



OBAMA
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FRONT COVER *President-elect Barack Obama looks back during his flight from Chicago to Washington to meet with President George W. Bush at the White House November 10, 2008.*

REUTERS/KEVIN LAMARQUE



Welcome to Oxford Analytica's new publication, which is designed to bring to you a distillation of our most recent content in a helpful format. We hope you find it an interesting and informative read.

ALFRED ROLINGTON
CEO — OXFORD ANALYTICA

Introduction

Barack Obama has been elected president of the United States, and the Democrats have extended their majorities in Congress by gaining at least six seats in the Senate and 19 in the House..

The Democrats are in a strong position to implement legislative change, but there will be important divisions over mandates and priorities between the White House, Democratic leadership, and rank-and-file in Congress. The 'war on terror' will continue, but US rhetoric will soften and grow more nuanced. Fiscal constraints will be a factor; while the defence budget will continue to rise, most of the increase will be due to operational outlays -- expensive weapons systems will face cuts. The deeply inhospitable economic context will restrain the Democrats' attempts to push redistributionist policies. However, a few key party priorities -- such as economic stimulation, healthcare reform and education spending -- will pass. Internal differences across political institutions, rather than challenges from the demoralised Republican party, are likely to be the main obstacles to legislative progress.

Full versions of the articles in this issue can be found at: www.thepoliticaleconomist.com

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DEMOCRATS

The Dems do well...

Barack Obama's 53:46 margin gives him the highest share of the vote for Democrat since former President Lyndon Johnson's landslide victory of 1964, though commentators have reached for comparisons with a more recent victory -- that of Bill Clinton in 1992.

However, Obama's state-by-state results show that the demographics of his core constituency are different than for Clinton: almost unanimous support among blacks, a two-for-one advantage in Hispanics and a high proportion of the under-35s and affluent whites. As in the primaries, the poor (hoping for redistribution) and the rich (looking to social issues) supported Obama, with those

Obama is also likely to face a clash between centrist Washington insiders on his team, and his considerably more liberal core supporters.

on middling incomes least receptive. Obama's awkward coalition, on top of what was in fact a culturally divisive campaign (never mind the symbolism of his victory), makes it difficult for him to maintain his current coalition and reach out to those he could not win over on polling day.

The congressional election results will, on paper, produce a balance of power in Congress that is also very similar to 1992. However, despite capturing the presidency in 1992, the Democrats only gained one additional seat in the Senate and actually lost seats in the House. This time the majority party has made striking gains in both chambers of Congress for the second election running.

Democratic dominance in Washington, and a fratricidal Republican party, should allow Obama considerable scope to set the policy agenda. However, he faces three key challenges.

Managing expectations

Given the state of the economy and the dire poll ratings of the outgoing president, Obama's margin of victory was hardly a landslide. However, the exceptional symbolism of Obama's rise, and a powerful but unfocused public desire for change, will create media expectations that an Obama White House may find almost impossible to fulfil.

Ideological balance

Obama is also likely to face a clash between centrist Washington insiders on his team, and his considerably more liberal core supporters. This will surface acutely in foreign policy, with some in Washington urging him to draw down US troops in Iraq very deliberately over an 18-24 month period, while his base will want to see bolder, swifter action. (He is likely to err on the side of caution, on this issue.)

Who leads?

Both the Democratic White House and Democratic Congress will consider that they have emerged from this election with strong, distinctive mandates. There will be a contest of interpretation over which branch led the other to victory. While Obama is likely to have free reign over foreign policy, tensions will be evident domestically. Congressional Democrats will want to proceed rapidly with long-planned reforms in areas such as healthcare, while Obama will want to concentrate on economic recovery while he develops social policy proposals of his own. This will create tension once the honeymoon is over.

REPUBLICANS

...while Republicans rethink

In the 2004 elections, the Republican party retained the White House, increased its margins in the House of Representatives and Senate, and held most state governorships. Yet it lost its majorities in the House, Senate and among governors in 2006, and has fallen back to 1992-era levels of support in the last round of elections. In historical terms, this is a strikingly swift electoral decline.

