Dear FDI supporters,

Welcome to this week’s edition of the Strategic Weekly Analysis.

This week we published a Strategic Analysis Paper titled New Delhi Looks (South)-East: India-New Zealand Relationship Evolving into Indo-Pacific Strategic Partnership.

Written by Visiting Fellow, Balaji Chandramohan, the paper notes that India’s shift towards a maritime strategy coincides with New Zealand’s growing strategic interest in the Indian Ocean. He argues that shared factors, including common values, democracy and an inherited heritage from the Commonwealth, can assist India and New Zealand to develop a more effective strategic co-operation.

Mr Chandramohan is the Editor of the ‘Asia for World Security Network’ and a correspondent for the Auckland-based newspaper, Indian Newslink.

Also this week, Future Directions attended a breakfast briefing event by Dr Claude Rakisits of Deakin University.

Organised by the Centre for Muslim States and Societies at the University of Western Australia, the briefing focussed on the future trajectories of Afghanistan and Pakistan.

In the near future, Dr Rakisits will share his expertise in a FDI Feature Interview that will be released in the coming weeks.

Over the coming weeks, the Indian Ocean Programme will continue its “National Involvement” series. Strategic Analysis Papers will include publications critiquing British, Turkish and South African policy in the region.

I trust that you will enjoy this edition of the Strategic Weekly Analysis.

Major General John Hartley AO (Retd)
Institute Director and CEO

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Dam Project in Ethiopia May Lead to Regional Tensions

The construction of a large dam along the Blue Nile River will divert water away from Egypt and Sudan, whose people rely upon water from this source for their livelihoods. This project may lead to conflict in North-east Africa.

Background

Ethiopia has initiated the construction of a contentious hydroelectric dam on the Blue Nile River. Once completed, the Grand Ethiopian Renaissance Dam will be one of the largest in the world. It will generate much needed electricity and provide irrigation for future agricultural projects in Ethiopia and its surrounding region, but it also has the potential to raise tensions with other Nile Basin countries, most notably Egypt and Sudan.

Comment

The Nile River has long been a source of contention in international politics. The distribution of its water is governed by a 1959, colonial-era, treaty between Egypt and Sudan, which inequitably distributes water rights among the countries of the Nile Basin. Despite the fact that the Nile originates entirely outside its borders, the treaty granted a disproportionately large share to Egypt, which receives 95 per cent of its total water supply from the river. The overwhelming majority of Egyptians reside in the Nile River Basin. Egypt is dependent on rainfall in other countries to support its rapidly growing population and consequently views its control over the Nile as a national priority.

The announcement of Ethiopia’s ambitious project was made in early 2011, while Egypt was distracted by domestic unrest and unable to prevent the dam’s construction. Ethiopia requires the dam to meet its growing needs for electricity and water for agriculture. Despite strong economic growth since the country’s famines in the 1980s, food security remains a serious concern. Ethiopia has plans for new agricultural projects that will draw irrigation from the Nile’s tributaries, including the Renaissance Dam. The government hopes this
The construction of the dam project will assist in increasing food production to help feed its population. The dam will also generate enough electricity to enable Ethiopia to export energy to its neighbouring countries, providing further security and raising incomes.

The dam will be completed in 2017, after which it will take three years to fill with water. This may reduce the amount of water that flows through Egypt by up to 25 per cent. Egypt’s water demand is predicted to double by 2050 and a reduction of this magnitude in water supplies would not be tolerable for any new Egyptian government. The competing claims over the Nile’s water will require substantial diplomatic efforts by all countries involved, as populations in the region increase rapidly. Should these claims not be resolved diplomatically, there is a real risk of emerging conflict over the next decade, as countries seek to ensure the food and water security of their people.

The future food and water security of Egypt is currently being assessed by FDI, with the results to be released in the coming months as part of a landmark study covering the Middle East region.

