ISPI REPORT 2018 GLOBAL SCENARIOS AND ITALY

BIG POWERS ARE BACK. WHAT ABOUT EUROPE?

edited by **A. Colombo**, **P. Magri**
conclusion by **G. Massolo**

ISPI

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ISPI Annual Report 2018

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Conclusion by Giampiero Massolo

ISPI

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Table of Contents

Foreword

Under the pressure of the new US administration's aggressive rhetoric, 2017 seems to have unveiled, once for all, one of the most significant transformations of the past few years. The end of the Cold War and the 9/11 terrorist attacks in the United States led commentators, scholars and policymakers to believe that international relations were destined to shift toward multilateralism and transnationalism, with a corresponding loss of relevance for traditional states, their selfish views and narrow national interests. Realpolitik rhetoric was condemned as "old", or even more controversially, as "nineteen-century" politics, i.e. only a few years ago Barack Obama denounced the Russian occupation of Crimea.

In recent years, however, the old dynamic of big powers' competition has gradually regained weight. This is mainly due to three intertwined processes: the growth and renewed assertiveness of potential United State's global competitors such as Russia and China; the enduring crisis of multilateralism and global coexistence; and even more the breakdown of the regional order into increasingly autonomous arenas, where regional powers are on the rise.

Over the past year, the United States joined this wave of renationalisation of security. This is not to imply that, in the past, the US was willing to subordinate the pursuit of its national interest to the hypothetical interest of the international community. But, compared to previous administrations, the new Trump administration introduced major discontinuities, as assessed in the first chapter of this volume. The new and previous administrations, i.e. Trump's and Obama's, share a common view: the international commitments of the United States are

excessive, and in the long run, unsustainable. Against this background, the Trump administration seems to be determined in keeping at the centre of American foreign policy the re-balancing of commitments and resources. This is mainly to avoid the plague that hit all hegemonic powers in history: imperial overstretch and fiscal crisis.

The real breaking point between this administration's approach and the one adopted in US foreign policy over the last twenty years is instead the systematic de-legitimisation of the New International Liberal Order launched or, to the least, re-launched after the end of the Cold War.

The tipping point of this process of dissolution is the outright vilification of the multilateral system, built since the end of World War II and defended, despite all systemic crises, by the previous Obama administration too. At the practical level, this approach has already been implemented through: the side-lining of two major free trade treaties in the Pacific and Atlantic Oceans; the condemnation of the Paris climate agreements; and, at the end of the year, the harsh clash with the United Nations following the isolation of the US on Jerusalem. At the same time, at a more general level, this shift reveals an overall dissatisfaction with the functioning of the multilateral system, perceived as increasingly detrimental to American national interests.

Unsurprisingly, the renewed assertiveness of Russian foreign policy, focused in Aldo Ferrari's chapter, continued in 2017. The effectiveness of the Russian military intervention in Syria, especially when compared with the weak action of the West, has considerably increased Russia's international prestige. In the field of legitimacy, then, the overall success in supporting the Assad government served to reaffirm Moscow's opposition to attempts at regime change and, more generally, to the policies of interference promoted by Western countries.

From a broader perspective, Russia has become increasingly aware of the eastward shift of the international balance of power, working in two main directions. The first is the consolidation of

relations with other post-Soviet countries, Central Asian countries in particular. From this perspective, Greater Eurasia is an immense area of growing economic and security integration for Moscow, but Russian scholars also underline the substantial sharing of ideological orientations that are different from Western ones. The second direction is of cultural or ideological nature. This is not just the outcome of a common multipolar preference in international relations, but also a conservative Weltanschauung focused on national rather than "universal" values. Apart from the important question of the instrumental nature of this turning point, this link between conservatism and foreign policy is perhaps the most significant aspect that is emerging within Russian political thought.

Behind the open challenges of Russia, the Chinese desire to play a more active role in the international scene seems to have grown over the past year. The new Chinese activism, addressed in Shaun Breslin's chapter, has clear and important implications for other global actors and perhaps even for the very nature of the international order. Although it will not result in the short-term creation of a Sinocentric world order, it will certainly make it more difficult for other nations to pursue and impose preferences and goals that Beijing does not regard with favour. Not surprisingly, the Chinese influence is even stronger at the regional level, and if the Belt and Road Initiative were to prove a success, the very extent of China's backyard could change significantly. It will be, however, at the regional level that China's ambitions to become a new type of great power will be tested, with potentially problematic consequences both if China should raise its voice or even rely on the use of force (for example in the resolution of territorial disputes) or not (e.g. in relation to North Korea and possibly also with Myanmar).

Like Russia, then, China also links its own growth to the claim to be a big power, an ideological alternative to Western ones. In particular, Chinese development assistance is the polar opposite of the sort of conditional aid designed to foster political and/or economic liberalisation that has become associated

with the preferences of western liberal states and the major institutions of the liberal global economic order that ask for political and/or economic liberalisation by the recipient countries. At the same time, in the field of international law, the Chinese understanding of human rights emphasises socio-economic rights over individual civil and political ones, and also implicitly establishes a hierarchy of rights, where a state's right to the privileges of sovereignty and to organise its own internal affairs as it sees, supersedes any notional international responsibility.

The "revenge of power politics" can be found, often in even more confrontational forms, within the single regional areas, where it is organised around emerging or already consolidated powers. In the pages of this Report, we highlight the two regions affected by the main crises in 2017, the Middle East and East Asia. In the Middle East, the big game was played within the Iran-Saudi Arabia-Turkey triangle. With regard to Iran, examined in Annalisa Perteghella's contribution, President Rouhani and his executive fostered the Iranian rise to the rank of regional power, not only militarily but also, and above all, economically, politically, and in terms of soft power. A rise based on three pillars: economic reconstruction after years of sanctions and irresponsible management of public affairs, resolution of the nuclear issue, and an end to international isolation. The latter pillar is particularly relevant. Strengthened by the end of the nuclear crisis and the release of economic resources thanks to the resumption of oil exports, Iran has devoted considerable efforts to rebuild international relations worsened during the Ahmadinejad's era. This diplomatic activism was coupled with significant military activism, culminating in direct intervention in the Syrian civil war. Meanwhile, those regional and international actors who did not welcome Iran's "return" as a regional player reacted to Teheran's activism. Since the election of Donald Trump as President of the United States, there has been a tactical alliance between the United States, Saudi Arabia, and Israel aimed at counteracting the new rise of Iran, with clear destabilising effects on the whole region.

Eleonora Ardemagni's contribution focuses precisely on Iran's regional competitor par excellence, Saudi Arabia. In recent years, as a result of the trend towards the regionalisation of security, Riyadh acquired the status and role of great power in the Middle East, which is now coming to the fore due to an interventionist foreign policy. The shift of Saudi Arabia from medium to great power in the contemporary Middle East, favoured by the second oil boom in the early 2000s, has allowed the Saudis (and in part the other Gulf monarchies) to realign its geopolitical stature with its economic and financial status. However, the unchanged hierarchy of relations in the Gulf Cooperation Council (GCC) has exacerbated divergences and conflicts, crystallised internal roles, and returned a neo-patriarchal image of Saudi leadership within the Gulf. Among the Gulf monarchies, the trend toward balancing Saudi hegemony is on the rise: from "containment" (by the mediator Kuwait and by the operational autonomy of the Emirates in southern Yemen) to outright "opposition" (the "rebellious" Qatar) or indirect "hostility" (Oman with its reclaimed "third way"), with an ensuing emphasis on national peculiarities. Only the small and confessionally-unbalanced Bahrain (70% Shiites, 30% Sunni) has a purely subordinate approach to Riyadh policies (bandwagoning). The new activism, including in the military field, of Saudi Arabia in foreign policy goes hand in hand with the deep crisis of the GCC, never so far from being a "security community", in the light of the politically failed boycott of Qatar.

Finally, Valeria Talbot examines the role of Turkey that, over the last year, has been one of the most active regional actors in trying to influence the redefinition of the Middle Eastern balance in a scenario of progressive territorial retreat of the Islamic State. However, Turkey's role does not automatically translate into recognition as a regional power; it can rather be seen as one of its attempts to get out of the isolation in which Turkey has found itself due to a number of factors: the overall deterioration of the surrounding context, inaugurated by Iraq's collapse in the

mid-2000s and culminating in the outbreak of the Syrian war; the failure of the Arab Springs and, in particular, the demise of the "friendly" government of the Muslim Brothers in Egypt; the progressive cooling of relations with the traditional American ally. The country has thus found itself increasingly bogged down in the chaos of the Middle East, with serious repercussions on its stability and internal security. While Turkish convergence with Russia and Iran in the Astana process to resolve the Syrian crisis in 2017 led Ankara to adopt a more conciliatory position on the future of the Syrian President, Turkey remained firm in its goal of preventing the formation of Kurdish autonomous region in northern Syria, fearing that this could act as a catalyst for the separatist aims of the Turkish Kurds.

A trend that occurs simultaneously to a return to competitive dynamics among great powers can also be found in last year's second most contentious region, East Asia, which has increasingly extended to embrace the South Asian regional context. Axel Berkofski's chapter focuses in particular on the assumption of greater political and even military responsibility that Japan is willing to take on. The deterioration in the regional security environment, due to North Korea's recurrent provocations, China's long-term growth and, looking further ahead, the worsening and outright crisis in the relations between the United States and some of its traditional regional allies (from the Philippines to Pakistan, to South Korea itself), has already led Japan to challenge its long-term post-war willingness to renounce military power and rely on the extra-regional guarantee of the United States. While not renouncing the latter, but having to take into account the new orientations of the American administration, in 2017, several official meetings with Australia, India, and a number of South-East Asian countries gave the opportunity to Japan to present itself as a country prepared to couple its traditional security alliance with the United States with a network of bilateral and multilateral ties in East, South-East, and South Asia. In particular, the strengthening of political and security ties with such a geographically distant country

as India – another major emerging power in a different regional area than Japan's, but more and more connected with it – has a great geopolitical relevance.

The intricate connections among great global and regional powers have already been put to the test in last year's major international crises. Syria and Iraq have been, for years, emblematic examples of intertwined tensions and conflicts that dominate the Middle East. Such scenario is the result of overlapping local, regional, and international, state and non-state agendas. This crisis, analysed in Armando Sanguini's chapter, was marked, over the past year, by ISIS's progressive military defeat. The defeat unfolded in two phases: the first, in Mosul (Iraq) in June 2017 and in Raqqa (Syria) in October. The second, along the border of the two countries where Moscow substantially converged toward the Iranian and Hezbollah units supporting Damascus, and the Kurdish and Arab militias of the Syrian Democratic Forces (SDF), receiving American aerial support.

Both countries are now pressured to consider a new scenario, that of post-ISIS' military-territorial defeat. The core reasons for conflict have all but vanished, becoming even more complex as actors' agendas increasingly wedged in. In this context, ideological-sectarian principles have found fertile ground stretching their outreach from the Far East to Asia, from Africa to the West, gaining strength through encounters with other jihadist groups, Salafist and not, around the globe.

While the Syrian-Iraqi crisis took a partly new path, the Korean crisis, examined by Antonio Fiori in his contribution, worsened further throughout 2017. Although there has been no substantial change in the posture traditionally adopted by North Korea, 2017 saw a significant intensification in Pyongyang's erratic behaviour. In addition to a nuclear test, the sixth in the country's history, 23 missiles of various kinds have been launched, confirming the considerable technological advances made by North Korea.

The great powers' game in the Korean peninsula took the usual path. On the one hand, the Trump administration has

constantly reaffirmed the will to follow the line that the United States has been already following, mainly consisting of economic pressures – both unilateral and multilateral – that create the basis for relaunching diplomacy. The basic goal remains to persuade North Korea to proceed with the dismantling of its nuclear and missile programme. On the other hand, unlike the US, China and Russia seem to be more tolerant of Pyongyang's nuclear programme, given the characteristics of the North Korean regime. Despite having signed every resolution adopted by the United Nations Security Council (UNSC) and having even recently introduced some of them on a unilateral basis, Beijing continues to play the role of North Korea's main trade ally. Moscow, Pyongyang's second largest trading partner, has also regularly ratified sanctions against North Korea, but, like Beijing, it has always tried to mitigate the consequences for the Kim regime.

Finally, the resumption of competition among great powers has also contributed to curbing the effectiveness of, and the possibility to re-launch multilateral cooperation. Alberto Clô deals with the international "regime" most directly affected by last year's controversy: the environment. This was the case especially after the "Executive Order on Promoting Energy Independence and Economic Growth" issued by Donald Trump on 28 March 2017, aimed at "supporting the development of the Nation's enormous energy resources and eliminating regulatory constraints that hindered the production of energy, economic growth, and job creation".

An announcement, as argued by Clô, which enraged European countries in an utterly disproportionate way for several reasons. First, because the United States will have to wait three years (November 2019) before officially notifying the United Nations of its intention to withdraw, which will have to be followed by another year for the actual exit, thus close to the election campaign for the forthcoming presidential elections. Second, because there was political room to start renegotiating certain clauses of the agreement with the American

administration – which was, indeed, very divided. Above all, however, because the promising rules of the climate agreement were not enough to prevent a record increase in the concentration of carbon dioxide in the atmosphere by 2016, and CO2 emissions have started to grow again after three years of stability.

Even in a great power world it would be incorrect to assume that there is no room for other actors, from international organisations to small and medium powers, to sub-state actors. Ranj Alaaldin deals with this issue with reference to the Arab world, where a combination of internal and regional changes has created the conditions for a proliferation of violent non-state actors that have undermined state institutions, fragmented authority, and promoted ideological, regional, or secessionist agendas.

Faced with this transformation, exemplified by the rise and fall of ISIS, external actors and, more generally, the international community have encountered and continue to encounter enormous difficulties. All the more so because the situation is further complicated by the fact that it is very often difficult to draw a clear distinction between sub-state militias and conventional state, army and police forces. Indeed, in many cases, the osmosis of irregular and regular migration makes it problematic to assume that strengthening central government and state institutions could automatically lead to better control of instability and conflict. Not to mention that the legitimacy of these actors and sub-national militias in their respective communities reveals how, in many cases, they have replaced the state in supplying goods, services, and security, contributing to blur the traditional distinction between state actors and non-state actors.

Above all, it is worth noting the fact that the deterioration in the international political context has been, at least, counterbalanced over the last year by marked economic improvement, as Francesco Daveri argues in his chapter. Global growth figures are first and foremost evidence of the good performance of the economy. According to data in the October 2016 World Economic Outlook, world GDP growth (net of inflation) in

2017 is expected to increase by 3.6% compared to 2016. This is good news because growth is accelerating compared to 2016 (which recorded a disappointing +3.1%). Other figures also contribute to further improving the economic context. First, the acceleration of growth is the result of widespread improvement in economic prospects in all major areas of the world, both in the advanced and the emerging markets. Second, over and above the relief for the lack of danger, it seems that the economy has acquired a certain degree of stability, at least until central banks will continue to support the global economy in the same way as they impeccably did since the bankruptcy of Lehman Brothers in September 2008 – and this seems to be the case even in 2018. Third, the acceleration of growth went hand in hand with another very important social factor, namely the fall in the share of the unemployed workforce. Finally, the current coupling between accelerating economic growth and falling unemployment rates takes place in a context of substantial price stability.

However, at least two reasons for concern remain. First, growth continues to depend too much on central banks. And, most importantly, the increase in inequality risk to compromise growth itself. While, as noted above, the aggregated data show a sharp fall in unemployment in the most important areas of the world, the percentage of unemployed people remains very different among regions within large geographical areas and even within smaller nations, with obvious consequences in terms of social and political tensions.

This ambivalent international context, increasingly fragile on political ground and apparently recovering on the economic front, has had deep repercussions on Europe. In a world that seems to be increasingly bent by big power competition, the European Union cannot afford to waste any more time in its efforts to relaunch itself (even more so on the eve of a very important year, at the institutional level). However, the Union is still struggling to act as a single actor capable of working alongside existing and emerging players. This delay, addressed

in Sonia Lucarelli's chapter, has been aggravated, over the last year, by a gap between resources of power and the ability to use them for collective political ends. An ability that is not only limited by the constraints of the institutional architecture, but also negatively affected by European and international political developments that limit the decision-making capacity, credibility, and legitimacy of European foreign policy.

An effective foreign policy requires four essential elements: decision-making capacity, implementation capacity, legitimacy, and credibility. When it comes to a collective actor, in addition to these four, there is a fifth: leadership. Currently, both the institutional structure of the Union and the European and international socio-political context set limits on all these.

While coordination between Member States in the formulation of European foreign policy has always been made difficult by their different priorities, the enlargement of the Union, the different crises that have affected Europe in recent years, and the transformation of threats have further increased disagreement. By now, tensions no longer flow merely between large countries with different foreign policy priorities, but also between Eastern European countries – fearing the renewed Russian expansionist activism – and Northern or Southern European countries – for which Russia is primarily a strategic trade partner; between countries that struggle to emerge from the economic crisis; or between countries directly exposed to migration flows (Italy and Greece in the first place) and the others. Furthermore, there are three, possibly even more relevant, fault lines that weaken the European project and, inevitably, the EU's ability to play an important international role. The first fault line lies between the countries most affected by the victory of populist supranational government forces and the others; the second is the internal splitting in European (and Western) societies in general; the third might lead to the secession of part of the Member States.

Alberto Martinelli's chapter focuses on the latter aspect. The Catalan issue that finally broke out in 2017 is the most glaring,

but certainly not unique, example of this. In Spain, it was preceded by the more serious and violent independence movement of Pais Vasco and shares similar traits with other separatisms within Europe, from the Irish issue in the United Kingdom to the Corsican in France to the rift between Walloons and Flemings in Belgium. While very different from each other, these cases can all be considered as manifestations of the same phenomenon: the return of nationhood and nationalism, rooted in the great economic and political transformations that characterised the last decades of the XX century: on the one hand, the complex processes that we call globalisation and, on the other hand, the collapse of the USSR and the end of the Cold War.

But there is more. The different expressions of contemporary neo-nationalism combine in various degrees with the other major political phenomenon that has been growing over the last few years: populism. The populist ideology, with its flexible albeit strong foundations (pitting the people as indistinctively good by definition and the inefficient elites that are corrupt or anyway concerned only with their interest; anti-pluralism and anti-constitutionalism) is easily combined with more structured and better articulated ideologies, such as nationalism in particular (the absolute priority of national interest, rigid criteria of inclusion). Anti-Europeanism is the point at which nationalism and populism merge. The national-populist ideology makes an instrumental use of popular resentment against institutions and the establishment, of the fascination exercised by anti-politics (which becomes the main tool to engage the people and therefore to gain consensus) to spread their nationalistic and anti-European message. The EU's institutions are often the main scapegoat and critical target. However, the national elites are also criticised for being incapable of opposing or even for being complicit in Europe's supranational technocracy and must be replaced by the true defenders of national interest. Here, however, there is a fundamental divergence between nationalist and independentist parties: the former want to regain portions of sovereignty transferred to the EU, convinced that

the national level is the most suitable to manage the problems of globalisation, while the latter want to secede from the home countries, preserving and even strengthening the link with the EU in a federalist perspective, because they are aware of the advantages of belonging to the supranational union and prefer the institutions and the European ruling class to the national ones. Sub-national nationalism, therefore, shares many claims of nationalistic ideology, but not anti-Europeanism.

Caught between global pressures and tensions within individual countries, diplomatic manoeuvres and competitive dynamics between EU Member States have continued over the past year. Against the backdrop of tensions with Central and Eastern European countries, three events marked 2017 more than others: Brexit negotiations, Emmanuel Macron's victory in the French presidential elections, and the parliamentary election in Germany. Michele Valensise's chapter focuses in particular on the latter, which have had a different outcome than expected. Of course, the CDU-CSU reaffirmed itself as the first political force in the country but with a lower voting share, which could be attributed to Angela Merkel's indecisiveness and false steps. The Chancellor has thus emerged weakened – albeit not defeated – from the elections, with foreseeable effects on the future stability of the country, as showed by the excruciating negotiations to form a new government.

At present time, however, it is difficult to expect Germany to distance itself from, or even subvert, the principles that have guided its actions in the post-war period. Despite its ups and downs, German politics maintains the European Union as the main frame of reference. The Chancellor does so, with her usual balance and prudence, and with the awareness, repeatedly reaffirmed, that in the face of complex and threatening global issues, European countries cannot afford to proceed in a disorganised fashion. The SPD does it even more markedly, so much so that at the party congress in December, Martin Schulz set the bar of ambition for Europe at a very high level, setting 2025 as the date for the creation of the United States of Europe.

In this politically and socially unstable landscape, the general state of the economy has improved in Europe too, although the Union's weight in the world economy continues to decline. Today, the share of the Union's GDP has fallen to 22% of the world's GDP and, in 2030, it will amount to less than 20%. It is up to Franco Bruni to analyse the evolution of the European Union's economic framework. There was no financial crisis in 2017; on the opposite, there was a growing belief that the world was "out of the crisis". The year 2017 was, permeated, nonetheless, by a feeling of fragility and uncertainty about the future of European integration and its role in the world.

This, on the other hand, has generated a disordered but rich number of proposals for the future of the Union, mainly grounded in previous years' considerations. Elements of novelty did not lack either, accompanied by hints of pragmatism, fuelled by the surprising re-emergence of new pro-European ideals, among which the insistence on taking small steps in economic integration, above all banking and financial integration, and the reopening of ambitious political integration projects. At the end of 2017, the main proposals aimed at boosting European integration, suggested by EU bodies, the main Member Countries, independent scholars, and think tanks, can be grouped into three areas: the completion of the Banking Union, the reform of the architecture of economic governance and the EU budget as a whole, and the reform of the rules on national public finances.

Italian foreign policy also tried to adapt to this "Great power world". On the one hand, as Giampiero Massolo argues in the concluding chapter of this report, it is clear that Italy cannot belong to the club of "Great Powers" – a situation not unlike many countries in the world. Indeed, unlike "Great Powers", Italy can identify and pursue its national interests only according to a limited and "targeted" priority scale, calibrated above all on a geographical scale and directed, first of all, at Europe, the Balkans, and the Mediterranean. On the other hand, in the age of global interdependence, if the aim is a more stable

Mediterranean, a Balkan quadrant open to the European perspective, a Europe that re-discovers its founding sparkle and, at the same time, learns to give modern and convincing answers to the expectations of its citizens, Italy must be able to interact with "great powers", both strengthening its system of alliances and intertwining partnerships of mutual convenience. To this end, the "Mattei-Valletta theorem", the idea of a foreign policy as merely subservient to economic interests, i.e. functional to guarantee energy supplies and the outlets for our exports, is no longer sufficient.

In particular, it is definitely much more important to be strong and credible in today's Europe rather than designing future European institutional settings. In order to strengthen Europe, rather than focusing on unlikely outcomes, Italy should worry about strengthening its credibility first, which Europe expects and which it absolutely needs, being Italy an important "core" member as well as being the second European manufacturing country and thus too big to fail. This is also taking into account that the most realistic alternative to institutional engineering is not so much in enhanced cooperation as in the intergovernmental dynamics that will shape the internal relations within the hard, Franco-German core of the Union.

Ugo Tramballi's chapter addresses the Mediterranean side of Italian foreign policy. The main priorities and many of the initiatives of Italian diplomacy are concentrated in this region. "A Shared Responsibility for a Common Goal: Solidarity and Security" was the title of a ministerial conference organised in July with migrants' transit countries. In August, the *Comandante Borsini* was the first ship to arrive off the Libyan coast as a support to the local navy. Even at the UN General Assembly in September, Paolo Gentiloni dedicated his speech to the Italian slogan: our place on the front line of the Mediterranean. There are dozens of initiatives in 2017 that have tried to raise awareness on Italian efforts. Although political and diplomatic efforts are repeatedly put in place, most of Europe, except for small Greece, make a "minimum effort" in the management of

migratory flows, sometimes not even that, as Paolo Gentiloni put it.

In Libya, Italy was caught off-guard by Macron's novel activism. First among Western countries, on 10 January 2017, Italy had reopened the embassy in Tripoli and dedicated men and resources for the training of the Libyan coastguard. The relationship with Prime Minister al-Sarraj and his government, recognised by the international community, had been continuous and fruitful. The relationship with General Khalifa Haftar, instead, was non-existent. Then, on 25 July, Emmanuel Macron summoned Sarraj and Haftar to the La Celle-Saint Cloud Castle at the gates of Paris. Immediately afterwards, the French President met Gentiloni and, on his way home, Sarraj stopped in Rome. Only on 28 September General Haftar was invited to Italy on an official visit and, with arrogance, he declared his willingness to combat illegal immigration, as long as Italy pays.

Finally, in line with international economic developments, during 2017 the Italian economy improved beyond expectations, albeit less than the euro area average. Franco Bruni deals with this in his second chapter, analysing Italy's economic policy. In 2016, real growth was below 1%. On the other hand, GDP forecasts in 2017 and 2018 have become increasingly optimistic: from +0.9% and 1.1% in official government reports issued in mid-2017 to 1.5-1.7% at end-year. However, the euro area as a whole grew by more than 2% in 2017, with year-round improvements similar to those in Italy. Policies are still needed to converge towards average foreign growth. But the reform path is hindered by the fact that Italy's debt-to-GDP ratio is almost one-and-a-half times that of the euro area average.

The formulation of economic policy has taken place through a continuous and sometimes controversial dialogue with Brussels, following the "narrow path" between boosting the recovery and the need to contain public debt. The international economic situation was decisive in improving Italian growth. The deep industrial and financial integration with Europe has called for the speeding up of the EU's unity and closer cooperation in the

euro area. The economic and social costs of the migratory wave also bolstered the salience of EU issues and have been included in dialogue with the Commission. Banking problems and their interweaving with those of public finance were particularly important. The international markets have shown that there is a link between the political stability of a country and its financial stability, whose fragility is a threat to the euro area as a whole. The tensions on Italy's government bonds have not continued during the year, but this can be explained by the continuing support by the ECB through extraordinary bond purchases.

Alessandro Colombo
Paolo Magri

PART I

GLOBAL SCENARIOS

1. Trump's America and the Rest

Alessandro Colombo

Donald Trump's election as President of the United States has been and continues to be pictured as the equivalent of a political and cultural earthquake, not only for the United States but for the entire international order. In this representation, as conveyed by the most important international media, realistic concerns mix with macroscopic hypocrisies. On the one hand, the first year of the new administration has been enough to confirm many of the fears raised from the outset by its critics. Meanwhile, even as Donald Trump took on the institutional role of President, he did not change his personal style that, in addition to betraying clear cultural and intellectual limits, has already brought to the breaking point the prerogatives that the Constitution endows him with[1]. Personalism and an informal attitude in the management of public affairs – as exemplified by the paroxysmal use of Twitter, as well as the obstinately non-diplomatic, when not even brazen, language employed with friends and enemies alike – have been made even more awkward by his continuous swings in the management of foreign policy, both on individual crises (from Afghanistan to Korea to Iraq) and in relations with the other main actors (from China to Russia to European and Asian allies). Such inconsistency was exacerbated by internal divisions within the administration[2], culminating

[1] B. Wittes, "The Disturbing Paradox of Presidential Power", *Foreign Policy*, September-October 2017.

[2] R. Cohen, "Trump's National Security Strategy Is a Farce", *New York Times*, 19 December 2017.

in the replacement of leading figures such as National Security Advisor Michael Flynn, but also in the recurrent tensions between Donald Trump, Secretary of State Rex Tillerson, and Secretary of Defence Jim Mattis. As if that were not enough, the dramatic delay in filling vacancies in national security and foreign policy staff[3], and the tendency to rely on personal advisors or officials recruited on a temporary basis, further unbalanced the relationship between informal channels and professional decision-making channels[4]. Against this background, the foreign policy of the Trump administration has already amassed uncertainties and contradictions, such as that between the declared imperative of containing Chinese activism and the withdrawal from the Trans-Pacific Partnership trade agreement, without offering an alternative vision of American engagement in the region; or the contradiction between the strengthening of the partnership with Saudi Arabia (as a counter to Iranian influence) and the decision, which cannot fail to embarrass the Saudis, to move the American embassy in Israel from Tel Aviv to Jerusalem.

This stream of improvisation must not, however, make us forget that the America inherited by Donald Trump was already enduring a deep crisis, both in its domestic political and social cohesion and even more so in its international projection. On the contrary, as we already pointed out in the previous edition of this Report, the controversy against Trump risks providing a comfortable excuse for the steady decline in the hegemonic capacity and international credibility of the United States – a decline that began with the disastrous decision of waging war against Iraq in 2003 and was worsened by the ineffectiveness of all the instruments put in place by the Obama administration to fix George W. Bush's failures. Barack Obama's decision to give up on more expensive commitments (such as disengaging

[3] S. Binder, "How to Waste a Congressional Majority. Trump and the Republican Congress", *Foreign Affairs*, January-February 2018.

[4] R.N. Haas, "Where to Go From Here. Rebooting American Foreign Policy", *Foreign Affairs*, July-August 2017.

from Iraq) and avoid taking on new ones (as with Syria and Libya) has not restored – or has actually weakened – US credibility in the Middle East, resulting in a chaotic regional and extra-regional competition to fill the void. The relaunching of cooperation with the allies came to a standstill, either because the allies were unwilling to make a greater contribution, as was the case with the European states, or because they were willing to do so, but on condition that they be allowed to promote their own interests, which are not always consistent with each other and with the US's, as is the case with Turkey, Qatar, Egypt, or Saudi Arabia. The policy of strategic reassurance towards potential enemies has not been able to improve – or it has even worsened – relations with China and Russia, partly due to the new assertiveness of the latter but, in part more likely due to the very ambiguities of the American policy which has mixed the promises of openness with initiatives destined to be perceived as hostile such as the pivot to Asia in the Chinese case and the approach to Ukraine in the Russian case. Finally, the decision to replace the large-scale military operations of the Bush era with the use of drones and special forces has saved American lives, but at the cost of further widening the gap between military instruments and diplomatic action and, in the absence of its own troops on the ground, having to rely on 'local' militias that are difficult to control, such as those that are still fighting in Libya or, in Iraq, Kurdish ones.

But there is more. Those who reproach Donald Trump for not being able to speak the post-war liberal order language and to depart from the tools that supported it[5], by relaunching it and militarising it after the Cold War, appear to be unwilling to acknowledge that such very order was, in fact, already in retreat, partly as a result of its internal fragilities (uncovered, not healed by the demise of the Soviet Union), and partly of the change in the actual conditions that had made it possible in the first place.

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[5] M.P. Leffler, "Trump's Delusional National Security Strategy. How the Administration Ignores What Made America Great", *Foreign Affairs online*, 21 December 2017.

The comfortable pyramid structure of the immediate post-Cold war period had already started to crack due to the progressive redistribution of power and prestige in favour of an ever-changing group of potential challengers, to the difficult burden-sharing processes between the United States and its main allies and, lastly, to a decline in US willingness to take on the growing burdens of hegemony (and its crisis). The universalistic structure of the order had already collided with the deepening of political, economic, and cultural differences between the different regional groups and the consequent dysfunctionality of imposing common interpretative keys, whether they were positive (such as the global transition to the market and democracy) or negative (such as the global war on terror). The tendency to entrust only liberal democracies with the key to the international order, although constantly reaffirmed at ceremonial level, had had to contend increasingly with the impossibility of excluding from the management of an efficient international order key but not liberal-democratic powers such as China, Russia or, in their own regional contexts, Iran, Saudi Arabia or Pakistan. The institutional framework of multilateralism had already yielded in part due to the crisis of efficiency and legitimacy of the individual international institutions and, in part, to the progressive revenge (within the European Union itself) of national interests, accompanied by the usual shift from concern for absolute gains to concern for relative gains. Finally, the very ability to prevent and manage international crises had already given way to an epidemic of crises out of control or, worse, created by a fantasy of control – as in the perversion of the experiment of social engineering conducted by the Bush administration in Iraq which ended up in the collapse of the entire region as well as the dismantling of the Iraqi State.

Here lies the issue. The unprecedented Trump presidency is just one of the effects of the crisis in the liberal political and economic order, much more than its cause. On the contrary, this crisis – which, in addition to the political and institutional instruments, is also a crisis of cognitive tools – is likely to

include the grotesque self-indulgence implicit in the proliferation of conspiracy theories called to explain it, from the denunciation of ubiquitous Russian interference to the rhetoric of fake news: a liberal, hi-tech, and post-modern version of the legend of the "stab in the back".

Continuity within change

Not by chance, behind the appearance of discontinuity (which, in the United States as well as in Europe, is what political entrepreneurs like to sell and their voters love to buy), what prevails in today's foreign policy are actually elements of continuity[6]. These are ensured in part by bureaucratic, organisational, and cultural inertia, in part by the scrutiny to which the new administration has been subjected under the pretext of Russiagate and, in part probably even more, by political and strategic factors – which International Relations scholars would call the "structural conditions" of the international system[7].

At the apex of this continuity pyramid lies an interpretation of the international context that is already very far removed from the one that the first two US post-Cold War administrations, Bill Clinton's and George W. Bush's, shared (albeit with different narratives and priorities). Compared to the triumphalism of the latter, the Trump administration seems willing to push to the extreme the more pessimistic penchant already espoused by the previous Obama administration – a reflection

[6] On this normalisation process, see for instance, R.N. Haas 2017, cit; D. Goodhart, "The United Kingdom's Trump Trap. How Special a Relationship?", *Foreign Affairs*, September-October 2017; T. Hikotani, "Trump's Gift to Japan. Time for Tokyo to Invest in the Liberal Order", *Foreign Affairs*, September-October 2017. According to other commentators, the apprenticeship of the current President would be the normal one already experienced by other past Presidents. On this thesis see, S. Serfaty, "Trump's Moment in History", *The National History*, November-December 2017, pp. 32-38.

[7] K.N. Waltz, *Theory of International Politics*, Reading, Addison-Wesley, 1979.

of a historical context that, like it or not, is in any case incomparable to the comfortably unipolar one of the 1990s, to which almost all liberal commentators continue to remain anchored instead. The most superficial features of this deterioration are summarised without too much originality in the National Security Strategy published in December by the US administration[8]. The United States, the document states, face threats from different actors simultaneously in different arenas – all accelerated by technology[9], and that "deterrence today is significantly more complex to achieve than during the Cold War"[10]. At the same time, "adversaries and competitors became adept at operating below the threshold of open military conflict and at the edges of international law"[11]. Finally, the trend towards regionalisation in security dynamics imposes on the United States a growing and costly diversification of its commitments, since "China and Russia aspire to project power worldwide, but they interact most with their neighbors" just like "North Korea and Iran also pose the greatest menace to those closest to them"[12].

Behind this conventional representation of the strategic context, we can already see a first departure from the political and cultural rhetoric of the post-Cold War period, centred on the "complex interdependence"[13] of the world market and democracies and on the growing importance that, in its context, should have been acquired by non-state actors (governmental and non-governmental international organisations, economic and financial operators, epistemic communities, and terrorist groups). If the Obama administration, in its effort to dismantle the centrality of the so-called global war on terror, had already reoriented the centre of gravity of its strategic thinking

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[8] White House, *US National Security Strategy*, Washington DC, December 2017.

[9] *Ibid.*, p. 26.

[10] *Ibid.*, p. 27.

[11] *Ibid.*

[12] *Ibid.*, p. 45.

[13] R.O. Keohane and J.S. Nye, *Power and Interdependence*, Boston-London, Scott, Foreman and Company, 1977.

and foreign policy towards the "other 21st century centres of influence – including China, India and Russia"[14], the Trump administration appears determined to reposition once and for all not the relations as a whole but competition with the other great powers at the centre of international politics. "After being dismissed as a phenomenon of an earlier century", as solemnly proclaimed in the new National Security Strategy, "great power competition returned"[15]. The basis of this assessment is, as usual, a more pessimistic interpretation of the evolution of the international scenario. While, in the first fifteen years of the post-Cold War period, the United States could even afford to ignore power politics because it had no significant competitors, "Today, the United States must compete for positive relationships around the world", not only in the military but also in the commercial and soft power fields. "China and Russia target their investments in the developing world to expand influence and gain competitive advantages against the United States"[16].

This reinterpretation of the international scenario is at the root of what the Trump administration boasts as "principled realism": a strategy "guided by outcomes, not ideology" and "based upon the view that peace, security, and prosperity depend on strong, sovereign nations"[17] rather than on some supranational institutional architecture. What in this formula takes a "realist" approach – in the sense in which this word is employed in the international relations theoretical jargon – is easy to say: the recognition of the "central role of power in international politics", the conviction that "states are the best hope for a peaceful world", and the emphasis on national interest. Less clear is the role left for principles, despite the almost ritual call to the "knowledge that advancing American principles spreads peace and prosperity around the globe" and, above all, in light of the support that the new administration

[14] White House, US National Security Strategy, Washington DC, May 2010, p. 11.
[15] White House (2017), p. 27.
[16] *Ibid.*, p. 38.
[17] *Ibid.*, p. 1.

has already expressed towards regimes or governments that are not at all respectful of those principles such as those of al-Sisi in Egypt and Duterte in the Philippines. In this sense, it is all very well to Donald Trump critics to note that the principled realism of the new National Security Strategy is actually much more realist than principled. However, there is no guarantee that, if so, this would actually be bad news, if only we keep in mind the much-more-principled realism of the Bush administration and its liberal pendant Tony Blair, to which we owe the political, legal, and humanitarian catastrophe of the Iraq invasion, which many of those who declare to be worried today about Trump's "militarism" did not hesitate to approve, or at least, to minimize, so much so to be willing to replicate it on a smaller scale in Libya.

In any case, even the reference to this supposed principled realism is not sufficient to introduce a significant discontinuity with respect to the main strategic policies of the past administration. First, contrary to many hasty or malicious readings, the America First motto does not necessarily imply a renunciation of the US leadership role. On the contrary, despite the temptations of many of his supporters (starting with Alt-Right leader Steve Bannon) and the concerns of many of his critics, not even Donald Trump seems willing to redirect America towards some abrupt retrenchment. The National Security Strategy reaffirmed this at the end of the year, remarking the accusation of disengagement against the Obama administration (particularly in the light of the events in Syria and Iraq): "We learned the difficult lesson that when America does not lead, malign actors fill the void to the disadvantage of the United States. […] An America that successfully competes is the best way to prevent conflict. Just as American weakness invites challenge, American strength and confidence deters war and promotes peace"[18]. But even before the publication of the document (and avoiding to give too much weight to a programmatic and largely rhetorical exercise

[18] *Ibid.*, p. 3.

like this one)[19], the continuity of the American commitment had already been underlined, in Europe, by the confirmation of NATO's centrality, accompanied by the deployment according to the plans of the Enhanced Forward Presence Battle Group in Poland[20]; in Asia-Pacific, by the relaunch of the alliance with Japan and the further strengthening of the American presence in the region[21]; and, in Afghanistan, by the decision to increase the American contingent, reversing the electoral promises of a few months earlier[22]. On the contrary, the Trump administration had not hesitated to give a new impulse to the leadership of the United States even where, with Barack Obama, that leadership had been neglected or minimised, for example in the "common" war against Isis and, even more so, in the decision to strike in April military targets in Syria to punish the new alleged use of chemical weapons by government troops, reconfirming the inviolability of international norms put at stake by inaction three years earlier. "The Syrian regime's use of chemical weapons against its own citizens undermines international norms against these heinous weapons, which may encourage more actors to pursue and use them"[23].

The same continuity can be seen, language aside, in the parallel rethinking of this leadership. Meanwhile, the current administration shares with the Obama administration the conviction that the current level of the United States' international commitments is excessive and, in the long run, unsustainable. And, even more so, it seems determined to keep at the centre of American foreign policy the goal of balancing commitments and resources in order to avoid or, at least, postpone the deadly illnesses of all the hegemonic powers in history: the imperial

[19] R. Cohen (2017).

[20] R.N. Haas (2017); D. Goodhart (2017).

[21] T. Hikotani (2017).

[22] For interpretations of this turning point, C. Asche, "Geheimer Plan: Experten erklären, was sich hinter Trumps Afghanistan-Strategie verbirgt", *Internationale Politik online*, 22 August 2017.

