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THE EMERGING POWERS AND THE FUTURE OF THE GLOBAL ORDER

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Introduction:

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P R O C E E D I N G S

MR. WRIGHT: I'd like to welcome everyone here and to Brookings. My name is Tom Wright. I'm a fellow with the Managing Global Order project here at Brookings. And today we're delighted to have a very distinguished panel to discuss emerging powers and the future of the international order.

The purpose of today was to try to have a variety of perspectives. We have the private sector perspective; we have the strategic perspective, and the international order perspective. Frequently, when we discuss rising powers and the international order we tend to focus on just one of those, so we're particularly glad to have all three here today. It's a particularly timely panel because of the turbulence in emerging markets and the difficult security environments in the Middle East and East Asia. There's also a looming debate about America's role in the world and whether or not the United States will continue to play the special role it has in the past of sustaining and upholding the international order. So today, we're going to focus on understanding the underlying realities of emerging powers, their economic situation, what they want, and the underlying risks.

We're delighted to have three distinguished panelists. Ruchir Sharma is the head of global macro and emerging markets at

Morgan Stanley Investment Management. Bruce Jones is a senior fellow here at Brookings in Managing Global Order and chairman of the Center on International Cooperation at New York University. And John Ikenberry is a professor at Princeton University and this year is a visiting scholar at Balliol College in Oxford.

So how we're going to run this is I'm going to ask each of the panelists a couple of questions and then we'll have an open discussion with the audience in about 40 minutes or so.

So, Ruchir, if I could start with you, you've been very prolific recently in writing about emerging markets and the turbulence in emerging markets and being pessimistic about the BRICs. Are rising power still rising?

MR. SHARMA: You know, I mean, if you look at post-World War II history, in every decade there is some theme which captures the imagination of the world. In the 1990s, it was the TMT bubble: technology, media, and telecom. In the 1980s, it was Japan, the rise of Japan. The 1970s was all about the resources-based economies, given the rise in gold and oil and other sort of resources. The 1960s was really about the U.S., the go-go decade out here which, you know, led to this mania here in, like, U.S. stocks back then. So every decade there's some theme which captures the imagination of the world.

That theme always has its sort of underpinnings in some fundamental trend, but then it gets taken to some ridiculous extent. And what we find is that typically what works in one decade in a very hot way rarely works in another decade. And I suspect something like that happened last decade as well, which is that last decade we saw a lot of mania about the rise of emerging markets. This was the decade where every single emerging market across the world did well. And this acronym called BRICs quite popular just because it captured the four largest emerging markets. So that's why this acronym, you know, became popular. But really that was a decade where every single emerging market did well in a way that has never been done before and in a way that I suspect will never be done again because it took a very special set of circumstances to make this happen.

To put this in perspective, that in any particular decade, if you look at it, about one-third of economies is able to grow at a rate of 5 percent or more. Last decade we had this instance at the peak year, in 2007, (inaudible) 180 economies tracked by the IMF. In 2007, we had more than half the economies growing at a pace of more than 5 percent and just three economies in the world that year recorded a negative GDP growth rate, and those three economies were Zimbabwe, Congo, and Fiji. Basically who cares, right? So you just move on. So in terms of the whole world, we're sort of booming and it was an amazing boom for emerging markets.

And the average growth rate for emerging markets or the developing world has historically been about 4 to 5 percent. Last decade, in the peak year, that growth rate went up to as high as 8 percent or so. So a truly exceptional decade.

Now, the biggest mistakes that I think most people make in forecasting is extrapolation, which is that if something works for a particular decade, you draw a line and you, say that this is going to keep working endlessly. So, like the rise of Japan in the 1980s, and it was all about how Japan's going to conquer the world and all these forecasts were there.

And then we've had so many forecasts based on extrapolation that a trend which is working for a while and it keeps on working, now, occasionally that trend will sometimes (inaudible) will rise, but the norm is that that does not happen. And that really is because when countries do well, they get complacent. They stop carrying out economic reforms or carrying out any new reforms. They sort of make mistakes. There's hubris, there's accumulation of lots of debt, lots of bad habits that sows the seeds for a crisis. And then only when you get the crisis do you have sort of new cycles that begin with countries doing well again.

So with these emerging powers we saw something very similar happen, which is that in all these countries which did very well last decade, these countries did well for a special set of circumstances. As I said, one was that the 1980s and 1990s was a particularly difficult time for the emerging powers. This was a time when the U.S. was doing exceptionally well, China was doing well, but many of the emerging markets were doing very poorly. There were a series of crises in the 1980s, beginning with Mexico, the tequila crisis in ’94, the East Asian crisis, the Russian default, followed by the default in Argentina again, and then the defaults in other countries, and also the fact that you had Turkey and Brazil going to the IMF, they had hyperinflation problems. So a hugely problematic decade.

Now, that set the stage then for some reforms to take place in these countries, for the emergence of some good leadership in these countries. And at the same time, you had this huge rise of China which was taking place, creating an incredible demand for global commodities. And because commodity prices had done so poorly in the ’80s and ’90s, there were very few sort of people investing in commodities. So you’ve got this perfect mismatch, perfect storm of huge demand for commodities and very little supply.

The most emerging countries, people forget, tend to be exporters of commodities, so they benefit from a rise of commodity prices. And this was a very powerful force which lead many countries to do so over the last decade as commodity prices did very well. But the 200-year history of commodity prices is, in short, that they do well for one decade and then for two decades they basically do poorly. And there's a reason for that. That's because new technologies, other substitution, when a particular commodity does well you get new alternatives which come about. In a sense, life is fair, which is that you don't get paid too much for digging dirt from the ground. You get paid much more for genuine innovation, for genuine manufacturing. There's only that much you get for sort of finding gold or finding other things in your back yard.

So that's what happened with commodity prices, yet many countries become very reliant on commodity prices to grow. And in emerging markets more than half the emerging markets tend to be net exporters of commodities, and that's a real problem. And that's been a big fault line for the likes of Africa, for the likes of Latin America. In these places the reliance on commodities is huge and there is very little genuine manufacturing which goes on. And it's really manufacturing which helps drive economies and not commodities. That's the sort of historical template. Now, there are always the exceptions to the rule, but that's the general norm.