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**Pakistan Government Pressured by Imran Khan’s Anti-Drone Rally**

*Imran Khan’s anti-drone protest march did not reach its final destination, but it may well heap pressure on the Pakistani Government to take a stronger stance against US drone deployments, especially ahead of the 2013 election.*

**Background**

A protest march against US drone strikes in Pakistan, led by former cricket star-turned-politician Imran Khan, ended on 7 October 2012, when authorities prevented the marchers from entering the South Waziristan region. While the march of some 20,000 people failed to reach its final destination, it has renewed pressure on the United States and may force the Pakistani Government to take a stronger stance against US drone attacks, especially ahead of the 2013 election.

**Analysis**

The march, which began in Islamabad, was intended to finish in South Waziristan, a region heavily targeted by drone strikes. The marchers were stopped, however, when the authorities used steel shipping containers and security forces to seal off the road entering South Waziristan. Mr Khan then led the protesters to Tank, a town near the South Waziristan border, and held a rally there.
Khan hailed the protest a success, telling protesters at the rally: ‘we have given our message... it has gone across the world ... we have succeeded in raising the issue. We came here to raise the issue; we came here to make a stand against drones.’ A fierce critic of US drone strikes in Pakistan, Khan told the media before the march that ‘no one should be judge, jury [and] executioner.’ He went on to say, ‘it’s totally counter-productive. All it does is it helps the militants to recruit poor people. Clearly if they are succeeding, these drone attacks, we would be winning the war. But there’s a stalemate.’

His opponents were quick to label the rally a political stunt, however. Opposing political parties such as the Pakistan Muslim League-Nawaz (PML-N) claimed the motorcade protest was a politically motivated move by Khan’s party, the Pakistan Tehreek-e-Insaf (PTI), aimed at boosting his declining popularity. Sohail Mahmoud, a political analyst, told Al Jazeera on 7 October that Khan was using the issue of the drones for his own political gain, saying ‘he’s doing it for politics. It’s a political statement.’

With an election scheduled for April 2013, Khan, now a high-profile politician who commands international attention, has made opposition to US drone attacks a centrepiece of his policy. In early October, he told the BBC that he would authorise the shooting down of US drones over his country if he became head of government, because they violated Pakistan’s sovereignty.

Khan has become a political force this year, attracting crowds of up to 200,000 in cities such Karachi and Lahore. But most analysts agree that despite his ability to grab headlines, he has little chance of becoming prime minister in the upcoming elections. An opinion poll last month suggested the PTI’s popularity is dipping, although recent events could revive Khan’s support.

Nevertheless, with an election looming, the issue of US drone attacks on Pakistani soil will be a significant talking point among Pakistan’s political parties. The attacks have become increasingly unpopular in Pakistan. A survey conducted by the New America Foundation found that ‘nine out of ten people in [rural areas] oppose the US military pursuing al-Qaeda and the Taliban in their region’, despite the US reducing the strikes in recent times.

The Pakistani Government has publically denounced the attacks. Privately, however, it appears to condone them. In September, the Wall Street Journal revealed that the only communication between the US and Pakistan concerning the drone attacks, were faxes from US authorities to Pakistan’s intelligence service detailing drone targets, to which Islamabad reportedly no longer responds. The fact that it has not officially opposed the attacks is viewed by Washington as tacit consent, thus giving it legal cover, despite the fact that Pakistan closed the CIA’s only drone base in the country about 10 months ago.

Indeed, it is possible the government is engaging in a double game; it may be playing both sides in an effort to appease the US, while distancing itself from the programme in order to shore up domestic political support. With the upcoming elections and Khan’s high-profile, though, the Pakistani Government may not have that luxury for much longer.

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Venezuelan Election: Continuing Politicisation of Oil Expected

The petro-politics that have defined the tenure of President Chavez will continue with his re-election this month.

Background

Hugo Chavez will continue with his unique populist agenda after securing an additional five-year term as President of oil-rich Venezuela. This will result in increasing debt and criminalisation, impacting both the state and the national oil company. Diversification will also be a policy priority of the President’s new term, with a focus on Asian markets. Venezuela’s strategic share of global hydrocarbons may mean global ramifications should President Chavez engage in aggressive manipulation.