[23] White House (2017), p. 8.

overstretch and the fiscal crisis[24]. In the narrative of America First, this goal is interpreted in the radical sense (but, in turn, far from new in the American internationalist political culture) of the fear of an "exploitation of the strongest by the weakest", without too many distinctions between friends and enemies – as evidenced by the constant controversy against Chinese trade policy, on the one hand, but also the recurring disputes against allied countries such as Japan, South Korea, and the European states. We should not forget, however, that the goal of rebalancing had already been the strategic obsession of the previous administration, reflected in its constant inclination to cut or avoid in advance all commitments that could be renounced: "The burdens of a young century cannot fall on American shoulders alone – indeed, our adversaries would like to see America sap our strength by overextending our power"[25], as Barack Obama warned in his foreword to the 2010 *National Security Strategy*.

Not by chance, in pursuing this goal, the last two administrations have found themselves confronted with the same solutions, which are the same ones that the so-called hegemonic theories had already indicated as proper to all the great powers in decline. The first solution, and also the ideal one, would be to try to increase one's own resources, enhancing internal efficiency, and trying to extract a greater contribution from allies. Donald Trump's America First is merely restating in aggressive terms the recognition, which had already been made by the Obama administration, that the relaunch of American hegemony cannot happen without a relaunch of the country domestically. The differences, which are very important politically, concern only the ways of obtaining this relaunch, in particular by curbing the impoverishment and marginalisation of the middle class. Even less new is the insistence on reassessing burden-sharing with allies. To the controversy against the "duplicity" of an ally such as Pakistan, for example, or to the shortcoming of the European members of NATO, Donald Trump has simply

[24] R. Gilpin, *War and Change in World Politics*, Cambridge, Cambridge UP, 1981.

[25] B. Obama, Foreword, in White House (2010).

added a grumpy language, often beyond the limits of diplomatic decency. But that controversy has been an element of continuity in American foreign policy for almost fifty years and, in the post-bipolar context, it had already been managed very harshly by both the Bush and the Obama administration.

The second possible course of action is to act on the cost side rather than on revenues. Unable to pursue a strategy that, in the past, would also seem the most direct one, i.e. cutting off the source of the problem by weakening or annihilating a rising enemy, another possibility would be to decrease the number of potential enemies, looking for a rapprochement with at least some of them. This was what the Obama administration attempted to do with Russia and China and succeeded to do with Cuba and Iran. This was likely the strategic reason for the original intent, albeit momentarily put on hold, of the Trump administration, when it looked to accommodate Russia to focus the attention on the only true competitor, China. The other path that remains open is the abandonment or unilateral downsizing of economic, political, or military commitments: what the Obama administration had already tried to do in Iraq and Afghanistan, as well as the reasoning behind the Pivot to Asia; and what the Trump administration has already achieved by withdrawing from the multilateral transatlantic and transpacific trade agreements, with the further effect of fuelling the suspicion of friends and enemies on the credibility of American commitments over time[26].

This is precisely the last paradoxical element of continuity between this administration and the previous one. The range of possible solutions to the hegemonic crisis always raises the same problems. Every effort of domestic economic and institutional renewal benefits certain sectors but hits others, threatening to deepen the political and social divisions that it would like to

[26] On the other hand, this can be an incentive to take on more responsibility in the field of security and defence. On the European case, with particular reference to the renewed French activism, see N. Nougayrède, "France's Gamble. As America Retreats, Macron Steps Up", *Foreign Affairs*, September-October 2017.

bridge. The call for greater contributions from allies threatens to weaken rather than increase the cohesion of alliances, encouraging both sides to explore possible alternatives. Above all, every sign of disengagement translates into a crisis of credibility of the American guarantee, with the result of triggering a series of regional competitions to "be prepared in advance" to the possible withdrawal of the United States. At the same time, as happened to Barack Obama with Iraq and Donald Trump with Afghanistan, the explosion of these competitions can force them to quickly retrace their steps to an even more fragile position, with the constant threat to reach the breaking point between commitments and resources.

The delegitimisation of the liberal order

Keeping this continuity background in mind makes it possible to better recognise the equally important discontinuities introduced by the new administration. This is all the more so because, paradoxically, these also reflect a trait of persistence in American post-Cold War foreign policy – a trait destined to further undermine its coherence and credibility, confirming the fears of those who, as soon as the simplicity of the bipolar context had disappeared, had signalled the risk that the foreign policy of the United States would be condemned to take on a "capricious" course. As evidence of the facts, all the administrations that have followed one another in the last twenty years have claimed to rebuild their foreign policy on the failures of the previous administration: George W. Bush did so when he denounced Bill Clinton's "strategic holiday"; Barack Obama did so when he stated he was fixing George W. Bush's military and diplomatic disasters; and today Donald Trump does the same when he denounces the mixture of success and complacency that undermined liberal foreign policies over the last quarter century[27]. "Since the 1990s, the United States displayed a great

[27] White House (2017), p. 2.

degree of strategic complacency. We assumed that our military superiority was guaranteed and that a democratic peace was inevitable. We believed that liberal-democratic enlargement and inclusion would fundamentally alter the nature of international relations and that competition would give way to peaceful cooperation"[28].

This assessment lies at the heart of what could be considered as the real discrepancy between this administration and US foreign policy over the last twenty years: the systematic delegitimisation of the New International Liberal Order launched or, at least, relaunched after the end of the Cold War. At the apex of this delegitimisation lies, coherently, the rejection of its universalistic political-legal culture. This is the polemic-political significance of Donald Trump's America First: against the win-win cooperation culture of liberal politics, which established a necessary link between the pursuit of the American national interest and the interest of the international community, the new administration openly declares that the pursuit of the former overlaps less and less with and prevails more and more over the pursuit of the latter.

The demise of universalism brings with it the abandonment or, at least, the marginalisation of the great social engineering enterprise that had united the Clinton and Bush administrations and, in fact, had already been muted by the Obama administration: the universal promotion of democracy. All this coincides with the review in relations with authoritarian governments such as Egypt and the Philippines. Almost *a fortiori*, many observers fear to recognize the same attitude in the new penchant of the new President of the United States with authoritarian or autocracy-tainted leaders such as Vladimir Putin or Viktor Orbán. And it is, more solemnly, what the new National Security Strategy has also explicitly called for, against the grain of all previous post-Cold War US administrations: "We are not going to impose our values on others"[29].

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[28] *Ibid.*, p. 27.

[29] *Ibid.*, p. 37.

Even more surprisingly, this discrediting of values seems to affect the very relationship with allies, starting with those as close as the European countries. In both American and European political language, the transatlantic bond had never been reduced to a pure and simple *quid pro quo*: beside shared interests, the bond celebrated the sharing of common principles and values, which took shape in the institutional form and the political culture of democratic-liberalism. The narrative of the new Trump administration, on the other hand, seems to be willing to shift all or almost all the emphasis on interests, threatening a radical overhaul of relationships or even a withdrawal of the American guarantee if customers do not pay the full amount of the insurance premium due.

But the dismantling of the Liberal Order finds its most vivid expression in the true and proper denigration of the multilateral architecture built since the Second World War and supported, despite the ongoing crisis, also by the Obama administration. On a practical political level, this approach has already been put to work in the setting aside of the two great free trade treaties in the Pacific and the Atlantic; in the denunciation of the Paris climate agreements; and, in the closing month of 2017, in the very harsh clash with the United Nations following the isolation of the United States on the issue of Jerusalem. But, on a more general level, this review corresponds to an overall dissatisfaction with the functioning of the multilateral architecture of international coexistence. The United States, as the National Security Strategy states, "helped expand the liberal economic trading system to countries that did not share our values, in the hopes that these states would liberalize their economic and political practices and provide commensurate benefits to the United States. Experience shows that these countries distorted and undermined key economic institutions without undertaking significant reform of their economies or politics. They espouse free-trade rhetoric and exploit its benefits, but

only adhere selectively to the rules and agreements"[30]. This outcome "require[s] the United States to rethink the policies of the past two decades – policies based on the assumption that engagement with rivals and their inclusion in international institutions and global commerce would turn them into benign actors and trustworthy partners. For the most part, this premise turned out to be false"[31].

Therefore, at the surface of this change lies the most popular cliché on the difficulties of cooperation in the international arena: the fear of deception. This is true, in the economic field, for relations with China: "For decades, U.S. policy was rooted in the belief that support for China's rise and its integration into the post-war international order would liberalize China. Contrary to our hopes, China expanded its power at the expense of the sovereignty of others"[32]. On the opposite, politically, the Trump administration seems inclined to acknowledge the same deception both in the inconclusive negotiations with North Korea and, more unexpectedly, in the two successful episodes in foreign policy by the Obama administration: the rapprochement with Cuba and, most importantly, the Iranian nuclear agreement – from the denunciation of which could come a new turn in the US Middle East policy, with potentially destructive consequences on what little is left of regional order.

But behind the fear of deception, it is not difficult to see the same more pessimistic direction that we have already found within other foreign policy chapters, together with the overall narrative of the new administration. In the past, and even more so in the first ten years of the post-Cold War period, the United States did not need to make too much of an effort to appear enthusiastically in favour of multilateralism, due to the fact that it was leading international institutions much more than the international institutions led it. As Sergio Romano has cunningly argued, it is precisely thanks to this superiority that the

[30] *Ibid.*, p. 17.

[31] *Ibid.*, p. 31.

[32] *Ibid.*, p. 25.

Americans have been able to renounce their own isolationist tradition without sacrificing its foundation, mistrust (and even produce something similar to an "inverted isolationism"[33]). But even this spell, as the Trump administration conceives it, appears to be broken. If Trump's America appears determined to radically review its relationship with international institutions, it is, first of all, because it is no longer as confident as previous administrations in being able to keep them under its influence. On the opposite: just as in the general international context, "A competition for influence [already] exists in these institutions"[34], while "If the United States cedes leadership of these bodies to adversaries, opportunities to shape developments that are positive for the United States will be lost"[35].

This is how, on multilateral issues, America First translates into a new struggle for leadership within international institutions. The United States, as the National Security Strategy states bluntly, "will prioritize collaboration with aspiring partners that are aligned with US interests"[36]. On the opposite, as already evidenced by the cut in American contributions to the United Nations after the General Assembly's vote on Jerusalem, "if the United States is asked to provide a disproportionate level of support for an institution, we will expect a commensurate degree of influence over the direction and efforts of that institution"[37].

Conclusion. Effects on friends and enemies

This unpredictable disconnection between American foreign policy and the liberal political culture of which it has always

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[33] S. Romano, *Cinquant'anni di storia mondiale. La pace e le guerre da Yalta ai nostri giorni* (*Fifty years of world history. Peace and wars from Yalta to the present*), Milan, Longanesi, 1995, p. 33.

[34] White House, (2017), p. 40.

[35] *Ibid.*

[36] *Ibid.*

[37] *Ibid.*

been the advocate has a paradoxical impact on all the other actors. It seems that the competitors and enemies of the United States are the least affected (and, even less, scandalised): partly because, for countries such as Russia or China, there is nothing strange in the fact that the foreign policy of a great power appears to be led by its national interest; partly because the claim to sovereignty had already been one of the favoured arguments of these countries against the supposed universalism of American and European foreign policy (coupled by its rights of interference and the aspiration to regime change in authoritarian states); and, to an even greater extent, because the enemies of the United States have never believed in the benevolence of American hegemony or, much less, in the universal virtues of the liberal international order. What the enemies of the United States seem to see in the Trump Presidency is not, then, some unprecedented American arrogance, but only an unprecedented arrogance without hypocrisy.

The opposite is true for the allies and historic friends of the United States. For the closest and most enthusiastic among them, the United States' disengagement from the liberal narrative is something more than disorienting: rather, it is the start of a proper identity crisis. It is no coincidence that the feeling of betrayal, or even scandal, is more pronounced precisely where the sharing of values was most deeply rooted: in the public opinion of a secular partner such as the United Kingdom, for example, or in countries such as Germany, Japan, and Italy which, from liberal America, had received their own post-war "certificate of normalcy".

2. Russian Foreign Policy between Westphalia and Greater Eurasia

Aldo Ferrari

After a brief interlude in the first years following the collapse of the USSR, when a political rapprochement with the West seemed possible, Russia gradually went down a different path, in particular contesting the legitimacy of the new international order, dominated by the United States in a unipolar perspective that appeared undisputed. This turning point came to be mainly through Yevgeny Primakov (1929-2015)[1], the Foreign Minister and Prime Minister of the Russian Federation between 1996 and 1999, who was above all the ideologue behind a major geopolitical rethinking, the so-called "Primakov doctrine", hinging upon a multipolar vision of the international order. However, it was only after Putin's rise to power between 1999 and 2000 that this vision, with the reassertion of Russia's specific strategic interests, began to be carried forward effectively by Moscow, while the country turned increasingly anti-Western. This contrast went through a moment of acute crisis after the Georgian war in 2008, and deepened dramatically after the Ukrainian crisis and the annexation of Crimea, which marked crucial moments in Russian foreign policy.

[1] On Primakov, a key actor on Russian political and cultural arena, see, *The unknown Primakov. Memoirs*, Publishing House TPP RF, Moscow 2016 and the article by D. Novikov, *Rycar' rossijskogo realizma* (*The Knight of Russian Realism*), in *Konservatizm vo vnešnej politike: XXI vek*, (*Conservatism in foreign policy of the XXI century*), 2017, pp. 119-132.

Crimea: the turning point

Since the end of the USSR, Russia has perceived the process of expansion of NATO and the European Union towards its borders as an attack on its national security. Its political and economic weakness during the Yeltsin presidencies forced Russia to allow for the enlargement to proceed in almost all the countries of Central and Eastern Europe and the three Baltic republics as well. On the opposite, Russia managed to counter it more successfully in the rest of the post-Soviet space: in Moldova, in the Caucasus, in Central Asia and, for a long time, also in Ukraine. After years of political, economic, and military strengthening under Putin's leadership, Russia has therefore developed a project to rebuild the post-Soviet space – started in 2011 with the Eurasian Customs Union – which has put it on a collision course with the process of further eastern enlargement of the European Union (Eastern Partnership Policy) and NATO. The crisis in Ukraine arose essentially from the clash between these two incompatible projects. The rise in Kiev in February 2014 of a new leadership clearly oriented in the western sense, and strongly supported by the European Union and the United States, has distanced – perhaps for good – this country from Moscow's Eurasian project. For Putin, in fact, the political setback suffered in Ukraine was very serious. The immediate reaction to Crimea and the subsequent reaction in the south-eastern territories of Ukraine must therefore be analysed in the light of this frustration. The sudden annexation of Crimea has, in fact, allowed Putin not only to conceal, at least in part, the let-down suffered in Kiev, but also to gain a very high approval rate, as a large share of the Russian population perceived his actions as the reparation of an historical wrong and the proof of the newfound Russian political dynamism[2].

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[2] See A. Ferrari, *Crimea. Una svolta per la politica estera russa?* (*Crimea. A turning point for Russian foreign policy?*), in idem (Ed.), *Oltre la Crimea. La Russia contro l'Europa?* (*Beyond Crimea. Russia against Europe?*), Epoké-ISPI, Milan, July 2014, pp. 1-12.

Indeed, the Crimean annexation marked an important turning point in Russian foreign policy, essentially marking the end of the search for a positive relationship with the West, which had previously made it possible to establish important cooperation efforts despite frequent serious disputes such as the conflict in Georgia in 2008. According to Dmitri Trenin, director of the Carnegie Moscow Center, Moscow's real goal in annexing Crimea "[...] is not to revise parts of the post-Soviet settlement in the Black Sea area. Rather, it is to provide an alternative to the post-Cold War world order dominated by the US. While many in the US see Russia as a weak and declining country, Putin believes that the heyday of US hegemony is over"[3].

In this perspective, after the Ukrainian crisis, Russia has further developed its traditional Westphalian political nature, strongly focused on national sovereignty and territory. Quite dismissively referred to as a "nineteenth-century policy" by former Secretary of State John Kerry[4], it appears however to allow for a Russian foreign policy that is more effective than the "post-modern" foreign policy of many Western countries. According to one of the most brilliant Russian analysts, "the flaw of the modern world is a total imbalance in everything: opportunities, interests, ideas of one another XIX century behaviour is useful in trying to find diplomatic solutions without the ideological exaltation inherited from the XX century, and on the basis of sober calculation and with an adherence to gentlemanly etiquette in relations with opponents. The world needs a global concert of nations, and their directors need a classical score, albeit in a modern orchestration"[5].

However, this "Westphalian" or "nineteenth-century" policy is certainly not entirely linear, above all because of Moscow's difficulty in reconciling the principle of respect for

[3] D. Trenin, *Moscow determined to follow its own path*, 1 April 2014.

[4] "You just don't in the 21st century behave in 19th century fashion by invading another country on completely trumped up pre-text,". These are the words stated by Kerry on 2 March 2014 on CBS's "Face the Nation".

[5] See F. Lukyanov, *What the world needs is "19th century behavior*, 21 March 2014.

national sovereignty with its growing commitment to defending "Russian nationals" living outside the federal borders. A "biopolitical" approach that has already been formalised in the Foreign Policy Concept of the Russian Federation in 2013[6] and that contradicts the principle of maintaining the geopolitical status quo strongly supported by the Kremlin in most cases[7]. Indeed, the annexation of Crimea and support for separatists in the eastern regions of Ukraine have not only provoked confrontation with the West, exclusion from the G8, and economic sanctions, but has also given rise to serious concern in the post-Soviet states where a large Russian minority lives. All this, not only in the Baltic countries, traditionally hostile to Russia, but also in Belarus and Kazakhstan, so far Moscow's most reliable partners together with Armenia.

The intervention in Syria

Nevertheless, the increased assertiveness of Russian foreign policy has been confirmed by the military intervention in Syria that began in September 2015. Isolated from the West and hit by severe economic sanctions, as well as by an economic situation already made precarious by the low price of oil, Russia seemed to be in the corner. However, the intervention in Syria has changed the international scene, as Russia, in many respects, did something unprecedented[8]. It was in fact the first military operation of naval and air forces outside not only Russia, but the entire post-Soviet space, and also within a very delicate arena such as the Middle East. The risks of this intervention were

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[6] *Concept of the Foreign Policy of the Russian Federation*.

[7] See Ph. Casula, "Russia's Foreign Policy from the Crimean Crisis to the Middle East: Great Power Gamble or Biopolitics?", *Rising Powers Quarterly*, vol. 2, no. 1, 2017, pp. 27-51.

[8] On the dynamics of the Russian intervention in Syria see, I. Zvyagelskaya, *Russia, the New Protagonist in the Middle East*, in A. Ferrari (Ed.), *Putin's Russia: Really Back?*, Milan, Epoké-ISPI, July 2016, pp. 73-91.

and are indeed very high. Just think of the fact that about 15% of the population in the Russian Federation is constituted by Sunni Muslims, who therefore were not very much in favour of a military intervention in support to the Syrian Alawites and the Iranian Shiites. Think also of the possible clash with other countries in the region, particularly Turkey, which is part of NATO and has taken sides in the Syrian conflict with Assad's opponents. From this point of view, the downing of the Russian SU-24 fighter hunt in November 2015 by the Turkish was particularly dangerous, even if the crisis between the two countries, despite its intensity, deescalated quite quickly.

Despite these risks, the Russian intervention in Syria seems to have been very successful. First of all, because the Kremlin's turn of events has diverted international attention from the Ukrainian crisis, which quickly lost much of its geopolitical centrality, while the situation in Donbass began to "come back to normal", as it already happened in other *de facto* countries in the post-Soviet space (i.e., Transnistria, Karabakh, Abkhazia, and South Ossetia).

Moreover, the effectiveness of the Russian military intervention in Syria, especially if compared to the West's, has made a show of great political energy that has greatly increased Russia's international profile. From this point of view, retaking Palmira from the hands of ISIS had a huge symbolic impact. The high standard of Moscow's military performance in this conflict, which has greatly strengthened the position of the Russian war industry in the international armaments market, is also particularly striking. Politically, moreover, the overall success in supporting Assad's government has been more important than ever to reaffirm Moscow's absolute opposition to attempts at regime change within sovereign states that the West has instead repeatedly promoted in recent years almost always with disastrous results. Russia sees its intervention in Syria, requested by the Damascus government itself, as a contribution to the maintenance of the country's territoriality and national sovereignty[9].

[9] See Ph. Casula (2017), p. 42.

Of course, this assessment is not universally accepted. Among the many possible examples, to quote the opinion of an important American analyst, who reflects a radically negative conception of Russia, which is widespread in several Western countries: "Not only does Moscow count on unending strife, it can only succeed if that strife continues, whatever form it might take. Negation, not construction, is its real policy. Moreover, since Russian policy in the region is deemed to be essential to the domestic stability of the regime, whatever else Russia might be in the Middle East it is not, cannot, cannot, and will not be a partner for peace"[10].

In any case, the intervention in Syria has given rise to the need to deal with Russia even in a crucial area such as the Middle East, where the West is becoming less and less influential. It is also true that nobody – and certainly not even Russia – seems to be able to gain a complete and lasting edge in the region. However, even regardless of how much Moscow will actually be able to influence Middle Eastern politics in the coming years, there is no doubt that its role in the Syrian conflict has had great political significance. The fact that the peace talks on Syria held in Astana were attended by Russia, Iran, and Turkey, but not by Western countries and in particular the United States, is evidence of the growing regionalisation of the international scenario. This is indeed an important and perhaps historically decisive consequence of the Russian intervention in Syria.

Russia and the birth of Great Eurasia

Recent events in the Middle East seem to reinforce the perception that the role of the West on the international political scenario is destined to weaken in favour of other actors, primarily Asian ones: Turkey and Iran at a regional level, India

[10] S.J. Blank, "The Foundations of Russian Policy in the Middle East", *Russia in the Middle East*, The Jamestown Foundation, Global Research and Analysis, 5 October 2017.

and, mostly, China, at a global level. In this perspective, Russia – whose geopolitical nature can only be Eurasian – has become increasingly aware of the eastward shift of the international balance of power, working in two main directions.

The first is the consolidation of relations with other post-Soviet countries, in particular Central Asian countries. In the years during which Putin was President or Prime Minister, very important steps have been taken in this direction: from the creation in 2002 of the Collective Security Treaty Organisation, including Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Russia, to the creation in July 2011 of the Eurasian Customs Union between Russia, Belarus, and Kazakhstan, which became the Eurasian Common Economic Area in 2012 and the Eurasian Economic Union in 2015[11].

This latter initiative, which covers three quarters of the post-Soviet space and potentially does not exclude future political integration, is a central aspect in Putin's third presidential term. However, the moving away of Ukraine after the 2014 crisis and the growing reluctance of Belarus and Kazakhstan to engage politically as well as economically in this project increasingly weaken the process of Eurasian integration supported by the Kremlin. The accession to the Eurasian Economic Union of less relevant states such as Armenia (October 2014) and Kyrgyzstan (May 2015) has certainly not changed this dynamic by much. Western hostility and the mistrust of several post-Soviet countries to the prospect of reintegration, which inevitably would see Russia prevailing over any other member, is compounded by its problematic relationship with the much more dynamic Belt and Road Initiative (BRI) launched in 2013 by Beijing[12].

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[11] On this project see N. Vasilyeva and M. Lagutina, *The Russian Project of Eurasian Integration. Geopolitical Prospects*, Lexington Books, Lanham-Boulder, New York - London 2016; A. Di Gregorio and A. Angeli (Eds.), *The Eurasian Economic Union and the European Union: Moving Towards a Greater Understanding*, The Hague, Eleven International Publishing, 2017.

[12] See M. Lagutina, "Improving relations with Russia and Ukraine", in A.

The greatest doubt therefore concerns precisely Moscow's ability to carry out this project of new integration, which requires a "creative" attitude in the political and economic sphere that the Russian leadership is still to prove. Without a turning point, the Eurasian Union project will hardly be able to take on a form that fulfils the ambitions of those who proposed it[13].

However, Russia's position as a continental bridge between Europe and the Far East is increasingly seen as a crucial opportunity in the light of the enormous growth of China and the Far East in general. This is the second fundamental line of Russian foreign policy towards Asia. A research carried out by some important Russian scholars summarises the meaning of this necessary "eastward turn": "Russia should make a resolute move to redirect its efforts toward the new Asian markets. Such a transition is long overdue. It first of all needs to review its traditional Euro-centric mentality to see the opportunities and challenges the Eastern markets offer and become aware of the shift of the global economic and political centre to the Pacific region. However, relations with Europe should remain the core of Russia's cultural and ideological focus. Its powerful economic ties with Europe should also be preserved. At the same time the creation of its own integration group based on the Eurasian Union should become a component part of Russia's new foreign policy"[14]. According to these scholars, in order for this turning point to have a truly decisive impact, it would even be appropriate to transfer the Russian capital to the coasts of the Pacific Ocean, with an ideologically similar – even if geographically opposite – choice to what Peter the Great did with the foundation of Petersburg three centuries ago.

Amighini (Ed.), *China's Belt and Road: a Game Changer?*, Milan, Epoké-ISPI, 2017.

[13] See A. Ferrari, *Russia and the Eurasian Economic Union. A Failed Project?*, in A. Ferrari (Ed.), *Putin's Russia: Really Back?*, Milan, Epoké-ISPI, July 2016, pp. 115-130.

[14] O. Barabanov and T. Bordachev, *Toward the Great Ocean, or the New Globalization of Russia*, Valdai Discussion Club analytical report, Moscow, July 2012.

In this pragmatic variant, the Eurasian project does not therefore foresee a contrast with Europe and the West, but rather appears to be a new strategy aimed at making Russia a great modern power, able to take advantage of its favourable bi-continental position, in particular its proximity to the Far East.

The centrality of Asian countries is, moreover, very clear to the authors of Russian foreign policy since Primakov's years, whose multipolar project was based first and foremost on the prospect of Russia's increasing collaboration with China and India. In the following years, the most important product of this collaboration was the establishment of the Shanghai Cooperation Organisation (SCO) in 2001. This political, economic, and security organisation was born as a counterbalance to the American influence in Asia, proposing itself as a model of geopolitical integration essentially aimed at the internal stability of the constituent states and without those references to human rights that characterise the western international organisations[15]. This peculiarity was already made explicit in a speech in November 2005 by Russian Foreign Minister, Sergey Lavrov, according to whom the Shanghai Cooperation Organisation constitutes "a fundamentally new model of geopolitical integration"[16]. Pakistan and India joined the SCO, which initially included Russia, China, Kazakhstan, Tajikistan, and Uzbekistan, in June 2017, and significantly increased its importance. In Russia, this expansion of the SCO and China's BRI infrastructure project are increasingly being interpreted as fundamental steps in the consolidation of a Great Eurasia that is much larger than the Kremlin's original Eurasian project; the latter comes out in some way resized, especially with regard to China. As recently stated by a Russian scholar: "Russia cannot fail to recognise China's general primacy, but retains equal rights and freedom of manoeuvre"[17]. These words are certainly

[15] A.J.K. Bailes, P. Dunay, P. Guangand and M. Troitskiy, *The Shanghai Cooperation Organization*, SIPRI Policy Paper no. 17, 2007.

[16] www.uzreport.com, 28 November 2005.

[17] D. Efremenko, *Rožđenie Bol'šoj Evrazii* (*The Birth of Great Eurasia*) in *Konservatizm*

not taken for granted from the point of view of a Russia accustomed to think about itself as a great power but which, faced with the overwhelming dynamism of China, must construct a new geopolitical role, corresponding both to the ambitions and to the real potential of the country.

From this point of view, Great Eurasia constitutes for Moscow in the first place an immense space of growing economic and security integration, although Russian scholars also underline the substantial sharing of ideological orientations different from the Western ones. This is not just the outcome of a common multipolar preference in international relations, but also a conservative Weltanschauung focused on national rather than "universal" values. As is well known, for some years, Russia has been increasingly advertising itself as a conservative ideological alternative in terms of values in contrast to Western liberalism[18]. Apart from the important question of the instrumental nature of this turning point, perhaps the most interesting aspect that is emerging within Russian political debates is the link between conservatism and foreign policy. In this respect, the special issue of the magazine "Rossija v global'noj politike/Russia in Global Affairs", which appeared in May 2017 under the title *Konservatizm vo vnešnej politike: XXI Vek* (Conservatism in Foreign Policy of the XXI century), is particularly remarkable. In the introduction to this publication, which includes articles written by many important Russian scholars, Fedor Lukyanov argues that conservatism is not merely a pool of ideal values that embody the cultural tradition of a country. According to him, conservatism – closely linked to political realism – is instead considered the most valid approach to the current international scenario, in which a new political situation is rapidly replacing

vo vnešnej politike: XXI vek (*Conservatism in foreign Policy of the XXI century*), cit., p. 168.

[18] On this issue see: K. Bluhm, *Modenization, Geopolitics and the New Russian Conservatives*, Frei Universität Berlin, 2016; M. Laruelle, *Putin's regime and the ideological Market: A difficult balancing Game*, Carnegie Endowment for International Peace, 16 March 2017; A. Ferrari, *Russia. A Conservative Society?*, in idem (Ed.), *Russia Towards the 2018 Presidential Election*, Milan, Ledizioni-ISPI, 2018.

the liberal order that followed or seemed to follow the fall of the Soviet Union. In this perspective, not only Russia, but also China and its recovery of the Confucian heritage[19], as well as the United States after the election of Donald Trump with his slogan "America First", are tracing the future of their countries on the basis of the primacy of their own national cultural tradition: "The need to preserve sovereignty – not only in a political sense, but also from an identity point of view – is once again perceived as a norm. The liberal-cosmopolitan utopia of the late XX century has been pushed back into the shadows"[20].

Therefore, Russia must definitively abandon the liberal approach towards the West, which in any case is no longer so attractive due to the formidable rise of the East in international politics. Russia, on the opposite, must think from a different point of view, which can be traced back to the concept of "civilisation": "the discussion within the category of civilisation corresponds more closely to Russia's peculiarities and the relations of this countries with its neighbours, both to the west and to the east"[21].

It should be noted that within Russian culture the idea of universal history as a plurality of autonomous civilisations that cannot be traced back to a single model, the western one in particular; and this idea, certainly does not take Samuel Huntington as its starting point, but has a much longer history, beginning with nineteenth-century thinkers such as Nikolay Danilevsky and Konstantin Leontiev, to Nikolai Trubetzkoy's "classic" Eurasianism and today's post-soviet one[22]. From this

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[19] See A. Lomanov, *Neokonservatizm s kitajskoj specifikoj* (*Neoconservatism in the Chinese variant*), in *Konservatizm vo vnešnej politike: XXI vek* (*Conservatism in foreign policy of the XXI century*), cit., pp. 191-205, for an analysis of traditional values in contemporary China.

[20] F. Lukyanov, *Konservatism dlja épochi nestabil'nosti* (*The conservatism for the age of the instability*) in *Konservatizm vo vnešnej politike: XXI vek* (*Conservatism in foreign policy of the XXI century*), cit., p. 9.

[21] *Ibidem*, p. 11.

[22] See A. Ferrari, *La foresta e la steppa. Il mito dell'Eurasia nella cultura russa* (*The forest and the steppe. The myth of Eurasia in Russian culture*), Mimesis, Milan, 2011, pp.

point of view, the multipolar vision of Moscow's foreign policy seems to be linked also to a specific line of Russian conservative thinking, updated in the new post-liberal, post-western international context, based essentially on large states carrying their own specific civilisation. An idea supported also by another of the scholars who participated in the aforementioned publication, Alexey Miller, one of the most important Russian historians of our days: "Today, the idea of a multipolar world, the idea of a balance of forces and interests in the spirit of the concert of the nations of the XIX century is a policy of profoundly conservative orientation. And this is above all against the background of the current upheavals in the West, which has now become a source of great uncertainty for the world"[23].

Therefore, from this point of view, Russian foreign policy, so strongly based on national interest, on the spatial dimension, and on the claim of a resilient cultural tradition, is considered to be more in line with the current scenario than western foreign policy, still tied to the idea of the unstoppable expansion of liberal globalisation disproved by political events over the last few years, including Brexit. Moreover, due to its "conservative realism" and the insistence on national sovereignty, this vision, shared by the other states of Great Eurasia, would contribute to the stabilisation of the international political situation much more than the western one, characterised by a short circuit between democratic rhetoric and the pursuit of the strategic interests of the states.

Conclusion

Despite its insufficient economic dynamism and the isolation to which the West wants to confine it to after the Ukrainian crisis, Russia appears capable of conducting an effective foreign

86-87, 116-117, 199-201, 270-279.

[23] A. Miller, *Reformatorskij konservatizm dlja sovremennoj Rossii* (Reformed conservatism for modern Russia) in *Konservatizm vo vnešnej politike: XXI vek* (*Conservatism in foreign policy of the XXI century*), cit. p. 34.

policy even outside the post-Soviet space, particularly in the Middle East; but, above all, Moscow seems to be very comfortable – both pragmatically and ideologically – in an international scenario that increasingly tends to become a game among great powers that pursue their national interests in a largely independent way, both from the existing multilateral institutions and western liberal values.

3. China, a New Model of Great Power

Shaun Breslin

Over recent years, we have seen a number of new international relation concepts emerge from China, including (but not limited to) "great power diplomacy with Chinese characteristics", "a new type of international relations" and the aspiration to build a "community of common destiny"[1]. All of these have been personally identified with Xi Jinping's own thinking and aspirations and feature regularly in his high-profile appearances, including his speech at the 19th Party Congress: an event that has been widely viewed as signalling the start of a new era in Chinese foreign policy built around new ambitions for a new global role. In truth, it is often difficult to put an exact date on when one era ends and another starts because, as is the case here, such changes do not just occur overnight. Nevertheless, through a combination of what was said at the Party Congress, in Xi's speech at Davos in January, and at the Belt and Road Forum in May, 2017 was the year when the international political marketing of Chinese goals and what type of great power China will be moved to a new level.

This emergence of a new Chinese appetite for a more active role has clear and significant implications for other global actors, and perhaps even for the very nature of the global order itself. Even if it does not result in the creation of a Chinese-dominated Sinocentric world order any time soon, it certainly makes it harder for others to pursue and impose preferences and objectives that China opposes. Chinese influence is (not

[1] Translations of these terms vary. For example, great power is often translated as major power and the envisaged community is sometimes translated as "shared future".

surprisingly) even more important in its own regional back-yard; and if the Belt and Road Initiative really does succeed, the understanding of how far that regional back-yard of influence fully extends to might see significant change. But it is also in the region that China's ambitions to become a truly different type of great power is going to be tested, with potential troubling consequences emerging both if China does assert itself and use its power (for example, over territorial disputes) and also if it doesn't (for example, in relation to North Korea and possibly also Myanmar).

Selling a product: China as a new type of great power

Although you could fill whole books with reflections on new Chinese thinking on international relations, we can perhaps distill the overarching message in these different concepts and speeches down to two main assertions. First, China has indeed now risen to become a great power, which in the words of Xi at the 19th Party Congress is "moving closer to the centre of global politics". It is both willing and able to provide some forms of global leadership and some global public goods.[2] This might not sound very radical to the outside observer, given the widespread belief that China had long since become a major global power. However, this self-identification as a great power marks a distinct change from a more cautious position prior to Xi's ascension to power. Either from a reluctance to take on the responsibilities and burdens of global leadership, or for fear of generating a backlash designed to prevent China getting what it wanted, or from truly held calculations about the real sources of Chinese power (or a combination of all three), there had

[2] Xi Jinping, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era", speech to the 19th National Congress of the Communist Party of China, 18 October 2017.

previously been a disinclination to assert China's great power status or outline objectives that China would use its power to pursue. Under Xi, this has very clearly changed.

Second, though China is a great power, it is very different from previous and existing Western great powers and will not act in the way that they did in the past (and indeed still do if given the opportunity). Here, creating and disseminating China's great power identity – what it is, what it will be, and what it wants – depends first on explaining what China is not, will not do, and what it opposes. It is a process of "Occidentalism", whereby a negative understanding of Western supporters and promoters of the existing international order is established that China is portrayed as the antithesis of.

In the words of Foreign Minister Wang Yi, "Western theories of international relations worship the law of the jungle which leaves the weak at the mercy of the strong and regard zero-sum game and winner-takes-all as an unalterable tenet"[3]. By contrast, according to Xi, China favours mutually beneficial and morally superior "win-win cooperation"; aims to prevent the use of force to end conflict promoting instead "dialogue and resolving differences through discussion"; and opposes "acts that impose one's will on others or interfere in the internal affairs of others", instead believing that each country should be free to develop economic and political models that best suit their own specific circumstances[4]. In XI's words at the Belt and Road Forum held in Beijing in May 2017:

> we have no intention to interfere in other countries' internal affairs, export our own social system and model of development, or impose our own will on others. In pursuing the Belt and Road Initiative, we will not resort to outdated geopolitical manoeuvring[5].

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[3] Wang Yi, "Build a New Type of International Relations Featuring Win-Win Cooperation", 20 June 2016, Foreign Ministry of the People's Republic of China.

[4] Xi Jinping. "Secure a Decisive Victory"..., cit.

[5] Xi Jinping, "Full text of President Xi's speech at opening of Belt and Road

Opposing the imposition of Western preferences also entails questioning the supposedly universal basis of some of the norms and principles that underpin the current global order, and proposing Chinese alternatives in some issue areas. But not all of them. And Chinese leadership claims are not across the board either. It is not a push for Chinese leadership *per se*, but for selective Chinese leadership in some issue areas. We might suggest that the extent to which China is prepared to propose new initiatives and positions in different policy domains depends on a combination of the extent to which the current order serves Chinese interests or not, the power resources China has to underpin its ambitions, and the extent to which others are thought likely to ally themselves (or at least not oppose) Chinese positions. The extent to which existing governance structures are already firmly in place and broadly established and supported might also play a role.

A global development leader?

One area where Xi seems particularly keen to establish a form of Chinese leadership is as a global development leader. Notably, this does not just entail China becoming a leader in the provision of development finance, but also challenging some basic understandings of what aid and development actually is (or should be). There are three broad dimensions to this challenge to the status quo. First, while China does engage in the provision of more "traditional" aid projects (for example, health and poverty reduction projects), there is a particular Chinese emphasis on the importance of building connectivities through the provision of major infrastructure projects. Second, this is an area where China can try to demonstrate its theoretical difference from other great powers in practice. As proudly established at the beginning of the official White Paper on foreign aid:

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forum", *Xinhuanet*, 14 May 2017.

> When providing foreign assistance, China adheres to the principles of not imposing any political conditions, not interfering in the internal affairs of the recipient countries and fully respecting their right to independently choosing their own paths and models of development[6].

Chinese development assistance is the polar opposite of the sort of conditional aid designed to foster political and/or economic liberalisation that has become associated with the preferences of Western liberal states and the major institutions of the liberal global economic order.

If this is an attempt to question how development is (or has been) understood, so too does the third dimension; the consequences of the way in which much Chinese development finance is delivered. Through an emphasis on what is called "win-win" foreign assistance, Chinese companies often benefit from carrying out projects using domestically sourced supplies and resources that have development benefits for the partner country. In the process, the distinction between what is a commercial activity and what is the provision of Overseas Development Aid becomes somewhat blurred.

Ultimately, whether these projects should count as aid or not probably doesn't matter that much. What matters more is that this putative Chinese leadership has been welcomed by a significant number of other states. Here the message of China as a different type of great power has been supported by appeals to more basic material interests. And just in case the message hadn't got through that China was one of the few sources of economic hope around – perhaps not so much the best bet but the *only* bet for a dynamic economic future – the message was forcefully reiterated in 2017. Xi used his speech at Davos at the beginning of the year to contrast China's continued 6% plus growth rate with "a sluggish global economy" and China's commitment to building international connectivities with

[6] State Council, White Paper, *China's Foreign Aid*, Beijing, Information Office of the State Council, 2014.

protectionist turns elsewhere. The message was clear:

> China's development is an opportunity for the world; China has not only benefited from economic globalisation but also contributed to it […] We will open our arms to the people of other countries and welcome them aboard the express train of China's development[7].

In short, China is providing not just a source of development financing, but also an alternative to dealing with existing powers and actors (and all that can entail).

China's normative challenge

Global development might be a particular area of interest for Xi, but it is not the only area where China is challenging the normative status quo. For example, the Chinese conception of human rights emphasises socio economic rights over individual civil and political ones, and also implicitly establishes a hierarchy of rights, where a state's right to the privileges of sovereignty and to organise its own internal affairs as it sees supersedes any notional transnational responsibility to protect the rights of individual citizens of that state. The state is also the preferred referent point when it comes to understanding and defining what cybersecurity is and how it should be achieved. In this case, the primacy of ensuring state security supersedes the individual's right to free and full access to information, which is the starting point when it comes to establishing Chinese preferences for creating transnational forms of cyber governance.

