. At the same time however, we should work to ensure that elsewhere in Europe there is flexibility. In that way, members of the EU who wish to can preserve sovereignty and self-determination while bringing to the EU the strengths and influences to which they are best suited.

Thus rather than seeking to impose on Turkey the full panoply of EU integration and regulation, it could allow at one end of Europe Turkey to play an essential intermediary but not fully integrated role as a dynamic hub between the EU and the world to the north and east of Turkey, and at the other end of Europe the UK could similarly become a less integrated but equally dynamic hub between the EU, the Americas and most importantly the Commonwealth.

This would not only be better for us as a country, and free us from the vortex of ever-closer union, but it would also create a healthier Europe better suited to the more fluid world around it and better able act as a genuine force for good and stability. This would be an outward looking, confident Europe, seeking cooperation with its neighbours rather than the inward-looking, navel-

gazing, integration-obsessed Europe within which we find ourselves today. It would be a Europe for the network world.

Even as we speak the networks are growing. The Shanghai Cooperation Organisation is spreading its influence ever wider. Even the countries around the Arctic are forming their own networks. Ease of communication through ever-improving and adventurous technology is playing its own role in developing the networks even further.

An academic in America recently described a global network to me as an international form of the electronic guides to the Paris Metro. All the stations are networked. When you need to find the way to your planned destination, you press your starting and finishing points and all the stations you will need to use on the way between the two light up. That is how an international network operates. You make your contacts and your alliances and continue to update them so that when you need to achieve an international objective you have the network through which it can most effectively and without conflict be achieved.

Britain must now become a major player in emerging international networks. Leaving aside Europe, we have a core network on our doorstep. In fact there is no greater ready-made potential networking organisation than the Commonwealth; multicultural, multi-religious, multi-national and inter-continental including significant countries such as Australia, India, Canada, South Africa, Singapore and the UK and emerging ones such as Malaysia.

A free association of 53 sovereign independent states, consisting of over thirty percent of the world's population, from every major continent and encompassing all the world's major religions should be a dynamic vehicle for proactive and constructive diplomacy. It could be more than a networking match for the Shanghai Cooperation Organisation.

It is, however, currently badly underfunded, seriously underused and still faintly tarred with post-colonialism. We should work for it to be put on a firmer financial footing; we should press for its headquarters to be moved from London to India to underline its disassociation from post-colonialism and its self-standing authority; we should build on its - almost unique in networking terms – common values of democracy, freedom and human rights; and we should develop its potential as a purveyor of business and aid, of conciliation and where appropriate physical support.

The Commonwealth has the potential to become the world's leading network organisation and we, alongside India and its other major members, have the potential to play a significant role within it. We should encourage further broadening of its membership to bring in other democracies.

As part of our networking we must not ignore the importance of business. In a world where international decisions are taken as much if not more by multinational companies, by professional associations and NGOs as they are by governments, the importance of trading partnerships and commercial dealings should not be underestimated. While many of such enterprises are by their private and commercial nature beyond the control of government, if we make clear our strategic interests and share them with the private sector then there could be a mutual dividend in cooperation.

At the same time where development aid is concerned, we need to look closely at the suggestion

of Bob Zoellick of the World Bank that it is sometimes better to invest on a commercial basis in core commodity industries in developing countries rather than simply giving financial aid which will then only be used to buy the same core commodities back from the same countries that originally gave the aid, with no long-term benefit to the developing country concerned.

China currently is showing itself greatly adept at following this philosophy – even to the somewhat surprising extent of offering to bail out Greece and other Eurozone countries facing banking and deficit problems.

Finally we should start to market our skills. In terms of peacemaking and the facilitation of peace processes, we have not only great experience but considerable historical knowledge which frequently allows us to understand all sides of a conflict. We have the diplomatic skills to offer to such processes, to encourage dialogue where currently there is confrontation and ostracisation, and to bring warring parties to the table.

Our history gives us special insights into the conflicts of the Middle East, of many parts of Africa and of Central Asia. We must cast off our post-colonial guilt and offer our services in creating the groundwork of dialogue which, as we learned in Northern Ireland, is the essential precursor to establishing meaningful negotiations. Norway for many years has internationally almost monopolised that role, sometimes as facilitator, sometimes as mediator. It is a role which we are well suited to undertake as well, something which is recognised even by the most unlikely interlocutors with whom I have dealt recently in the Middle East. It is a worthy role for us too.

What is more, in the Middle East we are not only seeking to help in someone else's conflict, but in one which has a direct read across to part of our own domestic terrorist threat here at home. There is no doubt that the running sore which is the Middle East conflict has a direct and powerful role in radicalising parts of our own Islamic communities, just as do our military interventions in Muslim countries such as Iraq and Afghanistan. Certainly the latter of these offers potential for those who seek to engage with those with whom we are currently in conflict. Northern Ireland taught us that you can fight and talk at the same time.

Senator George Mitchell once told me that you do not resolve conflicts through moderates but through extremists; you just have to identify the moderate extremists on each side and bring them together. The real lesson of past successfully resolved conflicts, whether in Northern Ireland or South Africa, is that you have to engage with those without whose participation a final durable settlement is not possible. The sooner that engagement begins, the more swiftly that settlement can be found and the sooner military engagement can be ended. I still find it hard to believe that the West will not engage with Hamas and Hezbollah in the Middle East without which no lasting settlement can be reached.

What this pamphlet therefore seeks to suggest is a new approach with four key elements.

First, Britain should be the dynamic bridge between a more flexible EU and the USA, and between both the EU and the US with the Commonwealth.

Second, Britain should actively propagate a reinvigorated and refocused NATO.

Third, Britain must act as a credible facilitator in the world of conflict resolution. We should use our historical experience, often learned the hard way, to facilitate and influence conflict resolution in the Middle East, Afghanistan and elsewhere. We should retain the capability to back up such efforts where required with hard power, but it should in future largely be delivered in the form of Special Forces operations rather than heavy deployment of men and machinery on the ground.

And fourth, Britain should be an active member of an increasingly dynamic Commonwealth which could in turn become a major diplomatic force in our network world.

For all the reasons I have set out, it is in our national interests to be regarded as a positive rather than a negative force within the international arena, engaging rather than confronting and seeking cooperation rather than rivalry. Where we no longer have the might to secure our interests by force we can do so by persuasion and friendship. By playing to our strengths in our involvement in international affairs we can become more credible again, and the sense of drift can give way to one of purpose. And by working to our skills and within our means we can become much more likely to achieve our ends than we have been for the last twenty years or so.

In all of these areas we can play to our strengths within our available resources. We can have a clear vision of what our foreign policy should be in our own national interest and more broadly as well. From a supporting part in an outdated and uncertain US-driven programme, and a negative position within the EU, we can create a dynamic, constructive British role again. That is what our new foreign policy should be about.

A successful and dynamic foreign policy requires clarity and definition, not indecision, damage limitation and drift. If we can reverse those insidious trends in the ways this paper has set out, if we can once again discover our sense of identity and purpose on the international stage, then we will know once more who we are and where we see our place in the world. Then once again we can be proud to be British and to hold our heads up high.

