



FOREIGN AFFAIRS



MARCH / APRIL 2006

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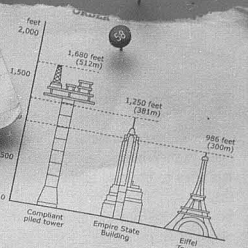
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The world consumes two barrels
of oil for every barrel discovered.

So is this something you should be worried about?



The world consumes 84 million barrels of oil a day.

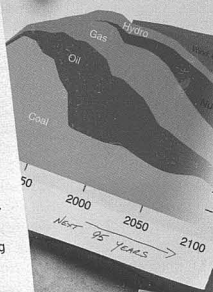


The fact is, the world has been finding less oil than it's been using for twenty years now. Not only has demand been coming from places that are tough to reach. At the same time, more of this newly discovered oil is of the type that requires a greater investment to refine. And because demand for this precious resource will grow, according to some, by over 40% by 2025, fueling the world's growing economic prosperity will take a lot more energy from every possible source.

By 2030 the number of cars in the world will increase by 50%.

The energy industry needs to get more from existing fields while continuing to search for new reserves. Automakers must continue to improve fuel efficiency and perfect hybrid vehicles. Technological improvements are needed so that wind, solar and hydrogen can be more viable parts of the energy equation. Governments need to create energy policies that promote economically and environmentally sound development. Consumers must demand, and be willing to pay for, some of these solutions, while practicing conservation efforts of their own.

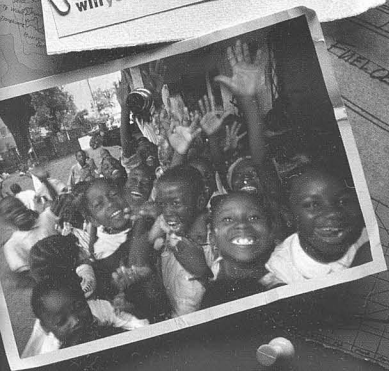
World Energy Demand



Inaction is not an option. But if everyone works together, we can balance this equation. We're taking some of the steps needed to get started, but we need your help to get the rest of the way.

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⚠️ Chevron Steps Taken:

Thinking to the future:
- Committing more than \$300 million each year on clean and renewable energies

Finding even more energy today:

- In 2004, achieved exploration record 78% higher than 10-year industry average
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- Finding more than 1.3 billion barrels of oil field after field

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The Time for Urgent

War, terrorism, workplace violence, sabotage, theft . . . the list of security-related worries preoccupying today's executive seems to grow each year. Who can predict what looms on the horizon? It's easy to pretend that corporations cannot shield themselves from these threats. Publicized tragedies heighten vigilance: anthrax made people think twice about opening parcels, workplace shootings led to new focus on disgruntled employees, and the September 11 attacks united the nation in a fight against terrorism. Unfortunately, complacency seems always to return with time.

Do you compromise on security when it comes to protecting your family? Experts know that *the more you do, the safer you are*. Workplace security is no different; only the stakes are much greater. A large corporation is like an extended family living in a huge neighborhood: the chance of something going wrong somewhere increases with scale and there are more lives and livelihoods at risk.

Not all organizations think about security in terms of its total cost—at their peril. Some corporate budgets measure the dollars spent on security personnel and equipment but ignore the costs of crime and terror—the human tragedy, the liability expenses, the legal fees, the public relations and crisis management costs, the increased insurance premiums, the lost revenue from business interruption, the shaken confidence of customers and shareholders, the devastation in employee morale. Consider one example: A terminated employee, heavily armed, gains unauthorized entry past a new and inexperienced security officer. A single mistake, and several minutes later, lives are lost. Just one such tragic incident can jeopardize the future survival of an entire organization.

When companies view security services as a commodity, that is what they get. Some purchasing departments often only look at the unit cost, selecting the lowest bidder. Many service providers, however, fail to include additional costs, such as health insurance, vacations and even training, in their rates—which the customer may not discover until the invoicing starts. Other companies compete by minimizing their investment in wages, training and employee screening. Transient hourly employees treat their jobs in a perfunctory way. With limited authority, security managers cannot invest in quality or innovation. And yet if a serious incident occurs, they take the blame for failing to bring in a quality provider. This vicious circle detracts from buying the necessary value and focusing on what truly counts in security—results.

Being serious about security is not just about employing more security officers or buying more technological equipment. It is about approaching security in a different, smarter way. It is about knowing the

backgrounds of one's employees and on-site contractors. It is about ensuring that the one person accountable for security also purchases security. It is about considering the realm of possible threats and developing proactive solutions. It is about forming vendor partnerships to give others a stake in ensuring that all that can be done is done. It is about a commitment to total quality.

No entity can be entirely immune from crime and terrorism. When organizations commit time and resources to an urgent focus on security, however, they can minimize risk and create tangible value. A thoughtful security infrastructure supported by dedicated, energetic employees offers a shield against attack and often surpasses the traditional call of duty: responding to an accident on the shop floor and saving an employee's life or detecting a mechanical malfunction that could lead to a plant shutdown. A strong security program also acts as a deterrent. According to reports published in a leading national newspaper, a murderous terrorist cased a sensitive public facility in California and found the Guardsmark security to be so tight that he selected different targets, shooting six people and killing one. The wounded included three children.

