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ABOUT FAIR OBSERVER

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The Curious Case of Sergei Skripal

Damir Kurtagic

May 3, 2018

What was the rationale behind the poisoning of Sergei Skripal in Salisbury?

In an amusing, yet undiplomatic tweet following the poisoning of Sergei Skripal, a former Russian double agent, the Russian Embassy in London valorized the temperature of Russia-UK relations at -23, referencing the expulsion of 23 Russian diplomats from Britain. Skripal and his daughter, Yulia, were poisoned with a nerve agent on March 4 and found unconscious on a public bench in Salisbury, UK.

Bilateral relations between Russia and the UK have certainly reached a new nadir and, more significantly, the poisoning caused a wider rift in diplomatic relations between Russia and the United States, along with its allies; more than 150 Russian diplomats from two dozen countries were expelled. While unified in their condemnation of Russian state leadership for this act, the perceived rationale for the attack generally takes on two different forms — both of which do not make much sense from a Russian perspective.

First, the assassination attempt served to solidify the margin of electoral support ahead of the Russian presidential elections, which took place on March 18. Second, the attack was meant to send out a message that traitors do not go unpunished. However, these motives

are difficult to uphold, and it is also hard to justify Russian President Vladimir Putin's involvement from a geopolitical viewpoint. These considerations should have caused the United Kingdom and its allies to reserve judgment until all evidence was collected.

Regarding the first rationale, it has been widely considered that Russian leadership was trying to provoke a response from its citizens. The argument goes that the attack was meant to ensure a strong counter-reaction to the expulsion of its diplomats, which would then translate into an uptick in national pride and greater support for Putin at the elections.

The difficulty with this argument is the timing of the assassination attempt. According to Professor Gerhard Mangott of the University of Innsbruck, "The poisoning of Skripal could not have in any way influenced voting behavior and turnout, as it was too close to the elections." Indeed, the elections were certainly in the spotlight, but at no point in time did its outcome — another landslide victory on Putin's resume — come into question.

The second rationale is that the attack served as a strong message to those in the Russian military intelligence community who contemplate turning their back on the state. The community — and especially Putin as a former KGB agent — has a strong disdain for those that reveal Russian military and intelligence secrets to enemies.

With that being said, it seems that Russia could have chosen a more opportune moment for messaging, perhaps at a much earlier point in time. Skripal had been living on British soil for eight and a half years prior to the attack and previously served prison time in Russia for treason. Russia could have chosen a less risky approach to punishing Skripal rather than endangering UK residents.

The history of Russian assassination attempts in Britain reveals that using nerve agents such as the Novichok used on Skripal and his daughter is not in the spirit of the Russian *modus operandi*. Moreover, there are a lot of “firsts” involving the poisoning, and none of them bode well for Russia: first nerve gas attack on European soil after World War II; first time collaterals were involved; and the first time that not only the target but the broader public were exposed to danger.

Most of all, the case of Skripal is baffling for strategic considerations. Relations between Russia and the United States along with its allies have been strained ever since Moscow’s annexation of Crimea in 2014. The Russian strategy has been to split Western unity through support of domestic political options favoring closer engagement with Russia (anti-establishment and populist) and influencing votes, as seen with the Brexit referendum and the 2016 US presidential election.

The failure of this assassination attempt not only affects relations with the United

Kingdom, but the entire Western alliance. Russians were aware that a chemical nerve agent attack on British soil would have forced the UK to take a hardball stance, and it seems more likely that the Russians would have held off on potentially aggravating its adversaries over further undercover activities and alienating itself in the process.

What is most clear at the moment is the imprudent diplomatic reactions on both sides following the poisoning. While the United Kingdom levied attacks on Putin based on international law, it decided to circumvent the involvement of the Organization for Prohibition of Chemical Weapons in early stages and have an independent specialist analyze the blood sample under article 9 of the Chemical Weapons Convention. The Russians, on the other hand, did nothing to offer support and compassion, but jumped right into counter-accusations, lending no credibility to their case either.

At the end of the day, this incident will not reflect favorably on cooperation between Russia and the Western bloc for the foreseeable future.



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Trump Is Out: What Next for the Iran Deal?

Gary Grappo
May 10, 2018

In assessing the American withdrawal from the Iran nuclear accord, all parties would be well advised to heed the well-known physicians' Hippocratic oath: do no harm, or in this case, no further harm.

On May 8, US President Donald Trump announced America's long-anticipated withdrawal from the Joint Comprehensive Plan of Action (JCPOA), concluded under his predecessor, Barack Obama, in 2015 to curtail Iran's nuclear development program. Trump had campaigned aggressively on the accord's inadequacy and the Obama administration's failure to fully employ US leverage to negotiate a stronger deal. It has also been a core element of his Middle East policy as president.

For the Trump administration, the accord's sunset provisions for Iran's renewed production of enriched uranium are too brief; it does not provide for adequate inspection of military sites suspected of nuclear activity; it imposes

no limits on ballistic missile development; and it fails to address Iran's malign activity in the region — e.g., in Syria, Yemen, Iraq and elsewhere. Such shortcomings are readily acknowledged by Washington's European partners to the accord: Britain, France, Germany and the European Union. Russia and China also signed the pact.

SO, WHAT'S NEXT?

For US businesses that had begun or might have been entertaining doing business in Iran — e.g., the Boeing Company, America's largest aircraft manufacturer — the implications are clear. They will need to wind down their activities soon, though US officials have indicated they will likely have 90 to 100 days to do so. US sanctions will kick in at about that time, though some may take as long as six or even 12 months.

The real question and first complication from the president's decision is what will the other P5+1 signers do? Their best bet, and the likely approach of the European members, is to try to persuade Iran to remain in the agreement. The Iranians would be wise to listen as European companies remain strongly interested in the Iranian market, and Iran needs their investment and trade.

But to make that argument stick, the Europeans would have to back their companies and banks in the event the US applies secondary sanctions. These are sanctions the US government

places on foreign companies doing business in Iran and then in the US under any guise. However attractive Iran is, European business interests in the US market and financial system are exponentially bigger and more important than their interests in the Iranian market.

Will European governments and the EU back them in the event the US attempts to invoke secondary sanctions? And even if these governments and the EU were to step up, for many European banks and corporations, provoking the US Treasury Department will be simply too great a risk. That will make the Europeans' task more difficult.

WHAT ABOUT OIL?

Reinstatement of US sanctions on Iran will include oil. That presents another challenge for all the parties of the agreement. Unquestionably, Iran will lose some market access. The question is how much?

If the US decides to strictly enforce secondary sanctions, it will present huge obstacles. Four of the top six importers of Iranian oil — China, India, Korea and Japan — are unlikely to curtail their imports if the costs to their economies are too great. They are also key trading partners and/or allies of the US. Other significant importers — like Turkey, Italy, Spain and France — are NATO allies of the US. Rather than impose sanctions on these nations, for which oil is considered a strategic necessity, the US is likely to find workarounds or simply ignore the “violations.”

However, any watering down of US sanctions will detract from the leverage the Trump administration needs to achieve its stated objective: to negotiate a new, more stringent agreement with Iran.

WHAT ABOUT NORTH KOREA?

For the next three to four months, the US government will busy itself with drafting and re-imposing the various sanctions on Iran, ensuring that US businesses understand them, and working with European allies to maximize the extent of the sanctions. To achieve the latter, the Americans will have to demonstrate some give — e.g., tolerating some European businesses' continuing endeavors in Iran — but also demonstrating genuine goodwill in its self-proclaimed efforts to negotiate a new and better agreement. Europeans are rightly suspicious of that and are likely to seek concrete proof.

For the US, that may be in how it approaches upcoming negotiations with Kim Jong-un over North Korea's nuclear weapons program. An honest and realistic approach to that negotiation might provide reassurance of the administration's genuine commitment to preventing nuclear proliferation as opposed to, say, regime change.

Those hoping for a change in the president's decision are deceiving themselves. This decision had been a core campaign pledge of the President Trump and, therefore, is probably the last place we should expect a turnabout.

