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PRESIDENT BARACK OBAMA'S SECOND TERM:

BIG BETS AND BLACK SWANS

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Introduction:

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PANEL 1: THE BIG BETS – THE GLOBAL ORDER, IRAN, CHINA, ENERGY SECURITY AND FREE
TRADE

Moderator:

DAVID GREGORY
Host, Meet the Press
NBC News

Panelists:

CHARLES K. EBINGER
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MIREYA SOLIS
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PANEL 2: THE BLACK SWANS -- THE EUROZONE, CLIMATE CHANGE AND NATURAL DISASTERS,
AFGHANISTAN, SAUDI ARABIA, AND COLLAPSE OF THE PALESTINIAN AUTHORITY

Moderator:

DAVID GREGORY
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Panelists:

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P R O C E E D I N G S

MR. INDYK: Good afternoon, everybody. Welcome to Brookings.

Thank you for joining us. I'm Martin Indyk, the Director of the Foreign Policy Program at Brookings, and today, we are launching a new collaborative effort by 25 of our Fellows and Senior Fellows in the Foreign Policy Program at Brookings, called *Big Bets/Black Swans: a Presidential Briefing Book*.

As you're all aware, on Monday, President Obama will be sworn in, and thereby, he will become, yet again, a historical figure -- both the first and second African-American president in the history of the United States.

We think that he has a historic opportunity in his next four years, to shape the emerging global order in a way that can extend and solidify the liberal international economic and political order that the United States has promoted and benefitted from since the Second World War.

The ways in which he can do this are outlined in our *Big Bets/Black Swans* memos, each of them a memo to the President by one or other scholar in the program, in his or her area of expertise. We divided it up into those places where we think that the President, if he invests his time, energy, and the prestige of his high office, can have a transformational effect on the emerging global order.

But then we outlined a number -- some nine -- black swans, those low probability but high impact kinds of events that, if they occur, can trip him up, divert the attention of his administration, and come to dominate his foreign policy agenda. And therefore, we outline the things that he and his administration will need to do to lower the probability further that these kinds of black swan events can take place.

To discuss these events we've selected, these memos I should say, we've selected a number of the scholars -- we couldn't put all of them on -- to discuss this. We're going to have the first panel discussing the big bets, those transformational

initiatives that we think President Obama should take.

We're delighted again to welcome David Gregory back to the anchor's chair here at Brookings. David, of course, is the anchor of *Meet the Press*.

And in the first panel, we're going to have -- and I will introduce them quickly -- a group of five of our scholar experts.

Charles Ebinger, who wrote the energy and climate memo, together with Kevin Massy. His latest book is *Energy and Security in South Asia*. He heads up our Energy Security Initiative.

Bob Kagan, who coauthored with me the memo on *Plastic Moment*. He is a Senior Fellow in the Center on U.S. and Europe. And, of course, his most recent book is the bestseller, *the World America Made*.

Ken Lieberthal, who just stepped down as Director of the John L. Thornton China Center, and is now a Senior Fellow in that center. His recent book, *Bending History: Barack Obama's Foreign Policy*, was one that he wrote with Mike O'Hanlon and myself.

Suzanne Maloney is a Senior Fellow in the Saban Center for Middle East Policy. She wrote the memo on turning to Tehran, and her latest publication was *Iran's Long Reach: Iran as a Pivotal State in the Muslim World*.

Mireya Solis is the Knight Chair in Japan Policy Studies in the Center for Northeast Asian Policy Studies, CNAPS. And her most recent piece is on the Trans-Pacific Partnership, something that she wrote the *Big Bet* memo about.

Before we call the panelists up -- and David -- to get the discussion going, we made for this enterprise a graphics video to introduce it on the web. We are focusing the launching and the promotion of *Big Bets/Black Swans* -- even though you have hardcopies, most people will get it digitally -- and this video introduces the digital version of the *Presidential Briefing Book*.

Thank you all very much for coming.

(Video played)

MR. INDYK: As the panelists come up, I just want to add a couple of things. David Gregory and the panelists, please join us.

First of all, I want to express my appreciation to Tanvi Madan and Thomas Wright, two Fellows in the Foreign Policy Program who worked with me on this project, and did much of the editing of the memos -- and also, Gail Chalef and her very capable team for all the digital aspects of this.

We are webcasting, and for those of you who are following the webcast or tweeting, please use #FPBigBets, so as to participate in the conversation.

David, thanks very much.

MR. GREGORY: Thank you, Martin. That was a great setup, I thought, to the discussion, to get some sort of background to the daunting challenges that the President faces -- both opportunities and then what could be crises that he has to respond to.

I will reiterate what Martin just said -- that if you are tweeting, use #FPBigBets -- FP for foreign policy. *Big Bets* -- I'll remind you of that as we go along.

Let me tell you my approach to this. It's as if, you know, I'm the President's Chief of Staff here, and I've got, you know, policy folks who are making their policy prescriptions in the form of these memos. I'm going to draw them out very briefly on what the point is of their particular topic.

And then we'll have some discussion, as you would on a national security team in the White House, about what ultimately should reach the President's desk, and what should become an actual priority for the President, because, as we know, we're having a conversation about foreign policy, and we know that the current focus of Washington is anything but.

While there's some focus on Afghanistan and withdrawal, domestic matters, primarily fiscal matters, will dominate. The gun control debate is about to dominate Washington, and all of the politics attendant to those issues. So, it's a crowded attention span that the President already has.

So, with that, Bob Kagan, you write about *a Plastic Moment*, which is an opportunity for the President to reshape the world order. And you say the biggest of those bets is preventing Iran from getting a nuclear weapon -- something that's been hanging over his administration and, of course, the Bush administration before him.

MR. KAGAN: Well, yeah, but, I mean, my biggest pitch, first of all, if I can say -- and by the way, congratulations on your new job --

MR. GREGORY: Chief of Staff, yeah. Thank you very much, yes.

MR. KAGAN: -- as Chief of Staff. I know it wasn't the job you wanted, but these things do happen this way.

The pitch I have to make to the President -- and hope you will -- and thank you for the 15 minutes to discuss foreign policy -- is that he needs to take foreign policy very seriously in his second term. You know, partly, this is about his legacy, and it's a little bit about politics. I mean, he didn't really pay as much attention to foreign policy in the first term as he might have.

The press has sort of given him a free pass on that up until now, but I'm beginning to think that, with some of the issues that are cropping up -- the return of Al Qaeda and other terrorist groups in North Africa -- that foreign policy could become a big issue again, and he doesn't want to look like he's not doing anything.

Now as it happens, he really does have opportunities in the international environment. We have a situation where the liberal order is fraying at the edges. Major institutions like the E.U., the U.N., and others are not as effective as they could be, and there's a perception that America is sort of absent from the field.

I think if he brings the United States back in and takes some of the initiatives that we're going to be talking about here, whether it's on the trade front, on dealing with Asia -- and, of course, Iran is going to be a critical component of the success of this liberal order -- he really does have an opportunity to shape things now.

When we, when Martin and I talk about a *Plastic Moment*, we're quoting someone who talked about a plastic moment after World War I, when it seemed the United States really could step in and shape the international system.

Well, as it happens, the United States sort of backed away from that challenge then, to great cost. I think we are at one of those moments again -- the world is in turmoil, which means it can be shaped, and the U.S. really does have the capacity to do it.

MR. GREGORY: That's such an interesting point, because aren't we at a similar point in history, where the first term of President Obama has been about the return from foreign engagement and foreign wars, and necessarily more of a domestic focus? Isn't that precisely where we are now? And even warfare itself is becoming a narrower enterprise under President Obama.

MR. KAGAN: No, absolutely. And, you know, if you look historically, the United States has gone through this kind of pattern before. This was the mood in the 1920s -- tremendous disillusionment after World War I, a desire to bring everybody home.

I think we learned the lesson of that, and it really is the job of the President not to simply respond to this mood in the country, but to push back on it, to reeducate Americans on the importance of that role and himself. And a president in the second term has the capacity to take initiatives that can begin to restore a sense of American leadership and American competence in the international system.

MR. GREGORY: I guess the question for everybody, for the rest of us, is we take on this idea of Bob's -- it's not a question of should, but does the President

want to do this? Does he want to take on the kind of tasks that are as entrepreneurial, as opposed to just being reactive?

What do you say? Start, Suzanne.

MS. MALONEY: Well, let me just say, I think that Iran is both an opportunity, as Bob has laid out, but it's also, of course, a threat, because as the video we saw preceding this discussion suggested, that if something is not done in a relatively short time span, we are going to be faced with the decision of either accepting an Iranian nuclear weapon or launching military strikes to prevent just that.

But we are at this kind of sweet spot right now, and I know that the President might be a little hesitant to go back to the engagement that he originally advocated in his first term, given how little dividends he saw from the engagement, and how well he did in terms of assembling a really robust sanctions regime.

But now is the moment to test the Iranians. Now is the moment when the sanctions have created an enormous price on the Iranian economy. It's a moment in which the political debate within Iran is actually fortuitous, surprisingly. This is almost never the case. We have a very clear set of decision makers, and we actually have pressure, pushback on the Iranian supreme leader.

MR. GREGORY: And I want to come back to, and that's the subject of your memo, and we'll come back to that. But I want to just challenge Bob to this extent -- what are the limits of U.S. influence now, despite your prescription that we ought to use as much influence as we have?

I think of the Arab Spring, I think about Iran, as just two examples where the influence may be in doubt.

MR. KAGAN: Well, American influence is never unlimited. We're always constrained. Foreign policy is a difficult thing to do well, and we rarely do it well. Sometimes we get it right. I do feel like we've overlearned the lesson of Iraq and

Afghanistan. We went in, probably overconfident about what we could accomplish with military force -- or even with our other capacities.

We've now gotten to the point where we don't think we can do anything, and I think we need to recover from that, and we need to recover from it pretty quickly. You know, it is a question, though, of course, of whether the President really wants to devote his time to and his energy to trying to shape the international environment.

One thing we know for sure -- whether he wants to do foreign policy, foreign policy's going to come at him -- on Iran, on Syria, on a number of other issues.

And I think -- look, let's face it -- for the past year in the election season, you and your colleagues have put a lockdown on foreign policy. You're going to have to get away from that now. This is going to be a critical year, and the next couple of years are going to be critical. And you really do need to fight back against this tendency to be inward-looking.