So last decade we got this amazing set of circumstances of emerging markets coming back from the brink after some reforms: some catch-up potential because they'd done so poorly in the 1990s; a huge rise in commodity prices led by the ascent of China, which really helped these markets; and also the fact that money was very easy in the world. The same money which was fueling housing bubbles in Spain, in the U.S., that money was also finding its way into emerging markets and inflating their asset values and also making the cost of capital and the cost of risk very sort of inexpensive in these countries.

Now, all that is now being exposed as one by one these factors are being reversed. Commodity prices are falling as is, once again, a massive supply response. Demand from China is slowing down. Last year, in fact, the Chinese demand for oil, the growth rate of the Chinese demand for oil was amongst the lowest on record in terms of the demand for oil. And yet, we know in places such as the U.S. that you have an oil boom going on. You have other alternatives which are coming up. Technology is solving some of those issues out there. Then the easy money seems to have disappeared in the way that a lot of money is coming back home to places such as the U.S., partly because interest rates are rising here at the long end and also because there is a fundamental reassessment of the economic prospects going on in the U.S., which is why money is coming back home.

And then in many of these countries their problems are being exposed one by one by one, whether they have political problems, they have problems with their institutions. And many of these countries have accumulated too much debt in their drive to keep up with the high growth rates. And also, other fault lines have built up. So one by one those fault lines are being exposed.

Now, I'm an emerging market investor. I've been investing in emerging markets for 20 years. It really benefits me to talk up emerging markets and to see emerging markets do well because that's how I earn my bread and butter. But I also feel that it sort of pays to be honest in the long term. And after having sort of seen these economies, seen these cycles, traveled there, what was very apparent to me, especially by the end of last decade or the beginning of this decade, was that the world is sort of getting caught up in this hysteria about the rise of emerging powers and overlooking the problems which are there and some of the fault lines which have developed after a great decade.

And that's what really I've tried to sort of communicate in my writings. So I'm not pessimistic on all emerging markets. I mean, the emerging markets or the developing world now is 35 percent of global

GDP and it's never been as high as this in post-World War II history, so it's a very significant force. But the issue here is that let's not sort of get caught up and think that the entire rest of the world is doing very well and the U.S. is in decline because I think that, in fact, if you look at the trends across the world, something -- the opposite is emerging, which is that in the U.S. the crisis, at least in the private sector, has ended up being quite regenerative. The U.S. has been cutting down its debt, both on the financial sector side and on the household side. There are new sort of technologies which are emerging.

The U.S. economy, despite all the negatives in the last couple of years, in fact, has been growing at a rate which is no different than all the emerging markets put together, excluding China. So this is a major change which has taken place.

So many of the problems of these other emerging markets are being exposed. The BRIC countries in particular, I find, is where the problems are being exposed because these are the countries which got caught up in the hype a lot. India stopped getting out any new economic reforms. A lot of sort of spending went into wasteful projects and wasteful schemes in Brazil. And South Africa and Russia got very dependent on high commodity prices. And China, which we'll speak about a bit later more extensively, has accumulated debt over the last five years like no developing country ever has in recent history. So these are the fault lines.

Now, there are some new emerging countries, you know, which are coming up. You have Mexico, which is now doing much better. You've got Philippines. But that's the whole game, that this 35 percent, this massive turn which keeps taking place, there are new economic styles which emerge and there are many countries which were doing well at one point in time that tend to falter. And I think that that really is something we have to keep in mind. And going forward this decade, I think that pattern is going to continue and this freaky decade, the last decade, where every single emerging market did well, is unlikely to repeat. So the effort now is to identify which countries will do well this decade, but to understand that now all countries are destined to converge or catch up or grow faster than the U.S. That myth of the last decade, I think, has been systematically exposed over the last few quarters.

MR. WRIGHT: Thank you. We've had the Roaring Twenties and each decade has a name. The Freaky Decade I sort of like to describe the last 10 years. (Laughter)

John, you've been one of the leading scholars on the international order and integrating rising powers into the order. Having heard Ruchir, if emerging powers are encountering economic difficulty, what are the implications for the international order? And does it make it easier or more difficult to integrate emerging powers into it?

MR. IKENBERRY: Well, that's a great question. It's great to be on this panel.

I think another trend that we shouldn't count on, we should never think about trends going on forever, another trend is actually that the Western countries will forever hold the power to run the global system. And so the ups and downs in the emerging market countries are important to take note of. I do think that broadly over the decades, in the past couple decades and the decades to come, that we will see a global power transition, much as we have, led by the rise of China and India, countries with billion-people populations and growth rates that are going up and down, but faster than the West, are going to increase their GNP relative to the Old West. And there are consequences as growth and as innovation and as wealth migrate around the world.

And it's not that the U.S. or the European countries are going to disappear. In fact, my own view is that they will continue to have advantages. The U.S. has extraordinary advantages for playing a leadership role, even if it's relative GNP to the global GNP shrinks slowly over the decades to come.

So the question for me is really what does the global power transition, this global shift of power from West to East, from North to

South, the spread of power, the diffusion of power, not the rise of an alternative to the U.S., but the spread or decentralization of power, what does it mean for politics, for the governance of the global system? And there's wide agreement amongst scholars of international relations that power is shifting. There's less agreement as to what it means, what it means for governance, for the international order, for the rules and institutions.

And, of course, the most famous vision or narrative of a power transition is put forward by scholars such as Paul Kennedy, Robert Gilpin, E.H. Carr, the famous British theorist, all of whom argue that looking at world history there are these great transitions, these great moments when states rise up, build international order, and then there's kind of a changing of the guard. The old state, let's say Britain in the 19th century, gives way to Germany and Europe, the United States and the New World. And there are these quite contested and often deeply unsettling transitions, even war.