In both these cases, it is not a case of China arguing that each country should do what is best for it based on national conditions, but rather seeking to establish its own definitions and understandings as the starting point for international discussions

[7] Xi Jinping, "President Xi's Speech to Davos in Full", World Economic Forum, 17 January 2017.

(and perhaps even ultimately, forms of transnational governance). According to Worden, Chinese officials have "vigorously promoted China's views on human rights" at the UN Human Rights Council in Geneva, tabling a number of resolutions that are built on preferred Chinese definitions and emphases[8]. Of course, trying to convince others to share your views is not the same thing as forcing acquiescence through, for example, attaching conditionalities to development finance or commercial relations. Nevertheless, proposing Chinese norms as the basis for a more widely held alternative to Western liberal norms is a stepped change from more simply arguing that each country should have its own culturally and nationally specific definitions and practices. It represents a form of internationalisation (though not universalisation) of Chinese norms for use beyond China.

Buying what China has to offer

Of course, having something to sell doesn't guarantee that anybody will buy it. So in thinking about the implications of this move to selective global leadership in different areas for Europe and the wider global order, a key consideration is the way that others have responded to what China is offering. Notably, there has been considerable support and buy-in from other states (and other types of international actors). Though, not surprisingly, different sets of actors have responded in different ways to initiatives in different issue areas.

For example, returning to Worden's analysis of the Human Rights Council, she notes that China issued a statement titled "Promote and Protect Human Rights and Build a Community of Shared Future for Human Beings", on behalf of a sizeable 140 countries. This statement included what is arguably the bottom line principle of China's understanding of Human Rights:

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[8] A. Worden, "China Pushes 'Human Rights With Chinese Characteristics' at the UN", *China Change*, 9 October 2017.

> Based on the purposes and principles of the UN Charter, the sovereignty and territorial integrity of all countries must be respected. Each state is entitled to independently choose its path for development and social system. The efforts and achievements of each state in promoting and protecting human rights should be respected[9].

Perhaps driven more by economic self-interest than from a shared desire to challenge liberal norms, 29 heads of state or government attended the Belt and Road Forum, as well as just about every head of every major institution of global governance. This including a number of government leaders from European states (including Italy) that hope to benefit from the renationalisation of Chinese finance that we might expect not always to support China's position on issues like human rights and the right to protect. It also included regional neighbours like Vietnam, which remains one of the more nervous observers of the growth of Chinese military power in Southeast Asia. However, we should note here that attraction to what China has to offer financially is far from unconditional. Even Pakistan, one of China's closest allies, has rejected Belt and Road branded finance (via the China-Pakistan Economic Corridor dimension of it) to build a damn because of the terms of the deal (including insistence on Chinese ownership of it)[10]. So even where the broad principle of Belt and Road financing is welcomed, the devil is often in the detail where Chinese projects are not always as free of conditions as the headlines often suggest (albeit economically conditional rather than politically so).

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[9] Chinese Mission to the United Nations Office at Geneva, "China Delivered Joint Statement on Behalf of 140 Countries on Promoting and Protecting Human Rights and Building a Community of Shared Future for Mankind", Foreign Ministry of the People's Republic of China, 3 March 2017.

[10] I.M. Sala, "Damned if you Do: More Neighbors are saying 'No Thanks' To Chinese Money – For Now", *Quartz*, 4 December 2017.

Implications for Europe and the world

It is still too soon to draw any firm conclusions about what this might mean for the way that the global order might function in the future. But that doesn't prevent the suggestion of some less than firm preliminary suggestions. The first, quite simply, is that there is unlikely to be a bloc like division of the world behind different competing poles, is unlikely. Rather, different sets of alliances are likely to form around Chinese initiatives and objectives depending on the issue at hand. We have already seen that those who are keen to align themselves to the Belt and Road initiative (or at least not to allow themselves to be left on the side-lines) do not always share China's ambitions for challenging human rights norms, or even find themselves potentially in direct confrontation with China in the security realm. That said, the second suggestion is that some alliances are likely to be much more holistic in nature and enduring than others. The Sino-Russian relationship *might* emerge as one of these. The US-Japan alliance seems destined to be an important counterweight to Chinese preferences across a range of policy positions. It will be interesting to see whether the Sino-Indian relationship remains as a differential issue based one, or instead becomes something else.

Third, in terms of how China is received and perceived in different issue areas, European states seem much more prepared to welcome and embrace Chinese initiatives and potential leadership in the economic realm than when it comes to questions of international ethics and responsibility, and the benefits (or not) of promoting democracy. This might be because Chinese economic initiatives have to date been largely system-conforming rather than system-challenging, despite the way that some people responded to the creation of the Asian Investment Infrastructure Bank (AIIB). But it might also be because the lack of a clear and obvious European security interest in Asia, which could conceivably lead to armed conflict with China creates a space to be discerning, discriminating and differential

that is not always available to other key actors. Add these three together and they generate a fourth suggestion; that the different ways that Europe and other Western powers have responded to the rise of China to great power status might well drive some sort of wedge between them. In the case of the way that Europe and the US responded to the AIIB, maybe it already has.

What this all means is that a world with China as an active great power in it is likely to be one where it is much harder for liberal actors to promote their agendas on the international arena than before. In truth, the way that the promotion of liberal agendas (or perhaps the partial implementation of them) have played out in North Africa and the Middle East has done a lot to undermine support for them from within liberal democracies themselves. However, even if a domestic consensus can be found for future action, China provides a formidable obstacle to its realisation.

At one level, there is nothing new about this at all. As a permanent member of the UN Security Council since reclaiming the China seat in 1971, China has the ability to veto resolutions that run counter to its normative non-intervention principle. To be sure, China has actually used its veto more sparingly than the other permanent members, and even without China, Russia alone could provide the necessary veto. Nevertheless, in the UN SC at least, China's great power status is nothing new.

But this power – a sort of veto power against (some) liberal preferences – now extends much further than the UN. How attractive and legitimate do (neo)liberal prescriptions for development look in light of China's growth record (particularly if you overlook the more negative consequences such as environmental problems as many seem to do)? And arguably more important, how effective can attempts to pressure states to liberalise, and/or respect human rights be when they can deal with China instead of accepting conditional relations with others?

Too much Chinese leadership or not enough?

Maybe somewhat ironically, it is not always the prospect of China's leadership that leads to concern in others, but sometimes the lack of it. China self-identifies (and projects itself) as a force for peace and harmony that seeks to settle disputes through cooperation, consultation, dialogue, and discussion rather than imposing solutions on others (particularly through the use of force). Rather than just call for dialogue and peaceful solutions (as has often been the case in the past), in Myanmar China has proactively stepped in to try and broker a solution whilst simultaneously resisting initiatives by others that it deems to be inappropriate external interference in the domestic affairs of the sovereign Myanmar state[11]. Indeed this external Chinese intervention fits squarely with China's position on external interference as it protects the Myanmar regime from external criticism and sanctions, and is accepted and approved by both the Myanmar and Bangladesh governments.

However, the problem with a strict non-interference position is that it leaves few policy options when those that are the cause of disharmony and the lack of peace don't want to cooperate, consult and talk (or in some cases, even listen to others at all). And it becomes even more of a problem when China is widely considered to be the only country able to exert influence over sources of international instability who don't seem to respond positively to what anybody else says or does; as is the case with responding to North Korea's nuclear and ballistic missile testing.

Discussing the North Korea issue with Chinese strategic specialists tends to result in the assertion that there is little that China can actually do. They note that Kim Jong-un does not reach out or even listen to China in the way that some of his predecessors did, and that many of the previous party-to-party

[11] See N. Bequelin, "Behind China's Attempt to Ease the Rohingya Crisis", *New York Times*, 5 December 2017.

links have been cut through Kim's purge of more pro-China relatives. There is also a widespread consensus that sanctions don't work (in terms of encouraging change rather than in extreme sanctions leading to economic collapse). But more fundamentally, there is a strong conviction that this is not China's problem but rather a 朝美问题 – a North Korea-US issue. Moreover, Zhao Daojiong has argued that Chinese policymakers have been somewhat taken aback by the expectations that the US government (and others) have that China not only *should*, but also *can* play the key role in promoting change in Pyongyang[12].

This suggests that there might be something of a gap between Chinese and external understandings of what a great power can and should do – particularly in its own regional "sphere of influence" – if it really wants to provide some form of leadership. It also maybe suggests that there might be a tension between the principle of non-interference on the one hand, and the desire or expectation that China can help keep the peace on the other. As China's international economic interests spread and deepen in parts of the world that aren't always politically stable – for example, along parts of both the Belt and the Road – we might also see tensions emerging between the non-interference principle and the preservation of national (economic) interests.

Conclusion. Learning to be a great power

One resolution to these tensions might lie in finding new ways of defining what intervention and interference actually mean when they come "with Chinese characteristics"[13]. And then

[12] And also surprise at how high the US has placed solving the North Korea crisis in the list of unresolved bilateral Sino-US concerns. See Zha Daojiong, "China-US relations Under Trump: More Continuity Than Change", *Asian Perspective*, vol. 41, no. 4, 2017, pp. 710-715.

[13] If this sounds facetious, it is not. Indeed, Wang Yizhou has already explore the "creative" ways that China has become involved in affairs beyond its border, though preferring to translate jieru as "involvement" rather than "intervention".

there is the potential tension between a predilection for solving conflicts and tensions through dialogue and discussion, and a Chinese conviction that it will not compromise when it comes to its bottom line "core interests" (*hexin liyi*); not least if others don't share Chinese understandings of the limits and legality of Chinese territorial claims. And even if these squares can be circled, new tensions between different principles and objectives that guide China's foreign policy and global role are likely to emerge if China's power and reach continues to increase and China learns both the benefits and also some of the strains and expectations that being a great power brings.

But all this assumes that China's past trajectory will be its future path as well. And this certainly cannot be taken for granted. Despite the largely triumphalist tone of Xi's speech at the 2017 Party Congress, he did also note the "many difficulties and challenges" facing the party and the country, including "some acute problems caused by unbalanced and inadequate development"[14]. These problems include what look very much like large property and asset bubbles (in some parts of the country at least), debt levels that have risen remarkably quickly in recent years, and in Xi's rather understated words, "a long way to go in protecting the environment". These problems are not irresolvable, but neither can their quick and easy resolution be taken for granted. There is no reason that China will necessarily follow Japan's path from economic miracle to stagnation. But at the very least, re-reading some of the inevitable predictions of Japan's unstoppable rise to global (economic) superpower status reminds us that what looks inevitable at the time doesn't always turn out to be quite so inexorable in the end.

See Wang (2016).

[14] Xi Jinping, "Secure a Decisive Victory"…, cit.

4. Big Powers to the Test

The Syrian and Iraqi Crisis: Regional and Global Factors

Armando Sanguini

Syria and Iraq are paradigmatic examples of the Middle East turbulent tensions and conflicts due to the intersection of the agendas of local, regional, and international, state and non-state actors that gravitate around it. Actors who are just as diverse as their respective ambitions and their alliances varied along political, politico-sectarian, ethnic, and other lines. Among these ambitions stand out those of both regional powers – such as Iran, Turkey, Saudi Arabia, and Israel – and global powers, such as the United States, Russia, the European Union, and China.

In 2014, Iraq and Syria faced the same overwhelming, bloody war for the conquest of a substantial part of their border territories by the so-called Islamic State. Both countries had to endure the brutal force of the Caliphate territorial government, whose millenarian-nihilistic proselytism got ahold of tens of thousands young people who came to fight under its flag of horror and war from the four corners of the world. The Caliphate's propaganda of extremist Jihadism was also able to spawn affiliates all over the world, in the forms of organised groups but also as individuals who act independently, and convert people into operators and/or supporters of terror.

Ultimately, both countries shared the progressive military defeat of Isis with two fundamental final steps, after months of fierce clashes: the first in Mosul (Iraq) in June 2017 and in Raqqa (Syria) in October. The second along the border of the two countries, where Moscow substantially converged toward the Iranian and Hezbollah units supporting Damascus, and the Kurdish and Arab militias of the Syrian Democratic Forces (SDF), receiving American aerial support. In the following months, the territory was progressively shaped under a post-Isis scenario, i.e. its military and territorial defeat. The different reasons that determined its onset certainly have not disappeared, in fact, they have been worsened as agendas, protagonists, and actors overlapped. In this context, ideological-sectarian principles have found fertile ground stretching their outreach from the Far East to Asia, from Africa to the West, gaining strength through encounters with other jihadist groups, Salafist and not, around the globe. However, this scenario is different for Syria than it is for Iraq.

Syria

It is telling that it was Vladimir Putin – the leader of a "foreign power" – who first announced "mission accomplished", that is to say, the defeat of Isis, aiming at highlighting his key role in the Syrian context, even to those who did not want to acknowledge it.

In fact, Putin's winning strategy, which, starting in 2015, relied on the support of the Iran-Hezbollah alliance and then, partly, of Turkey, bolstered the Assad regime and amid repeatedly daring and brutal military attacks, also promoted ceasefires and de-escalation measures in key areas of the country. The goal was to kickstart a political-diplomatic action aimed at establishing the framework for a potential political solution of the Syrian crisis.

He did so through a negotiation process, started in the city of Astana and then continued in Sochi, to mark the strength of the alliance between Tehran and Turkey, of his *primus inter pares* role. This process intersected with the UN negotiations in

Geneva that for the Russian President represented the seal of legitimacy of the international community.

During this time, Putin appeared to be willing to maintain a useful relationship with Washington, with which he seems to share the same interest for a Middle East in which neither of the two "friendly" regional powers takes on a dominant role and is therefore likely to fuel political and sectarian instability and the reemergence of jihadism.

Nonetheless, Iran could be the main beneficiary from Russia's actions, but its expansive policy is stirring up a growing antagonistic wave in the Arab world (led by Riyadh), in addition to the obvious adversity of Tel Aviv and Washington and the serious wariness that is on the rise in the rest of the Western world (first of all in Paris).

The unscrupulous Erdogan as well would like to benefit from this, but his obsession with the Kurdish issue receives only lukewarm support from Moscow. This is all the more the case for its relationship with Israel, mainly due to the decision of President Trump to move the US Embassy to Jerusalem as the capital of Israel.

When it comes to Saudi Arabia, considered the real loser of the game, we have to consider its attempt to have a direct say at the Geneva negotiation table in pushing for the establishment of a common platform, obviously watered-down, among all Syrian opposition as expected by Moscow (and in the end also Washington).

Once he gained control over the so-called "useful Syria", i.e. the quadrant that spans from the coast to Aleppo, to Homs and Damascus, where both the Tartus naval base (Mediterranean) and the Hmeimin air base (Latakia) are based, Putin appeared to focus on reaching a far reaching and balanced mediation in which even the "losers" on the ground, i.e. the opposition forces, internally divided and most of all polluted by different kind of jihadism, may gain something. By doing so, Putin aims to increase the sustainability of the "political solution" that all parties appear to favour, obviously hoping to shape it along their national interests.

This is a difficult undertaking even for the skilful Russian President, given that no sufficient guarantees seem to be forthcoming by the end of 2017.

There are still no sound pre-conditions for a new political-institutional reorganisation of the country, able to keep in check both domestic centrifugal forces and external ambitions, and it is still to be decided the fate of Bashar al Assad. What seems substantially decided is that there won't be any imposed "regime change", an option unthinkable and unacceptable to Moscow, to Tehran, and to China itself (an ally at the UN), but also a potential driver of instability and breeding ground for a renewed spring of jihadism.

The difficult talks at Geneva's eighth negotiating session, where the agenda for constitutional reform and free and fair elections seem to be still far from realistic, are evidence for all this.

Iraq

In Iraq, it was the acting Prime Minister Haider al-Abadi, and not the leader of a foreign power, as happened in Syria, who declared the end of the war against Isis on 9 December 2017.

He did so by exalting the role played by "his" armed forces and thanking the United States and members of the international coalition led by them for their support; in turn, receiving its praise – we are far from the accusations of cowardice (after the fall of Ramadi) by US Defence Secretary Ash Carter in May 2015 – and gaining the commitment of both sides to contribute to the work of stabilisation and reconstruction of the areas freed by Isis.

In October, Abadi himself was able to count on the wide and unprecedented convergence of the United States, Iran, Saudi Arabia, and Turkey against the referendum on independence promoted by Masoud Barzani, the leader of Iraqi Kurdistan. All external players sided with Abadi "to safeguard the territorial integrity of the country" and the avoid a potential domino effect in Syria, Turkey, and Iran, where important Kurdish

minorities live, and at the same time preventing the risk of all the more dangerous reactions from these very countries.

On 4 December, the Iraqi Prime Minister himself announced that the next regional and parliamentary elections would take place on May 2018.

While until recently Abadi was seen as a "lame duck", he now appears to be determined to claim the leadership role that his country needs to solve all the problems from which is suffering, stemming notably from the unfortunate invasion of Iraq, the disastrous management of the post Saddam era, reaffirmed by the sectarian Al Maliki government, fertile ground for the propagation of the extremist forces of the Islamic Jihad and the rise of ISIS.

While Abadi's ambition is deep-rooted, it will not be easy for him to fulfil it; however, the Prime Minister has been engaged with determination and a good share of political skill, both domestically and in the regional context.

The liberation of Mosul and the subsequent reclamation of the border area was his most striking result, not only militarily but also in terms of political realism, since it was built on a balanced alliance between Iraqi security forces, the Peshmerga Kurds and Iran-backed Shiite militias, all or almost all supported by the air cover of the US-led coalition.

But now, having defeated ISIS, he faces a challenge that he has already made explicit: to prevent Iraq from being used as a ground for confrontation between regional powers, in particular between Iran, which has gained over time a strong position of political and military influence, and Saudi Arabia, sponsor of the Sunni component widely discriminated against and penalised by the Shiite component before the invasion of ISIS and at risk of continuing to be so even after its defeat, with the complicity of Tehran.

With this in mind, Abadi has set up a foreign policy that has the normalisation process of relations with Riyadh to maturity, with the establishment of a Coordination Council between the two countries for the implementation of a wide-ranging

partnership programme in many fields, which could at least limit/compensate for Iran's influence over the rich south-eastern part of the country.

Certainly, Abadi also relies on cooperation by the US and members of his coalition to counterbalance the pressure of the Iranian blessing hand above the country and to tackle the gigantic problem of reconstruction, estimated at €90 billion, for which a donors' conference will open in February 2018.

However, this crucial challenge is intertwined with another issue on which the Iraqi Prime Minister is still struggling to achieve visible results: the reform of the political-institutional system of the country, which finds in the divide-and-rule logic of the main political formations and endemic corruption its most aggressive and harmful virus. An indicator of this is the tortuous path of institutional integration of the Popular Mobilisation Forces, on which Tehran issued a rather eloquent warning to Abadi, relaunched by the Iraqi leaders closest to that capital. It is a sign of clear antagonism towards the Prime Minister's plan for a governance capable of bridging the decades-long political, sectarian, and ethnic rifts.

The Iraqi landscape is therefore also fraught with uncertainties. But his landlord, unlike the Syrian one, is fully accepted by the International Community and is positively motivated to strike a balance for an inclusive policy that prevents the return of extreme Jihadism.

Conclusion

2018 will be decisive for the future of Syria and Iraq.
The Sochi and Geneva negotiations for the former and elections for the latter will be a litmus test for hard and soft power relations exercised by the main powers and their allies, both regional and international.

In Syria, it will be crucial to gauge Russia's capacity to act as a mediator, which could bring to the extreme case of a de facto, if not even formally sanctioned, partition of the country into 5 areas of influence (Russia, Turkey, Iran, Jordan, and the

United States with their Kurdish allies). In this case, the country could become the Russian "aircraft carrier", but Lebanon would not turn into one for Iran.

Keeping Iran as far from Lebanon and, through the Golan Heights, also away from Israel, is a *sine qua non* condition for US endorsement of Putin's Syria plan[1].

In Iraq, the biggest stakes will be placed on the chance to find an effective model – and practical exercise – for domestic inclusion and balanced position at regional level where Iran will try to weigh heavily up to the point permitted by the US and Riyadh.

In both countries two crucial factors will exert a meaningful influence: the war fatigue and the longing for reconstruction.

The European Union, so close this area, will hopefully find many more ways and means of a partnership equal to the significant and effective role it ought to be playing.

The Korean Crisis: Regional and Global Dynamics

Antonio Fiori

While there has been no substantial change in the posture traditionally adopted by North Korea, 2017 saw a significant intensification in Pyongyang's erratic behaviour. In addition to a nuclear test, the sixth in the country's history, 23 missiles of various kinds have been launched. It should be noted that these actions confirm the significant technological progress made by North Korea: the 3 September nuclear test, presented by the media as a "perfect" detonation of a hydrogen device[2],

[1] A. Taheri, "Where Russian and Iranian Aircraft Carriers Clash", *Asharq al-Awsat*, 15 December 2017.

[2] https://www.reuters.com/video/2017/09/05/n-korea-news-anchor-voice-of-triumph-and?videoId=372471064

has released over 100 kilotons energy, causing an immediate magnitude 6 earthquake. If we consider that the first North Korean test, which took place in October 2006, was capable of around one kiloton, it is easy to gauge the speed of the development of the nuclear programme. Likewise, Pyongyang's missile programme has made significant progress, as witnessed by the two carriers that – between August and September – flew over Hokkaido, the northernmost island of the Japanese archipelago, or by the recent launch of the Hwasong-15, which reached an apogee of about 4,500 kilometres, covering a distance of 950 kilometres[3]. North Korean propaganda celebrated this latest launch as a testament to the ability to "reach the whole of continental United States"[4] with a nuclear warhead, which, if miniaturised, could be mounted on a rocket. Some US independent analysts confirmed that, if thrown with a standard trajectory, the vector could actually hit America[5]. However, this analysis must take into account a number of important variables, such as the failure to confirm that North Koreans are already capable of producing miniaturised nuclear warheads or, above all, that their rockets can effectively and without substantial problems, carry out the process of re-entry into the Earth's orbit.

Despite these technological variables, North Korea has once again been able to arouse fear at both regional and global level. The answers to its actions were swift: the American President Trump declared with the usual tweet, after conferring with his Chinese counterpart, Xi Jinping, that the matter would be properly "managed," also thanks to the adoption of an unprecedented amount of sanctions[6]. China, pressed by the United States to use all the means necessary to persuade Pyongyang

[3] M. Elleman, "North Korea's Third ICBM Launch", *38 North*, 29 November 2017.

[4] "North Korea says new missile puts all of US in striking range", BBC News, 29 November 2017.

[5] D. Wright, "North Korea's Longest Missile Test Yet", Union on Concerned Scientists, Science for a healthy planet and saver world, 28 November 2017.

[6] https://twitter.com/realdonaldtrump/status/935881037254725632

to abandon provocations and consider dismantling the nuclear programme, expressed its deep concern and, despite begging all the actors involved to keep calm, urged North Korea to respect international resolutions and stop any actions that could create a dangerous escalation in the region. South Korean President Moon Jae-in, put aside the platform of seeking renewed dialogue with his North Korean counterpart, which had marked his electoral campaign, urged – in a telephone conversation with Japanese Prime Minister Shinzo Abe, his trustworthy ally – to strengthen international sanctions and put greater pressure on Pyongyang to abandon its nuclear ambitions[7].

The Trump administration has constantly reaffirmed the will to follow the line that the United States has been already following, mainly consisting of economic pressures – both unilateral and multilateral – that create the basis for relaunching diplomacy. The basic goal remains to persuade North Korea to proceed with the dismantling of its nuclear and missile programme. However, this option appears to be off the table for the Pyongyang regime, which could then be more easily "beheaded." In order to avoid going down the road that led to the collapse of the Iraqi or Libyan regime, in fact, the North Koreans use nuclear power and missiles as a guarantee of survival. North Korea, moreover, while needing to flaunt its nuclear capabilities in order to create internal legitimisation around Kim Jong Un, has repeatedly emphasised that atomic weapons are a mere deterrent to possible attacks by Washington or Seoul.

Consistent with the repeatedly reaffirmed presidential position that "all options are on the table,"[8] the Trump administration has not ruled out possible military interventions. In the opinion of some observers, in fact, given Pyongyang's unpredictability, a pre-emptive attack or conflict on a larger scale would represent a lower risk than the possibility that Kim

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[7] "South Korea's Moon Jae In, Japan's Shinzo Abe agree to pursue strong UN sanctions against North Korea", *Asia*, 4 September 2017.

[8] J. McCurry, "Donald Trump on North Korea: 'All options are on the table'", *The Guardian*, 30 August 2017.

Jong Un would continue to improve his nuclear programme undisturbed, which would certainly lead him, sooner or later, to put the United States in the sights[9]. Others, however, have suggested that any pre-emptive attack should only be carried out if there is indeed an imminent threat of launching an intercontinental ballistic missile against American territory[10]. For many observers, however, an unprovoked attack by North Korea is highly unlikely. Moreover, there is no need to point out that any form of conflict would cause a huge number of victims – especially in South Korea, which would presumably be the main target of a North Korean retaliation – even if North Korea were to resort exclusively to conventional weapons. At the same time, the inaction of the United States – and the international community – would, in the long term, contribute to give more leeway to Pyongyang, which could continue to threaten the United States even more, with the aim of forcing it to withdraw its troops from South Korean territory and possibly try to reunite the peninsula under their own conditions. Washington's "tolerance" of an atomic North Korea could also set a very dangerous "precedent," which other countries, such as Iran for example, could exploit to their own advantage. In the regional context, however, Trump can count on the unconditional support of Japanese Prime Minister Abe, who has fully embraced the hard line dictated by the White House. North Korean assertiveness, on the other hand, has reinforced Abe's demand to discard Article IX of the Japanese Constitution, which, currently, would prevent independent or joint military intervention by Japan with US forces. Fearing a North Korean attack, Tokyo, with an unprecedented move, has decided to buy long-range missiles, thus fuelling speculation that an arms race is now taking shape in North-East Asia.

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[9] D. Trayner, "Attack North Korea NOW: Trump urged to strike before Kim's nuclear missiles hit US", *Daily Star*, 24 April 2017.

[10] J. Allen, R. Bush, R. Einhorn, S. Pifer, J. Pollack and E. Revere, *Averting catastrophe: U.S. Policy Options for North Korea*, Brookings Institution, April 2017, p. 2.

Although, from a theoretical point of view, South Korea tends to share the US position and condemn Pyongyang's actions, Seoul remains convinced that the problem must be approached differently. The immediate proximity of the border with North Korea has constantly exerted strong psychological pressure on the South Korean population, which continues to be frightened to represent the main target of Kim Jong Un's conventional weapons in case of conflict. Furthermore, part of South Korea's public opinion continues to consider the peninsula as a single nation divided due to uncontrollable historical events. For these reasons, most South Koreans consider the hypothesis of a military attack on Pyongyang as a potential mistake, which could prove fatal to Seoul. Progressive President Moon, elected on 9 May 2017, said he was in favour of the possibility to resume dialogue and was harshly attacked by Trump because of his supposed appeasement strategy[11]. Lately, however, due to the pronounced North Korean aggressiveness, he also seems to have complied with the US position of condemnation and asked for the preventive dismantling of the missile and nuclear programme. Nevertheless, in mid-September, the South Korean government decided to grant the North Korean population a donation of USD 8 million in aid (mainly basic necessities and medical supplies): the decision was strongly opposed by Washington and Tokyo[12].

Unlike the Americans, Chinese and Russians seem to be more tolerant of Pyongyang's nuclear programme, given the characteristics of the North Korean regime. Despite having signed every resolution adopted by the United Nations Security Council (UNSC), Beijing continues to play the role of North Korea's main trade ally. Therefore, China, despite the irritation for North Korean actions undermining regional stability, which is particularly important for Beijing, does not seem to be too worried, even if, as some suggest, there is the possibility

[11] https://twitter.com/realdonaldtrump/status/904309527381716992

[12] J. McCurry, "South Korea approves $8m aid package for North Korea", *The Guardian*, 21 September 2017.

that Pyongyang, if threatened or abandoned by its traditional ally, may decide to address its threats also against the People's Republic. The Chinese, fearing a possible influx of North Korean refugees in the event of conflict or, worse still, the reunification of the Korean peninsula under the aegis of Washington, continue to prefer the status quo, ignoring American demands to stop supplying oil to North Korea. Moscow, Pyongyang's second largest trading partner, has also regularly ratified sanctions against North Korea, but, like Beijing, it has always tried to mitigate the consequences for the Kim regime. Furthermore, the immense geographical distance between Pyongyang and Moscow does not create any fear for Russia in case that any instability might arise should the North Korean regime collapse or be attacked.

Any US military intervention against North Korea would have huge repercussions, irretrievably shattering the already weak regional stability. If, on the one hand, this would reassure traditional Japanese and South Korean allies about the US commitment to defend them, on the other hand, it could put a strain on the solidity of the Sino-American axis, which would depend on China's willingness to become involved in a possible conflict or to remain neutral. In any case, the Chinese could not be excluded from subsequent negotiations on the future of Korea, perhaps even counting on Moscow's support, aimed at preventing a reunified peninsula being taken "hostage" by the Americans.

Paris Climate Agreement: Historic Turning Point or Nothing but Empty Words?

Alberto Clô

The year that is coming to an end should have led to the start of the enactment of the commitments that 196 country – at the presence of 147 Heads of State and 40 thousand delegates

– solemnly signed at the United Nations Conference in Paris in December 2015, the COP21, to combat climate change. Its goal was to limit the temperature increase to 2°C or, at best, 1.5°C. The agreement represented a great political-diplomatic achievement for having reached, after years of hard clashes, a consensus in the emerging world, starting with China and India. This was the widest consensus reached in the history of international relations, despite the fact that it relies only on the goodwill of States and international naming and shaming for any failure to comply with commitments (no sanctioning measures are envisaged). The enthusiasm was (almost) unanimous. Ban Ki-moon, Secretary-General of the United Nations, official depositaries of the Agreement, described it as "a monumental triumph for people and our planet"[13]. Things, alas, didn't turn out this way. Quite the opposite. About two years later, for twelve days, from 6 to 17 November 2017, the inconclusive and pointless COP23 was held in Bonn with the participation of more than 20 thousand delegates. In the same days three reports were released by the main climate change organisations attesting that, in 2016, there was a record increase in the concentration of carbon dioxide in the atmosphere; that the remaining carbon budget to avoid the worst outcome has been further reduced; that, in 2017, the burning of fossil fuels reached a new peak; and that CO2 emissions have started to grow again after three years of stability[14]. There are two main

[13] "A great revolution for the planet. An agreement worth a century" was the comment of French President François Hollande, while German Chancellor Angela Merkel declared that the agreement "safeguards the living conditions of billions of people for the future".

[14] See United Nations Environment Programme (Unep), *The Emissions Gas Report 2017 – A UN Environment Synthesis Report*, Washington, 2017; Global Carbon Project, *Global Carbon Budget,* Canberra (Australia), November 2017; World Meteorological Organization, *Greenhouse Gas Bulletin,* 30 October 2017. Washington. The concentration in 2016 increased from 400 to 403.3 ppm compared to an average increase in the first half of the last century of 0.5 ppm, of 1.0 ppm in the second half, and of 2.5 since the 2000s.

reasons for this: first, no major decisions have been taken by the States; second, the economic recovery jumpstarted the demand for energy, and thus, emissions rose again. To sum it up: what the member states have done in the post-Paris period is nothing compared to what should have been done. Many meetings and few actions – expression of the "organised hypocrisy that characterises a large part of international relations"[15]. The European Union is not exempt from this decision-making atrophy, although it prides itself on being "the greenest of the class", as it has been ironically defined. There is no economic document from Brussels or the Member States in which the climate issue, and hence the resources to be allocated to it, is regarded as a priority over any other goal. The thousand pages of the Commission's unfulfilled proposal of a year ago, bearing the impressive title "Clean Energy for All Europeans"[16], while intended to "lead the transition to clean energy", are certainly not enough to fill a gap of action that has lasted for three years. A gap started when the old Commission, chaired by José Manuel Barroso, proposed in early 2014 a third "Energy-Climate Package" to support decarbonisation until 2030[17] – a proposal then approved by the European Council under the Italian Presidency of Matteo Renzi. Aware of its diminished international geopolitical role and mindful of the crushing defeat suffered at COP20 in Copenhagen in 2009, the Union hoped to have what it takes to play a leading role in Paris. And

[15] See O.R. Keohane and D.G. Victor, "Cooperation and Discord in Global Climate Policy", *Nature Climate Change*, no. 6, 2016, p. 570.

[16] See European Commission, *Clean Energy for All European. Unlocking Europe's Growth Potential*, Brussels, 30 November 2016. The proposals – also known as "Winter Package" – follow on from the Third Energy Package to achieve the European "energy transition" and are divided into five "guiding principles": "energy security, solidarity and trust", "internal energy market", "energy efficiency as a means to moderate the demand for energy", "decarbonisation of the economy", "research, innovation, competitiveness".

[17] See European Commission, *2030 Framework for climate and energy*, COM (2014), 15 final, 22 January 2014.

they hoped in vain, due to Volkswagen's scam in the management of anti-pollution systems for diesel cars discovered a few months earlier in the United States. Then again, how can an always-divided Europe be united on crosscutting issues such as energy and the environment, which encompass economic, industrial, and foreign policy? It depends on whether common actions that increase the possibility of reducing emissions at the lowest cost prevails over uncoordinated national interests. This was not the case. Besides, striking a balance between divergent national interests has become increasingly more difficult the more the European Union expanded: a balance, for example, between France, which produces 75% of its electricity from nuclear power, and Poland, for which coal satisfies 85% of its needs. National policies have reflected and will reflect such differences: be it the favourite energy mix; or how to redesign the electricity markets, which are broken and hard to rebuild[18]; or national gas import policies that pit Germany, bent on strengthening the links with Moscow with the construction of the Nord Stream 2 pipeline despite sanctions, against the Eastern Europe bloc unexpectedly supported by Washington. Obsessed since Reagan's times by European dependence on Russian natural gas, the United States has directly attacked the European Union with the bill approved by Congress, which strengthened sanctions against Russia by blocking orders from companies for the construction of the pipeline. An interference in European internal affairs, to which Brussels responded with deafening silence. Energy markets have become more and more a ground for confrontation between European countries, and less a free trade area. So much for the European Commission's vaunted Energy Union. European and national climate policies have been stalled by the rise of other emergencies (immigration, terrorism, Brexit, economic growth, and banking crises) and by the electoral cycles that make governments reluctant to take measures that would penalise the economy, households,

[18] See M. Keay, *Electricity markets are broken. Can they be fixed?*, Oxford Institute for Energy Studies (OIES), January 2016.

and enterprises. Even less positive news came from the other shore of the Atlantic, especially after the "Executive Order on Promoting Energy Independence and Economic Growth" issued by Donald Trump on 28 March 2017, aimed at "supporting the development of the Nation's enormous energy resources – America First was its first election slogan – eliminating regulatory constraints that hindered the production of energy, economic growth, and job creation". Hence, the repeal of the Clean Power Plan issued by Obama to reduce emissions from power plants, especially coal-fired ones[19].

The goal of the repeal is threefold: to help the United States reach full energy independence, which is now within reach; to strengthen national security by no longer relying on politically hostile countries; to cut energy costs in order to promote the competitiveness of the industry, which already today benefits from two to three times lower energy prices than Europe. Even more important, politically, is Trump's 1 June 2017 announcement in which he stated his willingness to leave or renegotiate the Paris Agreement, convinced as he was –as stated during the election campaign – that climate change is a "deception created by and for the Chinese in order to make US manufacturing non-competitive". An announcement that enraged European countries in an utterly disproportionate way for several reasons. First, because, according to Article 28 of the Agreement, the United States will have to wait three years (November 2019) before officially notifying the United Nations of their intention to withdraw, which will have to be followed by another year for the actual exit, thus close to the election campaign for the forthcoming presidential elections. Second, because there was political room to start renegotiating certain clauses of the agreement with the American administration – which was, moreover, very divided. The Rome G7 Energy in April and the Taormina G7 Summit on 26-27 May could have been a convenient occasion

[19] Obama's goal was to reduce CO_2 emissions by 26-28% compared to 2005 levels by 2025. The regulation issued by the EPA asked for a reduction of 32% by 2030.

to start a political dialogue rather than isolate the American President. Last but not least, because 2016-2017 figures confirm that America is more virtuous than Europe in reducing emissions. And this certainly does not give Europe the right to raise its voice with Washington, and even less so to Germany, which is opening lignite mines and building new coal-fired power stations. Be as it may, it is highly likely that the United States will not be able to meet its commitments, even if the substitution of coal with natural gas will continue and, with it, the emissions will go down. Europe will be even less able to do so if its economy, as it is to be hoped, will leave behind the anaemic rates experienced over the last years. Paris is increasingly distant, and that is a fact; all the more so because Washington's defection may provide other countries, especially the poor ones, with an excuse not to do their part. One figure suffices: the planned construction of 1,600 coal-fired power stations in 850 locations worldwide. If this were to happen, Paris will not be acclaimed as a historic turning point but as nothing but empty words.

5. Emerging Powers. New Room for Regional Powers?

The Limits of the Iranian Regional Power

Annalisa Perteghella

During the last few months of 2017, analysts and commentators focused on the new rise of Iran, fostered by a strategy based on the deployment of militias in Syria to support the regime of Bashar al-Assad, and in Iraq, to fight the Islamic State. In fact, Tehran's rise to the rank of regional power dates back a long time, at least to the early 2000s. The US intervention in Afghanistan in 2001, as well as removing the threat of the Sunni Taliban fundamentalist regime from Iran's eastern border, opened the door to regional cooperation between Washington and Tehran. Iran's role was established at the first international donor conference in Tokyo, when Iran, having allocated USD 560 million in five years for reconstruction, became one of the leading players in Afghan post-Taliban political life. However, it was the 2003 US intervention in Iraq that significantly altered the balance of power in the region in favour of the Iranian Islamic Republic. The overthrow of Saddam Hussein's regime – Iran's arrogant enemy – not only freed Iran from what was perhaps the main threat along its borders (as is evidenced by the long war fought by the two countries between 1980 and 1988) but it also completely undermined the mechanisms of power within the Iraqi state, opening up a dangerous wound that offered Tehran the opportunity to increase its political weight.

The Arab springs that have shaken the region since 2011 have been both a blessing and a threat to Tehran. While Iran

welcomed the revolutionary upheavals in Ben Ali's Tunisia and Mubarak's Egypt, labelling them as an "Islamic awakening" and a continuation of the Iranian Islamic revolution – the protests reaching Syria meant for Tehran the beginning of an economic and military commitment that still endures. For Tehran, Assad's Syria has in fact represented the only Arab ally in the region since 1979. From a geopolitical point of view, the Syrian territory confers to Tehran the kind of "strategic depth" needed to protect the economic and military supply channels towards the Lebanese Shia movement Hezbollah, which in turn is key to keep up the pressure on the enemy, Israel. The spread of the Islamic State group in the territories between Syria and Iraq pushed Tehran to extend its intervention to neighbouring Iraq. The Iranian presence in Iraq is marked by the sending of military advisers, financing, and men from the al-Qods brigades (the training in charge of military operations abroad, lead by the famous general Qasem Suleimani). Furthermore, Tehran plays an active role through the command of the numerous militias gathered in the PMU (Popular Mobilisation Unit) fighting alongside the Iraqi regular army.

The military intervention in Syria predates the election of Rouhani – which took place in 2013, while the intervention started in 2011 – while the one in Iraq started in 2014, during Rouhani's first mandate. In practice, however, the identity and political orientation of the President does not represent a decisive variable: military operations, in fact, are under the domain of the Iranian "deep state" made up of military and religious conservatives.

That said, President Rouhani and his executive actually fostered the Iranian rise to the rank of regional power, not only militarily but also, and above all, economically, politically, and in terms of soft power.

The mix of strong political credentials, high international reputation, and a strong popular mandate has endowed Rouhani with a huge political capital. From the early days of his election, Rouhani has drawn up a rather ambitious foreign

policy reform plan to present Iran as a responsible and moderate regional power. This plan consisted of three pillars: economic reconstruction after years of sanctions and irresponsible management of public affairs, resolution of the nuclear issue, and an end to international isolation. The same three pillars were restated by Foreign Minister Javad Zarif in a historic article published in June 2014 in the US journal *Foreign Affairs*; an article considered the foreign policy manifesto of the Rouhani era[1].