MR. EBINGER: I want to push back just a little bit on overlearning the lessons of Iraq and Iran, or Afghanistan. You know, I focus mostly on Asia. And on Asia, the dynamic's somewhat different. Probably the biggest strategic bet the President placed in his first four years was rebalancing from the Middle East to East Asia.

You know, it's a bet both on our capacity to draw down somewhat our resources in the Middle East, but especially to engage Asia across diplomatic, economic, and security realms, in order, over the long run, to benefit from Asia's dynamic economic growth, without putting at risk huge amounts of American treasure and, potentially, American lives as security issues there develop.

If you look at what's happened since that pivot or rebalancing was announced two years ago now, we've been drawn increasingly into the security side of the equation -- not so much on the economic side. Countries in the region have been encouraging us to show up on the security side, out of concerns over China.

But, you know, at the end of the day, that will leave China using Asia as its biggest profit center, investment and trade just booming, and us picking up the tab for the security side, so their friends and allies can trade and invest with China. We can't afford that, and it's not where we want to end up.

So, I think that the President, early on now, has to rebalance his rebalancing strategy, in order to bring China in in a more positive fashion. And there are things we can do with the Chinese to at least increase our center of mutual confidence, right?

MR. GREGORY: But what does that look like, though, in practice, to bring them?

MR. EBINGER: Look, first of all, we have to take the initiative. The Chinese leaders don't do that on new approaches.

Secondly, we have a new leadership in China, so now is the time to take the initiative. I think the President can propose a whole series of efforts that he can make that do not require the Congress that are within his power on issues of consequence to China. This includes having a truly political military dialogue about strategic postures in the region -- can include committing to wrap up, finally, our three-and-a-half year-long technology export review policy, which the Chinese, among many others, have been waiting to see the results of.

There are a whole series of things we can do. We should quietly communicate that package to the Chinese. You can put together a very impressive list. By the way, it's in the *Briefing Book* if anyone wants to look it up. And ask the Chinese on their side to put together their own counter-package -- you know, something that is of equal value to us, and then we can negotiate to see what we want to get done. If those two packages are sufficiently enticing to both sides, we can then -- each step -- take steps to implement it.

MR. GREGORY: But move the focus away from primarily military, Charles?

MR. EBINGER: Absolutely.

David, I think that the administration's missing another critical point, particularly as we look at our strategic posture in the Persian Gulf and the Middle East -- and that is, within a decade, North America is not going to need any oil from the Persian Gulf. The people that are going to need the oil are China, India, Japan, and the other leading states of Asia. This is going to lead to, I think, a fundamental question -- are we prepared to waste our national treasure, in the lives of our sons and daughters, for an area of the world where others have the strategic interest, not ourselves?

Now obviously, we have other interests in the Gulf -- support of Israel and terrorism -- but I think it does represent a fundamental change, and if I were an Asian foreign policymaker, I would sit back and say, "Maybe we need to rethink our own defense on commercial policy relations with the Gulf States, as we are the ones who are going to need their oil, not the United States."

MR. GREGORY: Is there any indication that they think along those lines, Ken?

MR. LIEBERTHAL: They're beginning to get drawn into the concern -- and especially, frankly, the Chinese, who realize they know very little about this region, are rapidly becoming more dependent on it, and are worried about -- I've taught them a new term in recent discussions there, which is the term "tar baby."

And the Middle East is a tar baby, and they have just wound up and taken their first punch at it with their investments there, and they're going to get drawn in, and they need to learn a lot -- and, frankly, they need to cooperate with us, the Indians, and the Japanese much more if they're going to realize their goals there.

MR. GREGORY: What are the consequences? You talked more about

it, Charles, but Bob, the consequences of -- or at least the prospect, the opportunity of more energy independence on the part of the United States, in terms of how much attention we pay to the Middle East, trying to use influence, trying to shape outcomes, as opposed to just looking away.

MR. KAGAN: Well, I disagree with my colleague in the sense that I think it's an illusion to imagine that just because we are not dependent on oil in the Middle East that the Middle East doesn't remain a vital strategic concern of ours. The fact is, it's not just the Asians who need that oil; it's going to be our European allies, as well. And after all, the price of oil is affected by what happens -- and therefore, our economy is directly affected by whether there's security in the region or not.

But, I mean, my view is that this whole idea of rebalancing or pivoting has been -- I'm all in favor of more attention to East Asia, but it actually can't be at the expense of a region which is going to be volatile, from which, clearly, there are terrorist threats and are going to be, where we have a close ally, and I think we have to, in fact, rebalance in a way of understanding that there were three critical regions of the world the United States has historically provided security for -- and I think needs to continue to do so, with security and cooperation with. One is Asia, one is Europe, and one is the Middle East.

That's what it means to be a superpower. That what it means to play the role the United States has played in the world.

MR. GREGORY: Let me get Mireya in here as well, so everybody's got some of their prescriptions on the table here, because you're looking at economic security that's possible with additional free trade agreements, as you write about in your memo. And yet again, that pushes up against the reality of looking at our own polling at NBC that's coming out tonight, which is fear and anxiety over the economy, and that being a top priority for voters, whether you're going to have more jobs created, the

expansion of our economy. It seems like opening up our markets is going to scare a lot of people.

MS. SOLIS: It will, indeed. And I think that the President has a hard battle against -- he has to fight this battle, and he has to win the public opinion, and convince them of the benefits of free trade.

Clearly, in a recessionary climate, people become more skeptical. But I think that the opportunities are really golden, when you think about the fact that, you know, the Doha round continues to stagnate. We need to readjust the aims of trade policy towards things that can be negotiated, and there are two major trans-regional agreements on the horizon -- one with Asia Pacific, and one with Europe.

And I think that we have to make the case that free trade will bring prosperity, that we need a firm anchor in the world's most dynamic region in the world, that there is a lot of compatibility and convergence with European Union, and that we can work together in drafting new standards and rules for trade and investment -- and that we should not turn inwards. I think that's the worst thing we could do.

And I think that the rebalancing -- a lot of it has been discussed in Asia -- has to do with security and the world. There's an opportunity to make it more of a win/win proposition, by showing that, in fact, both parties can benefit from constructive competition. Clearly, there will be different blueprints as to how East Asia should integrate economically. There are two on the table -- the Trans-Pacific Partnership Initiative, which is the U.S. vision of where this should go, and then the one that ASEAN and China are promoting, the Regional Comprehensive Economic Partnership.

But this is not a zero-sum competition. This is not like security alliances, where you have to be in one camp or the other. In fact, there are actually many countries that participate in both, and they see a benefit in moving forward, in trying to open markets and not close them in a recessionary climate.

MR. GREGORY: Charles, can you jump back into Bob's point, to, you know, the economic opportunities that we're talking about through free trade, but also energy independence, and does that cause United States to, you know, shift its gaze from a vital part of the world? Expand on what you think is possible, and whether you disagree with Bob.

MR. EBINGER: Well, part of this is outlined in Kevin Massy's and my memo, but I think we need to completely rethink our trade policy in energy. We now have a situation with our unconventional gas reserves, our oil production, once again, going back up, a leading coal producer in the world to be the supplier to meet the needs of the rest of the world.

We can kid ourselves until we're blue in the face that somehow, coal and fossil fuels are going away. But if we look at every projection by the International Energy Agency, leading oil companies, fossil fuel consumption is going to rise dramatically -- and principally, in Asia -- over the next 20 years.

Now the question is, do we want to serve that market and get the benefits from free trade that our dynamic resources give us -- high-paying jobs -- or do we want the Australians in the case of LNG, or the Russians in the case of gas to get the predominant economic rent here? I think it's time to rethink that we should become the leading energy exporter of the world.

But with the caveat, as we highlight in our memo, so we don't just sound like we're forgetting about the environment, that we put a strong tax on the production of these fossil fuels, that then goes into research on the two most vital energy future questions for the world, I would argue, which are, first, proving that carbon capture and sequestration of both coal and gas is both technically and commercially viable -- because the rest of the world is going to continue to use these fuels -- and also, advance battery storage technology, because once we show that large-scale battery technology can

occur, then we have solar and wind going into our base load electric power systems.

We could then be the leaders in both these technologies, CCS and battery storage, selling it around the world and truly making a positive contribution to climate change -- not the rhetoric we get from extending production tax credit for offshore windmills which make no economic sense and other piecemeal legislation.

MR. GREGORY: Suzanne, let me get you back in here, talking about Iran, because you made reference to it. But as a policy prescription for the second term, it is a little bit brave, I guess, at this juncture to say, "No, go back at them again, and try to negotiate with the Iranians," when it didn't work.

MS. MALONEY: Well, the context is so different today than it was four years ago. And I think that's why President Obama really does need to go back to this idea of going long and big on Iran -- which is to say, there is a deal out there, in part because of the sanctions, in part because of the shifts in the domestic political climate within Iran -- but also because we now have this incredible international coalition. I think it gets to the question of whether there really is a strategic binary choice between a shift and a pivot to Asia and a focus on the Middle East.

I don't think there, in fact, is. I think that, in fact, you know, energy independence will enable us to bring in more partners, to force and persuade key players like China to take a more aggressive stance on a country like Iran and on a challenge like Iran.

We know that the Iranians are prepared to make a deal on the issue of their 20% enrichment. This is kind of low-hanging fruit. It's been out there for at least 18 months, and I think, if anything, a campaign year probably persuaded the administration to slow-roll it. Now is the time to get that deal. I'm not convinced -- and I, you know, laid this out in a memo -- that that is necessarily or quickly going to lead us to the big strategic bargain with Iran.

But I do think that there is a new climate for negotiations that the President has to take advantage of -- that he has to do more to bring in, and to actually empower the Chinese, who have, in fact, played a very productive role over the past four years on Iran.

MR. GREGORY: Why should Iran be trusted, Bob? This notion that there's a deal to be had with Iran --

MR. KAGAN: Well, I'm not sure that's my analysis, but I could certainly say that, you know, one element -- they certainly are under a lot of pressure. There is going to be a lot of pressure moving forward. And, you know, I think -- as I understand our recommendation -- there is an alternative to negotiation, which ought to be very unattractive to them.

