

**March 9, 2012, 14:00-16:00**

**Venue: Keidanren-kaikan Hall (North) at Tokyo**

**CIGS Seminar :**

**" What really happened in Libya? What will happen in Iran and Syria?  
What is going on in European and US Economy?-----Implication to  
Asia Pacific."**

**by Mr. Jeffrey Steinberg**

**<The Speech by Mr. Jeffrey Steinberg>**

The year 2012 can be considered as one of the turning points in the world's history for numerous reasons. The events unfolding in the Middle East could lead to a limited war involving Iran with Israel and the United States. If such a war took place or widened to a larger conflict, there could be repercussions both economically and militarily.

Looking back at history when the Arch Duke Ferdinand was assassinated in Sarajevo in August 1914, the newspapers gave a limited account of events, which proved to be a crucial trigger for World War I. Similarly, the situation in the Middle East is extremely fragile and unless the situation is handled sensibly, we could be facing a larger confrontation.

I will later address some fundamental aspects of economic and financial crisis that are prevalent in Europe and have an impact in the US. We are at a point where the entire European Monetary Union from the time of the Maastricht Treaty to the present moment is reaching a break point. The European situation is far more serious when one takes into account the Greek debt prices, which could have global implications before the end of this year, if the bond holders do not accept a voluntary solution to this problem.

Let me start with Libya, where although the overthrow of the Gaddafi government had very profound consequences, the true picture of what was really happening in Libya was not being presented to the public. Until 2003, Muammar Gaddafi was favored by the western countries as Libya voluntarily dismantled Weapons of Mass Destruction

Program and was seen as a model on how to move ahead with disarmament issues and bringing rogue countries into the mainstream world community.

Gaddafi was a very skilled politician and used the oil revenues of Libya to finance every government on the African Continent, and played a substantial role in the evolution of the African Union, and was a dependable person if one wanted to establish an economic or political entry in the African Continent.

Historically, Africa was plundered by the Europeans for its vast natural resources and so one of the reasons that propelled France and Britain into insisting on the overthrowing of the Gaddafi regime was the fact that Gaddafi had provided direct access to Africa's vast natural resources to countries like China and other Asian countries. The idea was to overthrow the Gaddafi government and plant a dummy regime that would cater to its needs.

One of the results of the way that the Libya operation was conducted is that the United Nations Security Council, UNSC, was not taken into confidence. Traditionally, any issue taken up by the UNSC involves the five permanent Security Council member countries; China, Russia, the US, Britain, and France. Negotiations led up to a Security Council Resolution establishing a no-fly zone and humanitarian intervention to protect the people of Benghazi.

The Russian and Chinese were made to believe that this was a humanitarian intervention and not a regime change operation, although the British and French governments had been publicly insisting on overthrowing Gaddafi which was also echoed by President Obama. Secretary of Defense Robert Gates of the Obama administration was strictly against a no-fly zone and other actions as it had the characteristics of a full-blown war and hence resigned.

As the Libya operation had led to a breach of trust, China and Russia cast their vetoes on a Security Council Resolution calling for a similar action to be taken in Syria.

There is another dimension from a policy standpoint which has caught the reactions not only of Russia, China, and some other countries but has precipitated a very strong reaction inside the US itself. As the Libya conflict was ongoing, President Obama issued a Presidential Study Directive, which looked into the prevention of mass atrocities and genocide all over the world and gave the US the right to intervene in such matters. This approach is a rejection of the entire Westphalian system that accords

certain sanctity to national sovereignty.

There has been an ongoing debate at the United Nations over a doctrine called Responsibility to Protect, which was brought before the UNSC in an attempt to introduce it as Article 7 which gave the right to the use of military force but was eventually opposed by many countries. The argument was that such humanitarian intervention overlooked national sovereignty and would set a dangerous precedent leading to serious implications.

The Iranian nuclear issue has drawn an enormous amount of attention and concern internationally but a significant amount of work is being done behind-the-scenes to reach a negotiated settlement.

The strongest opposition to any military action against Iran is coming from the US military and intelligence community. Significant visits by top American military intelligence officials were made to Israel with the message that there is no reason to launch any pre-emptive military action against Iran as the negotiating process between the permanent five members of the UNSC Plus Germany with Iran were about to commence.

But Israel has its own concerns which would lead it to take limited military action that would set the Iranian nuclear program back. This voluntary action on Israel's part would also lead the US to involve itself in the conflict due to the US Congress taking a stricter view on Iran's nuclear program and also due to the fact that it is a presidential election year.

The US military has weighed the pros and cons of a war that is restricted around Iranian territory. The US still has over 100,000 troops in Afghanistan and with Iran developing long-range ballistic missiles, any military action would be critical from an economic, political, as well as a military standpoint, with obvious implications for world oil supplies and prices, at a time when the economies throughout the globe are fragile.

Today is the deadline for an agreement to be reached between the Greek government and the private bond holders represented by the IIF and there is a great deal of attention over whether or not the agreement would be reached as Greece has a major debt payment. This is a crisis point in the Euro zone.

This past week, the heads of state of 25 of the 27 European Union member countries

met in Brussels and signed a third treaty agreement. Great Britain and the Czech Republic did not join the treaty as it was felt that signing it would amount to an economic death sentence because the austerity conditions integrated in the new treaty will destroy any economy that tries to live up to those criteria.

In fact, Prime Minister Rajoy of Spain held a press conference announcing that Spain will not comply with the treaty agreement as it is impossible for Spain to meet the debt-to-GDP ratio reductions and with youth unemployment being well over 40%, the demands set by the austerity measures would collapse the Spanish economy even further.