Lord Lothian's pamphlet, 'Farewell to Drift: A New Foreign Policy for a Network Word' was published by Global Strategy Forum in October 2010.

THE HEART OF CONFLICT IN THE MIDDLE EAST

Transcript of a lecture by His Royal Highness Prince Turki Al Faisal bin Abdul Aziz Al Saud

Tuesday 25th January 2011

His Royal Highness Prince Turki Al Faisal bin Abdul Aziz Al Saud *was appointed Director General (with a rank of Minister) of the General Intelligence Directorate (GID), Saudi Arabia's main foreign intelligence service, in 1977, a position he served in until August 2001. In October 2002, HRH was appointed as the Saudi Arabian Ambassador to the United Kingdom and the Republic of Ireland. HRH served in that position until July 2005, when he was appointed as Ambassador to the United States. He retired in February 2007. HRH is a Founder and Trustee of the King Faisal Foundation as well as the Chairman of the King Faisal Center for Research and Islamic Studies. HRH is also a Trustee of the Oxford Islamic Center at Oxford University and the Center for Contemporary Arab Studies (CCAS) at Georgetown University.*

It is a privilege to be here today; and to have received such laudatory words from a man like Jack Straw is really also quite a privilege for me. He needs no recognition for all the good works he has done, not just in government, but also outside government.

My topic today is the Middle East problem, a perennial problem: Palestine, Israel, Syria and Lebanon.

Back in 1945 (as a matter of fact, just a day before I was born) the late King Abdul Aziz met with President Roosevelt in the Red Sea. President Roosevelt had come from Yalta on his way back to the United States and wanted to meet with the late King Abdul Aziz to get to know him and to discuss issues with him. Paramount amongst these was to convince King Abdul Aziz that he should support the increase in number of Jewish refugees from Europe to Palestine as a result of Nazi persecution of the Jews in Europe, among other subjects that were discussed at that time.

The late King, in answer to that proposition by President Roosevelt said, 'well, if the Jews are persecuted by the Nazis in Germany, why bring them to Palestine, why not compensate them by giving them the best lands in Germany? That would be the just and right thing to do.'

In any case, both sides could not agree on a specific way forward from there, other than for President Roosevelt to assure the late King that he would do nothing on that issue subsequently until he had consulted other Arab leaders. Alas, two and a half months after that, the late President died, things moved on from there and the rest is history.

I refer to that incident just to show you how long the issue of Palestine has been with the Kingdom of Saudi Arabia. If I wanted to go further back, I would refer to the many letters that King Abdul Aziz sent to the British government in the 1930s as well, when the mandate territory of Palestine was going through troubles between Jewish immigrants from Europe and the local Palestinians and there were several uprisings on both sides that the British forces had to put down.

Since then, if we come to present times and see where we stand today, I think I would refer back to what was asked of a historian who wrote a huge multi-volume history of the world back in the early 20th century and when he was finished with that, a reporter asked him how he saw the history of the world and without any hesitation, the historian answered back: "It's one damned thing after another." And unfortunately I think in Palestine, it is one damned thing after another.

When President Obama campaigned in 2007 and subsequently won the election in 2008 and made those very uplifting statements about the Middle East and about the Palestinian issue, expectations needless to say rose very high in the Middle East.

Those expectations were confirmed when his first call after he entered the Oval Office in the White House was to President Mahmoud Abbas; his first television interview after entering the White House was to Al Arabiya station and so forth.

Secretary Clinton on her visits after that to the Middle East also made very positive statements, particularly about settlements and the condemnation of Israeli actions in Jerusalem, about destroying Palestinian homes and evicting Palestinian residents of these homes out in the street.

So you can imagine how people in the Arab world and the Muslim world felt, particularly after the previous Administration's very lackadaisical way of ceding advantage in the Middle East problem to Israel on every issue. It appeared that this new Administration would take the bull by the horns and tackle this very important and very internationally disturbing situation and hopefully put it to rest.

Subsequent to that, the visit to Cairo and the famous speech addressing the Muslim world by President Obama further raised expectations.

Alas, all of those expectations came to nought very soon after that and not much longer after that, the issue of settlements, pressed forcefully at the beginning of the Administration, was subsequently dropped by the Administration like the hot ball it was. Nonetheless, it seemed that the President and the Secretary of State, not considering how hot the ball is, did not manage to wear any gloves when they tried to carry it. So they dropped it and the disappointment was equally great as the expectation before they made those statements.

Today we see what is happening on the ground: nothing. No negotiations, continued Israeli settlement, continued eviction of Palestinian families from their homes, continued destruction of olive groves and other Palestinian interests in the West Bank and a very unacceptable blockade of Gaza, where the humanitarian situation is awful. I have not been to Gaza, but I have heard from people who have and they tell me that no one in any capacity could accept that as being a normal state of affairs.

These issues definitely have an impact on all of us in the Middle East: old and young, man and woman, settled and Bedouin. Whatever strata of society you come from, Palestine is there to remind Arabs and Muslims that there is still a legacy of colonialism in our part of the world, which refuses to go away at a time when everybody now is in a post-colonial period.

As such, I would add that on the Syrian and Lebanese front as well, the Israelis continue to occupy territories, despite the fact that so many United Nations resolutions have been passed calling for

the removal of that occupation and all of the efforts that were put in place to effect that removal have come to nought.

The Kingdom, of course, is famous for its initiative presented by King Abdullah when he was Crown Prince in 2002, but I would respectfully remind you that almost twenty years before that, the late King Fahd also presented a peace initiative to the Arab League which was called the Fahd Peace Plan. And all the Arab states signed onto it back in 1981-82. At that time it took the extraordinary step of finally recognising among the Arab countries that there is such a thing as a State of Israel that exists with borders and that all the countries should be within the borders that they had before June 1967.

On both occasions, the Fahd Peace Plan and the Abdullah Peace Plan, twenty years apart, the Israelis simply did not accept any of these propositions. In the first case, the Fahd Peace Plan was not even mentioned by Israel, let alone commented upon or made into any kind of discussion by the Israelis.

In the second case, the first reaction of Israel was a statement by the adviser to Mr Ariel Sharon who was then Prime Minister in Israel. He said that this was the most dangerous proposition for Israeli security: the Arabs extending their hands in peace with an equitable solution that takes into consideration Israeli historic requirements for Arab recognition from its creation back in 1948, normal relations, diplomatic representation and cessations of hostilities. These were always Israeli demands from the beginning and the Arab Peace Plan in 2002 offered that, in return for Israeli withdrawal from the Occupied Territories of 1967 including East Jerusalem as a capital for the State of Palestine, but it also offered an equitable solution and an agreed upon solution for the refugee problem.

These, from the Arab point of view, were extraordinary concessions and realistic requirements for a durable peace between the Arabs and Israel, and as I said, the immediate reaction of Israel was to consider this the most dangerous proposition for Israel to undertake.

Subsequent to that, of course, we heard statements from Ehud Olmert and Tzipi Livni and President Peres that there were certain words or certain considerations within the Arab Peace Plan that Israel should pursue, but never, not once, has there ever been a declaration by Israel that, 'yes, we accept, let's negotiate on that issue'; and since the coming of Mr. Netanyahu, even that has not been given either in public or in private. So you can see where Israel has come from.