And I think, actually, it's very important that the President be extremely credible, both as someone who is prepared to make a deal, if there's a good deal to be made, but also to fulfill his own stated position that he's not going to allow Iran to get a nuclear weapon one way or another. I think that it's important to have both elements of that, giving us the best chance that I think there is.

Whether you're overly optimistic or, pessimistic, I think, clearly, you have to give it a real chance, but you do have to have both elements of that equation in place.

MR. GREGORY: Who has a view on how the administration goes about setting some of these priorities? It's not to say that you can't walk and chew gum at the same time, but with a tremendous domestic inbox that's already full -- how do you propose prioritizing some of these prescriptions?

MR. LIEBERTHAL: Obviously, our relationship with China should come first. It's so obvious, it doesn't need explanation.

MR. GREGORY: Exactly.

MR. LIEBERTHAL: Seriously, as you look to the future, we're dealing

with a country here that has the world's second largest GDP; it may well have the world's largest GDP within a decade or so, one of the world's most rapidly growing militaries, in the center of the most dynamic region of the world. So, both sides have said for some time, this is the most important bilateral relationship in the world.

I think both sides are right. So, we have to do what we can to get this on a reasonably positive track. I think most specialists would say in the last year, year and a half, it actually has gone in the wrong direction. On balance, distrust of each other has grown.

So, there's no magic formula to this, but we do have a new leadership in China. It's a remarkable change of leadership. Seventy percent of the top stratum of their government, their party, and their military have turned over -- or the government is in the next two months or so, but, you know, within a short period of time, it's a massive turnover.

It's the right time to take some initiatives to build bridges, and try to get this moving in a more constructive fashion, so they do not see us as determined to either complicate or disrupt their legitimate aspirations to rise to major power status.

MR. GREGORY: Can the new leadership be more helpful on Iran than it's been up until now?

MR. LIEBERTHAL: Yes, I think it can. I think the keys to that are twofold. One is what I just mentioned, having a somewhat greater sense of confidence in each other's motivations.

But the other is, the Chinese are much more supportive when we go through the U.N. than they are when we impose unilateral sanctions and tell everyone else that they have to sign onto them.

So, to the extent that we can channel this through the U.N., I think we'll get much more encouragement from China, and discipline in following the resulting

resolutions.

MR. EBINGER: If I could just interject here -- but Ken, how, at the same time -- I agree with you; China's obviously the key cornerstone of our relationship. How do we assure our friends in Japan, Korea, India that the Chinese bellicosity on things like control of the South China Sea -- where, in the case of the Northeast Asian states, all their energy -- coal, gas, and oil -- come through that?

How do we assure them that this is not a threat to their long-term strategic interests, and that, indeed, if it is a threat, that we're there to support them in some way -- without, obviously, going to war with China?

MR. LIEBERTHAL: Well, I think in two ways. One is, we simply provide -- you know, we talk with them all the time. We do a lot of actions in the region. PACOM is extremely active around Asia -- our Pacific Command, and joint exercises, and that kind of thing. So, we just provide straight reassurance.

But the second thing is -- and this is a very widespread sentiment throughout the region -- that no country in the region wants to have to choose between the United States and China. That's a disaster. While four years ago, there was some worry that there might be a kind of G2 -- the U.S. and China will get together and try to dictate to the rest of the region -- no one's worried about that anymore, either.

So, the question is, can we handle the Chinese issue wisely? -- is the term you always hear around the region. In other words, can we manage it so that we minimize conflict, and help to shape Chinese incentives so that they are not as bellicose on some of these issues?

And there are no guarantees, but I think there is a strategy. I've tried to lay it out in the memo -- that at least increases the chances for getting there.

MR. GREGORY: What -- yeah, go ahead, Bob.

MR. KAGAN: Can I just take on this whole bandwidth question a little

bit? I find there's a little bit of -- everybody makes the point, so I'm not directing this at you -- but I think we've gotten awfully complacent about the idea that there's just so much bandwidth.

You know, for decades, American presidents, and foreign policy establishments, and Secretary of State have dealt with, simultaneously, East Asia, the Middle East, Europe -- sometimes even during recessions. There is enough bandwidth if the President wants to be active.

All of these priorities -- you can talk about how important China is, but Iran is going to be a crisis this year, whether we pay attention to China or not.

MR. LIEBERTHAL: Isn't that the challenge to your point, Bob? It's not that you don't have staff. You have a big administration that can work these portfolios, but the level of attention that a president can dedicate usually becomes reactive and not proactive. See: Bin Laden, Osama for a decade prior to you know 9/11.

MR. KAGAN: No, no. If you want to go through the history of failed American foreign policies, we can do that. However -- and there have been things that are missed -- but the idea that we can't do four or five major policy initiatives in the world at the same time as we're dealing with economic problems, I think, is ridiculous.

Now it's also the case -- and I think, you know, people who watch this know this is true -- that, certainly for the last couple of years, the White House has kept policymaking very tightly within a small group of people in the White House.

Well, the smaller the group of people you have operating, the less bandwidth you have. The President necessarily has to do both.

You have to give your cabinet officers a little more leeway to go out there and make policy.

MR. GREGORY: That's a very interesting point, and I'd like for -- anybody can take a whack at this, but I am curious -- as we look at the legacy of

Secretary Clinton -- if that is, in fact, symptomatic of what you're talking about, which is a huge public profile internationally, well-regarded throughout the globe, but has her policy portfolio been constricted by the fact that it's so White House-centric?

MS. MALONEY: I want to get back, first, to Bob's point about bandwidth -- and I'll get to --

MR. GREGORY: Because you have the bandwidth to answer both.

MS. MALONEY: Mostly because I think that we are unnecessarily compartmentalizing these issues -- that everything that we've talked about in our memos -- and, frankly, almost all the foreign policy issues, if not all of them that are discussed in this book have direct implications on the economy. That is, obviously, energy independence can be channeled in a way that will, in fact, help the domestic economy. Whether or not we go to war with Iran will have an enormous implication on the prospects for not simply our own economy, but the global recovery.

So, everything that we're talking about in terms of leadership and presidential prioritization has direct implications and positive implications for all of his domestic agenda.

MR. GREGORY: Fair enough. Yeah?

MR. KAGAN: On the capacity to do more than one thing at a time, sure. But on the military side, we're increasingly limited. I mean, the politics of the military are, how do you cut the budget? And how do you constrain obligation?

MR. GREGORY: You're not offering us a military solution to the China problem, so we --

MR. KAGAN: No, I'm not, but I would argue that we are getting drawn into increasing military commitments in East Asia. And part of the way to limit that is to do better on the China problem. So, it is connected.

And I do think as the President thinks about foreign policy issues, the

military implications of each issue loom very large for him.

MS. MALONEY: Can I just get back to your Secretary Clinton question?

MR. GREGORY: Yep.

MS. MALONEY: Because, like so many people, I think everyone has to admire what she has managed to do in that post. But I do think that, you know, the change in leadership at state presents an opportunity particularly on the Iran question. And I think it would be laudable, if not potentially very effective, to see a Secretary Kerry come in, and really take the negotiations portfolio under his own wing, very directly, in a way that Secretary Clinton and even her predecessors did not.

Ultimately, it is the Secretary of State who has responsibility for diplomatic negotiations, and this is the most important negotiation that this administration --

MR. GREGORY: Well, Mireya you talk about free trade, for instance. I mean, is there the capacity, at least, for a new Secretary of State to advance some of these issues in the portfolio without the President's complete attention?

MS. SOLIS: Oh, there is. And I think that's the point I want to make. The payoffs are huge, right? We're talking about economic growth, prosperity, open markets. And we're actually talking about investments that are not so high to realize those goals. Why I say that?

Well, because one of these unprecedented trade agreements at Trans-Pacific Partnership has been under negotiation for more than two years. We're now on the closing line. Clearly, there will need to be, you know, political nurturing of this, to make sure that the deals are cut. But this is very doable, and it's not going to consume much attention from the President.

The Secretary can do this. You have very capable U.S.T.R. trade hands that have been carrying these negotiations. It can be done.

And the negotiations with Europe should not be too difficult in the sense, again, that there is a basic convergence on what rules we want for trade and investment. There will be difficulties along the way. These are trade deals that will take time to negotiate, but not so long, and not in a way in which they tax the rest of the priorities for the second term.

MR. Kagan: Look, the constraints are not capabilities; the constraints are will. And, you know, most of the time, if the White House was locking down foreign policy, it's because they didn't want political bombs going off on various issues. They wanted to control the political narrative, and that's understandable. Everybody, every White House does, but that has created low bandwidth, and once the President says -- by the way, the President did not begin the negotiation of a new trade agreement during his first four years. He finished the job of three other negotiations.

There's no reason in the world why he shouldn't be able to begin a new trade negotiation for a U.S. -E.U. -- and all he has to do is say, "I'm going for it. Now you go take care of it." He doesn't have to be doing it himself, but the problem is, they've been in political lockdown for so long.

MR. GREGORY: Suzanne, it raises the question -- as the video did, I thought, in an introductory sense -- the specter of Islamist regimes in the Middle East, as a result of the Arab Spring. And you take the example of Egypt and Morsi, with his latest tirade that's been unearthed, and it makes you wonder what sort of potential partner this is for the United States, and for this administration at this particular moment -- and to what extent we get involved to shape events to avoid, you know, that outcome.

MS. MALONEY: Morsi's a problematic partner, but he's a partner, and that wasn't necessarily assured when we watched events unfold in Tahrir Square. And I think the fact that we've seen him come through on key issues at key moments, in a way that has been, in fact, supportive of the overall U.S./Egyptian relationship and, of course,

of the enduring peace agreements, is one that is vital.

Now I know in your next session, you're going to get into some of the potential black swans that may, in fact, create new crises. And I think it's entirely probable that this administration, in its second term, is going to face unpredictable, and very dangerous, and threatening events across the span of the Middle East.

But again, it argues for seizing the opportunities that might exist today while the moment is there.

MR. GREGORY: And Bob, you wouldn't disagree with the idea that, you know, the black swans, you know, the 9/11s, the Arab Springs -- they do change the trajectory of an administration, and they do alter, you know, the ability to be proactive, and to shape in the way that you're prescribing.

