Strategic Surprises for a New Administration

SCHLESINGER WORKING GROUP REPORT, FALL 2004
Prepared by Jason R. Wisniewski

I. OVERVIEW
The Institute for the Study of Diplomacy’s Schlesinger Working Group met during the fall of 2004 to discuss potential strategic surprises that could confront a new administration. The group focused on identifying candidate surprises and scenarios that could appear early in its term. Some examples of events the group sought to anticipate included trend reversals, out-of-the blue surprises, or second-order surprises caused by currently “visible” possibilities. During its first meeting, held shortly before the presidential election, the group discussed over a dozen possible scenarios in political, military, economic, and environmental fields. This list was further developed in intensive discussion in early December. This report draws on those discussions whose purpose was not to predict but to think “outside the box,” and concludes with a set of policy recommendations for the second Bush Administration.

II. SUMMARY
The group observed several types of strategic surprises that, if they occurred, would require a significant U.S. policy response. These included:

- Surprises caused by a backlash to the U.S. “unipolar moment,” including the unintended consequences of U.S. regional security policies, the collapse or “Talibanization” of key U.S. allies in the Middle East or South Asia, the rise of counterbalancing coalitions; and the effective use of soft power, at times contrary to U.S. interests or desires, by China, the EU or other regional players;
- “Second order” political and security surprises caused by expanding nuclear proliferation in South Asia, the Middle East, or Northeast Asia;
- Technological surprises, including capabilities by adversaries that we didn’t realize existed, as well as the empowerment of small groups and individuals in ways previously accorded only to nation-states;
- Institutional surprises such as the unanticipated functional collapse of key international institutions like the United Nations, the European Union, or NATO;
- Economic surprises caused by problems in the energy or financial sectors, as well as a divergence in economic leadership by the U.S. and European Union;
- Health and environmental surprises; and
- Positive surprises flowing directly or indirectly from U.S. policies or recent geopolitical shifts.

When discussing various surprises, several members of the group stressed the importance of defining the term “strategic surprise.” They noted that, for example, it was possible to confuse difficult policy challenges with true strategic surprises. In an attempt to unpack the concept of surprise, the group further refined the idea as follows:

- Possible events that are not a surprise in and of themselves, but which produce secondary effects that are a surprise.
- “Long-slide” or big problems that are not surprises, but worsen over time until they produce an unanticipated surprise.
- Surprises that lead to wholly new scenarios, such as the death of a pivotal leader that, in turn, triggers a civil or regional war or, in the opposite case, contributes to a sudden burst of peacemaking.
- “Out-of-the-blue” surprises, possibly caused by our preoccupation with the war on terrorism or our vulnerabilities created by our unprecedented concentration on the Middle East and South/Central Asia.

Finally, the group attempted to prioritize different types of potential surprises. One partici-
pant argued that the Administration should first address surprises that present an existential threat to U.S. national security and the security of our allies. Surprises in these categories would inflict major loss of life and could include large-scale pandemics or attacks against the U.S. by states or groups using weapons of mass destruction (WMD). The second order of surprises would be those that have deleterious quality of life and standard of living consequences. Examples of these kinds of surprises could include economic collapse or sustained high energy prices. They could also include small but synchronized terrorist attacks that cause relatively few casualties, but generate fear and disruption out of proportion to their size. The final category of surprises would be those with important regional consequences but whose effects are more diffuse globally. Surprises on the Korean Peninsula or in Cuba could have profound regional consequences, but their global implications might be less severe.

III. THE GLOBAL CONTEXT
When discussing possible surprises, the group noted that the international environment is far different today than existed twenty or even ten years ago. While the U.S. played the leading role shaping the international institutions of the post-World War II period, today the U.S. government consists of policy makers who have shown less interest in rejuvenating those institutions or creating alternatives. Overseas the younger generation in Asia, Africa, the Middle East, and elsewhere is saying that an unrestrained U.S. seems more like a problem in the global community than a solution. At the same time, another member of the group pointed out that even a medium-sized terror attack, such as a half-dozen car bombs detonated simultaneously in a dense shopping area, could provoke the U.S. to overreact in ways that set the tone of a second administration and limit its options in a whole range of policy areas.