Economic reconstruction

The main priority of the Rouhani government is to rebuild the economy. To do this, it was necessary not only to free the country from international sanctions but, first and foremost, to free it from the reputation as the international system's pariah. The resolution of the nuclear issue has partly contributed to this, by removing a large part of the sanctions that were crushing the country's economy. At the same time, President Rouhani's and Foreign Minister Zarif's diplomatic openness has helped to free the country from the appalling international reputation. In addition to the renewed opening to Europe – partly, however, still blocked by the persistence of the primary US sanctions – the exposure of the country to the east has been strongly boosted. The main example is the signing of a Memorandum of Understanding with India in May 2015 for the exploitation of the Iranian port of Chabahar.

The signing of international economic agreements with European and Asian partners must not, however, detract from the structural problems that still affect the Iranian economy and prevent its full transformation into a regional economic giant such as, for instance, Turkey. Widespread corruption, patronage, and personal rents are the main targets of the reforming action of President Rouhani; an action that clashes, however, with the decisive responses of those who manage these rents, especially

[1] M.J.Zarif, "What Iran Really Wants", *Foreign Affairs*, vol. 93, no. 3, 2014.

Pasdaran and religious conservatives. The square protests that shook the country between 28 December 2017 and 4 January 2018 were an example of this internal clash. Born out of the deep social and economic malaise of the middle-low classes, the protests were immediately exploited by the ultra-radical faction in order to get the government of Hassan Rouhani in trouble. The latter, on the other hand, skilfully overturned the narrative of ultra-radicals, declaring the demands of the protesters "legitimate" and "worthy of listening".

The nuclear issue

Since the early 2000s, the nuclear issue has been the main obstacle to dialogue with Iran and to its full transformation into a regional partner, despite the numerous crises that have affected the region since 2001, all somehow requiring a dialogue with Tehran. The sequence of sanctions imposed by the United States, the European Union, and the United Nations has hit the Iranian economy hard, especially the oil embargo introduced in 2012, which has wiped out the revenues of an economy strongly based on oil rents. At the same time, Teheran's nuclear policy combined with the blatant statements of President Ahmadinejad, elected in 2005 and reconfirmed in 2009, have contributed to undermine the country's international reputation. It is against this background that it is possible to understand the importance of the Joint Comprehensive Plan of Action (JCPOA) reached between Iran and the countries of the P5+1 group (United States, Russia, China, France, United Kingdom, and Germany) in July 2015 in Vienna. The JCPOA allowed Iran the access to the international system from which it had been largely excluded; on the one hand, thanks to the positive economic effects of the lifting of sanctions; on the other hand, due to the marked improvement in terms of reputation. Iran is finally perceived as a country that can fulfil its obligations. However, a great deal remains to be accomplished, and this time it is not because of the power games within the Islamic Republic. The main threat to the resilience of the JCPOA is in

fact currently represented by an external power, Trump's United States, which seems to have put the nuclear agreement in a state of perennial emergency, triggering diplomatic crises every time the US President is called upon to renew the waivers on sanctions (every six months).

The end of international isolation

Regional and international re-engagement are strongly linked and interdependent with the two aforementioned pillars of the Rouhani Executive's foreign policy action. Strengthened by the end of the nuclear crisis and the release of economic resources thanks to the resumption of oil exports, Iran has devoted considerable efforts to rebuild international relations worsened during the Ahmadinejad's era. In what has been defined as a "charm offensive", President Rouhani and Foreign Minister Zarif undertook official tours and state visits to European and Asian countries, thus boasting an unprecedented diplomatic activism. Again, however, Rouhani's "charm offensive" was counterbalanced by the counteroffensive of a number of regional and international actors that did not welcome Iran's "comeback" to the region. Since the election of Donald Trump as President of the United States, there has been a tactical alliance between the United States, Saudi Arabia, and Israel aimed at counteracting the rise of Iran, with clear destabilising effects on the whole region.

In conclusion, Rouhani's Iran can be called both an international medium power and a regional power. However, the full deployment of this power is hindered by a number of obstacles both intrinsic within the Islamic Republic – such as the power struggles between the ruling class, amplified by the imminent succession to the supreme leader Ali Khamenei – and external ones, such as the counteroffensive launched by the United States, Saudi Arabia, and Israel.

The Interventionist Foreign Policy of Saudi Arabia

Eleonora Ardemagni

As of now Saudi Arabia, led by the ambitious crown prince Mohammed bin Salman Al Saud, is a medium international power and a member of the G20. In recent years, as a result of the trend towards the regionalisation of security, Riyadh acquired the status and role[2] of great power in the Middle East, which is now coming to the fore due to an interventionist foreign policy. Saudi Arabia's shift from medium to great power in the contemporary Middle East, favoured by the second oil boom in the early 2000s, has allowed the Saudis (and in part the other Gulf monarchies) to realign their geopolitical stature with their economic and financial status. However, the unchanged hierarchy of relations in the Gulf Cooperation Council (GCC) has exacerbated divergences and conflicts, crystallised internal roles, and returned a neo-patriarchal image of Saudi leadership within the Gulf.

The link between rents and interventionism

At the beginning of the new millennium, the growth in hydrocarbon rents enabled Saudi Arabia to bridge the gap between financial and geopolitical status. Through rents, the Saudis consolidated and broadened their influence in the Arab and/or Muslim world, strengthening their usual co-optation and patronage strategies, also on a transnational basis. In the context of the 2010-11 Arab revolts (*thawrat*; Egypt, Tunisia, Libya, and Syria), this indirect foreign policy has become the instrument of counter-revolution promoted by Saudi Arabia in the quadrant. Therefore, rents in their strategic sense[3] have strengthened the

[2] On status (position) and role (expected behaviour) see, R. Brown, *Group Processes: Dynamics Within and Between Groups*, Wiley-Blackwell, 1988, chapter 3.

[3] Development aid, military aid, grants, C. J. Jenkins, K. Meyer, M.J. Costello and

ability of Saudis to influence actors and events in the Middle East: this has fuelled Riyadh's ambitions, bolstering its role in the Middle East. However, patronage could no longer satisfy, by itself, its regional hegemony goals, exacerbated by competition with the Iranian rival. The reaction to the *thawrat* and the "Middle Eastern Cold War" between Saudis and Iranians is the main cause of the new, assertive and interventionist foreign policy of the Wahhabi kingdom; the other cause is the progressive disengagement of the United States from the Middle East scenario, which began with the "leading from behind" strategy of Barack Obama's presidency and strengthened – in its actions, in its inactions, and in its narrative – with Donald Trump's mandate. The Saudi regional interventionism, as well as that of the United Arab Emirates, began with the repression of the protests in Bahrain (March 2011), was confirmed with the UAE's bombings in Libya (August 2014), and culminated in the military intervention in Yemen (March 2015), that is, the first land operation by Riyadh and Abu Dhabi (as well as by the neighbouring Qatar, Kuwait, and Bahrain) at the end of the year. Saudi Arabia is the religious-cultural lighthouse of Sunni Islam and hosts the Islamic holy cities of Mecca and Medina (of which the Al-Saud are the custodians). However, Saudi foreign policy, traditionally characterised by the preservation of regional balances, has for a long time been characterised by the lack of direct regional involvement, as well as by the lack of recourse to military instruments. Now, Riyadh continues along a double-track of foreign policy, thus combining patronage and interventionism, or rather tradition and innovation, in the outer position of the kingdom.

H. Aly, "International Rentierism in the Middle East, 1971-2008", *International Areas Study Review*, vol. 14, 2011; E. Ardemagni, "The Yemeni Factor in the Saudi Arabia-Sudan Realignment", *Arab Gulf States Institute in Washington*, The Bridge Blog, 12 April 2016.

Maritime projection and defence industry

The new regional role of Saudi Arabia and the United Arab Emirates is also highlighted by their growing maritime projection[4], which follows three routes: geopolitics of the ports (Dhiba, Jedda, Yanbu, Jizan, King Abdullah Port, and the co-founded Gwadar in Pakistan for the Saudis, the "string of ports strategy" of the Emirates between Yemen and the Horn of Africa), access/construction of military bases abroad (Saudi Arabia in Djibouti, United Arab Emirates in Eritrea and Somaliland), and control of choke-points (Bab el-Mandeb, Gulf of Aqaba). In this context, Riyadh focuses on the Red Sea, while Abu Dhabi focuses on the Gulf of Aden and the Indian Ocean. The centrality of the military-geostrategic factor in foreign policy is also an opportunity for economic diversification, within the framework of the post-oil strategy undertaken by Abu Dhabi and now by Riyadh with "Vision 2030". The national defence industry and the security sector are potential targets for private investors and job creation[5]. "Vision 2030" aims at relocating domestically 50% of defence expenditure by 2030 (it now amounts to 2%): this bold goal, which requires long-term investments in training local expertise, will have an impact on defence mega-contracts (leading to the overcoming of indirect offsets and the valorisation of direct ones). The military-industrial complex of the United Arab Emirates is now a reality, while Saudi Arabia is still taking its first steps[6]. From this perspective, Riyadh's new geopolitical status, which is also the result of its preeminent regional role, strengthens its economic status, coupling its rents with alternative financial revenues.

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[4] T. Karasik and J. Vaughan, "Middle East Maritime Security. The Growing Role of Regional and Extraregional Navies", *Washington Institute for Near East Policy*, Policy Notes 41, 2017; E. Ardemagni, "The Horn of Africa's Growing Importance to the U.A.E.", *Middle East Institute*, 25 April 2017.

[5] K. Young and M. Elleman, "Unlocking Growth: How the Gulf Security Sector Can Lead Economic Diversification", *The Arab Gulf States Institute in Washington-UAE Security Forum*, 6 December 2017.

[6] F. Gaub and Z.S. Lockman, *Defence Industries in Arab states: players and strategies*, EUISS Chaillot Paper no.141, March 2017.

New status, old roles. The Saudis and the GCC crisis

The Gulf monarchies' growth in financial and geopolitical status has not upset the hierarchy of intra-GCC relations, nor has it recalibrated the type of leadership adopted by Saudi Arabia. The UAE and Qatar can no longer be considered "small states": they have become "influential regional actors"[7], capable of drafting recognizable and rival foreign policies based on "soft power" (Doha) and "hard power" (Abu Dhabi). The GCC member countries grow both in status and role, but Riyadh's approach to leadership remains neo-patriarchal[8], thus widening the gap between actual status and permitted roles. This dynamic can be seen at work in the political-diplomatic crisis between Saudis and Qataris (2014 and 2017) when Doha publicly challenged Saudi Arabia's way of exercising leadership. When power and role go "out of sync"[9], the risk of criticality and conflict within the system increases: the implications outlined by the power cycle theory are well visible in current GCC relationships. Among the Gulf monarchies, the trend toward rebalancing Saudi hegemony is on the rise: from "containment" (by the mediator Kuwait and the operational autonomy of the Emirates in southern Yemen) to outright "opposition" (the "rebellious" Qatar), or indirect "opposition" (Oman with its reclaimed "third way"), with an ensuing emphasis on national peculiarities. Only the small and confessionally-unbalanced Bahrain (70% Shiites, 30% Sunnis) has a purely subordinate approach to Riyadh policies (bandwagoning). The new

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[7] I. Hassan, Research Initiative "Middle Power Politics in the Middle East Working Group I", Community Outreach, Center for International and Regional Studies, The Georgetown University in Qatar, 2017.

[8] H. Sharabi, *Neopatriarchy: A Theory of Distorted Change in Arab Society*, Oxford, Oxford University Press, 1988.

[9] F. Andreatta and M. Clementi, "Equilibrio di potenza"; V.E. Parsi, "Egemonia", in F. Andreatta, M. Clementi, A. Colombo, M. Koenig-Archibugi and V.E. Parsi, *Relazioni Internazionali*, Bologna, Il Mulino, 2007, chapters 2 - 3; C.F. Doran, *The Politics of Assimilation: Hegemony and its Aftermath*, Baltimore, John Hopkins University Press, 1971.

activism, including in the military field, of Saudi Arabia's foreign policy goes hand in hand with the deep crisis of the GCC, never so far from being a "security community"[10], in the light of the politically failed boycott of Qatar.

The Saudi-Emirati diarchy, sealed by the recent announcement of the creation of a political-military coordination between the two countries[11], formalizes the preeminent regional role of Riyadh and Abu Dhabi, with geopolitical consequences yet to be seen.

Turkey: Rise and Fall of a Medium Regional Power

Valeria Talbot

Over the last year, Turkey has emerged as one of the most active regional actors in trying to redefine the Middle Eastern balance in a setting dominated by the progressive retreat of the Islamic State. Ankara has been among the main actors in the complex game of alliances – in some cases more tactical than strategic – and rivalries characterising a region undergoing a profound transformation. However, Turkey's role does not automatically translate into recognition as a regional power; rather, its activism can be seen as an attempt to get out of the isolation in which the country has found itself due both to the deterioration of the regional context, particularly after the outbreak of the Syrian crisis, and to poorly thought-out foreign policy choices. The country has thus found itself increasingly bogged down in the chaos of the Middle East, with serious repercussions on its stability and internal security.

[10] Karl W. Deutsch et al., *Political Community and the North Atlantic Area. International Organization in the Light of Historical Experience*, Princeton, Princeton University Press, 1957.

[11] https://www.ft.com/content/e0e6ce2b-c5aa-3b56-a7cd-9e4e0b619909

Yet, for more than a decade, from 2002 onwards, Recep Tayyip Erdoğan's Turkey has been described as a "success story" and included in the rank of emerging regional powers. This was due to the timely combination of political stability, internal reforms, and sustained economic growth, which in ten years have tripled Turkey's GDP, together with the start of the negotiation to enter the European Union, and a renewed assertiveness in foreign policy.

The Middle East has represented the main theatre of Turkish dynamism. Such a dynamism was favoured by several factors: the opening of new room for manoeuvre due to the power vacuum in Iraq following the Anglo-American invasion in 2003; the convergence with Iran in blocking the independence of the Iraqi Kurds; and the need to promote stability in a turbulent region in order to guarantee domestic security and stability. Furthermore, an increasingly export-oriented economy, along with active stakeholders and entrepreneurs, played an important role in shaping Turkey's external influence.

Turkish pragmatism in foreign policy, dictated by specific geostrategic, economic, and security interests (including energy), has been summarised in the theoretical framework of the doctrine of "strategic depth" developed in 2001 by Ahmet Davutoğlu. At the time, Davutoğlu was Erdoğan's Foreign Policy Adviser. He then took up his post as Foreign Minister in 2009 and became Prime Minister from 2014 until his resignation in spring 2016, as a result of a sharp deterioration in relations with the President.

The "strategic depth" doctrine led Turkey to diversify its external action across multiple regional contexts. In those years, however, the Middle East was the privileged terrain of Turkish "zero problems with neighbours" policy, with Ankara attempting – albeit with modest results – to play a stabilising, impartial, and mediating role in multiple regional crises, ranging from the Israeli-Palestinian conflict to Iran's nuclear issue. By exerting its soft power, of which the economic dimension is a key component, Turkey has gradually gained unprecedented regional

prestige. At the same time – thanks to a combination of factors, including Erdoğan's open support for the Palestinian cause – Turkey's perception in Arab countries has changed. Until then the country was exclusively viewed through the prism of its past as an ancient Ottoman ruler,.

It is in this context that, at the outbreak of the Arab Springs in 2011, Turkey was designated as a "model" – being a democracy led by an Islamic-inspired government and due to its mix of political stability, economic growth, and regional assertiveness – for the countries in which a political transition phase had begun following the overthrow of the old autocrats. However, the apex of the ascending parable of the Turkish success story in the first phase of the Arab Spring coincided with the beginning of the "Turkish model" decline.

Ankara's ambition to become the pivot of the Middle East system and its regional integration project has been broken by the outbreak of conflict in Syria and Turkey's progressive involvement in the crisis on its southern border. The Syrian crisis emphasised the limits of Ankara's "zero problems with neighbours" policy, of its influence and soft power, whose cultural affinity with the Arab world had been overestimated, as well as of the idea that a Turkish leadership could be well received by its Arab neighbours. At the same time, Turkey's gradual illiberal and authoritarian internal turnaround has also contributed to undermining the image of a country that had made the ability to combine its Islamic identity with democratic reforms one of its assets. It seems difficult, especially in view of the harsh internal repression following the failed coup d'état, for Turkey to resume the path of democratic reforms, which had instead characterised the first years of government of the Justice and Development Party (AKP). Today, the securitarian approach in Erdoğan's Turkey tends to prevail both domestically and externally.

In recent years, Ankara's Middle East policy has mainly had four goals: to overthrow the Bashar al-Assad regime; to contain the autonomous aspirations of the Syrian Kurds; to support

groups affiliated with the Muslim Brotherhood; and, last but not least, to get out of regional isolation and carve out a role in the redefinition of the post-Islamic Middle East. While Turkish convergence with Russia and Iran in the Astana process to resolve the Syrian crisis in 2017 led Ankara to adopt a more conciliatory position on the future of the Syrian President, Turkey remained firm in its goal of preventing Kurdish autonomy in northern Syria, fearing that this could act as a catalyst for the separatist aspirations of the Turkish Kurds. The Kurdish issue is therefore crucial to understand Ankara's moves and policy not only in Syria but also in the wider regional scenario in the short and medium term.

Transformations in the Middle East and political shocks within the country, together with a slowdown in the Turkish economy, which is now showing its frailties, have in fact downsised Turkey's ambitions for regional leadership. Nevertheless, Turkey remains one of the key players in the Middle East.

Japan: A Regional and Global Actor? Not Now and Not Like This

Axel Berkofsky

Japanese regional leadership. Three words that are not very often used in the same sentence, at least not in 2017 and in the Japan governed by Prime Minister Shinzo Abe. Be it due Abe's self-imposed obsession to revise the country's pacifist Constitution, the resources he had to invest into defending himself against (serious and well-founded) accusations of bad old Japanese-style cronyism, or his counterproductive closeness to an unpredictable US President, Japan has not proven itself up to task of exerting regional, political, and security leadership.

Indeed, Abe's political rhetoric on Japan's alleged political leadership role has a (very) long way to go to match East Asia's

political and security realities. As it turned out (unsurprisingly), following the lead of the completely erratic US regional foreign and security policies has not helped the Japanese Prime Minister to exert a regional leadership role, and this could not have been more obvious in the way Abe and Trump handled and indeed mishandled North Korea. Thanks to Abe agreeing with Trump that threats to pre-emptively bomb North Korea while excluding any attempts to seek to engage Pyongyang in any sort of dialogue is a coherent and sustainable policy, Pyongyang continues to develop its missile and nuclear programmes undeterred. Furthermore, Abe has put his refusal to talk to Pyongyang on paper in a *New York Times* op-ed in mid-September 2017[12] and then, in December, announced the deployment of long-range offensive missiles able to strike North Korea. Deploying offensive missiles will further undermine and de facto end what in Japan since the mid-1950s are referred to as 'strictly defence-oriented' security and defence policies. This policies – at least so far – categorically excluded the purchase and deployment of offensive military capabilities such as the air-launched cruise missile with a range of 900 kilometres Tokyo is planning to deploy in 2018.

When Donald Trump announced he would end US membership in the interregional multilateral free trade agreement Transpacific Partnership (TPP) in January 2017, Japan did not utter a word of criticism towards Washington and did not invest nearly enough resources and political capital into keeping the agreement alive, from which Japan's regional and inter-regional trade ties could have profited enormously. When, in the second half of 2017, Tokyo decided to consider resuming attempts to ratify the TPP without the US, such attempts were anything but decisive, were not followed up sustainably, and consequently did not lead to any results whatsoever.

Tokyo, somehow, seems to resemble an emerging regional and global middle power, which hinders itself from actually emerging

[12] Shinzo Abe, "Solidarity Against the North Korean Threat", *New York Times*, 17 settembre 2017.

by bandwagoning with ill-fated US policies in and beyond the region. While former US President Barack Obama pursued the expansion of US economic, political, and security involvement in the Asia-Pacific region through leadership of the above-mentioned TPP and the promotion of bilateral and multilateral defence ties in the region, Trump limits himself to wanting to put 'America first' – in Asia and indeed everywhere else, as Trump's noisy megaphone diplomacy seems to indicate. Not at all a good basis for what Tokyo under Abe has in the past wanted to establish and lead in East and Southeast Asia: a so-called 'arch of democracy' and a group of like-minded democratic countries keeping China's economic and military rise in check. Washington under Trump has clearly fallen out of this group, and other democracies or semi-democracies in East, Southeast, and South Asia are arguably more committed to join such a Japanese-driven policy during bilateral summits than in reality and on the ground.

To be sure, official statements and declarations between Tokyo and various more or less like-minded countries in and beyond East Asia sought to give a very different impression in 2017. During a number of official encounters with Australia, India, and a number of Southeast Asian countries, Japan portrayed itself as a country prepared to complement its bilateral security and defence with Washington with bilateral or multilateral ties in East, Southeast, and South Asia. The strengthening of political and security ties with the geographically (very) distant India, in particular, has been of great importance to Japan in 2017. Tokyo and New Delhi – united in their concerns about China's economic and military rise and the non-participation in Beijing's "One Belt One Road Initiative" – have, during their bilateral exchanges in 2017, announced an increase in cooperation and exchanges. Japanese-Indian declarations to do more together in regional politics and security gained further importance when, in October 2017, US Secretary of State Rex Tillerson expanded the geographical area in which Washington and its allies will cooperate from the "Asia-Pacific" to the "Indo-Pacific" region. This concept is meant to include

India in the group of like-minded powers willing to counter the rising Chinese influence in the geographically extended Indo-Pacific region. Tokyo immediately endorsed the Indo-Pacific region concept and declared India to be Japan's new partner of choice. However, it is difficult to foresee how the geographically distant India can effectively contribute to Japan's immediate security needs in East Asia, as high-sounding bilateral declarations have yet to be followed up by concrete and on the ground action. The same is true for Japanese security and defence ties with Australia. While during bilateral official encounters Tokyo and Canberra announced the expansion of security and defence ties, the impact of Japanese-Australian security and defence ties and cooperation on Asian ground is yet very limited.

Various Southeast Asian countries too have been the target of Tokyo's charm offensive and attempts to involve and unite them in Japan's strategy to limit and deter Chinese military rise and its very assertive policies related to disputed Asian territorial waters. However, many Southeast Asian countries – due to Chinese economic retaliation tactics such as boycotting imports – are not prepared to get involved in Japanese-led zero-sum balance power politics. Furthermore, Tokyo is no longer doing what it has done best over decades in Southeast Asia: using its financial and economic might to increase its influence and leverage in the region as opposed to attempts to establish security and defence ties with countries whose trade and commercial ties with China are too significant to be put at risk over Japanese-led China containment policies.

In sum, the Japanese idea of turning Japan into what policymaking circles refer to as a "consequential actor" in the Asia-Pacific and the promoter of an "entente cordiale" of cooperative dialogues and cooperation with like-minded countries with convergent interests in the Indo-Pacific region might remain just that: an idea, as opposed to the reality of Japanese security and defence policies in 2018 and beyond.

6. Armed Groups, Governance and the Future of the Middle East

Ranj Alaaldin

Since 2011, the Arab world has undergone radical changes. Sovereignty has become increasingly challenged while state institutions have weakened or collapsed. Changes at the domestic and regional level have created conditions conducive to the ascendancy of violent non-state actors (VNSAs) or armed non-state actors (ANSAs) that have undermined state institutions, fragmented authority, and pushed ideological, regional, or secessionist agendas. In 2014, the so-called Islamic State even declared the end of the nation-state system established a century ago in the Middle East. At the international level, policy-makers are uncertain about how to respond to these challenges to statehood and sovereignty and, more urgently, how to promote stabilisation and reconstruction efforts amid growing economic dislocation and humanitarian crises.

Whether in Latin America, in Colombia and Venezuela, in Afghanistan, or in the Middle East, armed groups have a complicated and multi-faceted relationship with the State and society and can range from profit-oriented criminal groups, smugglers, and tribes, to ideological, regional socio-political movements, paramilitaries, militias, insurgents, and secessionist movements. Scholars and policy-makers have coined various terms to describe areas where the state has either partly or entirely collapsed, referring to these as failed states, fragmented states, or divided states and societies. The areas controlled or dominated by armed groups have been described as "ungoverned spaces".

This paper aims at elucidating the interplay between ANSAs and the state and society, examining in the process the

interactions these actors have had with other ideologies and movements, pursuant to their efforts to acquire support and resources. It contributes to the debate by attempting to redefine the current understanding that treats ANSAs as criminals, proxies, or warlords that function in governance vacuums. It disaggregates elements of stateness but does not make assumptions that just because ANSAs are not states, they are anti-state. It looks at how the different forms of alternative authorities and political orders within existing states enables or disables the space in which terrorist groups, criminals, and other ANSAs can function. Looking at how they perceive, interact, and overlap with the state, it focuses on how these actors perceive themselves, their role, and their status in the state/non-state dichotomy. Further, it studies whether these actors and the state can mutually reinforce one another and the extent to which the state, which still retains the imprimatur of international norms of sovereignty and has the legal system on its side, can improve the behaviour of violent non-state actors. It analyses the extent to which they see the state as the legitimate forbearer of violence and public goods or whether they envisage radically different infrastructures.

The Arab State

In the Middle East and North Africa region, history has generally been kind to the Arab state: since the Westphalian nation-state system was established from the ruins of the Ottoman empire in the early XX century, the international system has resisted any challenges to sovereignty, as well as attempts to disrupt territorial boundaries and the delicate balance of power in the region. Resource-rich governments aligned with and propped up by the West were also equipped with immense oil-wealth and resource-rich armed forces. Rag-tag armed groups – but even the most sophisticated and organised of armed groups – were no match for the security institutions that were at the disposal of regional governments. This regional order was seemingly

impermeable, particularly with the advent of Nasserism and the toppling of monarchies in Iraq, Syria, Yemen, and Libya. But it was soon beset with cracks in the 1940s and 1950s when anti-colonial sentiments coupled with a rise in Arab nationalism, economic injustice, and failures in governance, as well as the Arab-Israeli conflict.

The 1970s brought further uncertainty and volatility in the region with the rise of political Islam and the 1979 Iranian revolution. Politics and security in the region were transformed with the emergence of a Shiite theocracy in Iran and the subsequent eight-year Iran-Iraq war in the 1980s. Despite their far-reaching impact, the Iran-Iraq war, Baath Party-controlled Iraq's invasion of Kuwait, and the first Gulf War, the Arab state remained resilient, serious political and economic challenges notwithstanding. For a while, it seemed as though the regional system would remain intact, despite the destabilising consequences of the 2003 invasion of Iraq. For almost a decade, Iraq's sectarian conflict, the ascendancy of militant groups like Al-Qaeda in Iraq (the previous incarnation of the so-called Islamic State), militant Arab Sunni insurgents, and a plethora of Shiite militia groups were confined within the borders of Iraq. Moreover, the autonomy of the Kurdistan Regional Government (KRG) and its relative political and economic success did not provide the opportunity structures for similar Kurdish autonomous or quasi-independent regions to emerge in Turkey, Iran, and Syria.

Yet, with the advent of the Arab uprisings in 2011, the political and territorial configurations of the region have been cataclysmically disrupted. The fragility of the state and sectarian conflicts, as experienced in Iraq, replicated across the region. State institutions collapsed, and it is now uncertain whether statehood can ever be rehabilitated as sub-national identities based on ethnicity and religion continue to thrive in uncontested and ungoverned spaces. This is not to suggest that the entire MENA region has suffered the same fate but, rather, that the transnational element of conflict in the region has led to

multiple ungoverned spaces in which armed groups that have little respect for human rights and international norms have become powerful mobilisers of people and resources and have replaced the elites as the administrators of territory. With support from regional patrons, these transnational actors have become the providers of services and security and their networks extend across the region, rendering meaningless its once resilient and impermeable boundaries.

The region does not have a sectarian or religious problem but a governance problem; elites have, for decades, lacked vision and capacity to move their respective countries forward, despite having a large youth population, natural resources, and access to international markets. The threat of transnational terrorism, the prominence of sectarian or identity politics, and proxy war may not have been driven or fuelled by factors outside the control of decision-makers; it is to governance and the politics of elites that these problems can be attributed to.

There are practical implications to the ascendancy of armed non-state actors or the administration of territory by armed groups that function outside the boundaries of the state. Businesses wanting to capitalise on the commercial opportunities in the region, governments looking to resolve matters of national security, and humanitarian organisations looking to reach beleaguered communities may no longer be able to achieve their goals simply by engaging with the elites of Baghdad, Damascus, or other capitals. As has increasingly been the case in conflict zones such as Iraq and Syria, where governments and organisations have sought to resolve crises involving their subjects, it is the militias, tribes, and religious leaders that dominate on the ground whom they have often had to engage and negotiate with. This is not novel, but it is increasingly becoming the norm.

It is, however, implausible to simply attribute the phenomenon of armed groups engaged in the practice of governance and state building, as elaborated on further below, to crises and conflicts in the Middle East. There is a global context that has

arguably had as much to say about the current crisis of authority in the Arab world. While, historically, sovereignty has been underpinned by both the question of recognition, where states recognise each other, and by the principle that states do not violate one another's territory or interfere in matters of internal affairs (Westphalian sovereignty), these principles and units of international affairs have suffered a decline since the end of the Cold War, allowing for a weakening of centralised authority and, with that, the territorial state. The September 11 attacks, in particular, paved the way for an international order that applied a looser interpretation and application of the laws governing the use of force, one that sought to reconcile the international system with the modern day challenges of transnational terrorism and ungoverned spaces. With that, came a shake-up of international norms and state sovereignty. Western-led interventions in Kosovo and Iraq paved the way for a weakening of the international system, in large part because these interventions undermined the principles of sovereignty and enabled an environment that allowed other world powers such as Russia to pursue its own interests under the guise of the same, albeit at times justified, legal and normative arguments presented by the West, as exemplified by Russia's interventions in South Ossetia and, later, in Syria, during the ongoing civil war.

The multipolar international order, combined with a weakening of the rules governing inter-state relations, has put into question whether the Westphalian nation-state is still relevant today, despite the accusations of policymakers all over the world. Moreover, this question comes amid the advent of globalisation, which has allowed armed groups in particular to amplify their capacity to mobilise people and resources and, therefore, to confront the state. Armed groups can operate transnationally and with little regard for the once-restrictive territorial boundaries of the state.

The issue

On the surface, the transformation of militia heads and armed groups into the administrators of a state, groups who have little regard for international norms and human rights and whose making is religious conflicts, is not an ideal formula for good governance. At the same time, the orthodox approach to combating groups like the so-called Islamic State, Shiite militia groups, or Kurdish secessionists in Syria and Turkey, is no longer plausible. On its own, investing billions of dollars in capacity building and institution-building processes or the security sector reform will no longer yield the necessary dividends. Violent non-state actors are often battling for the state and the resources that are thrown its way from the international community, as much as they are with their rivals. Indeed, international resources often end up in the hands of those with guns and money. The international system needs to become more flexible so that it takes account of, and supports, the groups that are willing to embrace international norms and whose longevity is not dependent on ethnic and sectarian tensions.

The question that this paper argues is fundamental to resolving the issue at hand is, in fact, a response to a question itself; namely, that we should not ask whether the regional architecture is sustainable but, rather, whether it is possible to establish a new equilibrium and regional order from the recently emerged configuration of non/para-statal actors and whether these actors are capable of working constructively with the remnants of the old states. There is plenty in the existing literature to suggest that this is in fact possible. ANSAs are not necessarily anti-state just because they are non-state and the prominence of ANSAs does not necessarily lead to state failure. Groups ranging from those in Southeast Asia to the Middle East, emerge and function not necessarily because of state failure but because of historical animosities, long-term oppression, perceptions of injustices, and denial of rights. Furthermore, existing studies also show non-state violence cannot always be attributed to state

failure as reliance on non-state violence has been a common form of military development in states where decentralised institutions of violence have been a response to changes in the regional and international system[1]. It is not only conflicts that shape the interactions between armed groups and the state and society but dialogue. These actors do not necessarily emerge from conflict and power-vacuums but are ingrained in the communities and environments they operate in as a result of interactions that have developed over prolonged periods. These contentions come from existing studies that posit the analysis of armed groups should not be confined to their interactions with their host states but also society, other movements, and other ideologies[2]. Moreover, local communities and civilians have agency in conflict zones and can help nudge armed groups into adopting certain behaviours, policies, and international norms[3].

Contrary to the popular understanding of armed groups, their origins can go as far back as the state-building process that unfolded in Europe during the Middle Ages, when citizens were called upon to collectively defend the realm[4]. As Tilly points out, these so-called "citizen militias" enabled the creation of protection rackets that saw civilians pay for protection against external threats but also against abuse and intimidation from the militias themselves. As these rackets became more formalised, they served as the basis for the creation of state

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[1] A. Ahram, *Proxy Warriors: The Rise and Fall of State-Sponsored Militias*, Palo Alto, CA, Stanford University Press, 2013.

[2] "Beyond Arabism vs. sovereignty: relocating ideas in the international relations of the Middle East", *Review of International Studies*, vol. 38, no. 4, October 2012; Y. Voller, *The Kurdish Liberation Movement in Iraq: From Insurgency to Statehood*, London, Routledge, 2014.

[3] O. Kaplan, "Nudging Armed Groups: How Civilians Transmit Norms of Protection", *Stability: International Journal of Security & Development*, 2013.

[4] For a history of the role of militias in the formation of medieval states, see J.R. Strayer, *Medieval Origins of the Modern State*, Princeton, NJ, Princeton University Press, 1970.

institutions: the dues became "taxes", and the militias eventually became standing armies[5]. American militias also played a crucial role in the formation of state institutions. Militias were the first to fight for independence at Lexington and Concord, were frequently called upon to supplement the Continental Army, and were used to suppress counter-revolutionary efforts[6]. The legacy of these militias remains in the National Guard and Reserve components of the US military who, ironically, played an outsized role in combat against Iraqi militias after the 2003 toppling of the Baath regime.

Militias and armed groups may have caught international attention in recent years with the advent of the Arab uprisings and the so-called Islamic State, but their prominence really started after decolonisation and the emergence of an international system that was dominated by fragile or weak states. Civil wars have emerged as a common feature of this international system, particularly since the Second World War. Super-power politics during the Cold War spawned a militia phenomenon as willing proxies were afforded immense resources in the battle for global dominance. Yet, the post-Cold War international system was not revised or shifted to account for the armed groups that, in the absence of the patronage they were afforded by international powers, would become powerful actors in their own right, autonomous from their patrons, the state-system and oblivious to international norms. Their unaccountability yet capacity to function independently and in informal, criminalised economics only exacerbated the decay of the state, particularly in countries that had emerged from colonialism with fragile or weak states.

Any scholar that has studied contemporary militias and armed groups in places, among others, like Afghanistan, Iraq, and Somalia over the past two decades will be painfully aware

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[5] C. Tilly, "War Making and State Making as Organized Crime" in P.Evans, D. Rueschemeyer, and T. Skocpol (Eds.), *Bringing the State Back In*, Cambridge, Cambridge University Press, 1985.

[6] C. Thurber, "Militias as sociopolitical movements: Lessons from Iraq's armed Shia groups", *Small Wars & Insurgencies*, vol. 25, no. 5-6, 2014.

of the defining features of their interactions with the state and society. The process and environment that enable armed groups do not take very long to emerge but, once established, they can be very difficult to dislodge. Even attempting to do so can result in the proliferation of armed groups, particularly where there are external powers involved in the conflict whose own vested interests adds to their resilience. Marshaling a sufficiently comprehensive response to state collapse, civil conflict, ethnosectarian disintegration, and the process of cascading failures and crises that follows, from the political to the humanitarian, leaves policymakers with tough, inherently uncertain, and risky policy choices. The self-perpetuating cycle that sustains the environment in which armed groups thrive ultimately leaves no option but to either work with these groups or integrate them into the political system.

As the US experience in Iraq, Libya, and Afghanistan, among others, shows state-building has afforded armed groups insufficient appreciation, and there is often limited understanding of groups that may potentially constitute spoilers of peace and stability but that, at the same time, have far-reaching popular support and resources. While the conventional approach to state-building and stabilisation efforts has centred around peace and governance, whose interaction and overlap means they reinforce one another, this does not take account of situations where the state is either already collapsed or where it has been severely weakened.

Notwithstanding the fact that the state and the central government becomes weaker as these groups become stronger, what the general approach to post-conflict, state-building exercises has afforded insufficient energy to is the legacy of pre-war governance. For example, rebuilding the Iraqi state has become a conflict-producing exercise but much of the infrastructure that allowed for militias to emerge and thrive is attributable to the way the former Baath regime governed, particularly in the 1990s when, as a result of economic crises and bankruptcy, the regime devolved power to communal actors such as tribes

and clerics, providing them with resources that essentially resulted in networks of patronage. They were given arms and the ability to mobilise their followers, in cooperation and support for the regime. After the 2003 invasion of Iraq and the failures of post-conflict reconstruction, these networks and resources essentially allowed local communal actors to have their own resource-rich, private armies that both challenged and fought the state for power and resources in the so-called new Iraq.

The matter becomes further complicated because it may sometimes be difficult to draw the line that separates militias from state or conventional forces, such as the police and military. This complicated overlap between the state and militia organisations, some of whom have become fully integrated components of the political process, alongside the growth of increasing numbers of sub-state actors, diminishes the often made assertion that it is ultimately good governance and the building of institutions that can remedy instability and conflict, as those institutions will inevitably end up becoming dominated by the armed groups that have had the benefit of time and resources to entrench their positions within those very institutions. Iraq's armed forces reflect the factionalism that dominates the society and political process. Iraq's federal police, numbering around 37,0000 personnel, is dominated and controlled by the Shiite militia organisation called the Badr Brigade, which played a bloody role in the sectarian civil war of 2006-2007. The police are essentially militias in a different uniform, who have even worked hand in glove with the US to combat insurgents and jihadist groups during the course of the US occupation and, most recently, during the campaign against the so-called Islamic State.

The solution

As already alluded to above, what is emerging in places like Iraq, Syria, and Libya, but also in other parts of the region, is the ascendancy of armed non-state actors that have substantial

interaction with the state; these are actors that mould themselves as para-statal actors that seek integration into the state as a means through which acquire resources as well as local and international legitimacy but that, conversely, refuse to demobilise. Defeating them militarily would be difficult if not impossible and, in any case, would bring more costs than benefits to already fragile states.

The dichotomy that is often used to describe or engage the issue of armed groups is an unhelpful one, as it dismisses these actors in their entirety as threats to the state, foreign proxies, or criminal groups. In addition to failing to appreciate the already mentioned overlap these actors have with, and the legitimacy they enjoy within, their local communities, it also disregards the reality that armed non-state actors have, in multiple cases, replaced the state in the provision of services and security, affording immense resilience to war-torn communities. Moreover, state and non-state actors can sometimes reinforce one another. Some actors like Hezbollah (as with other examples around the world, including the Tamil Tigers, the Kosovo Liberation Army, and the Irish Republican Army) were organised distinctly from the state and in opposition to it, largely as a result of the local demands and grievances of their respective communities. Yet, at the same time, by establishing their own parallel institutions, they can be conceived as state-builders. Others, such as the Taliban, have a dynamic relationship with the Afghan state, which exists alongside a plethora of powerful sub-national actors.

Armed groups may often emerge from, or become particularly visible as a result of, both inter-state and intrastate conflict, often in so-called informal wars that do not adhere to the traditional, Westphalian characteristics of modern warfare. However, they do not necessarily cause the fragmentation of the state but are responses to such fragmentation. As multiple examples in the MENA region shows, it is the location of state authority that armed groups are actually disputing. Moreover, while it is commonly understood that state weakness enables the space for armed groups and intrastate conflict, this does not

identify the specifics of state capacity. Some have suggested that it is fundamentally the capacity to arbitrate between groups or provide guarantees of protection, which can also limit the capacity of armed groups to tap into collective fears of violence to swell their ranks[7]. Similarly, without a third party, the commitment to peace on the part of armed groups becomes weakened[8]. The difficulty with establishing the causal logic that underpins the nexus between state weakness or failure and armed groups has also given way to alternative arguments that challenge the notion that good governance can defeat armed groups, drawing on the limited availability of empirical evidence[9].