The only give in the US position may be in how it deals with Europe. The US cannot afford to complicate relations with its European partners any more than it already has after breaking from the Paris climate accord and threatening to impose trade tariffs on imported steel and aluminum. But to underscore the point, no one should expect the Americans to reverse themselves — even if there is a change in party majorities in the Congress this fall. There will be no going back.

AND FOR IRAN?

The Iranians would be well advised against reacting rashly. The majority of international public opinion is with them for the present, and that shouldn't be ignored. Continuing to comply with the accord will underscore Iran's proclaimed good faith. Moreover, its leadership will have to look at maximizing what little clout it has.

For example, remaining within the agreement in exchange for continued access to European oil and financial markets ought to be paramount for the time being. Iran should remain open to European suggestions for strengthening the accord. It will also turn to its Russian and Chinese trading partners, especially the latter, for support. With that, Tehran can probably manage to tolerate, though uncomfortably and only briefly, the US sanctions and what European business loss it is likely to suffer.

The most unwise reaction by Iran would be to restart its nuclear weapons

activity. It would bring international condemnation and put Iran out of compliance with the Non-Proliferation Treaty, to which it is signatory, and confirm the worst claims of Washington. Iran should also proceed with its commitment to ratify the International Atomic Energy Agency's Additional Protocol by 2023. This will keep Iran from falling into international pariah status as it did before concluding the accord in 2015.

The regime should not dismiss the possibility of negotiating a new agreement. Rather, it should keep a close eye on how Trump deals with North Korea. Should the US manage to close a deal that denuclearizes the Korean Peninsula — an admittedly tall task at this point — while also simultaneously formally offering to end the near 65-year-old conflict and pledging to respect the North Korean regime and to improve economic ties, Iran could possibly take comfort in its options with the Americans.

Donald Trump is not an ideological political figure. It's the deal — the right deal — he wants. Give him that and he will negotiate with anyone. That may be hard for the Iranian regime, itself radically ideological and abjectly opposed to the US, to accept given the president's harsh words about Iran.

For now, Tehran can wait to see the Trump administration's next steps. Absent from the president's remarks on May 8 while announcing the withdrawal was any plan for what may follow. The

US “plan B” may simply be to tackle North Korea’s negotiations in earnest. But while that is a serious pursuit, the US must also articulate how it intends to deal with the Iranian nuclear conundrum and avoid escalating tensions and causing further conflict in the Middle East.



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China Is Rising and Everyone Should Take Note

Uri Marantz

May 11, 2018

China is a force to be reckoned with. Not only should the US take notice, but the rest of the developed world should do too.

A recent issue of Foreign Affairs, “Letting Go: Trump, America, and the World,” questions the extent to which the United States under President Donald Trump has abandoned its de facto post-World War II leadership of the

liberal international order. The magazine further prefaces its front-page cover with the lead, “How Washington Got China Wrong,” suggesting that the US is either unable or unwilling to recognize the emerging reality presented by China’s rise to great power status.

The implication is that the ship of US grand strategy needs an immediate overhaul if it is to successfully navigate the increasingly turbulent waters of a multi-polarizing world. It is not just the US, but the societies of the so-called developed world that need to reassess their modus operandi if they are to keep up with China’s competing models of governance, business and society.

Since I spent most of March 2018 in the Chinese port city of Guangzhou, a major industrial hub and rapidly emerging metropolis, my arguments and supporting evidence are naturally informed by my recent experiences and first-hand observations. Guangzhou is the capital of Guangdong Province, which neighbors the South China Sea, Hong Kong and Macao on China’s southern coastline. Growing up in Canada, I also noticed some pointed contrasts between North American and East Asian cultures and practices. In arguing for greater Western awareness of the Chinese model of development, I outline some of these differences for the reader’s general interest.

GOVERNANCE

China is governed by a principled but pragmatic Communist Party. There

seems to be a peculiar social contract in place in China: The government continues to deliver robust economic growth year after year in exchange for zero dissent or public discussion of politics, religion and other topics of a taboo nature.

As recently as 2013, Kurt M. Campbell and Ely Ratner pointed out in their Foreign Affairs article on “The China Reckoning” that internal Communist Party memos “warned against ‘Western constitutional democracy’ and other ‘universal values’ as stalking-horses meant to weaken, destabilize, and even break up China.” This reluctance to embrace Western-style practices and a conviction in the superiority of the Chinese system was on striking display as China was changing one of its core tenets of Communist leadership, the regular hand-over of power that has taken place since Mao Zedong’s time nearly half a century ago.

President Xi Jinping has enacted a series of reforms enshrining his position for life, essentially eliminating presidential term limits. Of course, the local media portrayed this stunning development as “democratic” since it was supposedly in the people’s best interest to avoid “venal cliques” and “factional infighting.” It is argued that these forces would threaten the existential survival of the Communist Party and, in turn, the People’s Republic of China itself. Thus, the Chinese political system was superior to the West’s version of competitive electoral politics since it eliminated partisanship

and unpredictability, domestic and foreign. Perhaps the Chinese government has a point: With millions of Chinese residents migrating from the countryside to the city-centers every year, for decades now, the government faces an uphill battle keeping the economy running smoothly.

BUSINESS

China’s growth since the late 1970s has been rapid, sustained and unparalleled in the modern world. According to the World Bank, “GDP growth has averaged nearly 10 percent a year—the fastest sustained expansion by a major economy in history—and has lifted more than 800 million people out of poverty.” US-China trade in goods has increased by 30 times in 30 years (from \$8 billion in 1986 to \$578 billion in 2016, accounting for inflation). While there are many reasons for China’s “economic miracle,” my arguments here will rely more on my personal anecdotes than a laundry list of statistics.

The municipality of Guangzhou is much more modern and integrated than many Canadian cities I’ve visited: Vancouver, Calgary, Toronto, even Montréal. The city parks, walking plazas and urban centers are well-kept, imposing and expansive. The Mall of the World, for example, is a series of interconnected stores and restaurants that connect to the subway and run through the central strip of downtown Guangzhou. Museums, libraries and artistic installations flank its southernmost tip astride a grand view of the city’s major

tourist attraction and one of the world's tallest observation lookouts, Canton Tower. During the day, these public works reach as far as the eye can see, but at night, they shine and shimmer with a dazzling array of lights and patterns, all choreographed to impress the myriad onlookers below.

Getting around the city is surprisingly easy and affordable. The subway system is quick and efficient, intersecting the city and penetrating surrounding suburbs. Subway cars are jam-packed most hours of the day, making even the busiest rush hour in Toronto's underground feel like a leisurely stroll through the park. Millions of bicycles are stationed strategically around the city, owned and operated by government-sanctioned private enterprises like Ofo and Mobike. Scanning a barcode with a smartphone application unlocks it remotely for a limited time, after which riders can park them anywhere else in the city. With today's exchange rate, the cost of riding the subway or renting a bicycle is measured in cents, not dollars — an impressive discount from nearly \$4 a ride for public transit in major Canadian cities.

SOCIETY

Despite the limited exposure I had, I found that Chinese culture has blended the past and present, tradition and modernity, together into one seamless web. Guangzhou, the "City of Flowers," decorated all its roads, bike paths and pedestrian walkways with floral

arrangements of all kinds. The millennia-old heritage of Confucian civilization was evident in the sculptures on display at Sun Yat-Sen University. The extensive foliage of the Sun Yat-Sen Memorial paid homage to the nationalist norms and principles embodied in the postcolonial, early 20th-century Republic of China. Going for a jog one morning in Zhujiang Park, it was refreshing to see the emphasis people placed on physical fitness. People of all ages were walking, jogging and stretching, popular with early morning joggers, tai chi practitioners, ancient sword dancers and octogenarians etching rows of Chinese character-based calligraphy in the ground.

At the risk of overgeneralizing, Chinese society seems exceedingly modest and traditional. Most personal interactions are pleasant and respectful, even with my limited grasp of the language. Still, all the shopping malls stock the latest fashions, and the trendiest brands are on display.