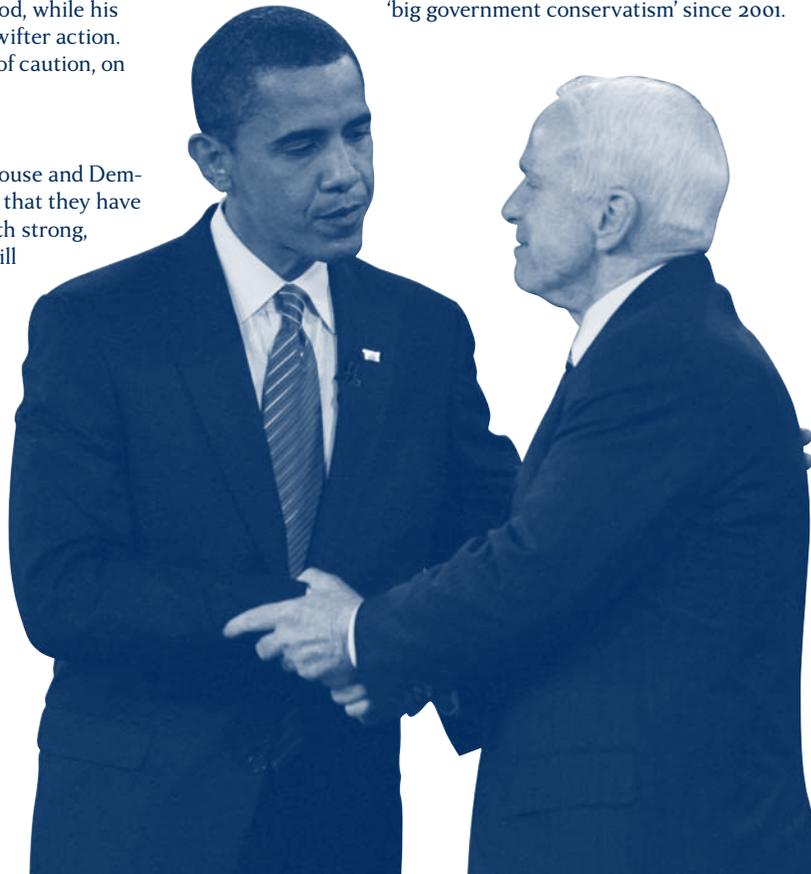
This slump is reinforced by profound ideological distress among the various strands of conservatism within the party:

- While fiscal conservatives approved of President George Bush's tax cuts, they are deeply concerned by the size of the federal budget deficit and the emergence of 'big government conservatism' since 2001.

- Foreign policy conservatives (traditional nationalists as well as neo-conservatives) have been appalled at the extent to which the mishandling of events in Iraq from 2003-07 has undermined their cause -- and made it harder to mobilise the public to meet perceived threats elsewhere, especially Iran.
- Finally, social conservatives, although generally happy with Bush, are concerned about the relatively few policy objectives they have realised during his presidency.

Ideological discontent has been compounded by a lack of obvious new standard-bearers. Despite their continued party dominance, conservatives could not agree to unite behind a single candidate in the presidential primaries this year. Their vote split, with economic conservatives backing Mitt Romney, social conservatives backing Mike Huckabee and foreign policy conservatives failing to work up enthusiasm for either. It was these divisions which allowed John McCain, who had long had a semi-detached relationship with the Republican establishment, to be nominated.

McCain's defeat has now triggered outright fratricide in Republican ranks, over the causes of defeat and the way to rebuild the party. The eventual shakeout within the conservative movement is likely to involve a simultaneous rightward shift in economics, foreign policy and social and cultural affairs. However, this is a risky strategy that would tie a Republican revival to the self-inflicted failure of the Obama administration. The Right also lacks an individual leader, such as former President Ronald Reagan in the late 1970s, capable of uniting conservatism, in its various forms, into a powerful electoral wave—Alaska governor Sarah Palin, despite her ambition, is unlikely to fulfil this role.



ISRAEL

Livni cautions Obama on Iran

THURSDAY, NOVEMBER 6 2008

Israeli Foreign Minister Tzipi Livni warned on November 5 that a shift to dialogue with Iran could be interpreted as weakness.

Livni, who is campaigning to form the next government after elections set for February 10, was speaking in reaction to Barack Obama's victory in the US presidential election, who has indicated his readiness to talk to Iran. In contrast to the broader US Jewish vote, which went overwhelmingly to Obama, Senator John McCain was the preferred choice by far of absentee voters from Israel, reflecting a range of concerns from fringe fears that Obama is a secret Muslim to sober worries about his readiness to confront Iran. The next administration is nonetheless sure

to include many friends of Israel, with Rahm Emanuel appointed chief of staff and Dennis Ross tipped for a top Middle East policy role.

Although tactical differences may emerge, the Obama team and the Israeli government share the strategic objective of cutting Iran down to size.

Although tactical differences may emerge between the Obama team and the Israeli government on the Iran issue, the two still share the strategic objective of cutting the regime down to size.

EU

Atlantic relations a two-way street

FRIDAY, NOVEMBER 7 2008

The European Commission and the current French EU presidency on November 5 warmly welcomed the election of Barack Obama to the US presidency.

The statements, which called for a "new deal" and a "reinforced transatlantic partnership" between the United States and Europe, reflect the strong preference that Europeans had for an Obama victory. However, some of the high expectations Europe places in Obama's ability and willingness to bring about change may be disappointed. Early and unforced errors in foreign policy could remind EU leaders of Obama's relative inexperience. The conflict with Russia over the missile defence shield is one possible problem; the prospect of NATO enlargement to the Ukraine and Georgia is another.