I mean, no doubt 9/11 created some opportunities for the Bush administration to try to reshape the Middle East. And, you know, they endeavored to do some of that, but really ended up getting locked into Iraq even more than Afghanistan.

MR. KAGAN: Well, I think that, you know, you're absolutely right, that these events reshape administrations. After all, George W. Bush came in hoping to retrench a little bit the American role in the world, and that's not the way it happened.

Now on the other hand, they also have a way of affecting American public opinion. So, some crises that may erupt -- some of these black swans may, in fact, have the effect of reminding Americans what an important job there is to be done overseas, you know.

Right now, there's sort of this sense that nothing bad can happen, and we really need to focus on domestic problems exclusively. But I think the world is going to remind Americans that that's not really true. And even what we're seeing, you know, in Mali and Algeria today -- and that's just a small black swan, if you will. It may get bigger.

I think that events are not only going to shape what the President thinks,

but they're also going to shape American public attitudes -- which may give the President more ability to take action.

MR. GREGORY: I want to get to your questions in just a minute. One question that always come up in my mind -- is there an overarching Obama doctrine, in terms of precisely the role that the United States ought to play in the world? Does anybody think there is one? Should there be one that you could help him define?

MR. EBINGER: There is a -- I wouldn't call it a doctrine, but there's an approach that you could call progressive pragmatism. Basically, looking for liberal international order, but adjusting as necessary to the realities of the circumstances that --

MR. GREGORY: You said looking for a what, international?

MR. EBINGER: Liberal international order --

MR. GREGORY: Yeah, okay.

MR. EBINGER: -- but adjusting to realities on the ground, so he's not an ideological guy, but he is someone who sets some goals, and then tries to figure out how to get from here to there, and, I would agree at times, just pulls back more than one would wish.

But to me, that's kind of where he is. I don't think he's going to change on that in a second term.

MR. EBINGER: But at the risk of sounding parochial, coming back to energy -- you know, as we --

MR. GREGORY: This is the energy he probably will dive into the biggest.

MR. EBINGER: I fear the wrong way, but he probably will. But coming to energy in the Middle East, you know, obviously, Iran's nuclear things, the Arab Spring are sexy issues.

But, you know, energy is a major constraint on the ability of these

societies to get kick-started. We've had riots in Jordan that have threatened the King, over the rise in petroleum prices -- similarly in Egypt.

Pakistan, you know -- with all our problems with Iran, if we want Pakistan's economy to be stabilized, it needs energy. The country has blackouts and brownouts in their cities 20 hours a day. Industrial textile production collapses, throwing industries into turmoil.

Iranian natural gas, which Pakistan desperately needs, sits right across the border. There's been talk about a pipeline for years. Now, yes, I know we don't want to do anything with Iran right now, but does it really make sense, economic sense, to continue to go against the project that could bolster the economy of a country we desperately want to have survive?

I mean, these are dichotomies. And I think too often, we get our strategic and foreign policy away from our economic policies that make sense. And in this case, I think the administration is wrong. We need that gas in Pakistan if we have any hope of bolstering that economy.

MR. GREGORY: Let me get a couple of questions from here. Yes? Microphones are coming.

MR. TULLER: Thank you. Benjamin Tuller {phonetic}, retired Foreign Service Officer.

My question is to Suzanne Maloney, and it concerns what strikes me as a rather narrow focus exclusively on the nuclear issue, without looking at the motivations, and concerns, fears of the Iranians that lead to the program.

Secondly, what kind of broader agreement would be mutually acceptable to the U.S. and Iran concerning their relative, their respective roles in the region?

And thirdly, the potentially positive role of better relations between Iran and other Gulf States, primarily Saudi Arabia.

Thank you.

MS. MALONEY: That is a tall order. I will try to run through a couple of points real quickly.

I don't dismiss Iran's motivations and fundamental insecurity, although I do think that, increasingly, over time, that insecurity is no longer so much a product of its historical experiences -- and particularly the invasion -- but a product of the narrowness of the base of the regime and its lack of legitimacy with its own people, which has become, obviously, a greater problem during the course of the first term of the Obama administration.

I do think a broader deal would be ideal, and I think that there's a deal out there that is mutually tolerable -- one that, in fact, would permit Iran to retain several thousand centrifuges running under enormous international scrutiny and constraint. You've seen endorsement of just such a deal in recent days from an array of former Iranian MPs, who are now, of course, in exile as a result of the turmoil that took place in Iran in 2009.

I think that the Iranians could live with this kind of a deal -- something that endorses their right to enrich, but, in fact, gives the international community far greater transparency and certainty that we will know if and when Iran does make the dash for a bomb.

Finally, in terms of a better relationship between Iran and the United States, I am a longstanding supporter -- I'm sorry -- of the Gulf States. I'm a supporter of engagement. I believe that, in fact, the diplomacy that exists in the Gulf is always more complicated, more nuanced, and more pragmatic than we ever give it credit for -- and than any of our diplomatic partners in the Gulf typically articulate to us.

But ultimately, there is an ongoing and deepening divide between the North and Southern Gulf, as a result of what's happening in Syria. And that is an

enormous concern -- something we haven't talked a great deal about here today. But I think it's something that the Obama administration's going to have to spend some time on -- this issue of sectarian differences, and the deep and abiding mistrust between Sunni Arabs and Shi'a -- both Arabs and Persians -- is one that has enormous implications and possibilities for conflict across the region.

MR. GREGORY: Yes, sir.

MR. BURT: Thank you. Richard Burt, McLarty Associates.

I want to stay on Iran for a second. I agree very much with your conclusion that we should seek some kind of deal with Iran, but I think your distinction between either getting a deal or using military force is a false choice. What about deterrence?

I know that President Obama has rejected containment, but containment is different. In fact, I think we're pursuing a containment strategy right now against Iran. But deterrence is different, and we successfully deterred the Soviet Union, who was a nuclear power for many decades, even when people said, well, the Russians or Stalin wouldn't be deterred. We deterred the Chinese when people said Mao wouldn't be deterred.

Why couldn't we offer a nuclear umbrella to the Gulf States, as well as to Israel, and make the necessary adjustments to our nuclear posture, to make sure it was credible?

MS. MALONEY: I agree with you entirely, and, in fact, I did not mean to suggest that there was a binary choice here between a bomb and bombing -- although I believe that there are others on this panel who would take a different posture, and I want to make sure that they have an opportunity to jump in.

I just wanted to say -- in fact, what I'm proposing is not the grand bargain tomorrow, but that what we can do and what we can achieve is a relatively modest deal.

It's out there. The Iranians want it. We would be very happy to have it, because it would resolve one of the most urgent items of concern with respect to the Iranian nuclear program -- and that is this 20% enrichment.

If we can find a way to stop it, it buys us some time. It does not solve the problem. It does not bring us any closer to a rapprochement with Iran. We have to, in fact, pay something to get it. We're going to have to put some sanctions relaxation or suspension on the table in order to get that deal, and that's problematic and politically complicated.

But we should do it, because, in fact, it buys us time, and while we have that time, we can continue, as we have very successfully over the past 34 years, to deter Iran.

But I suspect there are others who see the choice as a bit more stark and potentially more urgent.

MR. KAGAN: I mean, I was just repeating what I saw on the summary of your memo, but as far as our introductory piece was concerned.

You know, I think that there's a reason to be concerned that a consequence of Iran getting a nuclear weapon is that other nations in the region will want to get nuclear weapons, too. And I'm not sure that we will be quite as credible as we might need to be to prevent them from doing that, because having, by the way, said that we're not going to allow Iran to get a nuclear weapon, and then allowing them to get a nuclear weapon -- anyone who has traveled in the region knows that they don't trust us as far as they can throw us anyway -- if only because of things that have happened in Egypt and elsewhere.

If you add to that that we have now failed in our stated objective in preventing Iran to get a nuclear weapon -- the notion that we can just say to them, "Don't worry; we got you covered," I think, is questionable, at least -- in which case, you might

have a situation in fairly short order -- I don't know how long it would take the Saudis to get their bomb from Pakistan if they wanted to, or other nations in the region to have nuclear weapons -- and then I think we're living in a very different kind of world.

And I don't look with nostalgia back on the Cold War, as many seem to do. I seem to recall there were some pretty hairy moments during the Cold War. And, you know, I don't want to go back to the Eisenhower days, even though Evan Thomas advises us it would be wonderful to be threatening to nuke people all the time as a key part of our foreign policy. I would prefer to avoid that, if possible.

And so on balance, I think that, you know, the world of Iran and several other countries in that region having a nuclear weapon is not a world that I think we should take lightly. And I think it is worth the downsides, of which there are significant downsides, of preventing that. But ideally, you know, working it out peacefully; that is certainly the most important objective.

MR. GREGORY: Let me do one more question here, okay? Sir? Yeah, okay.

MR. MITCHELL: Thanks very much. I'm Garrett Mitchell, and I write the Mitchell Report.

And I was thinking, one of the ways we could characterize this discussion, thus far as to say it's really been sort of a debate about whether we can chew gum and walk at the same time -- and I want to offer another metaphor, which is, it seems to me that increasingly, we're talking about whether we can chew gum and floss at the same time -- that things have gotten a little tougher.

And as I think about the scope of this conversation itself, it's very America-centric and it's very foreign policy-centric, by definition -- which means that there are at least three factors that I can think of we're leaving out.

One is, America's domestic political stalemating, which has a huge

impact on our bandwidth.

The second is the sort of diffusion of power around the globe.

And the third would be global economic instability.

So, my question to the panel is whether in this segment or in the black swan segment, we have given or can give more attention to those ostensibly non-American and/or non-foreign policy-related factors that could well derail our best intentions?

MR. GREGORY: Mireya, go ahead.

MS. SOLIS: I agree with you. I mean, trade politics and domestic politics are joined at the hip, right? They're inseparable. And very much the credibility that the United States has when it sits in a negotiation table has to do with, what is the domestic concerns or lack thereof, and to what extent does this function in Congress? So, you can see that it does hurt, very much, the credibility of the United States.

And one of the things that we wrote in the memo is that we need a public awareness campaign, so that these public opinion polls that show erosion of support for free trade can be stalled and, hopefully, reversed. But we also need to start very much the effort to get Congress to secure trade promotion authority.