Comment

On 8 October, despite suggestions of voter discontent, Hugo Chavez defeated the opposition candidate, Henrique Capriles Radonski, in the race for the Venezuelan Presidency.

Analysts projected a close competition. Yet, buoyed with his trademark populist agenda, President Chavez won 54.4 per cent of the vote, almost ten per cent ahead of his rival. The comfortable margin will ensure that the leader is likely to remain in power until at least 2018 - two decades after the former army officer first came to power.

More than a leadership vote, the October poll was regarded by many – particularly outside Latin America - as a decision on the state’s ideological trajectory. Mr Chavez has indicated that the “Bolivarian 21st century socialist” programme will be consolidated and expanded. The release of the Great National Socialist Plan 2013-2019 prior to the election, provided an insight into the President’s priorities and strategies. The strategic policy document articulates five primary goals for the on-going “revolution”: promoting independence, developing national control over resources, increasing hydrocarbon production, uniting the community of South America and improving the environment.

The greatest reflection of President Chavez’s revolutionary agenda will continue to be State-owned oil company PDVSA, which accounts for 95 per cent of export earnings. Consequently, Venezuela’s economy is largely dependent on oil. In recent years, PDVSA has become highly politicised, providing preferential and subsided energy supplies to allied governments, including Cuba, Belarus and Syria. With limited resources, many of these marginalised states pay for oil with goods or services, including food or livestock, placing ever greater pressure on PDVSA’s cash flow. Last year, less than 50 per cent of hydrocarbon production was directly paid for.

In addition to its reduced revenue stream, the oil company has been further constrained by the government’s financial demands. President Chavez’s tenure has been characterised by ambitious social programmes. While these have undoubtedly delivered development
outcomes, PDVSA’s essential maintenance has suffered, resulting in the company failing to meet production targets and suffering a number of high-profile accidents.

Moreover, PDVSA and the government have been adversely impacted by Chavez’s domestic energy policy. Essentially a national Ponzi scheme, according to The Guardian, oil is sold to local refineries by PDVSA at around $100 a barrel. Due to aging infrastructure and efficiency issues, the state buys back the oil at $400 a barrel, on-selling it to consumers at a heavily discounted rate. Consequently, drivers in Venezuela pay more for a cup of coffee, than a full tank of petrol. In addition to placing pressure on PDVSA and the state, the heavily-subsidised rate has created a lucrative cross-border smuggling business. Despite criticism, President Chavez has suggested that he will continue with the populist programme; if he does then debt and criminalisation will continue to place pressure on the state.

The October election has also provided some degree of clarity for the future of the Orinoco belt. Located in the central and southern regions of Venezuela, the largely untapped reserves of this region may potentially hold the world’s largest recoverable reserves of oil. The re-election of Chavez will have a significant influence on which companies and countries are afforded priority to tap the belt. The President has tended to favour joint-ventures; PDVSA will therefore be a significant stakeholder in all potential Orinoco developments. A lack of clarity, poor infrastructure and vitriolic announcements by the government, have deterred major international oil producers, particularly the US super-majors. President Chavez is likely to seek the support of companies from states more ideologically linked to the Bolivarian programme, such as China and Russia. Brazil’s Petrobras and Argentina’s YPF may also be approached, in an attempt to foster co-operation with other Latin American states.

Market diversification will also feature as a policy priority in the next Chavez administration. Despite the President’s previous anti-American rhetoric, Venezuela is largely dependent on US energy demand. During campaigning, Mr Chavez committed to reducing this reliance by doubling crude exports to Asia. To achieve this, Venezuela has announced plans to build a pipeline to the Pacific, through Colombia, reducing costs and transport times. Similarly, given Venezuela’s limited resources, Caracas will seek support from external partners, particularly China. In recent years, the China Development Bank has provided over $40 billion in loans, largely repaid through oil shipments. Looking ahead, this trend in the relationship is likely to increase. Equally, other energy conscious Asian states may engage in similar commercial and governmental ties.

Mr Chavez’s latest term will require bold policy decisions, balancing ambitious social programmes with the realities the state and PDVSA decreasing resources. As demonstrated in previous terms, however, the President is more likely to adopt a popular rather than a pragmatic approach, which may, given the globalised nature of the oil sector, have global implications.