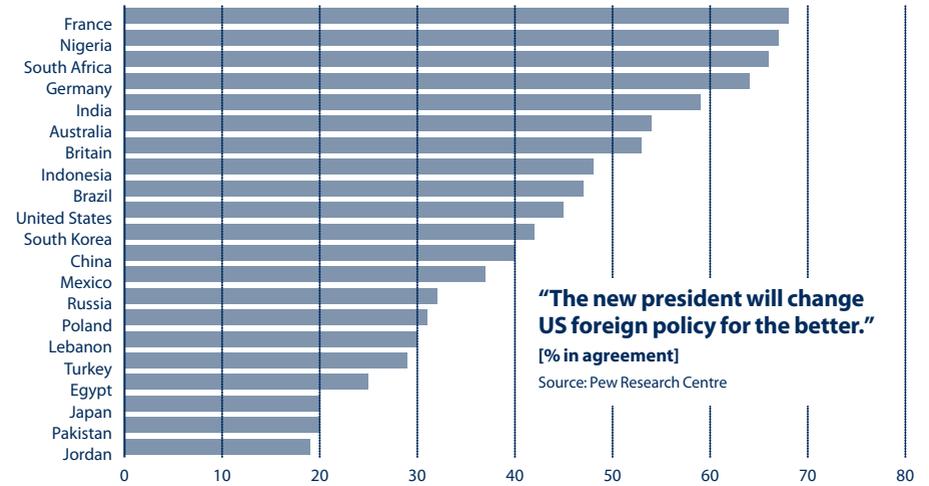
LATIN AMERICA

Regional relations change

THURSDAY, JUNE 12 2008

Obama's message of change appeals to a region suffering from 'Bush fatigue' after eight years, but it is unclear how much leeway he will have to make substantial modifications in key US policies, especially with regards to trade.

Latin Americans have few expectations for a dramatic shift, recognising that the next US administration will be dealing with more urgent foreign policy priorities elsewhere. Obama's background -- the product of a racially mixed marriage and son of a Kenyan immigrant -- his relative youth and the eclectic background of his regional advisers suggest open-mindedness, and offer greater possibilities for comprehending and appreciating the impact of globalisation in regions such as Latin America.



RUSSIA

Moscow hints at MD rapprochement

MONDAY, NOVEMBER 10 2008

Foreign Minister Sergei Lavrov said on November 9 the authorities had reviewed US President-elect Barack Obama's positions on missile defence (MD) and nuclear arms cooperation, and hoped for "more constructive" engagement with Washington after Obama's inauguration.

President Dmitry Medvedev also spoke with Obama at the weekend. Separately, a Russian Foreign Ministry official clarified that Medvedev's proposal to station SS-23 (Iskander-M) missiles in the Baltic exclave

of Kaliningrad would only be carried out if Washington pursued the MD programme as planned. While there is virtually no chance that an Obama administration would do away with the programme altogether, its scope and funding might be reduced. This could create an opportunity for diplomatic rapprochement with Russia, perhaps by leaving open the possibility of Russian participation in MD.

ASIA

Asia fears US protectionism

TUESDAY, NOVEMBER 11 2008

Although enthusiasm for the election of Barack Obama to the presidency is strong among many members of the public in Asia, the region's governments fear an increase in trade protectionism, a more strident US approach to human rights abuses, and an ero-

sion of traditional security relations. Many of these concerns will be assuaged -- despite US accusations of Chinese 'currency manipulation,' for instance, US-China relations are likely to retain an even keel. -- but nevertheless, anxiety over the course of US trade policy appears entrenched.

POLICY

Obama's economic policy

During the campaign, Obama sought to appeal both to moderate 'New Democrats'—who back the fiscal discipline and pro-growth policies of former Treasury Secretary Robert Rubin—and the party's more liberal, union-oriented wing. He understood that blunt populist appeals to the Left can undermine a Democratic candidate in the general election, especially if such rhetoric is viewed as anti-business.

Obama's lead economic adviser is Austan Goolsbee, an economics professor at the University of Chicago Graduate School of Business. He is a political novice on national economic policy issues, but is firmly in the capitalist US mainstream. Backstopping Goolsbee is a broad array of centrist Democratic economic advisers, many with experience in the administration of former President Bill Clinton.

Obama continues the tradition of Democratic candidates running for office, railing against the 'evils' of free trade, while hesitating to vote for meaningful protectionist legislation.

Goolsbee has encouraged Obama to support creative solutions to economic problems, including covering legacy costs for big car firms in exchange for their building greener vehicles, and using government funds to invest in 'green energy', including wind and solar capacity. He thinks in terms of 'green job training' as well as capital expenditure, boosting employment. He has also proposed the automatic computing of federal income taxes, saving families time and properly calculating benefits.