And so it's a kind of specter in the background. Is this what we are seeing? Are we in the midst of a global power transition where we can expect the drama of this kind of world historical shift, where a rising state, like the United States in the 20th century, builds an international order, finds itself running that order, and then slowly losing capacity to enforce it, to manage it, and other states rising up and wanting a different set of ideas for order? China and the rising states of India and Brazil and others. So the question really is how contested will it be? Can the U.S. continue to play a role even if its position is somewhat weakened in relative terms? And what do rising states want, however powerful the rise is, however the fluctuations are? What do they want? Do they want to integrate into the system or do they want to bring forward new ideas?

And my thesis is that there is -- remarkably, the states that are new to the global power system, China most emphatically, but India and Brazil and other countries, are actually operating and making progress by working within rather than around the institutions built over the last 50 or 60 years: the U.N., the IMF, the World Bank, GATT, now the WTO, and various alliance systems. So that what's surprising is that, in fact, rising states don't seem to be revisionist, to be wielding radically different ideas about the organization of the system or, as I would put it, what's really interesting is that there's a kind of growing constituency for liberal internationalism, which is what the U.S. and the West has purveyed for the last half-century. That is to say order built around openness and a loose rule of law, multilateralism.

And so the way I see the struggle that's starting to emerge between the U.S., Europe on the one hand and rising states on the other is a struggle for voice, for authority. It's the global political hierarchy that's being contested, who gets to sit at the table, how many votes you get. But it's not really a struggle over modernity or over different ideologies of world order. And I make that argument for a variety of reasons, and let me just briefly mention two or three.

One is that while someone like me, a scholar of international relations, is quite fascinated by the rise and decline of states across history, from the ancient period to the early modern to the current period, each period of rise and decline is different. And one of the distinctive features of today's international order is that rising states are, in fact, confronting the most formidable, most institutionalized, the most global, the thickest kind of international order the world has ever seen, built really after World War II around all these big institutions, around big ideas, openness, rule of law, and so forth. And this order, in some sense, is a fact of reality that rising states, most importantly China, confront. And it's an order that has both constraints on rising states and opportunities and it has a variety of features. It's very integrative.

The term I've used for the existing U.S.-led international order it's easy to join and hard to overturn. It's easy to join in like a -- there are doors that are open. You can walk in, you can play a role. Think of the way in which countries like Germany and Japan were integrated after World War II. Think about South Korea, Taiwan, various countries at different regions, at different periods have all found a way to join in, first of all, of course, through capitalism, through markets, through trade and development. And then often making political transitions that take them into the political forums of this order.

It's an order where authority can be shared. Think of the movement from the G-7 to the G-20. Seventeen of those 20 countries are democracies; China, Russia, and Saudi Arabia are the 3 that are not. It's an order where the spoils of modernity are widely shared. You can get rich by being a country in the semi-periphery, if not the periphery, moving in, trading, and developing.

And then finally, there's a lot of pluralism in it. There are various ideologies of development. There, of course, is the Anglo-American, neo-liberal, *laissez-faire* kind of approach to development. There's the often called social democratic or embedded liberal approach that may be more associated with Continental Europe. There's the state development model of East Asia: Japan, Korea, Taiwan, and so forth. So there's a lot of opportunity to chart a semi-independent path even as you part of this system playing a role in the open rule-based order.

There's also basically, when you look at rising states, and this is why I'm optimistic that this is a story of integration and bargaining and reconstruction of order as opposed to one of these cataclysmic titanic battles for supremacy, rising states want what liberal internationalism offers, it seems, which is openness, trade, commerce, access to resources, knowledge, technology, and rules If you are a rising state, and this is terribly important, you want to have global institutions and rules that protect what you are gaining. You are becoming wealthier. You have property that you want property rights to protect. You have shares of the global material prosperity that you want to protect. You want to be able to protect yourself from those who come after you, discrimination. You want the WTO to be a dispute settlement mechanism.

So my argument is that you should see and do see rising states taking advantage, opportunistically looking for niches and places to get into the system and move up and use it for self-interest.

I think this is part of the story of rising states that is distinctive to this particular period. I think moving forward there are opportunities, I think, for the United States to take advantage of this situation to provide more of a kind of leadership role to allow for this transformation to take place peacefully. And I guess what I mean there is that amongst all the great global institutions there are bargains to be made about who sits at the table, voting shares. The most intractable seems to be the U.N. Security Council where we just simply can't seem to do what everybody thinks needs to be done, which is to reallocate participation in the Security Council to make good on the fact that new states are now capable great powers that deserve a place at the table, not least Germany and Japan and India, but other states as well, and the problem of finding a reformed government structure. This is true, again, as in the Bretton Woods institutions and other institutions.

So I guess what I would say is that I think that there are challenges to this kind of great transition, but there's reason to think that the various factions in this global system can find a way to bargain their way to a kind of reformed global system.

MR. WRIGHT: Thank you. Bruce, John spoke in part about the opportunities that the United States and Western countries have with respect to emerging powers. But can I ask you to turn to some of the risks? I mean, as we look at this, you know, scenario there are opportunities, but there are also, you know, challenges. As emerging powers grapple with the type of transition that Ruchir spoke about and as we grapple with their role in the international order what worries you most about the international environment at the moment?

MR. JONES: Okay, thanks, Tom. And it's a pleasure to be on stage with the two of you.

I just wrote a book, the title of which should be *John*

Ikenberry is Mostly Right. (Laughter) I didn't give it that title, but that should be the title. So I just want to start with that by --

MR. IKENBERRY: It's a good time to change it.

MR. JONES: No, it's already out there.

MR. IKENBERRY: March 15th release date.

SPEAKER: I brought my checkbook. (Laughter)

MR. JONES: "Mostly right" being the operative words for this panel because, of course, being an academic I want to find the 20 percent where I disagree and highlight that. And I do think there are risks in the current transition, in the current redistribution of power, at whatever pace it's going to occur, which is partly influenced by the growth rates.

