



*Schlesinger Working Group  
on Strategic Surprises*

# Strategic Surprises that May Face the Obama Administration

SCHLESINGER WORKING GROUP REPORT, FALL 2008

Prepared by Sara E. Thannhauser

## THE SCHLESINGER WORKING GROUP

The Institute for the Study of Diplomacy (ISD) of Georgetown University established the Schlesinger Working Group in 1999. This program recognizes the distinguished public career of Dr. James R. Schlesinger and his remarkable contributions to national security policymaking and strategic thought. The project is based on a multi-year working group initiative with a mandate to review and assess a range of possible scenarios that contain significant potential for strategic surprises and for unanticipated outcomes. The Schlesinger Working Group relies on a permanent core membership of generalists from the policy-making and research communities and academia (see page 2) who are sometimes joined by respected authorities on specific regional or functional topics under consideration. The meetings are chaired by Schlesinger Professor of Strategic Studies Chester A. Crocker and Visiting Professor and ISD Senior Research Fellow Casimir A. Yost.

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## I. INTRODUCTION

Every four years the Schlesinger Working Group embarks on its task to identify, unpack, and explore strategic surprises that could affect the next administration. Past efforts in this regard have produced timely and relevant recommendations. For example, the working group's fall 2000 report identified the dangers of nonstate actors, going so far as to predict that "the U.S. was thoroughly unprepared for a serious domestic terrorist attack, and that America's relative isolation had lulled policymakers into a false sense of security."<sup>1</sup> The fall 2004 report included a proposed scenario involving a global financial crisis rooted in the U.S. housing market. In the report, members argued, "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."<sup>2</sup>

Meeting on October 6 and November 24, 2008, the working group, made up of foreign policy experts from the public, private, and academic fields, focused on the fast-shifting geopolitical landscape the Obama administration will inherit. Forces at work, including the current financial crisis, will constrict President Obama's ability to mitigate and manage strategic surprises that could arise during his first term in office.

Three fundamental assumptions were made at the onset of the meetings: 1) the combination of U.S. vulnerabilities and the fast-shifting economic and regional landscape means that the potential for the Obama administration to be surprised has risen dramatically; 2) U.S. reserve capacity (both human and financial) to meet crises head-on has diminished in recent years; and 3) though surprises may be anticipated in theory, they may nonetheless be a shock to a new and untested administration besieged by a myriad of issues and operating under possibly faulty assumptions.

Several participants noted that the limits of U.S. power have recently been on display at both the geopolitical and economic levels. To be sure, the United States will remain the single most powerful global actor. But U.S. capabilities—including the military realm due to overextension in Iraq and Afghanistan, and potential cuts in the defense and other national security and assistance budgets due to massive deficits and expanding entitlement programs for retiring baby boomers—could erode the influence and leverage of the United States. Such limitations have already relegated the United States to the role of spectator on global problem-solving as opposed to leader in some instances. For example, France and Finland took the lead in negotiating a ceasefire agreement to end the crisis in South Ossetia.

<sup>1</sup> Alexander Jovovic, "Challenges for a New Administration" (Washington, DC: Georgetown University, Institute for the Study of Diplomacy, Schlesinger Working Group on Strategic Surprise Report, fall 2000). Available at [http://isd.georgetown.edu/new\\_administration.pdf](http://isd.georgetown.edu/new_administration.pdf).

<sup>2</sup> Jason R. Wisniewski, "Strategic Surprise for a New Administration" (Washington, DC: Georgetown University, Institute for the Study of Diplomacy Schlesinger Working Group on Strategic Surprise Report, fall 2004). Available at [http://isd.georgetown.edu/surprises\\_2004.pdf](http://isd.georgetown.edu/surprises_2004.pdf).

## SCHLESINGER WORKING GROUP CORE MEMBERS

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The United States lost substantial influence in Pakistan with President Musharraf's departure, while negotiations not involving the United States as an intermediary proliferated across the Middle East: Syrian-Israeli talks backed by Turkey; a successful effort by Qatar to bring together Lebanese factions, including Hezbollah; and an Egyptian-brokered truce between Israel and Hamas, which subsequently collapsed.

At the economic level, the ongoing global financial crisis has exposed serious structural and regulatory vulnerabilities in the western financial sector (including the United States). The repercussions of this ongoing crisis have yet to be fully understood, but many analysts agree that the \$700 billion rescue package—a plan that former Treasury Secretary Henry Paulson described as “objectionable” but necessary—has forced the United States to swallow what remained of its commitment to free-market forces and deregulation of the financial sector. Furthermore, the incoming Obama administration's proposed stimulus package will guarantee annual budget deficits in excess of \$1 trillion—much of it borrowed abroad. Since politics and economics are inextricably intertwined, the United States will be less immune to international pressure and less able to act unilaterally. As former Treasury official Jeffrey Garten argued in Thomas Friedman's October 5 op-ed in the *New York Times*: “Being a bigger debtor nation means losing even more of our sovereignty. It means conducting our economic [and foreign] policies with an eye toward whether others approve.”<sup>3</sup>