And the fact is that the American record on trade promotion authority is not good lately, because simply has not been renewed, because agreements that were negotiated under that trade promotion authority later on, they were amended, they were not ratified on time, and so forth.

So, clearly, what the United States can do in the trade front is very much influenced by how President Obama's going to deal with Congress, and how is he going to bring onboard. We need society buy-in, if any of this is going to gain traction.

MR. EBINGER: If I could pick up on that -- you know, when Senator Wyden is opposed -- is going to be head of the Senate Energy Committee -- adamantly

opposed to new coal export facilities in the Northwest, or you get Dow Chemical and other leading manufacturers opposed to natural gas exports abroad when it makes all the economic sense in the world.

So, everything we try to do in energy is -- including in our export policy on energy -- directly related to domestic political opposition from one corner or another.

MR. LIBERTHAL: If I could just add an additional footnote -- I think many of us have argued in other venues very strongly that probably the single most important factor determining the success in America's foreign policy over the next four years is going to be whether we get control of our fiscal problems, and get some sort of politically viable agreement to bend the curve on revenues and expenditures going forward, so 10 years from now, we're not so deeply in debt that the debt seriously diminishes our global capacities.

Let me add, finally, the black swan panel coming up is really focused on what's going to happen out there that we don't control, that could really come back to bite us? So, I think this overall buy-in does get to your pinpoint, and you'll see some evidence of that coming right up.

MR. GREGORY: And I think it's an appropriate place to end, because I think what I take from this discussion is really the set of options that the President has, absent, you know, a low-probability, high-impact event sort of taking over his administration.

How does he take charge of a second term, and seek to address some of these areas, where he can have maximum impact in a second term?

And so those are the choices that are before him and the country.

Thank you all very much to the panelists.

MR. INDYK: Please make way for the next round. Stay in your seats, please, for the next exciting installment. The Black Swans are coming.

While they come up here let me quickly introduce them. David Gregory, first of all, is doing yeoman service by anchoring both panels for us today.

MR. GREGORY: I get paid extra.

MR. INDYK: Khaled Elgindy is a fellow in the Saban Center for Middle East Policy. He previously served in the Palestinian Authority's Negotiation Support Unit, and so he's therefore very well versed in the subject of his Black Swan, which is the potential collapse of the Palestinian authority.

Vanda Felbab-Brown is a senior fellow in our newly created 21st century Security and Intelligence Center. She has done a lot of work on illicit economies and counterinsurgencies and insurgencies, and her latest book just published, *Aspiration and Ambivalence: Strategies and Realities of Counterinsurgency and State-building in Afghanistan* positions her perfectly for the memo she wrote about chaos in Kabul.

Beth Ferris, senior fellow and co-director of the Brookings LSE Project on Internal Displacement has written about the big thaw and the potential for a climate change disaster. Her most recent book, *The Politics of Protection*, was published in 2011.

Bruce Riedel, veteran CIA senior intelligence official advisor to and staffer to four presidents. His most recent book, *Avoiding Armageddon: America, India, and Pakistan to the Brink and Back*, will be coming out in the next few months, and he's written about the potential for revolution in Riyadh, Saudi Arabia.

And finally, Tom Wright, who is a fellow in our Managing Global Order Project, who previously was executive director at the Chicago Council on Global Affairs, and his last article was "Outlaw of the Sea" and he has written a piece together with Justin Vaisse on the potential for collapse of the Eurozone.

David.

MR. GREGORY: So this is a slightly different construct. If the last panel

was about the president having just a sea of opportunity in a second term to really influence events and use the power of the presidency to reshape the World Order and then in particular areas. This is something altogether different. This is the idea that the president's got a binder -- not a binder full of women -- but a binder full of priorities, of opportunities, of unfinished business, of problems that are still problems that he wants to deal with in his second term. But before he gives the inaugural address he says, "Let me get in some of my top thinkers to tell me some really awful things that could happen. They could force me to toss that binder aside because all I can really do is think about these problems." And that's essentially the conversation we want to have.

So I want to go around the horn here and everybody be disciplined about layout. Here's the scenario. This is what could happen. This is what it would mean. And I want to get everybody sort of on the record with that and then we can discuss it amongst each other and challenge each other and suggest how we either mitigate this from happening or deal with it if it does happen.

Bruce Riedel, let me start with you. But I want to start with something even more topical than your disaster scenario of Revolution in Riyadh, which is what the memo is about. What's happening in Algeria? And in Mali where the French have taken the lead but U.S. forces are involved? And is this a coming Black Swan?

MR. RIEDEL: I'll make it even a little bit broader than that.

MR. GREGORY: Okay.

MR. RIEDEL: Mali is the most visible example. One of the unexpected and unintended consequences of the Arab Awakening was the creation of a series of empty spaces, failed areas where law and order had broken down. Libya; Yemen; Sinai; Mali, very dramatically; Syria, increasingly. Al Qaeda has exploited those openings. That lack of law and order, the breakdown of counterterrorism, to move into those places, and what we are seeing today across this segment of North Africa and the Middle East is

what I call al Qaeda 3.0 -- the third generation of al Qaeda. It's more locally focused for now, but the fundamentals of global Jihad haven't changed. And in many of these places the notion that we're going to put Humpty Dumpty back together again in the foreseeable future is I think ludicrous. Mali. Mali has never been a particularly functioning state to start with. It's now very broken. Libya, Syria -- I know you talked about that in the previous panel. And Al Qaeda isn't going to take over most of these places. Mali is a little bit of an exception but it's going to be able to operate there.

We gave them -- the French gave them -- the West Africans gave Al Qaeda six months to get ready. They have their plans. They showed one of them. They played one of them in Algeria. They have other plans. They are ready to retaliate. So we bought off into a very big problem right now in North Africa.

MR. GREGORY: Vanda, I want to bring you into this because I read Sarah Chayes's book, *Punishment of Virtue*, about Afghanistan last year. And I was just recalling it recently because earlier today I interviewed General Stan McChrystal about his book and I was asking about it. Her suggestion in the book that for a lot of Jihadists and fundamentalists -- Islamic fundamentalists, they view Afghanistan as the true testing ground of sort of the final stand against jihadism and what happens there will influence some of what I think Bruce is talking about, which is al Qaeda 3.0 and a Jihadist movement that is maybe even more nationalist and separate. I think more of the Taliban in that regard. What's your comment about that?

MS. FELBAB-BROWN: Well, I'm not sure that I would say that Afghanistan is the ultimate test but it is a very important test. And clearly, there is learning among the Salafi groups. Remember that there was important learning in Somalia in the 1990s for the Salafi groups and the outcome there reverberated and stimulated other terrorist Islamist Salafi activity elsewhere.

Afghanistan is very important because if there is a collapse of a

government, a major security meltdown after 2014, the various jihadi groups will be able to say once again the Super Power was defeated in the country.

MR. GREGORY: Right. And this is the premise of your memo, "Chaos in Kabul."

MS. FELBAB-BROWN: It is the premise of the memo, but I would like to actually -- since you mentioned Sarah's book on *Punishment of Virtue*, a key thrust of the book is that legitimacy matters. And indeed --

MR. GREGORY: I'm sorry, what matters?

MS. FELBAB-BROWN: The legitimacy of the government.

MR. GREGORY: Yeah, legitimacy of the government matters.

MS. FELBAB-BROWN: That is indeed the key message of my new book on Afghanistan; that although military capacities are critical, they are often insufficient if they are divorced from a political system that is legitimate. And what we are leaving in Afghanistan today is not only an extremely precarious and flimsy military situation, but a government that many Afghans see as Mafia government.

And to go back to Mali and the broader West Africa setting, yes, the latest chaos in the Middle East generated vacua, or triggered outcomes, but in many of these countries you had profound crises of legitimacy, key institutional weakness, deep sense of alienation that has run many decades and that is now all coming to a head. And in some way it was predictable. A key component of that area is, of course, Nigeria, and the deep profound crisis that Northern Nigeria is going through. The deeply inadequate response of the Nigerian military there. And yet it is now the Nigerian military that will be the cornerstone of operations in Mali.

MR. GREGORY: Let me just follow on one point before I get to everybody else because I think it's so smart, which is legitimacy of government in Afghanistan being so crucial. If that fails, is it in your mind a repeat of what happened

post-Soviet Union where you have Jihadist fundamentalist groups that are there, that are in the no man's land in Pakistan as well that sort of lay in wait and what ultimately led to the Taliban coming into power? And by the way, the Taliban is part of all of this sort of laying in wait. That's -- the chaos in Kabul that you envision is a reemergence of that?

MS. FELBAB-BROWN: Well, I think that the chaos in Kabul, although it is the title of the memo, is sort of the ultimate, most disastrous outcome. Prior to getting to chaos in Kabul, there will be a lot of other contestation and chaos in Afghanistan. Currently, the Taliban has *de facto* control of large parts of the south and the east. The north has seen a lot of military activity happening, some of which is triggered and involves the Taliban; some of which is ethnic in fighting other ethnic tensions. Kabul would likely be the last place to fall; however, even Kabul itself can become a bloodbath given not so much even the Taliban activity or Haqqani, al Qaeda activity per se, but the deep, pent up ethnic resentments related to the redesigning of resource distribution in Afghanistan over the past decade in the context of a government that is seem as exclusionary, illegitimate, violating rule of law.

But I want to say one thing. This is Black Swans. It is not inevitable that there will be a meltdown in Afghanistan. It's not inevitable that there will be civil war. We still can do things to minimize the chance. But it is a real possibility.

MR. GREGORY: And I want to come back to that. And unfortunately, there's hundreds of years of history to take this seriously.

Khaled, let's move from South Asia to the Middle East and talk about a Black Swan scenario about Ramallah unraveling. This is about the demise of the Palestinian Authority.

MR. ELGINDY: Right. And in all honesty, it's probably something more of a gray swan. And maybe a light gray swan at that.

MR. GREGORY: Does that mean it's more likely?

MR. ELGINDY: Well, I think it's not as low probability as we think, and I'm not entirely convinced that it's as high impact as some of us may fear. I think it would be high impact, but I'm not sure that it's the disaster of disasters that some people look at.

MR. GREGORY: Nevertheless, what would it entail?