But just quickly, to reinforce some of the things that John said, you know, he mentioned that 17 out of the 20 members of the G-20 are democracies and 16 of them are U.S. allies. And we've never been through, at least in sort of modern or contemporary history, have never been through a power transition where the top power has the preponderance of allies rather than the rising power banding together with others to challenge the top power. So people write a lot about the 1914 moment or the power transition or the kind of inevitability of a great power war in these transitions. And it seems to me that if we take no other data point, the fact that the United States has this astonishing array of allies, including -- and they're not just sort of small players. These are the preponderance of the top economies in the world are American allies. Now, how vibrant the allies are, how strong the alliances are, we can get into it, but, nevertheless, the structure is very strong.

And just one last point on the positive. I was struck last year; there's been a lot of debate about, as you said, the kind of emphasis on the BRICs. And in the strategic discussion the question was always how unified are the BRICs and what do they want to do and et cetera. And part of the thing that people were looking for are the BRICs actually going to do things together?

So the first thing they've actually done together is they finally created, after a lot of turmoil and debate, much more than you would have thought it would take, they created a joint investment mechanism, right? What's the first thing that happened with that investment mechanism? The Chinese insisted that it follow the exact same rules as the IMF. So hardly a revolutionary action by the BRICs. On the economic game I strongly think that John is right and there's kind of deep interests restraining the emerging powers. But here's the 20 percent.

So what are the risks? I see three basic risks right now. So one comes out of the issues that Ruchir is talking about. And you didn't talk as much, maybe you'll get into it more, about kind of the potential slowdown in China or hard landings in China. Okay. And I think from the day one of the expansion from the G-7 to the G-20 and the kind of move to try to get IMF reform, et cetera, there's been awareness that there are two rationales for that. One is the emerging powers with greater shares of the world economy are asking for and need, in a sense, a seat at the table in terms of those institutions. And second is there's a great risk that the next major financial crisis emanates from one of those economies and we want to be in the business of helping them improve their regulatory infrastructure and helping them improve their financial management, so that it would diminish the chance of a crisis.

Now, over time, the international system can handle another financial crisis. I mean, there's capacity out there and there are resources out there, et cetera. But I think were we to confront a new financial crisis, let's say emerging out of China's debts situation, in the next year or two, it would be extremely difficult to handle it simply from a political perspective. It's not that the United States doesn't have enough bandwidth to borrow more money to deal with it. I mean, we do. I mean, there are other resources that could be brought to bear. But imagine the scenario where there's a deep financial crisis in China two years from now and Obama has to go to Congress and ask for another trillion dollars. I mean, this is a political non-starter. Right?

So the political mood and the political sense of exhaustion of having dealt with the financial crisis and many other things does, I think, mean that there is right now -- it would be quite dangerous in the international system were there a major financial crisis right now. Over time, we'd be able to handle it. We'd be farther out on the U.S. recovery, would have paid down more of our debt, Europe will have recovered from its financial crisis. But were it to happen right now I think that would be hard to handle.

The second risk I see is in security confrontations in Asia. And I guess it's the one place where I do think I have a slight difference in the kind of underlying analysis of the situation. Right? You look at the history of power transitions and despite what I just said about the constraint on war between United States and China with alliances, et cetera, there's also a fairly recurrent pattern of war between the second and the third power. Right? The rising power realizes it doesn't actually have the capacity to challenge the top power, but there's other kinds of dynamics that cause it to want to challenge and it's often the kind of second and third actors in the system that challenge one another. Sometimes that draws on the top power, sometimes it doesn't.

You look at what's happening in China and Japan right now and it seems to me you've got a pretty powerful mechanism or set of mechanisms sort of coming together which are, on the one hand, the political leadership of China clearly does not want to have a security confrontation with the United States. That I would strongly agree with. Clearly recognizes it would be catastrophic for it economically to have a crisis with the United States, but has to deal with the fact that within the Chinese population and within the Chinese military and within the Chinese sort of elites there is a pent-up frustration, there is a mood of ambition and expansionism. There's a desire to go out and do things in both positive and negative terms and there's a long history of nationalism here.

And I think that there's a number of these features playing into what's going on domestically in China that just don't rule out a kind of security crisis with Japan. I don't think that necessarily takes the form of a war. It can be a military clash between the two powers, which, you know, there are risks of escalation. It could be de-escalated, whatever. But nevertheless, it would a significant event in the international order and would require huge amounts of diplomatic and other resources on our part to keep contained. So I think there are real risks there.

The third, though, and then the deepest risk in my mind is what I call self-fulfilling gloom. Right? We come from three different perspectives, but in your book you're very bullish about the United States, you're bullish about an American leadership role, and I'm very bullish about where the United States is both on fundamentals and on leadership possibilities. The thing that's striking is that the biggest -- not the biggest constraint, but one of the most important constraints on how we're going to act in the next period of time is the mood in this town and in this country, a mood of we're in decline, which every data point would say we're not; we're exhausted, okay, we are exhausted. We've done too many things in the world, that's probably true. But there's a kind of declinist mood, a withdrawalist mood, a we-can't-solve-these-problems mood. There's a very negative mood. And at a certain point that becomes a self-fulfilling prophecy.

If we believe that we can't shape these events, if we believe that we must withdraw, if we believe those things, we'll start to act on those beliefs and we'll start to influence what choices we make. And that, in my mind, is the biggest risk, that we withdraw from some of these issues, that we withdraw from engagement, we withdraw from our security engagement in Asia or the Middle East or economically prematurely, overestimating the complexities of what's ahead, overestimating the risks of what's ahead. So this is where I profoundly agree with John and the fundamentals. The kind of fundamentals are pretty good for the United States and we'd be making a huge mistake if we were to withdraw our capabilities or our engagement, but there is a risk that we will do so.

MR. WRIGHT: Thank you. Ruchir, when you look at this from a financial, you know, perspective, when you look at it how worried are you by the political risks? And then if I can also ask you to talk about that maybe specifically in China with everything that's going on there at the moment. I mean, you're, I think it's fair to say, relatively bearish in terms of the growth projections that China can expect. So is it headed for sort of a hard or a soft landing?