And where the Arabs continue to pursue that peace, in the last summit meeting of the Arabs (not just the economic summit in Sharm El Sheikh, but the previous one in Sirte in Libya), there was a re-affirmation of the Arab Peace Plan as being still on the table, but for how long?

Yesterday in the House of Commons, I was asked by somebody: 'why doesn't Saudi Arabia talk to Israel about the security danger of Iran to both countries?' My answer was: 'why should we talk to Israel, having been treating so cavalierly by all Israeli governments in all the strategic propositions that the Kingdom has made?' It is up to the Israelis to come forward.

Back in November I was in the United States and I spoke at various fora like this one, not as distinguished, but nonetheless I thought quite worthy of talking to and many questions were raised at that time about whether we can go on as Arabs keeping the Arab Peace Initiative on the table.

My proposition is that the Arab Peace Initiative is the best tool to serve Arab strategic interests, not just for today, but also for the future. And, as such, the onus is on the Israelis to come forward with their own peace initiative, which they do not do.

We have heard of the Rogers plan, we have heard of the Kissinger shuttle diplomacy, we have heard of the Soviet interventions for peace when the Soviet Union was still alive and subsequently the Russian Federation has proposed holding a meeting in Moscow, we have heard from Europeans where they stand on that issue, even the Quartet Road Map, even President George W Bush's two-state proposition.

But not once have we heard of an Israeli peace plan. All we see is more destruction, more occupation, more imprisonments for Palestinians and nothing to come forward, other than 'let's talk', and talk on what? They continue to say they want to talk, but they do not talk about anything. They just keep delaying and delaying and delaying and it is not in anybody's interest for that situation to continue.

I have suggested in my previous presentations before audiences like yours that one of the first things Israel can do to bring down the level of calumny and heightened tension in the area is to withdraw from Shebaa Farms in Lebanon. I understand from the Lebanese that the area of Shebaa Farms is smaller than Parliament House on the Thames and hence has absolutely no strategic value to the Israelis. Yet they maintain their occupation of it with the excuse that when they occupied it back in 1967 they occupied it from the Syrians and that they will not give it back to the Lebanese.

My proposition to them is this: give it to the United Nations and let that be a problem between the Lebanese and the Syrians. You have no right to be in that place and by withdrawing from Shebaa Farms, the tensions in Lebanon would immediately subside, because that step will deprive Hezbollah and others within Lebanon who carry the banner of national liberation from having that banner in their hands.

By dropping that banner, Hezbollah and others like it in Lebanon will truly then become political parties and not armed militias fighting for the liberation of Lebanese territory. We have seen the effects of that national liberation banner being carried by Hezbollah in Lebanon since 1982 and even today with the formation of this new government in Lebanon.

Israel could be very helpful if it would withdraw from Shebaa Farms, but does Israel want to be helpful? I do not think so, because all of the actions they have taken show that they merely want to continue the obstructive and destructive policy that they have followed for the last thirty or forty years since occupying Arab lands.

And Syria. Golan. President Assad for the last four or five years has been pushing Israelis for negotiations. He, with the help of Turkish friends, almost reached a kind of agreement to go forward in direct talks with Israel. A brief reminder of the status of issues back in 2008: at the very end of that year when Prime Minister Erdogan was playing the role of mediator, having reached agreement between President Bashar Assad and Prime Minister Ehud Olmert on carrying forward their talks on Golan, he was surprised by the devastating attack that took place on Gaza at the end of that year. It just seemed incredible, not just to Mr Erdogan, but I am sure to Mr Assad as well, that while the Israelis were talking about going forward on Golan and reaching some kind of agreement with

the Syrians, they would do what they did in Gaza with the resulting bloodshed, and I must say, worldwide condemnation of the Israeli action.

Yet Israel continues and has shown what it feels about world opinion by the next attack that took place, against the peace flotilla that was going to try to break the quarantine around Gaza. We just saw the results of Israeli investigative capabilities into the rights and wrongs of that action in the report they put out justifying that attack and the murder of ten Turkish participants in that flotilla.

I could go on and on with more examples of what is happening on the ground in Palestine and Gaza, to show where the Israelis stand and where the Palestinians and the Arab countries stand, but I will not do that, you all know the story. I am grateful you gave me the time to repeat it in front of you, but as I said in a talk I gave yesterday: if you dissect an Arab or a Muslim to the tiniest portion of his or her cellular structure, you will discover that the word 'Palestine' is inside that.

It is in that context that a country like the United Kingdom with its past history and connection, not just with Palestine but with the rest of us in the Middle East, can come forward to play a more engaged role in seeking that peace.

How can Britain do that? I think it can do it in several ways. One of them of course is to urge and push your very close ally, the United States, to come forward and put its foot down. President Obama has talked the talk but he has not walked the walk and he needs to do that. And he needs his friends to tell him that he must do that.

I think Britain can also play a very active role in urging other friends of Israel, from within the Jewish community and outside the Jewish community, inside and outside this country, that if they want to be true friends of Israel, they must push the Israelis to accept the reality of a Palestinian state contiguous on its borders and living in peace and harmony with Israel.

Britain can also play another role. Britain can push the European Union to use its economic muscle with the Palestinians and with the Israelis to move forward on those issues. The European Union is the biggest trading partner for Israel. It is also the biggest contributor to Palestinian Authority funding. So those roles can be played by the European Union with British help and support for that action.

These are just three examples of where I think the UK can be very, very productive in moving this issue forward. It is not only we who suffer from this Palestinian problem, the whole world does. The terrorism that has emanated from our part of the world has struck not just the Kingdom and other countries in the Middle East, but has also struck the heart of London and other European and American cities and capitals.

Whether we like to say it or not, it is linked to the Palestinian problem because the terrorists use the Palestinian problem to justify their actions and they use the Palestinian problem to recruit young people who are frustrated and who feel a sense of loss not only for themselves but of the dignity and the stature when they look at the pictures coming out of Palestine and the suffering that the Palestinian people have to endure.

There are other reasons for the terrorists to act, I would not deny that. The Kingdom has faced these

terrorists since it was established back in 1932. But it is the driving force that allows bin Laden and others like him to recruit across the internet from British citizens, American citizens, French citizens, Spanish citizens, Chechen citizens in Russia, Chinese Uighurs, Indian Muslims, Indonesian young people – the list can go on and on. In every country you will find one or two or perhaps more young people being drawn to this criminal activity of bin Laden and his cohorts, because the banner of Palestine is up there and because of the suffering of the Palestinian people.

From the experience of Saudi Arabia, we saw, for example, after the American invasion of Iraq back in 2003, that young Saudis were crossing into Iraq, going via Syria on one side and Iran on the other side. Those who were captured by the Iraqis, some of them were finally returned to the Kingdom and the reason they gave for their action was that they were fighting the enemies of Islam. When they were asked what they meant by enemies of Islam, they said: 'well, people who are occupying Palestine and now want to occupy Iraq.' The connection is there, between Palestine and the criminal acts that we suffer from in the whole world. It is incumbent on people of good will and good sense to put this back in order.

