<table>
<thead>
<tr>
<th>Topic</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia will mix strength and caution to seek respect</td>
<td>June 13, 2017</td>
</tr>
<tr>
<td>Russian war games may alarm but have limited scope</td>
<td>September 13, 2017</td>
</tr>
<tr>
<td>Russian navy will grow assertive despite ageing fleet</td>
<td>June 2, 2016</td>
</tr>
<tr>
<td>Russian navy purge will slow Baltic assertive capacity</td>
<td>July 29, 2016</td>
</tr>
<tr>
<td>Fortress Kaliningrad key to Russia’s assertive shield</td>
<td>July 21, 2017</td>
</tr>
<tr>
<td>Western Europe might embrace wider security concept</td>
<td>March 16, 2017</td>
</tr>
<tr>
<td>EU defence may focus on cooperation, not integration</td>
<td>July 21, 2017</td>
</tr>
<tr>
<td>Brussels may expand its role in foreign policy</td>
<td>May 16, 2017</td>
</tr>
<tr>
<td>Ukraine talks will resume with glacially slow progress</td>
<td>July 26, 2017</td>
</tr>
<tr>
<td>EU leaders’ approaches to Trump will vary</td>
<td>August 17, 2017</td>
</tr>
<tr>
<td>Radicalisation hubs will be key to counterterrorism</td>
<td>July 13, 2017</td>
</tr>
<tr>
<td>European defence spending may increase modestly</td>
<td>March 1, 2017</td>
</tr>
<tr>
<td>Belt and Road paves way for China’s new global role</td>
<td>May 18, 2017</td>
</tr>
<tr>
<td>China’s quantum leap will transform cybersecurity</td>
<td>September 8, 2017</td>
</tr>
<tr>
<td>Policy flip-flops increasingly isolate Turkey abroad</td>
<td>July 4, 2017</td>
</tr>
<tr>
<td>Global ‘fake news’ fight to focus on online platforms</td>
<td>March 22, 2017</td>
</tr>
<tr>
<td>More Eastern EU migrants may leave as Brexit nears</td>
<td>August 29, 2017</td>
</tr>
<tr>
<td>Trade now drives politics more than growth</td>
<td>March 29, 2017</td>
</tr>
</tbody>
</table>
Riga Conference delegates:

It is a pleasure to provide you with this Briefing Book from the Oxford Analytica Daily Brief.

We have chosen articles germane to the main topics addressed in your meeting agenda, but would especially call your attention to the several that contain some of our most recent analysis of Russia’s posture towards the West.

The Oxford Analytica Daily Brief, our flagship publication, follows all the issues on your agenda throughout the year. Some delegates will already have full access to this service, but I am pleased to have the opportunity to provide all with a flavour of the analytical foresight that helps our clients turn risk into strategic opportunity for their enterprise, policymaking or investments.

Oxford Analytica was founded in 1975 to enable governments, corporations and international organisations to navigate the complex macro environments that impact strategy, operations, investment and policy.

Our analysts do so by drawing on a network of some 1,500 experts at leading centres of learning around the world to produce actionable, authoritative and impartial insights into global events and trends.

These and our founding principles, robust methodologies and impressive track record are the basis for the worldwide reputation we enjoy for delivering unparalleled macro diligence.

Do contact us at client.services@oxford-analytica.com if you would like to learn how we can help you.

My best wishes for a fruitful conference.

Paul Maidment,
Managing Editor
Oxford Analytica
Russia will mix strength and caution to seek respect

Moscow’s relationships with allies and adversaries are coloured by its interventions in Ukraine and Syria

### Key foreign policy considerations

**UNITED STATES**
Until Moscow has the measure of US President Donald Trump, it will hold off on either pushing hard for a thaw or reverting to earlier frosty relations.

**‘NEAR ABROAD’**
Former Soviet neighbours are at best uneasy about Russia’s intentions, limiting the scope for Eurasian integration.

**CHINA**
Moscow will seek trade and above all investment from Beijing but wholesale alignment is unlikely given their differing interests.

**EU**
Moscow may have to rethink its approach as efforts to divide Europe and weaken its resolve have had limited impact.

**IRAN**
Trade including arms sales and energy investment will grow, but the tactical alliance in Syria creates the risk of being drawn into Iran’s agenda.

**SOUTH ASIA**
Despite recent security-sector engagement with Pakistan, India remains a major defence buyer and bilateral relations are otherwise uncomplicated.

**FLASHPOINTS**

**NATO**
Conventional forces will eye each other’s build-ups and manoeuvres with suspicion but the risk of intentional or accidental confrontation looks remote for now.

**UKRAINE**
The conflict is in equilibrium and becoming ‘frozen’ by default as Moscow cannot decide whether to tip it towards annexation or resolution.

**SYRIA**
Russia is slipping from limited military intervention to a less controllable project to impose a political solution on unruly players.

Foreign policy thinking and actions will reflect Russian **efforts to throw off perceptions of it as a ‘second-rate superpower’** and regain global status and respect.

Different **interpretations of past events and future intentions will obstruct rapprochement with the West.** This is evident in Russia’s claim to a right of retaliation against ‘Western meddling’ and its adherence to the notion of ‘spheres of influence’.

In other regions, foreign relations will reflect hard-headed pragmatism including efforts to sell arms and secure energy deals. Nuclear arms talks offer a unique forum for negotiating parity with the United States.

- While professing indifference towards US and EU sanctions, Moscow is keen to end them at minimum or no cost.
- China’s greater military spending is mitigated by its inability to replicate Russian hi-tech including for certain defence items.
- The complexity of Syria will constrain efforts to build on perceived success in forging new Middle Eastern and North African ties.
- Russia is trying to keep Turkey close by and manage differences of interest to avoid complicating its Syrian engagement.

---

**See also:** Russia curbs expectations of Trump presidency – March 3, 2017

© Oxford Analytica 2017. All rights reserved

No duplication or transmission is permitted without the written consent of Oxford Analytica

Contact us: T +44 1865 261600 (North America 1 800 965 7666) or oxan.to/contact
Russian war games may alarm but have limited scope

Wednesday, September 13, 2017

Location and geopolitical tensions focus attention on military exercises in Belarus

The Zapad-2017 military exercises begin tomorrow in Belarus and north-western Russia and are due to end on September 20. Zapad-2017 has attracted unprecedented attention in the West, as media reports claim it will be the largest-ever Russian exercise and may be a precursor to stationing troops permanently in Belarus or even to invading the Baltic states. However, while alarming in scale and location given the context of Russia-NATO tensions, these war games are part of a scheduled annual military training cycle.

What next

The number of participating troops is unlikely to be as large as Western media estimates suggest, and the war games scenario is primarily defensive. The exercises will provide NATO with valuable information about the strengths and weaknesses of the Russian military and about how it plans to fight future wars.

Subsidiary Impacts

- NATO will be vigilant as Zapad-2017 unfolds but has deployed only modest extra forces.
- Ukrainian warnings that Russia will use Zapad-2017 to prepare an invasion reflect jumpiness rather than a real risk.
- Belarus will resume efforts to reach out to European countries and distance itself from Western tensions with Russia.

Analysis

The Zapad exercises have been held at regular intervals since 1999, and serve as the culmination of the Russian military’s annual training cycle. Similar large strategic operational exercises were held at the same time of year in the Soviet period.

The series rotates through the four main operational strategic commands: Eastern, Caucasus, Central and in this case Western (Zapad means ‘west’).

Zapad-2017 has been anticipated for at least four years (the last Zapad event was in 2013), but it takes place in a radically altered geopolitical environment, with Russian forces officially deployed in Crimea and unofficially in eastern Ukraine, and NATO bolstering its forces in eastern member states.

That creates heightened uncertainty about the scope and exact parameters of the 2017 event.

Troop numbers

One of the main points of contention is the total number of troops involved. Official figures and Western estimates diverge widely:

- Western reports suggest that 75,000-100,000 Russians soldiers may participate.
- Official figures from Russia and Belarus indicate that 12,700 will be involved: 7,200 from the Belarusian military, 3,000 Russians temporarily deployed to Belarus and 2,500 in Russia.

Belarus gave the 12,700 figure in its formal notice to the Organisation for Security and Cooperation in Europe (OSCE) under the terms of the 2011 Vienna Document requiring exchanges of military information.
There are reasons that these figures are so different.

The Russian military is conducting related exercises on its territory that are not technically part of Zapad-2017. Russia has not given the OSCE notice of these exercises since it regards them as domestic and not subject to Vienna Document reporting.

The highest Western numbers usually include not just armed forces personnel but also security agency staff and civilian officials who may be involved in parts of the exercise.

Russia is conducting concurrent civil defence exercises that will include the National Guard and territorial defence reserves. These paramilitary forces may amount to an additional 20,000 personnel, accounting for higher-end Western estimates.

Both Russian officials and Western analysts tend to count the entire personnel of military units involved in an exercise even if only part of the unit is deployed in the field. This inflates totals.

Hence, the overall number of Russian troops involved in the exercise is likely to be much lower than Western estimates, but higher than the total formally reported to the OSCE.

War games scenario

Belarusian officials have tried to dispel fears about Zapad-2017 in the West as well as at home (see BELARUS: Russian wargames cause alarm - February 24, 2017).

They have been far more open about its content and objectives than Moscow, and have stressed that it is entirely defensive in concept.

Belarus has tried to reassure its western neighbours

They say that six firing ranges in Belarus have been selected as locations for Zapad-2017 precisely because they are some distance from the Polish border. Three ranges in Russia's Pskov, Leningrad and Kaliningrad regions will also be used. (see RUSSIA: Fortress Kaliningrad provides assertive shield - July 21, 2017).

The scenario for Zapad-2017 is a military counter-offensive to repulse an invasion of Belarus by three fictional states. This indicates the objective is similar to previous Zapad iterations: defending Belarus from a NATO invasion.

The scenario is likely to result in a limited operation to restore the status quo ante while seeking to avoid engagement by other NATO states and the escalation of the conflict beyond the immediate vicinity of Belarus.

Officials say the exercises will involve 680 armoured vehicles and 70 aircraft, of which 370 and 40 will be deployed in Belarus, plus ten vessels from the Baltic Fleet (see RUSSIA: Navy purge will slow Baltic assertive capacity - July 29, 2016).

Pointers to Russian strategy

Russia has military and political objectives, with messages for its adversaries:
Military

Russia wants to demonstrate its ability to conduct large-scale joint operations involving multiple arms of service and activating logistics networks that include transfers of forces from one zone to another.

Like other exercises in this series, Zapad-2017 seeks to strengthen defence cooperation with Belarus, Russia’s most capable military ally and a critical buffer zone.

Moscow views a NATO intervention in Belarus as one of the most likely causes of a major military confrontation.

Political

Despite Western perceptions of an increasingly aggressive Russia, Moscow feels relatively weak compared with the United States and its allies, and perturbed by even modest additional force deployments in Eastern Europe (see RUSSIA: Defence spending will fall at a gradual pace - April 7, 2017 and see NATO: Rotating battalions may not bolster credibility - September 22, 2016).

Zapad-2017 aims to deter the West by highlighting Russia’s readiness to counter offensive military action as well as anything it views as Western-sponsored attempts at regime change in Belarus.

Covert motives?