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South Africa: Economy Weakens; Strikes and Leadership Uncertainty Continue

*South Africa is facing deepening uncertainty in the face of a stalling economy, worsening inequalities, continuing strikes and a leadership tussle within the ruling party.*

**Background**

Two months of labour unrest, ongoing tension and uncertainty surrounding the leadership of the African National Congress (ANC), along with talk of nationalisation of strategic assets, are all hurting the South African economy at a time of rising inequalities. Against such a backdrop and with former ANC Youth League leader Julius Malema continuing to rail against President Jacob Zuma, the ANC is preparing for its elective conference in December. This will decide who will lead the government into the 2014 general election. Regardless of who wins the leadership tussle, rejuvenating the economy will be an urgent task.

**Comment**

Since they began in August at the Lonmin platinum mine at Marikana, strikes and violence have spread to the Anglo-American platinum mine, also in the so-called “platinum belt” of North-West Province. Marikana became the scene of South Africa’s worst post-apartheid security violence, when police fired on striking miners, killing 34. Initially a power struggle between two rival unions, the Marikana situation has come to epitomise the inequalities and uncertainties that are bedevilling South Africa.

Eighteen years after the end of apartheid, many inequalities, including the gap between rich and poor, are actually growing, despite the progress made in other areas, such as the provision of water and electricity. Despite the emergence of a successful black middle class, many black South Africans, such as the striking miners, have been left behind. They are increasingly frustrated at their circumstances and resent the affluence and perceived indifference of the ANC leadership.

In addition to talk within the ANC of the nationalisation of strategic assets, such as mines, business has been unnerved by the government’s response to the paralysis in the Marikana mines. Strikes have spread to other industries and foreign investors, such as BHP Billiton, have begun to reduce their presence in South Africa. The country’s credit rating has been downgraded by both Moody’s and Standard and Poor’s.

President Zuma has attempted to reach out to the business community by convening emergency dialogues between business people, government officials and labour leaders. This is an effort to build a consensus aimed at addressing social tensions by re-energising an economy that is now lagging behind that of other African states. The forecasts for 2013 indicate growth in gross domestic product of 3.0 per cent and an unemployment rate of 24.7 per cent. Getting a consensus will not be easy to achieve and will test the government’s relations with both business and labour.
Ahead of the all-important elective conference to be held at Mangaung in December, Mines Minister Susan Shabangu has called for the subject of nationalisation to be definitively dropped, to reassure investors. If nationalisation were endorsed as an ANC policy position at Mangaung, the potential damage to much-needed foreign investment could be substantial.

The government’s perceived inaction in responding to Marikana, highlighted by President Zuma’s delay in meeting with the miners, has provided Julius Malema with a platform from which to portray himself as a champion of the poor and marginalised. While Malema, who was expelled from the ANC, wishes to contrast himself with Zuma, he, like the President, has business connections and is also the owner of a lavish property under construction in Johannesburg.

Meanwhile, uncertainty surrounds the leadership ambitions of Deputy President Kgalema Motlanthe, who is yet to announce whether he will challenge President Zuma for the ANC leadership. Regardless of this, ANC branches across South Africa have come out officially in support of one or the other ahead of the Mangaung conference. Julius Malema has openly called for Zuma to be dumped and declared his support for Motlanthe. While the Deputy President has been careful to keep his distance from Malema in recent months, it may well be the case that if he were victorious Malema would be welcomed back into the ANC. Although it appears that Zuma has the numbers at this stage, a lot could change between now and December. While the ANC will still be the government after the 2014 election, it seems equally likely that it would lose fewer votes under Motlanthe than it would under Zuma, who is already unpopular with many voters.

On the other hand, a resurgent Malema, enjoying renewed influence within a Motlanthe Government, might give investors something new to worry about. It would also, however, challenge his own ability to deliver to those whose causes he has championed. Scaring off investors with his trademark firebrand rhetoric will not help in that situation.