I have come to the close of my talk. Let me just finish by saying that the Kingdom of Saudi Arabia under the leadership of King Abdullah will continue to pursue whatever measures can be pursued to reach peace, peace with justice, but also peace for all. You cannot have justice for the Israelis and deny justice to the Palestinians and you cannot have justice for the Israelis and deny justice to the Lebanese and the Syrians.

So the UK has primary role to play and I think it should. And please remember that your sons are now engaged in this struggle. It is not an easy thing, coming from Saudi Arabia and seeing how destructive this terrorism is and what measures the leaders of that terrorism will use to justify their actions.

Thank you very much.

LESSONS FROM THE HISTORY OF MI6

Transcript of a lecture by Professor Keith Jeffery

15th February 2011

Keith Jeffery *is Professor of British History at Queen's University Belfast and a Member of the Royal Irish Academy. He has published extensively on Irish and British history, including the award-winning Field Marshal Sir Henry Wilson: A Political Soldier (Oxford, 2006). His Official History, MI6: The History of the Secret Intelligence Service, 1909-49, was published in September 2010.*

I am delighted, honoured and intimidated to be invited here to talk to this distinguished and well-informed audience.One of the joys of having written this book is that it has taken me places that, a bit like the Secret Service itself I suppose, you might not normally expect to get to.

It is especially appropriate that I am talking in this particular place. Not just because David Lloyd George was one of the greatest British Prime Ministers of the last century, certainly that, and certainly one of the most devious British Prime Ministers of the last century (there was quite a lot of competition, of course, for that), but this is 1 Whitehall Court and right next door, 2 Whitehall Court was the Wartime Headquarters, up at the top of the building, of what was then called MI1(c) and is now the Secret Intelligence Service, so we are within touching distance of the history of the Service as well.

Now I am often asked what the big secret of the book was, particularly when we were discussing the launch with the publicists and the publishers, because there was a whole kind of commercial agenda to the commissioning of the history. It was commissioned partly to celebrate the centenary of the organisation founded in 1909 as the Secret Service Bureau, with a home branch to look after domestic security and a foreign branch to collect intelligence from foreign sources, in that case, specifically Germany.

The home branch turns into MI5, the Security Service and I know Christopher Andrew has already spoken to you, and the Foreign Branch turns into SIS, so now I follow on to complete the virtuous circle here of the history of the Security and Intelligence Services, if that is what it is. But the commissioning of the history was not just to commemorate the centenary; it was also part of a continuing openness on the part of the Security Services.

In the British tradition, until 1994, the Security and Intelligence Services did not officially exist and in 1994 the Intelligence Services Act said, Clause One I think it is, 'this Act is to establish that there shall continue to be a Secret Intelligence Service', so it did not establish it then, it merely reflected the fact that it had existed for some time.

And between 1994 and today, a whole series of what would have seemed astonishing developments to the early servants of the organisation and indeed more recent servants of the organisation, have put it much more in the limelight, including the organisation, the most secretive (perhaps rightly so) government department in Britain, moving into one of the most emblematic and identifiable

buildings in London, which seems odd. They also have a website, they have a war artist, an official artist whose pictures we saw released yesterday and there are a lot of discussions as to how revealing or not they might be, and of course the commissioning of an Official History.

And in a way, the secret of the book is the book itself, the wholly improbable kind of counter-intuitive exercise of this most secretive of organisations commissioning an open history to be openly published and letting an individual independent historian into the organisation (we can talk about that too), to be embedded within the organisation for about five years, in order to write this history, drawing on the archives of the organisation such as have survived, which themselves unlike any other British government department, are never released to the National Archives. There is no intention, I understand, to release any of these documents, and they have not been released in the past - that is to say the domestic archives of the Service itself. It is not to say there are not quite a lot of papers in the National Archives relating to the Service or generated by the Service, but they will have been released by other government departments, not the Service itself.

Now, in commissioning the history, the decision was made that it should only look at the first forty years of the history, 1909 - 1949, and that has been a disappointment to many of the reviewers because in intelligence terms, 1949 is deep past history. It is like the Jurassic layers of the history of intelligence, and it appears that the history omits altogether the dominating themes of the more recent past, the Cold War and of course the collapse of the Soviet Bloc and the recalibration of security intelligence agencies to meet new and different challenges in the late 20th century.

Christopher Andrew's Official History purports to cover the whole century. Those of you have read it, as I have (it is a very good book and I would strongly recommend you to buy it), will know that it does actually get thinner and thinner and thinner as it comes closer to the present for understandable, if not also necessary, reasons.

So this was the call about what to cover for the Secret Intelligence Service itself, whose activities are themselves more problematic and necessarily more secret than the Security Service. One example of this is what the Security Service does will remain within the law - they do not or should not break the law. They operate within Britain and they should not break British law. What the Secret Intelligence Service does is inevitably to break laws, perhaps not British laws but they will inevitably by the nature of their operations, break foreign laws. And that immediately puts it on a different plane and there are other reasons why you might not want to look at the recent past, for this.

The argument was that by going to 1949, the first forty years of the Service, you had two World Wars, very important, you had just the beginning of the Cold War, so you could get a little bit of that in, but the terminal point was sufficiently far away, sufficiently distant, that as full a story as possible could be told up to that point.

And that, I think, was the understanding of the then Chief, Sir John Scarlett, who was very much the prime mover of this exercise within the organisation. He was keen that a proper history should be written and he was keen that a professional historian should be brought in from outside and my own expertise tended to be for the first quarter of the 20th century, the First World War, the 1920s, and that of course covers the early decades of the Service.

But the corollary of going to the 31st December 1949 and being able to tell as full a story up to

then, is that there is then a kind of Chinese wall. I know nothing about the 1st January 1950, and were you to ask me a question, I would have to express some ignorance. In fact, of course, it is impossible to make a division completely between one day and the next, but there is a kind of exercise in which I must not speculate too extensively over the more recent history of the Service.

Nevertheless, it is my argument that the essentials of what were set up and the essentials of the experience of the Service and its relationship to the government, its functions between 1909 and 1949, cover most of the key issues that might apply to any secret intelligence service, perhaps not just in Britain, but elsewhere as well.

So I want to go on to look at some of these themes that run through the book and you can extrapolate forward, if you wish, for some of these.

An early and a first question to ask is simply function. What should a secret intelligence service do?

The division of responsibility between the Security Service which is not really an intelligence service, and what became the Secret Intelligence Service was set up, as I have already outlined, from the very beginning.

The core business of SIS is foreign intelligence from foreign sources. What they want to know about is intentions, capabilities, political information of foreign countries that the foreign countries wish to keep secret.

There is always a tension between the intelligence or information gathering exercises of open legitimate diplomats, the Ambassadors in countries, and these guys from below the salt, behind the green baize door, these funnies or spooks or whatever you want to call them, who are operating in the same country, and sometimes jeopardising the untroubled or good relations that the Ambassador might have built up. There is nothing an Ambassador fears more than some scandal discovering that compatriots have been up to funny business in the country at the same time and there is no point in the Secret Intelligence Service gathering information that an Ambassador can gather perfectly well. And many Ambassadors say, 'well, give me a good journalist, give me good sources and there is really nothing I can't do that some of these false beard types, sleuth types do'. And that is a constant tension.