Western media reporting on Zapad-2017 has helped Moscow shape a message of overwhelming strength while simultaneously dismissing as ‘hysteria’ any suggestion of malign intentions.

Occupying Belarus

Some Western media have speculated that Russia will not remove all its troops from Belarus once Zapad-2017 is over.

This seems unlikely because it would provoke a crisis with Russia’s closest ally but also because it would undermine ties with other former Soviet states that host Russian exercises.

Despite tensions, Belarus is an important ally for Russia

Belarusian President Alexander Lukashenka has rebuffed Russian proposals for a permanent military presence, for instance, airbases (see BELARUS/ RUSSIA: Minsk’s weakness will limit disputes - March 10, 2017). However, Moscow does not have an urgent need for a troop presence since maintaining enough forces to be of strategic value would be expensive, and forces can be moved quickly from Russia in the event of a crisis.

Meanwhile, Russia has enough economic leverage to ensure Lukashenka remains fundamentally compliant, despite his occasional outbursts of anger at Moscow (see BELARUS/RUSSIA: More disputes are likely despite deal - May 18, 2017).

Baltic takeover

Another fear raised in the West is that Zapad-2017 is a dry run for the invasion of one or more of the Baltic states.

Proponents of this view note that Russia conducted a major exercise in the Caucasus not long before intervening in Georgia in 2008, while a 2013 Black Sea exercise foreshadowed the transfer of troops to Crimea in early 2014. However, these deductions are selective: Russia conducts large exercises on its borders many times a year, usually attracting little attention.

Russia has not indicated an imminent wish to move against the Baltic states, not least because it must take seriously NATO’s commitment to back up its Article 5 guarantees to these member states.
June 2, 2016

Russian navy will grow assertive despite ageing fleet

The navy’s contribution to the Syrian military operation showed its effectiveness operating close to Russian shores

Budget constraints have limited defence spending growth since 2014

Three of the four large fleets face NATO forces west of Russia

After decay in the 1990s, the Russian navy is modernising, although an ambitious shipbuilding programme has progressed slowly due to high costs and supply disruptions. Submarine-launched missiles will remain an important part of the nuclear arsenal. The surface fleet will be mainly deployed in Russia’s immediate environs, as having the capacity to emulate the US navy’s blue-water reach is a long way off.

The focus will be in western regions: confronting NATO in the Baltic, seeking Arctic dominance and projecting power in the Black Sea and eastern Mediterranean, from where warships will provide airspace defence over Syria while delivering a clear statement of Russian power.

See also: Black Sea Fleet projects Russian power westwards -- April 15, 2016
Russian navy purge will slow Baltic assertive capacity

Friday, July 29, 2016

The Baltic Fleet gets new commanders after maritime mishaps, construction failures and talk of corruption

A purge of senior leaders of Russia’s Baltic Fleet was remarkable for the public way it was conducted, in an open admission of failings in the naval force tasked with defending Russia’s north-western front. Technical problems and claims of inefficiency and corruption beset the fleet. The dismissals are a warning to other military commanders that if they allow effectiveness to slip, they will be punished rather than quietly eased out.

What next

The fleet’s new commanders have been given until the end of the year to fix the Baltic Fleet’s problems, or at least make significant progress. They will also have to ensure that their intervention does not hamper naval and land-based air units from patrolling the Baltic coast, asserting Russian claims to supremacy in international waters and engineering close encounters with NATO and especially US planes and ships.

Subsidiary Impacts

• The new naval commanders will need time to establish their authority and resolve chronic problems in the Baltic Fleet.
• Fleet commanders will be under pressure to show improvement to combat readiness and infrastructure within months.
• Russian interceptions of US aircraft and ships will recur despite a recent agreement on better communication.

Analysis

Russia’s smallest fleet, based in the Baltic Sea, has been decapitated in the largest purge of its kind since Soviet times. The fact that Defence Minister Sergey Shoigu announced the dismissals in full view of his Western adversaries indicated either that action was urgently needed, or more likely that he had the confidence to ignore the West while conducting essential repairs to the armed forces.

The defence ministry announced on June 29 that fleet commander Vice Admiral Viktor Kravchuk and chief of staff Rear Admiral Sergey Popov plus several other unnamed senior officials at the fleet had been removed from their posts and would probably be dismissed.

The purge of top commanders reflects deep concern about a naval force that faces NATO directly

Further dismissals ensued, and a total of 36 officers were removed, including the head of the fleet’s operations department and the commander of at least one of the fleet’s bases, most likely Baltiysk.

A ministry statement said a month-long inspection process ending on June 10 had found grave shortcomings in training, discipline and care for personnel, and accused senior naval staff of misrepresenting how bad things were.
A critical region

The Baltic Fleet has long been eclipsed by the strategic Northern and Pacific Fleets, responsible for Russia’s nuclear missile submarines. Since Moscow occupied Crimea in 2014, the Black Sea Fleet has been rapidly rebuilt (see RUSSIA: Black Sea Fleet projects power westwards - April 15, 2016).

Although small, the Baltic Fleet has a critical role to play in asserting Russia’s claims on its north-western flank, the only place where it borders directly on NATO states Estonia, Latvia, Lithuania and -- by virtue of the exclave Kaliningrad -- Poland.

The Baltic Fleet remains a training force primarily. Its operational assets include one 1980s-vintage Kilo-class submarine, a relatively new Neustrashimy-class frigate, three Stereguschy-class corvettes, and three Ropucha amphibious landing ships.

A second Kilo-class diesel submarine, a Sovremenny-class destroyer, a Neustrashimy-class frigate and a fourth Stereguschy-class corvette are held in reserve or undergoing long-term overhaul. The fleet also has several smaller missile ships, minesweepers and landing craft, most dating from the late 1980s or early 1990s (see RUSSIA/NATO: Russia's maritime posture challenges NATO - May 18, 2016).

In 2012, Kravchuk was tasked with merging Russian army infantry and armoured brigades with the Baltic Fleet's maritime assets and land-based air units including fighters and tactical bombers into the integrated Kaliningrad Defence District.

As overall commander of the district, he was granted control over front-line combined air, land and sea forces including the advanced S-400 air defence system and the Iskander tactical ballistic missile, which is deployed in Kaliningrad only on occasional exercises (see RUSSIA/NATO: Russia's maritime posture challenges NATO - May 18, 2016).

Admission of failings

It is highly unusual for the Russian authorities to speak frankly about military dismissals at this level. Normal practice is to say the individuals concerned are stepping down for health reasons or retirement.

Removing Kravchuk was made easier by the absence of his long-term patron, Admiral Viktor Chirkov, who stepped down as head of the Russian navy in November 2015. He officially retired on health grounds, but there were rumours of poor preparedness in the marines and naval support vessels that came to light during operations to supply Syrian government and Russian forces by sea (see RUSSIA: Navy will grow assertive despite ageing fleet - June 2, 2016).

For the purge to be sweeping and well-publicised, the problems identified must have been serious and widespread. There appear to be two elements, military performance and financial wrongdoing:

Operational failings

In Kravchuk's four-year spell as commander, he had more funding available than his predecessors, yet the state of the Baltic Fleet reportedly declined.

Specific shortcomings include the unsatisfactory performance of minesweepers during Baltic Sea exercises in August 2015, which was then concealed from top naval commanders. Defence ministry officials were said to be unhappy that Baltic Fleet commanders never released their Stereguschy-class corvettes to assist other naval vessels in the eastern Mediterranean.

Infrastructure shortcomings at naval bases mirrored technical problems at sea
The fleet has suffered several accidents and fires, such as during a recent exercise when a submarine started belching smoke rather than submerging and had to be towed into harbour for repairs.

The recently completed Krasnodar diesel submarine suffered damage in what Russian journalists said was a collision with a Polish surface vessel or submarine. Another account is that the Krasnodar ran aground while on manoeuvre. Fleet commanders were accused of covering up the circumstances and the extent of damage to the vessel.

Corruption claims

The creation of the Kaliningrad Defence District required new barracks, housing and other infrastructure to accommodate extra personnel and house military equipment. Russian media such as Fontanka-ru cite sources who claim that funds allocated for these purposes were misspent or embezzled.

These local sources also alleged links between fleet commanders and organised crime groups in Kaliningrad, for example involving the theft and resale of diesel fuel from naval supplies.

On a previous mission, naval inspectors found that living conditions for officers, their families and other ranks at Baltic Fleet bases were inadequate. The May-June inspection found them still substandard.

New commanders

Shoigu quickly appointed new commanders for Baltic Fleet. The job of overall commander will be filled on an acting basis by Vice Admiral Alexander Nosatov, a surface warfare specialist who spent most of his career in the Pacific Fleet, commanding various vessels and eventually a force that comprised the fleet's largest surface ships.

Nosatov also did a three-year tour as commander of the Baltiysk naval base, then became deputy commander of the Black Sea Fleet, and was appointed only recently as head of the Kuznetsov Naval Academy in St Petersburg.

The new chief of staff is Vice Admiral Igor Mukhametshin, a submariner who served first in the Northern Fleet and then in the far east, rising to command the Pacific Fleet's strategic submarine squadron.
Russian fleet raises Black Sea tensions for NATO

Friday, June 16, 2017

The Black Sea Fleet’s increased capabilities and activity have raised real concerns within NATO.

Last month’s cruise missile strikes against targets in Syria from a Russian frigate and a submarine have highlighted the more prominent role being played by Russia’s Black Sea Fleet (BSF). The BSF has emerged as a primary means for Moscow to extend its reach and show its presence in and around the Black Sea and Mediterranean, demonstrating to NATO and others the growing long-range capabilities of the Russian military.

What next

Tensions in the maritime domain and in the broader Black Sea region will probably rise in the coming months as both NATO and Russia gear up for a busy summer period of exercises stretching from Europe’s north to its south-east. The BSF will be Moscow’s key tool for making its presence felt in the Mediterranean and providing long-range striking power in the Middle East.

Subsidiary Impacts

- Maritime security in the Mediterranean may take on the additional character of hard power competition, given increased BSF activity.
- This will add to an already complicated and turbulent situation in a region already burdened by migrant flows and the threat of terrorism.
- NATO is likely to revise its 2011 maritime strategy to focus more on defence and deterrence, and less on ‘soft’ maritime security tasks.
- The US European Reassurance Initiative is likely to have larger air and maritime components and a more visible US presence in the Black Sea.

Analysis

The Northern and Pacific fleets rank highest in Russia’s navy thanks to their nuclear-powered ballistic-missile submarines (SSBMs). However, the annexation of Crimea and the Russian intervention in Syria have given the BSF more prominence.

As a consequence of Crimea, the BSF, along with the Northern Fleet, is being prioritised for modernisation to undertake high levels of activity in the Black Sea and Mediterranean (see RUSSIA: Black Sea Fleet projects power westwards - April 15, 2016).

Russia is seeking to strengthen its maritime position in southern Europe

The BSF’s forces are being built up, including frigates -- relatively small surface ships whose size and class obscures their real importance. Many will be able to carry the Kalibr cruise missile, a system with both land-attack and anti-ship versions.

The land-attack version, which has been used by Russia in the Syria conflict, has a range of up to 2,400 kilometres, which would cover much of South-eastern Europe.
Bases

Since 2014, air defence of the Sevastopol naval base has been strengthened and the naval presence greatly expanded.