Though most working group members believed the current geopolitical and economic volatility will define at least the first two years of the Obama presidency, other more sanguine members of the group cautioned that for every disruption, there generally exists a silver lining to be seized, and that compared with other countries the United States remains better equipped to adjust successfully and come out of a crisis stronger. “Declinists” are probably correct in assuming American exceptionalism will be weakened as residents on Wall Street, Main Street, and even Pennsylvania Avenue realize that the laws of gravity affect them, too. But crises also provide an

opportunity (one that may not have existed without a shock to the system) to test resiliency and to reexamine, restructure, and build new institutions and systems that will be more aptly equipped to manage modern strategic surprises.

## II. OUTLINE OF SURPRISES

During the first meeting, held shortly before the presidential election, working group members discussed dozens of possible “surprise” scenarios in economic, geopolitical, and environmental areas. At the second meeting, participants refined the scenarios, grouping them into four categories and listing the most salient. The four categories used to group the surprises are the following:

### • CATEGORY ONE

**Homeland Surprises:** Events that take place within the United States severely testing U.S. crisis management capability, even though their origins may be foreign. Examples include terrorist attacks on infrastructure, a health pandemic, an electronic cyber attack, or a natural catastrophe.

### • CATEGORY TWO

**Major Geopolitical Shift Surprises:** Unexpected destabilization in one or more important states possibly triggered by direct or second order effects of the 1) global financial crisis (examples include China, Iran, Nigeria, and Taiwan); or 2) the sudden loss of a pivotal leader in a critical country (examples include Egypt and Saudi Arabia).

### • CATEGORY THREE

#### **Weapons of Mass Destruction (WMD)**

**Breakout Surprise:** Negatively, Iran develops a nuclear weapon, or the Pakistan military loses control of weapons. Or the reverse may occur, creating a positive development: North Korea reaches agreement to give up nuclear weapons, or Iran makes a strategic choice to cooperate on nuclear matters as part of a larger “grand” bargain with the Obama administration.

### • CATEGORY FOUR

**Surprise Multilateral Cooperation Patterns:** Ambitious leadership pushes for harmonized and successful multilateral action on climate change and/or a Russia, China, and U.S. concert to support Iran sanctions, pressuring

<sup>3</sup> Thomas L. Friedman, “Swedish Spoken Here,” *New York Times*, October 5, 2008.

Tehran to engage seriously. Multilateral economic diplomacy in the G-20—if successful—could also spill into other multilateral fields. Such moves could establish constructive momentum and a pattern of sustained cooperation across diverse issue areas among states. Alternatively, despite positive atmospherics, efforts for major multilateral breakthroughs on security, trade, climate, and financial issues collapse in mutual recrimination.

In addition to categorizing and listing potential strategic surprises, the working group took a step back to refine further the existing Schlesinger taxonomy of strategic surprise. Moreover, at the end of both sessions the working group focused on the Obama administration's capacity to manage such scenarios, detailing what options his administration will have to choose from in order to better position the United States to deal with the increased likelihood of experiencing a strategic surprise.

### III. TAXONOMY OF SURPRISE

Throughout both discussions, several members questioned what constitutes a strategic surprise and what criteria the working group should apply to help determine the saliency of a particular strategic surprise. Dealing first with the former concern, group members agreed that strategic surprises can have posi-

tive or negative impacts and they can be small or cataclysmic in size. One participant suggested that a strategic surprise constitutes an event that has the potential to deflect presidential decision-making from other pressing issues. Additionally, several members argued that even if an event is perfectly predictable in theory, its actual timing can still be a surprise, catching distracted policymakers flat-footed because it is a random natural event (Hurricane Katrina) or an apparently unforeseen, out-of-the-blue event (9/11) where warning signals were ignored or buried in the bureaucracy. This is especially true when the intelligence and policy communities are overwhelmed by incoming issues, which hampers their ability to prioritize among a range of economic possibilities, possible nonstate events, and a game-changing international event (the sudden departure of a pivotal leader). Furthermore, it is also difficult for democracies to take tough and painful steps in anticipation of a surprise absent an actual crisis. For example, absent a health pandemic introduced by a foreigner, would Americans agree to health checks for the 140 million people who arrive at U.S. airports every year?