Nevertheless, one of the issues that was raised when I was appointed for this when I was interviewed for the job and I was not the only person interviewed, one of the questions I was asked at the interview (I am sitting in that building in Vauxhall Cross) was, 'did I regard this organisation as a successful organisation?' Now there are moments in interviews when you can say the right thing and you can say the wrong thing and there is one wrong answer to that question: 'no, a complete waste of time, I'm afraid.' So I said, 'yes, it was a successful organisation', if only in the sense that it survived forty years - and I would still stick by that definition of success - in sometimes a really very hostile environment, not just overseas, but also domestically, an environment where other government departments want to do things you are doing or other government departments want to take you over, particularly the service ministries whose needs ebb and flow as the changing political and military circumstances of the day.

But by 1949 it seems clearly demonstrated that the Secret Intelligence Organisation was meeting perceived needs in Britain and to the British state. Now it may be just as insurance in the sense that 'we can't afford not to have this' and 'what will go on if we don't have an Intelligence Service?' It may be actually providing hard information at the time or potentially in the future.

But when the debate occurred in 1949 (happily for me, in coming to a conclusion in '49), a discussion about who should be the next Chief, the fourth Chief of the Service, the Foreign Secretary and the Permanent Secretary at the Foreign Office agree between them that the most important single job in British intelligence is the Head of the Secret Intelligence Service. So that is a kind of validation and imprimatur from the customer department who of course also have to pay the money, so sometimes they are a wee bit sceptical about these things.

So the function is really important. But the fact that the core business began and more or less remained, foreign intelligence from foreign sources, is also important.

There are times through the history of the Service, at the end of the First World War, during the interwar period, when the Chief, a man called Sinclair (an Admiral who had been Head of Naval Intelligence - and he is a terrific empire builder) from time to time offers himself to be the Head of a kind of integrated, coordinated intelligence organisation that would include MI6 or SIS, it would include the Security Service, it would include bits of Special Branch of the Metropolitan Police, and there would be this Central Intelligence Agency - even this actual title was used in a couple of documents - and he would be the Head of it.

And every time this was proposed, it would go to an inter-departmental committee and the inter-departmental committee would conclude that if we were starting from scratch, we might well start with an integrated security and intelligence organisation, but because we have inherited this particular institutional structure, it is working well enough and perhaps we do not want to take the risk of concentrating what would be a tremendous amount of power and potential influence in one organisation and that having different organisations doing different parts of the security and intelligence spectrum and meeting those needs, was politically desirable.

There was another subtext: Sinclair was identified as the man most suitable for heading it. And they said (it is a really great civil service argument, this), 'well, we don't really know who we would find to succeed such a dynamic individual as the Head of that organisation, so perhaps we ought not to put him in that difficult position'. It is a very, very clever argument.

But the fact is that it remains, as I say, a core business all the way through. There is of course an area in the 1920s when there is a substantial overlap between the Security Service and the Secret Intelligence Service, particularly in combating international communism. So if a communist Comintern agent is coming from Berlin through Belgium to Britain, it is SIS who have to chart those things and they are then handed over to the Security Service in Britain and back if they go out again. So there are difficulties there that the opposition do not necessarily confine themselves to convenient domestic and foreign areas of action.

And Sinclair was so concerned about the feebleness of MI5 between the wars (it was pretty feeble - Christopher Andrew may have given another impression - but at other times it was very good) that he set up his own organisation called the 'Casuals' which operated a domestic surveillance

organisation in Britain under him.

Eventually, when it began to rub up against both the Security Service or what became the Security Service in 1931, up against MI5 and the Special Branch, the political end of the Metropolitan Police, he got his knuckles wrapped very seriously by the Home Office and had to dismantle this organisation and hand it over to what was then established as a recognisably modern Security Service in 1931.

So the function is important, as shown by the other two Chiefs who cover this first forty years of the service, Mansfield Cumming (an extraordinary charismatic, sort of crazy, loveable figure, who had this flat at 2 Whitehall Court and about whom a huge mythology built up, which you will find sketched out in the book) and Sinclair's successor who became Chief at the beginning of the war, a man called Sir Stewart Menzies. At the end of both the wars during which they had presided over SIS, when they are being invited to do more political work, party political work, they both said, 'this is not our job,' or 'we will only do it', as Menzies said, 'under direct instruction from the Foreign Office, we must not be tainted by', I think he or a colleague put it this way, 'the stamp of the Gestapo'. That is a very difficult area and by sticking to our foreign intelligence and foreign sources, it means we have got politically an easier ride back home. We are not doing too much and we are not interfering domestically. And perhaps in less well developed democracies than Britain, that is always a sort of worry about intelligence and security organisations of course.

Another aspect of function is the question of special operations, because covert agencies are frequently employed to do sabotage and subversion and black propaganda - they are not just intelligence gatherers. Now for most of the period from the beginning of the Service right through to the late 1930s, what SIS does is they gather intelligence and they just gather it as directed or as required, by and large, by their customer departments, the service ministries, the Foreign Office, sometimes economic departments of State. Those are the main customer departments.

But in the late 1930s, as war seems to become inevitable, inside the Service, they begin to think about doing all sorts of stuff, and all sorts of stuff which you might associate with a clandestine organisation. They develop a branch called Section D, for 'destruction' as some said, which was to specialise in sabotage and propaganda.

There is a strikingly contemporary report from the Committee in the summer of 1939 in which they speculate on the possibility of Nazi agents going about the underground, dropping bags of anthrax powder in the underground. Now this has a kind of contemporary resonance in metro systems.

And of course, the other wonderful thing about the history is that there is a kind of social history embedded in this as well. You get these flashlights of the past that just beggar one's credulity sometimes, and in this worry about the possibility of biological attacks in Britain, someone had said, 'well, is the Prime Minister's milk boiled before use because doorstep milk deliveries can be tampered with?' and you have this vision of 10 Downing Street - as some of us, very much the older ones among us, might remember, you could walk into 10 Downing Street -that every morning, Express Dairies would come along and find that Neville Chamberlain, or perhaps Mrs Chamberlain, had put out a note saying 'two pints of gold top' or whatever the Prime Minister had in those of days. So naïve and so peaceable were the assumptions then that such a thing could be conceivable. Happy days indeed.

But special operations then develop in the Second World War and the special operations branch of SIS is full of ideas, but it is run by a kind of a creative enthusiast who has no ability for organisation. The budget gets badly out of control and in fact in 1940, a specialist organisation called Special Operations Executive is set up and runs those kind of operations through the Second World War, and there is, sometimes, a completely inimical relationship between secret intelligence gathering and special operations.

Say you are gathering information from a railway junction and mapping trains; and traffic analysis of trains is really very important. In 1941 it matters whether the trains of German soldiers are going East or going West, for an invasion of Britain or an invasion of somewhere else, and if you can build up a strategic picture of where these are going, you want lots of people in strategic points on the railway system.

But if you are Special Operations, what you want to do is blow up those strategic points, because they are strategic points, and of course by doing that you might rob the Service of the intelligence that they are getting because there will be a concentration of security at these areas. So those are the kinds of issues. SOE was invited by Churchill to set Europe ablaze and by setting bits of Europe ablaze, of course it could make life very uncomfortable and difficult for the quieter requirements of clandestine intelligence gathering. So there is a tension between these organisations.