Russia has also secured rights to port facilities in Cyprus, to be able to resupply, refuel and conduct basic maintenance while operating in the Eastern Mediterranean. The Cypriots are playing down the scope of the agreement, but Russian warships have been serviced there since the Mediterranean squadron was re-established in 2013.

Syria

The BSF has played an important role in supporting Russian operations in Syria. In late 2015, an improved Kilo-class submarine fired Kalibr cruise missiles at onshore targets in Syria, demonstrating the Russian navy's new ability to conduct long-range strikes. Missiles were again launched from a frigate and a submarine in May 2017, further pointing to Russia's growing capability to coordinate strikes from a range of platforms, and show-casing Kalibr both to the United States and potential purchasers.

This ability to conduct long-range strikes from the sea and the growing sophistication of Russian operations is significant, as this was until recently thought to be the exclusive domain of the United States and its closest major allies, such as the United Kingdom. However, cruise missile strikes and the use more broadly of precision weapons have accounted for only a small part of Russian actions in Syria, compared with much indiscriminate bombing of Aleppo and Idlib province.

Operational experience

Moreover, the Syrian operation has had mixed success. The aircraft carrier Admiral Kuznetsov aroused great interest when it appeared in the Eastern Mediterranean, but it had difficulties in operating its aircraft, which did not materially add to the capability Russia already had at airfields in Syria.

This may be reflected in the allocation between the service branches in the next Russian defence order, which will determine procurement plans for some years. This has not yet been decided let alone made public. Yet it seems in the debate that the navy will be the loser, especially plans for a new aircraft carrier or the development of an advanced destroyer. Instead, the naval emphasis will be on smaller vessels and the ballistic missile submarine force (see RUSSIA: Defence spending will fall at a gradual pace - April 7, 2017).

Yet Russia seems determined to maintain a permanent East Mediterranean naval grouping, which will be linked to its Black Sea strategy.
NATO concerns

In response, NATO has stepped up its maritime presence in the Black Sea since 2014, including US Navy units, although warships from non-littoral nations must be rotated in order to comply with the Montreux convention (see TURKEY/RUSSIA: Straits standoff will be avoided - January 8, 2016).

This has at times led to tense and highly publicised interactions between NATO and Russia at sea. In 2016, the guided-missile destroyer USS Donald Cook endured repeated fly-bys at close range by Russian fighters, which also flew close to Bulgarian and Romanian airspace. Another destroyer, USS Porter, was buzzed by four Russian aircraft in February 2017, while participating in the Sea Shield 2017 exercise, a NATO training event that drew warships from Romania, Bulgaria, Turkey, Spain, the United States and Canada.

The BSF's growing capability has caused NATO's Black Sea members to consider increased naval cooperation.

Eastern Europe: Black Sea naval forces
Source: IISS, The Military Balance 2017
Regional NATO states’ response

Before the mid-2016 Warsaw summit, there were serious discussions about establishing a regional NATO flotilla in the Black Sea, an idea that was ultimately scuttled by Bulgaria. This was due to concerns that the move might be viewed as provocative by Moscow, but also fears that Bulgarian navy units might come under Turkish command, even on a rotating basis (see BALKANS: NATO will boost naval presence in Black Sea - July 5, 2016).

Such developments also highlight the different approaches taken by Bulgaria and Romania. Bucharest seeks a larger NATO/US presence in the Black Sea; Sofia would prefer a lighter, less obtrusive footprint, so as not to provoke the Russians. That said, Bulgaria like Romania has US bases on its soil, and has committed troops to the brigade being deployed near Constanta as a forward NATO presence.

Still, naval cooperation between the NATO members is proceeding, albeit more quietly and informally than first envisioned.

Naval capabilities

The Bulgarian and Romanian navies primarily consists of ageing platforms, some of the warships dating back to Soviet times:

Romania

In early 2017, Romania announced the procurement of new corvettes, along with modernising its frigates (see BALKANS/NATO: Perceived threat will set defence spend - June 6, 2017). While Romania’s defence budget is to increase in the coming years, naval modernisation will continue to compete with urgent airforce and army requirements.

Bulgaria

The two frigates acquired from Belgium are not equipped against Kalibrs. Bulgaria is eyeing a new class of patrol ships, but the procurement process has been marred by delays and political turbulence.

Turkey

Turkey has the strongest and most capable NATO navy in the region, with relatively new frigates and a substantial submarine force. However, its naval role in the Black Sea in the NATO context has proved challenging, being further complicated by the recent coup attempt and the evolving relationship between Ankara and Moscow, although Turkey concluded a naval cooperation agreement with Ukraine in 2016.

Turkey has continued its superiority over Russia in amphibious vessels after the cancellation of Russia's purchase of two French Mistral's. However, its naval capacity is divided between the Black Sea and the Eastern Mediterranean.
Fortress Kaliningrad key to Russia’s assertive shield

Friday, July 21, 2017

The exclave is central to what Russia sees as a defensive line, while NATO regards it as a destabilising risk zone.

Chinese warships led by an advanced-design destroyer today begin a week of joint naval exercises with the Russian fleet off the Baltic coast of Kaliningrad. Russia’s westernmost outpost has gained in strategic importance since relations with NATO plummeted in 2014. Efforts to enhance military capability have accelerated since spring 2016. New weapons and equipment have been deployed and periodic close encounters take place between fighter jets flying from Kaliningrad and Western planes and ships off the Baltic coast.

What next

Deployments of military equipment will continue. More units, either newly constituted or redeployed, may appear in Kaliningrad, although the region’s size and military infrastructure are constraints on overall numbers. The new naval command team will strive to enhance the capability of the Baltic Fleet and repair its reputation.

Subsidiary Impacts

- NATO will keep a close watch on activity in Kaliningrad during the September Zapad-17 Belarusian-Russian military exercises.
- Russia will make its irritation known over overt intelligence collection targeting Kaliningrad.
- Naval commanders will be under pressure to show improvements to the Baltic Fleet’s performance.

Analysis

Kaliningrad is critical to Russian strategic deterrence in the Baltic region and as a fortress for policing the Baltic waterway. It has assumed greater importance in both roles in recent years.

Since Kaliningrad was acquired by the Soviet Union at the end of the Second World War, it has been home to the Baltic Fleet. It has naval port facilities at Baltiysk for surface vessels and submarines, army units and marines, and fighters and ground-attack jets deployed at two airbases.

Forces were reduced after 1991 as personnel, tanks and artillery were transferred to the Russian ‘mainland’ from what was now an exclave. By 2009, the chief of the general staff acknowledged that Kaliningrad was effectively demilitarised with the only remaining units tasked with territorial defence.

Revived importance

The March 2014 seizure of Crimea and the ensuing war in eastern Ukraine produced a sudden downturn in relations with the West, and Kaliningrad’s location made it a key forward position sandwiched between NATO members Poland and Lithuania.

Rearming Russia’s Baltic fortress became a priority after 2014

In May 2014, Moscow unilaterally suspended a 2001 bilateral agreement permitting Lithuania to inspect Russian armed forces in Kaliningrad.
Rebuilding accelerates

Kaliningrad was identified in 2015 as one of three areas (with Crimea and the Arctic) assigned priority for building up the Russian armed forces (see RUSSIA: Navy will grow assertive despite ageing fleet - June 2, 2016).

It took until April 2016 to get going with reforms, with the formation of the 11th Army Corps. From a command-and-control perspective, a separate corps is an improvement as all coastal defence units are unified under its command.

Kaliningrad's naval force underwent a crisis in June 2016 with the dismissal of the Baltic Fleet's commander, Vice Admiral Viktor Kravchuk, and a number of senior officers (see RUSSIA: Navy purge will slow Baltic assertive capacity - July 29, 2016).

The region's governor was replaced a month later with an interim appointment and then in October Anton Alikhanov, seen as an effective administrator on good terms with business, and an apparent mandate to crack down on corruption, an issue which also figured in the navy sackings.

New missiles

Since the leadership purge cleared the way, military expansion in Kaliningrad has gained momentum. Recent additions include:

- The first two Buyan-M class corvettes entered the Baltic Sea in October 2016; they will be joined in Kaliningrad by another three corvettes to be procured before 2020.
- The corvettes carry the Kalibr cruise missile, already fired with deadly effect from vessels in the Mediterranean at ground targets in Syria.
- The defence ministry confirmed in November that Bastion mobile launchers (for supersonic anti-ship cruise missiles) had been deployed in Kaliningrad.
- The Baltic Fleet is said to have received the Bal coastal defence missile system, replacing the older Redut missile, and expected to be tested during the Zapad-17 exercises.
- The 25th Coastal Missile Regiment is to be upgraded to brigade status.
- The Chernyakhovsk air base has taken delivery of at least three Sukhoi Su-30SM fighters since December; the naval air unit here has used older Su-27's until now.
- Reconnaissance battalions have been created in armoured units and in the 336th Naval Infantry Brigade.
- A large number of barracks have been refurbished.

Iskander missiles seen as particular threat

The single source of greatest concern in European states is the Iskander-M, a short-range ballistic missile capable of carrying a nuclear warhead. The system has been moved into Kaliningrad on a temporary basis for occasional exercises, most recently in October 2016. Suggestions by a senior Russian parliamentarian in November that the Iskander-M might be stationed there more permanently caused alarm in Western capitals.

There is no sign that the likely user, the 152nd Missile Brigade in Chernyakhovsk, has been issued with Iskander-Ms, but the appearance of new storage facilities there suggests this might happen (see RUSSIA: Missile deployment aims to defy and split NATO - November 22, 2016).

Protective ring or aggressive outpost?

Viewed as a whole, the deployment of anti-ship and anti-aircraft missiles, aircraft, radar and electronic surveillance systems at Kaliningrad enhances Russian anti-access/area (A2/AD) denial capability. This creates a radius of layered weapons and electronic systems with ranges extending into the Baltic region and north-eastern Europe (see NATO: Russian A2/AD systems will undermine credibility - May 3, 2016).
Developments in Kaliningrad must also be seen in the context of similar build-ups near St Petersburg, at Murmansk and far to the south in Crimea. Together they can be seen as elements in a west-facing ‘wall’ that both defends Russia and challenges the forward deployments of NATO forces (see BALTIC STATES: NATO role may curb Russia’s ambitions - March 29, 2016).

For Moscow, reinforcing its outer perimeter against NATO is justifiable defence

Kaliningrad’s military face-off with the states around it symbolises the mood of uncertainty and mistrust that characterises the Russian-NATO relationship: Moscow asserts its right to protect itself against encroachment and encirclement while deploying aggressive-looking weaponry that strikes fear into NATO’s regional members.

From the perspective of Baltic regional states, the rise of a militarised Kaliningrad raises questions about how Lithuania, Latvia and Estonia could be reinforced in time of crisis, and underlines the potential roles of Sweden and Finland as bases or springboards for NATO operations (see FINLAND/UNITED STATES: Deeper ties would irk Russia - October 13, 2016).

Russian media frequently report intelligence-gathering flights by US aircraft in the vicinity of Kaliningrad. Russian aircraft have frequently flown dangerously close to NATO aircraft over the Baltic Sea to warn them off. In a worst-case scenario, accidental or deliberate action leading to damage or even loss of life could lead to escalating tensions (see RUSSIA/NATO: Russia’s maritime posture challenges NATO - May 18, 2016).