One member suggested that surprise outcomes flow from the interaction between

TABLE 1

#### Sources of Surprise: Triggers and Responses

1. **Random events or acts of God** (2005 Indian Ocean tsunami)
2. **Major trend reversals** (Subprime mortgage crisis)
3. **Nonlinear change or discontinuities** (Information technology revolution, HIV/AIDs)
4. **Systemic geopolitical transitions** (Rise of the BRICs [Brazil, Russia, India, and China])
5. **Unintended consequences of actions** (Arming the mujahideen in Pakistan to fight the Soviets in Afghanistan in the 1980s)
6. **Surprise attacks** (Pearl Harbor, 9/11, USSR in Afghanistan)

#### Ability to Manage a Surprise: Vulnerabilities

1. **Intelligence community** that suffers from faulty assumptions; inadequate collections; inability to prioritize; and inaccurate political perceptions, or that is misdirected by the demands of intelligence consumers—policymakers
2. **Government bandwidth:** too many variables, too much “noise,” overloads the system and capacity for judgment
3. **Reduced financial flexibility:** excessive debt and deficits limit available funding for anticipation response
4. **Innovative capacity:** lack of creative ideas and overabundance of linear thinking and intellectual parochialism
5. **Weak decision-making** systems that suffer from leadership flaws, failure to connect disparate issues, hubris, and group think

The Schlesinger Working Group extends a special thanks to those core members and guest presenters whose opening remarks laid the groundwork for the series' discussion. The group would also like to thank all guest participants who contributed both their highly relevant experience and their personal perspectives to the overall discussion.

Core members of the Schlesinger Working Group were not asked to approve this Report. The Report, however, relies heavily on the discussions of the group. As such, this document reflects the general ideas of working group members, but is not a consensus document and cannot be ascribed to any individual member.

The surprise sequence may begin with a triggering event—like the 1997 collapse of the Thai baht or the 1914 assassination of Austrian Archduke Franz Ferdinand—and then the consequences of that triggering event build and interact with initial responses and unrelated simultaneous events resulting in a regional (if not global) crisis.

latent vulnerabilities and triggering events and that they can be aggravated by the potential response aimed at mitigating their impact. Vulnerability is defined as known or unknown infrastructural/ institutional weakness, while triggers are defined as some form of event that exposes a particular vulnerability (or set of vulnerabilities). Though triggers can be widely anticipated, it is difficult to predict their complete level of impact, especially as effects can compound and cascade when combined with other coincidental events. The surprise sequence may begin with a triggering event—like the 1997 collapse of the Thai baht or the 1914 assassination of Austrian Archduke Franz Ferdinand—and then the consequences of that triggering event build and interact with initial responses and unrelated simultaneous events resulting in a regional (if not global) crisis. The collapse of the Thai baht led to the 1997–1998 Asian financial crisis. Because of the interconnectedness of the global financial markets, reverberations from the Asian crisis were felt as far as the United States and Brazil. In this case, it was the secondary effects from the collapse of the Thai baht that had the most significant and lasting impact. What began as a regional event quickly compounded to affect the entire globe.

Finally, a response or mitigating measure taken as a management mechanism by a government may produce surprising consequences. For example, the Bush administration's decision to invade Iraq after September 11, combined with the long-term global trend in rising oil prices, aided and abetted the rise of Iran as a potential regional hegemon in the Middle East. Table 1 organizes a list of six potential sources of surprise, while also presenting institutional components (potential vulnerabilities) critical to managing a surprise.

As for the criteria to apply in weighing the potential for surprise, participants mostly focused on the *severity* of impact as it pertains to U.S. national interests. Group members determined that an event impacting the homeland would be most immediate, necessitating prompt government response, while an event that cascaded and rippled across the globe leading to an extraordinary structural shift in the global scheme would also constitute a

salient surprise. Members recognized that the *likelihood* of surprise is also a factor to be considered but generally agreed to focus on the severity dimension.

Using this general model, group members narrowed the list of potential surprises that may face President Obama. This is not to say that the events the group selected will necessarily transpire. Rather, by shedding light on possible surprise scenarios, group members aimed to stress the importance of increasing U.S. ability to mitigate and manage surprise. The magnitude of a surprise is indirectly related to the severity of the triggering event, combined with a government's ability (or inability) to manage the effects of the surprise. Based on the working group's three initial assumptions, U.S. capacity to deal with surprise has eroded, which means that even small surprises can have greater impacts. Thus, though it is impossible to predict exactly when a strategic surprise triggering event will occur, participants agreed that it is possible to reduce vulnerabilities and improve management capacity to increase government resiliency and reduce the magnitude of impact of surprise.

#### IV. THE GLOBAL CONTEXT— A DANGEROUS INHERITANCE

Drawing on the conclusions of the National Intelligence Council's Global 2025 Report, the working group agreed that the Obama administration will inherit a world in extreme flux and subject to risk and surprise. The whole international system as constructed following World War II is changing. New players—Brazil, Russia, India, and China—are altering the stakes and adapting the “rules” of the game. Working group members agreed that unprecedented economic growth, paralleled by an accelerated surge in global population (1.2 billion more people by 2025—mostly in developing nations) will place an even greater burden on an environmentally fragile planet already under the strain of rising resource utilization. Meanwhile, the impact of the ongoing economic crisis will further alter power relationships and diminish the resiliency required to manage the impact of surprising events. Though the sources of surprise may vary, the current level of volatility

<sup>4</sup> Data obtained from the “Weekly United States Spot Price (Dollars Per Barrel)” (Washington, DC: Energy Information Administration). Available at <http://tonto.eia.doe.gov/dnav/pet/hist/wtotusaw.htm>.