Now sometimes they are incorporated in the same organisation because what emerges in the American side is the Office of Strategic Services, the OSS, which does both things, and its successor, the CIA does both things, and that can produce difficulties.

What happens at the end of the Second World War very interestingly for SIS, is that SOE is reabsorbed into SIS and despite an attempt by Field Marshal Montgomery to take over the Secret Intelligence Service in 1947 or 1948, because he says, 'this is a military organisation, we can get by, by using special military organisations instead of using expensive orthodox forces' (here is another debate, this is not new) and he says it would be much more convenient to remove the potential for embarrassment from the Foreign Office and 'we will take it over in the Ministry of Defence'.

Now the Foreign Office were quite happy to run the potential embarrassments of having the Secret Intelligence Service and so off went Montgomery, but what happens to the SIS, for that brief period to which I can look in the Cold War, is that SIS begins to do rather less secret intelligence gathering in the late 1940s and rather more special operations, and that has consequences in the public realm as well as in the private realm.

One of the operations which I look at, for example, is an operation called 'Valuable', which is putting anti-communist expats into Albania in the late 40s and this is a series of operations that turned disastrously wrong, I understood, but of course I cannot comment on it after December 31st 1949.

But you can see that some of the approaches to the new Cold War are informed by Special Operations expertise and Special Operations experience, because what both SIS and SOE have done in the war is dealing with occupied territory and once you have got the Iron Curtain, you have got more occupied territory and they say, 'we know about this, we've done this before, we've landed in, we've got internal resistance movements, we know about drop zones, we can get people in and out, we have got all these systems ready for us'.

What they do not really take into account is the seriousness and the extraordinary kind of vicious relentlessness of the security regime that exists within Eastern Europe, which in some cases, astonishingly enough, puts the German occupation regimes in some European countries to shame and the penetration operations into the Soviet Bloc in the late 40s which continue on to a certain extent, are a failure.

So special operations is an interesting area in which you have to balance the needs between secret intelligence and special operations.

By 1949, and I will just drop this out as a potential theme, the Secret Intelligence Service has emerged as essentially a civilian organisation. It begins as a military organisation, it is appointed by the Directors of Military Intelligence and Naval Intelligence. The first Chiefs are long-serving professional soldiers and sailors.

The first four Chiefs fit into that model, all the Chiefs subsequently although they may have military service, are essentially civilians - they are not professional career soldiers or sailors. And that partly reflects the fact that the parent department for the organisation is the Foreign Office and not the Armed Services, and there is a difference between intelligence and security organisations which reply to, or speak to, or are run by, armed service organisations and those which are not.

And the British model is to follow a civilianised one. Which does not mean there are not intelligence branches of course in the Armed Services, but they meet only their particular intelligence needs and they do not spread out into wider political matters. So a civilian organisation is a key principle.

Another theme which I follow in the book is the importance of liaison with foreign countries. This is quite a difficult area, because there are points at which, between 1909 and 1949 and particularly in the interwar period, Britain's intelligence officers overseas have to cosy up to their opposite numbers in foreign capitals. For example, you cosy up to the French because you share an anxiety about the Italians and the Mediterranean - the French do, and the Germans in North West Europe. And there may be closer reasons for being allied or having a close liaison with these people. Your enemy's friends are your enemy as well. You can see these kinds of bilateral relationships building up.

The liaison relationships that had been built up in the interwar period were enormously important in the Second World War. For example, I have a photograph in the book (and one of the problems, despite the paintings of the war artist produced yesterday, is that the paintings themselves of course reveal nothing – they are only resonant because of what they do not reveal and there is a subtext of what they might actually mean) which does mean something.

It is a photograph of a summer lunch in 1939 with President Beneš of Czechoslovakia, exiled now, and sitting next to him is the former SIS head of station in Prague, Harold Gibson, and two down round the table is František Moravec, who is the Head of the Czech Intelligence Service and Military Intelligence Service, by the way.

Despite the horrors of Munich and the apparent sacrifice and the British letting down the Czechs, the essential relationships built up closely between Harold Gibson and his Czechoslovak opposite numbers remain sufficiently deep-rooted and sufficiently firm, confirmed by the fact that Gibson, by

chartering a plane, manages to get the Czech intelligence high command and most of their essential documents out of Prague in 1939 when the Germans walk in. Thus the Czech intelligence network survives the German occupation of Czechoslovakia and is a valuable source of information through the Second World War, run from London.

The same sort of thing happens with some other services to a certain extent - the Poles, very much so, the French to a certain extent and some other ones as well. And without those kinds of relationships being built up in different capitals at different times, when you actually need assistance, sometimes it is not available, so liaison is important.

But liaison is not always understood by the outside world. There is this kind of notion, if I borrow expressions from the novels of John le Carré with which some of you might be familiar. George Smiley is the chief British spymaster, his opposite number in the Soviet Union is Karla and the argument that Smiley and Karla have more in common with each than with the governments they serve is a kind of trope of espionage novels and films and all the rest of it. So there is that danger at how this might be perceived.

Frank Foley who was head of station in Berlin before the Second World War, a saintlike figure who, as passport control officer, pushes to the limits his allowances for passing out passports, particularly to Jewish people coming out of Germany, but he also in the mid 1930s is very, very close to the Gestapo because he shares an apprehension with the Gestapo as to the abilities and the capabilities and the extent of the Soviet/Communist subversion and penetration of the West. There was a book written a few years ago about Foley, which rather celebrates, of course, his good gentile side in helping Jews, but rather passes over in silence his closeness to the Gestapo at one time or another. But these are both essential needs at different times.

So here are a few themes which may resonate in the future. Sometimes again when I am asked what is the important big story of the book, I say Chapter 18, which is called 'Postwar planning' and I kept saying to the publishers, 'this is a really important chapter' although they thought it was quite difficult to sell. They wanted the real James Bond and a bit of derring-do and glamorous female spies. They are all in there, sure, but postwar planning is about the end of the Second World War and the organisation as it emerges, professionalised, in the mid to late 1940s.

People who served long in the Service, whom I met and who went back to the 1950s, 60s and 70s, one of them certainly said to me that the organisation that was established by that postwar planning covered in Chapter 18, is recognisably the organisation that he had joined in the 1970s.

So you cannot stop, necessarily or crudely, at the 31st December 1949 and the Official History is not perhaps just about past history, but since it addresses some of the constants of intelligence activity, it might speak to the present, if not also the future.

Thank you.