Upcoming wargames

The Chinese warships’ visit -- their first appearance in these waters -- is a precursor to the large Zapad-17 exercises planned for September. The wargames will involve Russian and Belarusian forces, primarily in Belarus.

Russia’s Baltic Fleet is likely to be part of September wargames

Kaliningrad’s precise role has not been announced, but the increased NATO presence in the Baltic region alone suggests that exercises will take place there, either as part of Zapad-17 or as stand-alone but linked wargames. During the last Zapad exercises held in the region, in 2013, the Russian and Belarusian presidents came to Kaliningrad for the closing events.

Wargames taking place in Belarus and Kaliningrad will reinforce the point that only 100 kilometres of Polish territory separate them -- the so-called ‘Suwalki Gap’ seen as a point of vulnerability by NATO.
March 16, 2017

Western Europe might embrace wider security concept

Terrorism and climate change appear to be more pressing concerns for many citizens than military threats

Defence spending may rise modestly...

Despite Russia’s increasingly assertive behaviour, the largest perceived threats for Western Europeans are non-military. Defence spending is likely to increase modestly over the next years in response to US calls, but large increases are unlikely as public support appears to be weak, especially in Italy and Spain which face large debt burdens.

Instead, governments may highlight the role of non-military spending such as foreign aid and spending on integration measures and deradicalisation programmes in improving security outcomes. This may contribute to the development of a broader, more inclusive definition of security.

See also: European defence spending may increase modestly — March 1, 2017

© Oxford Analytica 2017. All rights reserved
No duplication or transmission is permitted without the written consent of Oxford Analytica
Contact us: T +44 1865 261600 (North America 1 800 965 7666) or oxan.to/contact
EU defence may focus on cooperation, not integration

Friday, July 21, 2017

Macron’s pro-EU agenda prompts fresh optimism, but divergent member state interests may hinder integration

The European Commission on July 19 reported on the progress made to implement the 2016 Joint Framework on countering hybrid threats. The debate around European defence integration has surfaced periodically over past decades, but progress has fallen short of expectations. Brexit and the elections of Presidents Emmanuel Macron in France and Donald Trump in the United States have given fresh impetus to attempts to strengthen EU cooperation.

What next

Large transformations in EU defence that involve political realignments across the EU will be hindered by divergent security interests and threat perceptions among member states as well as the persistence of solid NATO guarantees. Nonetheless, there is space for a reformist agenda and further cooperation, with the most evident signs of change in the industrial and economic domains.

Subsidiary Impacts

• Countries such as Italy and Poland will press the EU to devote more resources to their specific security-related challenges.

• For now, Brexit appears unlikely to affect the strong UK-French industrial arrangements in the defence sector.

• Defence cooperation will proceed primarily through further research and development cooperation.

Analysis

EU defence cooperation takes place at the intergovernmental level. Capabilities development is dominated by bilateral and multilateral initiatives such as EU battlegroups – rapid-reaction forces under the command of the Council of the EU but operationally dependent on a rotating lead nation. They reached operational capacity in 2005 but have not yet been deployed in an EU mission.

Strengthening cooperation

Recent measures to strengthen cooperation rest on two pillars: defence funding and a unified command structure.

EU funding

While the EU’s defence sector has seen industrial cooperation for several decades, the launch of the European Defence Fund in June constitutes a novelty as it directly affects member states’ incentives to cooperate on advanced industrial projects.

The fund has two components:

• money allocated to research, amounting to 90 million euros (105 million dollars) per year until 2019 and 500 million euros per year from 2020; and

• money dedicated to development and acquisition, in the range of 500 million euros for 2019 and 2020 and increasing to 1 billion euros per year afterwards.

The fund aims at increasing efficiency in EU defence spending, mostly through reducing duplication, and is likely to lead to further coordination among member states by encouraging cooperation on expensive projects that would otherwise be difficult to pursue.
It will therefore serve as a boost to existing partnerships and projects rather than as a transformational tool.

This will affect the development of research-intensive, early-stage weapons systems. Drones, primarily aerial, are likely to be the most important sector of development. Besides facilitating the development of new technologies, resource pooling can favour standardisation and promote increased coordination in force planning among EU countries.

Unified command

EU foreign and defence ministers in March agreed to set up a joint command centre for EU operations, the Military Planning and Conduct Capability (MPCC), which had been long opposed by the United Kingdom. This was motivated by the desire to improve existing activities by rationalising the command structure of EU operations, rather than by the ambition to create joint armed forces.

The joint command will remove an obstacle to the use of EU battlegroups

Although the functions of the new joint command will be limited in practice, it will remove an obstacle to the use of existing EU assets such as the battlegroups which have been hampered by the lack of a clear chain of command. The MPCC will deal with operational aspects of joint undertakings, increase coordination of EU operations and assume command of EU missions in Mali, Somalia and the Central African Republic.

Revving up the French-German entente

Macron has emphasised the importance of revived cooperation with Germany as a driver of European integration (see FRANCE/GERMANY: Axis hinges on reform delivery - July 14, 2017).

This would build upon a 2016 bilateral paper stressing the need for EU member states to adopt closer forms of cooperation (such as Permanent Structured Cooperation) that are allowed by EU treaties.

Industrial cooperation is the most advanced issue on the bilateral agenda.

An important step is the French-German agreement earlier this month on the construction of a new-generation fighter jet. Based on a French-German core, this project could be extended to other EU countries with advanced industrial capabilities such as Italy. Such expansion could lead to the isolation of the UK defence industry, especially BAE Systems, one of the members of the consortium that realised the Eurofighter.

Challenges

While reforms and new agreements promote cooperation, further integration (ie, the creation of autonomous EU capabilities) may be more difficult. The EU’s inability to address security-related crises casts a doubt on the extent to which foreign and defence policy preferences are likely to converge.

Migration crisis

The migration crisis in the central Mediterranean disproportionately affects Italy -- traditionally supportive of integrated defence -- and Rome has repeatedly called for more EU support, with limited success (see ITALY: Further EU support in migrant crisis unlikely - September 5, 2016).
The perception of being left alone to deal with the issue is likely to fuel Euroscepticism and disillusionment with the EU, encouraging national rather than EU-wide solutions. Former Prime Minister and leader of the governing Democratic Party Matteo Renzi has repeatedly attacked Europe for failing Italy on migrants and threatened to suspend national contributions to the EU budget.

While such a position will not affect more technical cooperation, it casts a shadow on the prospects of further integration.

**Russian assertiveness**

While EU member states have adopted similar rhetoric and joint actions in the Ukraine crisis, preferences on how to deal with Russia's assertiveness vary.

Poland and the Baltic States have stressed that no EU defence initiative can substitute for NATO's commitment to their security. EU defence cooperation has traditionally focused on expeditionary forces and thus does not match the priorities of Eastern European countries.

**United States**

Long-standing US scepticism over the risk of EU defence duplicating NATO assets means that the United States will regard EU defence cooperation with mixed feelings. An EU army pooling resources under joint Brussels control would be seen as taking away resources from NATO.

**Outlook**

Most Eastern European countries will continue to rely on NATO for territorial defence, while having a limited interest in developing joint EU capabilities for crisis management or stabilisation in the MENA region or elsewhere.

**French-German initiatives are unlikely to be transformational**

French-German initiatives might lead to more cooperation on the industrial front, but are unlikely to have transformational effects on EU capabilities. Differences between the two countries still exist in terms of threat perceptions and possible areas of military interventions.

While Germany has been traditionally more prudent -- it abstained in a UN Security Council vote on no-fly zones in Libya in 2011 -- and focused on territorial defence on the Eastern front, France has been more pro-active and assumed a key role in expeditionary missions in Africa.

The establishment of the defence fund and the joint command centre can bring real progress while minimising sources of conflict. In the decade ahead, their implementation may improve the efficiency of EU missions and increase capabilities by pooling resources, thereby contributing to industry integration. However, the EU army envisioned by integration enthusiasts is still far off.
May 16, 2017

Brussels may expand its role in foreign policy

The volatile international environment will provide an incentive for EU member states to act together

Key foreign policy considerations

- The EU is likely to renew its sanctions against Russia in July, despite some member states’ scepticism.
- Both the EU and the United Kingdom are likely to lose diplomatic influence after Brexit.
- The French and German elections are unlikely to result in substantial changes in the EU’s foreign policy.
- The EU is involved in counter-piracy operations off the Horn of Africa.

The EU has 139 bilateral, multilateral and regional delegations and representation offices around the world. Foreign policy decisions are made unanimously by the European Council, though certain aspects can be modified by qualified majority voting. This presents a dilemma for the EU’s foreign policy chief, High Representative Federica Mogherini: she can only speak on behalf of the EU if the foreign ministers of all 28 member states agree.

Nonetheless, and despite Brussels’ lack of any hard power, the EU has enjoyed several successes, including the Iran nuclear deal and improved EU defence cooperation.

See also: Prospects for the EU in 2017 – November 3, 2016
Ukraine talks will resume with glacially slow progress

Wednesday, July 26, 2017

A surge in fighting shows that the conflict is simmering, not dormant

The heads of state of France, Germany, Ukraine and Russia renewed their commitment to the Minsk 2.0 peace process in a July 24 phone call. French President Emmanuel Macron initiated the call, signalling a determination to revive the four-party 'Normandy format' talks which had ground to a halt. Kyiv lodged a formal protest with the UN on July 21 at what it called an "intensification of Russia's aggressive actions", following an upsurge in clashes with rebel forces that left nine Ukrainian soldiers dead.

What next

Judging by past localised spikes in fighting, this incident will probably not expand to disrupt the general ceasefire. It may have been timed by one or other side to raise the stakes before a revival in four-party talks. Even if the four heads of state meet, a breakthrough is unlikely but minimal agreement to sustain the Minsk 2.0 peace process is feasible. Conflict resolution also depends on the position Washington adopts, which is still far from clear.

Subsidiary Impacts

- Kyiv's caution on making disadvantageous concessions exposes it to external pressure to contribute more to the peace process.
- If the government has to make concessions on the conflict, political push-back could break up the ruling bloc and force early elections.
- Lack of progress in resolving the conflict will preserve but not strengthen sanctions against Russia.

Analysis

Fighting on July 19-20 involved artillery shelling focused on Krasnohorivka, a Ukrainian-held town on the other side of the front from Donetsk. Four Ukrainian soldiers died in a separate incident on the front line further east in Luhansk region, leaving a total of nine dead.

The military escalation was the most serious since a flare-up in late January near Avdiyivka, another Ukrainian-controlled town not far from Donetsk (see UKRAINE: Clashes highlight deadlocked peace process - February 9, 2017).

The timing was unfortunate as it coincided with a 'harvest ceasefire' agreed at a tripartite contact group meeting in Minsk in late June and intended to run to August 31. Such temporary ceasefires reinforce the standing ceasefire in place since the February 2015 Minsk 2.0 accords.

Ceasefire breaches demonstrate the perpetual fragility of the situation, although the scale of clashes does not compare with the open warfare prior to the Minsk 2.0 deal.

Diplomacy revived

It is possible the surge in shooting was a bid to raise the temperature ahead of resumed Normandy format negotiations.