MR. SHARMA: Yeah. So, I mean, if I start with the China question first, like I used to be very optimistic on China and I was in awe of their economic success. But here is, I think, where things have begun to go really wrong with the China in the last -- it's really the last three to four years, and it is this desire to grow at a rate which is possibly no longer feasible, which China, as you know, for three decades has grown at a pace of 10 percent every year. Their government still thinks that they can grow at a pace now of 7 to 8 percent. And if you look at the best examples in the history of countries which sort of were able to break through the middle income trap, become fully industrialized countries, at a similar stage of development their growth rates really slowed down to about 5 to 6 percent. I'm talking about Japan in the 1970s, Korea and Taiwan subsequently in the 1980s and 1990s.

In China's case what's happened is that after having done really well for such a long period of time they're keen to keep growing at a pace of 7 to 8 percent. And in doing so I think that they're making the mistake of really accumulating far too much debt. And this is the thing that we were discussing earlier today as well, that if you look at it, there is no better predictor of economic trouble than when a country accumulates debt too quickly over a short span of time. You know, we're all in search of that sort of secret sauce to figure out, you know, what makes countries work, what doesn't, but in terms of a single worst policy to do is that.

And in China's case, unfortunately, the last five years that's exactly what's happened, which is that five years ago, China used to take about a dollar of debt to create a dollar of GDP growth. Generally debt and growth go hand-in-hand, but as long as the ratio is the same it's okay. Last year or the last sort of year, it's taken China $4 of debt to create a dollar of GDP growth. And this is exactly the kind of same situation we saw in countries such as the United States in the mid-2000s, Spain, other European countries which got into trouble, also, in 2000, 2008. They went through an exact same progression path with debt and they got into trouble by doing that.

So that's what really concerns me about China today, that they're taking on this incredible debt, they've got this sort of image in their mind about how GDP needs to double like in a decade's time, but that doubling of GDP is basically also being driven by a whole bunch of factors, which I think that some of is not even there. I mean, like the analogy I draw is that, you know, like the sort of -- the image that they have internalized is that of the movie *Speed*, which is that they basically have to keep sort of going at 8 percent because, you know, like otherwise, some bomb will explode under the bus, you know, or something.

MR. WRIGHT: Unless Sandra Bullock saves the day.

(Laughter)

MR. SHARMA: Exactly. And here's my point: There is no bomb under the bus, but the bomb is sort of being self-created by the fact that you're accumulating so much debt to try and grow. Because the sort of popular narrative is that China needs to grow at 8 percent to create jobs, to sort of keep social harmony, et cetera, et cetera. And I just think that the economic structure of China has changed. The demographics have changed. They don't need to create so many jobs anymore. And even like the world (inaudible) shows us that for every GDP growth they're able to now create more jobs than they were in the past. So there's a big change.

I think that -- so the fundamental mistake, and this is partly being driven by ambition and also partly by fear, is the fact that China wants to grow at a pace of 7 to 8 percent and that the rest of the world sort of believes in it almost unquestioning. So if you look at all the economists in the world the consensus forecast for what China's growth rate is, is exactly in line with what the government target is, like 7, 7-1/2 percent or so. So I think that really is the problem for me as far as China is concerned.

Now, I think that if they let their growth rates drop, I'm not that pessimistic on it from a political standpoint because Japan, Korea, Taiwan have all gone through this phase. And I think this fear is really overblown as to what it means politically. That's my expertise is how it translates into politics. But I think that the bigger mistake would be that you try and grow at 7 percent, you know, for a year or two more, you keep accumulating debt at this pace, already they're reaching ratios which are unsustainable and have led to crisis elsewhere. And then you have full-blown crisis and then there's hell to pay if that happens. So that's really like the entire issue as far as I'm concerned.

And I know that it's very popular, like, among circles to speak about, you know, this is bound to happen. But if there's any rule that I've learned over time, and this is partly because as a practitioner you have to put your money where your mouth is, which is to be wary of current trends. And as the sort of saying goes, the inevitable never happens; the unexpected does. So that, to me, is that when something appears absolutely inevitable, that the world has to change this way in the next 5 or 10 years, just be wary of that. Because when the worlds convinced that something is bound to happen, it usually doesn't.

MR. WRIGHT: Great, thank you. Finding that unexpected thing, though, that's the difficult part, right?

MR. SHARMA: Yeah. But never -- I mean, you could start by not believing in the inevitable.

MR. WRIGHT: Yeah. John, Bruce spoke about one of the risks being the risk of a conflict or a clash between the second-largest and third-largest economies in the world. You spent a lot of time in Northeast Asia and know it well. One of the really fascinating things about that region is how much it looks like, you know, the 19th century even as it is also the hub of much of the growth and globalization in the world today. How do you think about what's going on geopolitically not just in China, but also in Japan and South Korea? And what are the implications of that for what we're discussing today?

MR. IKENBERRY: It's a great question because there are so many levels of conflict in Northeast Asia, at least three I can think of that seem to all connect. One is the crisis on the Korean Peninsula, North Korea and its ongoing attempt to master and perfect nuclear weapons and missile technology to launch them. And, of course, last year, there was the third nuclear test and the year before there was a missile test, all of which showed us that they're still moving forward. Surprised even the Chinese at the level of technological advancement. And what that means is that North Korea isn't contained or in a box, but is, in fact, a growing crisis because as it has more ability to project its weapons, it will destabilize even more of the region. And when they are able to hit the western coast of the United States it's going to add yet another level of reverberation. It means missile defense becomes part of the politics of the region and that gets the United States and China into a spiral of conflict.

And then you have the second layer, which is China, Japan, and the kind of nationalization, nationalism on the rise in the region exacerbated by these island disputes and maritime disputes. And there it's almost inevitable a rising China that sees itself as more important and wanting to assert itself, factions inside of China wanting to be aggressive in their claims for territorial control and the military buildup that's come with it.