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Rt Hon Baroness Warsi PC

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Andrew Wilson

HE Yasar Yakis

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GLOBAL STRATEGY FORUM EVENTS IN 2010-2011

18th May 2010	Debate on 'The Beijing Consensus: How China's Authoritarian Model Will Impact the 21st Century?' with Dr Stefan Halper, Senior Fellow in the Department of Politics and International Studies at Cambridge University and Nigel Inkster CMG, Director of Transnational Threats and Political Risk at the International Institute of Strategic Studies.
8th June 2010	Lecture on 'The Shanghai Cooperation Organisation: A Networking Organisation For A Networking World' with Dr. Shirin Akiner, Fellow of the Cambridge Central Asia Forum, University of Cambridge and Research Associate at the School of Oriental and African Studies.
14th June 2010	Lecture on 'Losing Control: The Emerging Threats to Western Prosperity' by Stephen King, HSBC's Group Chief Economist with the Rt Hon Lord Lamont of Lerwick in the chair.
6th July 2010	Lecture on 'Counter Terrorism Strategy in the UK: Are We Winning?' by Charles Farr, Director General of the Office for Security and Counter Terrorism (OSCT) at the Home Office.
13th July 2010	Debate on 'Africa: A Continent Whose Time Has Come?' with Tony Baldry MP, Dr Knox Chitiyo of RUSI and Richard Cockett, Africa Editor of the Economist.
4th October 2010	Breakfast fringe meeting at the Conservative Conference in Birmingham to launch Lord Lothian's (then Michael Ancram) pamphlet 'Farewell to Drift: A New Foreign Policy or a Network World', introduced by Peter Oborne of the Daily Telegraph.
20th October 2010	Lecture on 'Russia: A New Whiff of Optimism?' by Sir Tony Brenton KCMG, former UK Ambassador to Russia.
2nd November 2010	Lecture on 'Afghanistan: A Winnable War?' by Rory Stewart MP, chaired by Lord Anderson of Swansea.
16th November 2010	Seminar on 'The SDSR: Tough Choices for Tough Times – Are We Making the Right Decisions?' in the House of Lords. The following speakers took part: Jonathan Clarke, Managing Partner, WAAS; Professor Michael Clarke, Director of RUSI; Brian Hanrahan, World Diplomatic Editor at the BBC; Field Marshal the Rt Hon the Lord Inge KG, GCB, PC, DL; Commodore Steven Jermy; Rt Hon Lord King of Bridgwater CH; Phil Marker, Head, Conflict, Humanitarian and Security Department, DFID; and Rear Admiral Alan Richards, Assistant Chief of Defence Staff (Strategy & Plans), MOD; and the seminar was co-chaired by Jack Straw MP and Lord Lothian.

23rd November 2010	Debate on 'Nuclear Non-Proliferation and Arms Control: Can We Really 'Count Down to Zero'? with the Rt Hon the Lord Browne of Ladyton and Rt Hon Sir Malcolm Rifkind QC MP.
29th November 2010	Lecture on Social Cohesion and Human Security in the West Asia-North Africa Region' by HRH Prince Hassan of Jordan in association with Chatham House and the Anglo Jordanian Society and chaired by Lord Lothian.
6th December 2010	Lecture on 'Farewell to Drift: A New Foreign Policy for A Network World' by Lord Lothian with the Rt Hon Lord Howell of Guildford in the chair.
25th January 2011	Lecture on 'The Heart of Conflict in the Middle East' by HRH Prince Turki Al Faisal and chaired by the Rt Hon Jack Straw MP.
8th February 2011	Debate on 'North Korea: Where Is it Heading?' with Dr Jim Hoare, the first British representative in Pyongyang in 2001-2 and Peter Jenkins CMG (former UK Ambassador to the IAEA) and chaired by Gary Streeter MP, Vice Chair of the North Korea All-Party Parliamentary Group.
15th February 2011	Lecture on 'Lessons from the History of MI6' by Professor Keith Jeffery, author of 'MI6: The History of the Secret Intelligence Service, 1909-49'.
1st March 2011	Debate on 'Strategy in Afghanistan and Beyond: Delivering or Not Delivering on UK Objectives?' with Commodore Steven Jermy and the Hon Bernard Jenkin MP.
8th March 2011	Debate on 'The Age of Wikileaks and the New Media: What Does It Mean for the Future of Diplomacy and Democracy?' with Jo Johnson MP, Gideon Rachman of the FT and Sir David Richmond, former Director General for Defence and Intelligence at the FCO.
9th March 2011	Seminar on 'Iran: Is Confrontation Inevitable - Prospects and Options?' in the House of Lords, which was opened by the Rt Hon Jack Straw MP. The following speakers took part: Dr Jack Caravelli, Director for Non-Proliferation, White House National Security Council Staff (1996-2000); Professor Christopher Coker, Professor of International Relations at LSE and Head of Department; Elbridge Colby, Research Analyst, Center for Naval Analyses; Peter Jenkins, UK Ambassador to the IAEA (2001-2006); Rt Hon Lord Lamont of Lerwick, Chancellor of the Exchequer (1990-1993), Chairman, British-Iranian Chamber of Commerce; Dr Alan Mendoza, Co-Founder and Executive Director, The Henry Jackson Society; Sadeq Saba, Head, BBC Persian Service; and Professor Philippe Sands QC, Barrister and Law Professor; and the seminar was co-chaired by Jack Straw MP and Lord Lothian.

28th March 2011	Debate on 'Revolution in the Arab World – The End of Arab Authoritarianism?' with Tarek Osman, the author of 'Egypt on the Brink', Dr Eugene Rogan of St. Antony's College, Oxford and Sir Richard Dalton, former UK Ambassador to Libya and Iran.
9th May 2011	Reception to celebrate Global Strategy Forum's 5th anniversary, addressed by the Rt Hon Malcolm Rifkind QC MP and Lord Lothian.
17th May 2011	Debate on 'From Chernobyl to Fukushima: Is Nuclear Power Worth The Risks?' co-hosted with the Global Nuclear Initiative, with Antony Froggatt of Chatham House and Lord Oxburgh of Liverpool; and chaired by Lady Barbara Judge CBE.
23rd May 2011	Seminar co-hosted with the Geneva Initiative on 'Looking to September: What Role Can the International Community Play in the Middle East Peace Process?' in the House of Lords. The Geneva Initiative brought over a delegation of Israelis and Palestinians to take part in the seminar, which was chaired by Lord Lothian. Alistair Burt MP, Parliamentary Under Secretary of State at the Foreign & Commonwealth Office gave the opening address. The speakers were as follows: Gadi Baltiansky, Director-General, HL Education for Peace – The Geneva Initiative (Tel Aviv); Nidal Foqaha, Director-General, The Palestinian Peace Coalition – The Geneva Initiative (Ramallah); Lord Hannay of Chiswick, Ambassador and UK Permanent Representative to the UN (1990-1995) and Special Representative for Cyprus (1996-2003); Sophie Honey, Head, Near East Group, Middle East and North Africa Directorate, Foreign and Commonwealth Office; Dr. Nazmi Jubeh, Member of the Geneva Initiative and expert in Jerusalem affairs; Lord Lothian, Chairman, Global Strategy Forum; Israela Oron, Retired Brigadier General in the IDF, former Deputy National Security Advisor and member of the Geneva Initiative; and Professor Avi Shlaim, Professor of International Relations, University of Oxford.