IV. SALIENT SURPRISES AND SCENARIOS
Group members observed that since the beginning of President Bush’s first term in 2001, the range and likelihood of a significant strategic surprise occurring has increased. At the same time, many in the group agreed that the new administration faces severe constraints limiting the flexibility and efficacy of U.S. foreign policy. Some of these constraints have been caused by the declining effectiveness of multilateral institutions as well as the unintended consequences of the ongoing global war on terrorism, as well as domestic political, budgetary, force structure, and resource constraints. The group also noted the increased interconnectedness of issues across geographic regions and that challenges in one area had the potential to cause a “negative feedback loop” with other areas.

1. Backlash to the Unipolar Moment. On the political-military front, the group discussed a wide range of surprises, including possible terrorist attacks, a new era of unrestrained preemptive warfare, and U.S. military overstretch. Four possibilities were the focus of much discussion:
   • Unanticipated consequences of U.S. policies — The group warned that the new administration should be careful of the surprise impacts of U.S. policies on local populations and policy makers. Examples of surprises caused by U.S. policies could include an era of relatively unrestrained preemptive/preventative warfare following the example set by the U.S. in Iraq. Examples could include preemptive attacks by Israel against Iran, Russia against Georgia, or a Turkish incursion into Kurdish Iraq. Another possibility could result from an ill-conceived U.S. reaction to a catastrophic terror attack, which further emboldens and solidifies opposition to U.S. policy in the Middle East and greater Islamic world. Several members of the group pointed out that even a medium-sized terror attack, such as a half-dozen car bombs detonated simultaneously in a dense shopping area, could provoke the U.S. to overreact in ways that set the tone of a second administration and limit its options in a whole range of policy areas.
   • Talibanization of key U.S. allies — The group identified two important states that could be on the verge of collapse or violent political change - Iraq and Pakistan — and one state — Saudi Arabia — that could be on the verge of a long-slide towards the same end. In the Pakistani case, one participant described the regime as a thin veneer of modernity masking a feudal system with a large, nuclear-armed military. He noted that Pakistani president Pervez Musharaff has already survived several assassination attempts. Others observed that rather than attempt to topple the regime directly, militants could destabilize the government by launching further terrorist attacks against the Indian government, as Kashmiri militants did in December 2001.
   • Iraq — Continuing in the vein of political-military surprises, a number of participants noted that Iraq would continue to be the most...
One participant argued that China was biding its time and building up its strength while waiting for an increasingly overextended United States to exhaust itself.

We in the U.S. should, above all, avoid over-reacting to imagined scenarios of China’s economic trajectory and avoid a sense of panic about China that leads to political over-reaction.

immediate and pressing foreign policy challenge for the new administration. One set of scenarios could flow from a local U.S. military defeat at the hands of an increasingly destructive Iraqi insurgency, or from clear evidence of protracted fighting in key cities, with unanticipated regional consequences. Surprising developments could also be triggered by the negative political impact of failing to hold comprehensive elections, or of an electoral outcome that dramatically marginalizes minority Sunnis. Even a successful electoral process could be destabilizing, particularly if a newly elected government asks the U.S. to withdraw its military presence from the country.

- Counterbalancing coalitions — Some participants argued that, despite its military preponderance, the U.S. could be surprised by groups of states forming international combinations to compete politically with the U.S. Such scenarios could include former U.S. allies crossing the line from disagreeing with American policies to actively trying to defeat them. The U.S. saw early examples of this phenomenon in the lead up to the 2003 Iraq War. Some members urged the administration to envision surprises caused by our allies teaming up with other powers like Russia, China, and India in order to block American initiatives.

- Decline in “soft power” — Several of the participants pointed out that surprises could be caused by the decline in U.S. “soft power” and the rise of alternative “soft power” centers in Europe and Asia. One participant noted China’s diplomatic, economic, and security efforts to establish a string of relationships in Asia, exemplified by recent trade agreements signed between China and Southeast Asian nations, which also outlines broad plans for political and security cooperation. Another participant argued that China was using its soft power in East Asia to organize the region in different ways that the U.S. might not be comfortable with. The European Union is also perceived to be exercising its soft power to influence issues ranging from genetically-modified foods to blocking mergers of major U.S. businesses.