It is to the multiple identities of the armed group that policymakers must look. Shiite militias in Iraq are not only vast in their numbers but have significant overlap and interactions with the Iraqi state and society. Some are offshoots of Iraqi Shiite opposition groups who fought the former Baath regime; some enjoy extensive ties to the Shiite religious establishment or the *marja'iyya*. Some are Iranian-proxies while others are state-aligned. Some militia heads have even held ministerial posts. When the state collapsed after 2003, these groups filled the resulting vacuum to provide protection and services to local communities. While armed groups have straddled the line that separates Hobbesian anarchy with the institution-building of the Westphalian nation-state, they can both complement the state in an effective and constructive manner or provide necessary services and structures of governance absent the state, but, at the same time, can also supplant the state and constitute catalysts of state decay.

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[7] D.A. Lake and D. Rothchild, "Spreading Fear: The Genesis of Transnational Ethnic Conflict," in Lake and Rothchild, (Eds.), *The International Spread of Ethnic Conflict*, Princeton, N.J., Princeton University Press, 1998, p. 4.

[8] J.D. Fearon, "Commitment Problems and the Spread of Ethnic Conflict," in D.A. Lake and D. Rothchild (Eds.), *The International Spread of Ethnic Conflict*…cit., pp. 108-109.

[9] J.L. Hazelton, "Why Good Governance Does Not Defeat Insurgencies", *International Security*, Harvard Belfer Center, 7 August 2017.

Armed groups also sometimes function as agents of the state. In Iraq, state-aligned Shiite militias are not integrated into the armed forces but generally answer to the federal government and refuse support and weapons from outside powers such as Iran, unlike their Iran-aligned rivals. Even if these actors do not become integrated into the armed forces in their entirety, supporting them can provide an opportunity to create leverage that remains noticeably absent.

Policymakers should engage and examine armed groups through the prism of civic development and civilian empowerment. Armed groups that have the popular support and resources can empower the civil society and other segments of the population that would otherwise be suppressed by the power and corruption of elites. In Iraq, protests movements have been reinforced by Muqtada al-Sadr, whose involvement in the push for reform has boosted Iraq's civilian surge. Al-Sadr's involvement in these protests and his calls for reform should, at first glance, seem counter-intuitive: the cleric and his Sadrist movement (including its powerful Mahdi Army militia) played a central role in fuelling Iraq's devastating sectarian conflict, have committed sectarian atrocities, fought US-led coalition and Iraqi forces, and engaged in criminal activities. However, it is also an example of how different components of Iraqi society can mutually reinforce one another. The dynamics of interaction between the multiple lines of authority in Iraq – ranging from the civil society, to members of the political class and the religious establishment, and even organisations who are complicit in violence and instability – can help establish a culture of accountability while also empowering the agents of change.

The challenge, however, is translating protests into public policy. The political class and the state administrators have remained indifferent to this challenge, in large part because of corruption and patronage. As it stands, civil society in Iraq has been effective in mobilising large swathes of the population for protests against the government but can be disorganised and ineffective when it comes to influencing public policy and

accountability. Civil society actors, except those that are co-opted by political parties or part of religious and family networks (which tend to be the better funded), additionally face political interference and intimidation and have a weak capacity for fundraising. Al-Sadr's capacity to mobilise the masses and exploit his movement's network to empower protestors resulted in the emergence of an unlikely alliance between the organisation and civil society in Iraq, including secular, left-leaning organisations that have been receptive to working with the cleric's movement. Civilians, contrary to conventional wisdom, have significant agency in conflict zones and can nudge armed groups into respecting human rights and adopting basic norms such as good conduct and responsibility. Prominent armed groups are heavily dependent on popular support and are much more likely to interact with local communities than Iraqi political elites, external actors such as government officials, NGOs, and human rights groups.

The state still holds its imprimatur of international norms of sovereignty and remains the only actor capable of constructing and shaping the country's constitutional and legal system. This has encouraged even hardline militias to seek integration into the political process – for example by establishing parties and contesting elections – and have relied on that to acquire legitimacy and credibility. While it is unlikely to free Iraq of its militia problem, it could potentially limit the space in which they operate. Furthermore, the political ascendancy of armed groups can be short-lived if they fail to deliver on security and governance which, as events in Iraq have shown over the past decade, can push the population and the support base of the armed groups toward the state but only if the state is in a position to supplant armed groups with an organised and effective security force; the capacity to deliver basic services and the ability to revive the country's economy.

What differentiates armed groups from one another is indeed the extent to which they seek integration and recognition. Save for the profit-oriented, criminal gangs and networks that

simply position themselves as opportunities actors looking to fill their coffers through violence and disorder, isolating others that either see themselves as, or actively aspire to become, socio-political movements and members of the political class will not yield the necessary results, as the current political and security landscape today is such that these actors can operate autonomously and, therefore, pose problems to the state and society from the margins.

The picture becomes somewhat more complicated when these armed groups are national liberation movements that seek their own state, as opposed to being integrated into an existing territorial state. The Kurds, for example, have long sought statehood but what has made them comparatively successful as an armed group is their attempt to acquire both international recognition and legitimacy. Pursuant to this goal, their discourse and interactions have generally been steeped in international norms and fundamental human rights; they speak the language of democracy and the rule of law so as to become integrated into the international system and, ultimately, acquire their own statehood. As the literature shows, the pursuit of international legitimacy plays a key role in shaping their conduct and identity, making it much easier for outside actors both to work with them and ensure they do not commit the human rights abuses and acts of violence that they may have otherwise committed.

The challenge for policymakers is not necessarily whether armed groups aspire to become, or perceive themselves as, state-builders that can complement the state and its provision of services to the local population but, rather, the vision they have for the future of the state and its identity. As it has already been alluded to, armed groups may seek integration into the state so as to weaponise it, and there should be limited space for allowing armed groups that are unwilling to demobilise and disarm, but that also seek to make the transition into a socio-political movement that can essentially fleece the state of its wealth and power. The process should be re-defined so that it does not involve asking militias to give up their guns and

power, but rather incorporating them into a social dialogue and contract that aims to secure their stake in the decision-making processes.

All too often, armed groups operate in a social and legal vacuum, since their precise relationship with the state and society remains fluid and ill-defined. This breeds uncertainty and, therefore, unwillingness to engage in dialogue and consensus-based politics. To address this, the authority that armed groups have must be better defined: where does it begin and where does it end? Defining these legal parameters – but also, more importantly, the socio-cultural nexus between armed militias, the state, and society – can help breed a culture of accountability. Indeed, examples in Iraq, Libya, and Syria show that even reformist and moderate actors are looking toward existing institutions and legislation as a means of countering the spoilers of peace and stability and ensuring armed groups who are determining the rules of the game. The international community should similarly engage armed groups. Accept but attempt to contain the prominence of the militias on and off the battlefield. This requires a holistic approach to the myriad of problems and a greater appreciation of the complex web of interpersonal and inter-organisational links that shapes these actors and the environments in which they operate.

It is not armed groups in and of itself that is the problem but that the contestation over the post-2011 Arab state, in the Levant and North Africa, is unfolding in radically transformed military theatres. While it was once the exception, it is now the norm for states to outsource security to unaccountable proxies that are far less, if at all, constrained by the laws and norms of the international system. Since the multiple civil wars of the region first began, transnational networks have expanded, as have shared inter-state rivalries and the availability of capable armed groups looking for willing patrons. Syria's civil war may have produced winners in Iran and its allies and losers in the Arab world and the West, but that does not mean the end of the conversation. Regional actors, who have augmented their military

capacity since the war on ISIS three years ago, are reverting to old geopolitical rivalries and inter-state confrontations could result in a fresh conflagration. Saudi Arabia's increasingly assertive and aggressive Iran policy, together with Iran's expansionism, has intensified the battle for the future of the Middle East and the regional order that is emerging from the ruins of conflict in Iraq and Syria.

To move forward, the international community should shift energy and focus away from traditional policy engagements. Crises in the Arab world need Arab world solutions. Political compromise must become the norm and no longer be the exception. It requires aiming for consensus-based politics, rather than full-fledged democracy. At the least, this can help accommodate the radically transformed nature of governance and authority in the region, which are far more dynamic than ever before: the dynamics of interaction between the multiple lines of authority – ranging from civil society to members of the political class and the religious establishment and armed groups – have to be afforded greater appreciation so as to establish more inclusive, legitimate national frameworks that can reinforce the relationship between citizen and state.

Regionally, and in the long-term, a consensus is required that is based on mutual security interests. In the interim, with international support, the region can establish common economic and reconstruction platforms for the post-conflict Arab states, the idea being that engagements based around pragmatism, rather than trust, can alleviate conflict and push for the transition of Iraq, Syria, Yemen, and Libya into theatres for co-existence and inclusive co-operation, rather than for proxy warfare.

7. The World Recovery Marches On

Francesco Daveri

It is still too early to say (the final figures will only be available in the first few months of 2018), but it seems that 2017 will turn out to be a really good year for the economy. This conclusion is particularly significant today given the many sources of political instability that characterised the second half of 2016, which appeared to pose serious threats to the continuation of the recovery in the global economy. For the time being, economic actors seem to have successfully turned challenges into opportunities.

Political instability in 2016 had a lowest common denominator: the potential quasi-planetary affirmation of souverainism, that is, a new form of political representation that aims at offering a more immediate political outcome to (and therefore satisfy) the nationalist needs expressed by that share of global voter that oppose globalisation and its manifestations. Under this label, we have many examples, starting from the victory of the Leave in the Brexit referendum, the election of a – how to call it? – unusual American president such as Donald Trump, the prospect of general elections with the possible victory of Eurosceptic and anti-global movements in various European countries, the most important of which, in France, led by the Front National's Marine Le Pen.

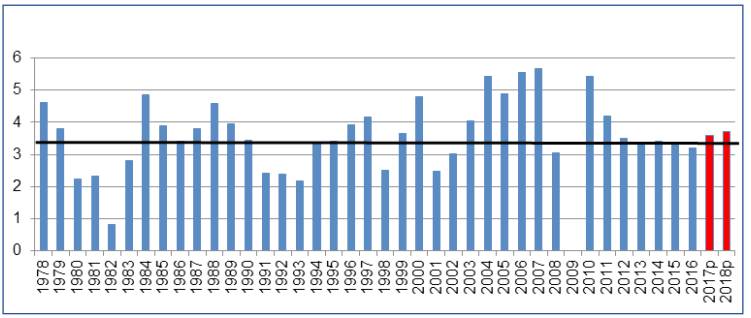
In 2017, many political concerns turned out to be unfounded. Brexit has not started yet, and it remains to be seen whether it will be soft or hard. Trump has threatened but not yet implemented his protectionist intentions while the markets have meanwhile given credit to his promises of deregulation and tax cuts even before their approval. In France, Macron defeated Ms Le Pen thanks to the country's two-round electoral system.

The Eurosceptics have gained ground everywhere in Europe, but they have not won yet either the heart or the vote of the European median voter. Overall, this sequence of political events has been much less destabilising than expected. This has certainly contributed to a return to the growth of international trade flows and the favourable orientation of household spending decisions, business production, and investment choices. Beyond the relief for all these close calls, however, it appears that the economy has reached a certain stability and a certain ability to surf the waves of the comeback of national or nationalist politics. At least until central banks continue to support the global economy in the same way as they impeccably did since the bankruptcy of Lehman Brothers in September 2008 – and this seems to be the case even in 2018.

Global growth accelerating

Growth figures from the world as a whole are first and foremost evidence of the good performance of the economy. According to data in the October 2017 World Economic Outlook, world GDP growth (net of inflation) in 2017 was expected to increase by 3.6% compared to 2016. This was (and still is) good news because growth is accelerating compared to 2016 (which recorded a disappointing +3.1%). Figure 1 shows that 2017 (and, if the forecasts are confirmed, 2018 as well) will be a slightly better year compared with the long-term average of the world economy. In the graph, the horizontal straight line corresponds to an average annual growth of 3.4% between 1980 and 2015. In the same way, 2016 came up a bit short than long-term average growth, by just 0.3%.

Fig. 1 - Annual Real World GDP Growth (%)



Source: World Economic Outlook database, October 2017

A better figure than the long-term average is something to be welcomed in itself given that such an outcome did not occur since 2010-11. But the 2017 figure is good also for another reason, because it is the first case of upwards revision of growth projections– albeit small, just +0.2% – for many years. The October 2016 World Economic Outlook showed a 3.4% growth in 2017. Someone might object: "What difference does 0.2% make? After all, two-tenths of a percentage point could easily be reversed during the next revision of macroeconomic data. Of course, this could happen. However, what matters here is that the trend is on the upwards for the first time in many years. For instance, Table 1 shows that, in recent years, the opposite rule was at work, namely that the growth forecast for a given future year (in this case 2017) has always been systematically revised downwards, not upwards: at least until the latest revision in October 2017.

A geographically widespread acceleration

Another good news about the ongoing recovery is that the acceleration of growth in 2017 compared to 2016 is the result of widespread improvement in economic prospects in all the most

Tab. 1 - World Economic Growth in 2017, forecast in different years

2012	2013	2014	2015	2016	2017
4.6	4.1	4.1	3.8	3.4	3.6

Source: World Economic Outlook database, October 2017

important areas of the world, both in the advanced and the emerging markets.

The countries that the Monetary Fund defines as "advanced" will grow by 2.2%, a common feature of both the US and the Eurozone, aligned in their pace of development for the first time in many years, and improving compared to the +1.5 and +1.8% observed in 2016. For the United Kingdom, on the other hand, there has been no acceleration in growth, which has so far been confirmed at +1.7%, substantially in line with the figure of +1.8% recorded in 2016. In the UK case, however, "no change" – that is, the absence of the dreaded slowdown following the victory of Leave in the Brexit referendum of 23 June 2016 – should be recorded as good news as well. In the October 2016 World Economic Outlook, the growth forecast for 2017 for the British economy amounted to a much lower +1%. Today's data and forecasts contradict the forecast of a year ago, as well as other pessimistic forecasts made at the time and in the previous months, for example the one from the Bank of England, which, in case of a victory for the Leave, foresaw a sudden and deep recession by the second half of 2016.

Finally, as shown in Table 2, today's unexpected acceleration in growth does not cancel out the fact that growth expectations for developed countries have fallen sharply compared to those prevailing five years ago. The only exceptions – not shown in the table for brevity – are Germany and Spain, whose growth in 2017 (currently at +2.1% and +3.1% respectively) is now higher than expected in 2012.

Tab. 2 - Dynamics in GDP growth for advanced countries

	Growth 2017 (Weo, Oct. 2017)	Growth 2016	Growth 2017 exp. in 2016	Growth 2017 exp. in 2012
Advanced Countries	2.2	1.7	1.8	2.6
USA	2.2	1.5	2.2	3.3
United Kingdom	1.7	1.8	1.0	2.8
Eurozone	2.2	1.8	1.5	1.7

Source: World Economic Outlook database, October 2017

The World Economic Outlook also brings good news for emerging countries. For this group of countries, the Monetary Fund forecast is that 2017 closes with an annual growth of 4.6%, i.e. 0.3% faster than the +4.3% observed in 2016 but much lower than the 2012 forecast. Five years ago, the expected growth for emerging countries in 2017 was +6.2%. The reason for today's disappointment compared to then is simple: in short, two of the BRICs, Brazil and Russia, whose economies in the past have long benefited from high prices in raw material and that – once the bonanza period ended – have experienced serious episodes of recession or stagnation, coming back to growth only in 2017 (with a meagre +0.7% for Brazil and a more significant +1.8% for Russia). As far as the other half of the BRICs is concerned, it should be noted that the growth just below 7% foreseen for these countries is stellar when compared to the pace of all the other large countries in the world but represents a marked slowdown compared to the growth forecast in 2012 for 2017 (+8.5% for China and +7.5% for India).

Finally, as further evidence of the gradual consolidation of growth, it should also be noted that the above figures do not

Tab. 3 - Dynamics in GDP growth for emerging countries

	Growth 2017 (Weo, Oct. 2017)	Growth 2016	Growth 2017 exp. in 2016	Growth 2017 exp. in 2012
Emerging Countries	4.6	4.3	4.6	6.2
Brazil	0.7	-3.6	0.5	4.1
China	6.8	6.7	6.2	8.5
India	6.7	7.1	7.6	7.5
Russia	1.8	-0.2	1.1	3.8

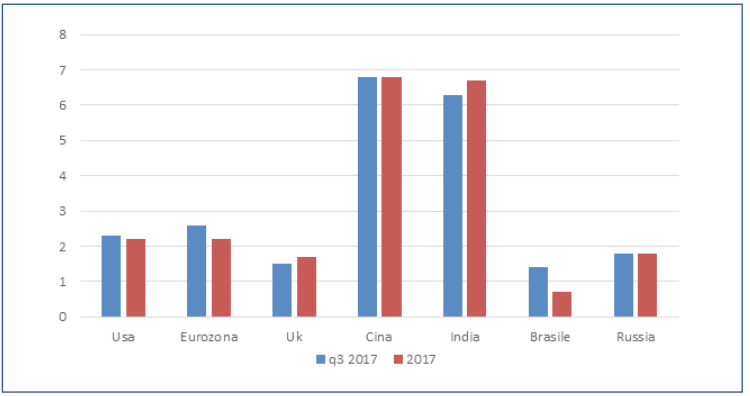
Source: World Economic Outlook database, October 2017

include further upward revisions for 2017 and subsequent years, which may show up once analysts include positive data for the second half of 2017. At least for the third quarter of 2017, the data continue to be encouraging. As shown in Figure 2, with the exceptions of the United Kingdom and India, the trend growth rates of Q3 2017 are better for the US, the euro area and Brazil and steady for China and Russia than the annual data reported in the previous tables.

Higher GDP, lower unemployment...

The other side of the coin of the growth acceleration has great social relevance, namely the fall in the share of the unemployed workforce. In the United States, the unemployment rate fell well below the secular average of 5.5%, closing in on 4% in November 2017, its lowest level since February 2001. Very similar figures also apply to the United Kingdom, where unemployment fell to 4.3% in November 2017. The decline in the number and percentage of British unemployed continued, in

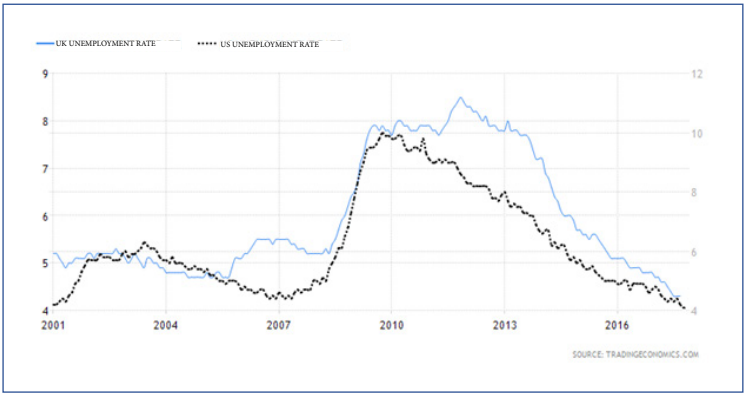
Fig. 2 - Q3 2017 growth *vs* expected 2017 growth



line with GDP growth, even after Brexit (June 2016).

Even in the euro area, where the share of unemployed labour force remains much higher, since September 2017 unemployment has fallen below 9% for the first time since 2009 – driven by the faster pace of economic development. The drop from the peak reached at the beginning of 2013 amounts to 3 percentage points. Particularly noteworthy is the gap between the positive

Fig. 3 - Unemployment rates in the US and the UK, 2001-2017



trend of GDP at constant prices and the continued decline in the unemployment rate from 2013 onwards. The fall in unemployment in the euro area's largest economy, Germany, is particularly striking: here, the percentage of unemployed people had almost reached 8% in mid-2009 and has now fallen to 3.6%, an unprecedented figure for reunified Germany. This is not surprising if we consider that the GDP of the German economy, net of inflation, has been growing continuously for eighteen consecutive quarters.

On the other hand, the relationship between growth and unemployment is less evident in the most populous emerging countries and where rural-urban migration has a strong influence on labour market data. It is more difficult to interpret official labour market statistics in these countries. Official figures for China and India currently indicate that the unemployment rate is close to or below 4%. However, unlike in the developed countries, this share seems to be largely indifferent to economic trends and in particular to GDP growth. Unemployment statistics for Brazil and Russia, on the other hand, appear more plausible and show the usual correlation with general economic developments. In Figure 5, figures for Russia in the period

Fig. 4 - GDP at constant prices and unemployment rate in the euro area, 2001-2017

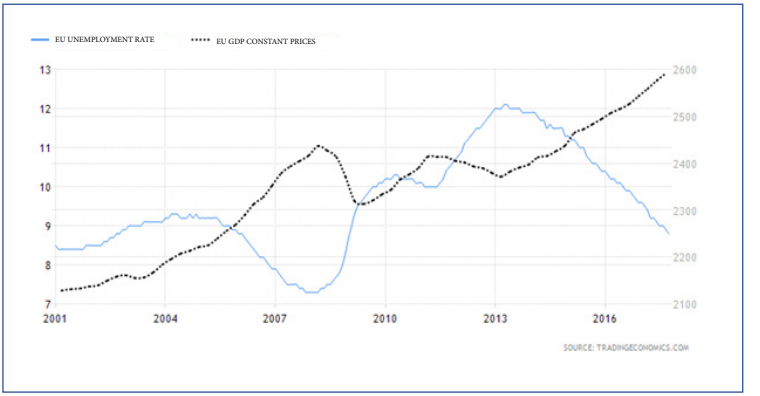
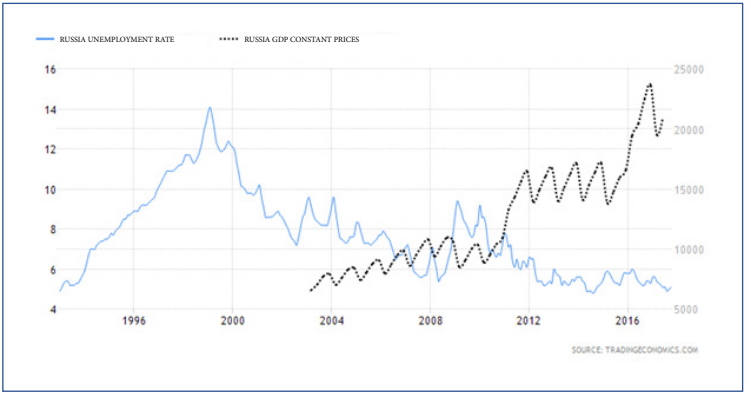


Fig. 5 - GDP at constant prices and unemployment rate in Russia, 2001-2017



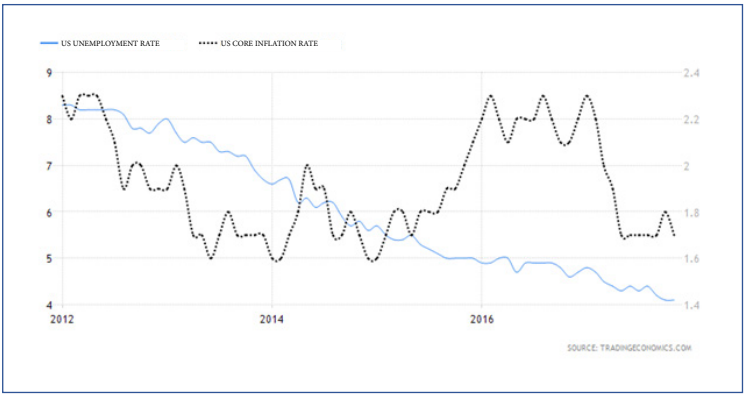
2001-2017 show that rapid post-2010 growth – fuelled by high oil and natural gas prices – led to a significant fall in unemployment rates until the first half of 2012. Since then, however, the slowdown in the economy and then the recession has not translated into the fluctuations in unemployment rates that could have been expected.

...but stable prices as well

There is another reason for the markets to be satisfied with the current economic situation, namely that the current coupling between the acceleration of economic growth and the fall in unemployment takes place against a background of substantial price stability.

As documented in the two graphs for the United States and the euro area, which show that the continuous fall in unemployment is not associated with a resumption of core inflation, i.e. the rise in prices of the part of the basket, taking away the more volatile components such as energy and food. While in

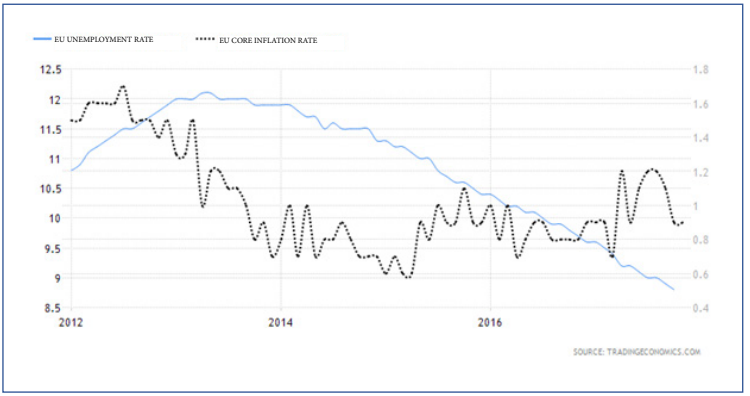
Fig. 6 -"Core" inflation and unemployment in the US



America, from the beginning of 2016 to the present day, unemployment (whose values are shown on the left axis of the graph) fell from 5 to 4.1%, inflation (values on the right axis) actually fell by about half a percentage point, from 2.2% to 1.7%. In Europe, core inflation is close to (but below) 1%, with no clear signs of acceleration.

The lack of acceleration in inflation should be pointed out.

Fig. 7 - "Core" inflation and unemployment in the euro area



Throughout the post-war period until the mid-1970s, in fact, the expansion periods in the economic cycle were usually associated with a parallel acceleration in price dynamics. It is no coincidence that macroeconomics handbooks include the Phillips curve, i.e. the negative relationship between unemployment and inflation postulated by A. William Phillips in a very famous article published in 1958. This time (in fact, since the mid-1990s) this is not the case: the recovery and parallel fall in unemployment are taking place against a background of substantial price stability which, in the current debate, translates into constant inflation of between 1-2%. So, it seems that the Phillips curve has disappeared. Indeed, behind the observed price stability, there are at least two reasons that can be described as structural. They may change over time, but for now, they are having a negative impact on price trends.

The first reason for substantial price stability stems from Moore's law. Already in 1965, Gordon Moore, co-founder of Intel, formulated his forecast on the exponential growth of the process of miniaturisation of microprocessors. This law has been at the basis of the progressive decentralisation and pervasive diffusion of information and communication technologies, up until the internet and recent applications in artificial intelligence. Today, a microprocessor is 90 thousand times more efficient than it was in 1965 and the price of a transistor is 60 thousand times lower. How can there be inflation in a world where production, consumption, and almost every other manifestation of social phenomena is based on technologies subject to such powerful processes of cost reduction?

The second brake on inflation is the "emerging markets" effect that weighs on the wages of low-skilled workers and therefore on inflation. A recent BIS (Bank for International Settlements) working paper estimates that with the entry of Eastern European workers after the fall of the Berlin Wall and Chinese workers after Beijing's entry in the WTO, the available working age population in the world has increased from 1.5 to 1.9 billion people. The increased availability of workers

has weighed on wage developments, especially for unskilled workers.

A third (but less reliable) brake on inflation derives from the oil price, which seems to have settled at some 50 dollars per barrel and is not expected to rise. But predicting the trend in oil prices is as difficult as predicting the trend of the stock exchanges or the Euro-Dollar exchange rate because it depends on geopolitical dynamics that cause fluctuations that are difficult to predict *a priori* and perhaps impossible to predict and model at all.

Some observers (on the *MIT Technology Review*[1], not on an unknown blog) argue that Moore's law is not valid anymore, while others blame demographic dynamics and the slower speed at which China's peasants move into the cities. In fact, as Ken Rapoza reports on *Forbes*[2], the level of monthly wages earned by the median worker in Shanghai ($1,135), Beijing ($983) and Shenzhen ($938) is by now higher than the net monthly wage of a worker in Croatia ($887), as well as that of workers in the three Baltic republics. Overall, a rapid reversal of the forces that have been keeping inflation at bay for several decades is now unthinkable, at least in the short term. It is like saying that the combination of decent growth and falling unemployment with subdued inflation should continue.

Clouds on the horizon

All nice and well, then? No, for at least two reasons. First, growth still depends too much on central banks. Take Europe, for instance. In 2008 and 2010, Europe's GDP growth was still above 2%, but at that time the ECB had only €1,500 billion in securities on the balance sheet. Today it holds 4,500 billion and

[1] T. Simonite, *Moores's Law Is Dead. Now What?*, MIT Technology Review, 13 May 2016.

[2] K. Rapoza, "China Wage Levels Equal to or Surpass Parts of Europe", Forbes, 16 August 2017.

continues to buy them, at a decreasing rate, but still committed do more if needed, at least – one might add– until its president is replaced. But what would European growth be like without the commitment of the central bank to support its existence? Nobody knows. In the absence of further steps towards the creation of greater political unity, it is likely that the Frankfurt Institute will continue to play its role backing a European policy that is still inexorably intergovernmental.

A further threat that might derail growth (and not only in Europe) is the persistence and widening of inequalities. As discussed, aggregate figures show a sharp fall in unemployment in the most important regions of the world. But the percentage of unemployed people varies greatly between regions within large geographical areas and even within smaller nations. Particularly significant is the case of four – large and small – European nations, where unemployment in the least dynamic part of the country (for example Calabria in Italy and Wallonia in Belgium) is three times higher than in the most dynamic part of the country (Lombardy in Italy and Flanders in Belgium). The persistence of regional differences feeds discontent everywhere. The less dynamic regions of each country feel forgotten and ask for protection, which is not met by the adoption of policies that encourage healthy and non-dependent growth in the region and the country. Meanwhile, however, in the most dynamic regions of each country, autonomist movements thrive, invigorated by those who feel they have to pick up the tab for a misconceived union between different people. And the political, entrepreneurial spirit of rapid populism gets most of its support from this very discontent.

This brings us back to where we started: even though the turbulence of politics does not yet seem to leave significant marks in macroeconomic data, the potential negative effects of political instability on the business climate and the incentive to invest cannot and should not be underestimated.

PART II

EUROPE

8. The European Union and the World: Power beyond Figures

Sonia Lucarelli

In an article published on *Foreign Affairs* in March 2017, US political scientist Andrew Moravcsik, by adopting an unusual perspective, explained why the European Union is still a superpower[1]. First, the united EU continues to be the world's second largest world power (after the United States and followed closely by China) in terms of nominal GDP[2] and the largest commercial importer and exporter of goods and services. This economic weight, and the cooperation between European countries, give the Union a significant role in international politics: just think of the power to impose sanctions (90% of the burden of sanctions against Russia falls on Europe), its power of attraction and conditionality on the neighbourhood, the size of its investments for development cooperation, but also its overall contribution to the UN budget (37%, as opposed to 22% from the US and 5% from China in 2015). Furthermore, Moravcsik argues, if we look at the combined military expenditure, European military spending accounts for 15% of the global total, second only to the United States (which cover 40%). The quantity and variety of missions launched by the EU in the world are proof of the importance of the EU as an international security actor. Therefore, if we do not see the EU as a superpower, it is only because of a perspective distortion: conditioned by

[1] A. Moravcsik, "Europe is Still a Superpower", *Foreign Affairs Magazine,* 13 April 2017.

[2] In weighted purchasing power terms, the EU is second behind China, followed by the US.

a state-centric mindset, we lose sight of the real weight of the united EU in the world.

The figures reported by Andrew Moravcsik are irreproachable, as is the EU's commitment and success in a number of multilateral international fora including climate change negotiations, support for the establishment and functioning of international tribunals, and development cooperation, where the EU maintains its leadership[3].

Yet this description of the EU's international role might be partial and inadequate if we want understand its true weight in international matters. Sources of concern for a decline in EU's international stace are not only relative to the impact of Brexit on the international economic weight of the European bloc (which will certainly diminish, but not so much that it will lose its primacy for this reason)[4], nor about the relative economic decline in relation to emerging powers (really distant from the levels of economic and political development of Europe), but rather about the ability to use its power resources for political purposes. It is on this gap between power resources and the ability to use them for collective political purposes that the international role of the Union is played. This ability is not only limited by the constraints of its institutional architecture, but also negatively affected by European and international political developments that limit the decision-making capacity, credibility, and legitimacy of European foreign policy.

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[3] For an overview of the EU's foreign and security policy see, K.E. Jørgensen, A.K. Aarstad, E. Drieskens, K. Laatikainen, B. Tonra (Eds.) *The SAGE Handbook of European Foreign Policy*, London, Sage, 2015; A. Missiroli (Ed.) *The EU and the World. Players and Policies Post-Lisbon. A Handbook*, EU Institute for Security Studies, 2016.

[4] The United Kingdom accounts for 16% of European GDP, but euro area countries cover 72% of GDP, with Germany, France, and Italy alone accounting for almost 50% (Eurostat).

Institutional structure and decision-making inefficiencies

An effective foreign policy requires four essential elements: decision-making capacity, implementation capacity, legitimacy, and credibility. When it comes to a collective actor, in addition to these four, there is a fifth: leadership. Currently, both the institutional structure of the Union and the European and international socio-political context set limits on all these.

The EU's decision-making capacity in foreign policy varies according to the policy context. It is often said that in well-established areas of integration, where the Commission has acquired more power and/or decisions in the Council are taken by a qualified majority[5] (as in trade policy), the Union's ability to speak with a single voice is strong. In the area of foreign and security policy, due to the prevalence of intergovernmental decisions, EU's decision-making capacity is limited. Responsibilities in the field of security and defence are in the hands of Member States, and in crucial areas such as immigration and asylum, competencies are "shared"[6], with great coordination issues.

The Treaty of Lisbon has introduced important innovations aimed at making the Union more coherent and effective in foreign policy, but not without difficulty. The strengthening of the role of High Representative for the Common Foreign and Security Policy, the creation of the European External Action Service (EEAS), the turning of existing Commission delegations into EU delegations and, ultimately, the creation of a semi-permanent Presidency of the European Council, were all measures aimed at strengthening the coherence and effectiveness of

[5] A qualified majority requires at least 55% of the Member States, who must represent at least 65% of the European population. A group of countries representing at least 35% of the population may, however, block the decision (blocking minority).

[6] In these areas, Member States exercise their competence where the Union does not exercise it or has decided not to exercise it. The Union and EU countries can legislate and adopt legally binding acts (Article 4 TFEU).

European foreign policy. After a weak start (both because of the low profile maintained by Lady Ashton as head of European diplomacy and her efforts in setting up the EEAS), with Federica Mogherini's mandate, the figure of the High Representative took on strength and visibility, and the work of the EEAS gradually got up to speed. The propulsive force of the Head of European diplomacy found its expression not only through the EU significant and visible contribution to the Iranian nuclear agreement in 2015[7] but also through a greater presence of the High Representative in the EU institutions, and above all for the management of the process that led to the publication, in June 2016, of the EU Global Strategy, *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign and Security Policy*[8], which we will come back to shortly.

However, while the Lisbon Treaty strengthens elements of the collective dimension of foreign policy, it also safeguards the prerogatives of the Member States and in no way forces them to common positions. Moreover, the discrepancy in the perception of the role of High Representative and EEAS in European foreign policy between national and European diplomats, as well as a different perception of how leadership (national and institutional) is exercised between large and small countries, cannot be ignored[9].

Finally, because of the High Representative's increased visibility, breakages in the common front, such as those that frequently occur on important foreign policy issues, make the action of the head of European diplomacy look declaratory and unreliable. In the aftermath of Federica Mogherini's distancing from the US decision to move the embassy to Jerusalem

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[7] S. Blockmans and A. Viaud, "EU Diplomacy and the Iran Nuclear Deal: Staying power?", CEPS Insights, no. 2017-28, 14 July 2017.

[8] Council of the European Union, *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the EU's Foreign and Security Policy*, Brussels, 28 June 2016.

[9] L. Aggestam and M. Johansson, "The Leadership Paradox in EU Foreign Policy", *Journal of Common Market Studies,* vol. 55, no. 6, pp. 1203-1220.

at the beginning of 2018, just a few weeks after signing the commitment to greater cooperation in the field of defence (as we will see below), six European countries (Poland, Hungary, the Czech Republic, Lithuania, Romania, and Croatia) abstained in the UN vote to reject Donald Trump's decision. Liviu Dragnea, chairman of the ruling party in the Romanian Government, went even further, suggesting that the Romanian embassy should also be transferred to Jerusalem[10]. To make matters worse, the motives behind the eastern European countries' stance over this issue are trivial: to please the transatlantic ally, despite being out of control and taking globally counterproductive or dangerous positions. Therefore, the efforts of the High Representative and EEAS in managing the (albeit small) European budget for foreign policy are of little value, if the credibility of the Union falls apart due to the defections of countries with very little international weight. What is perhaps most surprising, however, is that not sanctioning has occurred: in the name of a new sovereign normality, anything goes...

When the process binds the actor

A second factor that constrains an effective EU foreign policy action is its nature as a "process". Not only does the EU lacks a geographical, functional, and durable definition of its borders, but its evolving nature means that any decision is also to be pondered on the basis of its possible effect on the achievements or subsequent developments in the integration process. This has recently been the case for migration and asylum policy, which have been heavily affected not only by the reaction to a perceived emergency due to the number of arrivals in a short timeframe, but also, and above all, by the concern that one of the main milestones of integration, the Schengen Agreement, was at risk. The programme, launched in the aftermath of the

[10] E. Gallinaro, "UE: Gerusalemme, l'Europa non è unita neppure stavolta" (EU: Jerusalem, Europe is not united this time either), *Affari internazionali*, 2 January 2018.

numerous suspensions of free movement at internal borders, has provided for an increase in external border control (with the establishment of the European Coastguard) and a massive outsourcing of migration and asylum management through agreements with third countries (Turkey in the first place, but also Libya[11]) with dubious credentials. The main function of this was to "save Schengen"[12]. If it is true that any foreign policy also has a domestic function, it is also true that no great power can have its hands so tied up that its own political survival is linked to that of its foreign policy.

The peculiar link between the integration process and foreign policy has become strikingly apparent in what has long been considered the EU's most successful foreign policy: enlargement. In this case, the Union has leveraged the most its "structural foreign policy" aimed at changing the basic conditions of peaceful cooperation which most characterise the Union as a civilian power[13]. However, enlargement has shown the limits

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[11] The agreement with Libya – repeatedly denounced for exposing migrants to human rights violations – was signed in 2017 by the Italian Government, but was openly supported by the EU and Member States. Amnesty International, *Lybia's Dark Web of Collusion. Abuses Towards Europe-Bound Refugees and Migrants*, 2017.

[12] Significantly, the Commission document identifying the lines of a European response to the migration crisis was titled "Back to Schengen", European Commission, *Back to Schengen - A Roadmap*, COM(2016)120 final, Brussels, 4 March 2016. See also M. Ceccorulli and S. Lucarelli, "Saving Migrants, Securing Borders: The EU's 21st century security dilemma", in S. Economides and J. Sperling (Eds.), *EU Security Strategies. Extending the EU System of Security Governance, Basistoke*, London, Routledge, 2018; M. Ceccorulli and S. Lucarelli, "Migration and the EU Global Strategy: Narratives and Dilemmas", *The International Spectator*, vol. 52, no. 3, pp. 83-102.

[13] The literature on the "adjectivated" power of the EU (civilian, normative,"gentle",...) has grown copiously in the first decade of the 2000s. See, for instance, L. Aggestam, "Introduction: ethical power Europe?", *International Affairs*, vol. 84, no. 1, 2008, pp. 1-11; I. Manners, "Normative Power Europe: A Contradiction in Terms?", *Journal of Common Market Studies*, vol. 40, no. 2, pp. 235-58, 2002; S. Lucarelli and I. Manners (Eds.), *Values and Principles in European Foreign Policy,* London - New York, Routledge, 2006; M. Telò, *Europa potenza civile,* Roma-Bari,

of the tool: not only there are obvious limits to socialisation (and the anti-European nationalism of the Visegrad countries[14] is there to prove it), but there are also limits to a foreign policy that always and necessarily demands significant changes to the actor who leads it. The current struggles of European policy in the Balkans, but also in the Eastern Neighbourhood, are the result of internal and external awareness that enlargement has costs and limits which are difficult to avoid. Space (political and geographical) for the techno-bureaucratic management of territorial (or even functional, as in the case of the neighbourhood) expansion can only clash with the concerns of neighbouring powers (Russia) and with the aversion of a reluctant European public opinion; all of which require political weighting and far-sightedness.