May's presidential election in France ended uncertainty about the fate of the Minsk process -- victory for Macron's rival Marine le Pen would have been welcomed by Moscow, but would have scuppered joint conflict resolution efforts (see RUSSIA/FRANCE: Moscow may seek 'reset' with Macron - May 22, 2017). German parliamentary elections in September carry fewer risks for the Ukraine talks.
Macron appears to have applied himself to the Ukraine crisis and has already held meetings with Russian President Vladimir Putin and Ukrainian President Petro Poroshenko. These must have helped lay some groundwork for future top-level talks. The last time the four heads of state met was in October 2016 (see UKRAINE: Talks will stumble on without clear end point - October 26, 2016).

French and German political stability allow these states to continue Ukrainian mediation

The phone call seems to have focused on practicalities:

- reinstating the ceasefire;
- separating government and rebel troops, and pulling back heavy weapons such as artillery, starting in areas of greatest tension; and
- prisoner exchanges.

These requirements were written into the Minsk 2.0 accord as precursors to a political settlement.

Since the basics of Minsk 2.0 have manifestly not happened, resolving the more complex issues looks as distant a prospect as ever. These issues come down to:

- constitutional reform creating decentralised local authorities;
- elections in the rebel-held parts of Donetsk and Luhansk regions; and
- restoring Ukrainian government control of the border with Russia running through rebel-held territory.

Russian feints

After the army general staff in Kyiv reported on July 23 that Russia had redeployed three divisions close to the border with Ukraine, Kremlin spokesman Dmitry Peskov shrugged this off, saying the Russian military could place its forces wherever it chose. Russia claims the role of disinterested mediator in the Normandy process and disavows assisting the rebel side.

Its current thinking seems to involve a solution where Minsk 2.0 settlement occurs on Russia’s terms and the territories currently constituted as the Donetsk People’s Republic (DNR) and Luhansk People’s Republic are reincorporated into Ukraine, giving Moscow leverage from the inside. In the interim, the two statelets receive economic support from Moscow (see UKRAINE: Uncertain future turns rebels into rivals - February 3, 2017).

In a curious reversal of the Minsk 2.0 plan, DNR leader Alexander Zakharchenko announced on July 18 the formation of a new state called Malorossiya with Donetsk as its capital and encompassing the whole of Ukraine, including the rebel regions but excluding Crimea. Since the 19th-century Russian state used the term Malorossiya (‘Little Russia’) to deny Ukrainian identity, the proposal combines insult with absurdity, as was probably intended (see UKRAINE: Rebels’ ‘new state’ plan has disruptive aim - July 19, 2017).

The official response from Moscow was a suggestion that the proposal was Zakharchenko’s own. Whether he did conceive the idea or was prompted by Moscow, the result is to antagonise Kyiv further, add another layer of uncertainty to conflict resolution and give Russia a claim to be the only force that can rein in the rebel leaders. More generally, it suggests that Ukraine is a failed state and outlines a reunited but subservient successor state.
Ukraine's position

Kyiv’s stance remains unchanged in terms of key goals and principles, although the president is constantly assailed by accusations he is doing too little either to prosecute or end the conflict.

Poroshenko promised on June 14 that he had initiated the drafting of legislation on the rebel regions. Details are scant, but could include some of the arrangements needed for Minsk 2.0 implementation.

His announcement was meant to foil a renewed attempt to reclassify the conflict from a 'counter-terrorist operation' into a war. This view had been aired the day before by Olexander Turchynov, secretary of the national Council for Security and Defence, and caused a furore. Among other things, it would heighten confrontation with Russia as a party to war and make it virtually impossible to pursue the political steps necessary to conclude the Minsk process.

Evolving US approach

Although the United States is not a formal participant in the Normandy process, all eyes are on its intentions towards Ukraine, and above all Russia. President Donald Trump hinted at a radical change in policy before and after the election, and appeared ready to trade Ukraine and the associated sanctions for a grand deal with Moscow (see RUSSIA/UKRAINE: Chances of conflict resolution recede - May 16, 2017).

Little has happened to confirm that. Trump’s meeting with Putin offered few clues as to US policy, and instead of sanctions being dropped, the Treasury expanded the list of individuals and companies subject to various sets of restrictive measures.

One change is the long-awaited appointment on July 7 of a US special envoy for the Ukraine conflict, Kurt Volker. Visiting the conflict zone, he held Russia to blame for the situation, and he has since told the BBC that Washington is considering providing ‘defensive’ battlefield weapons to Ukraine.

Kyiv will have been reassured by US Secretary of State Rex Tillerson’s July 9 visit, during which he said it was for Moscow to "take the first steps to de-escalate the situation"; he had suggested in mid-June that Russia and Ukraine might abandon the Minsk process and conclude a bilateral settlement.
EU leaders’ approaches to Trump will vary

Thursday, August 17, 2017

Some countries look for international support or closer economic ties while others are in ‘damage control’ mode

US President Donald Trump’s refusal to condemn unequivocally the violence by far-right groups at a rally in Charlottesville was a “huge mistake”, German Foreign Minister Sigmar Gabriel said yesterday. Trump’s election has undermined the stability of the transatlantic partnership that for decades has been a central pillar of foreign policy for leading European countries and for the EU itself.

What next

Mainstream European leaders will focus on avoiding any further deterioration in transatlantic commercial and security ties, with the hope that warmer relations can be restored after Trump leaves office. Illiberal governments in Hungary and Poland will try to cultivate ties to signal to Brussels that they have international support. Meanwhile, London is eager to demonstrate the ongoing relevance of the UK-US ‘special relationship’ and promote closer commercial ties.

Subsidiary Impacts

• Trump’s attacks on Germany’s trade surplus helped bring the issue to the fore and Berlin is likely to raise investment after the election.

• Merkel will seek to counter any claims from other parties that her pledge to raise defence spending implies subservience to Trump.

• EU leaders may highlight the role non-military spending plays in improving security to counter Trump’s demands for higher defence spending.

Analysis

Trump’s disparaging comments about the EU and NATO, his desire for warmer relations with Russia under President Vladimir Putin and more generally his populist nationalism have forced European leaders to reassess how their countries as well as the EU as a whole should approach the United States. Various leaders have followed very different strategies.

United Kingdom

UK Prime Minister Theresa May set the tone for the relationship her government hoped to have with Trump shortly after he took office in January, when she became the first foreign leader to visit him (see UK/US: Close ties could irritate the EU - March 10, 2017). The abiding image of the meeting was one of the two leaders holding hands.

At the time, Trump disparaged the EU as a vehicle for Germany to dominate Europe, celebrated Brexit and predicted other states would follow the United Kingdom’s example and also leave the EU.

There is a danger that May’s embrace of Trump could alienate some voters. Nevertheless, May and other cabinet ministers have continued their efforts to cultivate close ties with the Trump administration, focusing particularly on talking up the prospect of a post-Brexit US-UK trade deal -- with Trump recently promising that a "very big and exciting" agreement was in the works.

Any US-UK trade deal would not fully make up for UK departure from the EU single market
The May government clearly hopes to use its relationship with the Trump administration to suggest to voters that it can open up new global opportunities for UK business outside the EU. In reality, any US-UK trade deal would take many years to negotiate and would do very little to compensate for the damage caused by leaving the EU's single market.

Germany

German Chancellor Angela Merkel has had perhaps the frostiest relations with Trump. Where May rushed to embrace him, Merkel sent a very different message. On the day after his election, she sent Trump a congratulatory note with a remarkable broadside against his right-wing nationalist politics: she pointedly said the United States and Germany were "bound by common values -- democracy, freedom, as well as respect for the rule of law and the dignity of each and every person, regardless of their origin, skin colour, creed, gender, sexual orientation or political views. It is based on these values that I wish to offer close cooperation."

The two leaders have had several awkward meetings since then, and though there have been moments of rapprochement, the overall tone has remained chilly.

The tone between Merkel and Trump is chilly

Trump has attacked German trade surpluses and threatened to cut off imports of German car exports, called Merkel's refugee policy catastrophic and suggested that Germany owes the United States money from its failure to meet NATO's 2% spending target (see GERMANY: Higher spending is likely - July 24, 2017).

Meanwhile, though German officials continue to emphasise the importance of German-US relations, Merkel made it clear after meeting Trump at the NATO summit in June that the times in which Europe could "fully count on" the United States in security matters were gone.

France

French President Emmanuel Macron's approach to the Trump administration has been perhaps the most surprising and effective. Macron's main opponent for the presidency was a right-wing nationalist - Marine Le Pen -- who embraced Trump and was embraced by him.

Macron was endorsed by former US President Barack Obama; his internationalist, centrist message was based on an explicit rejection of nearly everything Trump stood for. Moreover, Macron has not hesitated to criticise Trump -- for instance, for his withdrawal from the Paris climate agreement -- and he described his famous white-knuckle handshake with the US president in May as a "moment of truth" in which he had shown Trump that he would stand up to him.

It therefore surprised many when Macron invited Trump to visit Paris on July 14, to attend the Bastille Day celebrations. He treated Trump to a visit full of pomp and circumstance, including a military parade and a dinner in the Eiffel Tower.

Macron is trying to appeal to Trump's pride and luxurious tastes

It appears that Macron's strategy was to bolster France's relations with the United States by appealing to Trump's pride and luxurious tastes (much as Saudi Arabia did in May), thus showing him the kind of respect that Trump feels many other world leaders have denied him.
Europe’s back-sliders

The EU is in the middle of a major crisis of ‘democratic backsliding’, in which right-wing nationalist governments either have launched (in Hungary’s case) or are launching (in Poland’s case) challenges to democratic norms as currently understood in most EU capitals.

These leaders see Trump -- with his nationalist ideology and repeated praise of such leaders as Putin -- as an important ally. Poland’s Law and Justice party government basked in Trump’s support during his recent visit to Warsaw, even as it was caught up in escalating tensions with both the European Commission and its own citizenry (see EU: Trump Warsaw visit will widen intra-European rifts - July 10, 2017).

These governments will likely continue to cultivate close bilateral relations with the Trump administration.

EU institutions

While the moderate faction within the Trump administration (led by Vice President Mike Pence, National Security Advisor HR McMaster and Secretary of Defense James Mattis) has made great effort to reassure EU leaders of US support for European integration, voices from the nationalist faction (led by such advisers as Steve Bannon and Stephen Miller) -- and above all from Trump himself -- continue to contradict this message with attacks on the EU, most recently calling it “very protectionist”.

In a February 2017 document, European Council President Donald Tusk identified “worrying declarations” by the Trump administration as one of the main external threats facing Europe -- alongside Russia and Islamist terrorism.

Despite some efforts at reconciliation, tensions remain palpable, and EU leaders will likely use the unreliability or hostility of the Trump administration as a justification for pushing forward with initiatives to deepen integration and cooperation, especially in the area of defence (see EU: Defence may focus on cooperation, not integration - July 21, 2017).
Radicalisation hubs will be key to counterterrorism

Rising jihadi terrorism in Europe and North America has spurred efforts to find the causes of radicalisation.