The One-Child Policy, in effect for decades but repealed a few years ago, means that most adults are without siblings and most families still have only one child. The growing middle and upper classes may be able to afford more than one at this point. For instance, my Airbnb host — as a property owner, presumably already in the upper strata of society — was raising a pair of beautiful twin boys, an alteration to conventional family planning that would have been unthinkable just a few years ago.

As a cautionary note, state-owned media still run the day. The government tells the people what to believe about their country and the outside world. Flying into Beijing, Hainan Airlines provided me with a copy of the China Daily and the Global Times, both of which propagate the official bottom line.

The Sino-centric worldview and uncritical coverage of Chinese affairs were expected. What was not expected were the progressive, almost liberal-minded stories discussed as current affairs: a #MeToo-style sex scandal in South Korea with the potential to bring down a presidential contender; the plight of LGBT youth in China's major cities and within their own families; and the growing social media activism of feminists, represented most recently by the use of "rice" and "bunny" emojis to spell the phonetic mi-tu in order to get around government-monitoring censors.

Of course, security cameras everywhere and a tightly controlled online ecosystem render any public protest difficult and dangerous. Virtual private networks, or VPNs, are necessary to access BBC World News, Facebook, Google and many other websites deemed unsavory by the Chinese authorities. In the end, the government has an Orwellian ability to clamp down on dissent and enforce its own version of events on society if it deems it necessary.

WATCH CLOSELY

China's rising status, resources and capabilities in the world are a force to be reckoned with that all "developed" countries must consider. Here I have merely relayed some of the more impressive and intimidating characteristics of the Chinese development model that I deemed noteworthy. Without an awareness and recognition of China's growth and development, it is my contention that the West will be powerless to adapt and compete in the future.

For all the downsides that authoritarianism entails, the social mobility and economic development that I witnessed in Guangzhou impressed me to no end. No doubt, China faces serious socioeconomic and environmental challenges going forward. Poverty and inequality are still rife, even in the most developed cities, and more than 1 million people are dying every year because of airborne pollution.

All the same, a rising China is of global concern and interest. As the ongoing trade tariff dispute with the US demonstrates, China's growing economic clout means that all countries need to take note of its foreign policy ambitions. Nowhere is this more pressing an issue than on the African continent, where some have already suggested geopolitical competition is underway. It was recently revealed that China's freely-built African Union headquarters were bugged, recording all incoming and outgoing messages since first being constructed. Furthermore, China has been buying up vast tracts of

farmland in Africa, developing urban infrastructure, disbursing competitive loans, and even establishing its first military base in Djibouti as of 2017.

The future is uncertain for the West and China, but it is worth watching closely.



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US Withdrawal Brings Uncertainty to Everyday Iranians

Kouros Ziabari

May 15, 2018

Iran went from being an isolated country, disconnected from the outside world, to a member of the international community. The future is now uncertain.

On May 8, US President Donald Trump announced his decision to withdraw from the Iran nuclear deal. The Joint Comprehensive Plan of Action, also

known as the Iran deal, is a multilateral agreement between Iran and the six world powers that was endorsed by the United Nations Security Council. The accord, which was agreed in 2015, caps Iran's nuclear activities in return for the removal of economic sanctions. It also reconnects Iran to the world's financial and banking system.

Trump's de-certification of the deal was not unexpected. It was one of his campaign promises in 2016. He has pejoratively called the accord "Obama's deal," referring to his predecessor, Barack Obama, and has criticized the former president for negotiating with the world's "state sponsor of terrorism." Trump has said that the US will impose the highest level of economic sanctions against Iran, claiming that "this will make America much safer."

President Trump has now left his counterpart, Iranian President Hassan Rouhani, with no option but to continue fighting with the hardliners at home. Although the average Iranian and the global public understand the innumerable benefits of such an agreement, Rouhani must embark on a new charm offensive — this time domestically — to sell the deal.

FOR EVERYDAY IRANIANS

The nuclear agreement, after it came into effect on Implementation Day in 2016, removed a major barrier to the welfare of Iranians. Iran went from being an isolated country, disconnected from

the outside world, to an acceptable member of the international community.

The country has since been able to engage in close trade and financial agreements with many European, Asian and African countries, as well as some US companies, without the hectic impediments it once faced. Iranian airliners have even started to buy new aircraft for their aging fleet from Airbus and Boeing. The aviation industry requires an overhaul in Iran, and without buying the hundreds of new airplanes the country desperately needs, tragic reports of air traffic accidents will likely continue.

Moreover, as the seventh largest oil exporter in the world, Iran was able to sell its crude to countries such as China, India, South Korea, Italy, Turkey, Switzerland and Greece unimpeded. As a result, Iran finally experienced a boom after years of stagnation under international sanctions.

The quality of living for everyday Iranians has improved. The jovial street rallies of Iranians after the nuclear deal was signed in 2015 indicated the depth of public satisfaction with the accord. Iranians could access the basic staples of living a modest life without complications: food, clothing, medicine, vehicles, educational opportunities and even the ability to travel abroad with more ease.

Iran's tourism industry underwent a metamorphosis as well. The country, which contains 22 UNESCO World

Heritage Sites, has received more tourists and international visitors who yearn to explore this mysterious, historical country.

However, with Trump's radical decision to withdraw from the deal, ordinary Iranian citizens should expect many more challenges, at least until the next US presidential election in 2020. It's reasonable to expect further currency devaluation, the continued inability of Iranian airlines to buy new aircraft, and probably a rise in unemployment.

Trump's questionable decision to pull out from the JCPOA is also a blow to Europe. Carl Bildt, the former Swedish prime minister, has described the deal as "a massive attack on Europe" in an op-ed for The Washington Post.

By turning his back to the JCPOA, Trump has put Europe in an awkward position. The European signatories of the nuclear deal have made it clear that they will stand by Iran and stick to their commitments. However, to continue trading with Iran, they should be mindful of a whole load of new restrictions and potential penalties by the Trump administration.

Withdrawing from the nuclear deal has done nobody any favors. It has created a huge amount of unnecessary bureaucracy for Rouhani's administration, brought a smile to the face of hardliners in Tehran, and made the prospects of Iran-US diplomatic relations even bleaker.

The latest chapter of Trump versus Iran will not end anytime soon, and the Iranian people will be at the receiving end.



Kourosh Ziabari is an award-winning Iranian journalist. He has conducted numerous interviews with politicians, diplomats, Nobel Prize laureates, academics and other public figures from around the world. In 2015, he was the recipient of the Senior Journalists Seminar Fellowship from the East-West Center in Hawaii. In November 2015, he won the Gabriel Garcia Marquez Fellowship in Cultural Journalism by the FNPI foundation in Cartagena, Colombia. He was the first Iranian delegate at the American Middle Eastern Network for Dialog at Stanford (AMENDS), addressing its 2016 edition. Ziabari is a reporter at Fair Observer.

Has Turkey Had Enough of Erdogan?

Nathaniel Handy
May 16, 2018

The excitement over a viral Twitter campaign obscures deeper realities upon which Erdogan's power rests in Turkey.

In a speech on May 8, Turkish President Recep Tayyip Erdogan said, "If one day our nation says 'enough,' only then will

we step aside." It may have seemed innocuous, but in the world of social media and electoral spin, such passing phrases can quickly come back to haunt you. So it was for President Erdogan. The opposition jumped on this lone word to galvanize the most energetic campaign so far in the run-up to the snap general election called for June 24.

The Turkish word that Erdogan uttered, "tamam," is a slippery one. While it means "enough," it can also have a meaning closer to simply "OK" or "fine." So, which is it for the president? Is this really the beginning of a groundswell of opposition to his long rule, or is there really nothing for him to worry about?

AN ALLIANCE OF CONVENIENCE

The #tamam campaign has indeed become a worldwide trending hashtag, being taken up by Hollywood stars such as Elijah Wood. They are joined by a whole array of political opposition figures in Turkey, with tweets from Republican People's Party (CHP) presidential candidate Muharrem Ince; Meral Aksener, leader of the new breakaway conservative nationalist Good Party (IP); and the leader of the old guard Islamist Felicity Party (SP), Temel Karamollaoglu.