Obama favours fiscal discipline, in theory: he voted to reinstate full 'pay-go' budget rules in the Senate three times

(which require any additional dollars of spending—even for emergencies and natural disasters—to be offset within each budget year by a reduction in spending in another category, or by a tax or revenue increase). However, Obama is almost certain to raise income taxes on upper-income US workers and expand tax credits for the poor. Some of this money is to be spent on redistributive spending, on poor families, local governments hit by a loss of housing-related revenues; and supplemental unemployment benefits for the long-term unemployed.

Since Clinton embraced free trade and supported the North American Free Trade Agreement (NAFTA) in the early 1990s, Democrats have been divided on whether to continue his pro-business free trade stance or to turn protectionist in the name of 'sheltering' US jobs. Obama continues the tradition of most Democratic candidates running for national office, railing against the 'evils' of free trade, while hesitating to vote for meaningful protectionist legislation. Leaks from his campaign (embarrassing at the time) suggest that Obama's true position is as a free-trader, though he also has some economic advisers who are pushing more protectionist positions. Obama has staked out positions against new free trade agreements (FTAs), including with South Korea.

Meanwhile, he plans some populist gestures, including raising the federal minimum wage, expanding rights to unionise in the workplace; and significantly reducing income taxes on less well-off seniors. Reprising a theme pursued by Senator John Kerry in the 2004 campaign, Obama promises to close 'tax loopholes' that he claims allow US corporations to hide income in overseas tax havens.

However, his refusal to back a temporary repeal of gasoline taxes, at notable electoral cost, shows that his populism has limits when proposals are economically unsound.

INNOVATION

The crisis and policy innovation

Major US economic crises have historically stimulated significant policy innovation—in part because economic crises can create

Leadership can be lacking at the top, and administrative support below...

political upheaval, and in part because inaction by policymakers is usually politically unacceptable. While conceived in response to periods of distress, such policy innovations can affect the parameters of economic life for generations.

Politicians and lawmakers operate within three broad categories of ideas:

- Foundational ideas are core, largely unchallengeable assumptions about a political and economic system. One obvious foundational idea is that the United States is a democratic, capitalist society.
- Framework ideas are sets of general principles that guide how different sets of policymakers and parties approach problems—more or less state involvement, for instance. Although stable and enduring, these framework ideas can take dramatic turns during periods of emergency policy innovation.
- Policy ideas are specific proposals for dealing with particular issues or problems—often shaped by the framework ideas to which their formulators subscribe. For instance, the statist will have specific ideas on the details of tax reform.

Ordinarily, policymakers vet the options available for ideological consistency—so the UK local taxation system was reformed in favour of a 'poll tax' in the late 1980s over practical objections due to its ideological fit. Pragmatism can triumph, but over years or decades, as was the case with the acceptance of tough 'workfare' programmes to deal with

persistent US unemployment, in the face of left-wing opposition.

A further barrier to change in the United States is simply the absence of expertise. Leadership can be lacking at the top, and administrative support below (caused in part by the hollowing out of the civil service). This leads to small groups taking dramatic decisions with major consequences, such as the allowing investment bank Lehman Brothers to fail earlier this year—a decision which now appears deeply unwise. Added to this impediment is the present fiscal squeeze, now that the government faces significant spending commitments at war in Iraq and Afghanistan and in funding bailouts of financial institutions.

Still, foundational ideas have been shaken by the current crisis, as a committed free-market government has embarked on a mas-

A further barrier to change in the United States is simply the absence of expertise.

sive programme of *de facto* nationalisation, against its past principles. Barack Obama faces an opportunity to build on this, changing framework ideas in favour of major public works schemes, drawing on the rich vein of economic research concerning income inequality, and its ability to undermine growth. Moreover, the nature of policymakers' thinking (where framework ideas are hard to shift once established) and the US political process (with its many 'veto players' able to block retrenchment of policies once passed) means that the decisions he takes, taking advantage of the unusual circumstances, can persist for years or decades.

Obama's Washington

THE NEW PRESIDENT'S KEY APPOINTMENTS

The United States has a relatively thick layer of approximately 3,000 'non-career' senior executives at the top of the civil service that are appointed by the president (with the 'advice and consent' of the Senate) and serve at his pleasure. While there are obvious disadvantages to politicising the leadership of the civil service, the US system helps make the bureaucracy more receptive to the president's priorities and makes reform easier. In addition, presidents are also responsible for nominating federal judges, including Supreme Court justices, who are then confirmed by the Senate.

Every presidential transition produces surprises, even in top Cabinet-level appointments, so the individuals below are simply an abbreviated list of those who have a shot at the top jobs. President-elect Barack Obama has suggested that he will name several Republicans to head powerful departments; potential GOP contenders are italicised.