MR. ELGINDY: I think it depends -- I mean, it would entail, obviously, you know, the absence of something called the Palestinian Authority. Either by a voluntary decision by Mahmoud Abbas to dissolve the PA, or it collapses of its own weight. And we're seeing, you know, the fact that the PA is essentially bankrupt financially. Some might argue in other ways. But it is entirely dependent on foreign donations that are not forthcoming. It is at the, you know, we're at a critical juncture where we have no peace process happening and no prospect for such a process. Essentially what it means is you have 140,000 Palestinian civil servants who live on PA salaries who represent something like a third of the Palestinian workforce. A third of Palestinian breadwinners work for the PA. They would be instantly unemployed. Fifty eight thousand, about 48 percent of those who work for the PA, are in the security sector. So that has very clear, direct implications for Israel, as well as obviously for Palestinians. Basic law and order. You wouldn't have a police force. So over time you're talking about a breakdown in law and order, and eventually something that could be total chaos. And it's precisely that sort of an environment where extremist elements capitalize on and where they thrive.

So a collapse of the PA would, depending on how long that situation was allowed to continue, I think have very serious security ramifications, both for Palestinians and for Israelis. It increases the likelihood of an Israeli intervention to, you know, it increases the likelihood of confrontation between various Palestinian elements and Israel. And at a certain point Israel may have to weigh whether to go in militarily and retake Palestinian cities as it did before Oslo, in which case if it gets mired in that sort of a

situation, if there is no Palestinian governing force, then you're talking about not just maintaining security but also governing, administering, you know, taking out the trash. You know, paying school teachers and basic government services. So we basically would have come full circle to the pre-Oslo period.

This obviously is not going to happen overnight, even if the PA collapses today, but over time I think these are the kinds of choices Israel, and by extension the U.S., would have to face.

MR. GREGORY: Other troubled institutions take us to Europe, Thomas Wright, and I've spoken to republicans on Capitol Hill who at the moment do not have any faith in the president's willingness to negotiate seriously over the debt situation. And what they've told me is what they're trying to do is at least from the point of view of the House of Representatives, try to keep the United States' economy a couple of steps ahead of Europe because you write about a Black Swan scenario Eurozoned out, which would mean what?

MR. WRIGHT: Well, it would mean the disorderly collapse of the Eurozone. And I think it is the single greatest threat facing the U.S. economy, much greater than the fiscal cliff or sequestration or failure to negotiate a budget. And it is an event if it were to occur that would be a defining event in President Obama's eight years in office. The European Union is the world's largest economy. The U.S. and European economies are inextricably linked through trade, foreign direct investment, and lots of other ways. There's simply no way in which a major shock occurs in the European economy that doesn't instantly travel across the Atlantic.

Scenarios for disorderly collapse of the euro entail a 10 percent reduction in GDP for the Eurozone economy, spiraling inflation on the periphery, deflation at the core, and unemployment up to 20 percent throughout the Eurozone. That would be a much greater shock than the collapse of Lehman Brothers in 2008. Now, the risk

has somewhat abated late last year but it will continue for some time because the underlying causes have not been addressed.

MR. GREGORY: What does the U.S. do to mitigate that at a time when, as I say, the goal seems to be just the United States staying a couple of steps ahead of that eventuality?

MR. WRIGHT: Well, the U.S. has one major advantage over Europe, and I don't think a crisis of that magnitude would occur here.

MR. GREGORY: A platinum coin?

MR. WRIGHT: Huh?

MR. GREGORY: The platinum coin we have?

MR. WRIGHT: The platinum coin, yeah. The platinum coin. But in all seriousness, the fact that the U.S. has a fiscal union as well as a monetary union, I mean, Europe's problems are not just to do with that and they're not to do with spending; they're primarily to do with structure and the problem is that they don't have the institutions they need in the United States, the institutions that are required for monetary union.

But I'll just make one other point. This is even more than economic. In the last panel we heard a bit about China and there's also a Black Swan memo on China as well. Ask yourself the question which countries in the world could survive if their growth levels were halved or eliminated completely if the world economy went into a tailspin for a couple of years or three years. It's the Chinese economy and the Chinese regime that would be very badly affected by that in terms of legitimacy. And so this is interconnected into all of the issues we're talking about. There's virtually no foreign policy issue on the agenda that will be benefitted, and in fact, all would be severely detrimentally impacted by a collapse of the global economy which would result from the failure of the euro.

MR. GREGORY: To Elizabeth Ferris, and someone that doesn't have to

do with the legitimacy of governments but something altogether horrific and more natural, the big thaw. Lay out that scenario that we need to think about.

MS. FERRIS: Yeah, my memo looks particularly at the impact of climate change, the potential impact of catastrophic events resulting from climate change. What we know is that things are getting much worse much faster than predicted. Almost every week there's a new study saying we're warming faster than predicted back in 1990. The Arctic Sea ice is melting faster, droughts are getting longer; the likelihood of extreme weather events is that they will become more frequent, more intense, and more unpredictable. We had, after all, Super Storm Sandy, and I think that's a harbinger of things to come.

It's difficult to predict exactly what will happen. I just read an article yesterday suggesting that the warming of the Arctic Ice may actually be proceeding in a series of trigger points or major decreases and not a gradual linear process. Something catastrophic could happen and it's happening now with the rise of sea levels and the relocation of communities from habitats, for example, in Alaska that have become uninhabitable because of the melting of permafrost and other things.

In terms of what President Obama can do to take this on, I would urge him to make climate change mitigation efforts a priority. I don't think the world can reduce carbon emissions enough without the leadership of the U.S. I don't see that happening, and certainly there are political costs of getting legislation through, but there are things he can do with his executive authority that might demonstrate to the world and to America that he's taking this issue seriously.

But looking at the likelihood of these extreme weather events, that's something domestic constituencies can relate to. They can relate to poor people waiting for aid to rebuild or recover after Sandy. There are still hundreds of thousands of people displaced from Hurricane Katrina, and people have a natural sympathy and empathy.

Let's do something. Let's prevent this from happening. I think we could change some of our legislation to make sure that when we raise lots of money for disaster response, we set some of that aside for measures to prevent the worst effects of climate change in these extreme weather events.

So there are things that I think President Obama can do and should do, and there are things that relate not just to the American constituency now but to generations from now. I mean, this is the premier legacy issues that Obama could have in his administration.

MR. GREGORY: You know, it's such an important point, too, because it crashes into this antipathy towards any more spending as a general matter, particularly infrastructure spending, and yet there were all the stories right in our major media centers of New York and Washington about particularly in the Northeast that these kinds of warnings about what could happen with this kind of storm have been out there for decades. And indeed, as New Jersey thinks about what it has to do to rebuild along the shoreline, I mean, there are incredible preventative measures that must be taken if we're going to adjust. I mean, in this city alone, my goodness, the wind blows and you lose power for a few days. I mean, but it's extremely worrisome.

MS. FERRIS: Oh, definitely. And indeed, I think we should look at all of our policies to see the extent to which we are encouraging and subsidizing people to live in areas that are environmentally at risk. Flood insurance, for example. We're transferring risk, if you will, from individuals who choose to live in coastal areas. I'm from Texas, a coastal area. I understand the benefits that brings. But is that something that the government, that taxpayers, should be subsidizing, particularly when we know that this is coming?

MR. GREGORY: Bruce, you've worked inside government as well, and I just want to address as I ask you about mitigation efforts and what you're talking about as

well is I should have you lay out the revolution in Riyadh. But let me have you start with this idea of mitigation efforts. How does the president prioritize some of these things given the set of priorities he's got?

MR. RIEDEL: You mentioned at the beginning, lucky presidents get to determine priorities for themselves, but at least every other president doesn't have that luck. George Bush, Jr., did not come into office to send American troops to Afghanistan. He didn't anticipate September 11th, and his whole administration, his whole life, his whole legacy was instantly affected. Jimmy Carter found his administration consumed and destroyed by a revolution in the Persian Gulf, which is why I think Saudi Arabia is an apt concern for this president.

If you are lucky and foreign events don't overwhelm you, you can set some of these mitigary things into effect. If you have a Black Swan that erupts particularly in the first year or two of your administration, then all your fine briefing books and memos and plans for what you're going to do are probably going to be put on the back burner because your political capital will be consumed in dealing with the here and now.

It depends on how big a Black Swan it is, which is why I'll just very briefly -- revolution in Saudi Arabia is not likely, but it's possible, and it's possible for really the first time in our lifetimes for a number of converging effects. The Arab Awakening across the Arab world has affected Saudis. The succession problem in Saudi Arabia. They're reaching the end of a succession process. Every Saudi King since the creation of this kingdom has been a son of the founder. Well, it was a great system, but it had a built-in problem and we're reaching that moment right now. And those who are at the top are increasing unfit for duty. The crown prince, for example, suffers from dementia and some days he's just not capable of doing his job.

The problem for the president, of course, is that the odds of persuading

the House of Saud to reform itself into Minnesota democracy are zero to nil. In fact, the more he presses, the less likely they are to do it. You don't turn an absolute monarchy into a constitutional monarchy usually unless it comes by force of arms. The impact? Huge. You mentioned the European Eurozone economy. What if half of Saudi Arabia's oil comes off the market and the price of oil shoots up? And it doesn't even have to come off. The psychological impact of the world's largest energy producer not being -- functioning effectively would be enormous, and the ripple effects in the small gulf states across the gulf.

So it's low probability but huge impact. And unfortunately, not one in which we really control very many of the dynamics of what would happen next.

MR. GREGORY: What does this president do as he sees revolution fermented across the region? And I mentioned Morsi in the last panel, where he's got such a problematic partner in Egypt. What does the United States do in a presidential -- in this president's second term to try to rebalance that?

MR. RIEDEL: Well, you try to see if you can distance yourself a little bit from these regimes that lack legitimacy as Vanda suggested. That's pretty hard to do. We've been in bed with the House of Saud since 1945. No one is going to believe that we're now somehow stepping back and urging reform and democracy in Saudi Arabia. It's just not going to pass the credibility test any more than Jimmy Carter's attempts to walk away from the Shah of Iran, convince the Ayatollah Khomeini for one minute that there was a difference.