Since 2014, jihadi-inspired terrorist attacks in Europe and North America have become more frequent

51 attacks were successfully carried out in North America and Europe by individuals linked to jihadism

73% of attackers were citizens of the country in which they committed the attack (some were dual citizens of another country)

Networks and charismatic individuals appear to be at the heart of 'hubs' of radicalisation

West Point's Combating Terrorism Center (CTC) examined 854 foreign fighters in Syria and Iraq, identifying numbers of recruits at different hubs

70% of fighters came from cities where at least one other fighter was also identified

10 cities accounted for 23% of all foreign fighters in the CTC's data set

Jihadist terrorism has risen in Europe and North America since Islamic State declared its caliphate in 2014. Multiple reasons have been put forward as to what causes individuals to either join the Islamic State in Iraq and Syria as foreign fighters or to carry out violent terrorist attacks. Ideology, relative deprivation and social media propaganda have all been examined. Yet there is no clear link between those causes and radicalisation, and no predictive value.

Perhaps they are all contributing factors to a person’s path towards violent extremism. However, what appears to be a common thread in that path is the physical presence of individuals or networks that push a novice into extremism. This manifests in ‘radicalisation hubs’ – areas where charismatic individuals or networks facilitate recruitment, and which will be crucial in the fight against terrorism.

Territorial losses are likely to see Islamic State morph into a more traditional terrorist organisation.

Its foreign fighters could then be redeployed to carry out attacks in their countries of origin.

Salafist organisations are linked to radicalisation hubs, even if they stay on the right side of the law.

See also: Global terror patterns open interception opportunities -- October 28, 2016
European defence spending may increase modestly

Wednesday, March 1, 2017

US President Donald Trump insists that European NATO allies must pay their fair share

US President Donald Trump yesterday in a speech to Congress reiterated demands that European NATO allies must fulfil their financial commitments and increase defence spending. Along with previous remarks about NATO’s obsolescence, this has put a sharp focus on the disparities in both spending and military capabilities between the United States and Europe.

What next

The range of responses by European defence ministries to Washington’s calls will likely include a combination of modest spending increases, showcasing non-defence spending as supporting national security (such as foreign aid in failed states) and pooling initiatives that could increase defence capabilities without additional spending. The NATO summit in Brussels in May, which Trump is expected to attend, will likely focus on establishing milestones for spending increases in the coming years, as well as on NATO reform to shift the focus of the alliance more towards counterterrorism.

Subsidiary Impacts

• The expected modest increases in defence spending will likely be invested primarily in boosted readiness and equipment buys.

• European countries will increase their focus on developing the EU’s defence identity to strengthen their capacity to operate independently.

• It is unclear whether the modest increases will satisfy Trump or defence spending will continue to be a source of friction.

Analysis

US calls for increased European defence spending are not new.

Then-Secretary of Defense Robert Gates made low spending the centrepiece of his public farewell speech to European allies at the close of his tenure in 2011. A succession of US administrations has been frustrated by what is sometimes seen in Washington as European free-riding on US military might.

The political commitment within NATO to spend 2% of national GDP on defence is not the first time the alliance has imposed such a discipline on its members. There were similar commitments during the Cold War which, during various periods, called for defence spending to reach 3-4% of GDP.

The calls from the Trump administration for increased European defence spending are different in both tenor and political context. Trump won the presidency on the back of a campaign that focused on reducing US commitments around the world, along with a recurring theme of foreign nations (whether friend or foe) taking advantage of either US largesse or weakness.
Only four European nations currently fulfill the pledge of 2% of GDP for defence: the United Kingdom, Poland, Estonia and Greece. Seven other nations have, according to US European Command, "credible plans in place" to reach their prescribed level of defence spending in the coming years; these include the other Baltic states of Latvia and Lithuania, and Romania.

However, all of the countries rapidly approaching the NATO spending commitment are small and they will produce only marginally more resources for defence.

The countries where increased defence spending would make a substantial difference in terms of availability of resources are Germany, France, Italy and Spain. France is already close to the prescribed level of spending, at 1.8%, while Germany lags at 1.2%. Italy finds itself at 1.0% of GDP and Spain spends just below that value:

Germany

Germany increased its defence spending by close to 7% in 2016 and both Chancellor Angela Merkel and Defence Minister Ursula von der Leyen have pledged further increases in the coming years (see GERMANY: Greater EU defence cooperation is likely - August 26, 2016).

However, it is doubtful that spending will reach 2% of GDP in the near future, as this would constitute a nearly 60% increase, which would be politically difficult to implement. Moreover, there is a widespread belief among German policy elites that a significantly stronger military could intimidate and concern other European nations with a history of German occupation during the Second World War.

Even modest defence spending increases could be at risk if the Social Democratic Party (SPD), the junior partner in Merkel's coalition government, wins the elections in September. Responding to demands for greater spending, Foreign Minister Sigmar Gabriel, who was SPD leader until recently, has called for a wider definition of security that takes into account not only defence spending as such, but also foreign aid and resources dedicated to the fight against poverty and climate change.
France

France has also hinted at increased defence spending and the 2% target is in relatively easy reach. However, economic growth has been fragile for several years, which has put pressure on the public finances and limits the scope for spending increases in the short term (see FRANCE: Economy will fail to accelerate in 2017 - January 4, 2017).

Italy and Spain

Italy and Spain have made no new commitments to increasing defence spending and both countries would have to double their spending in order to reach the prescribed target.

Public support for such an increase is soft. Another constraint is the EU's Stability and Growth Pact, which commits EU member states to not run budget deficits of more than 3% of GDP per year (see ITALY: Budget conflicts may not abate - February 28, 2017). This makes substantial defence budget increases nearly impossible, given Spain and Italy's continued sluggish economic growth and high debt burdens.

Split threat perceptions

Different threat perceptions across Europe complicate the issue.

Threat perceptions differ across Europe

While in Eastern Europe the threat from an assertive Russia dominates, Europe's south faces challenges related to terrorism, migration and an unstable Middle East.

The threat from Russia can easily be fitted into NATO's existing structures and mission sets, and can, to a large degree, be responded to with military means (see RUSSIA/NATO: Russia's maritime posture challenges NATO - May 18, 2016).

However, the southern challenges have proven more difficult for NATO to respond to and the alliance's role in counterterrorism is a supporting rather than a leading one.

European nations are contributing to the US-led counter-Islamic State (IS) campaign in Syria and Iraq, but it is occurring outside the NATO structure -- an approach to some degree driven by the US command structure in the Middle East (US Central Command), which is hesitant to bring NATO into its activities.

Moreover, unlike the United States, most European countries consider counterterrorism to be primarily a law-enforcement and intelligence activity, rather than a military one.

Several countries including Italy and France have increased their spending on counterterrorism and domestic security in recent years, but this is considered non-military spending and not part of the defence budget. This dynamic is unlikely to change in the coming years.

The way ahead for Europe in NATO

NATO is likely to take on a larger role in counterterrorism in the coming years, driven both by Trump's comments about the alliance's relevance and the interests of NATO's southern members.

Nonetheless, NATO remains unlikely to assume a leading role on transatlantic counterterrorism, focusing instead on supporting activities such as capacity building, training missions and providing critical military enablers such as intelligence and reconnaissance as well as command and control.

While this approach will better align with the interests of some countries, it means that the inherent tension between NATO's eastern and southern members will remain.
Belt and Road paves way for China’s new global role

The One Belt One Road (OBOR) summit in Beijing this month has focused the world’s attention on China’s ‘grand strategy’

Different countries see OBOR as presenting challenges and opportunities, and sometimes both

<table>
<thead>
<tr>
<th>Country</th>
<th>Reaction and Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>NORTH AMERICA</td>
<td>Lukewarm commercial interest. Some sense of political threat.</td>
</tr>
<tr>
<td>EUROPE</td>
<td>Strong interest from Eastern European governments. No sense of political threat.</td>
</tr>
<tr>
<td>RUSSIA</td>
<td>Reluctantly accepts Chinese economic presence in Central Asia, hoping to retain political dominance.</td>
</tr>
<tr>
<td>CENTRAL ASIA</td>
<td>OBOR helps connect isolated states. Beijing can deliver projects no other country can.</td>
</tr>
<tr>
<td>JAPAN</td>
<td>Faces greater competition for construction contracts but will benefit from completed transportation facilities.</td>
</tr>
<tr>
<td>LATIN AMERICA, NORTH AND WEST AFRICA</td>
<td>Not actively sought for inclusion in OBOR, but not excluded from Chinese investment.</td>
</tr>
<tr>
<td>MIDDLE EAST</td>
<td>Sees China as a pragmatic partner with no political agenda.</td>
</tr>
<tr>
<td>PAKISTAN</td>
<td>CPEC strengthens ‘special relationship’. Concerns over physical security of projects.</td>
</tr>
<tr>
<td>INDIA</td>
<td>Fears Chinese encroachment. Still wants deeper economic relations with China.</td>
</tr>
<tr>
<td>SOUTH-EAST ASIA</td>
<td>Needs infrastructure investment. Some projects face localised backlash. OBOR could ‘buy off’ rivals in maritime disputes.</td>
</tr>
</tbody>
</table>

Countries that are not part of OBOR do not separate neatly into winners and losers -- many will be both. For instance, trade-related infrastructure may benefit nations that are not themselves part of OBOR. Not being part of OBOR will not mean a country gets less Chinese investment.

The majority of Chinese investment is likely to be in sectors and countries that are not part of OBOR, nor will overall Chinese investment be concentrated in the OBOR countries. However, the boundaries of OBOR are ill-defined and flexible, and will expand to encompass planned or current projects that were not originally part of it.

See also: Prospects for One Belt, One Road in 2017 -- November 28, 2016

© Oxford Analytica 2017. All rights reserved
No duplication or transmission is permitted without the written consent of Oxford Analytica
Contact us: T +44 1865 261600 (North America 1 800 965 7666) or oxan.to/contact
China’s quantum leap will transform cybersecurity

Friday, September 8, 2017

China is at the forefront of global advances in quantum cryptography and communications

China’s recent success with an experimental quantum communication satellite and other rapid advances in quantum cryptography are major steps towards its plans to construct national and global quantum networks that could, in theory, be close to unhackable.

What next

More quantum satellites will be launched and linked to the country’s expanding fibre-optic quantum communications networks. China may become the first country to adopt quantum encryption on a large scale in government, military, and eventually even commercial use. However, the absolute security that the government seeks to achieve through these new networks may be elusive in practice.

Subsidiary Impacts

- Even if absolute security is impossible, quantum communications may still confer an edge.
- China could become less vulnerable to foreign nations’ signals intelligence and cyber espionage capabilities.
- China’s leadership in operationalising quantum cryptography is likely to create commercial opportunities -- for Chinese firms.
- In the more distant future (perhaps by 2030), China could take the lead in constructing a 'quantum internet'.

Analysis

The development of quantum cryptography, computing and sensing has been called ‘the second quantum revolution’.

These disruptive technologies make use of ‘quantum entanglement’ and the 'no-cloning theorem'. Quantum entanglement is when the states of a pair or group of particles are strongly correlated so that their characteristics affect each other even if they are physically separated. The no-cloning theorem states that an unknown quantum state cannot be replicated.

Harnessing these properties for practical application enables unique technologies, of which quantum cryptography, and its use in quantum communications networks, is the most mature, having already entered actual use.

However, while the science is largely there and edging out of the labs and into engineering, putting it together in useful systems is at early stages, and commercialisation is likely at least 15 years off.

Quantum cryptography

The inherent qualities of quantum states make quantum cryptography almost uncrackable, at least in theory.