Homeland Security

Janet Napolitano, Senator *Susan Collins* and Congresswoman Jane Harman may be in the frame to take over the famously sprawling, unwieldy department.

Supreme Court

Obama is likely to have a chance to name one or more new justices over the next two years. (The senior associate justice, John Paul Stevens, is 88 years old.)

White House

Congressman Rahm Emanuel will be chief of staff. The large group of contenders for national security advisor includes Susan Rice (former assistant secretary of state for Africa), James Steinberg (former deputy national security advisor), and a pair of retired general officers: Anthony Zinni and James Jones.

Defense

Robert Gates could stay in place, either for an extended interim period or for a full term; Richard Danzig (former navy secretary) is likely to end up in a high position.

State

Senator John Kerry, Al Gore (former vice-president), Senator *Chuck Hagel*; New Mexico Governor Bill Richardson, and Colin Powell (former secretary of state) are among many potential Obama picks for the top job.

Treasury

Lawrence Summers (former treasury secretary) and New York Federal Reserve Bank President Timothy Geithner appear to be the prohibitive favourites.

FOREIGN POLICY

What Obama's words can achieve

Barring the intervention of unexpected events—such as the political earthquake created by the September 11, 2001 attacks—modern presidents usually devote most of their first term in office domestic policy. Their powers are weaker in this area, and US chief executives try to implement their most ambitious domestic reforms before their post-election 'honeymoon period' ends—as Ronald Reagan did with tax reform and Bill Clinton tried with healthcare. The current economic crisis is only likely to reinforce the Obama administration's domestic focus.

Nevertheless, campaign promises and ongoing military campaigns mean that the president-elect must devote a significant amount of political capital abroad. Three challenges stand out:

- **Campaigns in Afghanistan, Pakistan and Iraq** Linked, since demands for military force in Afghanistan affect (possibly over-ambitious) troop withdrawals in Iraq, and since Islamabad's policy on its Western frontier is crucial to Afghan security.
- **Climate change** Obama will sign the post-Kyoto (post-2012) accord on greenhouse emissions, in concert with 'cap-and-trade' carbon reduction regimes at home. However, Obama will not back climate change legislation that appears to impair US growth and development.
- **Rapprochement with allies** The president-elect will seek to leverage his personal popularity to attempt a repair relations with Europe especially, and use the dividend to bolster other NATO members' commitment to Afghanistan. His hope of success is limited.

In all these areas, the tone of Obama's foreign policy actually echoes the more conciliatory tone of the late Bush White House. If Obama is successful in foreign policy, it will less be due to his actions than how they are perceived. The presidency's weak formal

powers are made up for by an unmatched ability to command attention—skilfully used, this translates into influence (or 'soft power') that makes it easier for the United States to pursue its agenda overseas.

Here Obama's rhetorical talent comes into its own. Contrary to widespread perceptions Bush could be moving and eloquent, but he and his speechwriters often spectacularly failed to consider how terms such as "crusade" were perceived abroad. Obama, by contrast, appreciates that the most successful presidential rhetoric ties the fortunes of the audience abroad and the US public together by creating a common sense of values and destiny. It was this insight that led to his (unsuccessful) attempt to emulate John Kennedy's 1963 speech in Berlin this summer.

Obama's profession of what Thomas Jefferson called a "decent respect for the opinions of mankind" may seem insubstantial relative to real differences between the United States and the rest of the world. Yet this is one of the keys to restoring US prestige—the perception that, for all their power, US policymakers will act with deliberation and restraint.

OXFORD ANALYTICA CONSULTANCY'S

The US and Africa: an outlook

Despite Obama's Kenyan roots, there is a danger that Africa will be forgotten as his administration looks to reaffirm alliances with Europe and improve perceptions in the Middle East. Recent consultancy work as identified some of the following key trends in US/Africa relations which cannot be over looked:

Democratic recession? The significant wave of democratisation during the early 90's has plateaued over the last decade. The lesson of Kenya in 2007 shows that the US cannot over estimate the entrenchment of democratic institutions.

EDUCATION ADVANTAGES

Education: a strategic weakness

Education pays dividends in economic growth: it raises productivity, employment levels and income. More and better employment reduces poverty and boosts government revenues. Countries that boost the educational attainment of their populations by an additional year, on average, typically raise economic output by 3-6%. OECD countries that have expanded university provision the most since 1990 have seen lower levels of unemployment, and university graduates earn significantly more than people who only have a secondary school diploma. This is not only because they earn higher wages—they are much more likely to find work, even as the number of graduates increases.

Against this background, the United States is struggling: in the 2006 OECD Programme for International Student Assessment (PISA) tests for science and maths, the United States scored well below the global average. Moreover, PISA found a strong correlation between socioeconomic background and achievement in the United States. In those countries with high overall test scores, such as South Korea and Finland, social class made little difference.