When we founded our company in 1963, we saw an industry that failed to focus on total quality. We sought to fill a market void by offering higher pay to employ and retain better people—offering a career, not a job. To support these professionals, we built an unmatched management team composed of former FBI and Secret Service officials, military officers, and leaders of law enforcement agencies, creating a unique think tank for a broad spectrum of security-related issues.

Whatever concerns our clients face—from routine loss prevention investigations to dealing with kidnappings and assassinations in distant lands—our men and women stand ready with the wisdom of experience, the ability to manage uncertainty, and an intricate network of valuable relationships. These crisis-resolution skills give our clients the confidence that their security provider can respond to any emergency anywhere at a moment's notice.

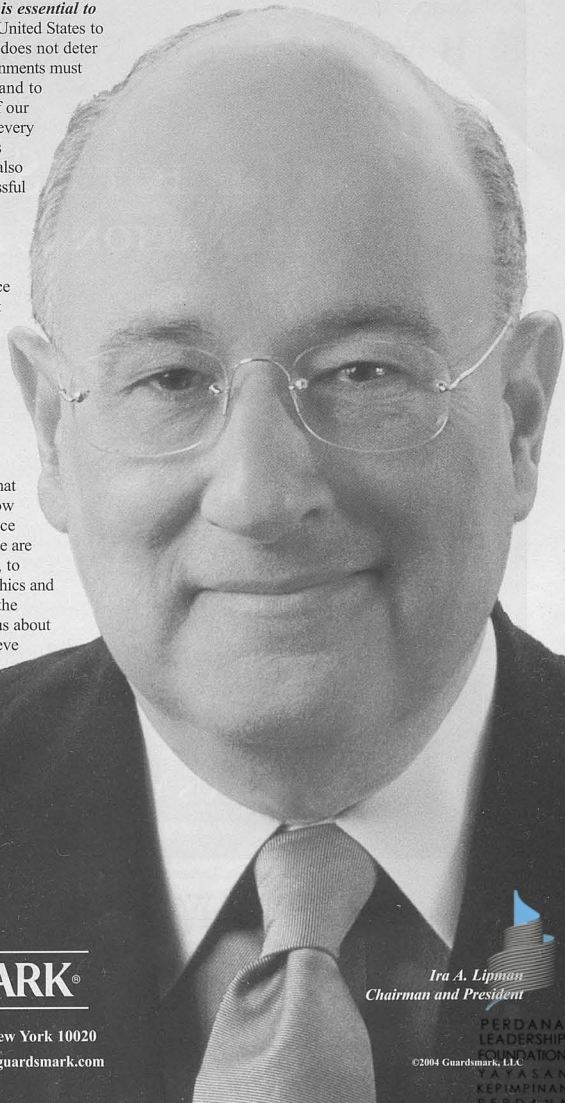
Never before has confidence in security been more critical. Homeland security has emerged as an unprecedented concern. The United States of America is engaged in a war against terrorists who want to attack Americans at home, and the nation must take immediate action to correct its greatest vulnerabilities. Unfortunately, some institutions and organizations have failed to demonstrate sufficient urgency, focus and attention to safeguarding against the heightened risk facing the entire nation. The threat is not restricted to high-profile cities such as New York and Washington, D.C. In fact, tighter security measures in those municipalities may convince the enemy to seek softer targets in less-prepared areas of the country.

y Is NowSM

Increasing emergency preparedness is essential to minimizing casualties. The ability of the United States to strike back with swift, devastating force does not deter agents of terror. Consequently, local governments must receive assistance to prepare for attack and to improve the technological capabilities of our emergency response agencies. Similarly, every organization must not only strengthen its defenses to prevent an attack, but it must also prepare to manage the aftermath of a successful assault by training on-site emergency responders and developing partnerships with firefighters, police and medical professionals. Securing a facility so that an attack will either fail outright or produce minimally disruptive consequences at best will significantly decrease the likelihood of a future strike.

The world has changed. Complacency has never been wise, but at this time of increasing uncertainty, it has become outright dangerous and irresponsible. At Guardsmark, we realize that each of our employees is the critical ingredient in securing some facility somewhere. Who that person is, what that person thinks and how that person reacts may make the difference between calm and calamity. That is why we are committed to excellence in management, to continuous innovation, to organizational ethics and diversity, and to an unyielding focus on the customer. It all has to do with being serious about security. That is our mission. And we believe that is the mission that you need.

The time for urgency is nowSM.



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Iraq, Then & Now

Seeing Baghdad, Thinking Saigon *Stephen Biddle* 2

Most discussions of U.S. policy in Iraq assume that it should be informed by the lessons of Vietnam. But the conflict in Iraq today is a communal civil war, not a Maoist “people’s war,” and so those lessons are not valid. “Iraqization,” in particular, is likely to make matters worse, not better.