And then Japan, think about Japan, a country that has seen its security environment radically change with Japan facing China. China now has paced it economically several years ago. China is growing its defense at 12 percent a year and Japan has kept its defense spending to less than 1 percent of GNP historically and it's now actually at .8 percent or so, so it's even substantially below 1 percent. And so it sees the disparities growing.

And that, of course, is coupled with Japan trying to find its own identity. Should it remain in this kind of framework of the post-war period where it has the Peace Constitution and no right of collective self-defense or does it break out of that box as Abe would like it to? But he wants to do that while he is also bringing forward some very explosive narratives of Japanese nationalism of the 20th century. It's really a revisionist set of arguments. And some of the people around him are pretty interesting in that kind of how can they believe that kind of way. So that is the second level.

Then the third level is China and the United States. You've got this power transition I was mentioning earlier where those historically have been fraught with rivalry and miscalculation. So three levels with moving parts all along.

With Japan and China, that's the biggie. That's the one where you could imagine miscalculation. I don't think either side wants it, but both sides have, in some sense, made statements that make it hard for them to back down. And the U.S., of course, has to make its judgment about how to support Japan. There's an Article V commitment. And does that include the Senkaku Islands? Yes, it does. They have administrative control and we've recognize that, so it's as good as sovereign control. So there is an American connection here that could be brought to bear. So there are a lot of possibilities for things to go wrong and I think we need to worry about it very much.

Now, stepping back, China is the country that is, in many ways -- in the foreign policy community here in Washington and elsewhere in Asia, the question is the rise of China, what does it mean? The security implications of a more powerful China. And I have tried to make arguments that say let's put it in perspective. One way of doing that is to think about what China is surrounded by. And the fact of the matter is it's surrounded by democracies. In 1980, there were two democracies in Asia: India and Japan. Now, with Australia and New Zealand, there are 13, including Mongolia. And so China, in many ways, is surrounded by countries that are democracies, many of which are tied to the United States for alliance security. So, in some ways, China is in a geopolitical box.

Think of Taiwan. The Taiwanese have shifted over the last 25 years towards some feeling that they are Taiwanese as opposed to Chinese, to now a majority feel that way. And 80 percent in a recent poll of Taiwanese have said that if they knew that China would not attack them, they would opt for independence. And so that tells you that countries around China that are, in effect, you know, certified democracies, have claims to self rule that have a legitimacy and a depth because of their regime character.

And it makes it harder for China to do what many of the hardliners, the hawks if you will, think China is bent upon doing, which is using its growing power and economic capacity to dominate the region. And my view is that that's not inevitable. I mean, it's going to be very difficult. You can't do what you could do in the 19th century. These are democracies. They won't put up with the kind of bullying and 19th century coercion. They're tied to the U.S. for security. So there are multiple reasons why there are limits on what China can do.

And I think there is, on the other side of the ledger, there's a tremendous amount of mutual interest that China and Japan have and the U.S. has with China and the other parties as well on critical issues of the day, including global warming, clean energy. China is poisoning itself in various ways, not least through the smog of pollution, particulate pollution, in major cities in China. It's a real issue. I mean, it's a political issue. It's where you can imagine unrest and mobilization to occur. China has an incentive to be green. And, of course, we all do. We have an incentive for us to be green and we have an incentive for China to be green. So there is a lot that I think we have to add to the mix and not simply -- kind of dilute this toxic security problem with possibilities for more joint gains that mute those kinds of conflicts.

MR. WRIGHT: Thanks. Ruchir, did you want to come in?

MR. SHARMA: Can I just -- one small point I think I want to add. There's been a lot of focus, and in particular in this town, about this whole China-Japan thing and the 1914 battles are sort of, you know, like flowing from everywhere given the 100th anniversary and the stuff. I just want to make one point. From an economic standpoint, I think this China-Japan rivalry has, in fact -- or the way like it's playing out has, in fact, ended up being a bit of a positive. And I'll tell you because I was in Japan in October and just speaking to people there.

Now, this is a country which for 20 years we've all written off from an economic standpoint. And for the first time now we're seeing that at least there are noises being made about some structural reforms in Japan to try and revive the economy. Now, the skepticism about how much will be done, the third arrow, how we will achieve that or not, but for the first time we're seeing at least that this is the most serious attempt being made to try and carry out some economic reforms in Japan to deal with some very sort of sensitive issues in Japan.

And I asked people there, you know, so the answer as to why that's happening is really because of China; that in 2010 was a landmark moment when China officially overtook Japan as the world's second-largest economy. And this playing up of this nationalism is also like, in a way, a strategy being used by Abe to keep a lot of the vested interests in check even within his own party, so that he can sort of use that as an excuse to basically say that, listen, if you want to sort of compete with China and if you want to keep China in check, we need to carry out X, Y, Z economic reforms, also. So in a way, this is one positive fallout of what's going on.

Now, of course, this is a very dangerous game. It can spin out of control and those risks remain. But for now, this is one economic sort of positive which has emerged so far, and this sort of political rivalry which is being played up a lot and this nationalism because it's forcing Japan to finally at least attempt to change.

MR. WRIGHT: Thanks. Thank you. Bruce, final question before we go to the audience. If we do have this increasing geopolitical competition between many of the major powers in the international order how hard is it to maintain or even increase cooperation on areas of mutual interest?

MR. JONES: Well, first, let me say, so maybe what we need to have happen is we'll just accelerate the point at which China overtakes us so we can get Congress to get its head out of the sand and so some serious things on structural reform and debt and climate change. That would be good.

The question is sort of how much cooperation can endure if there's a rise in geopolitical tension I think really hinges on the question of whether or not the tension becomes a U.S.-China tension or if it stays a China-Japan-India-Russia tension? If we enter into a mode of deep and sustained U.S.-China tension, I think then we're in quite a lot of trouble on quite a lot of issues. But I don't think that's what the game looks like right now at all.