The reality is that from the very outset there were severe structural problems within the entire Maastricht Framework that have not been discussed. The Merkel-Sarkozy block has been pushing for a greater political integration within the European framework. When the US was established, particularly after the failure of the Articles of Confederation, the very foundation of the federal constitution was to recognize that there were significant differences among participating states in the federal union and that the federal government would play a certain role in balancing out the economic discrepancies and move the entire country forward to develop.

Under the Lisbon Treaty, the governments of Europe were responsible for transferring speculative debt of private banking into sovereign debt. The European Central Bank is up against an immediate crisis as it has a lot less maneuvering room to print endless amounts of money and expects people to buy these bonds.

The European private banks need an infusion of between €5 and €6 trillion of interest-free money to survive because of the enormous amounts of highly-leveraged nonperforming debt and the European Central Bank is functioning as a mini-federal reserve printing enormous amounts of money to stave off the crisis.

When the G20 finance ministers met in Mexico City, there were heated exchanges between US Treasury Secretary Geithner and the German Finance Minister Schäuble over the fact that Germany should pump in more money for the continuing bailout of the European Monetary Union. Geithner's main assignment was to stave off any negative effects of the European debt front on the outcome of the US Presidential Elections.

The British are in a longstanding conflict within Europe over the issue of London's

continuous functioning as the financial center for the entire Europe, whereas France and Germany want the financial center to shift over to Europe to either Frankfurt or Paris.

As Germany puts more money into the Europe Bailout Fund, it wants to impose a transaction tax on all European financial transactions, so a fight is underway over positions of relative financial influence and power within Europe. At the same time, the entire European Monetary Union system is in doubt as to whether the European banks would be able to sail through the economic crisis, with the ongoing Greek debt crisis, and also dealing with Spain and Italy, where the volume of indebtedness is much greater and far exceeds the ability of any European Bailout Funds to solve the problem.

Ever since Mario Draghi from Italy came in as the new head of the European Central Bank, all kinds of mechanisms are being used to draw upon the unlimited swap line with the US Federal Reserve to print an enormous amount of money to loan money at 0.5% through a special discount window to the big European banks.

There are overlapping crisis points that will require an enormous amount of resolve to move beyond the Washington Consensus. There was never any expectation that the main function of the International Monetary Fund would be as the lender to bail out Western Europe, yet this is what is happening. The IMF Board is figuring out how much of a commitment to make if the Greek Bondholder Deal actually goes through and if there is evidence that Greece is able to move forward with the austerity package. This situation cannot be prolonged through short-term bailout-type measures.

There is European Carry Trade in which banks are being asked to borrow money at 0.5% and buy government bonds in order to avoid market rate fluctuations that are putting an enormous risk premium, so the question is whether or not these governments are able to meet the debt obligations.

The problem is that the banks may borrow at 0.5% and book purchases of different country bonds and show a yield of 5%-6% but the fact is that the countries are going to go through significant write-downs in the future. The estimates are that Spanish bonds are going to be reduced by 40% and Portuguese bonds closer to 50%, so the consequences are that there is a drying up of credit for real economic activity necessary to actually grow out of the crisis.

In the US, support is building for the idea to go back to the pre-1999 banking situation

where the Glass-Steagall allowed for a complete fusion of commercial banking brokerage and insurance. The Act had been eroding for a period of time but there is legislation before the House of Representatives with about 60 co-sponsors and is one of the few bipartisan bills before the Congress right now to simply repeal the 1999 bill. All these things are occurring in the backdrop of a number of significant leadership elections and transitions taking place in major nations around the world.

The Russian Presidential elections have just ended and one of the consequences of the Persian Gulf Crisis was that for the last 3-4 months Russia enjoyed a significant windfall profit on oil sales and President Putin's contributing factor to his election victory is that Putin put a lot of money into bringing all government wages, pensions, and some other investments that add an immediate bearing on notable improvement in the economic conditions for many people.

The forthcoming presidential election in the US is a very important one, although the outcome is very much uncertain.

This fall, the Chinese Communist Party will have the 18th Party Congress. There will be a generational shift in leadership and the new generation will be making all of the key policy decisions for the next decade, so that is an extremely important event playing out.

China, Russia, the US, Europe, Japan, and other countries obviously have an enormous vested interest in the situation of war and peace in the Persian Gulf. All these elections and transitions are going to be impacted by whether or not we can get through this crisis in a diplomatic rather than a military way.

There are a lot of other things happening that fit the same picture of the world going through tumultuous transitions. The US is engaging in a dramatic military restructuring and redeploying, placing far greater emphasis on the Asia, Pacific, and Indian Ocean region and also shifting away from counterinsurgency warfare. At this point, the US is withdrawing from Iraq and over the course will be withdrawing armed forces from Afghanistan. The outcome of these actions is quite uncertain in terms of what will come next.

The Outgoing Secretary of State Hillary Clinton has proposed that as the US withdraws from Afghanistan, there needs to be a regional conference on development and security for the entire South and Central Asia Region involving Russia, China, US, Pakistan,

India, Iran, and the Central Asian countries bordering Afghanistan.

The US shift towards greater American military, political, and economic engagement in the Asia-Pacific region is going to be quite significant over the coming years. Unlike the cold war between US and the Soviet Union, the US-China relationship and the relationship of US with other Asia-Pacific Region nations is very complicated. There is an economic, political, and a military dimension to the US-China relationship that seems to be moving in completely different directions.

There are significant available solutions to these problems but it is going to be vital that some of these new mechanisms are discussed among the larger group of leading world powers. There are going to be some extremely pressing and time-sensitive problems that will come up rapidly over the course of the year and pose a real challenge to all the leading countries beyond the two or three great powers to be vocal in order to make sure that these problems can be solved in a way that avoids the potentially looming catastrophes that could hit us in the course of 2012.

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