The dilemmas of collective action in the age of national-populism

While coordination between Member States in the formulation of European foreign policy has always been made difficult by their different priorities, the enlargement of the Union, the different crises that have affected Europe in recent years, and the transformation of threats have further increased disagreement. By now, tensions no longer flow merely between large countries with different foreign policy priorities, but also between Eastern European countries – fearing the renewed Russian expansionist activism – and Northern or Southern European countries – for which Russia is primarily a strategic trade partner; between countries that struggle to emerge from the economic crisis and the better off; or between countries directly exposed to

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Laterza, 2004; G. Laschi and M. Telò (Eds.), *L'Europa nel sistema internazionale. Sfide, ostacoli e dilemmi nello sviluppo di una potenza civile* (*Europe in the international system. Challenges, obstacles and dilemmas in the development of a civil power*), Bologna, Il Mulino, 2009.

[14] Poland, Hungary, the Czech Republic, and Slovakia.

migration flows (Italy and Greece in the first place) and the others. Furthermore, there are three, possibly even more relevant, fault lines that weaken the European project and, inevitably, the EU's ability to play an important international role. The first fault line lies between the countries most affected by the victory of populist supranational government forces and the others; the second is the internal splitting in European (and Western) societies in general; the third might lead to the secession of part of the Member States.

On the first fracture, if the victory of the young pro-European Emmanuel Macron in the 2017 French presidential election gave to progressive forces a sigh of relief, things did not go as well elsewhere. The elections in Austria have led to the formation of a government coalition which includes the Freedom Party (FPÖ), the reactionary and anti-European party that European governments managed to contain in 1999 following the elections that led to the formation of a Schlüssel government supported by Jörg Haider (the FPÖ leader, accused of xenophobia by the European chancelleries). In October 2017, the electoral victory of the Conservative Party (31%) and the significant success of the FPÖ (26%), which placed second along with the Social Democratic Party (26.9%), led to the formation of a conservative government led by Sebastian Kurz, Europe's youngest leader, and his ethno-sovereigntist program that, among its first decisions, announced the willingness to give the Austrian passport to German- and Ladin-speaking South Tyrolean Italians[15]. In Germany, the formation of another grand government coalition (CDU, CSU, and SPD) took almost four months of negotiations and, in any case, the parliamentary debate will be influenced by the 2,050,000 votes of the conservative and populist force of Alternative für Deutschland (AfD). In the Netherlands, Mark Rutte's presidential victory over Eurosceptic and xenophobe Geert Wilders

[15] "Austria, cittadinanza ai sudtirolesi: prima polemica del governo di centrodestra con l'Europa" (Austria, citizenship to the South Tyrolean Italians: first polemic of the center-right government with Europe), *La Repubblica*, 17 December 2017.

has overshadowed the evidence of a country whose electorate has indisputably leaned to the right. In Hungary, popular support for the governing party of the Eurosceptic Conservative Viktor Orbán shows no decline[16]; in Poland, the anti-democratic drift of the ultra-nationalist and anti-European government of Mateusz Morawiecki continues[17]. The countries of the Visegrad group (i.e. Poland, Hungary, the Czech Republic, and Slovakia) are now united against Brussels on migrants, media freedom, and human rights[18]. The wave of populist nationalism that overwhelmed Europe has also conditioned the tones and decisions of other political forces and made the foreign policy (European and international) of Member Countries less predictable and bipartisan than in the past. However, while in the past authoritarian drifts in some Member States (such as Haider's Austria) had been punished in a timely manner (and not only in the figurative sense) by the other Member States, today the blatant democratic setbacks in Hungary and Poland, the xenophobic positions of political movements everywhere in Europe, and the open violation of common standards by the Visegrad countries (especially with regard to immigration and asylum rules) have not been sanctioned. It was only at the end of 2017, after years of ascertained violations, that the Commission invoked Article 7 of the TEU for "a clear risk of a serious breach of the rule of law"; it is yet to be seen whether the Council, with a four-fifths majority, will endorse the Commission's concern and decide to suspend some of Poland's rights (including the right to vote in the Council). However, the response has been very slow as concerns about the deterioration of the rule of law in the country have been expressed since 2016. It seems that Europe is becoming accustomed to a new normality that denies itself and the values on which it is based.

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[16] http://en.republikon.hu

[17] W. Moskwa and M. Strzelecki, "Poland Is Cutting the 'Last Fuses' on Democracy, Official Warns", *Bloomberg Politics*, 23 October 2017.

[18] V. Da Rold, "Visegrad, il 'cuore di tenebra' dell'Europa" (Visegrad, "Heart of darkness" of Europe), *Il Sole 24 Ore*, 21 December 2017.

The affirmation of national-populism in several European countries has also reduced Europe's ability to take joint decisions on immigration, its position towards the United States, Middle East policy, and so on. The populist wave has also ended up affecting the main traditional asset of European diplomacy: multilateral trade negotiations. See, for instance, what happened with the EU-Canada Free Trade Agreement (CETA), which was held hostage by the worries of local European producers backed by populist forces for months.

The split between national-populist Euro-sceptic and other forces (including euro-critical ones) does not only affect countries, but also the domestic societies, as shown by the results of the polarised vote for the referendum that led to Brexit, the vote for the French presidential election, and the Polish and Dutch elections. The geography of the vote is very clear: national-populism wins where economic inequality and the costs of globalisation weigh harder. Paradoxically, however, the forces that win the elections in the wake of the uprising against an establishment held responsible for a hungry liberalism, choose economic policies that will certainly not fill the inequalities that they claim they want to combat. This is the case with the tax reform of the Trump administration, but also with the Austrian right-wing government programme, or even with Brexit in the UK[19]. If Europe aims at putting a brake on populist-nationalist drift, it should start from reforming European welfare state, strengthening labour market policies, and combating inequalities both at national and European level, but these do not seem to be priorities for many European forces.

The last split, the geographical-institutional one, is the most painful; it has emerged in Spain with the declaration of secession of Catalonia, but it risks extending to many other regions of Europe, because European leaders have yet to seriously address the issue and define a common line that is not the mere (slow and ineffective) response to contingent pressures.

[19] "The Trump/Brexit Moment: Causes and Consequences", *British Journal of Sociology,* Special Issue, vol. 68, S1, November 2017.

How can a patient with so many internal ailments be an effective and credible international player?

And yet it moves. Perhaps...

To cope with the multiplication of external threats (from Russia to North Korea, from terrorism to cybersecurity), requiring the identification of a common line of conduct that could hold together Member States with divergent visions and priorities, and to respond to the need for effectiveness in external action, about fifteen years after the release of the first EU strategy paper, Federica Mogherini settled on launching a process of extensive internal (and external) reflection on the role of the EU in the world, which led to the publication, in June 2016, of the Global Strategy of the European Union[20]. Although penalised by the fact that it came out five days before the British referendum for Brexit, the document undoubtedly had the merit of relaunching the debate on the EU's international role, bringing it out of the quicksand of an ineffective civil power narrative, and paving the way for a relaunch of intergovernmental defence cooperation. The document's focus on a more cohesive, responsible, and credible foreign policy, the call for a pragmatic approach – indeed inspired by a "principle-based pragmatism" –, and the emphasis placed on the need to sustain the resilience of societies inside and outside Europe, introduced major changes to the dominant narrative of the EU as a normative power, inspired by values and hardly open to the idea of coming to compromise to satisfy its interests. The document, the High Representative's commitment to its implementation, but also the fears linked to a weakening of the Union as a result of Brexit and the possible disengagement of Trump's United States in European security, have led to the first steps towards

[20] To retrace the process and that led to the drafting of the overall Union Strategy see, N. Tocci, *Framing the EU Global Strategy: A Stronger Europe in a Fragile World*, Palgrave, 2017.

the implementation of a framework for deepening intergovernmental cooperation in the field of defence. At the Bratislava European Council in September 2017, a series of measures were adopted for strengthening European defence. This led to the launch of a Coordinated Annual Review on Defence (CARD), the creation of a military planning and conduct capability, the strengthening of cooperation between the EU and NATO and, above all, the establishment of a Permanent Structured Cooperation (PESCO) to strengthen defence cooperation between Member States wishing to do so. The PESCO agreement, which is fully in line with the institutional framework drawn up in Lisbon, marks the start of flexible and variable-geometry cooperation in the field of defence between the 25 Member States (all except the United Kingdom, Denmark, and Malta) that initialled the agreement on 14 December 2017 (which remains open to non-signatories as well). For the first time, the signatories accept a number of binding commitments (including increasing the defence budget) and agree to develop specific programmes[21].

The debate on PESCO, especially in the aftermath of Macron's election in France, has rekindled hopes for the possibility of relaunching integration through variable-geometry (differentiated) advancements and a renewed functionalist approach (by initiating cooperation on specific projects a progress towards a real Europe of defence is expected). Is this a credible bet? I believe not. The 'variable geometry' of PESCO is not for real (almost everyone take part in it, and everybody can join later on), it is mainly driven by economic concerns, it tells us nothing about how the new instruments will be used politically and, as in the case of the euro, it puts the creation of a policy tool before that of a political framework. If functionalism has shown its limits when it clashed with one of the two fundamental prerogatives of national sovereignty (the currency), why

[21] For a detailed review of the current PESCO agreement see, D. Fiott, A. Missiroli and T. Tardy, *Permanent Structured Cooperation: What's in a Name?*, European Union Institute for Security Studies (EUISS), Chaillot Paper no. 142, November 2017.

should it not do all the more so in the case of the second, even heavier, pillar of sovereignty (military capacity)?

What way out? Let's daydream a little…

Given the overall picture of what prevents the EU from weighing in on the international political landscape, it is clear that there are no simple solutions to this issue. Three recommendations, however, seem to emerge with particular strength from the analysis carried out in this chapter: reduce, rethink, and reaffirm.

First, it is crucial to accept the fact that a Europe at 27 (after Brexit) cannot produce rapid, cohesive, and effective decisions to respond to the needs of European citizens and the international system. A "variable-geometry" Europe has already been a reality for years (e.g. the euro and Schengen have different membership): it is probably only a matter of allowing oneself the luxury of breaking a taboo and seriously start thinking about a Europe in which a core group of countries take a serious step forward in integrating not only single sectors but their national political system as a whole. The idea of a European federation might no longer be fashionable, but it is also true that functionalism and multilevel functional governance have shown all their weaknesses. Having reached the verge of the core of national sovereignty (coin and army), it is useless to pretend that we can continue to proceed by getting ahead of ourselves, putting political functions before political leadership.

That is why we need to rethink the integration method, reflecting on the limits of functionalism and the negative loop between priorities related to safeguarding integration and international political priorities. However, it is also necessary to emphasise the fundamental principles that are at the core of the Union, without which not only the soul of Europe (as it was called in a book a few years ago)[22] might be killed, but

[22] F. Cerutti and E. Rudolph, *Un'anima per l'Europa. Lessico di un'identità politica* (*A*

its foundations might be undermined. What is the point of a Europe without internal solidarity, without effective protection of the rule of law and the fundamental principles of representative democracy, without protection of human rights or without a welfare state that will thwart growing inequality? Only a Europe that is true to itself can enjoy internal and international legitimacy and credibility. We need a Europe that fights against the national-populist drift of post-normativity by rethinking its economic and social structure, a Europe that severely sanctions internal violations and omissions, which call into question the idea that every violation might become the new rule in the name of national sovereignty. Such a Europe, though, needs a strong and brave leadership, capable of pulling a bandwagon that, at times, seems to be going adrift... Let's be honest: currently there is little evidence of such a leadership, if not in the sparkle of young Macron's good intentions and the renewed Franco-German propulsive axis.

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soul for Europe. Lexicon of a political identity), Pisa, Edizioni ETS, 2002.

9. Sub-national Nationalism and the Catalan Puzzle

Alberto Martinelli

To talk about subnational nationalism might look like an oxymoron, a contradiction in terms; it defines the will to secede from a national state in order to build a political entity of the same type but of smaller dimensions, all the while adopting the same nationalistic ideology, the same appeals to identity, and the same notion of national interest. And yet, the concept of subnational nationalism, contradictory as it might seem, allows to define a wide range of local-nationalistic claims, in which portions of state pursue local interests claiming their national sovereignty. This is a worldwide phenomenon that will be examined in this chapter taking as an example the European context, both inside and outside the European Union, and Catalonia in particular.

Back to the nation and nationalism: underlying causes

The Catalan issue is the most obvious example, but certainly not the only one; it was preceded, in Spain, by the much more violent Basque independence movement and shares similar features with other separatism within Europe. In particular, one might recall the long and bloody North-Irish conflict in the United Kingdom, which reached a non-final closure with the Good Friday agreement of 10 April 1998, and the recent 2015 Scottish referendum, in which the proponents were defeated; in Belgium, the divide between Walloons and Flemings has recently become more pronounced, preventing the formation

of stable governments; in France, the Corsican issue is like a karst river that reappears from time to time, currently taking the form of the significant electoral successes of the recently united Independent and Autonomist parties. In Germany, it is worth citing the small but tenacious Bavarian independent party Bayernpartei, which at the beginning of 2017 asked for a referendum, rejected by the German Constitutional Court; in Italy, the autonomy referendums were supported by the majority of voters in Veneto and by a large minority in Lombardy. But the phenomenon of new nations and new nationalisms and subnationalisms has become even more evident in Eastern Europe, where following the fragmentation of the USSR and the dissolution of the Soviet sphere of influence, new sovereign states have been born- either peacefully, as in the case of the Baltic Republics or the division between the Czech Republic and Slovakia, or violently, as in the case of the former Yugoslavia; and new subnational claims have exploded in a number of these new states such as in the case of Chechnya in Russia, South Ossetia and Abkhazia in Georgia, the Luhansk region in Ukraine, the Nagorno-Karabakh region in the Caucasus, Transnistria in Moldova, and Kosovo in Serbia.

While very different from each other, these cases can all be considered as manifestations of the same phenomenon: the return of nationhood and nationalism, rooted in the great economic and political transformations that characterised the last decades of the XX century: on the one hand, the complex processes that we call globalisation and, on the other hand, the collapse of the USSR and the end of the Cold War.

The hostility toward the European project of an ever greater union, the opposition to the euro and anti-Europeanism in general represent the connecting link between nationalism and populism, the point at which they merge. The national-populist ideology makes instrumental use of the popular resentment against institutions and establishment, of the fascination exercised by the anti-politics (which becomes the main tool to engage the people and therefore to gain consensus) to spread their

nationalistic and anti-European message. The EU's institutions are often the main scapegoat and critical target. However, national elites are also criticised for being incapable of opposing or even for being complicit in Europe's supranational technocracy and must therefore be replaced by the true defenders of national interest.

Here, however, there is a fundamental divergence between nationalist and independentist parties: the former want to regain portions of sovereignty transferred to the EU, convinced that the national level is the most suitable to manage the problems of globalisation, while the latter want to secede from the home countries, preserving and even strengthening the link with the EU in a federalist perspective, because they are aware of the advantages of belonging to the supranational union and prefer the institutions and the European ruling class to the national ones. Subnational nationalism, therefore, shares many claims of nationalistic ideology, but not anti-Europeanism.

But what are the root causes of the rise of populist nationalism? First of all, globalisation. The increasing economic and financial interdependence, as well as the social and cultural interconnection, have not led to the "evaporation" of the nation-state, but have nevertheless led to an erosion of national sovereignty. And this in its turn has fostered an iper-sovereign reaction. A centralist state organisation (even for the most important and powerful entities such as the United States or China) appears too big to manage certain problems (such as migration flows) and too small to deal with others (such as municipal waste management). Moreover, a narrow, ethnically and culturally homogeneous definition of national identity does not suit multi-ethnic and multicultural societies. But, in spite of all that, a widespread belief exists that national sovereignty is a pre-requisite for effectively coping with the key issues of the global agenda.

The problem of global governance raised by the erosion of sovereignty had for some time oriented international relations towards a multilateral and transnational dimension with a corresponding loss of relevance of traditional state actors and

bilateral relations. However, as shown by the choices of both the great powers (the "America First" motto by Donald Trump, the hegemonic challenge of Xi Jinping's China, the political and military protagonism of Putin's Russia, the nationalism of Rajendra Modi's India), and regional powers like Turkey, Iran, Saudi Arabia, Israel, and Egypt (just to limit ourselves to the Middle East and North Africa region), sovereignty and national (and subnational) interests have recently been strongly reaffirmed, alongside-and often at odds-with multilateral institutions. National states are subject to the double pressure coming from above-by processes of global interdependence-and from below-by new centrifugal forces and renewed regional/local identities and autonomy claims.

Nationalism is both a product of globalisation and a reaction to it. The sense of disorientation caused by globalisation produces a widespread desire for local roots; particular cultural identities are reaffirmed as a reaction to the generalised dominance of the economic dimension; the rediscovery of localism contrasts with the culture of cosmopolitanism. Contemporary national-populist parties and movements express a strong call for identity and solidarity, which seeks to counter the erosion of national sovereignty caused by globalisation, by proposing to strengthen the fundamental attributes of statehood and rebuild national frontiers. Within the EU, this trend takes the form of euro-scepticism and the renationalisation of public policies.

Nationalism is an ideology of the nation-state and a strategy for conquering and keeping power; it developed historically in response to the need of individuals to overcome the feelings of danger and insecurity deriving from social uprooting, the dissolution the weakening of traditional beliefs and the dissolution of protective mechanisms, that took place in the transition to modernity. Three decades of a globalised economy have exacerbated these feelings and fostered its overbearing resurgence, also because they have reduced the nation-state's room for manoeuvre and the effectiveness of economic and social policies which could cope with global challenges.

The protracted economic and financial crisis exploded in 1998 and its social consequences, from the rise in unemployment and underemployment to the deepening of inequalities, further accentuated the pressure of global processes on social cohesion mechanisms, fuelled a climate of insecurity and fragmentation of interpersonal relations, and changed the traditional balances of European policy, thus offering an important rhetorical resource to national-populist movements. The condemnation of globalism (as globalisation is called) by the French Front National, as a threat to national identity in the name of profit, is exemplary in this regard. The euro is mixed up in condemning globalism and is described not only as a betrayal for France but also for Europe because it implies forced integration into a world market dominated by the United States[1].

Globalisation and the financial and economic crisis have an impact on the new nationalism also in another way: insofar as they led to a downsizing of welfare policies, they favour the so-called "welfare chauvinism"[2], an attitude traceable in the national-populist movements of many EU Member States, from the Scandinavian countries to Italy, from the Netherlands to Belgium welfare chauvinism calls for social protection limited to the citizens of the country and refuses to grant the same social rights to foreign workers and voting rights in local elections to non-EU citizens or in European Parliament elections to residents of other EU Member States .

National-populist parties in the EU have much in common, but also differ in Northern and Southern countries; the main differences are related to the interconnected crises of economic stagnation and sovereign debt with the related exit strategies, and of massive migration and asylum seekers with the related migration policies. National-populist parties in the South base their consensus on the social discomfort and unrest caused by the

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[1] A. Martinelli, *Mal di nazione*, Milan, Università Bocconi Editore, 2013; A. Martinelli, *Beyond Trump. Populism on the Rise*, Milan, Epoké-Ispi, 2016.

[2] J.G. Andersen, "Restricting access to social protection for immigrants in the Danish welfare state", *Benefits*, vol. 15, no. 3, 2007, pp.257-269.

long crisis in terms of low growth, unemployment and underemployment, increasing inequalities, and worsening economic conditions; their Northern counterparts base their consensus on identity fears fuelled by migratory flows not adequately controlled and culturally different (especially if of Islamic origin). The North/South cleavage is however not the only one in the EU, it coexists and overlaps with the one between Western founder states and Eastern more recent members.

The revival of nationalism in Eastern Europe countries

Although nationalism is growing everywhere in Europe, both at the centre and at the periphery (where it often emerges as a consequence of delayed modernisation), its resurgence is actually particularly strong in the post-communist countries in Eastern Europe (within and outside the European Union), where the impulse given by globalisation processes couples with a second fundamental order of causes: the end of the Cold War and the dissolution of the Soviet sphere of influence.

The implosion of the USSR has defrosted rifts and conflicts that during the Cold War had been absorbed and incorporated into the bipolar *confrontatio* between the United States and the Soviet Union. The end of the conflict between two alternative universalistic Weltanschauungen may explain the reaffirmation of national, local, ethnic, and religious identities and the related geopolitical conflicts that had been anaesthetised and hidden by the ideological rhetoric of free society and communism. Following the momentous breakthrough of 1989, older communities than those based on democratic citizenship and class solidarity re-emerge from the past, the old rifts reappear, and so do traditional geopolitical conflicts inherited from previous centuries, intertwining with the new conflicts stirred up by globalisation processes and intersecting with the difficulties of

transition and regime change[3].

The collapse of the planned economy and old welfare social security system generates a widespread feeling of precariousness and insecurity, inducing many to rely on cultural and linguistic communities. Hroch[4] concludes his comparative analysis of the evolution of nationalist movements over the last two centuries by observing that when the ancient regime collapses, old relations fluctuate and general insecurity grows, the members of non-dominant ethnic groups end up finding the only remaining certainty in the linguistic and cultural community, as a value that can be proved in an unambiguous way; in a disintegrating society, language replaces the factors of integration. When society fails, the nation looks like the only certainty left.

And where there is a loss of confidence in the traditional elites, populism, the street companion of nationalism, thrives. The citizens of post-communist countries have lived through traumatic experiences resulting from a radical change at all levels of social organisation (political, economic, cultural in everyday life), their expectations have been frustrated by the negative legacy of the past (pervasive bureaucracy, overabundance of obsolete laws, inefficient state enterprises, weak civil society, and democratic political culture). Social inequalities have increased, partly as a result of the unexpected consequences of the reforms that have distributed the costs of transformation, creating a rift between those who have been successful in the new system and those who have experienced loss or failure, encouraging the growth of national-populist leaders, such as the Polish Law and Justice Party and the Hungarian Fidesz party, which promise to bring the "unfinished revolution" to its natural conclusion and eliminate from public life all the elites guilty of mismanaging the transition by not breaking up with the past.

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[3] A. Martinelli, M. Salvati and S. Veca, *Progetto '89. Tre saggi su libertà, eguaglianza e fraternità (Progetto '89. Three essays on freedom, equality, and fraternity and fraternity)*, Milan, Il Saggiatore, 2009.

[4] M. Hroch, *Comparative Studies in Modern European History. Nation, Nationalism, Social Change*, Aldershot, Ashgate, 2007.

The literature on the national issue in the "new Europe", arising from the implosion of the Soviet Union and the disintegration of Yugoslavia, is now quite extensive. I would just like to mention the fundamental contribution of Brubaker who, comparing the years following the Great War and the last decade of the last century, examines the migratory processes that occur in the stages of composition and dissolution of multi-ethnic empires and the unpredictable consequences of the implosion of the USSR for the Soviet system of institutionalised multinationality, starting with the Chechen issue and the Russian-Georgian and Russian-Ukrainian conflicts[5]. Particularly relevant to this analysis of subnational nationalism is the distinction of three types of mutually antagonistic nationalism: a) the "nationalising nationalisms" of newly independent or newly reconfigured states claiming the status of "legitimate owner" of the state of the fundamental nationality (defined in ethno-cultural terms) with respect to citizenship in general (this is the case of many post-Soviet states, such as the Baltic republics or Georgia); (b) trans-frontier nationalism or "homeland nationalism", which asserts the right/duty of states to monitor conditions, promote well-being, defend rights, protect the interests of members of their ethno-national community that are a minority in other countries (eg. Russian minorities in post-Soviet states such as Georgia, Moldova or Central Asia states); (c) the nationalism of national minorities aspiring to broader autonomy, or even independence, which are often caught in the midst of antagonism between the two previous types (such as Kosovo).

The dimensions of nationalism and the federalist option: the Catalan case

To understand the genesis of subnationalist parties it is useful to consider three fundamental dimensions of nationalistic

[5] R. Brubaker, *Nationalism reframed. Nationhood and the National Question in the New Europe*, Cambridge, Cambridge University Press, 1996.

ideology[6]: 1) the ethnic-genealogical dimension that is built around the specific origin of people; 2) the cultural dimension in which the heritage provided by language, religion, and other customs and traditions constitutes the symbolic essence of the nation; 3)the political-civil dimension that emphasises citizenship, sovereignty, and territoriality of the state as determinants of the borders of the nation; this third dimension can be further differentiated in civil nationalism (of an individualistic nature in England and collectivistic in France) and constitutional patriotism (as in the United States). The three analytical dimensions (ethnic-genealogical, cultural-symbolic, political-civil/political-constitutional), combining in various ways and degrees, contribute to delineating different strategies of the nationalist movements and different proposals of institutional architecture. Problems arise where components are unbalanced: if, in fact, national identity is based almost exclusively on the civil and/or constitutional dimension, it may not be able to generate the collective feelings necessary to contrast other, more rooted, subnational identities (ethnic, religious, local) and end up breaking national unity; if on the opposite, national identity is excessively based on ethnic-genealogical and/or cultural-symbolic aspects, it risks fuelling xenophobic attitudes and populist movements with anti-democratic ideologies.

The Spanish case seems to fall within the first type of imbalance, while the Polish and Hungarian cases in the second. The governing parties in Hungary and Poland, based on a strong identity feeling of the majority of the population, have reduced constitutional guarantees (such as the independence of the judiciary, which has led the EU to initiate infringement proceedings against Poland and to refer the Polish Government to the European Court of Justice). The desire to move away from the negative legacy of Francoist nationalism has instead led Spain to favour the political-civil dimension, facilitating the affirmation of regional and local identities. The Catalan issue exploded when

[6] D.N. Yuval, *Gender and Nation*, London, Sage, 1997; S. Huntington, *Who Are We? The Challenges to America's National Identity*, New York, Simon & Schuster, 2004.

the demands for cultural autonomy became demands for national sovereignty. But why is this transformation taking place, why is the demand for political independence gaining ground?

First of all, it should be stressed that the conditions/opportunities for the development of independence claims are much more widespread than their actual manifestation. In fact, there are numerous (and poorly studied) cases of lack of mobilisation or failed nationalistic mobilisation. Nationalism is a heterogeneous set of ideas, practices, and possibilities concerning the nation, which are continually available and endemic in modern political and cultural life. This is a shifting and contingent phenomenon, which may or may not present itself, despite the existence of intercultural conflicts and the efforts of ethnopolitical entrepreneurs. But it is political demands that create independent national minorities, not objective ethno-demographic data. The nation is not a substantial entity but the result of concrete political action, a contingent event, an institutionalised form; to understand nationalism we must, therefore, understand the specific use of the concept of "nation", the way in which the idea of nation structures perception, informs thoughts and experiences, and organizes ideological discourse and political action[7].

Second, it should be noted that the overlap of state and nation is not given once and for all but changes over time, because the nation does not have an essentialist foundation but is the result of historical contingencies and political actions. This also implies that, in principle, there is no limit to independence claims, because when part of a state entity has claimed and obtained sovereignty on the basis of the affirmation of its own national specificity, it is in turn exposed to claims of the same nature based on the same motivations by parts of its territory and segments of its population.

Finally, in case of a mobilisation for independence, the outcomes can be very different in terms of goals (full sovereignty, state autonomy within a federal union, wide administrative

[7] R. Brubaker and D. Laitin, "Ethnic and Nationalist Violence", *Annual Review of Sociology*, vol. 24, 1998.

decentralisation), forms (peaceful or violent, in compliance with or in violation of the existing constitutional pact, with or without request for external intervention), and type of ideological legitimisation and expression of nationalist ideology. With regard to forms of mobilisation, the Catalan independence movement, unlike the Basque one, refuses to resort to violence and acts in the open, all the while generating a constitutional breakdown. With regard to ideological legitimisation, the core of nationalist ideology states that the nation is the ultimate source of sovereignty, the values of the nation must have absolute priority, and loyalty to the nation should overcome all other types of loyalty (to kinship, ethnic heritage, religion, or class).

The fundamental nationalist claims are identity claims, which divide the world into "us" and "them", friends and enemies, assuming a homogeneous and rigid identity for both and exalting the characteristics that differentiate them from each other; time-related claims, in the sense that the nationalistic narrative wants to spread the "authentic" version of national history and establish a strong link with the past, promoting a sort of collective amnesia about the problematic aspects that are not congruent with the official narrative; and claims concerning space, in the sense that the nationalists assume that there is an inextricable link between nation and territory, which is often seen as a shaping force of the national character and as a context that bears the indelible signs of the continuous historical presence of the nation[8]. In this context, the Catalan case appears to be a weak version of nationalism (it completely lacks the claim of a substantial diversity of Catalans compared to the other Spaniards, who are not considered opponents at all). Nevertheless, there are some other characteristic features of nationalistic ideology, which refer both to the territory (the Catalan identity is linked to the freedom of the sea, while the Castilian one is of a centralistic-continental type) and to history

[8] U. Ozkirimli, *Theories of Nationalism. A Critical Introduction*, London, Palgrave Macmillan, 2010.

(Republican Catalonia is opposed to monarchical Spain, which even after the end of Francoism is accused of preserving the political culture and the ruling groups of the previous authoritarian regime).

Finally, the rise of subnational nationalism is influenced by the political choices of the national government and, in particular, by the willingness to recognize and comply with demands for cultural and political-administrative autonomy. The Scottish devolution, the linguistic supremacy of the Catalan language in Catalonia's educational system, the economic support given to less developed regions such as Corsica, are all attempts by the central government to weaken independence claims, but these are often insufficient. The result that can be achieved with a genuine federal structure is different, as is the case with Germany.

In Catalonia there is now a political stalemate between the Spanish Government and the Generalitat de Catalunya, which was confirmed by the December 2017 elections, which recorded a participation rate of almost 82% and the success of the Independent Parties, which, although stopping short of 48% of votes, obtained a majority of the seats – 70 out of 135). I believe that the most effective way of overcoming the constitutional reform in the federal sense that adds to the already existing broad cultural autonomy the principle of a shared governance.

Federalism is a pact (*foedus*) that promotes unity between the contracting parties and recognises their integrity and autonomy. In this way, the advantages of small and large scale can be combined, spreading political power in the name of freedom and democratic control of citizens, while at the same time concentrating this power on achieving unity and effective and vigorous governance. The fundamental prerequisite is the principle of popular sovereignty in the dual form of self-rule and shared rule, namely the plurality of sovereign power centres. Federalism is a method of government that integrates a potentially conflicting set of different entities into a single political body and, at the same time, safeguards the plurality, cultural

specificity, and relative autonomy of the single federated entities in a context of double sovereignty; it is a multilevel political organisation which comprises several levels of government that operate on the basis of a division of competences and responsibilities that are constitutionally guaranteed[9]. Combining union and autonomy protects diversity and difference and promotes the peaceful resolution of conflicts and behaviour inspired by the principles of cooperation, negotiation, and compromise. Federalism certainly does not come without risks: it could foster rather than hinder inequalities in societies with profound economic and social imbalances, it could increase inter-state and centre-periphery disputes, and it could even bring to complex administrative problems entailed by the transition from a central to a federal order. Moreover, it requires a number of specific favourable conditions: first and foremost, the presence of social and political pluralism and values of tolerance and cooperation[10].

It is debatable whether the conditions for a federal reform exist in Spain today. However, the benefits would be obvious. It would be the only solution to defuse the dangerous radicalisation of the Catalan independence movement. It could serve as a model for other subnationalisms currently on the rise in the European context. And finally, it could positively interact with a federalist evolution of the European Union in a process of mutual strengthening.

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[9] W.H. Riker *Federalism: Origin, Operation, Significance*, Boston, Little Brown, 1964.

[10] A. Martinelli, "Che cos'è il federalismo e come lo si può realizzare" (What is federalism and how we can make it), in *Quale federalismo per l'Italia. Terzo Rapporto sulle priorità nazionali della Fondazione Rosselli (What federalism for Italy? Third Report on the national priorities of the Fondazione Rosselli)*, Milan, Mondadori, 1997.

10. Germany and the EU: In Search for a New Direction

Michele Valensise

A seasoned German diplomat recently told an anecdote from his professional experience, as evidence for the unpredictability of history over the last few years. In November 1989, a few days after the fall of the Berlin Wall, a German delegation, led by Rita Suessmuth, President of the Bundestag, was received by Gorbachev during an official visit to Moscow. The delegation asked the secretary of the Communist Party what were his thoughts on the impressive queues of Trabants, tens of kilometres long, which for days had been amassing at the border of the DDR with Federal Germany to pass to the West; on board, there was a huge number of celebrating East German citizens, attracted by the open gates towards freedom. Gorbachev stared at his interlocutors and answered seriously: "Frankly I would not make a big deal of it. You will see, in a few days they will be back home, and everything will go back to normal". The bottom line is that not even the powerful and all-knowing head of the Soviet Union had been able to predict the true extent of that exodus for East Germany, for German reunification and Europe as a whole.

This unpredictability is the hallmark of many developments in recent history. The breakout of armed conflict in Ukraine, in the heart of Europe; the proclamation of the Caliphate in the summer of three years ago and the bloody territorial conquests in Iraq and Syria by the so-called Islamic State; or the clash between Saudi Arabia and Qatar. All these are events that have escaped analysis and forecasts by politicians and experts alike. Some recent twists and turns in German and European politics have been equally difficult to foresee.

German pragmatism in current transatlantic relations

The year 2017 began with uncertainties linked to the outcome of the British referendum on Brexit and its consequences. A surprising result for Germany, which was forced, after the regrettable British decision, to weigh the best course of action for the European Union in order to contain the damage. The British Government's difficulties and delays in targeting even the earliest necessary steps after the vote for Brexit, such as the activation of the article 50 of the Lisbon Treaty, had a significant impact also on the German government. Berlin chose a pragmatic, non-punitive, approach towards the UK, careful to take into account the need for an orderly exit, leaving the door open to a collaboration with London in many relevant sectors. Defence, security and intelligence are priority areas to define the future of EU-UK relations. It is hard for Germany to understand the short-sighted decision by the British but, at this stage, there is a need for realism and a gradual approach. In the background, there is still a farfetched hope that the process, triggered in the United Kingdom by a clumsy domestic political gamble, can be curbed and corrected at the right time by a second British decision, reversing the popular response of June 2016.

At the beginning of 2017, Germany, already invested by Obama with a leading role in the transatlantic dialogue, had to deal with the inauguration of a new president at the White House, whose election had defied expectations. The relationship with the United States remains a founding value, which is essential for Germany (and for Angela Merkel, who remembers fondly being gifted as a young girl from the DDR with a pair of American jeans, incredibly hard to come by at the time). The transatlantic relationship is rooted in German politics and society. However, the unpredictability and unconventionality of some of Donald Trump's electoral stances, confirmed by his first actions as a President, have been the subject of critical

scrutiny and assessments more in Germany than elsewhere.

When Trump took office, taking very radical stances compared with the past, Berlin redoubled on the importance of transatlantic ties and, at the same time, on the importance of its national values. The German stance, both friendly and reclaiming to be different from the new US administration, consolidated over time. Back from Taormina after taking part in the first G7 summit with Trump, Chancellor Merkel did not conceal the German disappointment at the distance of Washington's positions, reiterated during the meeting in front of the Seven on some key points of the global agenda, such as climate change and trade liberalisation. There is an unprecedented contradiction between the German national interest and the stances of the transatlantic ally. Germany cannot renounce a multilateral management of environmental issues and, even less, an opening up of the international markets in line with the needs of a system strongly oriented towards exports.

The remaining European G7 countries expected that President Trump would do things differently than candidate Trump. Their expectations were disappointed. However, Germany was more vocal than its European allies in remarking divergences from the US. This is why Angela Merkel's called for Europe to recognise that "it can no longer fully rely on the others", as in previous decades, and instead had to commit itself to "taking hold of its own destiny". This means a drive towards greater awareness and deeper integration among Europeans, a polar opposite to the renationalisation of foreign policies in Europe and to an old-fashioned raising of walls.

Germany and the EU

The upsurge of nationalism and anti-European resentment in many EU countries has had a significant impact on Germany. The worry was that simultaneous attacks towards the EU, blamed for many economic and social problems, could reach pathological levels and undermine the very foundations of the

common project. Before the French presidential elections, it was clear that a possible victory of Marine Le Pen would jeopardise the decades-long Franco-German cooperation and the European Union as a whole. It was only natural for Berlin to welcome the election of Emmanuel Macron and his interest in relaunching the European project, while Stefan Zweig's painful warning ("nationalism, the worst scourge of all, which has poisoned the best of our European culture") regained prominence.

There is, however, a point beyond which analysis and projects need to move forward from the declaratory dimension in order to enter operational ground, with well-defined goals, fitting tools and precise deadlines. Macron's ideas on the EU budget and the European Minister for Finance are moving in a concrete direction, but in general, they find more reservations than consensus in Germany, despite the openness of the Social Democrats: Sigmar Gabriel described the French President as a lucky chance (ein Gluecksfall) for Europe. Angela Merkel's proposals for increasing the accountability of European countries have so far not been translated into subsequent proposals or political acts. In any case, there is a deep conviction that the aspiration for stability and growth is best achieved in a European context, even if this entails burdens and limitations. And today, Macron's ideas are viewed with a certain willingness (upon which will depend the potential convergence towards a new "Grosse Koalition" in Berlin), by avoiding the most controversial or risky issues such as, for example, Treaty change.

On the other hand, critics argue – it appears like Merkel is not able to draw a clear line and translate it into coherent policies, going beyond the announcements, for legitimate that they can be. Her reassuring personality and her penchant for a wait-and-see attitude rather than clear and controversial choices are back at the forefront. However, the criticism tends to disregard that Merkel, over the years, has been capable of taking a number of daring decisions, wrong-footing allies and opponents alike: take, for instance, the sudden and difficult decision to phase out nuclear energy after the Fukushima accident in 2011.

Or take the even more sensitive decision, in 2015, to welcome an unlimited number of refugees and migrants coming from war-torn countries.

Meanwhile, Germany's economic indicators skyrocket to enviable records. The economic growth rate for 2017 is expected at 2%, the best performance in six years, while next year's growth forecast is 2.6%. German public debt is decreasing – the only instance among large European countries: in the last three years, it has decreased in absolute terms by €63 billion and, in the first half of 2017, amounted to 66% of GDP (in Italy it amounts to 132%). The economic-industrial system is sailing profitably in the current economic situation and follows government policies, in continuity with the past, as has happened when it has shown a remarkable sense of discipline in the face of priorities set by the government for political reasons: German business accepting sanctions against Russia, despite many companies interested in economic exchanges with the great eastern neighbour being hurt, is evidence of this attitude.

Uncertainty after elections

The latest developments in domestic policy have also been marked by unpredictability and uncertainty. The electoral campaign in the wake of the 24 September vote to renew the Bundestag took place in a peculiar atmosphere. The Chancellor remarked the importance of stability and continuity, to be even more valued in a volatile and threatening European and global environment. Why choose to steer Germany elsewhere if the current path ensured the safe navigation of the country? If society is balanced and the economic accounts are in surplus, is there really a need to find new formulas and to change government representatives? Angela Merkel has focused on this aspect and her undoubted personal leadership, made of competence, experience and tactical skills. Rather than a head of running for re-election, the Chancellor appeared as a sovereign waiting detachedly for a new, expected plebiscite in her favour.

Things went differently. Of course, the CDU-CSU reaffirmed itself as the first political force in the country but with a lower voting share, which could be attributed to Angela Merkel's indecisiveness and false steps. The Chancellor has thus emerged weakened – albeit not defeated – from the elections. The criticism was directed at the uncalled-for excess of trust and the fact that she did not want to "get her hands dirty" in many debates, mistakenly choosing to rely on a widespread satisfaction with the status quo. The road for the Social Democrats is uphill. Initially galvanised by superlative polls after Martin Schulz's candidacy for the Federal Chancellery, SPD found itself in a grip from which it was difficult to escape and eventually proved to be suffocating. It was problematic for Schulz and his party, on the one hand, to present themselves as polar opposites to Angela Merkel; and on the other, to carry a baggage of eight years of cooperation in the Chancellor's government, with the resulting co-responsibility.

The most important news of the September election campaign was the appearance on the political scene of Alternative für Deutschland (AfD), a right-wing party founded on nationalist, anti-European bases and on a mission to challenge Merkel's migration policy choices. A party that appeals to the concept of "national interest", interpreted in a rash, over-simplified, and attractive form. From an initial national-conservative approach, a result of the preferences of its leaders which had just left CDU-CSU, the party has moved towards more extreme positions. It has also incorporated a nostalgic and revisionist component, with alarming neo-Nazi features. The AfD rallying cry was the rejection of the open-door policy towards refugees and the demand for Germany to defend its own national interests on borders and markets, interpreted as antithetical, and not complementary, to European preferences.