How much more debt can the United States incur, and how long will overseas creditors have confidence in the “full faith and credit” of the U.S. government were critical questions that several participants raised.

combined with U.S. vulnerabilities increase the chance that President Obama will face interactive, cascading, and cumulative surprises that have the potential to deflect presidential decision-making and to further shake the foundations of the current international system.

### *Economic Chaos*

In both sessions, participants examined the global economic context President Obama will inherit and extrapolated on the geopolitical impacts that this crisis will have. Group members began by pointing to the extreme level of volatility present in today’s global economic system. During the past six months, key global economic indicators have undergone severe shifts. For example, the price of oil peaked at \$147 per barrel in July 2008, only to fall to an average of \$75 in October. Two months later, the price of oil averaged \$41 per barrel.<sup>4</sup> According to the *Wall Street Journal*, in November the value of the U.S. dollar gained nearly 9 percent against the euro. However, in December 2008 the situation reversed, and the euro gained nearly 10 percent against the dollar. Such severe and frequent swings of these key indicators are affecting the balance of power. In July, oil-consuming nations suffered tremendously under the burden of high energy prices, while in the third and fourth quarters of 2008, it was the oil-producing nations that were feeling the pinch.

Working group members also discussed the potential ramifications of the high level of debt and deficits the United States has incurred to pay for the wars in Afghanistan and Iraq; the U.S.’ ever-expanding energy addiction; the expansion of government entitlement programs; the first \$700 billion financial rescue package; and, now, Obama’s second potential stimulus package totaling in excess of \$800 billion. As part of the initial bailout, Congress lifted the ceiling on the national debt to \$11.3 trillion from \$10.6 trillion. This ceiling may need to be lifted again. How much more debt can the United States incur, and how long will overseas creditors have confi-

dence in the “full faith and credit” of the U.S. government were critical questions that several participants raised. Though it is not in the interest of U.S. creditors to sell off their dollar assets, several members were concerned that those creditors may eventually become reluctant to acquire new assets. Participants also pointed out that the U.S. Treasury Department’s response to managing the crisis has revived the relevance of John Maynard Keynes’ prescription of interventionist government responses. The global response to such a move will no doubt test allegiance to market principles.

Despite these sobering concerns, other members were able to identify potential positive developments that may arise due to the financial shock. As touched upon above, with U.S. and other western consumers cutting back on consumption, and production levels slowing in developing countries like China, commodity prices are subsiding. Oil prices are down, with the price per barrel hovering around the \$40 mark as of January 2009. Global food prices have also been on the decline, helping to relieve the stress on developing nations in Africa and the Caribbean. Pointing again to the interrelationship between economic and political events, several members discussed how sinking commodity prices will negatively impact troublesome governments in Russia, Iran, and Venezuela. According to a report by PFC Energy, oil must be at least \$94 a barrel to ensure Venezuela’s macroeconomic stability this year. Iran (and Saudi Arabia) requires the price to remain above \$55 per barrel.<sup>5</sup> According to a report in the *New York Times*, the Russian budget is pegged to an oil price of roughly \$70 a barrel.<sup>6</sup> Should the price of oil continue to fall, the geopolitical leverage and influence of Hugo Chávez, Mahmūd Ahmadinejād, and Vladimir Putin will decline. (However, such a decline may also threaten key U.S. oil suppliers such as Saudi Arabia, Nigeria, and Iraq).

### *Regional Inheritance*

Using the historical analogy of the 1930s, members highlighted the interrelationship

<sup>5</sup> “OPEC States: \$100 Wanted by All, Needed By Some,” PFC Energy Memo on Markets and Country Strategies, March 7, 2008.

<sup>6</sup> Simon Romero, Michael Slackman, and Clifford J. Levy, “3 Oil-Rich Countries Face a Reckoning,” *New York Times*, October 20, 2008.

Severe fluctuations in the economic world may alter regional power paradigms.

between poor economic times and the rise of security threats. President Obama will be constrained in addressing geopolitical challenges by the need to cope with the domestic economic crisis. Severe fluctuations in the economic world may alter regional power paradigms. In addition, geopolitically hyper-focused on the Middle East and Afghanistan/Pakistan, the United States may be ill prepared to manage a surprise originating from Europe, Latin America, Africa, or Asia.

A shifting geopolitical landscape will make for a progressively more challenging environment for U.S. foreign policy. Most members agreed that the situation in **Iraq** remains precarious. From four to five million Iraqis are internal or external refugees. Prime Minister Maliki and his Shia-dominated government are cracking down on Sunni militias like the Sons of Iraq, which have been central to efforts to defeat al Qaeda in Iraq. The future of Kirkuk (and of the Kurdish zone generally) remains problematic. Increased Iraqi nationalism (reflected in protracted negotiations over a status of forces agreement for U.S. troops) will require U.S. troops to be out of Iraq by 2011. As U.S. forces draw down, U.S. influence in Iraq will decline, including U.S. capacity to press for Shia-Sunni reconciliation and co-existence. Iran may be a beneficiary of declining U.S. influence in Iraq.