- Chinese surprises — Elaborating on the issue of China, one participant argued that China was biding its time and building up its strength while waiting for an increasingly overextended United States to exhaust itself. Several other members concurred, pointing out China’s diplomatic initiatives to build a web of political and economic relationships in Southeast Asia. Other members of the group argued that the U.S. remains politically powerful and the most important economy for Asia. U.S. decision makers may be torn between welcoming apparently benign Chinese moves and visibly countering them, either of which could be unsettling to Asian geopolitics.

2. “Second Order” Surprises Caused by Proliferation Challenges — An additional political military surprise addressed in detail by the group was proliferation challenges. One member of the group noted that the new administration might have to face the break-down of the Nuclear Non-Proliferation (NPT) regime during its first months in office. In particular, she argued that non-nuclear, Article 4 signatories have grown frustrated at the Article 6 nuclear states’ continued failure to cut their own arsenals in accordance with the treaty. While some noted that the NPT’s demise might not be a surprise in of itself, several members noted the potential “second order” surprises arising from nuclear proliferation. For example, one group member posited the possibility of South Korea or Japan initiating nuclear weapons programs should diplomatic efforts to disarm North Korea fail. When addressing these challenges, it was argued that the new administration should focus efforts on resolving the underlying political tensions that gave rise to the desire to obtain nuclear weapons, rather than focusing merely on preventing non-nuclear states from obtaining WMD technology.

3. Technological Surprises. The category of technological surprises includes not just hackers breaking into financial or national security systems, argued members of the group, but also whole categories of tactically or strategically significant capabilities wielded by an adversary that the U.S. didn’t know they had. In the category of asymmetric warfare, examples of technological surprise could include low-tech solutions to high tech problems, such as airliners crashing into buildings. Emerging technologies such as robotics, biotechnology, and nanotechnology also have the capacity to generate surprises. Examples cited in the biotech sphere included designer viruses that evade drugs or immune systems, stealth viruses that lie dormant and emerge like naturally emerging phenomena, or weaponized gene therapy vectors that have the potential to permanently alter a victim’s genetic makeup. Technological surprise could also result from the empowerment of small groups or individuals in ways previously reserved only to nation states.
4. Institutional Surprises. In addition to security threats, many in the group warned of the surprises caused by the functional collapse (versus the steady erosion) of prominent international institutions. NATO, the EU, the UN, and the WTO, in particular, were all objects of discussion. Some in the group warned that lacking U.S. leadership to revitalize or replace NATO and the UN, the world could return to an environment of growing disorder, economic decline, and counterbalancing coalitions.

- NATO — Several members argued that the functional collapse of NATO was a real possibility. One member argued that the loss of the transatlantic military alliance would mean that the U.S. and Europe would forfeit their common decision-making, military interoperability, and integrated command that have stood both in good stead for the last half century. This could leave European and U.S. leaders surprised to discover that they lack the tools for resolving a crisis in the Balkans, Eastern Europe, North Africa, or other regions surrounding Europe.

- EU — There were two strains of thought on the EU within the group. The first was represented by one speaker, who argued that the collapse of NATO could mean that the EU could develop its own separate policies, goals, and military forces, making it a true counterbalancer to U.S. power. However other speakers argued that the EU would not challenge the U.S. militarily, since this would require a European readiness to shift resources into military expenditures that was unlikely. Instead, several participants argued that a “long-slide” functional paralysis or collapse of the EU’s embryonic security architecture could be accelerated by the failure of one or more countries to ratify the EU’s constitution, withdrawal of dissatisfied countries from the “euro zone,” or collapsed confidence among aspirant states such as Turkey. An institutional failure could reduce the EU’s traditional impact as a stabilizing force along Europe’s periphery.

- United Nations — The administration could be surprised to discover that the UN is incapable of acting during a future crisis. A functional collapse of the UN could leave the U.S. without a forum for collectively sharing the burdens of humanitarian and security missions in transitional or post-conflict states.

- World Trade Organization — Members discussed surprises that could be caused by the failure of the Doha Round of the WTO. Failure could draw into question the U.S.’s ability to continue multilateral trade agreements that have been engines of economic growth, and that helped on resolving social and development problems.