While the AfD electing some of its members into the Bundestag changes the balance of power in the parliament, it does not alter the values that have prevailed over the past seventy years. It is true that the rise of an anti-system political force

should not be underestimated. It occurs particularly in the eastern regions of the country, in the former DDR, such as Saxony, where AfD is now the first party with 27% of the votes. The resentment towards an open and liberal society, albeit in a version modelled after the canons of the social market economy, calls into question the interest in maintaining competitiveness, development, and growth targets shared the EU. For some areas and certain sections of the population, it is not at all obvious that pursuing that type of "interest" is useful, and not disadvantageous. Instead, they were seduced by protectionist recipes, bent on defence and closure: they were attracted by "Germany first," disregarding objective data, according to which the system significantly benefits from an open and integrated arrangement with other countries, and which pursues the illusory merits of an unlikely economic and political autarchy.

Europeanism at risk

If one brings to its cultural and ideological conclusions these inclinations, one could even reach radical consequences, including the rejection of Thomas Mann's reassuring mantra of a "European Germany". It is as if history could repeat itself and bring us back to the threatening leitmotiv of the "German Europe", which has been set aside for decades along with the tragedies it caused. In an era of new nationalism, particularism, and localism, widespread in Europe and elsewhere against globalisation and related fears, is Germany revising the very foundations of its own nature, upon which it has based decades of stability, growth, and international leverage? Are we witnessing the start of a new chapter in history, in which the spirit of caution, measure, and search for synergies is to be considered as an obstacle in the pursuit of a "new" national interest?

It would be tempting to read the current situation in a rigid way. At the same time, one should not neglect the actual data. On this basis, it is really difficult to attribute to today's Germany a distancing, or even an overturn, of the principles that have

guided its action since the post-war period. Even among the many shortcomings of European integration, the essence of the relationship between the nation-state and the superior entity (the EU) to which some (limited) powers and functions are delegated by consensus, respecting true subsidiarity, is not likely to emerge deeply changed. Adenauer, Brandt, Schmidt, and Kohl interpreted and promoted the national interest in accordance with the country's need for partnerships and international cooperation. Konrad Adenauer was the promoter of the pro-Atlantic choice, winning over the national-neutralist pressure of many political sectors. Willy Brandt gave life to the Ostpolitik, against the resistance of those who aimed to defend the status quo for purely domestic reasons. Helmut Schmidt tied his political destiny, to the point of losing the Federal Chancellery, to the coherence with the Atlantic commitment, which was instead criticised by the resigned national-pacifist of the Eighties. Helmut Kohl sacrificed the *D-Mark*, the nation's identity trademark, on the altar of the single European currency, which he deemed as a necessity for the whole continent. Is it then plausible that this collaborative approach, careful to look for the appropriate cross-border synergies, rooted in recent German history and the conscience of its ruling class, is now being put aside in order to give way to a new form of nationalism? It is better to be cautious when it comes with extrapolating and forecasting radical breaks in policies and practices that, over the past decades, have continued seamlessly.

While Berlin has been criticised for excessively restricting economic policy, insensitive to boosting growth, it has also been very supportive towards Southern EU countries, helping them to manage migration. In a number of instances, concerning either financial or regulatory aspects, the German side has shown an ability to understand the reasons of the countries most exposed to the arrival of migrants and concrete willingness to assume responsibilities and burdens to a much greater extent than other EU Member States. Hence, for the country that occupies the geographical and political centre of gravity of the continent,

comes the willingness to commit itself beyond the North-South "cleavage" along Europe. Someone might object that this comes a little late, recalling the efforts that Italy, in the first place, had to undertake in order to put the issue of migration near the top of the European agenda; but in any case, in the end, with determination and a spirit of solidarity unparalleled within the EU and with undeniable concrete results, if we consider the hundreds of thousands of migrants that Germany received. This can be symptomatic of the complementarity between national interest (protection of fundamental human rights, managing migration, internal security) and European interest in the definition of a realistic, balanced, and solidarity-based migration policy.

Another cleavage, perhaps deeper and more difficult to make up, has long threatened the cohesion of the European Union. It is the confrontation with the countries of the former Eastern Europe, in particular with the Visegrad group, which brings to the forefront divisions and tensions that come from afar. The application of Community decisions had already led to a conflict between those who generously respected them and those who completely ignored them. Germany has historical links of geographical contiguity and close cooperation with these countries, yet it has been explicit in demanding from them discipline and consistency with the agreed commitments. It did not make any concessions, faced with the worsening of the domestic political climate in Hungary and Poland, the latter being faced with the unprecedented use of Article 7 of the EU Treaty and the potential sanctions that come with it. Equally unambiguous and clear-cut is the reaction to the inauguration in Vienna of a government that entrusts the nostalgic extreme right with the Foreign, Internal, and Defence Ministries, casting an ominous shadow over its next steps.

Now, after the failure to resolve the outcome of the September federal elections, it remains to be seen whether Germany will be able to establish a stable government amid uncertainties and tactical positioning in early 2018. Meanwhile, at this time of

suspension, which is felt everywhere on the continent, will we have to fear repercussions on Germany's stability and its ability to act in Europe? Another doubt may arise as to the suitability of different electoral systems in ensuring, beyond the fair representation of the forces in the field, the necessary governability of a country. The long institutional stalemate in recent months in Belgium and Spain, in recent weeks in Germany and perhaps in the coming months in Italy, with the difficulties of translating the ballot box's results into solid governing programmes and the formation of a fully-functioning government, legitimises the question and could provide the starting point for some updated reflections. In Germany, in fact, apart from the understandable wait for the new government, there are no signs that the political system is breaking apart. The institutions maintain their solidity, the economy is growing, and society does not show any signs of unrest, even if the 24 September vote was the latest evidence of the effects of persistent socio-economic (and cultural) inequalities between the West and the East of the country. It is no coincidence that in the East AfD made important strides, intercepting dissatisfactions and frustrations for the gap in economic and employment opportunities compared to the rich Western Länder. The reunification of Germany is complete, but there is still more than one mechanism to be put in place to resolve its "Eastern issue" at its root.

The European agenda is on the move. French President Macron deliberately agreed to wait for the elections in Germany (24 September) before launching, with his speech at the Sorbonne (26 September), a comprehensive plan to relaunch European integration. Despite being conditioned by the current phase of interim government (geschäftsführend), German politics continues to keep the European Union at its centre. The Chancellor does so, with her usual measure and prudence, and with the awareness repeatedly reaffirmed that in the face of complex and threatening global issues, European countries cannot afford to proceed in random order. European solidarity remains a staple in Angela Merkel's line of action, as is her

conviction that German national interests are achieved much more effectively in an EU framework than in isolation.

The SPD caters strongly to Europe. At the December party congress, Martin Schulz set the bar of ambition for Europe at a very high level, setting 2025 as the date for the creation of the United States of Europe.

Maybe a little too high. A realistic assessment of field forces and obstacles on the path to that maximalist goal – to be achieved in a very short timeframe, if compared to the game-changing scope of the project – makes Schulz's proposal a mere declaration of intent. It reflects the intention of the social-democratic leader, coming from a resounding electoral defeat, to relaunch the debate, in particular on European matters, which better fits him, within a party that is shaken and in need of a wake-up call. But it will be very difficult, in such a short space of time, to make progress towards Schulz's federalist goal. This would entail going beyond the concerns, for example, on the debt mutualisation, on increased responsibility and resources for an EU Finance minister, on an EU-based balanced and solidaristic migration management, on a common European army. Whether one likes it or not, all this will take time: it is not around the corner of the very near deadline of 2025.

However, the Social Democratic stance, when included to some extent in the programme of the likely CDU-CSU/SPD government, could favour a renewed centrality of the European commitment of Germany, encourage a more open vision of the bonds among EU countries, and be more willing to listen to the reasons of partners like Italy. Much revolves, of course, around the options that will prevail in Berlin in the coming months. If, in the end, a new CDU-CSU/SPD government sees the light after a long incubation period, the Europe chapter of its programme will be important and not reductive. Beyond the political parties currently involved at the exploratory negotiating table, the constellation of pro-European forces can count on a broad public opinion consensus and a safe parliamentary majority, at more than 70%. A share that is too high to imagine

shifts towards stances that veers on national unilateralism, despite the declared willingness to regain the trust of an electorate that lately was seduced by the extreme right.

So, despite hesitations, uncertainties and unpredictability, it is possible to foresee a new European initiative, which Macron is patiently waiting to co-lead. It will be necessary to monitor its timeframe and contents, trusting that even at critical times European integration can move forward, as has recently been the case, for example, with the encouraging decisions by the Council of the EU on common defence. If we move in this direction, Italy should avoid hoping that Brussels will grant it novel and generous flexibility. Rather, we will have to prepare ourselves and do our homework to be able to offer a substantial contribution to a closer, more authoritative and more effective Europe, which we will need for a long time to come. It is in our national interest.

11. The European Economy: A Year of Recovery, Uncertainty and New Projects

Franco Bruni

The world of 2017 was a world of both real and fake "great powers", thus calling for a more cohesive Europe. "The world today is in disarray. It needs Europe to provide economic stability and political direction. Europe, therefore, has to be strong and have a clear sense of where it wants to go"[1]. However, its east-west and centre-periphery divides and the pretensions of "grandeur" of its more or less small states – or, even, of their internal regions – have nurtured nationalisms that make Europe "smaller" and more fragile. Even though "Europe is home to the world's largest single market" and "is the largest trade power" its "place in the world is shrinking. […] Europe's relative economic power is also forecast to wane, accounting for much less than 20% of the world's GDP in 2030, down from around 22% today". This "accentuates the need for Europe to speak with one voice and to act with the collective weight of its individual parts", taking into account that "being a 'soft power' is no longer powerful enough when force can prevail over rules"[2].

For the EU, 2017 was a difficult year, full of internal and external events, mainly political in nature but undoubtedly of economic relevance. The climate was not that of a financial emergency; on the opposite, there has been a growing conviction

[1] From an interview with Benoît Cœuré, J. Mallien and F. Wiebe, "ECB's Cœuré sees decoupling of inflation goal and bond-buying", *Handelsblatt Global*, 21 November 2017.

[2] See, *White Paper on the Future of Europe. Reflections and Scenarios for the EU27 by 2015*, released by the Commission on 1 March 2017.

that we finally have "come out of the crisis". Nevertheless, 2017 was permeated by a feeling of fragility and uncertainty about the future of European integration and Europe's place in the world. This, however, has fuelled a disordered but rich planning of the Union's future, rooted in the considerations of previous years but with new ideas and, perhaps, some good old pragmatism.

The outlook for the economic cycle has improved. From the end of 2016 to one year later, the forecast growth rate of real GDP in the euro area went from 1.5% to 2.2%. Forecasts have also improved elsewhere but, with the exception of Japan, much less so[3]. Financial indicators have moved in a favourable direction everywhere: stock prices rose, interest rates fell, while exchange rate, equity, and bond volatility fell by more than 20%[4]. The interest rates spreads between Member States remained contained, with frequent reductions, and "sovereign bond market tensions have come down in the euro area amid markedly declining cross-country heterogeneity"[5]. There has therefore been, in Europe and most of the developed world, a good economic and financial climate, to the point that it is legitimate to fear a dangerous self-satisfaction of economic policies and investors, with the former discouraged from making the necessary adjustments and the latter inclined to accept excessive and poorly calculated risks.

This contrasts with the tense and disturbed geopolitical climate of the year. Europe, in particular, has been "on the verge of a nervous breakdown, holding its breath"[6]. As well as going through the first year of the disconcerting Trump Presidency, in addition to the Middle East and North Korea's issues impacting war and peace, the EU had to process the Brexit's surprise and

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[3] European Commission, *Autumn Economic Forecasts*, 2016-2017.

[4] Bank for International Settlements, *BIS Quarterly Review*, September 2017.

[5] Central European Bank, *Financial Stability Review*, November 2017 (see, Chart 1.10).

[6] S. Fabbrini, "La Germania, il caso Italia e l'incertezza europea", *Il Sole 24 Ore*, 26 November 2017

initiate its very uncertain negotiations. On 25 March, with the remaining 27 Member Countries, Europe celebrated the 60th anniversary of the Treaties of Rome amidst existential doubts. It saw its fears of a victory of national-populist movements grow, disappear, and reemerge again. It experienced anxiety about the outcome of the French elections and its turning into a renewed Europeanist hope. Similar fears, later scaled back, were expressed for the Dutch and Austrian elections, while in Italy, after the result of the constitutional referendum in December 2016, the prospects of governability became more uncertain. There has been the Catalan crisis, with almost surreal episodes, uncertain outcomes, and costly consequences, including for the Union, which many believe will last for a long time. Divergences between the West and East of the EU have been growing, fuelled by the issue of migration but also by worrying institutional drifts in some Eastern Member States, adding to those between the Centre-Northern creditors and the Southern debtors.

When the economy is fine, and politics is not

The divergence between favourable developments in the economy and the worrying trend in politics presents dangers.

The first could be called "cyclical illusion": it happens when long-term trends are neglected while settling for short-term good news. The improvement of the economy and finance might be cyclical and could conceal persistent growth weaknesses and financial fragility. Such a persistence could be consistent with unfavourable events and inappropriate political behaviour. In fact, forecasts of GDP show that 2018-2019 will see a new slowdown compared to 2017[7]. The foreseeable interrup-

[7] See Table 1 of the 2017 forecasts cited in footnote 3: growth in the euro area would fall from 2.2% in 2017 to 2.1 and 1.9 in the following two years; the EU as a whole and other regions of the world would also slow, but not so global growth.

tion of the ECB's monetary support is worrying, and so are low productivity, ageing population, unemployment, the effects of automation, the excessive dependence on exports to non-European countries, excesses in private and public debt (including "implicit" pension debt), and the effects of their necessary containment on growth, including the treatment of problematic bank loans, which are abundant in several countries. In order to ensure continuity to economic recovery, it would be necessary to rely on the political ability to address these concerns in a timely, continuous, long-term perspective, also through international cooperation.

Unbalances and inefficiencies in the allocation of resources are likely to increase when a satisfactory growth distracts from the effort to correct them, to the point of deflagrating into serious financial and real economic crises. It happened between the end of the last century and the great 2007-2008 crisis, a period defined as one of "great moderation". Worldwide satisfaction with growth without inflation brought to neglecting a number of issues: poorly controlled credit expansion, excessive risk-taking in financial innovation, imbalances in international current accounts, excessive increase in real estate values and stock market prices, deterioration in income and wealth distribution, fragility of exchange rates, decreasing trends in productivity, governments' resistance to regulating the quality of public finance and reforming markets and public administrations, weakening of international political cooperation in a period of rapid market globalisation. The crisis was rooted in all of these issues.

Could it happen again? This question is particularly relevant for Europe, which, after having imported the 2008 disaster from the United States, has discovered its own weaknesses and has found itself in a crisis that is still hanging over the imperfectly integrated EU markets, troubled by disagreements and decision-making inertias.

There is no shortage of observers warning of the danger of underestimating medium to long-term risks, the danger that "short-run calm comes at the expense of possible long-run

turbulence"[8]. At a global level, the Bank for International Settlements, in June 2017[9], recalled the "trinity" of risks already reported the previous year: a fall in productivity, unsustainability of debts, lack of residual space for fiscal and monetary stimuli in the event of a fall in demand; this trinity is linked to the concern for a sudden reversal of monetary policy following increases in inflation, for a turning point in the financial and credit cycle that might render the ongoing accumulation of public and private debt unsustainable, due to an increased protectionism that could hurt international trade. As for the euro area, the ECB[10] highlights the possibility that markets may underestimate the medium-term systemic risks associated with the fragility of the banking system, unsustainable debts, and sudden illiquidity of equity, bond, and derivative contracts.

In the event of an economic crisis, there is a tendency to do some damage control and try to improve policy. When the economy is healthy, however, there is a temptation to let the political troubles stagnate. The version of European integration is well known for this: it is often said that it is progressing in bursts, in the aftermath of crises. The "ever closer Union" of the Treaties is a good thing, but the political effort to overcome disagreements and pursue the Union has costs which are paid only during emergencies. Thus, integration has acceleration phases preceded and followed by stagnation. The penultimate acceleration occurred at the end of the last century and ended up with the birth of the euro as a solution to the serious currency and financial turmoil of the three previous years. The most recent acceleration occurred after the severe 2011-2012 euro area crisis and brought to major steps such as the review of macroeconomic coordination, the establishment of a common fund for sovereign and banking crises, the centralisation

[8] Bank for International Settlements, *BIS Quarterly Review*, December 2017.

[9] Bank for International Settlements, *87° Annual Report 1 April 2016-31 March 2017*, Basil, 25 June 2017, chapter 1, pp. 7-8.

[10] European Central Bank, "Overview", *Financial Stability Review*, November 2017, pp. 4-5.

of banking supervision, and the reform of their rules for crisis management. The impression of being "out of the crisis" could now reduce the incentive to overcome political disagreements and obstacles that hold back new reforms and progress in integration. As our Prime Minister Paolo Gentiloni said: "If we think that on economic and monetary matters Europe can relax because there is growth, this would be a mistake. It's a moment to promote convergence"[11].

If being pleased with the good economic performance can distract from deepening integration, the good economic situation could instead open a "window of opportunity", as Jean-Claude Juncker argued on 6 December 2017[12], to get along better and overcome the difficulties of integration. Furthermore, political malaise can be so great that it can get things moving for those who welcome and encourage integration. The fact is that, in 2017, the EU's political anxieties fuelled the will to plan for its future, even though every project was postponed "after the German elections", which had a more uncertain and complex outcome than had been hoped.

Projects

It all started on 1 March with a disappointment. In view of the anniversary of the Treaties, and given that Brexit called for new common projects, the Commission presented a White Paper with alternative scenarios[13]. The disappointment stemmed from the fact that it contained no strong indication: it just depicted five scenarios, from a "doing nothing" one to a "doing much more together" one. The "different speed" scenario was

[11] "Italy's Gentiloni warns European integration is in danger", *Financial Times*, 13 December 2017.

[12] European Commission - Press release, *Commission sets out Roadmap for deepening Europe's Economic and Monetary Union*, Brussels, 6 December 2017.

[13] European Commission, *White Paper on the Future of Europe. Reflections and Scenarios for the EU27 by 2025*, COM(2017)2025, 1 March 2017.

thus highlighted, illustrating the hypothesis of advancing on integration in subgroups. The tone of the document sounded pessimistic also due to the public's feeling of scepticism or adversity about the Union.

At the end of May, the Commission corrected its message by setting out the steps to be taken[14], following the path outlined two years earlier in the "Report of the Five Presidents"[15]. It insisted on the urgent need to establish the banking union by 2019; however, it went beyond by envisaging changes to the Treaties in order to increase solidarity and integration.

This was after the surprising result of the French elections, in which Emmanuel Macron prevailed with a very pro-European programme. During summer and autumn, before and after the German elections, there was a sharp rise in the number of projects on the future of Europe. Leading the way were France and Germany, both with official statements, such as the French President's speech[16] at the Sorbonne about much more than financial issues, or as the ideas expressed by Wolfgang Schäuble while leaving his ministry for the presidency of the Bundestag[17], and with the work of German and French economists, who agreed to publish a "letter" in both *Le Monde* and the *Frankfurter Allgemeine Zeitung*[18].

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[14] European Commission, *Reflection Paper on the Deepening of the Economic and Monetary Union*, COM(2017) 291, 31 May 2017.

[15] J.C. Juncker in close cooperation with D. Tusk, J. Dijsselbloem, M. Draghi and M. Schulz, *The Five Presidents' Report: Completing Europe's Economic and Monetary Union*, 22 June 2015.

[16] "Macron, le verbatim du discours de la Sorbonne", *Ouest France*, 27 September 2017.

[17] L. Bershidsky, "Schaeuble Leaves, But His Ideas Are Here to Stay", *Bloomberg View*, 10 October 2017; and *Non-paper for paving the way towards a Stability Union*, http://media2.corriere.it/corriere/pdf/2017/non-paper.pdf

[18] AA.VV., *Germany Should Accept More Risk Sharing - and France More Market Discipline. An appeal by French and German economists*, Peterson Institute for International Economics.

The Franco-German actions showed the common intention to move forward, but also the differences between the approaches of the two countries. France has a more ambitious and inclusive – albeit vaguer – Europeanism, while Germany has more precise ideas, restricted to the economic sphere, aimed more at reducing risks than at sharing them and difficult to accept for the financially weaker countries. The compromises between the two positions seemed difficult and fragile.

In the meantime, the Commission relaunched its plans. President Juncker, in his 13 September State of the Union Speech[19], insisted emphatically on the desire to deepen the Union and recalled the roadmap[20] according to which, by December, the Commission would present a package of proposals: the transformation of the European Stability Mechanism (ESM) into a European Monetary Fund (EMF); the creation of a section dedicated to the euro area in the EU budget for assistance to structural reforms, cyclical stabilisation, support for the banking union, assistance to the convergence of future new members of the euro area; and the establishment of the European Minister of Economy and Finance.

The outcome of the German elections brought the threat that Berlin's pro-European commitment would be diminished and that there would be a long wait for European issues to be brought to the attention of the new government. At that time, every commitment to strengthening the Union's power/duty of initiative by the Commission became valuable. The role of the Parliament, which, among other things, published a study in November to solve one of the problems hindering the completion of the banking union, namely the excessive concentration of each country's government bonds in the assets of its banks[21], became valuable as well.

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[19] European Commission, Jean-Claude Juncker, State of the Union Address 2017, Brussels, 13 September 2017.

[20] *Ibidem*.

[21] N. Véron, Sovereign Concentration Charges: A New Regime for Bank's Sovereign Exposures, European Parliament, November 2017.

In December, the negotiations for the new German Government were heading towards a "Grosse Koalition" with an unquestionable Europeanist stance. This revived the hope that some of the new ideas for integration would come into action – ideas that would not ask for miraculous institutional revolutions, but possessed a certain pragmatism, focusing on economic and financial aspects, to be implemented as early as 2018, with substantial advances before 2019 when the UK would officially abandon the EU and new elections would renew the European Parliament and the Commission.

There is no shortage of reasons for urgent steps to be taken with regard to the economy and finance: there is a need to strengthen the sustainability of the recovery and consolidate the monetary union by making the area of circulation of credit and payments in euro more functional and homogeneous; the desire to better face a global economy and finance whose favourable trend can suddenly yield also after geopolitical shocks. There is also an awareness of the need for more exquisitely political steps to be taken. Indeed, it has been happening for some time, and it will be even more so in 2017. Steps in the field of common defence, security, migration and even some initial admission about the need for a "social pillar" of the Union capable of guiding, harmonising, and integrating national welfare schemes. These highly political chapters also emerge in the preparation of the EU's multiannual post-2020 budget framework, where the concept of European public goods is stressed, with less and less emphasis on mere calculations of individual Member States' costs and benefits[22].

The Brexit affair can help to understand how integration projects could be carried out in a politically stressed year with a perceived decline in Europeanism. On the one hand, Brexit injects fear of further exits, of the collapse of a Europe incapable of walking "towards a more genuine economic and monetary

[22] European Commission, Budget, Multiannual Financial Framework, High Level Group on Own Resources, 2016.

union"[23]. On the other hand, without the UK, there are fewer obstacles to integration. There is reason to fear that, without London, the Union will lack those injections of pragmatism, respect for market mechanisms, productive and technological efficiency, "open society", cultural flexibility and cosmopolitanism, and more, often associated with British culture. However, it should be noted that, in the EU, the UK, rather than relying on its cultural influence, has boycotted the path towards a closer Union. Even if we wanted more "English" continental behaviours, it might be easier to get them without London. In addition, certain aspects of the English model have worked badly at home, especially after the great crisis: from poorly supervised, insolvent banks, rescued with large amounts of public money, to the national-provincial and partisan clumsiness with which the British decided for and managed the exit from the EU.

Dossiers on the table

At the end of 2017, the main proposals aimed at boosting European integration – suggested by EU bodies, the main Member Countries, independent scholars, and think tanks, can be grouped into three areas: the completion of the banking union, the reform of the architecture of the economic governance and the EU budget as a whole, and the reform of the discipline of national public finances.

Banking Union

The issue of the unification of the banking system where the single currency circulates, however narrow, technical, and a little sad in comparison with more flattering projects of deepening the Union, must be recognised as the most urgent. If "the euro is to economy what blood is to the human body, we need a good vascular system for it to circulate smoothly – otherwise,

[23] European Council, The President, Herman Van Rompuy, *Towards A Genuine Economic And Monetary Union*, 26 June 2012.

there is a risk of embolisms and heart attacks"[24]. Unlike many people think, a banking union is more important for the survival of the euro than a fiscal union[25].

There are a number of issues[26] in the banking union dossier, to which the Commission contributed, *inter alia*, with a wide-ranging communication released in October[27]. The main issue is the lack of one of the pillars envisaged in the initial project, namely a common system of insurance for bank deposits. Insurance exists in all countries, but it takes different and disconnected forms. Markets can, therefore, perceive, even suddenly, differences in risk between banks in different countries. Even partial and limited banking crises can spread panic in international payment channels, threatening insolvencies from which small depositors must be protected. Abrupt discontinuities in international liquidity flows across national borders would put the euro area unity at risk.

A common deposit insurance has its enemies. It implies a dose of international solidarity, even if temporary, limited to the reimbursement of smaller deposits and financed by the

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[24] F. Bruni, "L'Unione bancaria e dei mercati dei capitali", in AA.VV, *Europa: sfida per l'Italia*, Roma, Luiss University Press, 2017, p. 86.

[25] See M. Sandbu, "Fiscal Vs Banking Union", FT.com, 25 July 2017, "Fiscal Vs Banking Union. Part II", FT.com, 14 December 2017;
and *Europe's Orphan*, Princeton N.J., Princeton University Press, New Edition, 2017. For a more critical approach see also D. Rodrik, "Does Europe Really Need Fiscal and Political Union?", *Project Syndacate*, 11 December 2017.

[26] European Commission, Communication to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions on the completion of the Banking Union, Brussels, 11 October 2107, COM (2017)592 final.

[27] Including a review of certain aspects of coordination between those who dictate the financial rules, those who supervise their application, and those who manage crises and banking restructuring. In the crisis management of some Italian banks, it has emerged, among other things, that the need to pursue together the principles of stability, competition, and transparency may see more authorities overlap in ways that confuse, slow down, and end up weakening decisions and measures.

banks' own provisions. Solidarity is greater when insurance funds are public and employable in a wide range of emergencies. Countries that consider themselves financially more robust, including Germany, do not want to start an organisation that might end up subsidising countries with more fragile banking systems, like Italy. It is not the place here to discuss these assessments, which often underestimate the riskiness of banks in countries considered to be robust and the interdependence that links the riskiness of the entire European banking system. However, it should be noted that consent to a common deposit insurance will never be achieved unless two problems, grown in the past and relevant in the Italian case, are solved: the excessive amounts of non-performing loans and government bonds held by banks in the issuing country. The latter problem is the vicious circle between banking and public finance crises in a country. On both fronts, the differences among Eurozone countries and, therefore, among the perceived risk of their banks must be reduced.

There is no lack of progress and proposals. The flow of new non-performing loans is slowing down, also due to economic improvements; banks are also shedding past non-performing loans, by recovering or selling them on a nascent specialised market. The European authorities encourage these processes by harmonising the criteria for assessing bad loans in Member States and requiring them to be covered by capital reserves. There is an increasing pressure to harmonise and speed up bankruptcy rules and procedures for banks to evacuate the guarantees of insolvent debtors by recovering all or part of their claims. New steps in this direction are under discussion, both at EU level and in individual Member States. It is to be hoped that from the first level there will be no abrupt and unworkable impositions and that the second level will not obstruct the adjustments and reforms needed to clean up banks' balance sheets and improve the chances for new loans to those who deserve them most.

Reducing government bonds held by banks in their own countries, besides decreasing the danger of vicious circles between country risk and banking risk, also serves to strengthen the flow of credit to companies, reducing the complicit support of banks to the growth of public debt in their own country. The weight of the latter in banking portfolios should more than halve compared to the current average of 150-200% of a bank's ordinary capital (with Germany, Belgium, and Italy among the countries with the highest ratio). International regulations consider government bonds to be risk-free assets; their holding by banks, therefore, does not require specific provisions of own capital; this provides them with an incentive to purchase them even beyond their need for liquid assets on a large market. The most drastic way of discouraging their holding is, therefore, to recognise that even government bonds risk not being remunerated and redeemed on time and therefore impose capital provisions, against their holding, proportional to the issuer's risk, i.e. the risk of default attributable to the public debt of individual states. This requires, however, difficult international agreements far beyond the EU, and the risk assessment of each country is controversial and arbitrary, as well as procyclical, i.e. such that the demand for a country's bonds is put at a disadvantage when its public finances are in a destabilising crisis. Finally, for countries such as Italy, where the public debt burden in banks is higher and the associated risk significant, the required increase in capital could prove excessive, causing sudden sales of bonds and an increase in their spreads with similar bonds from other countries. Speculation would exacerbate the instability of their market and make the measure counterproductive.

Therefore, at least during a long transitional phase, a different system must be found to encourage the reduction of government bonds in the banks of the country that issues them. In 2017, ideas that had been circulating for some time were examined in depth and were also taken up in November by a study of the European Parliament[28], which the Commission

[28] N. Véron, (2017).

took into account. The essential issue is not to look directly at the risk of default of a state's public debt, but to reduce the risk resulting from the excessive concentration of bonds in the assets of a bank, whether domestic or foreign. Thus, higher and increasing capital requirements would be needed when the debt of an individual country, however its specific riskiness can be assessed, takes a share of a bank's assets above a certain threshold. In addition, these requirements would be imposed gradually in order to eliminate excess concentration over a period of about ten years. The strongest adjustment would be asked to German banks, which have a higher concentration of domestic government bonds than Italian banks, despite the fact that their bonds are considered less risky. This would result in a dispersion of bonds issued by each state throughout the banking system in the area, whose homogeneity would increase considerably, reducing the importance of national borders in a banking union that would better lend itself to the adoption of a common system of insurance for bank deposits. The manner and timing of such adoption are also under discussion, which would be gradual with slowly increasing quotas of real mutualisation of risks.

In order to help banks to get rid of excess government bonds more quickly, temporary, limited, and conditional purchases by EU institutions such as ESM/EMF would be useful. This links the dossier on the banking union with the one on the overall institutional architecture of the European economic governance.

Governance

On this front, it is important to distinguish between dreams and what would be quickly feasible[29]. Dreams were not forgotten during 2017: Europe reacted to Brexit also by reaffirming its commitment to the "ever closer Union" rejected by the British. The idea of wrapping economic integration up in a

[29] For an overview of ideas and proposals on the governance of the euro area, see Bruegel, *The eurozone medley: a collection of recent papers on the future of euro-area governance*, 6 December 2017.

somewhat-federal political flag has been reaffirmed, giving it greater supranational democratic legitimacy, and more intimately mixing a strong financial, fiscal, and commercial cooperation with EU commitments that are openly political in the fields of defence, welfare, security, and education. Macron's France stood out in this respect. This underlying tension towards unity can bear fruit. It may appear rhetoric and vague, encounter incomprehension and controversy and turn into scepticism and disappointment, blocking more specific, limited, concrete, shared steps. German Europeanism, from this point of view, seemed more prudent and pragmatic, even though it was feared that it might weaken by including the Liberals in the coalition government and even though it was sometimes suspected that the tension towards a more European Germany was rather the design of a more German Europe.

It was not just a Franco-German play. The Commission has not been passive. After the minimalism of the March White Paper, it exercised its power of initiative by drawing a "roadmap" for the deepening of the EMU. In December, its proposals for the government of the euro area detailed the steps to be taken before the end of the 2019 parliamentary term, without hiding longer-term ideas that would require Treaty change. It is encouraging that this has happened in a complicated and busy electoral year, with most of the energies of the EU absorbed by Brexit negotiations and other important commitments in the game with the "big powers", such as difficult competition policy decisions, controversial measures to deal with the tragedy of refugees and migrants, the final approval of the Free Trade Treaty with Canada (CETA), and the successful trade negotiations with Japan.

The main points on Juncker's agenda for 6 December[30], as an input for the 15 December Euro Summit, are the transformation of the ESM into EMF, the review of the Community budget, and the establishment of the European Finance Minister.

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[30] European Commission - Press release, *Commission sets out Roadmap for deepening Europe's Economic and Monetary Union*…, cit.

The tasks of the EMF would go beyond assistance to countries in financial distress, providing guarantees and interventions in banking crises. In the future, it could also organise synthetic issues of baskets of government bonds from more than one country, facilitating the reduction of their concentration in banks in issuing countries. Its governance should allow decisions to be taken more quickly than those of the current ESM, being less subject to vetoes by government representatives and more involved in the management of assistance programmes. The proposal mentioned above seems to keep for the EMF a substantially intergovernmental profile, making it just a little nominally different from the ESM. Furthermore, Germany controversially wishes that the EMF could take away from the Commission part of its role as a regulator of national public budgets, which they consider performed with too much indulgence.

As regards the EU budget, a number of developments are envisaged: to support structural reforms in the countries; to help the economic convergence of those EU countries that are not yet members of the euro area to provide them with the opportunity to do so; to offer guarantees to the EMF in its assistance interventions to bank crises; and to finance investments to stabilise countries hit by asymmetric shocks. Detailed deliberations would be proposed in mid-2018 and part of them would enter the post-2020 multi-annual budget.

The role of the EMF and the new functions of the Community budget would sustain the agenda of a European Minister of Economy and Finance, who could be Vice President of the Commission and President of the Eurogroup, would be accountable to the European Parliament, and would be responsible for coordinating Community economic policies and promoting their democratic legitimacy. The full-time chairmanship of the Eurogroup by a Vice President of the Commission, who is now held by a minister in office in a Member State, would weaken the intergovernmental nature of the group. This can

be seen as a good thing, but also as a source of confusion[31] and misconceptions since it would create a "Finance Minister" without a say in taxation and a large Community budget. Looking ahead, however, the "Minister" could become responsible for new functions, new resources, and their coordination, as was already assumed in 2016 in a document from the Italian Government[32], which was taken up in a contribution to the Eurogroup in May 2017[33].

Mentioned at the 15 December Euro Summit, Juncker's proposals[34] were postponed until March 2018 in the hope of taking some decisions in June, but with a statement by President Donald Tusk who seems more concerned about promising little than to stimulate rapid progress[35]. It seems that resignation prevails while waiting for the agreements of the self-appointed Franco-German leadership[36], despite the fact that the different ideas of the two countries require difficult compromises and

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[31] G.B. Wolff, *The European Commission should drop its ill-designed idea of a Finance Minister*, Bruegel, 4 December 2017.

[32] Ministry of Economy and Finance, *Una strategia europea condivisa per crescita, lavoro e stabilità*, February 2016.

[33] *Italian contribution on deepening the EMU*, http://www.mef.gov.it/inevidenza/documenti/Proposal_CL_23_May.pdf

[34] A "flawed attempt" according to an unfair op-ed on the *Financial Times*. http://www.astrid-online.it/static/upload/protected/ft-v/ft-view_7_12_17.pdf

[35] "This morning we discussed Euro area reform. The summit participants agreed with my proposal that in the next 6 months, the work of our finance ministers should concentrate on areas where the convergence of views is the greatest, … on issues such as the completion of the Banking Union, and the transformation of the ESM into the so-called European Monetary Fund … Discussions will continue also on other ideas, which need more time to mature, and have a longer-term perspective. I will call the next Euro summit already in March to continue this discussion. And June could be the moment for us to take the first decisions": Council of the EU, Remarks by President Donald Tusk following the European Council meetings on 14 and 15 December 2017, Statements And Remarks 813/17, 15 December 2017.

[36] A. Gray, "Merkel, Macron: we "want" joint Eurozone vision by March", *Politico*, 15 December 2017.

that Germany still lacks a government agreement that ensures attention and clear ideas on European projects.

Discipline of national public finances

Budgetary discipline in European countries has often been revised[37], especially after the euro area crisis. Among other things, efforts have been made to better structure cooperation between governments and the Commission by establishing the "European Semester" and giving the rules the flexibility to adapt to the different circumstances and problems of the Member States.

It was a partial success. On the one hand, fiscal adjustments have been less pro-cyclical (i.e. more careful not to worsen recessions with restrictive measures and vice versa) while containing imbalances in public finances[38]. On the other hand, the effective capacity of Community coordination to influence national decisions is questionable, especially when it comes to some countries (including Italy) and the reduction of public debt accumulated in the past. In addition, flexibility has made deficit and debt rules complicated and controversial to the point of losing credibility.

Thus, in 2017, it was discussed whether they should be changed again. Above all, there was the need to shift attention from deficits to public debt. The two things are obviously connected, but by insisting on debts, the unruly deficits of previous periods are not forgotten. Moreover, while the oppositions have no interest in helping governments to contain the deficit, they are involved in controlling the debt because its increase would become a problem for them should they win the elections and govern[39].

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[37] See European Commission, Timeline: The Evolution of EU Economic Governance.

[38] See the review conducted by the European Fiscal Board in its first annual report, published in October 2017.

[39] See C. Bastasin, *A Bipartisan Public Debt Agreement for Italy*, LUISS School of European Political Economy, Policy Brief, 27 November 2017, where the author

The size of debt, more than deficit, is the real problem faced by financial markets in absorbing a country's government bonds. Therefore, the unsatisfactory results of Community discipline inspire the idea that public finances should be disciplined by markets, by increasing the interest rates of the countries with the highest debt, without brakes from the ESM or the ECB. This threat, typical of the German Government and worrying for a country such as Italy, has been accompanied by the threat of acknowledging that interests and redemption of government bonds are not guaranteed and these bonds are therefore risky securities, requiring capital reserves from the banks that buy them and rules to make the insolvency procedures of sovereign debtors in difficulty orderly and automatic[40].

Increased reliance on "market discipline" would become more likely if the reduction of higher public debts came too late. The most indebted countries may suffer to the extent that their insolvency would become inevitable. The current Community framework, which, despite the dull critics of "austerity", is very flexible, must, therefore, be supplemented by increasing the regulatory incentives to reduce debt. Among the ideas circulated in 2017, there is the modification of the rule that requires reducing each year by 1/20th the distance between the debt-to-GDP ratio of a country and 60%, allowing slower reductions when GDP grows less and vice versa. This would make the rule more realistic, its imposition more strict, and sanctions on those countries that do not comply with it mandatory, even delaying Community payments of structural funds and other funding for those countries unable to live by it. The aforementioned introduction of regulatory limits on the concentration of government bonds in the assets of its banks

proposes a way in which the European Stability Mechanism could help and, at the same time, incentivise Member Countries to reduce past accumulated debt overruns while controlling deficits.

[40] See footnotes 5 and 6 in F. Bruni,"The stand-by for European integration: Italian protests and weaknesses", chapter 11 in A. Colombo and P. Magri (Eds.), *The Age of Uncertainty, Global Scenarios and Italy*, Milan, Epoké-ISPI, 2017.

would also discourage excessive public indebtedness. In order to facilitate compliance with these limits, the ESM/EMF could be authorised for temporary and conditional purchases of government bonds from a country by financing itself with special Euro-bonds issues.

A difficult and contradictory year

In conclusion, 2017 was a particularly complex year for European integration. It fluctuated between an economic situation of robust recovery, even if probably a temporary one, and a political climate that was tense and often adverse to the Union's progress, between fears of nationalistic rifts and the excitement for new common projects, between the showy escalation of destructive populism and the surprising emergence of new Europeanist horizons, between the insistence on taking small steps towards economic integration, especially banking and financial, and the reopening of ambitious political integration initiatives, between disappointments, abstract dreams, and pragmatic realism. Across these waves of complexity, the new year will unveil the course that the common European boat will want and know how to take.

PART III

ITALY

12. Italy's Top Foreign Policy Priorities and the Mediterranean

Ugo Tramballi

Continuity

Faced with a large number of ministers from the Mediterranean countries, difficult to gather in the same place and at the same time, Angelino Alfano opened and closed the third edition of Rome MED in December 2017. In 2016, the Foreign Minister was Paolo Gentiloni who, the following year, was also present at the Mediterranean Dialogues organised by Farnesina and ISPI, but as Prime Minister. Nothing wrong with that: continuity, of men and ideas, was crystal clear. However, Alfano and Gentiloni were already the fourth and third Foreign Ministers of this seventeenth legislature, which had arduously reached its natural end. The second was Federica Mogherini and the first, at the beginning of the legislature led by Enrico Letta (first of three Prime Ministers), was Emma Bonino.