Though the charismatic Kurdish leader Selahattin Demirtas remains in detention following the crackdown on the opposition People's Democratic Party (HDP), his Twitter account offered his "T A M A M" by proxy and his co-leader, Pervin Buldan, added her voice

to the campaign. This paints a picture of an entire opposition landscape — from secular Kemalists to hardline Sunni Islamists to Kurdish democrats — united behind one phrase and one demand.

Such a groundswell ought to prove formidable, and yet the cracks are betrayed by one tweet from Wikipedia founder Jimmy Wales, whose platform is currently blocked in Turkey under the state of emergency imposed following the failed coup of July 2016: “I love Turkey. I love Turkish culture and people. The beautiful city of Istanbul... great food, great wine, great culture. I call on Erdogan to unblock Wikipedia and to listen to the people! #tamam #wemissturkey.”

The sentiment to uphold a people and a nation as inherently good (i.e. of like-mind to oneself) in opposition to a single man who acts as a spoiler and dictator, suppressing masses that would otherwise share my worldview, is a common one. It is an echo of similar refrains used in reference to 20th-century dictators and also contemporary ones. Yet the narrative that one man — Recep Tayyip Erdogan — is suppressing the will of the Turkish people is palliative. It does not get to the heart of the issue.

ERDOGAN IS INDEED A SYMBOL

All the most successful political leaders are men — and occasionally women — who have been adept at identifying access routes to power and influence. These access routes already existed

within the framework of a society. An individual leader is merely someone who is firstly astute enough to spot it and, secondly, happens to embody everything that is required to make the most of that route.

President Erdogan is now plainly a one-man hate figure for a large segment of Turkish society and wider international observers. He personifies for many everything that is wrong with Turkey, everything that is suspicious, corrupt and vengeful. There is, on the face of it, nothing extraordinary about a broad desire to remove a political leader who has been in power as long as President Erdogan. It is part of a natural cycle of renewal. But there is more to this than the desire for a new face. Many in Turkey are not simply tired of Erdogan — they loathe and reject everything he stands for.

Just as President Erdogan has become a symbol for the opposition to him, so too has he become a symbol for his supporters. It is, perhaps, a difficult and dangerous place to find oneself. In many ways, Erdogan the man and even Erdogan the politician has been hollowed out. Every day, it becomes harder to distinguish the man himself, his own drives and passions, from those that are attached to his person by others. There is every reason to suppose that the more vehemently the opposition rejects President Erdogan, the more entrenched the support that holds him up will become.

THE SINS OF OUR FATHERS

As much as we like to focus on the here and now, and to believe that the vote in Turkey on June 24 will be about current issues in the lives of people today, much about what we do in the politics of the present is preset in the actions of the past. Turkey is not a dictatorship in the way of Abdel Fattah al-Sisi's Egypt or even of Vladimir Putin's Russia. That is precisely what makes elections in Turkey so important. It was also not a democracy prior to President Erdogan in the way of Britain or the US.

It is easy in today's analysis to gloss over a 20th century in which the religiously-minded majority in Turkey were second-class citizens. Generations grew up under far more dictatorial conditions than exist today in which cultural and Islamic practices were forcibly uprooted in the name of progress. Even after the partial liberalization of the 1950s, the military system still ensured that this sector of society was unrepresented. It became as much a class issue as a religious one.

What Erdogan and his party have achieved in the 21st century is extraordinary. He has not only given this constituency representation, but also overwhelming power and economic success. In that sense, a social revolution has occurred in Turkey. While it may be viewed more as a counterrevolution by many secularists, the figure of President Erdogan has become the embodiment of that transformation for what has remained, until now, a majority of the electorate.

The real threat to President Erdogan is from within, not from outside. The excited rumors about the possibility of former President Abdullah Gul — co-founder of the ruling Justice and Development Party or AKP — running against Erdogan on June 24 would have indeed been explosive had they come to pass.

As it is, Gul shied away from the challenge. Just as secular Kemalists have always put their faith in the old guard in times of crisis, the base of support for the AKP will remain as well. Until it splits, they won't. No amount of tamams will change that equation.



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The Future of Venezuela without a Legitimate Government

Glenn Ojeda Vega

May 23, 2018

Nicolás Maduro has claimed victory in an election widely seen as a farce. As a result, the options to push for real political change in Venezuela are limited.

On May 20, after months and years of domestic crisis, the regime of Nicolás Maduro finally held the long-postponed presidential elections in Venezuela. However, the sham exercise that the world witnessed was nothing more than an ill-achieved masquerade, pretending to give an aura of legitimacy to a rogue president's regime. With hundreds of political prisoners and countless members of the political opposition in exile or barred from running, the ballots printed for Sunday's fraud elections featured Maduro's picture as the official candidate of 10 out of 17 parties. Moreover, there were no credible members of the opposition featured on the ballot at all.

As expected, the Maduro-packed National Electoral Council (CNE) announced that the incumbent president had won the election with over 67% of the vote and a participation of 46% with little over 9 million voters. Nevertheless, the limited independent press coverage of the election seems to suggest that even the participation rate is inflated, given that most voting centers

throughout the country seemed to be empty all day long.

As expected, the international condemnation of the elections as a farce was almost immediate. The Hemispheric Lima Group, which is composed of 14 countries from Canada to Chile, jointly stated that it would withdraw its ambassadors from Venezuela and called for a new transitional government. Moreover, the international chorus of voices refusing to recognize Maduro as a legitimate head of state has increased now that his previous presidential term has officially expired. Nevertheless, Maduro continues to have strategic allies, notably Cuba, Nicaragua and Russia.

While almost all regional and Western governments already recognize the illegitimacy of Maduro's government and his shadow "constituent assembly," the question now remains as to what can be done beyond aiding the political opposition through asylum and international speech platforms. Maduro's unpopular regime has proved to be particularly resilient, mainly because it has successfully coerced the Venezuelan armed forces by granting them more political power and tolerating drug trafficking activities by the military.

Simultaneously, efforts at mediation, both at a national and an international level, have failed. Today, "mediators" still engaging with Caracas, such as Rafael Correa from Ecuador and Jose Luis Rodriguez Zapatero from Spain, have lost all credibility both amongst

Venezuela's population and the international community. Currently, the majority of high-profile figures throughout the region, including Luis Almagro from the Organization of American States and Laura Chinchilla from Costa Rica, are engaged in a campaign of publicly denouncing Maduro's dictatorship and calling upon him to step down unconditionally.

There is no doubt that Maduro's regime is illegitimate in the eyes of his own people and of the world. However, with the country weakened by a severe economic crisis that has led hundreds of thousands to become refugees and broad sectors of opposition in exile lacking any real leverage over Caracas, the options to push for real political change in Venezuela are truly limited.

To this reality, one must add the recent increase in international oil prices, which serves as a financial gasp for the Maduro regime that continues to sell petroleum to partners such as China. The United States and some European countries have already imposed severe sanctions on the Maduro regime, and it is time for others to follow suit in a maximum pressure campaign to further isolate him.



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The Underlying Radicalism of Brexit

Paul Stocker

May 23, 2018

It is impossible to understand the Brexit vote and the political culture that has emerged in its wake without appreciating Britain's lurch to the right.

Earlier this year, an intriguing lens was cast on the nature of radical and far-right ideas in post-Brexit Britain. At the center was a graphic tweeted by Leave.EU — the radical unofficial pro-Brexit group spearheaded by Nigel Farage and funded by Aaron Banks in the 2016 European Union referendum. The graphic blared the title "Londonistan" above a picture of London's Muslim mayor, Sadiq Khan, with the caption: "423 New Mosques, 500 Closed Churches, 100 Sharia Courts."