5. Economic Surprises. The group observed that a surprise could appear on the economic front. Particular attention was given to surprises caused by America’s foreign energy dependence, as well as imbalances in the financial markets. How the U.S. manages a severe economic shock, said the participants, could adversely affect our relations with other states. The group also addressed a divergence of U.S.-EU economic leadership, and the impact this could have on the global economy.

- Energy surprise — Several members of the group noted that U.S. dependence on foreign oil and gas is increasing, not decreasing. Hopes that Russia could serve as an alternative supplier to Middle East oil, participants observed, were misplaced. Increasing Chinese demand for energy, combined with a shrinking number of unexplored global reserves means that prices might remain high within a brittle market, and sooner or later another major energy crisis might erupt should a confluence of two or three events occur. Surprises that could develop include political instability in a major oil producer like Nigeria or Russia, combined with an accident or terrorist attack at a major oil refinery or transshipment center.

- Financial markets shock — While the U.S. is powerful and influential in the military and security spheres, said one speaker, as an economic power it is precariously balanced. Its key vulnerability is the present risk of a sharp and sudden drop in asset valuations. If the U.S. experiences any precipitous decline in the capital markets or major asset classes, such as the housing market, it could trigger a cascading effect because the global markets are so interrelated. The U.S. can deal with a gradual fall in the value of the dollar, high levels of domestic debt, or trade disputes, so long as asset valuations do not suffer a dramatic decline similar to what Japan suffered in 1989-1993. Any one of several fundamental imbalances in the U.S. economy, such as the current account imbalance and the federal budget deficit, could lead to a sharp economic dislocation in the U.S. Falling asset valuations could, in turn, lead to serious credit risks, and regulators may respond by flooding liquidity into the marketplace, generating inflation. More radical international economic policies could be enacted, including protectionism. Poorly thought-out policies, enacted in times of crisis, one member surmised, could contribute
to a “perfect storm” of political and economic events. A global economic downturn, originating in the United States, could undermine the political stability of governments in every region of the world.

6. Divergent global economic leadership roles — Some in the group concurred with the conclusion of a recent study\(^1\) warning that current macroeconomic trends in growth, productivity and demographics could — if they continue uninterrupted — erode the strong foundation of the transatlantic partnership, as U.S. and EU economies move in different directions. At the same time China, India and others that are experiencing strong economic growth that may lay claim to a bigger role in economic decision making. Some in the group argued that, in this context, the U.S. could be surprised by the results of Chinese efforts to build a web of diplomatic relationships in Asia, undercutting the U.S. economic role in that region.

6. Health and Environmental Surprises — Health and environmental scenarios identified by the group could include continued global warming, the development of new, highly contagious diseases in Asia, and rising resistance to existing HIV/AIDS medications. Reduced research and development in this field could likewise cause surprises.

7. Rapid climate change — We could face a “sudden” recognition of what could happen as a result of melting polar ice caps.

8. Spreading diseases — The group argued that in the next four years the Administration could be surprised by the emergence of a major pandemic. Hysteria and conspiratorial thinking could generate surprises in such a situation, confronting policymakers with the question of whether or not it was the result of a biological terrorist attack, and forcing it to choose between sending vaccines and medicines to the stricken country or stockpiling them in the U.S. Second, the U.S.’s decline in “soft power” means that it could be surprised to discover that it is poorly placed to combat “devil theory” rumors about the source of the disease, damaging U.S. credibility and constraining an effective policy response. Participants pointed out, as examples, nefarious rumors in Africa in the 1980s that HIV/AIDS was created by the CIA and that polio vaccines were a U.S. plot to sterilize regional Muslim populations.

9. Reduced HIV/AIDS research and development — While the international community has come up with a more or less common strategy to fight HIV/AIDS using drug cocktails, the disease continues to spread. At the same time the cost of R&D is rising and many pharmaceutical companies are dropping out of the market for both HIV/AIDS research and infectious disease vaccines. The administration could soon face tough choices about subsidizing research and responding to increasingly strained ties between wealthy and poor countries.