Participants also agreed that the new central front in the global war on terrorism is now on the **Pakistan/Afghanistan** border. It is more dangerous than a year ago. Moreover, the Taliban and al Qaeda have a relatively safe haven in Pakistan's tribal territories. (There are reasons to believe that some Pakistani military and intelligence leaders have not taken decisive action against Bin Laden because they feared success could lead to a sharp drop in U.S. military assistance). Adding to this toxic mix, the recent terrorist attacks in Mumbai could have serious consequences for India-Pakistan relations. There is a risk that India will undertake military reprisals against Pakistan, particularly if it is established that those who carried out the attack have proven connections with the Pakistani government. Bruce Reidel, at the Brookings Institution,

argues that "Pakistan is the most dangerous country in the world. No other country poses the issues of al-Qaeda, terrorism, nuclear proliferation, nuclear war and peace, drugs, democracy, military dictatorship, and Islam in such a volatile and combustible way."<sup>7</sup> If the situation in Iraq is improving, the situation in Afghanistan is deteriorating. Weak and corrupt political leadership in Kabul and Islamabad is contributing to the present deterioration. Furthermore, North Atlantic Treaty Organization (NATO) members are divided on the future of the mission in Afghanistan.

Group members also pointed to Prime Minister Putin's determination to reassert **Russia's** predominant influence in its "near abroad." Russia has done so in Georgia, and Ukraine may be next on the list. Both the Clinton and Bush administrations ignored Russia's severe reactions to U.S. policies on NATO enlargement, Kosovo, oil pipelines, and placing missile defense interceptors in Eastern Europe. Russia is now pushing back and may be determined to control energy flowing from the Caspian to Europe. (The Baku-Tbilisi-Ceyhan pipeline through Georgia carries 850,000 barrels of oil a day.) George Friedman, the chief executive officer of Stratfor, stated that "[T]he Russian invasion of Georgia has not changed the balance of power in Eurasia. It has simply announced that the balance of power had already shifted."<sup>8</sup> This is partly because the United States is so bogged down in Iraq and Afghanistan and so isolated diplomatically that it is unable to do much to support its allies and partly because Russia is today a more potent geopolitical actor than it used to be in the immediate post-Cold War years, with a stronger central authority enjoying considerable domestic consensus, far clearer doctrines and policies, and a much more robust resource base with which to project diplomatic and military influence.

However, it is also interesting to note that Moscow's military stand off with Tbilisi produced unintended consequences (if not surprises) that negatively impacted the country's geopolitical position and economy. Geopolitically, Russia's strike against Georgia has shifted European leaders' attention to the Caucasus

<sup>7</sup> Bruce Reidel, "Pakistan: Foreign Policy Past its Expiration Date," *Washington Post*, September 9, 2008.

<sup>8</sup> George Friedman, "The Russo-Georgian War and the Balance of Power," Geopolitical Intelligence Report, STRATFOR, August 12, 2008.

Nevertheless, Chinese growth is pegged to exports and U.S. consumption, and should the financial crisis deepen, Beijing may experience a sharp shift in the growth and stability trajectory that is conventionally assumed for the country.

region and may further encourage them to diversify energy imports. Nevertheless, European leaders are divided on relations with Russia— France, Germany, and Italy are keen to bring relations back to normal, while others such as the United Kingdom, Lithuania, and Poland are opposed to sending a positive signal to Moscow so soon after the invasion of Georgia. Economically, Russia's need to reassert itself in the Caucasus region contributed to a sharp decline in its stock market. According to reports, the Russian Trading System (RTS) index is down 70 percent from its peak in May (wiping out \$700 billion in value). After the war, foreign investors withdrew about \$74 billion of capital, \$16 billion alone in the week of the invasion. The Russo-Georgian crisis exposed vulnerabilities in the Russian financial system. The combination of a fall in the stock market, together with foreign withdrawals, has caused a squeeze on the availability and cost of credit. Sharply falling energy and commodity prices have compounded the challenging situation Russia now faces. The crisis hit the Russian private sector particularly hard. The oligarchs who once lent money to the cash-strapped Russian state are now turning back to the government (now flush with cash from oil profits) for survival. Some group members believe the Russian state is eager to renationalize the companies that were privatized in the 1990s.

**Iran**, too, is a wild card. Overthrowing Saddam Hussein removed Iran's biggest regional enemy. Oil wealth is making Tehran a more formidable challenge. As it continues to build centrifuges, Iran is getting closer to the day when it will be able to produce highly enriched uranium. Iran is giving tangible support to Shia groups in Iraq, Lebanon, and Gaza. Group members agreed that the Iran challenge is growing more formidable. Nevertheless, declining oil prices may constrain Iranian ability to exert Iran's influence abroad and open the opportunity for productive engagement.