One of the things you can do certainly and needs to be done is reorder your intelligence priorities. And here I think it's an interesting case. John Brennan, who knows Saudi Arabia perhaps better than anyone else in the U.S. Government is now going to be in charge of these intelligence priorities. But he's also in charge of the counterterrorism drone war, and he's going to have to decide what are we going to spend

more money, more resources, more spies, more surveillance systems on? Monitoring for preventing the next 9/11 versus monitoring for preventing the possibility of a revolution or knowing it's coming, which you know, may be a 10 percent possibility. Those are some tough priority decisions that John and the president will need to make and should be making right now.

MR. GREGORY: Do you watch Homeland by the way?

MR. RIEDEL: I do watch Homeland.

MR. GREGORY: It's great, isn't it?

MR. RIEDEL: I don't think it's entirely realistic, but that's okay. It doesn't have to be.

MR. GREGORY: Seth Meyers from Saturday Night Live had the greatest of all tweets in the world. He said, "I think my text to Abu Nazir just went through." (Laughter)

If you watch it's great. Wonderfully rich.

Anyway, Vanda, I want to come back to legitimacy of governments, and as Hamid Karzai was just here and the question about corruption in government, the question about, you know, will he retire, what is your prognosis of how legitimate the Afghanistan government will be particularly as the United States withdraws?

MS. FELBAB-BROWN: This is a question that still has a range of options which is good. Legitimacy right now is very low and it is easy to see that an effort to install some sort of successor that can make sure that Karzai's power and economic interests are preserved will not be met with much legitimacy. At the same time, it is also unrealistic to expect that President Karzai and the power brokers that have been associated with this government over the past decade will simply submit themselves to a genuine electoral free democratic process, especially as the security situation will be very difficult and will be increasingly getting difficult.

So one of the big issues that has been consuming the political system and energy in Afghanistan has been whether there should be a consensus candidate behind whom the various ethnic groups, various power brokers could -- on whose elections they could agree and that would perhaps mitigate the high chance of violence during the electoral process and the elections in 2014 as a way to remove one of the many difficult challenges that Afghanistan is facing. It's essentially facing a triple earthquake. Massive decrease in security after 2014, a big economic downturn that cannot be offset and major succession political legitimacy crisis.

But this now is also combined with the negotiations with the Taliban on which both the Afghan government and the U.S. government is increasingly placing its bets. A decision that is deeply problematic for many reasons -- it's not to say that one should not negotiate with the Taliban, but one needs to be realistic about whatever is agreed at the negotiating table, whether that will have any chance of being enforced. The less the U.S. presence, the more minimal the U.S. presence is defined, the less the chance of increasing, enforcing an agreement.

MR. GREGORY: And what does that even look like? I mean, the Taliban comes back into the government. What does that look like?

MS. FELBAB-BROWN: Again, there is a range of options. I think that one way to turn the negotiations with the Taliban into a very positive outcome would be to say that here is a mechanism to increase the inclusion of the Afghan government and to hold the Afghan government accountable. So one would use the negotiations both to entangle the Taliban in a set of accountability processes, broad accountability processes to the civil society, but equally entangle Kabul and the power brokers. Of course, that's a very, very difficult step, very difficult negotiations to pull off, and so far all the aspects of the negotiations have been a deal among the power brokers for peace.

Now, it also needs to be said that so far the negotiations have not

progressed anywhere, and in the international arena this is sort of the Holy Grail of the international diplomatic Olympic Games, is to deliver the deal with the Taliban. So you see very many different processes out of Saudi Arabia, out of UAE, out of Pakistan most recently. The Brits have their own efforts, the Germans have their own efforts, the Turkish government has its own efforts. We have had efforts, many of which are not always coordinated, well agreed upon, and deeply contested and challenged in Afghanistan. So we are nowhere close to having any sort of view.

MR. GREGORY: Is it at all possible that Afghanistan decides to go back to the '70s in a monarchy where they had so much stability? I mean, could something that dramatic happen where they say let's try a different enterprise here?

MS. FELBAB-BROWN: Well, I think some people can fantasize about it. I think what's far more realistic is that an imminent security collapse and political chaos in Afghanistan could stimulate a military coup in the country. And indeed, there are a lot of whispers -- there have been a lot of whispers about a military coup for a number of years. Realistically, the most functioning institution, the one that we have devoted most assets and efforts on will be the Afghan National Army. It's far from perfect. It has major weaknesses. It cannot currently operate and it will not be able to operate after 2014 without international enablers, but it will be the most cohesive, the most potent force, so there could be a coup.

However, big question. Could the coup be legitimate? Will the Army split along ethnic and patronage lines which pervuey the Army right now and are being unchallenged. How would the various factions, the power brokers, the Taliban, the Haqqanis, groups that operate from across Pakistan align with different factions during a coup scenario? It could be stability; it could be another trigger of chaos.

MR. GREGORY: Forgive me. It's just my friends and I often get together and wax romantically about Kabul in the '70s.

But anyway, I want to -- Khaled, I want to hear your prescriptions. You laid out the problem of the PA dissolving, but to get a couple of thoughts on what you think this administration does to mitigate that problem, as well as taking a tab at what the relationship with Israel looks like in the second term after a bumpy first term.

MR. ELGINDY: Yeah. I think, you know, picking up on this theme of legitimacy; I think legitimacy is an issue that is very central to why the PA might collapse in the first place. I mean, this is an issue that doesn't get sufficient attention I think in the Washington policy making establishment that Palestinian leaders need legitimacy too. And it is one of the reasons. So it's actually one of the reasons why I think people are so conflicted; why I'm conflicted in a way about what is the value of the Palestinian Authority? Is it just to keep it for its own sake and sort of perpetuate this problem where you are taking the responsibility off of Israel; you're perpetuating what is in essence a fake peace process? Or is it to actually build a state in waiting that will become fully sovereign and a U.N. member state as part of a grand strategy called the two-state solution? And it's been much more the former than the latter, and I think one thing that the elimination of the PA would do is kind of clarify the choices because suddenly the single most important investment that the international community, that the United States has made, tens of billions of dollars in a two-state solution is suddenly gone. And without that, I mean, that would be the single biggest blow to the possibility of a two-state solution.

I don't think it eliminates the possibility completely, and so you'd be forced to choose. Do I want the trappings and an endless process towards what we say might be a two-state solution? Or do I actually want a two-state solution? And I think one of the kind of perverse advantages of the removal of the PA from this equation is that it forces that stark choice; that the administration would suddenly say, "Look, we don't have the luxury anymore. If we believe that the two-state solution is a vital security

interest of the United States, then we need to act in furtherance of that goal regardless.” And that requires something that today is very much in question, and that is a coherent, credible Palestinian interlocutor. And that’s where I think it’s not just a matter of having Mahmoud Abbas sign a piece of paper on the White House lawn; he has to have the backing of major constituencies in order. You know, that is a constitutional moment for Palestinians in a quintessential way. So if the process is not credible, if the leadership that brings about such an agreement is not legitimate, it’s all really for naught. And I think that’s what the subtext of the memo is; is really about accepting the need for a credible, legitimate Palestinian interlocutor.

MR. GREGORY: I want to get to some of your questions here as we continue our discussion. We’ll go all the way to the back.

MR. ANGEVINE: A quick question for the panel with regards to Afghanistan.

John Angevine. I’ve just come out of Afghanistan with the Department of the Army.

What constructive role do you think that India and Pakistan can play in Afghanistan as we go into the expected 2014 elections? With the waxing ISAF presence and the American presence? Thank you.

MS. FELBAB-BROWN: Maybe I’ll start and Bruce, you probably will want to join.

Well, Pakistan can play many constructive roles. Of course, it has chosen not to play exactly a very constructive role to put it mildly, both from tolerating safe havens in Pakistan to being far more involved in various support to Afghan militant groups such as the Haqqanis, such as the Taliban.

There is a fascinating moment over the past -- today and over the past several weeks where all of a sudden Washington has become persuaded that Pakistan

has fundamentally changed its political strategy calculus. And after a year of extraordinarily bad relations with Pakistan where we hit the rock bottom, there is now a sense that Pakistan has seen the light. It is so terrified of any potential chaos in Afghanistan that it now wants to be cooperative. It has released Taliban prisoners so that negotiations can get on track.

Now, I think it would be extremely desirable if Pakistan indeed dropped its notion of strategic depth in Afghanistan, and if it's far more focused on its massive internal problems which will only be exacerbated by any insecurity leaking in from Afghanistan and challenges from Afghanistan. I am, however, not persuaded that this current Washington exuberance about Pakistan seeing the light is necessarily justified. And I would be far more careful in how I assumed Pakistan and Islamabad and Rawalpindi have changed their strategic calculus.

MR. RIEDEL: I'm in violent agreement with Vanda here.

The Pakistani civilian government, and particularly the Pakistani foreign minister, are saying all the things that she wants us to hear. I'm waiting to see the Pakistani Army and the Pakistani Intelligence Service start doing something about these things. Last September there was an extremely sophisticated attack on a NATO base called Camp Bastian. They were dressed in U.S. uniforms. They destroyed millions of dollars worth of U.S. Marine equipment. The one captured Taliban operative who survived is reported to have said afterwards they were trained by the ISI, it was a military operation coordinated by the ISI, it was a Pakistani Army attack on an American NATO base. Ms. Carr's nice remarks I put on one side; the facts I put on the other side. I'm not convinced Pakistan's power elite, the generals have changed.

Two other very quick points. Pakistan is also facing electoral change in 2013. We're going to have --

MS. FELBAB-BROWN: And maybe Black Swan is just right now with all

the domestic chaos.

MR. RIEDEL: Exactly. Pakistan is going to have both a political change on the civilian side and the chief of Army staff is going to change. General Kayani is supposed to rotate out. Those are the two biggest things that could possibly happen all in one year.

India, my prediction is if the U.S. decides to go to zero option in Afghanistan, India is going to decide it can't let that happen and it will decide that it is now going to do what the Pakistani generals have always feared was the nightmare -- make Afghanistan their proxy state on Pakistan's western border.

Conspiracy theories generally have a sense of becoming self-fulfilling prophecies, and if you conspiracy theory enough, sooner or later you will suck the other guy into playing the part that you so much basically hope he will never do.

MR. GREGORY: Bruce, how would that manifest itself? Would they be willing to put troops inside Afghanistan?

MR. RIEDEL: At some point. India has never before had the capacity to do it. One of the great things about shining bright new India, its capacity to project force is much bigger than it ever used to be.