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Qatar Looks to Education in Shift from Energy Export Dependence

Qatar is seeking to reduce its dependence on energy exports. Co-operation between Malaysia and Qatar in the education sector is the latest development in Doha’s use of soft power as a development tool.

Background

On 9 October 2012, the wife of the Prime Minister of Malaysia, Rosmah binti Mansor, met with Her Highness Sheikha Mozah bint Nasser, second wife of the Emir of Qatar. The
significance of this meeting, held at Education City, Qatar, is in the implications it may have for Qatari soft power.

Comment

For Middle Eastern states, oil is a resource that pending future discoveries may be increasingly scarce in future years. It is with this in mind that countries such as Qatar, the United Arab Emirates, Bahrain, Saudi Arabia and others have looked to education to reduce their dependency on oil. Sheikha Mozah, who is chairperson of the Qatar Foundation for Education, Science and Community Development, has used her high-profile position to secure Qatar’s future prosperity through the promotion of education and the provision of world-class education opportunities for her subjects.

The meeting with Madam Rosmah is important as it satisfies an important criterion for the Qatari Government: increasing its regional influence. Although adhering to Wahhabi Islam, Qatar has sought to establish an alternative to the dogmatic, ideological Islam practised by Saudi Arabia. A key way of doing this, due to Qatar’s very small size, is through soft power. Qatar aims to become a leading centre of knowledge and education in the Gulf region.

The 9 October meeting was to reinforce existing ties between the two countries within the education sector. In December 2011, a 19-member Malaysian student delegation visited Qatar and, in October 2008, a Memorandum of Understanding between Qatar University and the University of Malaya was signed to increase research co-operation. More recently, on 1 August 2012, the College of Engineering at Qatar University and the Malaysian Institute of Road Safety Research concluded an MoU on research and collaboration.

The education links, which are an important part of foreign policy, are important to Qatar as they may help to reduce its dependence on hydrocarbon exports. Certain intelligence organisations, such as Stratfor, estimate that Qatar’s LNG sector – despite its huge reserves – will reach maximum profitability over the next three to five years as other LNG producers emerge, including former LNG importers such as Canada and the United States. ¹

Qatar will need to diversify its economy and the government recognises the necessity of doing so. The riots that started the “Arab Spring” were based in large part on economic factors. In order to preserve the regime, Qatar will need to look beyond its historical sources of revenue. To do this, Qatar has some options. The first is to increase the technological capacity of the state through a broad, intense and systematic education policy. Such policies, implemented in Japan, South Korea, Taiwan and China (although not nearly as broadly), have allowed those countries, with low natural resources, to become economically successful. By utilising such soft power, Qatar can seek to extend its regional influence. With Turkey and Iran both seeking to become regional hegemons, however, Qatar’s aspirations may be negated and, in the future, Doha may find itself caught between the two.

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What’s Next?

- Nkosazana Dlamini-Zuma, will become the first female Chairperson of the African Union Commission on 17 October. Ms Dlamini-Zuma previously held senior portfolios in the South African government, including home and foreign affairs. As Chairperson, Ms Dlamini-Zuma will drive the organisation’s peace and security functions.

- Australian Prime Minister, Julia Gillard, will conclude a visit to India on 17 October. In a final policy speech in New Delhi, Ms Gillard will identify India as a “high priority” in Australian foreign policy, comparable to the relationship with “United States, Indonesia and China”.

- On 17 October, King Mohammed of Morocco will commence a tour of Gulf Co-operation Council member states. Beginning in Saudi Arabia, the tour is expected to focus on securing funding for the struggling North Africa nation. According to a Royal Cabinet statement, the visit will also include Qatar, the United Arab Emirates and Kuwait.

- Following the early-October expulsion of al-Shabaab from Kismayo, Somalia, a 25-member administrative authority will take control this week. The interim administration will oversee security and service provision.

- The 4th Annual National Security and Strategy workshop (2012 Perth Strategy conference), will be held on 9 November in the Crown Perth. This year’s conference theme is Border Security and Critical Infrastructure Protection. For conference updates please go to: http://strategyconference.curtin.edu.au

Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.