The most prevalent form is known as quantum key distribution (QKD), through which cryptographic keys are exchanged in quantum states through entanglement. The quantum information transmitted this way cannot be copied, and any attempted interference or eavesdropping can be detected.

This offers a secure mechanism for key exchange that can be used to encrypt communications using the conventional encryption techniques already in use.
QKD theoretically ensures perfect security, including against the future use of quantum computers, which will have the power to break most of the established forms of cryptography.

However, the promise of perfect security may not be matched in practice.

Still hackable

The substitution of conventional encryption by QKD does not eliminate vulnerabilities and weak links elsewhere in the system.

QKD has been difficult to implement beyond the laboratory and shortcomings in equipment or engineering could enable a hacker to exploit this notionally unhackable system.

There have even been several demonstrations of techniques to 'hack' or otherwise interfere with commercial quantum cryptographic systems, such as 'side channel attacks' and means of interception that remain below the expected error threshold or surreptitiously replicate data.

So far, detection of these potential loopholes has enabled measures to mitigate those vulnerabilities and better verify the security of quantum systems.

Chinese breakthroughs

Although the security of China's quantum networks is thus unlikely to be absolute, Chinese scientists have pursued new techniques that could enhance their reliability and overcome obstacles to practical use.

Leading quantum physicist Pan Jianwei and his colleagues last year reported advances in 'measurement-device-independent QKD', which uses decoy light pulses to detect attempted eavesdropping.

Two types of network

There are currently two main forms of quantum communications network. One uses QKD across nodes connected by optical fibres. The other is 'free space' quantum communications across open spaces.

Free space quantum communications, often between a ground station and satellite, enables communications at a greater distance and scale than optical fibres, but introduces potential interference from light, since quantum information is transmitted using photons.

China's quantum cryptography plans

China's government has placed quantum information science at the centre of its national security strategy, including it in the 13th Five-Year Plan's Science and Technology Innovation Plan and the new National Key Research and Development Plan. President Xi Jinping himself emphasised the strategic importance of quantum technologies to national security, particularly cybersecurity, when he visited Pan Jianwei's laboratory last year.

Quantum communications research gained importance after the Snowden leaks

The quantum communications research agenda gained importance after leaks by Edward Snowden revealed the extent of China's vulnerability to US signals intelligence and cyberespionage. The Snowden leaks were so fundamental to Chinese motivations that Snowden has been described in official media as one of two individuals with a leading role in China's advances in the domain (the other being Pan).
China's new quantum networks are already entering active use for sensitive defence, government and commercial communications at the metropolitan and regional level.

A quantum network that will stretch approximately 2,000 kilometres between Shanghai and Beijing, passing through Jinan, Hefei (where Pan is based) and other cities along the way, is reportedly on track to become fully operational imminently.

China's latest successes

China plans to use free space quantum communications to enable secure quantum networks of unparalleled scope and scale.

Satellites allow quantum communications over much greater distances

In August 2016, China launched the world's first quantum satellite (see CHINA: West feels the force of China's space programme - December 21, 2015). The satellite, named Micius, established a QKD network through the transmission of quantum information between itself and multiple ground stations. This enables quantum communications at a greater distance.

Micius is a component of the Quantum Experiments at Space Scale (QUESS) project, initiated in 2011, which has involved collaboration between a team led by Pan Jianwei from the University of Science and Technology of China, the Chinese Academy of Sciences, and the Austrian Academy of Sciences. Use of quantum satellites was once restricted to night time due to interference from sunlight, but Pan's team has since resolved the 'nocturnal curse'.

Chinese scientists have reported successes in milestones for quantum information science through a series of experiments performed through Micius under the QUESS programme. They achieved ground-to-satellite quantum teleportation at a distance of 1,400 kilometres -- a critical step towards a global 'quantum internet'.

Micius was also used for the first ever space-to-ground QKD, in which quantum keys were sent from the satellite to ground stations at distances ranging from 645 kilometres to 1,200 kilometres, achieving a gain in efficiency of 20 orders of magnitude compared to optical fibre (see CHINA: Quantum satellite proves innovation capability - June 16, 2017).

China’s advances in quantum cryptography could enhance its national information and communications security, if these new systems do prove to provide a distinct value added relative to classical alternatives, which will depend upon implementation and continued technological advances. Entanglement is a fragile phenomenon, and the difficulty of preserving it is a substantive challenge to the development of practical quantum information systems.
Policy flip-flops increasingly isolate Turkey abroad

A series of foreign policy miscalculations has left Turkey with few friends though it still has ties of common interest.

The failure of its Syria policy may force Turkey to rethink its pretensions as a regional power.

Although the US president is outwardly much more sympathetic to Turkish counterpart Recep Tayyip Erdogan than his predecessor, the two countries are still far apart on Syria. Economic advantage will probably persuade Erdogan to go slow on any further cooling of relations with the EU and its member states.

The authorities will use foreign policy as a tool to retain governments.

Erdogan will not alter US ties to Kurds -- May 23, 2017

© Oxford Analytica 2017. All rights reserved
No duplication or transmission is permitted without the written consent of Oxford Analytica
Contact us: T +44 1865 261600 (North America 1 800 965 7666) or oxan.to/contact
Global ‘fake news’ fight to focus on online platforms

Wednesday, March 22, 2017

The rise of web-generated news has resulted in the proliferation of rumours and ‘fake news’

Facebook has launched a fact-checking service that alerts users that independent providers consider a story untrue in a bid to combat ‘fake news’. Fake news is not a new phenomenon, but it has burgeoned since the emergence of social media. The issue has taken centre stage since 2016 because of reports that Russia interfered in the US presidential election through fake news and disinformation campaigns, and concern that it will do so in Europe’s upcoming elections.

What next

European countries will probably increase regulation related to fake news, such as implementing a code of conduct or fines. This will especially focus on major internet platforms. Although they have resisted being labelled as publishers, social media platforms curate news sites and exert some form of editorial control over content in the feed. This means it is increasingly likely that they will be treated as publishers in the United States and Europe, and thus have certain legal and ethical responsibilities.

Subsidiary Impacts

◦ Public pressure to respond to fake news is likely to continue amid forthcoming European elections.

◦ Regulation may turn to the economics of online advertising to stifle fake news that aims to attract online traffic.

◦ Greater attention to the structure of online advertising could shed light on perverse incentives that encourage fake news.

Analysis

Fake news has been around since before the advent of the printing press and accelerated following its invention. By contrast, journalistic standards around objective reporting only became a norm from the late 19th century.

However, the emergence of social media and web-generated news is challenging this norm. The main effect has been to erode the business model of traditional news organisations, which rely on reporters to verify facts. According to the Pew Research Center, in 2015 alone, advertising revenue for US publicly traded print companies declined by nearly 8%. This has in turn affected the number of journalists in the sector: the newsroom workforce in the United States declined by 39% between 1996 and 2016.

The lack of editorial staff to provide fact-checking and context for stories contributes to falling standards in journalism. This not only means that it is difficult to detect fake news, but mistakes in reporting will accelerate the erosion of trust in traditional news organisations as people fail to distinguish between mistakes and deliberate misinformation campaigns.

39%

Reduction in the number of US newsroom journalists between 1996-2016
One of the most immediate concerns is the perception that fake news is being used by to undermine democracy by poisoning and distorting the information environment. Allegations that Russia affected the outcome of the US elections in 2016 have deepened concerns over the influence of disinformation campaigns, especially as there are elections coming up in Germany and France later in 2017 (see RUSSIA/EUROPE: Moscow will exert multiple pressures - December 8, 2016).

Countermeasures

Governments and private organisations are taking steps to address the fake news phenomenon.

Private sector initiatives

The role of online platform algorithms has been at the centre of the debate because internet giants such as Facebook and Google constitute the public sphere of the contemporary era. Pressure on these platforms to restrict the circulation of fake news has prompted these companies to look for technological solutions as governments have increased calls for regulation and legislation.

Twitter has stepped up its removal of accounts, including those belonging to the US ‘alt-right’, and has refused or removed verification of those accounts, as with Breitbart News and at least one of its journalists.

Alt-right news sites such as Breitbart have been removed from online app stores.

Google and Facebook advertising systems have started banning sites that traffic in misinformation and disinformation.

<table>
<thead>
<tr>
<th>Tech companies are implementing fact-checking partnerships with journalist and civil society organisations</th>
</tr>
</thead>
</table>

Facebook allows users to flag hoaxes and has partnered with established third-party fact-checking organisations in the United States, Europe and Canada to flag disputed news. On some Google news pages a fact-check tag has been included.

Such an approach is promising because it does not remove content (and therefore potentially threaten free speech), but seeks to provide additional information to the user. These measures have come under criticism from the alt-right because many receive funding from liberal donors.

United States

Washington has been looking to tackle the fake news phenomenon through bipartisan legislation aimed to create a ‘whole-of-government’ approach to countering propaganda and disinformation. The Portman-Murphy bill would enhance the role of the State Department’s Global Engagement Center, which has thus far focused on countering Islamic State and other extremist content online.

There is also pressure to counter and retaliate against Russian disinformation and revise the economic incentives that were found to be behind some fake news efforts not linked to Russia. There is precedent in the United States for restricting and even criminalising the spread of false information, from the Sedition Act to the Foreign Agent Registration Act to Federal Communications Commission broadcast rules, though in recent times they have been used sparingly.

Europe

In the EU, calls for bans, fines and legislation to curb the circulation of fake news have increased as several countries prepare for elections.
In Germany, whose federal elections are in September, politicians have called for the creation of legal obligations for ‘market-dominating’ social media platforms to remove fake news and proposed fining them up to 500,000 euros (540,000 dollars) per post for failing to do so promptly.

The president of the European Parliament has similarly called for EU-wide laws and threatened financial sanctions, while Sweden has threatened legal action against Facebook if it does not staunch the flow of fake news.

Counter-narratives

The United States, Germany and the Czech Republic have proposed setting up specialised government departments charged with monitoring and counteracting fake news and propaganda, similar to the counter-narrative approaches that have been adopted by many governments to counteract Islamic State on social media.

Counter-narrative efforts are unlikely to have a significant impact since research suggests that government-sponsored efforts are viewed with scepticism and thus are unlikely to have the intended effect, instead adding to the sense that there is no objective truth or facts.

Content removal

Another way to address fake news is content removal. However, there are concerns that this could inadvertently threaten free speech.

For example, Facebook, Google (YouTube), Twitter and Microsoft created a shared database of content they deem to be extremist and use hashes, essentially a form of digital fingerprinting, to facilitate content removal across multiple platforms. Such a shared database could be expanded to include other types of objectionable content such as fake news.

The unintended consequences of such shared databases could serve to restrict press freedom and the free flow of information, or even promote specific ideologies (such as requiring the removal of pro-Kremlin articles), with little transparency or oversight of their methods.

Although there are strong legal and institutional protections for press freedom in the United States and Western Europe, controversies surrounding US President Donald Trump, along with steep declines in press freedom and increasingly authoritarian leaders in eastern Europe (Hungary and Poland), indicate that rise of populism can put a strain on democratic safeguards (see EUROPE/US: Legitimising illiberalism is Trump legacy - October 28, 2016).
More Eastern EU migrants may leave as Brexit nears

Turnaround in Eastern EU migration appears due to declining UK attractiveness, as a workplace and as somewhere to live.