Participants argued that **China** poses both an opportunity and a challenge to the United States. China's internal needs—feeding and employing its growing population—drive the policies of its leaders. Growing Chinese demand has been putting upward pressure on commodity prices all over the world, though these pressures have ameliorated in recent

months with the global economic downturn. China today offers a model of an authoritarian government and a relatively open economy that is attractive to leaders in other nondemocratic states. At present, China remains largely a status quo power, not challenging in fundamental ways the existing order, including the U.S. presence in East Asia. Nevertheless, Chinese growth is pegged to exports and U.S. consumption, and should the financial crisis deepen, Beijing may experience a sharp shift in the growth and stability trajectory that is conventionally assumed for the country.

## V. SALIENT STRATEGIC SURPRISE SCENARIOS

Given this dangerous combination of geopolitical factors, group members agreed that the range and likelihood of a significant strategic surprise occurring have increased. Though the group developed a large number of potential scenarios in the first session, at the second meeting they refined and narrowed the possibilities, organizing them in the following groupings.

**1) HOMELAND SURPRISES** (*Events that take place within the United States severely testing the U.S. crisis management capabilities, even though their origins may be foreign*). In this category, the group discussed a range of surprises.

**a) U.S. Credit Meltdown:** Lacking liquidity, U.S. credit markets are seizing up, production is suffering, unemployment is rising, and protectionist sentiments are growing. The vibrations of the U.S. economic downturn are now being felt throughout the world as Americans cut back on imports. Should global economic conditions worsen (even with the passage of a second U.S. economic stimulus package), U.S. creditors may lose confidence that U.S. Treasury obligations are backed by the "full faith and credit" of the U.S. government, resulting in a T-bill funding failure and a subsequent drop in the value of the dollar or upward pressure on interest rates. If the value of the dollar shifts again and its value diminishes as was the case in July 2008, the Organization of Petroleum Exporting Countries (OPEC) could decide to sell oil in euros, which in turn would trigger the partial displacement of the dollar as the reserve currency of choice. Some members discussed the Chinese renminbi as a potential rival reserve currency but agreed that this is

Participants noted that globalization and climate change are acting as threat multipliers—increasing the possibility of more severe events and expanding the impact epicenter from single countries to entire regions and the globe.

not likely to happen for the foreseeable future, as China refuses to run deficits. Similarly, U.S. protectionist zeal may push the Doha trade talks closer to a complete collapse. Group members agreed that the implications of such a series of jolts would be grave. American exceptionalism (including the unique capacity to print its own reserves and continue to live beyond its means) would end, and the ramifications for U.S. economic and foreign policies would be severe.

**b) Terrorist Biological Attack:** Though several group members believed that while a nuclear weapons attack in a major U.S. city is possible, they projected that a biological attack on several U.S. cities in unison would be a more probable surprise scenario. These members argued that the technology to produce a biological weapon is more accessible and less detectable on intelligence collections systems, and the magnitude of impact would be severe. The terror attacks on soft targets in Mumbai proved that it is possible to shut down a major metropolitan city without a nuclear weapon. Such an attack would also risk cascading, as a countrywide fear psychosis could drive policymakers to act irrationally in responding, and economic activity would be negatively affected.

Though most members supported the inclusion of a biological weapons attack scenario, a few members questioned the plausibility, arguing that biological weapons are hard to transmit and control. Furthermore, these members believed that use of such a weapon would do more harm to the perpetrators, as such an attack would run the risk of global revulsion against their cause.

**c) Cyber Attack on a Major U.S. Bank:** With virtually no network linking the intelligence community to the financial community, the United States is particularly vulnerable to potential national security shocks that ripple out from the economic crisis, several members argued. For example, already overtaxed by the current credit crisis, U.S. banks are vulnerable to an attack on their computer systems. Given today's technological advances, such an attack could come from either a foreign terrorist organization or simply a disgruntled domestic hacker who lost his home to foreclosure. Pending the level of vulnerability, such an event could grow from a midrange magnitude surprise to a high-intensity surprise.

**d) Natural Disaster:** No matter how advanced the technology, no matter how coordinated emergency responders are, and no matter how much warning is provided, natural events will always have the capacity to surprise and trigger unanticipated consequences. Phenomena such as Hurricane Katrina; the deadly earthquake in Sichuan, China; or a health pandemic like SARS that tests the resiliency of national and international health institutions have the potential for great surprise and severe political impact in the aftermath. The way governments manage or fail to manage such happenings can shape their fate. The financial costs of natural surprises are severe. Hurricane Katrina cost the United States an estimated \$125 billion. Rebuilding the quake zone in China's Sichuan Province will cost an estimated \$147 billion. Though the U.S. economy and institutions are better equipped than developing nations to shoulder the burden, all members agreed that the United States is extremely vulnerable to natural disaster.