The blatantly Islamophobic and factually baseless tweet (which clearly has nothing to do with the group's *raison d'être* of leaving the European Union), according to BBC Reality Check was "based on out-of-context sources and, importantly, give no sense of time span." It came just days after Leave.EU sought to exploit the anti-Semitism row that has engulfed the Labour Party with another

controversial message, stating that Labour's failure to deal with anti-Semitism was due to it being "reliant on the votes of Britain's exploding Muslim population."

Leave.EU has come under increasing criticism by many for its output on social media, including Labour MP Wes Streeting (a Remainer) who commented that the Sadiq Khan tweet was "out and out racist politics" and that the group is "now a far-right organisation trying to stir up hatred and division between different communities." Streeting is essentially correct. The group, which set out to campaign for Britain's withdrawal from the EU, has morphed into a typical far-right organization regularly exhibiting anti-Muslim prejudice and xenophobia.

Of more interest, however, is that prominent Brexiteers criticized the recent actions of Leave.EU. Radio DJ Julia Hartley Brewer tweeted: "Dear @LeaveEUOfficial your tweets are doing a terrible disservice to Brexit voters. Your tweets are often crude, divisive and nasty. I don't know what you're trying to achieve but I'm pretty sure the British people don't want it. Please stop." Prominent political blogger Guido Fawkes similarly argued that Leave.EU was "once again hurting [the] Brexit cause" and that "Leave.EU were not the official Leave campaign — they are, to coin a phrase, a fringe group who do not represent mainstream Brexiteers."

This is part of a wider attempt by Leavers to claim that Britain's vote to withdraw from the European Union was

nothing to do with bigotry or the growing appeal of far-right ideas in Britain — a key argument made in my 2017 book, *English Uprising: Brexit and the Mainstreaming of the Far Right*. Rather, as the likes of Foreign Secretary Boris Johnson and other Vote Leave — the official pro-Brexit group — dignitaries such as Michael Gove and Douglas Carswell have argued, Brexit was driven by voters wishing to engage more with an increasingly global and cosmopolitan world. In the words of Carswell, the vote to Leave was "not an angry nativist xenophobic vote" but "won precisely because it was an argument about Britain being open, internationalist, generous, and globalist."

This is to almost willfully misremember the EU referendum campaign. The Vote Leave, whilst more subtly than Leave.EU, utilized the tactics of Islamophobia, xenophobia and willful distortion of facts all present within Leave.eu's recent tweet. Posters claiming that Turkey's accession to the EU was imminent and "Britain's new border is with Syria and Iraq," as well as their exploitation of the refugee crisis similarly sought to tap into the same fears used by the far right.

The Leave vote in 2016 was decades in the making and indicative of a growing skepticism toward immigration and multiculturalism that had been on the rise since at least the turn of the 21st century. There had been unprecedented support for the neo-fascist British National Party between 2002 and 2010, while the rise of the less extreme but

anti-immigrant UK Independence Party (UKIP) reached its apogee in 2014 when it came first in the UK's European Parliament elections.

The decision to hold the referendum was motivated by then-Prime Minister David Cameron's desire to appease hard-right backbenchers and win back Euroskeptic Conservative voters who had abandoned the party for UKIP. Opinion polls consistently placed immigration at the top of the list of issues facing the country, while just a week before the vote in June 2016, immigration overtook the economy to become the most important issue motivating would-be Brexit voters. In short, it is impossible to understand the Brexit vote and the political culture that has emerged in its wake without appreciating Britain's lurch to the right.

There has been substantial debate since the referendum as to what Brexit actually means and represents. One of the less helpful analyses came from Prime Minister Theresa May when she proclaimed that "Brexit means Brexit." But aside from the fevered discussions over Britain's future trade and legal relationship with the European Union, which have overshadowed nearly all political debate since the referendum, what is abundantly clear from the data is that the British public voted Leave in order to achieve aims that have, for decades, been advocated by the radical right.

Since the referendum, those involved in the Leave campaign have sought to

deny or minimize the link and now appear to be distancing themselves from the more radical elements of the campaign to leave the EU.



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Can Europe Save the Iran Deal?

Dina Yazdani

May 24, 2018

Iran will rely on world powers to keep the nuclear deal alive, undermining Trump's attempt to weaken the country.

Iran's Foreign Minister Javad Zarif has wrapped up the first leg of his diplomatic tour to work with the signatories of the Joint Comprehensive Plan of Action (JCPOA, or the Iran nuclear deal), in a final stand for its preservation. Following Trump's decision to pull the US out of the agreement on May 8, Zarif met with his counterparts in Beijing and Moscow, soliciting their renewed commitment toward the international pact, as well as

European leaders, who stand to lose billions if the agreement collapses.

Trump's decision has without a doubt dealt a blow to Iran. Nonetheless, Tehran is optimistic that the deal has not been completely derailed. "From this moment, the JCPOA is between Iran and five countries," Iranian President Hassan Rouhani said in a press statement just moments after Trump's announcement. "From this moment, the P5+1 has lost the 1."

Iran has abandoned hopes it once had under the Obama administration of gradually rekindling relations by pivoting away from the US toward other world powers, particularly Europe. Rouhani announced that Iran would continue to adhere to the deal as long as European powers took substantive measures to preserve it and continue business with the Islamic Republic despite US sanctions. The UK, Germany and France have all announced that they will remain committed to the nuclear deal with or without the US. On May 15, European leaders held an emergency crisis meeting with Zarif and outlined steps to get the nuclear deal, in the words of EU foreign policy chief Federica Mogherini, "out of intensive care as soon as possible."

A BLOW TO REFORMISTS

President Trump had lambasted the deal for being "one-sided" and simply "horrible" and sought to penalize Iran from the benefits promised under it. While Iran adhered to the agreement by

destroying its core reactor at Arak, ended uranium enrichment and ultimately abandoned its ambitions of becoming a nuclear power altogether, Trump sought to undermine the deal the moment he stepped into office. In addition to imposing new sanctions, the US president called for a Muslim ban that blocked Iranians from entering the United States; created an atmosphere of uncertainty for American companies that discouraged them from doing business with Iran; and appointed a war cabinet that includes Trump's hardline national security adviser John Bolton and Secretary of State Mike Pompeo, who have both actively called for military confrontation against the Islamic Republic.

When JCPOA was signed in January 2016, Iranians were hopeful that the nuclear deal would open both the country's economy and society to the international community. The deal was thought to not only bring economic growth, but also strengthen reformist leaders like Rouhani who negotiated the agreement and have called for expanding political freedoms inside Iran. Hardliners in Iran, who are isolationists critical of the West and devoted to Islamic law, are capitalizing on Trump's withdrawal and have criticized Rouhani for trusting Washington. Instead of buckling under pressure by admitting defeat, Rouhani is determined to resuscitate the deal by bolstering relations with the P5.

The nuclear deal has become a lifeline for the reform movement. For as long as

it enables Iran to widen relations with other world powers and bring in foreign investment, reformists will continue to have leverage over the hardliners. Rouhani's election in 2013 and the 2017 reelection, the latter of which was considered a successful referendum on the nuclear deal, emboldened ordinary Iranians to call for greater social reform. Rouhani has echoed Iranians' calls publicly and even carried out measures to loosen restrictions on personal freedom, such as divesting of the moral police.

The deal provides President Rouhani with an opportunity to push for more reform and convince hardliners to work with the international community rather than against it. Rouhani is now depending on Europe, which understands how the reform movement's fate is tied to that of the nuclear deal, to save the agreement.

European leaders are on the frontline fighting to save the JCPOA. In the weeks preceding the US withdrawal, French President Emmanuel Macron and German Chancellor Angela Merkel vigorously lobbied Trump against it. Europe not only risks losing a lucrative trade partner, but also understands the ramifications it would have on political stability in the Middle East. Without the deal, Iran would restart its nuclear program, validating Saudi Arabia and Israel's calls for military containment. These three countries' proxy wars have already caused insurmountable damage to the region; a direct war could destroy it.

CAN EUROPE SAVE THE DEAL?

The nuclear deal is best positioned to contain Iran's ambitions. As long as there is an international pact with Iran, there is a channel for diplomacy. European powers understand that as long as this channel is open, they're more likely to be able to engage Iran on other topics, from its ballistic missile program to its involvement in Syria.