I strongly agree with what John said on climate change. There are deep interests here. You are going to see a lot of pessimism about the UNFCCC and the kind of failure of global climate negotiations, et cetera, but look at what's happening in the U.S.-China bilateral relationship on climate change. It's very significant. And that's a very different narrative than you tend to hear in this town about, oh, we can't do anything with China, and blah, blah, blah, blah. Right? No, actually the one reason we can be a little bit hopeful about the role of climate change is the U.S.-China bilateral relationship. Okay? And it goes to a deeper question about the structure of interests here. And this is where I go back into the 80 percent where I tend to agree with John.

China needs to consume huge amounts of energy to continue to grow, even if it lowers its growth rate to go to 5 or 4 percent. It's going to have to consume huge amounts of energy and huge amounts of resources. There's a huge pollution problem.

It has another problem: It has to get those resources from someplace. It has to import them. It has to import them from the Gulf and increasingly from unstable and fragile states. Forty-nine percent of China's oil imports come from fragile states. Now, China has zero capability to stabilize those places by itself. What can it do to stabilize? It can participate in U.N. peacekeeping operations. Right? We have Chinese troops in Mali, for god sakes, because China has to cooperate through those kinds of institutions to be able to project itself out and participate in stabilizing some of these countries where its resources are going to come from.

So there's actually a fairly -- I mean, there are trade interests, there are structural interests. Off the coast of Somalia we have a U.N.-authorized, NATO-led counter-piracy operation which has the active naval participation of China, India, Russia, under NATO coordination. Think about that 10 years ago, if we would have thought that NATO was going to be able to coordinate Russian and Chinese boats. Right? Okay, so you talk about that in the security policy community and people say, ah, it's just pirates, they're just mosquitoes.

But it’s a trillion dollars in trade that goes off the coast of Somalia and the Indian Ocean, so there are huge economic interests, where our interests overlap with those of China, with India, and others. So I think there’s a kind of deep basis for continued cooperation.

And then there’s a funny structural thing. Because a lot of this orchestrated through the Security Council, a lot of crisis management and cooperation, or the U.N., various bits of the U.N. But I want to just focus on the security piece for a second.

I’ve long been a proponent of Security Council reform for a number of reasons. But it is sort of funny historically that China is already there. Right? If you think about the kind of post-war order and a relatively low-level state at the time, you would not have been normal historically to put China at the top table in the security architecture, but it happened. Imagine if right now we were trying to --

MR. IKENBERRY: FDR.

MR. JONES: Yeah, exactly.

MR. IKENBERRY: FDR. He went and did it.

MR. JONES: So, but imagine if right now we were trying to ask the question can we adapt the international security architecture to bring China to the top table? I think that would be a very difficult thing, but they’re already there and that matters. And it actually, funnily, matters that

Japan is not.

So, you know, if we were in a moment right now where 10 years ago we followed by advice and reformed the Security Council and we had Japan sitting there, then I think we would see quite a lot of friction in the Security Council between China and Japan or China and India and these other states that we're not seeing, because they're not there. So, for example, last week, China and Japan were at each other's throats about their respective strategies for South Sudan. But it doesn't really matter because Japan is not really a major player in this stuff and they can't block things in the council. And India plays in certain ways, but can't block things in the council. So oddly enough, we have a system in which China can participate and some of the Tier 2 powers with which it's going to compete aren't structurally able to block it from cooperating, which we might have been in. We might have anticipated being in that situation historically, but we're not. So both the interests are there and the institutions are there.

I think probably also we're saying if at this particular juncture in history we had to build the institutions for cooperation on crisis management (inaudible) that might be hard, but we actually have them. We articulated them in the last 20 years, so it's really about continuing them. Unless we see serious deterioration in the U.S.-China relationship I suspect we'll be able to do that.

MR. WRIGHT: Great, thank you. We have about 35 minutes for questions. Unfortunately, John has to leave us to catch a flight. We're very grateful for --

MR. IKENBERRY: I'm going to let Bruce answer 80 percent of my questions. (Laughter)

MR. WRIGHT: Well, we're very grateful for him coming and fitting us in. If you would like to read more of John's work, his most recent book is *Liberal Leviathan*, available on Amazon.

MR. IKENBERRY: Thanks a lot.

MR. WRIGHT: So thank you and a safe flight. (Applause)

So we have time for several questions in a half an hour, so at the very back of the room, if you could identify yourself and just make sure your question is a question.

MR. WYNE: Hi. My name is Ali Wyne. I'm an associate with the Belfer Center.

And it would seem that the United States is in relative decline and that its ability to sustain in today's international system is accordingly declining. On the other hand, it doesn't seem, at least for the time being, that there is some other country or coalition that might replace the United States in its capacity of sustaining today's liberal international systems. So given those two realities do you think that it's possible to imagine that a leadership vacuum might emerge in the next decade or so?

MR. WRIGHT: Great. Bruce, do you want to start and then Ruchir?

MR. JONES: Yeah. There's a big difference between relative decline and absolute decline. Right? And on a whole series of fundamentals I think you'd have to say the United States is in a growing trajectory. Okay? Population, energy, technology, education, a whole series of extremely strong fundamentals. Then this is where Ruchir's presentation and data becomes extremely important because the pace at which China grows and the pact at which India grows alters the tempo of whether or not we're in relative decline.

My own view is that we are essentially in a mode now of enduring power. The United States is neither a rising power nor a declining power, it's an enduring power. And it will be for the rest of my political -- of my life, it will be an enduring power. And China will be a factor and India will be a factor and Brazil will be a factor. Quite how fast, quite how much, et cetera, that remains to be seen.

The second part of the question is the key. For the long foreseeable future nobody will have the capabilities the United States has to organize alliances, to project military power, to structure economic -- I mean, nobody will have anything remotely like that. And even if and when China overtakes the United States in size of GDP, it will be a much less powerful economy than the United States economy. We have a much more powerful role in the global economy than China will even when it overtakes us.

So you're clearly right, there is nobody that can replace a U.S. leadership role in the coming period. That's why I say that the biggest risk is us choosing to withdraw. Structurally, we still have the capability to lead here and I think the nature of the interests of the emerging powers, for the most part, reinforce that. If we choose to withdraw, then there will be a leadership vacuum, but that requires us to make that choice. It's not an intrinsic feature of the system, I think.