The EU, India and China produce more science and engineering graduates than the United States. Over the last 20 years, Asian countries have invested heavily in their university science departments, meaning that fewer Asian students were coming to the United States to study, even before the post-September 11, 2001 slump. Although US firms still lead the world in patent applications, that advantage is shrinking. The United States leads the world in total R&D investment, but federal spending on R&D declined from 0.9% of GDP in 1970 to 0.5% in 2002, and while private R&D investment is higher in the United States, this tends to be product development rather than basic research—which drives innovation in the long run.

US universities, particularly the top tier, remain easily the best in the world, but US educational shortcomings are rooted in the country's comparatively poor public education system. Around 90% of school funding comes from local and state taxes, so poor districts and poor states have poorly funded schools. The No Child Left Behind law (NCLB) has not given enough funding to alter local disparities significantly (Federal money tends to go to states that already spend more on schools), while having the effect of reducing the opportunities for local initiative, and making schools concentrate on test subjects at the expense of other disciplines. Studies have tended to find that autonomy encourages efficient administration and spending and better test results.

Even at university level, the US is losing its relative place as others catch up. The majority of its US-born researchers are over 40; to replace their numbers when they retire, Washington could encourage more young people into science now by improving science education at school. One key policy to maintain the United States' place in the world may lie in the domestic sphere after all.

Deep poverty Although macro trends are encouraging and growth has been significant, there is still severe poverty among large segments of Africa's population. This has obvious ramifications for stability and security.

Environmental meltdown The effects of global warming are poised to hit Africa particularly hard, especially in growing water scarcity and land degradation.

Conflict The Democratic Republic of Congo, Somalia and Sudan are all situations which could get worse if ignored by the international community.

More info: consultancy@oxford-analytica.com

How to talk to the Taliban

The pursuit of political deals with the Taliban—an organisation that harboured al-Qaida during the 1990s—is profoundly uncomfortable. However, it will be necessary if the United States and its allies are to reverse a series of negative trends in the insurgency and draw the population into a political settlement—the ultimate goal of any counter-insurgency campaign.

The groundwork for such an approach has already been laid in talks brokered between the Taliban and Afghan government, convened by the Saudis. The insurgency may be amenable to such efforts because of its changing structure: Where the Taliban movement of the 1990s had a strictly local agenda, its successor (sometimes described as the ‘neo-Taliban’ movement) is more heterogeneous, due to the attacks on its leadership by the US military. This creates a loose coalition of many autonomous groups that is only loosely tied together, with fighters motivated by a mix of revenge motivations, economic self-interest and Pashtun nationalism.

There is a past history of enmity among Pashtuns towards Arabs and other outsiders. The Taliban also opened itself up to the drug trade and began to make use of the internet as a medium of propaganda, innovations that are sometimes viewed critically by local insurgents. Some Taliban spokesmen have asserted that their movements might be willing to cut ties with al-Qaida if their demands are met.

To integrate negotiations into an effective counterinsurgency strategy, it will be necessary to change aspects of alliance policy and to bolster capabilities in several ways. ‘Reconcilable’ Taliban leaders must receive guarantees that they will not be jailed, so that they can negotiate with confidence. To engage with Taliban leaders and commanders, it is essential to have accurate knowledge regarding their tribal and kinship links,

interests, and motives, backed up with face-to-face consultations with key leaders enjoying formal or informal leadership positions. Meanwhile, these talks must be supported by information operations focusing on potential friction between insurgent groups – highlighting that suicide attacks may conform to jihadist ideology but certainly not Pashtun culture, for instance. Lastly, local insurgents will be more or less easy to win over depending on the success of efforts to address local grievances, such as corruption, security and public services.

Such efforts will not be easy, with a weak central government and the lack of human and organisational resources, and the simultaneous organisation of next year’s national elections. Bringing more Taliban into positions of power inevitably increases Pashtun representation and raises the suspicion of other ethnic groups. But the stake are too high not to attempt a reconciliation.

OXFORD ANALYTICA CONSULTANCY’S

“How is Al-Qaida portrayed in the Arab media?”

Recent consultancy research suggests that the Arab media’s tone is increasingly negative toward Al-Qaida. The most famous outlet to the west, Al Jazeera, no longer provides Al-Qaida with an open platform editing tapes received as they see fit. However, there is generally sympathy on the part of Arab media outlets for Al-Qaida’s narrative of Islam being under threat by the West. General doubts about Al-Qaida’s responsibility for attacks largely exist as well.

More info: consultancy@oxford-analytica.com

Obama’s Middle Eastern priorities

The administration of President George Bush waged an elective war in Iraq poorly, exhibited a studied disinterest in Israeli-Palestinian peace-making until late 2007, and until recently eschewed engagement with Iran. Among members of the public in the Middle East, there is a general feeling that the past eight years have left them significantly worse off, and made the region’s chronic problems even more intractable.