Participants noted that globalization and climate change are acting as threat multipliers—increasing the possibility of more severe events and expanding the impact epicenter from single countries to entire regions and the globe. Record numbers of people are passing through airports worldwide, increasing the likelihood that a regionally based disease could spread and become a global pandemic.

**e) Grounding the American Dream:** Other members described the potential surprise benefits of Americans relearning that it is hard work, patience, and savings—not credit cards, subprime loans, and uncontrolled consumption—that are the roots of the American dream. Though these members acknowledge that such a shift will be painful and require the support of strong leadership from President Obama, Americans might be able to adapt by redefining their consumption habits, making better choices, and redirecting spending toward the nation's infrastructure. Some argued that the United States may be more capable—for cultural and structural reasons—than other advanced economies to make painful adaptations. For years economists have been saying that the United States should consume less and save more—but believed that this transition should occur gradually.



Many of the surprise possibilities listed by participants are widely anticipated (though not necessarily their consequences), meaning that the real surprise may be how well the Obama administration responds to one or more of these eventualities, particularly if two or more occur simultaneously or if one triggers others.

The world has relied on U.S. consumption to drive economic growth. How will such a shift impact the rest of the globe, particularly if it comes rapidly and decisively as seventy-eight million baby boomers cut back on consumption?

## 2) MAJOR GEOPOLITICAL SHIFT SURPRISES

*(Unexpected destabilization in one or more important states possibly triggered by direct or second order effects).* In this category the working group focused on four possible salient scenarios. Given the impact of severe downward pressure on U.S. and allied budgets for foreign policy and international institutions, group members argued that the likelihood of a major geopolitical shift has increased.

**a) NATO Collapse:** The expectations are that the Obama administration will seek to reinvigorate the NATO alliance as it approaches its sixtieth anniversary. However, several participants voiced concern that the economic crisis will amplify the divisions within the alliance (particularly divisions over the proper response to Russia's actions in Georgia, NATO enlargement, missile defense, and NATO's future in Afghanistan). Should the global recession last for a prolonged period of time, NATO would run the risk of atrophy as alliance nations turn inward and reduce expenditures in Afghanistan, these group members feared.

**b) Russia Resurgent:** Surprise in this scenario could cascade from a U.S. hard-line response to a predictable trigger like destabilization of Ukraine. Group members contend that the dynamics of this critical bilateral relationship are shifting. Participants argued that the Russian state (armed with a treasure chest of oil wealth, albeit a declining one) is convinced that the high-water mark of U.S. influence in Eurasia is over and that Moscow is eager to actively and systematically consolidate that reality. Cleverly operating around Article V of NATO, Russia has used every tool in its chest to regain influence and leverage in its near-abroad. Georgia is the most recent example of this, but many group members believe that the destabilization of Ukraine is not only highly likely but already underway. These participants argued that the surprise in this scenario is that Russian hardliners and U.S. hardliners run the risk of recreating a negative cycle of responses and reactions. This dynamic

is extremely dangerous given the other equities in the U.S.-Russian bilateral relationship—nuclear weapons, WMD proliferation, and missile defense.

**c) Leadership Transitions:** These could come from assassination or natural causes, but participants argued that some countries of strategic importance to the United States do not have reliable succession plans in place, including Egypt, Saudi Arabia, North Korea, and Afghanistan. Others may experience successions that destabilize surrounding regions—Nigeria, Pakistan, and South Africa. However, other members pointed out that leadership transitions also may have positive outcomes (Iran, Venezuela, Cuba, and possibly North Korea).

**d) Critical Trend Reversals:** Group members discussed several events that would lead to a surprise should they take an unexpected turn for better or worse. Examples group members included were a positive development in Israeli relations with Syria, a further drop in oil prices that destabilizes Venezuela and Iran, and restoration of global growth that could bring renewed pressure on world commodity prices. In addition, a reversal of positive trends in Iraq is possible, particularly as the U.S. withdrawal proceeds. Another example would be if China or India experience a decline in their growth trajectories. Finally, the continued viability of a “two-state solution” between Israel and Palestine may suffer terminal damage as a result of actions on the ground—settlements, terrorism, or Israel's operations in Gaza.

**3) WMD BREAKOUT SURPRISE:** In this category group members focused on critical trend reversals specifically regarding WMDs.

**a) Iran Reversal:** Group members argued that a positive surprise would be if Iran reversed its policy and were open to negotiations aimed at ending its pursuit of nuclear weapons. In the event that U.S. probes suggest potential Iranian flexibility, the United States would need to be prepared to engage in discussion of a broad, grand bargain negotiation with a clear idea of what parameters are at stake—Iraq, Hezbollah and Lebanon, Afghanistan, etc. Alternatively, several group members argued that Iran may choose to withdraw from the Nuclear Non-Proliferation Treaty (NPT) or declare that it is producing

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highly enriched uranium but not withdraw from the NPT.