GLOBAL STRATEGY FORUM ADVISORY BOARD

Sir Menzies ('Ming') Campbell CBE QC MP is one of the most respected and successful politicians of his generation. He grew up in Glasgow, was educated at Hillhead High School and went on to the University of Glasgow. He was called to the Scottish Bar as an Advocate in 1968 and appointed Queens Counsel in 1982. He became MP for North East Fife in 1987. In Parliament he was the Liberal Democrats Foreign Affairs Spokesman from 1997–2006. He has served on the Members' Interests (1987–1990), Trade and Industry (1990-1992) and Defence (1992-1999) Select Committees. He was elected Deputy Leader of the Liberal Democrats in 2003 and elected Leader in March 2006–October 2007. He is currently a Member of the Foreign Affairs Select Committee; and of the Intelligence & Security Committee, a member of the 2012 Olympic Board and Leader of the Delegation on the NATO Parliamentary Assembly. In 2001 he was awarded an Honorary Doctorate by the University of Glasgow and was given a Knighthood in the 2004 New Years Honours List. He became Chancellor of St Andrews University in April 2006.

Frank Field MP worked as Director of the Child Poverty Action Group from 1969-79, during which time it became one of the premier pressure groups in the country. In 1974 he also became Director of the Low Pay Unit until 1980. In 1979, he was elected Member of Parliament for Birkenhead. Between 1980 and 1981 he served as Shadow Education and Social Security spokesman under the leadership of Michael Foot. In 1990 he took up the chairmanship of the Social Security Select Committee and continued in this role up to 1997. From 1997-1998 he accepted the position of Minister for Welfare Reform in Tony Blair's first cabinet. Since then, he has served as a member of the Public Accounts Committee between 2002 and 2005. In 2010, in recognition of his expertise in the fields of poverty and welfare, Frank was appointed Chair of the Independent Review on Poverty and Life Chances. Outside of Parliament, he is equally busy and committed. In 1999 he helped set up the Pension Reform Group which he chairs. From 2005, he has also been chairman of the Cathedral Fabrics Commission which is the planning authority for English cathedrals.

Gerard Griffin is portfolio manager at GLG Partners responsible for event driven strategies. Prior to joining GLG in 2010, Gerard was managing partner of Tisbury Capital Management, a firm he had founded in 2003. Previously, Gerard was a Managing Director at Citadel Investment. Gerard also serves on the board of St Luke's Centre in Manchester. He received a joint B.A and M.A. in Political Science from Yale in 1990, and a J.D. from Yale Law School in 1996.

Hüseyin Gün is a Financier and Managing Director of Avicenna Capital, a privately held direct investment vehicle that invests in strategic sectors such as natural resources, financial services and energy with particular focus in emerging and frontier markets. Mr. Gun is British educated and has an Honours Degree in Genetics. He began his career as a commodity trader and thereafter as a banker in Merrill Lynch and Credit Agricole Indosuez. He is a member of International Institute for Strategic Studies, London. Mr. Gun is the former Chairman of the Advisory Board of Global Fairness Initiative (GFI) in Washington DC, where the 42nd US President Bill Clinton acted as Chairman of the Board of Directors. Mr. Gun is also the Founder Board Member of The Iraq Britain Business Council (www.webuildiraq.org) and founder trustee of The Omar Al-Mukhtar Foundation for Libya. Avicenna Capital is one of the key principal investors in the Republic of Iraq.

HRH Prince El Hassan bin Talal has been at the centre of Middle East Politics and diplomacy for many decades in the course of which he has won exceptional respect. He is concerned inter alia with humanitarian and interfaith issues and the human dimension of conflicts. This is exemplified by his work with Partners in Humanity and his co-chairing of the Independent Commission on International Humanitarian Issues. Amongst the well-nigh innumerable positions of HRH Prince Hassan of Jordan, he is President and Patron of the Arab Thought Forum and Moderator of the World Conference of Religion and Peace. His Royal Highness is a founder of the recently formed Parliament of Cultures, dedicated to fostering dialogue amongst philosophers, thinkers and those exercising power. HRH Prince Hassan is the author of seven books, which have been translated into several languages, including A Study on Jerusalem, Search for Peace, Palestinian Self-Determination and in 2004 in collaboration with Alain Elkann, To Be A Muslim: Islam, Peace and Democracy.

Rt Hon Lord Lamont of Lerwick (Norman Lamont) was at the centre of British politics for many years. He was a Cabinet Minister under both Margaret Thatcher and John Major and was a member of the House of Commons for 25 years. He was heavily involved in the Thatcher reforms including privatisation that transformed the British economy. He was a Minister also in the Departments of Energy, Defence and Industry. He was Chancellor of the Exchequer from 1990-1993 and introduced three Budgets. He was made a Life Peer in July 1998 and as well as being a working Peer, he is a director of and a consultant to a number of companies in the financial sector.

Jonathan Lehrle was the first Director of the Global Strategy Forum from May 2006-February 2008. Born in Britain, Jonathan spent the first eighteen years of his life in Southern Africa. Upon his return to the United Kingdom he joined the Metropolitan Police, based in West London. His route into politics was through the Parliamentary Resources Unit (PRU), where he worked for two years covering the International Affairs & Defence portfolio. In 2001 he was appointed Chief of Staff to the Shadow Foreign Secretary and Deputy Leader, Michael Ancram QC MP, a position he held until December 2005. He is now a Senior Consultant at Bell Pottinger Sans Frontières.

Sir Malcolm Rifkind QC MP was elected as MP for Pentlands in 1974 and represented that constituency until 1997. In 1979, when the Conservatives were returned to power under Margaret Thatcher, Sir Malcolm was appointed a Parliamentary Under Secretary of State, at first in the Scottish Office and he was then transferred to the FCO, being promoted to Minister of State in 1983. He became a member of the Cabinet in 1986 as Secretary of State for Scotland. In 1990 he became Secretary of State for Transport and in 1992, Secretary of State for Defence. From 1995-97 he was Foreign Secretary. He was one of only four ministers to serve throughout the whole Prime Ministerships of both Margaret Thatcher and John Major. In 1997 he was knighted in recognition of his public service. Sir Malcolm was re-elected as a MP in May 2005 for Kensington and Chelsea. He was elected as MP for Kensington in May 2010. He served as the Shadow Secretary of State for Work & Pensions and Welfare Reform until December 2005 when he chose to return to the backbenches. He was Chairman of the Standards & Privileges Committee 2009-2010; and he is Chairman, Intelligence and Security Committee (2010-); and UK representative on the Commonwealth Eminent Persons Group (2010-).

Jack Straw MP is Member of Parliament for Blackburn, which he has represented since first entering Parliament in 1979. His long career has included continuous Cabinet-level roles in Labour governments from 1997 through to 2010 and he has taken a leading part in many momentous political decisions in both national and international politics. He had a number of Shadow Cabinet

roles before becoming Home Secretary after the Labour Party's 1997 election victory, and then Foreign Secretary in 2001 and Leader of the House of Commons and Lord Privy Seal in 2006. He served as Lord Chancellor and Secretary of State for Justice from 2007 until 2010. Appointed Foreign Secretary in 2001, he soon played a leading role in the dramatic and difficult foreign policy problems arising from the 9/11 terrorist attacks in New York and then the interventions in Afghanistan and then Iraq. In 2006 he was appointed Leader of the House of Commons and Lord Privy Seal with responsibility for parliamentary reform. He returned to the Opposition benches after the 2010 general election and continues to play a leading role in national politics, on home and foreign policy.