Europe's best shot at preserving the nuclear deal is through a carrot and stick approach toward the US. On the one hand, it can ignore America's extraterritorial sanctions by employing the 1996 Blocking Regulation that threatens to freeze US assets in Europe and in the process protects European companies from US legal rulings (such as sanctions). On the other hand, European powers can address Trump's concerns over the nuclear deal through a separate, parallel agreement negotiated alongside the JCPOA that compels Iran to diminish its ballistic missile capabilities in exchange for sanctions relief.

If Europe hopes to save the nuclear deal, it will need to learn to stand up to Trump, who has repeatedly sacrificed global security in favor of an "America First" approach. The US cannot continue to dictate international relations and politics. Iran sees Trump's exit from the nuclear deal as an opportunity to work and bolster relations with other world powers and prove that international agreements can survive without the United States. When Trump

announced US withdrawal from the Paris Climate Agreement, the international community came together to carry on with business as usual. Iran hopes that it will do the same when it comes to the nuclear deal.



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The Restructuring of the Malaysian Economy

Ravindran Navaratnam
May 24, 2018

Malaysia has once again elected Mahathir Mohamad as prime minister, and the economy is topic of the day.

The appointment of 92-year-old Mahathir Mohamad as the prime minister of Malaysia was phenomenal in its own right, but more so in the context of the hope and expectations

Malaysians have for him to rework the economy.

The general election held on May 9 was a turning point in Malaysia's 60-year history. For the first time the ruling coalition, Barisan Nasional (BN), failed to win and form the federal government. This is a truly remarkable and extraordinary success for a myriad of reasons as the Pakatan Harapan — the coalition that Mahathir leads — victory was against all odds, including allegations of electoral fraud, a well-oiled and well-funded incumbent election machinery, and an opponent largely in control of the traditional media.

Despite some last minute delaying tactics by the previous administration led by before Mahathir was sworn in as the seventh prime minister, the transition of power has been peaceful and in accordance with the rule of law. This is a testimony to the world that even in a flawed democracy, the ability to change government without violence is possible. Lee Kuan Yew, the first prime minister of Singapore, in responding to a question on the attraction of democracy, said, "The greatest attraction of democracy is you can change government without violence."

ECONOMIC PERFORMANCE

The Merdeka Center, an opinion research firm in Malaysia, shows a consistent trend that from the end of 2013, the primary concerns for most voters in Malaysia were related to the

economy, in particular, the rising cost of living. This graph plots the gross national income (GNI) per capita in US dollars and corresponds with difficult periods faced by the Malaysian economy. The most recent period shows contracting GNI per capita in dollars, which is an issue the new government must resolve.

While GNI per capita in dollars is a more appropriate benchmark for cost of living and the wealth of the populace, the outgoing government, in defending its management of the economy, pointed to high GDP growth as normally measured in the domestic currency, low inflation, low unemployment, improved Gini coefficient and reduced government deficit.

However, observers and financial commentators point to the weak demand in the retail sector, serious cost of living issues despite the ostensibly low inflation rate, increasing youth unemployment, and greater disparity between the rich and poor.

Whilst there have been programs such as the One Malaysia People Assistance Program (BR1M) to help the poor through the distribution of direct cash from the government, the middle class faced increasing costs arising from the dual effects of the imposition of goods and services tax (GST) and a depreciating ringgit. Critics of former Prime Minister Najib Razak also pointed to the high levels of government debt, not to mention the contingent and off-balance sheet liabilities in the form of

long-term lease payments, which are not manageable and have burdened the government finances. In addition, there are structural issues that the central bank has highlighted in its most recent report such as low wages, the plague of unemployment/underemployment faced by the younger generation, and the lack of affordable homes.

RISK TO THE ECONOMY

Bank Negara Malaysia, the country's central bank, in its report for the third quarter of 2017, pointed out the potential risk of purpose-built office spaces in Malaysia. This included the most developed areas around Kuala Lumpur (Klang Valley), where the office vacancy rate is projected to reach an all-time high of 32% by 2021, which is significantly worse than that during the 1997 Asian financial crisis (AFC) of 25.3%.

Furthermore, the oil and gas sector, which is vital to the Malaysian economy, requires restructuring as well as government leadership following the crash in oil prices, which resulted in the industry facing overcapacity of oil and gas services and declining margins. This is not surprising as "quantity of money" for the industry has contracted, as can be deduced from accounts of the National Oil Corporation, PETRONAS.

Altman's Z-score analysis of public-listed companies within the sector shows a declining trend, and several oil and gas services companies such as Jasa Merin Malaysia Sdn Bhd (a

subsidiary of Marine and General Berhad), Perisai Petroleum Teknologi Bhd and Alam Maritim Resources Bhd, have announced that they are experiencing financial distress and undergoing restructuring. With the current crisis looming in the oil and gas sector, a laissez-faire approach will likely be ineffective to revive the industry. What is required in such a crisis is government intervention — i.e. expansion of the quantity of money to stimulate demand in the industry.

LEADERSHIP

The perspective of the new government based on its election manifesto has already received criticism as a populist policy because of the promised abolishment of GST, introduction of subsidies, write down of loans for the Federal Land Development (FELDA) settlers, abolishment of toll for highways, and deferment of repayment for student loans.

Perhaps some insights can be gleaned from the events during Mahathir's earlier tenure as prime minister between 1981 and 2003. The period prior to the mid-1980s crisis was dominated by a push toward heavy industry championed under HICOM, a Malaysian company, which included the automotive, iron and steel, plastics paper products and machinery, transport equipment and building material industries. The petrochemical sector was advanced by working with foreign partners who would provide technical knowledge, but with capital coming from the state.

In short, this was a departure from previous fiscal policy and sought to accelerate the new economic policy (NEP) — i.e. macroeconomic policy activism, such as a rebalancing the wealth in the country in favor of the majority Malay/native population.

However, commodity prices collapsed in the 1980s in response to Chairman of the US Federal Reserve Paul Volcker's fight against inflation, which caused interest rates in America to rise significantly. As such, major Malaysian commodities such as rubber and tin suffered the same fate and, as a result, Malaysia faced a twin deficit (current account and government budget) during that period. In 1985, the Malaysian economy contracted by 1% and grew by a meager 1.2% in 1986. Furthermore, nonperforming loans (NPL) at banks rose above 30% due to a wide number of corporate failures. One of the hardest hit companies, HICOM, lost approximately \$100 million. Finally, the stock market crashed due to the Pan El Crisis.

The government led by Mahathir responded with a series of adjustments, which included:

- 1) Contractionary fiscal policy
- 2) Relaxation of NEP — i.e. Investment Coordination Act, which was made only applicable to investment above \$1 million and businesses with more than 75 employees. Importantly, free trade zones were created in which there was

exemption from NEP policies on ownership.

3) Budget deficit reduced and managed a current account surplus

4) Introduction of the Banking and Financial Institutions Act (BAFIA), limiting exposure to foreign exchange (FX) borrowing, which allowed critical policy flexibility in 1997 during the Asian financial crisis and related party loans

5) Appointment of private sector CEOs to government-owned companies, which had mixed results, as illustrated with the winding up action against Perwaja Steel in 2017

6) Boosting foreign direct investment (from less than \$500 million in 1986 to \$2.3 billion post reform) and the promotion of services — e.g. tourism such as Visit Malaysia Year 1990 — and efforts to reduce current account deficit from the services sector through the use of local ports and domestic transportation.

The result foresaw a period of extraordinary growth, low unemployment (virtually full employment) and low foreign debt up until the Asian financial crisis. Extraordinarily, the government ran a surplus budget during that period.

Whilst the AFC of 1997 was perceived as an exchange rate crisis, in reality it was a credit crisis. The credit crisis arose because credit evaluation and validation were certainly much better,

comparing the new cycle against the past — i.e. conditions preceding the Asian financial crisis as compared to the mid-80s crisis. This led to credit expansion, and the said credit expansion was possible given the inflows from foreign direct investment (FDI), offshore lending, flows into the stock market, and money creation by commercial banks. The banks could create more money as capital was increased to meet status of new capital regimes imposed by the central bank (Tier 1/ Tier 2 capitalized banks).