The most significant impact for the Middle East of an Obama administration is likely to be its diminished centrality in the president’s worldview.

Yet this despair is not felt nearly as much in the halls of Arab governments, who were pleased by the removal of former Iraqi President Saddam Hussein, have little time for the Palestinians (although their cause as an abstract notion retains much of its lustre), and believe that the United States needs to keep Iran under tight watch. Their principal concern was for the Bush administration’s avowed pursuit of democratisation—later abandoned.

The most significant impact for the Middle East of an Obama administration is likely to be its diminished centrality in the president’s worldview. Bush staked his legacy on the Middle East, while Obama appears determined to be a domestic president. However as Bush’s presidency showed, such a decision is not all of the president’s making, and the Middle East will pose Obama several unavoidable challenges.

Iraq is slated to undergo provincial elections early in Obama’s first term, and the US troop presence is very likely to be significantly lower by the time it draws to a close. The course that political reconciliation,

sectarian violence, and external meddling (not least by Iran and Syria) take during the interim period are looming uncertainties, which Obama will be able to influence, but not control.

Iran’s leadership is also likely to test the next president, as one of the few governments in the Middle East that remains truly hostile to the United States. A change in Iranian leader after elections in 2009 may split the coalition formed against Iran without changing Iran’s nuclear policy—causing the threat to grow even as it seemed to diminish.

On the Israel-Palestinian front, the status quo seems unlikely to hold. The Bush administration’s strategy of isolating Hamas has neither weakened its power nor brought it to heel. Hamas now controls the Gaza Strip—and thereby makes it impossible for Palestinian President Mahmoud Abbas to speak for the Palestinian people when he negotiates with Israel. The Obama administration will have to decide early on how it will deal with the increasingly divided Palestinians, as well as an Israeli government distracted by Iran.

On these three crucial challenges, the Obama administration is likely to be far more cautious than its predecessor. Often, the Bush administration let its clear vision of the desired outcome cloud its assessment of the steps that needed to be taken to accomplish it. Equally often, the administration’s leaders viewed any effort to hedge against bad outcomes as a sign of insufficient faith or confidence in the president’s policies. However, as the effectiveness of the Obama electoral operation demonstrated, caution is quite different from passivity. The same creativity, patience and willingness to make unlikely coalitions could be successful for Obama again, if applied to the Middle East.



VENEZUELA

The trials of Hugo Chavez

The government of President Hugo Chavez faces a difficult run-up to local elections this month. Since it was first elected in 1998, the administration has enjoyed a stunning electoral run owing to strong popular support, a pro-poor policy agenda and the decision by unpopular opposition forces not to contest

...this vote will be viewed (and used) as a referendum on the performance of the national administration...

elections. This came to an end in December 2007, when Chavez's constitutional reform proposal was rejected in a national referendum. The government goes into the November elections on the back of this unexpected defeat, and facing serious questions about corruption and competence.

Polls are patchy and unreliable, but reports across the political spectrum point to growing public disaffection towards Chavez' economic and foreign policy—and especially his government's failings over law and order. Local governments can do little about these issues, but this vote will be viewed (and used) as a referendum on the performance of the national administration, something Chavez has encouraged by warning voters of the dangers to the revolutionary process of electing opposition candidates.

The only question for the pro-Chavez United Socialist Party of Venezuela (PSUV) is the size of its defeat—encouraging the president to attack even allied parties, for running separately against his candidates. Senior figures from these parties emphasised that it is precisely their loyalty to the revolution that has led them not to support the PSUV candidates, who they have variously accused of corruption and incompetence. That the PSUV and Chavez are concerned about the

impacts of a divided left vote (The PCV and PPT are small parties whose electoral support is under 5%) underscores their worry that this will be a tightly fought competition.

Chavez' allegations of coup plots against him and sabotage of economic production have backfired, seen by government supporters and detractors alike as a way of discrediting opponents and scapegoating for government failures. Attempts to mobilise his party's core support with greater social spending have only raised questions about the country's fiscal prudence, as oil revenues fall, and in any case the budget fails to tackle the full spectrum of voter concerns. Chavez has often sought to emulate his hero Simon Bolivar. He will hope not to end his career in the same manner: centralising power and then relinquishing it, faced with ungovernable factions.

GREENLAND/DENMARK

Greenland votes

On November 25, Greenlandic voters will decide in a referendum on a new law on self-rule—paving the way for full independence from Denmark.

A 'Yes' vote is highly likely, but the political future of the territory will depend crucially on future discoveries of hydrocarbon and mineral reserves underground. If oil or gas is discovered, this would pave the way for a sustainable Greenlandic economy, and in turn make independence very likely.