MS. FELBAB-BROWN: Well, even apart from going so obvious and blatantly into conflict, India can continue ,or restart the policy, the practice in the 1990s of supporting various forces that were challenging the Taliban, members of the Northern Alliance. And the more chaos there is in Afghanistan, the more all the regional powers will be cultivating their proxies. And Afghanistan will not only be a battlefield of internal factions in Afghanistan, but it'll be a battlefield of external power competition involving Russia; China; the Central Asian countries; India, which has very much resented that the United States has been holding it back from more aggressive role in Afghanistan; Iran, which is playing a fascinating game hedging on both sides; as well as other countries.

And indeed, the dominant operating mode of Afghanistan today is hedging. Everyone is hedging on all possible sides, whether this is members of the Afghan military leaking weapons and intelligence to the Taliban, or Iran cultivating both the Northern Alliance or members of the Northern Alliance and the Taliban.

And India, I'm feeling very much that we, the United States have been restraining it from that same freedom of operation that the other actors are enjoying and it wants to go in far more fully. And the lesser our presence, not only will the incentive of everyone be to go in far more aggressively even if opaquely, but also to lessen our leverage in anyway mitigating either the internal conflict dynamics or the external conflict dynamics.

MR. GREGORY: All right. Where else? Yes, ma'am.

MS. CHAMBERLAIN: Wendy Chamberlain, The Middle East Institute.
And I won't ask a question about Pakistan because I also am in violent agreement.

Let me ask a question about Egypt. In the panel before us we had a commentator who said that Morsi was, like it or not, a partner, and that the U.S. government is seeing him as a partner that we need to develop. What if the Black Swan is that he's not? That Morsi is true to his own words, not only of three years ago but if you track some of his statements recently they haven't been very attractive. And what if the Muslim Brotherhood is true to its 80 year history, that it is an international movement that does want to spread its vision in other countries around the Middle East, what if that were the Black Swan?

MR. GREGORY: Khaled, why don't you take that?

MR. ELGINDY: Well, there is sort of a version of that Black Swan in the briefing book, a much more specific one in terms of the collapse of the Camp David Peace Treaty between Egypt and Israel. So that would be maybe one manifestation of the scenario that you outlined. And it is obviously deeply problematic. It is clearly

showing the regime, the new administration in Egypt to not be the partner that we expected. I think that is a very -- not necessarily real but I mean, it is a real Black Swan in that it is low probability and extremely high impact.

And if you look at, you know, I mean, what the Black Swan actually is is not one event but what it triggers. And one of the things that it triggers, I think, is it implicates the Black Swan that I wrote on, collapse of the PA. It would be impossible to imagine in a scenario like the complete collapse of the bilateral treaty between Egypt and Israel how the Palestinian Authority would survive that. I think that would clearly eliminate that one. And so when you start to see a succession, a ripple effect of something even as relatively narrow -- it's not narrow in its implications but very specific manifestation where the new Egyptian government is not a partner -- I think that's when you start to appreciate the severity of this sort of thing.

I think, you know, fortunately it is a low probability event. I think one of the things that the administration has to do in order to avoid either -- because I could just as easily see one become a trigger for the other -- is the linkage. I think they need to become much more aware of the linkages between all of these -- between all of these things. And, you know, if you want to keep the peace treaty between Egypt and Israel, one of the ways to do that, one of the ways to support it is by having an actual credible peace process on the Israeli-Palestinian front. If you want to undermine the peace treaty with Egypt, you foment instability on the border between Egypt and Israel. For example, Gaza, which is a very real scenario that we just saw erupt a few weeks ago.

So, again, there's another incentive to try and stabilize the situation on the ground on the Israeli-Palestinian front in ways that clearly can trigger any number of these, and worst of all in combination.

MR. GREGORY: Yes.

MS. CHANDRA: Candace Chandra with AQEX.

I'm curious about the climate role in this region in that what if there were a climate disaster within Obama's next term, not about oceans but rather about glaciers? What if suddenly there's a humungous drought through this region? How does that affect and what do you see the displacement aspects and other potential war concerns being in that scenario?

MS. FERRIS: Yeah. I think the possibility of drought is very likely as we see now in the United States. And actually, the head of FEMA just a couple of days ago talked about the cost to the U.S. of drought as being much greater than that of Sandy in terms of its long-term impact. We know much less about some of the humanitarian consequences of drought unless it's related to conflict as in Somali. We tend to ignore it because it's creeping. It happens more slowly. It doesn't generate as many headlines or as much as robust a response as would be necessary.

But in terms of the potential of drought as a destabilizing factor, when people's livelihoods are threatened they move. They migrate. They're displaced. And I think we could see in the Middle East some large scale droughts that would lead to those humanitarian crises.

An actually, you know, David, I think most of these Black Swans we also see as humanitarian or manifest as humanitarian crises. And the humanitarian system is stretched awfully thin. And what we don't realize sometimes is that even when crises go off the headlines, the humanitarians are still there. We're still pouring out a billion dollars a year into Darfur. Remember Darfur 2003? There are still three million people displaced inside Iraq. So the system that continues to respond to those protracted crises, even as is challenged to respond to the new one, much less think ahead and do contingency planning for what happens if Gaza explodes or Afghanistan implodes, or Lord help us, something bad happens in the Gulf with all those migrant workers. What? What would be the humanitarian points? So I would encourage you to think about that.

This is also about people; not just about high politics. And I think sometimes we forget that in these nice discussions.

MR. GREGORY: But we also forget, don't we, the capacity of the limits to governments' capacity to map out all these contingencies and respond to them. And not to even mention, I mean, in the private sector. I mean, I think about, you know, concerts for the Sandy Storm. I mean, there are some limits to all of that as well.

MR. RIEDEL: And a persuasive case can be made that a contributing factor to the Arab Awakening, Arab Spring was precisely these climate issues. Sanaa will be the first capital in the world which runs out of water. It's already run out of oil and it's about to run out of water. Fortunately for Yemenis, they're not about to run out of qat but sooner or later the water will have its impact on that, too.

Egypt, overpopulation. People have been talking about overpopulation in Cairo since the 1950s. Well, at a certain point it begins to actually matter that you have that many people.

Pakistan. Worst floods in its history in a country which at the same time is increasingly running out of potable water. The contradiction between all that water you saw on TV, you can't drink any of it. It's not good for you. In fact, it's worse than that. These climate changes will have a big impact on the Middle Eastern-South Asian societies which have always been at the edge of being able to function and it's going to be even harder now.

MS. FELBAB-BROWN: And going back to Africa and the initial conversation about Mali and Western African, already much of the contestation in the region is about desertification, the movement of people and competition over resources, Arab land, and water. It's very much what's underling the dynamics in Northern Nigeria that Boko Haram is very aptly exploiting. But it's exploiting a long term pervasive, increasing, intensifying challenge, fundamental economic and, in fact, human security

challenge that governments have not been able to respond.

And so we are living in a fascinating but also extremely challenging time where you have a whole set of global and interlinked challenges that internationally the global community governments have not been able to come together to effectively tackle, even when they have been able sometimes to design very broad strategies they have frequently failed in effectively implementing them. But you will see this overlay with an equal challenge and increasing lack of capacity on the part of governments to respond internally. But the governments' deficiencies are as acute in the internal system of many of these countries as they are internationally.

MR. GREGORY: Yes, in the back. We'll make this the final question.

Thank you.

MR. BEERY: Brian Beery, Washington correspondent, *Euro Politics*.

I'm just wondering if you have any thoughts on what impact John Kerry will have on any of these Black Swans if he becomes secretary of state. I know on the climate issue he's very personally engaged on that, but perhaps in other areas as well his own personality may have a particular impact.

MR. GREGORY: Thomas, why don't you take that with regard to what you're been writing about.

MR. WRIGHT: Yeah. I'm not sure he has a long sort of track record on the Euro crisis but I think it is important that the State Department get involved in economic diplomacy and the euro crisis. It's been left to the Treasury largely in the first term. They played a very important role but ultimately these problems are political and they involve dealing with other heads of government I mean foreign ministries, domestic populations and the Treasury Department isn't expert in that. I mean, they're very good on the economic side. So I think there needs to be more of a whole or government approach on that and I think Kerry may be able to sort of steer it in that direction. And

we'll see what sort of relationship he has with Treasury as we go forward. But I think the options are somewhat limited.

I remember asking a White House official about options to deal with the Euro crisis and he said it was the single most annoying foreign policy problem that the Obama administration faced. And I think the word "annoying" might be up for all of these Black Swans in that we know they're important but the options aren't clear. But there still are some things that they can do. I thought the State Department made a good step last week in making clear that the U.S. did not see it in its interest for the U.K. to leave the European Union, for instance. That created a few ripples in Britain, but I think it was helpful in making clear that this thing could get out of control and everyone has an interest in some stability. So there will be a number of things like that over the next few years and I hope as secretary he can play a positive and constructive role in that.

MR. GREGORY: Bruce, if you widen that out a little bit I quoted you on Meet the Press last Sunday when you were interviewed *The Financial Times* about this broader national security team that the president is assembling and what it represents, what message it sends, what it says about the president's priorities.

MR. RIEDEL: Well, in the first term he famously assembled the team of rivals. This doesn't look like the team of rivals; this looks like a team that's very much thinking in the same direction. What he needs is people who are imaginative. I hate the American expression "out of the box thinking." I think it's very silly. I don't think I'm in a box. But it does strike to something. You mentioned at the beginning, "What can the president do at the beginning of his second term?" He should be imaginative. He should look around and say, "Well, what are these things? And is there anything I can do now? And are there ameliorative steps, like trying to get the Israeli-Palestinian force peace process going back, like keeping the British in the European Union, that will get me a little bit ahead of the power curve. But above all, be imaginative. And when Secretary Kerry

comes in and says, "Oh, the House of Saud will never fall," say to him, "John, why do you think that?" Or when someone comes in and says, "Well, Al Qaeda may have attacked the United States," and you said "I never thought it would mean four airplanes slamming into skyscrapers." Well, maybe you needed to have thought about that a little bit more and reached out to your think tank community, your intelligence community, your policy prescription community, and made sure you'd done some of that homework so you had thought through Black Swans and Big Bets.

MR. GREGORY: We'll leave it there. Thank you all very much.

(Applause.)

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