Noteworthy, leading economists point out that it is possible to expand credit for long periods of time, as witnessed in China, and not suffer a credit crisis if the country maintains capital controls and run a major trade surplus. In contrast to this, pre-Asian crisis, Malaysia neither enjoyed a trade surplus nor had a closed capital account.

In respect of the government surplus, there are two notable points. First, some infrastructure projects that were never commercially viable were undertaken by the private sector financed by debt. These loans inevitably became NPLs because the projects should have been public sector funded. Such projects did not have to be commercially viable as there was benefit for the public and the overall economy. However, it distorted public sector funding debt ratios, and inevitably these projects were “nationalized” once the loan turned bad.

The second important point is the widely held notion that governments worldwide

should run government finances like household or corporations — i.e. they must run a surplus. This is simply not true, excluding the external sector, because if the government saves, then conversely the private sector (i.e. businesses and households) cannot also be net savers and need to borrow.

Thus, the corporations were significant borrowers before the Asian crisis. Unlike households and corporations that are not able to create money, borrowing in the country's own currency does not pose a similar threat to government as it does to households and businesses. Obviously, this does not mean governments should not be prudent in spending and managing the budget.

During the AFC and under Prime Minister Mahathir's leadership, Malaysia had the distinction of being the only one of the four Asian crisis countries that neither sought International Monetary Fund assistance nor changed the government.

Despite a sharp devaluation of the currency, the devalued ringgit quickly allowed trade deficit to turn into a surplus. To this was added the government-led restructuring of banks and large corporations. Capital controls created flexibility to reduce interest rates and spur credit expansion. The supply of money grew after the crisis from increased government spending and pent up demand for housing — i.e. mortgage lending.

Accordingly, the money supply and the country recorded growth. These issues are much better understood post the global financial crisis of 2007-08, but at the time, Malaysian government policies were thought of as unorthodox and received wide spread criticism. The policies were eventually vindicated as Malaysia's cost from the crisis was amongst the lowest. During the AFC, the government formed the National Economic Action Council (NEAC) that oversaw the recovery and begun initiatives in areas for new economic growth in sectors such as education and health care, which have grown to be successful export earners and contributed to the trade surplus.

THE SECOND COMING

The brief economic history gives some useful insights on how Mahathir approaches issues and can allay some of the fears that analysts have regarding populist policies. The first observation is that he has a pragmatic approach to solving problems and a proven ability to adapt to changing conditions. Second, change is driven at a policy level and translated to implementation through broad measures and via government ministries and departments. This practical and effective approach to driving change at a national level has the advantage of not using expensive consultants, creating many costly new agencies and alienating civil servants.

The new government is likely to counter the loss of revenue from abolishing GST by reintroducing sales and services tax

and reprioritizing its expenditure, as well as careful and tight financial management. The record claimed in the Penang and Selangor state governments could give reasons to believe that savings can be made, as the current national government has these component parties administering the country. Although these claims have been contested by the state opposition in Selangor and Penang, there is no doubt given corruption scandals like 1Malaysia Development Board (1MDB) that there is huge potential for savings.

For those involved in transformation or change, one of the best approaches is to take radical steps. In that vein, if revenue is reduced, it will automatically force the government to cut expenses. If such radical steps are not taken, there will be continuous procrastination in removing wastage and initiating efforts to ensure the deficit does not worsen. The caricature of being minister of finance perennially handing out goodies is simply unsustainable, and the prudential management of finances will become necessary due to the reduction in revenue.

The other concern raised relates to how Malaysia manages its relationship with China. Today, China is Malaysia's largest trading partner and major investor. Prior to the general elections, there was criticism of then-Prime Minister Najib and the mega deals he entered with China, including the estimated 55 billion ringgit (\$13.8 billion) East Coast Rail (ECRL) project. Cancellation of the ECRL by the new

government could provoke a negative reaction from China. In April 2018, Najib pointed out the risks of jeopardizing relations with China when he said, "If China refuses to buy important Malaysian exports such as palm oil, furniture and timber, who will buy them?"

However, Prime Minister Mahathir has reassured markets and said he would lead a business-friendly administration, and that Malaysia would seek friendly ties with other countries as a trading nation. Moreover, Malaysia's track record during Mahathir's tenure in the 1990s and substantial FDI gives credence to his assurances. Nonetheless, the experience in Sri Lanka with China following the change in the Sri Lankan government after the 2015 election and dealing with legacy contracts by the predecessor regime indicates there could be challenges in respect of the relationship with Beijing.

For completeness, an obvious concern would be if Mahathir returns to some of the alleged excesses of the period when he was prime minister for 22 years. This includes crony capitalism, suppression of freedom and weakening of the institutions. However, we can take comfort that the government now includes people who have stood by their principles of better governance for decades, a more vigilant population and the impact of social media. Also, at the age of 92, it is unimaginable that the prime minister would want to partake in such practices. Moreover, the opposition in the form of BN and the Malaysian

Islamic Party (PAS), who have significant representation in parliament, can work as the effective opposition and provide the necessary checks and balances.

REFORM

The Asian financial crisis caused a change of governments in Indonesia, Thailand and South Korea. The change of government in Malaysia may also have its roots in the AFC because that period saw the birth of the reformation movement led by politician Anwar Ibrahim. Noteworthy, the Chinese character for the word “crisis” is made up of the characters for danger and opportunity. Malaysia, as it has gone through the dangerous time without any significant violence, can now seize the opportunity. The country has been able to effect a change of government (never before achieved with its attendant risks) and now stands ready to grasp an opportunity to remake its destiny.

Many of the suggested policies in the Pakatan Harapan manifesto can improve the economy by greater competition and breaking up monopolies, which will return higher tax revenue in the longer term. Similarly, better utilization of existing infrastructure, as well as building high-quality infrastructure assets such as high-speed railway between Kuala Lumpur to Singapore, would be an impetus to economic growth. The role of the state in the economy and options for privatization could be revisited dealing

with issues of crowding out and unfair competition.

While reforms may be beneficial to the economy, it can be rather difficult to implement the policies due to substantial resistance from powerful elites. Dani Rodrik, a renowned Turkish economist, pointed out in *The Economics Book: Big Ideas Simply Explained* that when unaccountable powerful groups of people expect to see their privilege disappear because of reform, they will use their influence to introduce economic policies that redistribute income or power to themselves. As compared to a developed nation, reforms are most effective in “intermediate countries” such as Malaysia, where hitherto the political elites were dominant enough to oppose and derail the reform movement and the benefits of reforms have yet to be fully reaped.

On public acceptance of reform, studies have found that an implemented beneficial reform that goes on to create more winners than losers is often most accepted and not repealed, even if it initially lacks popular support. In this respect, Prime Minister Mahathir has a track record of unpopular reforms — e.g. capital controls, when required during the AFC, education of mathematics and science in English, and the rolling back of NEP — but it became accepted eventually.

In Malaysia, future policies could result in growth that is sustainable, of better quality and that deal with critical risks

that the economy could face. Predicting the future is difficult, but there is hope and an incredible opportunity for a much better Malaysia.



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Nicolás Maduro: The New Tropical Czar Has No Clothes

Leonardo Vivas
May 25, 2018

Maduro may still be in office, but nothing in the Venezuelan landscape looks rosy for the government.

On May 20, Nicolás Maduro was re-elected president of Venezuela after an

election almost everyone within and outside the country dubbed not free and fair. He presided over a process where most main political adversaries were jailed, exiled or disqualified, the government controlled every bit of news, and it organized a vast operation of vote-for-food with the use of a special ID card. The obvious question following the election is how long he will remain in power as Venezuela suffers a deep economic crisis and the government experiments with a level of international pressure and isolation few countries have experienced in recent years.