However, the extent of Greenland's underground resources is not yet known -- and as the experience of Iceland has forcefully demonstrated, small states without such an ample cushion of natural resources can struggle, in the event of a downturn.

RUSSIA

Any opposition, as long as it's loyal

The annual Congress of the United Russia party takes place on November 20, amid a background of party system reform.

This will follow the founding Congress of a new loyal liberal opposition on the 16th. 'Right Cause', as the new loyal liberal party is provisionally named, will fill the gap to the right of ruling United Russia, with 'Just Russia' occupying the space to the left. Should the new party eventually win seats in the State Duma (lower house of parliament), the Kremlin will be able to point to the existence of a liberal 'opposition' in parliament. Efforts to form an independent democratic opposition movement, meanwhile, are hamstrung by the reputations of those trying to build one. One attempt is led by former leader of

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the USSR, Mikhail Gorbachev (who suffers from his association with the collapse of Communism) allied with banker Aleksandr Lebedev (who has a low public profile and, as an oligarch, will be easy to pigeonhole when he gets one). Efforts to unite existing democratic opposition parties, meanwhile, will be harmed by the higher-profile Gorbachev-Lebedev initiative.

INDIA

Jammu and Kashmir at the polls

Jammu and Kashmir will vote for a new government this month, with voting due to start on November 17 and counting to end on December 28.

The state has been under direct rule from Delhi since July, after the ruling coalition collapsed after a dispute over appropriating land for a Hindu pilgrimage site. As expected, the separatist All Parties Hurriyat Conference has said it would boycott the poll, since it rejects the Indian constitution under which the poll takes place. The Hindu nationalist Bharatiya Janata Party, set to make strong gains in Hindu-majority Jammu, has welcomed the poll. Terrorist attacks and cross-border infiltration could increase during the run-up to the poll. The result will test whether this summer's events have reinvigorated Kashmiri separatism as a powerful force, after its quiescence of recent years.

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17 Nov 2008 India State elections begin in Jammu and Kashmir.	18 Nov 2008 Switzerland Date for resumption of talks on the Russian-Georgian crisis.	21 Nov 2008 Somalia Due date for withdrawal of Ethiopian troops.	23 Nov 2008 Venezuela Local elections.
17 Nov 2008 India Meeting of Tibetan exiles to discuss the movement's strategy.	20 Nov 2008 Russia Annual Congress of the United Russia party.	22-23 Nov 2008 Pacific APEC summit in Lima, Peru.	28 Nov 2008 South Africa Supreme Court mulls ANC leader Jacob Zuma's graft case.

FROM THE ARCHIVES...

"Republican Landslide"

NOVEMBER 9 1994

The Democratic Party has suffered massive defeats in yesterday's mid-term elections, giving the Republicans control of both houses of Congress for the first time since 1955. Bill Clinton's original domestic agenda is dead, but his presidency is not.

The surprisingly broad victory reflects three major factors. Low turnout (except among frustrated anti-system voters, who voted for Perot in 1992 and now switched to the Republicans); a meltdown in the South (Southern Democrats, usually adept at distancing themselves from their national party, failed to do so on this occasion); and issue failure, as the Clinton strategy of emphasising economic growth and traditional liberal issues failed to persuade disgruntled Democrats to vote.

At least in the short term, the Democratic Party will be in considerable disarray and its leadership in crisis. Democratic difficulties are compounded by divisions over strategy, as the country shifts to the right but the surviving House Democratic Caucus draws its support from a liberal base.

Nonetheless, the Republicans' achievement of majority status in both houses does not mean they will be able to dominate the congressional agenda. There are significant divisions between Republicans in the two chambers, with House Republicans are considerably more aggressive, partisan and conservative than their colleagues in the Senate. Having not

controlled the House since 1954, Republicans there face a steep learning curve. Meanwhile the Democrats can still filibuster measures to death in the Senate, as Republicans did in 1993-94. Further complications will occur because of the presidential ambitions of two major Republican leaders, Senator Phil Gramm and new Senate Majority Leader Robert Dole.

The White House can make matters still more complex, either by adopting a 'scorched earth' veto strategy or by trying to outbid the Republicans with a populist, conservative-sounding strategy of its own. Clinton could resurrect his 1992 promise of a middle-class tax cut.

These results leave Clinton in a very awkward but not necessarily impossible position. On domestic policy, he has to make a choice between attempting some compromise with the Republicans, or basically abandoning all domestic initiatives, vetoing many Republican laws and running against Congress in 1996. However, pursuit of either strategy would cause him the greatest of problems. Almost by process of elimination, the president will have to play a greater role in foreign policy, although it is not by inclination his field or, thus far, a great area of success for his administration.

However, it would be premature to write off Clinton's re-election. The issues facing congressional Republicans could prove very divisive even before a potentially bruising contest for the 1996 presidential nomination.

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