Intelligence, Policy, and the War in Iraq *Paul R. Pillar* 15

During the run-up to the invasion of Iraq, writes the intelligence community’s former senior analyst for the Middle East, the Bush administration disregarded the community’s expertise, politicized the intelligence process, and selected unrepresentative raw intelligence to make its public case.

The Last Exit From Iraq *Joel Rayburn* 29

Over 70 years ago, the United Kingdom’s occupation of Iraq proved so unpopular at home that London had to declare success and head for the exit. The British pulled out early, and chaos followed in their wake. If Washington hopes for better, it should study this example to learn how—and how not—to end an occupation.

Essays

The Rise of U.S. Nuclear Primacy *Keir A. Lieber and Daryl G. Press* 42

For four decades, relations among the major nuclear powers have been shaped by their common vulnerability, a condition known as mutual assured destruction. But with the U.S. arsenal growing rapidly while Russia’s decays and China’s stays small, the era of MAD is ending—and the era of U.S. nuclear primacy has begun.

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Authoritarian leaders around the world have recently started to crack down on democracy-promotion efforts in their countries. The Bush administration's pro-democracy bombast has not helped matters, but has contributed to the false idea that liberalization is somehow a U.S.-driven phenomenon.
- Ensuring Energy Security** *Daniel Yergin* 69
The institutions and policies that were set up after the 1973 Arab oil embargo can no longer meet the needs of energy consumers or producers. The definition of energy security needs to be expanded to cope with the challenges of a globalized world.
- Can Hamas Be Tamed?** *Michael Herzog* 83
Optimists argue that Hamas' participation in mainstream Palestinian politics will spur the group to moderate its radical goals and terrorist tactics. But history shows that political participation co-opts militants only under very specific conditions—and almost none of those exist in the Palestinian Authority today.
- Do Targeted Killings Work?** *Daniel Byman* 95
One of the tactics Israel has used in responding to terrorism has been to seek out and kill individual enemies. Now Washington has started doing the same. The United States and Israel face different circumstances, however, and so the Bush administration should think twice before proceeding.
- Offshoring: The Next Industrial Revolution?** *Alan S. Blinder* 113
Economists who insist that "offshore outsourcing" is just a routine extension of international trade are overlooking how major a transformation it will likely bring—and how significant the consequences could be. The governments and societies of the developed world must start preparing, and fast.
- China and Japan's Simmering Rivalry** *Kent E. Calder* 129
Although Japan and China have close economic ties, their diplomatic relations have been strained by clashing interests and cultural friction. The United States has an important role to play in promoting cooperation between Tokyo and Beijing and helping them adjust to a new phase in East Asia's history.
- Taiwan's Fading Independence Movement** *Robert S. Ross* 141
Never popular at home, Taiwan's independence movement has suffered successive electoral defeats and is increasingly irrelevant. The movement's demise and the rise of politicians promising greater cooperation with Beijing have removed the only plausible cause of war between China and the United States.
- Two Cheers for Expensive Oil** *Leonardo Maugeri* 149
Prices of crude oil are high these days not because oil reserves are waning—in fact, they are plentiful—but because inadequate refining capacity has limited the quantity of crude available on the world market. And high prices come with an upside: they could convince the oil industry to invest in new capacity.



going beyond

Can we take the carbon out of carbon-based energy?

Carbon Challenge It is increasingly accepted that rising levels of greenhouse gases are contributing to changes in the world's climate. One of the main culprits is carbon dioxide. We exhale carbon dioxide when we breathe. Our cars, homes, factories, and the power plants that light our streets all release carbon dioxide into the air. It's also emitted when fossil fuels are burned for energy. But that's about to change.

Less Pollution BP is pioneering the world's first comprehensive industrial scale project to help eliminate carbon dioxide released during electricity production. At a power station in Scotland, we are combining a number of proven technologies to allow the facility to produce electricity using hydrogen derived from natural gas. Carbon dioxide removed in the process will be captured and sent to an oil field about 150 miles offshore, where it will be safely returned to the natural environment where it came from—a reservoir 2.5 miles below the seabed—and stored safely and indefinitely. Carbon dioxide emissions are expected to fall by 90% as a result of the project.

More Energy But the project won't just have environmental benefits. It will actually enhance the recoverability of oil. In fact, returning carbon dioxide to the reservoir could increase the amount of oil extracted from the field by up to 40 million additional barrels. This particular North Sea oil field is scheduled to cease production

within the next two years. The carbon return process could extend that life span by 15 or even 20 years, which in turn would provide a boost for jobs and the economy. BP and partners plan to invest \$600 million to make this facility a reality. When fully operational, the project is expected to capture and store around 1.3 million tons of carbon dioxide each year, while providing 'carbon-free' electricity to the equivalent of 250,000 homes. If applied to just 5% of the new electricity-generating capacity the world is projected to need by 2050, we could reduce global carbon dioxide emissions by around 1 billion tons a year. We expect to complete front-end engineering design by the second half of 2006. If an economic review is successful, the facility could begin operation in 2009. This facility will be the first of its kind. But the ability to create electricity at scale with virtually no carbon dioxide emissions holds great potential as a solution to the challenge of climate change.

It's a start.

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