7. Positive Trends. Though many of the surprises outlined by the group were negative, the group did identify several potential positive scenarios. These included:

- Recognition of tactical versus strategic differences with Europe — One member of the group stressed the importance of distinguishing between tactical and strategic disagreement between the U.S. and Europe. While most agreed that there were severe tactical disagreements between the U.S. and Europe over issues such as Iraq, Iran, the U.S. dollar, and others, there was less agreement on the likelihood of long-term strategic impact of these disagreements. Some members argued that the U.S. was pursuing short-term tactical alliances with countries such as Russia, Israel, and India to the detriment of our relations with Europe, China, and Japan, while others cited the recent trans-Atlantic consensus over the Ukrainian political crisis, mutual concern over Islamic radicalism, and continued large-scale economic interaction as examples of deep-rooted common allied bonds.

- Progress in South Asia — The India-Pakistan peace process, initiated in January 2004, has been solidified and extended. Discussions between Indian and Pakistani officials led to several important compromise solutions to long-standing problems. Measures agreed upon by the two governments have produced a major increase in India-Pakistan cross-border trade, investment, and travel. Progress in establishing more friendly relations was symbolized by a widely acclaimed visit by Indian Prime Minister Manmohan Singh to Pakistan. Meanwhile, New Delhi has expressed satisfaction with the decline of Pakistan-supported infiltration across the Line of Control in Kashmir, where a cease-fire continues to be maintained. Violence in the Kashmir Valley has diminished, and Indian authorities have opened a promising dialogue with local dissident groups. Within Pakistan, the senior ranks of the army remain loyal to General Musharraf, who continues in his dual role as president and chief of army staff. Under the direction of Prime Minister Shaukat Aziz, Pakistan’s economic performance

---

has improved and for the first time in years both foreign and domestic investment have risen.

* Potential regime changes — Besides improvement in regional conflicts, other potential positive surprises discussed by the participants might flow from future regime changes. One speaker pointed out that while the West is often concerned about North Korea’s strength, that country’s disastrous economic record means that internal upheaval and economic and political collapse of the DPRK remains a possibility. A wide range of surprises, some positive and some negative, could open up on the Korean peninsula and Northeast Asia if such an event would come to pass. Likewise, Fidel Castro’s reign is likely to end in the next decade, with both advantageous and deleterious consequences for the Caribbean and United States. Finally, one participant argued that China was not immune to the broader political awakening occurring around the world, and challenged the group to consider the implications of potential political developments that could lead to greater democratic progress in that country.

* Positive impact of high oil prices — Several participants pointed out the possible positive long-term environmental aspects of continued high oil prices. Should prices remain high, they argued, the incentives will rise for entrepreneurs to develop non-petroleum based transportation technology. The market, it was argued, could generate growing incentives for technological breakthroughs that help wean the U.S. off foreign energy. The U.S. government could facilitate this process, they argued, through a process of incentives such as tax breaks for alternative fuel and reduced subsidies for the carbon economy.

V. POLICY IMPLICATIONS

Turning to policy implications of these possible surprises and scenarios, participants were acutely aware of the vast scope of their review. For the most part, they confined themselves to warnings and suggestions of a general strategic nature rather than specific country or regional recommendations. The group labored to develop policy prescriptions that, on the one hand, reflect the seriousness of potential risks while, on the other hand, acknowledging that the second George W. Bush administration may remain wedded to policies in place during the first term. Members also discussed the need for prioritizing criteria among this host of scenarios. Ideally, they concurred with one member that policymakers should concentrate on those most intrinsically important to U.S. interests and those we can realistically pre-vent, or at least ameliorate, through some mixture of U.S. actions and the concerted actions of others. The points below reflect the tenor of participant comments.

1. U.S. decision-makers need carefully to weigh the costs and benefits of the current high degree of concentration of American strategic energies on the Middle East. No one argued for precipitate disengagement from Iraq or Afghanistan or for deemphasizing the global campaign against terrorism. But several participants argued for:

   a. Some rebalancing of regional focus so as to avoid missing challenges and opportunities arising in Asia, Europe, Russia, and other regions such as Africa and Latin America. More than one member of the group referred to a ‘distortion’ of priorities and suggested that this could lead to dubious consequences in terms of U.S. global interests and relationships.