**b) North Korea:** As with Iran, group members argued that a positive surprise would occur if Pyongyang were willing to commit fully to negotiations to give up its nuclear weapons program. However, like Iran, the United States would also need to be prepared with a clear policy of possible quid pro quos. Several group members also listed numerous negative North Korean surprises ranging from the discovery of additional proliferation networks to the death of Kim Jong-Il, resulting in a regime change where a new hostile military government comes into power changing the stakes of the relationship.

**c) New Nuclear Weapons State:** Several members argued that a new, declared nuclear weapons state would mark a trend reversal and test adherence to the NPT. These members feared that should Iran develop a nuclear weapon, Saudi Arabia and/or Egypt might be compelled to pursue these weapons if they felt their security were threatened.

**d) Pakistan Loses a Weapon:** Group members also argued that the increasing boldness of violent Islamic extremists in Pakistan raises the possibility that its nuclear weapons are potentially vulnerable to theft or terrorist attack.

**4) SURPRISE MULTILATERAL COOPERATION PATTERNS:** Sanguine members of the working group discussed several possible scenarios in which global harmonized action in one area may create momentum that could spill over to others, setting new precedents and patterns of cooperation. Though many participants agreed that there will be a degree of international goodwill toward President Obama, the window of opportunity for decisive and successful action will be brief. Possible surprises discussed include the following:

**a) Climate and Energy:** More optimistic members argued that today's economic conditions may provide the necessary conditions to trigger the creation of a global emissions regime as part of a post-Kyoto Agreement (though other members argued that the economic stress could also dampen enthusiasm for costly environmental actions). Economic pressures may also force Americans to change their energy consumption habits, favoring energy efficient cars and appliances and sup-

porting the development of better technologies to harness renewable energy sources. The impact of these measures would certainly be intense and might shift political leverage away from key oil-producing states and back to western powers and other consuming nations. However, with the price of oil on the decline, others questioned the likelihood of this occurring.

**b) Successor to the G-8:** Another positive development would be if the international community reaches an agreement—formal or de facto—on one or more successor groupings to the G-8 that better reflected modern power paradigms and where many of the rising economic powers are better represented at the table.

**c) Middle East Peace:** Some members argued that President Obama might be able to leverage his international goodwill to press forward toward reaching an Israeli-Palestinian peace agreement. Though this would truly be a surprising event, especially given Israel's assault on Gaza, most members believed it more likely that President Obama could find success pursuing a Syrian-Israeli breakthrough, which might have positive benefits for Lebanese stability and possibly for Palestinian-Israeli negotiations.

## VII. POLICY IMPLICATIONS

Group members agreed that President Obama will inherit a situation in which expectations of U.S. wisdom are lower; skepticism about any proposed U.S. solutions is higher; and U.S. ability to lead, coerce, or intimidate into compliance or cooperation is diminished. (Some of these may be mitigated by goodwill toward the incoming president). Given this list of possible scenarios, a central challenge for the Obama administration is to organize and prioritize on the one hand and develop response mechanisms on the other. Many of the surprise possibilities listed by participants are widely anticipated (though not necessarily their consequences), meaning that the real surprise may be how well the Obama administration responds to one or more of these eventualities, particularly if two or more occur simultaneously or if one triggers others. Several of these events lend themselves to potentially catastrophic cascading effects—particularly the economic crisis when linked to geopolitical challenges. There is a signifi-

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cant risk that an overreaction could further compound the situation.

President Obama has a number of broad options to structure his administration in order to manage crises. One possible strategy is to *pull back*—America is tired of being the overextended sheriff and is no longer willing to engage at the same level. The opposite would be *comprehensive multilateral engagement*. A charismatic President Obama may be able to reinvent a global leadership role for the United States (though the window of opportunity for this to occur will be brief). Another option, supported by most realists, would be selective engagement—willingness to be involved abroad based on whether such an effort is in the national interest, can be shared with a coalition, is affordable, and will leave the region better off. Engagement can either be *unilateral* or *multilateral* in nature. But, if the United States goes it alone, does the country still have the resources required? Can domestic support be mobilized? Similarly, if the United States chooses a multilateral

approach, what institutions will be most useful—the United Nations, NATO, the G-8, the G-16/20, the Organization for Security and Cooperation in Europe, or the Organization of American States?

Whatever the approach selected, the tools that are going to be used depend on availability. At some level there is a zero-sum character—whether it is time, attention, money, military force, or political capital—and the question becomes: Is the crisis du jour more or less important than the ones that are already underway? The Obama administration will define its agenda and priorities but may be compelled by events to reconsider and revise them. The way in which the United States dealt with problems and organized itself in the past may not be adequate to manage today's strategic surprises. President Obama may need to accept as an organizing principle that there will be disruptive surprises and that America ought to be better positioned to deal with this reality. ■

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# Strategic Surprises that May Face the Obama Administration