UK immigration is down across the board (except EU-15 citizens)

Emigration of EU citizens is rising

'Study' may explain why EU-15 immigration is 'stickier' than EU-10

Main reason for migration, March 2017 (% of total)

<table>
<thead>
<tr>
<th>Employment: definite job</th>
<th>Employment: looking for work</th>
<th>Accompany / join family</th>
<th>Formal study</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-15</td>
<td>50.8</td>
<td>15.3</td>
<td>9.7</td>
<td>16.9</td>
</tr>
<tr>
<td>EU-8</td>
<td>45.8</td>
<td>13.1</td>
<td>7.1</td>
<td>8.3</td>
</tr>
<tr>
<td>EU-2</td>
<td>50.9</td>
<td>22.6</td>
<td>13.2</td>
<td>9.4</td>
</tr>
</tbody>
</table>

The latest net migration data (with caveats -- provisional and not wholly statistically significant) appear to show the United Kingdom becoming less attractive for all except EU-15 citizens since the Brexit referendum. That the non-EU segment bucks the trend for falling immigration suggests that the changed UK/EU relationship is involved. The EU-15 exception may be connected with more coming for education, compared to EU-10 migrants; it easier to abandon jobs than courses.

Lower EU immigration and higher emigration have mostly accelerated between June 2016 and March 2017, suggesting a rising trend. People may have waited post-Brexit. Fewer EU citizens will probably stay in the United Kingdom, as 2019 approaches and as home economies revive.

UK soft power may diminish internationally because of perceptions since the Brexit referendum of widespread xenophobia.

Reduced EU-10 migrant labour will particularly affect the UK economy’s retail, hospitality, care home and agricultural sectors.

The rising UK population, a concern for some, will abate but not reverse because of continuing non-EU net migration.

Weaker sterling and the slowing UK economy may also play a part in discouraging immigration.

See also: Lack of consensus clouds EU-UK transition prospects -- August 11, 2017
Trade now drives politics more than growth

Wednesday, March 29, 2017

Protectionist voices have grown stronger even as world trade has become less important as a motor of GDP

There is no measure of a country’s optimal trade to GDP ratio. Different economies are likely to have different natural limits, based on their size, access to resources and importance of their non-tradeables sector. Issues of national security, indigenous culture and public opinion on trade are also important: winners from global trade tend to take their good fortune for granted whereas losers feel their loss acutely, affecting national political dynamics where populist voices amplify calls for protectionism.

What next

Changing market dynamics such as falling transport costs and shifting growth drivers such as new technologies will diminish rather than augment the role of trade as a key engine of growth. Better understanding of these new scenarios will be critical for many investment projects, including infrastructure related to trade. Wasted investment spending could cause business failures. However, equally, too little investment could lead to bottlenecks and inflation should a new trade surge materialise -- for example, as South Asia develops. This dilemma is already visible in the mining sector.

Subsidiary Impacts

• Technological innovation could offset the risk to the global outlook of weaker trend growth in trade.

• Strong services growth, combined with stagnant manufacturing demand, will tend to reduce import trade, especially in the advanced markets.

• New technologies could lead to a reduced role for merchandise trade.

• Desire for stronger control over national economies -- notably growth and employment -- may encourage more emphasis on local dynamics.

• Trade changes will affect the main trading regions -- Europe, Asia and North America -- and hubs such as Singapore, Hong Kong and the UAE.

Analysis

Conventional wisdom has long promoted the benefits of rising world trade, based on potential for efficiency gains, transfer of knowledge/skills and market development. The data also support this view: surging trade growth correlates strongly with expanding GDP and living standards (the 1960s and 1970s, 1990-2007), and weak world trade with economic stagnation (the 1980s and the last decade).

The new normal

It is unlikely that world trade can sustain past trend growth rates of as much as 6-7% in volume and 10% in value terms; these were around double typical GDP growth rates. The global average for the ratio of imports (and exports) to GDP rose from just over 10% in the mid-1960s to a peak of more than 30% in 2007 (see INTERNATIONAL: New trade era will shape world growth - October 18, 2016).

30.8%
The ratio of global goods and services exports to GDP peaked in 2007

© Oxford Analytica 2017. All rights reserved
No duplication or transmission is permitted without the written consent of Oxford Analytica
Contact us: T +44 1865 261600 (North America 1 800 965 7666) or oxan.to/contact
World trade is performing poorly even compared with the modest current pace of global growth. The ratio of global exports to GDP has dropped from a peak of almost 31% in 2008 to about 28% in 2016. A further decline is likely this year.

Trade forecasts remain over-optimistic

Forecasts published by the WTO and IMF remain optimistic about an eventual swell in trade -- a recovery that would put world development back on its well-known track, with trade in the lead. However, this return to ‘business as usual’ is far from certain.

Juxtaposing this uncertainty with the conventional wisdom that trade is a key driver of growth explains the rising concern over the long-term global economic outlook.
New GDP growth engines could emerge

The less conventional view is that world growth could strengthen despite less dynamic trade growth. Such a shift is more likely to appear in the advanced economies than in the developing world, where there remains ample scope for further rapid export and import growth (driven in part by the rise of consumerism) and particularly in trade between emerging markets. Both trends would contribute positively to global GDP. However, the overall impact on world trade will depend on the relative strength of the two trends.

Emerging trends

Openness to trade implies that a country becomes increasingly sensitive to any external events that affect trade, such as shifts in trade partners’ import demand, trade agreements, financial conditions and transport costs. Volatility typically increases, and small, open economies may even lose control over their national economic trends and policies.

Nevertheless, while trends remain positive trade will remain attractive, driving up growth in GDP and living standards and boosting job opportunities. However, downside shocks will also occur.

Repeated, or prolonged, experience of such problems will tend to increase support for less openness. A decade of turbulence and diminishing trend growth in much of the world economy has discouraged enthusiasm for trade by exposing downsides to trade that had previously been downplayed (see INTERNATIONAL: Pragmatic protectionism set to persist - October 24, 2016).

Goods trade maturing

The falling share of the advanced economies in world trade is also causing some to question the relevance of encouraging world trade. This fall is clearly linked to the rise of emerging Asia, which is close to matching the one-third share of world exports recorded by the EU. Asia is the only key geography to have seen its world export share grow steadily over the last decade.

---

**33.6%/31.1%**

Share of the EU and of East Asia in global goods exports in 2015, compared to 41.4%/15.1% in 1980

---

![Graph showing the share of the EU and East Asia in global goods exports from 1960 to 2015](image_url)
Despite the (previously downplayed) risks, the weight of opinion remains that, over the medium to long run, increasing trade is good for the world economy. It spurs global efficiency, acting as a conduit for transmission of skills and technology and raising long-term productivity through technical progress. However, it is possible that other drivers of growth could become more important to global GDP than trade -- essentially the trade/GDP ratio may be close to peaking.

Shift to services

The outlook may depend on the trade-off between EM developments that will boost trade such as rising consumerism and inter-EM trade, and potential changes, largely in the maturing advanced economies that could diminish it.

The shift of advanced economies towards services growth as demand for many manufactures such as cars and phones plateaus and a shift towards secure supply chains, particularly virtual ones, and new techniques such as robotics are likely to curb the demand from advanced countries for goods imports and thus lessen their role in world merchandise trade.

However, those who think that protectionism, in various guises, could successfully -- and perhaps more speedily -- deliver this shift should be cautious (see INTERNATIONAL: Protectionism raises global trade costs - March 9, 2017).

Rising protectionism would instead be likely to threaten world development. Restrictive practices typically encourage bad choices and outcomes and result in inefficiency. New, market based, economic forces would be the best means of delivering a natural slowdown in some elements of trade that could even encourage more sustainable growth in the future.

Imbalances will also cause tensions

Trade data illustrate not just global weakness in trade but also highlight which geographies have contributed to this the most.

-3%/2%

of GDP US/East Asia and EU net exports as a share of world exports

The EU has played a key role. Weak internal demand growth has depressed its imports while in parallel its exports have expanded more rapidly than GDP.

The EU and high-income East Asia are the only key geographies to have seen an increase in their exports-to-GDP ratios over recent years. However, high-income East Asia has also seen its import-to-GDP ratio pick up. In contrast the EU’s imports ratio has stagnated well below its export ratio, testifying to underlying weak domestic demand.

The rising imbalance in the EU’s export and import trends has created a large and growing trade surplus. In contrast, high-income East Asia has only a small surplus.
For most regions, net exports as a share of world trade is modest, within the +/- 1% range. The problem of large imbalances is limited to just a few regions.

The United States's large deficit (net exports around 3% of total trade) is highly visible. It is matched by the surpluses generated by the EU and emerging Asia -- both these regions are registering net exports of close to 2% (of total trade).

The balance in the Middle East and North Africa moves with world energy prices. Thus while presently weak, a few years ago it was much higher.

The increases seen in the EU and emerging Asian surpluses over what has been a difficult period for world growth and trade have provoked international tensions and spurred protectist proposals.

In fact, most of these gains are probably associated with falling energy and commodity prices -- that is, they mirror the falling net trade surplus of the Middle East and North Africa region rather than coming at the expense of the United States. However, this view may be obscured by the tensions currently surrounding world trade.

Outlook

It will be more productive to encourage the new forces in the world economy than to pursue old-fashioned trade disputes. It looks likely that the EU, focused as it is on its goods-export industries, will continue to lag the United States in harnessing newly emerging drivers of growth.

Twenty years ago, Bill Gates, the founder of Microsoft, raised concerns about Europe lagging the United States in digital innovation. While EU collaboration has encouraged research and development spending (R&D), it does not have the fundamental research drive or capacity of a large single state, with investment in innovation needing to be shared among 27 countries.

In 2015, the EU spent less than 2% of GDP on R&D, far below the target of 3%. To compare, the OECD spent 2.4%, the United States spent 2.8% and Japan spent 3.5%.

In addition, the EU venture capital market is underdeveloped relative to the United States. The EU also lags the United States in numbers of large high-tech companies and patents.
R&D and innovation is a key plank of 'Europe 2020', the EU's agenda for growth and jobs. However, the uncertainty surrounding the Brexit negotiations, and the likelihood that this will persist for several years, is only likely to widen the gap in innovation spending between the United States and the EU (see UNITED KINGDOM: May will pursue 'hard' Brexit - January 20, 2017).

The position for emerging Asia is also uncertain. It should continue to be a beneficiary of 'old economy' growth, thanks to rising consumerism and growing trade between emerging markets. However, how close it can position itself to the frontier of new technologies may depend on the sustained commitment of individual countries to structural reform (see INTERNATIONAL: Infrastructure needs are large - March 10, 2017).
We combine our global network of over 1,400 experts with high-calibre in-house analysts to deliver authoritative and relevant analysis and advice.

A rigorous process of validation ensures timely and impartial insights. Our empirically proven methodology results in heightened prediction accuracy.

Oxford Analytica is a global analysis and advisory firm which provides an edge in understanding the impacts of political events, and economic and social trends.

– The Oxford Analytica Daily Brief®
– Global Risk Monitor
– Advisory Services
– Training and workshops
– Special Reports
– The Oxford Analytica Conference

WEEKLY BRIEF
Have you enjoyed this collection of Oxford Analytica Daily Briefs? Then sign up for our (free) Weekly Brief, our pick of the week’s most trenchant analysis.

oxan.to/weekly

www.oxan.com