Whenever a country enters a long phase of plights and political submission that look unsolvable and menace to become permanent, and when it all occurs under a strongman's fist, all gazes turn to the leader in power. This happened in the old days of the Soviet Union, in Cuba with Fidel Castro, in Augusto Pinochet's Chile, in Zimbabwe with Robert Mugabe (until it didn't), and in many others. This is clearly the case of Venezuela.

Until recently, Maduro was the babbling, inexperienced and inadequate heir of Hugo Chávez, who built a powerhouse in Latin America, fueled by oil and championed by his populist nationalism and anti-US rhetoric. But after 2014, and more so in 2017, Maduro was able to outmaneuver both his foes in the democratic camp and his internal adversaries, even while the nation's economy was going down the drain.

Chávez presided over the longest high-oil-price boom (2004-2012) that Venezuela has experienced in its almost century-long history as an oil economy. This brought the country steady (though only mild) growth, a huge consumption boom, allowing the populist leader to address unsolved problems like primary health care and malnutrition that had accumulated over decades.

It also led to numerous gargantuan projects in infrastructure, railways, oil and gas processing plants that never saw the day, and an orgy of nationalizations that ended up creating a deep black hole of corruption. Chávez's proclivity to personalistic and authoritarian rule, though, did not resort to drastic repression in order to grant political stability. His rule fitted the trendy political science characterization of hybrid regimes or competitive authoritarianism where the judiciary is packed with followers, political adversaries disqualified and the press obstructed but not silenced.

AFTER CHÁVEZ

But as Chávez passed away in 2013, he left a troubling legacy to his hand-picked successor, Nicolás Maduro. The economy, entering the downward part of the oil price cycle, began a drastic crunch, accumulating external debt, growing fiscal deficits and higher inflation. What began as typical economic disequilibrium soon turned into outright crisis: a loss of a third of GDP in a few years, huge shortages of food and medicine, hyperinflation, and

the inability to provide basic services like electricity and water supply. But different to earlier experiences of macroeconomic disturbances in the region, Venezuela's woes also originated in the extreme centralization of economic decisions (and property) in the hands of an inefficient state.

By reversing the mildly repressive tradition of his predecessor, who always sought political solutions and international support for his policies while dismantling a long-standing democracy, Maduro today incarnates the rebirth of the classic Latin American dictatorship of the 20th century built on the barrel of a gun. Political discontent in 2014 met a brutal response from the police, national guard and armed militias. The result was dozens killed, hundreds wounded, thousands of protesters imprisoned without due process, and important leaders put behind bars. The prosecution and the judiciary have effectively become institutional mechanisms at the service of curbing dissent.

Shortly after, however, in December 2015 the country woke up to a new situation: Maduro and his regime lost the national assembly (NA) in a blatant defeat, becoming a ruling minority in a country that increasingly despises them. As a result, the coalition in power — including the military, a majority of governors, the ruling party (with a consistent social base of government workers across the country) and the media (now either owned by the government or by friendly business

people) — closed ranks in order to throw both the newly-elected NA and political adversaries off the rails.

The years 2016 and 2017 were decisive in more than one sense. In a sequence of decisions, the government invalidated a recall referendum that, in order to proceed, would have to take place before the end of the year; in early 2017, the supreme justice tribunal announced the annulling of the NA, and the executive approved (with no constitutional basis) the launching of a constituent assembly to remake the political system altogether.

As a result, the opposition staged massive protests in an effort to stop the measures. This included the volte-face of the Chávez-appointed attorney general, who condemned the supreme tribunal's decision as a constitutional coup, prompting divisions within the Chavista camp that had been boiling over the prior years.

All these factors led to the “spring of discontent,” with massive rallies across the country, a world campaign by the Venezuelan diaspora and increasing pressure from countries around the globe. This was to no avail: Maduro remained in power, staged several rounds of rigged elections (both national and local), and continued to rule over a country where economic collapse has deepened, a humanitarian crisis grows in intensity by the day, and close to 3 million Venezuelans have fled the country to every possible place in order to survive. Currently, countries as far as

Peru and Chile — not to speak of neighboring Colombia and Brazil — today seek solutions for an out of control inflow of immigrants from troubled Venezuela.

MAFIA RULE

The tumultuous events of the past years reveal Maduro's adeptness to navigate troubled currents coming in all directions: the economy, international pressures, the opposition and, last but not least, dissent within his own ranks. Examination of his rule has become a job for tropical kremlinologists as the infighting within the inner circles of the government has become more obscure.

In early 2018, Maduro began an internal razzia against one of his major rivals, Rafael Ramírez, who had been Chávez's right-hand operator and an all-powerful head of Pdvsa, the state-controlled oil company. He had been appointed Venezuela's representative to the United Nations in 2013 in the aftermath of a failed attempt at a moderate stabilization program he proposed that might have helped contain the imminent economic collapse. But from New York he continued to exercise a strong influence over the oil company. So, in order to reinforce his internal power, Maduro forced Ramirez's resignation, gave control of Pdvsa to the army, and launched an anti-corruption campaign against Ramirez's cronies. Given the extent of Venezuela's corruption, to which only Brazil compares, internecine struggles within the power clique don't

revolve around political views like it used to be the case in Cuba or in defunct socialist states, but rather on corruption charges.

Clearly, corruption in Venezuela goes far beyond the typical institutional flaw that has become endemic in Latin America. A growing number of government officials have been accused and, in some cases, sanctioned for involvement in huge financial deals, taking advantage of exchange rate controls or for presumed involvement in drug trafficking. Even two nephews of Venezuela's first lady were condemned last year for drug trafficking in a New York court.

The extent of this enthrallment has become so pervasive that a growing number of international critics consider Venezuela today as a sort of mafia rule. Even Lech Walesa, a pioneer of anti-totalitarian struggles in Eastern Europe, has recently argued that "Venezuela has been kidnapped by a group of neo-traffickers and terrorists" that "sooner rather than later shall be subject to intervention by coalition forces to preserve the region's peace."

What is clear from Maduro's recent re-election is that, as many strongmen before him, he has been grossly underestimated. With the opposition weakened, cornered and with no clear strategy after deciding to boycott the presidential election, and with Maduro in full control of Chavista forces, especially the military, the odds about staying in power have been reduced to what

international pressure can be exercised against his regime. If Chávez, with a full wallet and a promising rhetoric, managed to capture the imagination (and support) of Latin America and other corners of the world, Maduro, who was his foreign affairs minister, has been experiencing setback after setback.

INTERNATIONAL SANCTIONS

Not only has there been a pendulum change in the region, bringing fresh adversaries in Argentina, Peru, Brazil, Panama and even in Ecuador, but the US and the European Union have heightened their pressure on the country to levels unknown in the region. If other countries have been mostly vocal against Venezuela, the US has put in effect individual sanctions against a long list of government officials, military officers, justices and others (the EU recently joined in with additional individual sanctions), as well as financial sanctions that make it harder for the government to handle financial operations and, more recently, even purchases of ordinary requirements for the working of the oil industry. On top of that, the country is facing default on most of its own and Pdvsa's debt as well.

So the crunch is growing fast. Some officials within the Trump administration have recently spoken openly of other options, including the military, and there have been outcries by former Latin American presidents and others about the need for a humanitarian intervention to stop the situation from growing worse.

If international sanctions have proved effective in terms of bringing rogue nations to the negotiating table, so far this is not true for Venezuela. Recent experience shows that international pressure by itself does not bring about regime change, unless it is accompanied by military intervention. Given the Latin American tradition in that respect and — to say the least — the misgivings of the region vis-à-vis US involvement in the recent past, that option seems to be off the table.

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It would seem that only an internal fracture of the ruling coalition may grant regime change, and at this point the odds for that to occur seem very low. At the same time, considering the very low turnout for the May 20 election — allegedly lower than what the electoral council has claimed — the need to rig the extent of the voting, and having to extract many of the votes for Maduro through economic blackmail (as Maduro himself put it, “This is giving and giving”), nothing in the Venezuelan landscape looks rosy for the government. Because history tends to be cursory, an unexpected change of course is not to be entirely ruled out.



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