   b. Greater attention to the underlying sources of resistance and, often, antagonism to U.S. policies in Middle Eastern countries. Contrary to some official claims, the problem confronting American diplomacy is hostility to our policies and methods rather than to our values and beliefs. In this regard, a reinvigorated U.S. role on the issue of Israel-Palestine, hopefully in coordination with key Europeans, was seen as essential both for advancing our Middle East interests and for undercutting militants who exploit the issue.

   c. More awareness of the regional context of U.S. presence in Iraq could help in rebalancing American efforts and addressing regional perceptions that Washington is self-focused and out of touch with neighbors’ concerns about the dramatically changed Iraqi political balance and its implications for regional security. In this regard, several participants noted the importance of re-examining the U.S. stance toward Iran, which has the potential both to complicate and to assist us in Iraq and where U.S. strategic priorities would seem to call for a fresh approach.

2. U.S. decision makers should take into account the reality that in the eyes of some current and potential partners, the U.S. itself has become a factor of uncertainty or a ‘wild card’ in the international system.
atmosphere of self-isolation, global hostility and vulnerability. In this context, there is concern about how a vulnerable America might respond to some form of perfect economic storm - do we have the political capacity for crisis management or might we withdraw into ourselves? One suggested remedy for such concerns is a reinvigorated U.S. global engagement in which we demonstrate greater preparedness to speak with and listen to all players in the global arena even while giving no one a veto over U.S. freedom of action. Similarly, American leaders will need to decide whether to react creatively or defensively when others take initiatives and develop proposals of their own. Some participants noted that when Americans demonstrate anxiety to be in control and issue pronouncements on key matters with limited diplomatic consultation, they are, in practice, inviting others to hedge their bets behind our backs. The remedy here is fairly obvious. However, another member argued against overdoing the Pogo principle (we are the problem), and to recognize the abiding legitimacy of U.S. strategic concerns over the risks of terrorism mounted from Islamic nations, over the need for constructively and careful treatment of an emergent China, and over the abiding ambitions of certain other nations to acquire dangerous and destabilizing weapons technologies.

3. The United States has a critical and indispensable role to play in revitalizing and reforming weakened or outdated international institutions; where new ones are needed, this, too, calls for a clear and creative American leadership role. Participants accepted the ironic fact that the need for U.S. leadership may be most palpable in the minds of Americans themselves. But some members nonetheless urged the need for Washington to recognize that — apart from the war on terrorism — American global leadership is ‘dead in the water’. To regain the initiative would require rebalancing our foreign policy priorities, re-establishing our ‘soft power’ edge and facing up to major deficits of capacity and leadership in U.S. foreign policy organs. As one member observed, either Americans regain their sense of initiative and concert with others to address the ‘vacuum’ of capacity in global institutions, or we could head into a downward spiral of insecurity and competitive agendas among major power centers.

4. The U.S. will require exceptionally good judgment as well as good fortune in dealing with China. We must understand, a number of members argued, that China’s rising is full of all sorts of ambiguities and possible complications. There are unanswered questions about its ultimate political transformation and how this affects its conduct. The economic scenarios are also mixed: there are massive new commitments at home and with foreign partners; less clear is how many of them can be achieved in practice. We in the U.S. should, above all, avoid over-reacting to imagined scenarios of China’s economic trajectory and avoid a sense of panic about China that leads to political over-reaction, some members noted. It will also be necessary to recognize the potency of China’s nationalist awakening and the country’s capacity to impose and accept sacrifice for core political goals. One member asserted that our policy should be one of trying to promote stability in China, choosing policies that will help move them through periods of transition.

ISD MISSION AND PROGRAMS
The Institute for the Study of Diplomacy (ISD), founded in 1978, is part of Georgetown University’s Edmund A. Walsh School of Foreign Service and is the School’s primary window on the world of the foreign affairs practitioner. ISD conducts its programs through a small staff and resident and nonresident associates. Associates, who include U.S. and foreign government officials and other foreign affairs practitioners, are detailed to or affiliated with the Institute for a year or more. ISD staff and associates teach courses, organize lectures and discussions, mentor students, and participate on university committees. ISD’s larger constituency is the broader academic and policy community. The Institute reaches this group through its conferences, working groups, publications, and research activities.
New Administration
Strategic Surprises for a