Continuity – even in faces and personalities, not just policies – is stability. Especially for the partners of the many European summits and in exchanges with Mediterranean leaders where the necessary repetition of meetings leads to a habit that produces credibility. Only in 2017, counting bilateral summits, Union summits, meetings on European issues such as climate change, instability in Libya, the Mediterranean, Africa, terrorism, security, migration, and the economy, Paolo Gentiloni met his main EU partners at least fifty times. Basically a shared life.

It is undeniable that in the EU our partners were more comfortable with Mario Monti than with Silvio Berlusconi, and

today they are better placed with the calm of Gentiloni than with the impetuosity of Matteo Renzi. But, in some ways, this is irrelevant; it is very likely that our partners have become accustomed even to the frequent change of Italian faces. What matters is the continuity of Italian foreign policy: more or less credible depending on the moments and conflicts, but basically stable since the birth of the Republic. "There are several factors that make a country reliable in the eyes of the international community. These include the continuity of its basic choices in foreign policy", argues Pier Ferdinando Casini, former President of the Senate's Foreign Affairs Commission[1].

In seventy years of continuity, the only change Berlusconi made at the time was the reversal of the traditional friendship with the Arab world in favour of a closer relationship with Israel. On everything else, his very direct relations with Muammar Gaddafi, Vladimir Putin, and George W. Bush were only the personalisation of consolidated interests of Italian foreign policy towards Libya, USSR/Russia, and the United States.

Angelino Alfano will not be at Rome MED 2018, having announced its withdrawal from active politics. And even Paolo Gentiloni might not be there. It is an election year and, as always, there are uncertainties about who will govern. Doubts that with the new electoral system could also be prolonged for months after the vote. Changes are possible, but it has always been so and every time _ whoever went to Palazzo Chigi and Farnesina: the pillars of Italian foreign policy remained the same: a Western-centric system of alliances, Europe and the euro, dialogue with Mediterranean countries, Africa, trade agreements.

But the vote for the eighteenth legislature might radically change things. Three political parties – the 5 Star Movement, the Northern League, and Brothers of Italy – have serious and legitimate opportunities to lead the next government or to be part of it in an important position. And, in theory, each of the

[1] *Corriere della Sera*, 21 September 2017.

three has the ambition to change our foreign policy. If a year ago we wondered what effect the victory of Donald Trump's populism in America and around the world would have had, we could now have the opportunity to see its concrete effects on EU and international choices at home.

Discontinuity

At the end of 2017, just over two months before the elections, it was still difficult to find a specific foreign policy programme in the official sites of the Northern League and Brothers of Italy (BoI). Among the "Challenges for Italy" uploaded in February on BoI's website, the first point was "Person and peoples, the future of Italy and Europe", which, among many domestic themes, called for an EU and a euro "of the people" and nation-states, not belonging to Brussels, the ECB, nor banks[2].

Before the election campaign started to flare up, the Northern League's international positions were deduced from Matteo Salvini's patchwork of statements. For the two parties that contend the centre-right leadership to Forza Italia, the positions can be summed up as follows: they tend to be anti-European, even if in the face of the economic disaster and political instability in the United Kingdom after Brexit, the tones have been lowered. In 2014, Brothers of Italy called for "the agreed dissolution of the Eurozone". For Salvini, the EU is the root of all evil, whose destiny must be decided through a popular referendum. In addition to the unconditional appreciation for Vladimir Putin, his thinking on alliances and international relations, in general, is still vague. Rather than by reading their programme, their intentions can be deduced by impromptu declarations related to world events. With the exception of the migration issue, the two parties are convinced that it is not through foreign policy that you can win elections.

[2] http://www.fratelli-italia.it/le-s de-per-l-italia-9-gennaio-pomeriggio/

The 5 Star Movement approach is different. Perhaps because the polls say that the Movement could reach relative majority, a detailed programme in ten chapters has been drawn up, each with a statement, a "central plank" and a short video by an expert explaining the rationale[3]. The programme is dated 13 April 2017. Subsequently, supporters of the movement voted by choosing the priorities.

The option gathering most support is the one siding against free trade agreements such as TTIP (Transatlantic Trade and Investment Partnership) and CETA (Comprehensive Economic and Trade Agreement), followed by "Sovereignty and independence"; "Europe without austerity"; "Repudiation of war"; "Dismantling the European Troika"; "Disarmament and new models of production as a premise to peace". Then comes "Russia, a dialogue to be relaunched with a strategic partner": opposition to US and EU sanctions, dialogue with "a friendly country for the construction of a new multipolar world". Nothing is said on the degree of liberty in the Russian system.

The "NATO Reform" argues that "the Western security system has not only made us less safe but is primarily responsible for today's chaos". It is, therefore, necessary to enact "an agenda for Italy's disengagement from all NATO military missions in open contrast with Article 11 of our Constitution". The second to last point, dedicated to the Middle East, focuses largely on Syria, Isis, and the "terrorism ATMs", i.e. the Arab allied countries of the West. Bashar al Assad could not write it better. The least voted by FSM supporters is the chapter on multilateralism: "New alliances scenarios for Italy". The designated models are BRICS and ALBA, the Bolivarian alliance promoted by Venezuela and Cuba. Particularly interesting in this chapter is a video in which André Vltchek, a St. Petersburg activist, describes the West as the absolute evil that has produced only despair. Vltchek speaks from a slum in Indonesia, "destroyed by Western imperialism with the 1969 Suharto takeover". In the

[3] http://www.movimento5stelle.it/programma/esteri.html

meantime, Indonesia has experienced phenomenal economic development and, according to the Asian Development Bank, the poverty index is currently at 10.9%. While this percentage is still unacceptable, in 1999 it was at 24%. And in Venezuela, the poor are 82% of the population[4].

The program is perhaps not as up to date if compared with the long march that the FSM has taken from a movement to a governing party, highlighted by Luigi Di Maio's Washington trip in November 2017. Like the economic programme, which is still halfway between free market and statism, the foreign policy programme is an open-ended project.

The Italian emergency

All the surveys have shown for some time that the majority of Italians are in favour of a strict control of migratory flows. Together with border protection, it is the first national interest that the government should pursue. Significant minorities favour *refoulement* at the borders, even if this implies the inhumane treatment of migrants in Libya or their countries of origin.

Faced with the progressive change in public opinion and polls on voting intentions, the issue of migrations was destined to become the priority of Italian foreign policy. There is no country that alone can tackle, or even less solve, a phenomenon of this proportion. Above all, no solution can be as fast as politics requires, especially when elections loom near: it takes a generation for politics to have an effect, and even after that, due to demographic pressure, millions of Africans will continue to seek a better life in the North.

The Gentiloni government had focused on the pacification of Libya not just to tackle migration (but also security, terrorism, and energy) but this was the main point. A national priority.

[4] R. Trombetta, "In Venezuela 82% of people live in poverty – where are our friends now?", *The Guardian*, 5 April 2017.

First among Western countries, on January 10, 2017, Italy reopened the embassy in Tripoli and dedicated men and resources for the training of the Libyan coastguard. The relationship with Prime Minister al-Sarraj and his government, recognised by the international community, has been constant and fruitful, while the with General Khalifa Haftar was non-existent.

Then, on 25 July, Emmanuel Macron summoned Sarraj and Haftar to the La Celle-Saint Cloud Castle at the gates of Paris. Immediately afterwards, the French president met Gentiloni and, on his way home, Sarraj stopped in Rome. Only on 28 September General Haftar was invited to Italy on an official visit and, with arrogance, he declared his willingness to combat illegal immigration, as long as Italy pays. Khalifa Haftar is a dangerous little Napoleon supported by the Egyptian Abdel Fattah al-Sisi, another Napoleon slightly taller than him. But without Haftar (and al-Sisi), the eventual pacification of Libya and the blockade of immigration remain impossible missions.

In Rome, the non-governing parties exposed in Parliament many of the government's weaknesses. But no government, current or past, has not contributed – to different degrees – in making our country a minor partner and in undermining our credibility on the international scene. If France has more leverage than we do, it is a matter of historical heritage, of behaviour, and stability: although the French do not like him as much as they did six months ago and might like him even less in six months' time, Macron will continue to govern until the end of his term.

In his closing speech at Rome MED Mediterranean Dialogues 2017, Paolo Gentiloni recalled "understatement" as a feature of Italian foreign policy. Without making big announcements or sending the Foreign Legion, for example, Italy has become the third largest investor country in Africa: ten years ago it was the 30th. Italy had lacked a policy on Africa, from where migrants come and will continue to come (60% of the population is less than 25 years old), since the 1960s. Proposing the Migration compacts, it was Italy to nudge Europe towards a longer-term

solution for many of the problems that worry us today. That pact with Africa, proposed in 2016, is already the implementation of the multilateralism that the FSM calls for in its programme. Just as the diplomatic understatement praised by the Prime Minister.

As if to refute the goodness of multilateralism and to affirm the need for leadership, Macron suddenly appears on the scene: he summons the Libyans to a French castle, and the peace process makes a leap forward. In the Maghreb and in Sahel countries, the French president speaks of migration, economic development, terrorism, and regional security as if he was to one to have invented the Migration compact, showing little understatement and a lot of showmanship. The fifth summit between the African Union and the EU in Abidjan in November 2017 was effectively led by him, although Italy played a relevant role in the decision to invest €44 billion in Africa by 2020.

Justice and realism

"The fact that Egypt is an inescapable partner on issues of primary importance for Italy, such as the stabilisation of Libya and the fight against terrorism, does not mean that we intend to turn a blind eye in the search for truth on Giulio Regeni's murder". This is how Angelino Alfano explained the decision to send an Italian ambassador back to Cairo after an 18 months gap.

The chosen date – August 15 – reveals a sense of guilt. The government's decision could appear cynical as if geopolitical and economic interests prevailed over the human tragedy. But relying on the "initiatives that our ambassador will take on" in the relentless search for truth for Giulio, there was nothing to do but set up Giampaolo Cantini at the Italian Embassy on the Nile in Garden City. It was not a surrender to Egypt nor an implicit "case closed", even if the Cairo regime interpreted it precisely so. It was a change of strategy: the previous one had not produced any results, apart from the ethical aspect

of our protest. And we had to face an inescapable reality: no European country was showing us concrete signs of solidarity. After the condolences, they all continued to do business with the Egyptian government, in some cases taking over formerly Italian contracts. Our economic presence in Egypt is important: it guarantees employment both there and in Italy. And it would be unfair to ignore that safeguarding exports is one of our national priorities: 30% of GDP and millions of jobs depend on them.

While Abdel Fattah al-Sisi governs Egypt as if it were an army camp, he is "our president", to paraphrase what Franklin Roosevelt once said of Anastasio Somoza. Al-Sisi is important for the stabilisation of Libya and crucial in the fight against terrorism. Since it is now certain that the instigators and executors of the torture and death of Giulio are hiding at the top of the Egyptian security apparatus, it is not surprising that after two years justice has not yet been done. In a country with more consolidated civil guarantees than Egypt, Ilaria Cucchi has been waiting for eight years for justice to be done for the death of her brother.

The Great Sea

"India and Italy are two large economies, and [...] there is a lot of potential for our bilateral trade of about $8.8 billion to grow much further". The materialism in the argument of Narendra Modi, Prime Minister of the most spiritual country of all, is necessary in order to close a rough and dramatic affair. For years, the death of two Kerala fishermen, the accusation and detention of two Italian marines, and the impossibility of a fair and transparent trial had foreclosed Italy from the Indian continent: the country whose economy is growing faster than China's.

After entrusting the case to an international arbitration tribunal, and after the two soldiers returned to Italy, the final gesture of the dispute was Gentiloni's visit to Delhi at the end

of October. By closing the case and signing six documents to develop economic relations, the government has done what had to be done for some time. It is now up to entrepreneurs.

But the main priorities of Italian diplomacy remain in the Mediterranean. In *The Great Sea* the historian David Abulafia recalls that in the last century of the Republic and the first two centuries of the Empire, Rome guaranteed the Mediterranean an era of great religious tolerance and freedom of trade. A season of stability not easy to recreate today.

"A Shared Responsibility for a Common Goal: Solidarity and Security" was the title of a ministerial conference organised in July with migrants' transit countries; in August, the *Comandante Borsini* was the first ship to arrive off the Libyan coast as a support to the local navy; even at the UN General Assembly in September, Paolo Gentiloni dedicated his speech to the Italian slogan: our place on the front line of the Mediterranean.

There are dozens of initiatives in 2017 that have tried to raise awareness of Italian efforts. Although political and diplomatic efforts are repeatedly put in place, most of Europe, except for small Greece, make a "minimum effort" in the management of migratory flows, sometimes not even that, as Paolo Gentiloni put it. In the early months of 2017, when the flow of migrants seemed unstoppable, even Italy's closest allies such as France and Spain kept their ports and borders sealed. Austria threatened to deploy its army to the Brenner in the run-up to the elections. Forgetting what had been done for them since the end of the USSR, the Visegrad four (Poland, Hungary, the Czech Republic, and Slovakia) became increasingly deaf and selfish. After refusing to accept the mandatory minimum refugee quotas, they offered €36 million for the training and equipment of the Libyan coastguard: more an insult than a Christmas gift.

But this is the Europe that we have to deal with and which Italy had to face, in turn enacting stricter and less humanitarian rules on migration. The coming months will tell us how and how much the emergencies in the Mediterranean have changed the Italian political system and its diplomacy.

13. Italian Economic Policy: Broadening the Narrow Path

Franco Bruni

During 2017, the Italian economy improved beyond expectations, although less than the euro area average. The formulation of economic policy has taken place through a continuous and sometimes controversial dialogue with Brussels, following the "narrow path"[1] between boosting the recovery and the need to contain public debt. The international economic situation was decisive in improving Italian growth. The deep industrial and financial integration with Europe has called for the speeding up of EU's unity and closer cooperation in the euro area. The economic and social costs of the migratory wave also bolstered the salience of EU issues and have been included in the dialogue with the Commission.

Banking problems and their interweaving with those of public finance were particularly important. The international markets have shown that there is a link between the political stability of a country and its financial stability, whose fragility is a threat to the euro area as a whole. The tensions on our government bonds have not continued during the year, but this can be explained by the continuing support by the ECB through extraordinary bond purchases.

With regard to growth, the acceleration of which is also a condition for reducing the debt burden, it is becoming increasingly

[1] "The country faces a narrow path. On one side there is debt. On the other side, a production system weakened by years of crisis, from which it is finally emerging. If we speed up the reduction of the deficit, we risk hurting the recovery. A gradual budgetary adjustment is needed". Pier Carlo Padoan, Hearing of the Joint Committee Chamber and Senate, Presentation of the Economic and Financial Document 2017, Ministry of Finance, 19 April 2017.

clear that its prospects depend above all on the overall productivity increase that can be achieved through structural reforms of markets, enterprises, financial intermediaries, and public administration. The ways in which interaction with the EU can foster these reforms are perhaps the main theme that foreign economic policy and diplomacy in the country must continue to address with commitment and skilfulness.

"Narrow path" and credibility

In 2016, real growth was below 1%. On the other hand, forecasts of GDP growth in 2017 and 2018 have become increasingly optimistic: from +0.9% and 1.1% in official government reports issued in mid-2017 to 1.5-1.7% at end-year. However, the euro area as a whole grew by more than 2% in 2017, with year-round improvements similar to those in Italy. Policies are still needed to converge towards average foreign growth. But the reform path is hindered by the fact that Italy's debt-to-GDP ratio is almost one-and-a-half times that of the euro area average.

The "specific recommendations" addressed to Italy by the Commission and the Council in May have been summarised in four points[2]. Only one part of one of them mentions the need for deficit-containment efforts. The rest insists on the urgent need to speed up reforms in taxation, justice, public sector workforce, competition laws, the treatment of bad loans, collective bargaining, and welfare. Overall, Brussels seems to welcome the adjustment efforts made by Italy in recent years, to confirm the flexibility in the discipline of the public deficit, and to shift the focus from the flow of deficit to the stock of debt and to structural policies to support growth. The year ended with an exchange of letters between the Italian government

[2] Raccomandazione del Consiglio sul programma nazionale di riforma 2017 dell'Italia e che formula un parere del Consiglio sul programma di stabilità 2017 dell'Italia, Brussels, 22 May 2017, COM(2017) 511 final.

and the Commission[3], which postponed the assessment of our budgetary policy until spring 2018. It reveals a very technical controversy on the method of calculating the planned deficit, which highlights how the real problem is not the short-term control of the annual deficit– whose "undiscipline" can also be difficult to measure – but the urgency of a more serious and credible long-term planning of the reduction of the debt stock in relation to GDP. Unfortunately, beyond the technical-diplomatic language, both Rome and Brussels implicitly feel the embarrassment of discussing serious and difficult commitments "in the midst of the electoral campaign", as we say, and with extremely uncertain prospects for the political stability of the country.

It is not necessary to recall the details of the technical dispute over "structural" deficit. It should be noted, however, that one of the points which causes discrepancies in the calculations is the estimate of Italy's potential future income, which the Commission, according to our Government, underestimates, thus criticising the expansive stimuli to achieve it. To put it simply, the credibility of the reform process that the country has been undertaking for some years and the acceleration and sustainability of growth that they will allow in the near future is at stake. While acknowledging our progress, Brussels is less optimistic about their actual significance and continuation. At the centre of a complex discussion of econometrics surfaces a question of eminently political credibility.

Faced with political uncertainty for the future, the government can only insist on the undisputed progress of the past. On public deficit, in particular, a considerable effort to contain it has been evident since 2011, if one looks at the data net of the huge charges to service past debt. Thus calculated, the "primary balance" has long shown a sizeable "surplus": in the end-year

[3] https://ec.europa.eu/info/sites/info/files/file_import/dbp_2017_-vd-pm_letter_to_italy_-_final_0.pdf, http://www.mef.gov.it/inevidenza/documenti/Letter_to_DombrovskisxMoscovici_-_30_Oct._2017x150060x.pdf, https://ec.europa.eu/info/sites/info/files/economy-finance/letter-to-italy-20171122.pdf

estimates, on which both the government and the Commission agree, it reaches 1.7% of GDP. As noted in the Government's Stability Programme[4], "it has long been on average one of the highest primary surpluses in the euro area", with a more virtuous behaviour "than other European partners with high public debt, which recorded deficits in their primary balances". But to bring down debt sufficiently, however, the primary surplus should rise even more. The government's forecast shows indeed a sharp rise in 2018 (from 1.7% to 2.5%), but the Commission forecast reduces it instead almost to zero[5]. Again, it is a matter of credibility of the programmes and their political viability.

So, if the path is narrow, the credibility of those who govern can widen it a little. On the other hand, its breadth does not derive only nor predominantly from the judgment of the European authorities: in the end, it is the markets, which have to absorb government bonds, that determine debt sustainability. This aspect has been overshadowed in recent years by two phenomena. The first is the repatriation of many securities that were held abroad, with purchases of Italian banks probably not entirely spontaneous and indifferent to the needs of the government. This has supported the market for our sovereign debt but has widened the problem of the vicious circle that can arise between two risks, sovereign risk and banking risk, which can feed on each other: difficulties in public finance turning into difficulties for banks and vice versa. The second concerns the massive purchases by the ECB, through to the so-called "quantitative easing" (QE) that, in recent quarters, has ended up becoming almost the only source of net purchases of our government bonds. Irrespective of the assessment of the appropriateness of the QE, its size and duration, this public debt absorption channel is set to run out sooner or later and it is not

[4] See Ministry of Economy and Finance, Documento di economia e finanza, Section I, Programme of Italian Stability, 11 April 2017, p. 33.

[5] See Table 2 in European Commission, Commission staff working document, Analysis of the draft budgetary plan of Italy, Accompanying the document, Commission opinion on the draft budgetary plan of Italy, C(2017) 8019 final.

clear how it will be possible to replace it without a clear improvement in the credibility of the expectations on the gradual decline of the debt stock. Sooner or later, the width of the path will return to be defined by international private investors. The efforts of the country's foreign policy and economic-financial diplomacy will increasingly have to take this into account.

What if the path was wider?

Opinions on the width of the path have at least three other reasons to be at odds with each other, as shown by the debate on economic policy in Italy, EU bodies, and elsewhere in the world.

The first is linked to the above-mentioned issue of the QE: to what extent can public deficits be financed with money creation? Monetary financing, at least in the short term, would seem to guarantee a wider path. On this front, there has been some confusion lately due to the fact that the enormous creation of money throughout the world has not generated inflation. The "populist" controversy about the "exit from the euro", seen as the recovery of "monetary sovereignty", a sovereignty that can be used to stimulate growth in deficit, is also linked to this theme. This is not the place to discuss such issues that, more or less implicitly, have constantly fed controversy and discussions about Italian and European policies. It is enough to observe that those who think of widening the path with currency sooner or later will end up paying the huge costs of a "monetary illusion".

Second. There are different opinions about the possibility that major deficits will automatically self-finance themselves. By stimulating income growth through deficits, i.e. through higher expenditures or lower tax rates, tax revenues may increase, given the higher level of taxed incomes. According to some, this increase is sufficient to rebalance the deficit that originated it. If so, the path could expand without limits. The views of the Italian government on this matter do not differ significantly

from those of the European authorities: both exclude a systematic and adequate self-financing effect. This view is supported by statistical evidence that has emerged from international studies and researches several years ago. There is no shortage of cases where well-made reductions in deficit and debt not only did not come at the expense of growth but even favoured it[6]. In any case, the effect differs greatly depending on the quality of the expenditure and taxes with which the deficit is generated or reduced. The emphasis on quality – rather than the simple balance – of the public budget is one of the innovations that have gradually matured in the Commission's rules and criteria for financial discipline. Unfortunately, Italy has not gained credibility on this issue as it has been unable to adequately document the actual use for investment of the deficit flexibility allowed by Brussels.

The third reason for divergence on the width of the Italian (but not only Italian) economic policy path is the different importance attached to the production capacity of the economy, to supply rather than to aggregate demand. The more inefficient and rigid the economy is, and scarce the production capacity, the narrower the path is, because additional demand in deficit fails, in the medium-long term, to generate more production, higher incomes, and more sustainable growth. In order to widen the path, it is, therefore, necessary to reform the overall functioning of the economy with policies other than stimulating aggregate demand. This is a crucial issue for Italy, for its international competitiveness, for the convergence of quality and intensity of its growth with that of the euro area. As stated earlier, Brussels' recommendations focus mainly on this aspect, to which we also will dedicate a few comments below.

[6] See for instance Table 1 in D. Ciferri and A. Melini "Ricette equilibrate per ridurre il debito pubblico", LaVoce.info, 4 January 2018.

Growth and reforms, banks and labour market

The issue of structural reforms is very broad, but there is a way to summarise it that exploits the basic economic idea of "resource allocation". Any number of reforms can be aimed at facilitating the flow of labour and capital resources towards more productive uses, i.e. different combinations of productions, companies, and businesses. It is not only that: in a medium to long-term dynamic perspective, reforms can make it easier and quicker to redirect capital and labour towards new, more productive and profitable opportunities as production opportunities change, as well as the relationship between the productivity of different jobs, global conditions of competition, and technology. In an increasingly integrated and changing world, this allocative flexibility becomes the real secret of a country's competitiveness and its ability to grow.

Labour market and capital market reforms are needed, first of all, because it is through those markets that allocative optimisation can be continuously pursued. But it is also essential to increase competition in product markets where incentives to use resources are created. We need a public administration that is all geared towards improoving their functioning, regulations, bureaucracy, efficient and effective judicial systems, good supervision, good public investment and smartly directed incentives, non-distorting taxes, and care for the ongoing training of human capital.

The case of Italy is not unique but very significant. Studies of data collected at the level of individual companies carried out at national and European level show that the problem of allocation is particularly serious for us. The country clearly has a very efficient group of companies, with higher productivity than the main competing countries, which allow it to be successful in the European single market and in global competition. On the other hand, the country allows itself to maintain inefficient productive organisations in existence, to an extent and with a persistence that compromise the overall productivity of the

system. It also appears that relatively more efficient companies are smaller than their optimal in size, while relatively inefficient ones are oversized.

The measures that emerge from research on the gains in productivity theoretically achievable by moving work and capital from where they make less to where they make more are really impressive and reach several percentage points of GDP[7]: even if carried out gradually and partially the reallocation would greatly enhance the extent of the country's growth. Obviously, with better resource allocations and higher productivity, the resources available to be used in national productive combinations would increase, as well as Italy's productive integration within the European single market, causing second rounds of increases in production and welfare. It should be noted that studies so far only cover private companies and do not quantify the enormous additional benefits that would allow reallocations within the public administration and between it and the private sector.

Even the issue of banks, which has topped the economic policy agenda in 2017 and worried European authorities, is also deeply linked to this issue. Banks, which should be among the main catalysts of productive reallocations, tend instead to stiffen the investment of capital resources, being unable to adapt them to changing production opportunities, until they themselves become victims of the difficulties of the firms they service, which insist on financing only in order to avoid their failure. So, at the root of the instability of many banks lies their inefficiency. This is the crux of the problem, over and above the more contingent issues, for example, non-performing loans or mismanagement due to bad supervision. The organisation of corporate governance of many banks must be reformed, and the

[7] See for instance: S. Calligaris, *Misallocation and Total Factor Productivity in Italy: evidence from firm level data*, CEIS Tor Vergata Research paper series, vol. 13, issue 9, no. 357, October 2015; A. Linarello and A. Petrella, *Productivity and reallocation: evidence from the universe of Italian firms*, Bank of Italy, Occasional Papers, no. 353, September 2016; AA.VV., *Italy's Productivity Conundrum: a study on resource misallocation in Italy*, European Commission, Discussion Paper, May 2016.

financial system must be profoundly restructured, increasing its international integration and reducing the role of banks in favour of different and innovative channels of intermediation. The hoped-for progress of the "European banking and capital markets union" makes this increasingly an issue of EU economic policy, in which, of course, the commitment of national operators and authorities cannot be absent. The Parliamentary Committee on Banking Crises, which worked through the end of 2017, has sometimes failed to keep the investigative objective more firmly focused on designing the necessary commitments to really improve the allocative efficiency of the capital market.

Also, with regard to the market of the other main productive resource, labour, attention must be focused more and more on its precious task of reallocating it, going beyond the obsession to measure its benefits with the ratio between permanent and fixed-term jobs. The real issue must become that of active labour market policies for training, retraining, redeployment, assistance for territorial mobility, the provision of information to quickly and efficiently pair new jobs with workers. Active labour market policies, for which the regional barriers that currently hamper their overall good organisation should also be decisively overcome, are very costly and should be given greater priority in the allocation of budgetary funds and in the EU support for structural reforms. High levels of employment, in an ever-changing economy, can only be interpreted dynamically, whereby some of the periods of unemployment become valuable moments in order to improve the allocation of workers and their wages and their prospects for professional development.

Conclusion. Italy among the "Big Powers"

Giampiero Massolo

It is not wise to address the crucial topic of Italy's relationship with big powers as a problem: from time to time it conceals either a platitude or a misunderstanding. Moreover, it would not be very useful, when trying to identify and pursue the interest of the country.

Merely in terms of size, Italy cannot belong to the big power's club. However, this could be said for almost any other country on the planet. Not even all five permanent members of the United Nations Security Council may be fully entitled to claim the "big power" status. In fact, only three of them, due to their demographic, military, and economic weight, as well as their territorial extension and mix of hard and soft power, can be deemed global in stature and external projection: the United States, Russia, and China. While this might sound obvious, international observers have often drawn a number of misleading lessons for Italy's role in the world. In particular, it does not follow that Italy is condemned to narrow down its ambitions.

It is true that, unlike big powers, Italy can identify and pursue its national interest on a limited and "targeted" scale, which depends first of all on geography. Italy is not a great power, and therefore it cannot confer the same weight to the stabilisation of the broader Middle East and North Africa and to the freedom of navigation in the South China Sea, to the containment of re-emerging nationalism in the Balkans and to territorial disputes in Latin America, to the future of Europe and to the internal discussions within African multilateral organisations. The reason is that the crises in the Mediterranean and the Balkans, as well as the future of European integration,

reverberate immediately on our national security, on our economic growth, and on our social cohesion, whereas convulsions in other geopolitical areas may affect some of our sectorial interests, but cannot endanger the overall stability of our country and its democratic institutions. This is precisely what distinguishes Italy from big powers: the latter have interests in every corner of the planet which, by their nature, are committed to establishing and promoting.

For this reason, in the age of global interdependence, if Italy really aims for a more stable Mediterranean, EU-aligned Balkans, and a Europe that regains its original momentum while, at the same time, giving modern and convincing answers to its citizens, we must be able to interact with big powers. We should do so on the one hand by strengthening our system of alliances, and on the other by forging partnerships of mutual convenience. To this end, the "Mattei-Valletta theorem", the idea of a foreign policy as merely subservient to economic interests, i.e. functional to guarantee energy supplies and buyers for our exports, is no longer sufficient.

Today, more than ever, "everything is connected". Especially the Mediterranean, crossed by political, economic, and religious undercurrents, crucial for its geography and for being an energy and migration corridor. An area of crisis, as well as an outlet for conflicts with distant causes, a common space for interreligious and intercultural dialogue as well as a place where new non-state actors confront each other and the state. The Mediterranean is crucial not only for regional players, but also for the world. In this an area, big powers cannot fail to project their influence and ambitions: the Middle East will always be central to American foreign policy, has become vital to Russia as a security buffer (and a potential incubator for terrorist), and is seen by China as a commercial and geopolitical extension of its New Silk Road project.

Italy is global as well, in vision and vocation, particularly in the way it projects its international interests. In this regard, our relationship with big powers should be developed along four directions.

First, even in this changed international environment, there is an inescapable need to strengthen the pro-Western and secular stance we made after the Second World War. To this day, its keystones are still Europeanism, Atlanticism, and multilateralism, although we should realistically account for the shift from a mainly cooperative international relations environment to a more competitive one. This requires us to rethink the very notion of multilateralism: gatherings are not useful and effective *per se* anymore, just because somebody attends them. Rather, each forum is a place for bargaining where each country leverages its reliability and takes advantage of its network of bilateral relations. Therefore, each forum will be useful and effective only on condition that the participants are not too far apart, also in terms of international prestige.

Second, there is the need to work to promote our interests in a security scenario characterised by asymmetric, hybrid threats that cross physical borders. At the time of the bipolar world, military control was sufficient, but not today. We cannot mitigate exposure to terrorist risks, manage the migratory emergency, defend strategic assets and our industrial, scientific, and technological heritage, protect the integrity of networks and critical infrastructures – in other words, safeguard the "core" of our national interests – if we do not remain strongly anchored to Atlanticism. We also need to search for a solid lowest common denominator with our European partners, and to stick to a careful combination of determination and dialogue with those big players who, while not belonging to the category of Western liberal democracies, can nevertheless define with us specific shared priorities, or whose positions need to be understood and contained.

Third, we also need to change our posture on multilateral organisations. In order to have a say, it is no longer enough to be part of them. The simple privileges of position are no longer sufficient; we need to take up our own responsibilities, without shirking "mature" hard choices. We can no longer be everyone's best friends, stay "equidistant" in every conflict situation,

champion dialogue and cooperation. While in the past we might have preferred to avoid taking tough or daring decisions, these can now prove essential to maintain our credibility and to appear reliable in the eyes of our allies.

Fourth, we need to be able to count on the support of public opinion and parliamentary majorities; support we should bolstered through transparency, credibility, and eloquence. The link between the ability to undertake international political action and the support from the Italian public opinion is not new. Italian citizens tend to be unwilling to back foreign policy actions without full knowledge of the facts, inclined to take sides by relying on propaganda and simplifications, and reluctant to accept the costs of "out of area", military deployments when they are not purely peacekeeping. They disregard geopolitical issues, being internationalised at many levels and areas, but often unconsciously, except for a narrow section of the population that is frequently in touch with the ruling class. But Italians are also able to unite and rediscover the notion of homeland and its inestimable meaning. Until now this has happened only sporadically, on the emotional wake of dramatic events. What is needed, however, is a systematically-encouraged, widespread awareness of the burdens that the world asks us to take on, and also the related advantages that can come from a "responsible" foreign policy.

Our Euro-Atlantic profile should be bolstered day by day, first and foremost through strong relations with the United States and inter-ally solidarity.

In this respect, continuing to dwell on the well-known disorientation caused by the Trump Presidency would be self-defeating. It is much more useful to keep in mind that the dense, structural, and capillary web of interactions and co-interests, spun in the almost 70 years from the Atlantic Pact and the more than 60 years from the Treaties of Rome, cannot be untied neither by the temporary split of the US leadership between an administration that tweets and one that works, nor by the fact that the British are leaving the European Union. Trump

will pass, but transatlantic relations are bound to remain. They go beyond their overarching dimension, namely that liberal world order that no protectionism can demolish and that nuclear umbrella that no European cooperation can replace. They are fuelled by much more than intense and essential trade ties. They are our physiognomy, our being in the world, the Weltanschauung that unites us.

Not to mention, and it is a fact of great relevance, that Trump's America may be "first", but it does not want to remain "alone".

First, because despite a narrow majority in Congress and the unknowns of midterm elections, Trump is proving much more Republican than he himself believed to be: just think of his tax reform and economic deregulation, his choices for the Supreme Court, his announcements about climate, Iran, and Jerusalem, the military defeat of ISIS in the former Syraq, along with the determination not to repeat past mistakes.

Second, because the strategic doctrine just launched in Washington, beyond the 2% dogma, offers Europe the dual role of main partner to face global challenges and privileged ally for its action in the world. In other words: the US is still able to distinguish between a true alliance, cemented by common values and a shared vision of the world, and simple partnerships, driven by specific interests. The new US national security strategy does not, in any way, deny the opportunity to promote dialogue and partnership with China and Russia, but limited in scope due to the real nature of those two players, deemed as strategic competitors willing to challenge the entire global geopolitical order. Actors with whom we can and must talk, because it is impossible to ignore their existence, weight, and ambitions, and it is right to accept their role. For America, however, "alliance" means something else: it is the one with Europe, fulling recognising NATO's centrality within the security architecture that binds the two shores of the Atlantic.

Trump's signature at the bottom of the national security strategy does not affect its scope. On the contrary. The signature has

been placed and will remain in place, whatever the outcomes of Russiagate. And it shows – perhaps involuntarily, but it does not matter – that the Euro-Atlantic community is stronger than the domestic (i.e. Trump's) and external solicitations, since it is essential to deal with the other competitive big powers. Suffice it to recall, as evidence that the world is much less "backwards" than it may appear at first glance, that it was the G7 in Taormina, not China with OBOR nor Russia with its new military-industrial complex, that reaffirmed the value of free trade, even if "equal and mutually beneficial".

It is up to Europe, and Italy, to strengthen the European leg of the Alliance.

From a national point of view, in particular, to be credible within the Union is much more important than to look at the likely or less likely reforms of the European institutional framework. At least at this point in history, Europe is destined to remain a union of sovereign states. Equally remote are radical Treaty changes. The necessary unanimity is nowhere to be found, and in any case, a new agreement to reconstruct the EU would not stand to ratification procedures, which are diverse across Member States. At the same time, the existing treaties are also an effective antidote to disintegration and anarchy, which would inevitably benefit the strongest and fastest to restore order, or at least to regulate chaos, to the detriment of the status of all other countries.

In order to strengthen Europe, rather than focusing on unlikely outcomes, Italy should worry about strengthening its credibility first, something that Europe expects and absolutely needs, given that Italy is an important "core" member as well as the second European manufacturing country, and thus too big to fail. In addition, this holds when we consider that the most realistic alternative to institutional engineering is not to be found in "enhanced cooperation" as in the intergovernmental dynamics that will shape the internal relations within the hard, Franco-German core of the Union.

Enhanced cooperations would make sense to the extent that they do not deviate too far from the nine-method geometry laid down in the Amsterdam and Nice Treaties. Otherwise, as with PESCO, we will end up adding additional circles to the three that already exist – the post-Brexit single market at 27, the euro area at 19, and Schengen at 22 – all of which have their own added value, but also a burden of criticality and incompleteness. Intergovernmental dynamics will determine, instead, the future direction of Europe, starting from the communitarisation of the Fiscal Compact, that we should considered a done deal, and the forthcoming difficult negotiations on the reform of the Economic and Monetary Union and the future Multiannual Financial Framework. It is telling, on this point, how a Franco-German single market with bilaterally agreed common rules and standards, governing key areas of economic integration, is taking shape. Although Merkel had to struggle more than in the past to form a new government, and Macron's vision of the future of the Eurozone was, at least so far, divergent from Berlin's, a new Franco-German treaty seems to be on the works, confirming that the axis between the two capitals will be pivotal for the future of the Union.

As a result, much for Italy will depend on how we can foster our relations with Germany and France bilaterally.

Italy and Germany are tied by a strong structural relationship, centred on the continuity and homogeneity of the industrial fabric uniting their South to our North; a sort of "macro-region" that has become the beating heart of the European economy, and one of the richest in the world in terms of per capita income. Now that the internal political stalemate has finally found its way into a new Grosse Koalition, Berlin will certainly remain our main ally, with which we enjoy a deep and lasting convergence on all major international dossiers, with the exception of the reform of the UN Security Council (currently not on the agenda). This relationship is an asset: wasting it because of the fragility in our public finances would be not only a major mistake but also completely useless: no political force

in Germany will ever accept the idea that German taxpayers' money go to finance the delays and inefficiencies of others.

France is governed by one of the most solid leader in the continent: at the moment, Macron enjoys strong popular support and is also the recipient of growing expectations. Italy is both complementary to, and competitive with, Paris. We share the same geopolitical projection and we lead similar manufacturing sectors. But what makes the difference is the French institutional system, which has proved to be effective in lessening the impact of the collapse of traditional parties, and above all it supports stronger decision making at the centre, while dampening the appetites of peripheral or sectoral stakeholders. While, in our country, the general interest succumbs by particularism, on the other side of the Alps the general interest prevails with shared cogency.

It will be on us, on our ability or inability to strengthen our network, whether, in our relationship with Paris, shared interests will prevail, or the French temptation to buy us out against our will triumphs over the rest. In the meantime, we need to be able to read and fully understand French interests, so as to foster fruitful commonalities at the EU-level. We need this, if nothing else, because between France and the new German coalition could soon bloom new ententes could soon bloom, for instance on migration and Eurozone governance, not necessarily coinciding with our interests.

It is important, therefore, to take full advantage of the opportunity offered by the new, ambitious Italian-French bilateral treaty, making good use of the window of opportunity for policy change that will open up in the next few months, in order to articulate the relationship between Rome and Paris in complementary terms to the Franco-German relationship, which will inevitably constitute the hard core of a "new Europe".

We should do this, of course, by showing that we can live up to the expectations of our European partners. To this end, decisions such as sending our troops to Niger are interpreted by our partners as indicators of our credibility, and they deserve to

be explained to the public opinion as such. It is good that our citizens are aware that while an Italy without Europe is inconceivable, the same is true for a Europe without Italy, and that we must, therefore, learn "how to stay" in Europe.

All the more so as it will be on us, irrespective of our relations with Berlin and Paris, to influence the degree and quality of the support that Europe will accord us. The EU is neither a mother nor a stepmother, and it would be misleading to hope for economic solidarity on its part to make up fully for our shortcomings, or to accord Italy even more generous flexibility in our public finances. Indeed, evidence points to the opposite: the proposal for a directive transposing the Fiscal Compact, presented last month, limits derogations from the six-pack rules to exceptional circumstances, and only to reforms with a positive and direct impact on national accounts.

Europe will continue to be our benchmark, but its support and redistribution efforts will increasingly depend on our ability to deserve them. We know what needs to be done: vigorous reforms to increase the productivity of our enterprises, whose inadequacy is at the root of all our evils; a more modern institutional structure that favours the effectiveness of governmental action; the promotion of inter-institutional synergies, necessary to build our network and disrupt the resistance of existing structures that are slow to partake of powers, competences, and knowledge; massive and sensible investments in research, development, training, and education; but also responsible diplomatic actions in Brussels, aimed at dispelling suspicions that we only want to postpone the solution of our public finance imbalances by pointing at our primary surplus.

Ultimately, the only variable on which a country's weight in the world depends is not so much that it is big, medium, or small. It is credibility. This is a rule that constantly applies even to the three big powers. Let alone to us.

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