MR. SHARMA: You know, like, I like this phrase basically about the United States being an enduring power. But if you even look at this relative decline, this, to me, was the story of the last decade, but it's no longer the story. Because if you look at the last two years, even in current dollar terms, the United States' share in the global economy has stabilized at 23 percent, which it was declining, declining all last decade because of the rise of the rest, a very powerful rise. But this decade, especially the last couple of years, that share has now stabilized. And I don't see it declining any further because I think that the United States can sort of, you know, grow at 2-1/2, 3 percent. I don't see sort of, you know, too many economies doing much better than that because, in fact, the likes of Brazil, Russia, and South Africa currently are growing at a pace which is slower than the United States even though their GDP per capita is a fraction of the United States. So I think that is one.

But where I do sort of feel a bit (inaudible) is that I do expect that these growth rates have slowed down already in the emerging world and in China, too, that the growth rates will slow down further, and so this enduring power will emerge. But if I'm wrong, let's say, and let's say that China's growth rate -- China, for some absolutely inexplicable reason to me, is able to grow at 7 percent a year for the next decade as some of the optimists believe. Then I feel that this is going to be a very different world a decade from now because I think that if -- you know, because then I feel that the world is just not organized for that. And then once really China sort of, like, overtakes the U.S. in a decade's time as some people, it's the world's largest economy, I feel that the whole attitude will change about the world because that's how the world is structured in terms of how it thinks about economic powers and stuff. Then I feel that the tension will be incredible if that were to happen.

So I'm basically sort of the fact that the U.S. share has stabilized. It will remain around these levels because the rest of the world has its own issues, its own problems. And it won't rise as quickly, including in China. But if I'm wrong and China does sort of really -- sort of rises economically at a pace of 7 percent, then a decade from now we're looking at a very different world is what I think.

MR. WRIGHT: Thank you. Okay, the gentleman in the middle.

MR. KERR: The BRICs have been referenced throughout the presentation. All of the BRICs except for Russia are also members of G-77. And it's G-77's 50th anniversary this year and they're supposedly doing a big to-do this summer. Is the G-77 relevant still? And G-77/ (inaudible), were they still relevant in the new emerging order?

MR. WRIGHT: And could you also identify yourself as well?

MR. KERR: Sorry. Bob Kerr with the State Department.

MR. WRIGHT: Thanks.

MR. SHARMA: I didn't know like it existed still. (Laughter) So, I mean, for me, the short answer is no, that even the BRICs -- I mean, you know, like these summits have been going on basically forever in terms of -- not forever, but at least since 2007, I think, or something like that when they --

MR. JONES: It just feels like forever.

MR. SHARMA: Exactly. It starts and nothing ever comes out of it just because China's size is more than the size of all the other countries put together. So it's such an unequal partnership that it's very difficult for, you know, that grouping to come together. It suits the likes of China a bit because they can use Russia. They're ready to be the attack dog and for Russia it's good because they're looking for allies in the world when they really don't have too many and you have China out there. So for the two of them it makes sense. But the rest of the players, you know, it basically is like very opportunistic.

I mean, South Africa is just grateful that it's part of it and, you know, because its size is so small. I mean, in fact, Nigeria's about to overtake South Africa as the largest economy on the continent and Nigerians all wonder as to what's South Africa doing there and stuff. So I find that that grouping is just, like, fundamentally flawed and there's nothing really about it.

And G-77, to me, is like a nice label, but really I don't think anyone really cares about it. I mean, back in these emerging markets I've not even heard about this summit and I think I keep tabs on these developments.

MR. WRIGHT: Bruce, do you want (inaudible)?

MR. JONES: Yeah. G-77 is relevant in exactly one context. And by the way, there are 132 countries in the G-77 just in case anybody ever thought that diplomats could count, which they can't. It's relevant in one context, which is in climate change negotiations China and India still like to claim the mantle of developing countries because then they fall within that category of what's called common but differentiated responsibility, which means they don't have to do as much on climate change as we do. And so in those negotiations they kind of rally the G-77.

The problem with that is, A, most African countries have begun to understand that their interests are fundamentally different than those of China and India on this game. And actually India and China have begun to diverge so dramatically in terms of their carbon emissions and their energy use that India has begun to understand that it's actually pretty dumb to put itself in the same camp as China in climate negotiations. So I think we're starting to see the kind of dying days of the G-77. The (inaudible) died about 10 years ago for all intents and purposes. The G-77 is in its dying days, and I very much agree on the BRICs point.

MR. WRIGHT: Great, thanks. Okay, the gentleman just in the third row. Yeah, and then we'll come to you.

SPEAKER: Good afternoon. Thank you for coming here. I'm a graduate student from George Mason School of Public Policy.

My question is on the Eurasian Union. How significant is it? And if it grows will China be tempted to join it? Thank you.

MR. WRIGHT: The Russian-sponsored Eurasian --

SPEAKER: Yeah.

MR. WRIGHT: Yeah. Who would like to go first? Bruce, you want to -- and maybe talk about Russia as well, it comes into it in terms of Russia's role, the international order, and whether or not it's a revisionist power.

MR. JONES: I mean, it seems to me you've got a number of these sort of quasi institutions like Dah, the Shanghai Cooperation Organization, et cetera, which are sort of ways in which the Russians or the Chinese try to create these institutions in which they can dominate or which they can they have a zero interest, et cetera. But these are institutions that don't do anything and in which the members have zero shared interests. So people go along because if the Chinese say you're coming to the SCO summit, you go to the SCO summit, but that doesn't mean you actually do anything there or that your interests are aligned. So I think quite a lot of these mechanisms are sort of shadow plays that don't really translate into real outcomes or real impacts, so I wouldn't put a lot of money on that.

And on Russia, it's an interesting point because, you know -- god, it's revealing that I can't remember his damn name -- Romney, a presidential candidate a couple years back. (Laughter) Ouch.

MR. WRIGHT: How quickly we have forgotten.

MR. JONES: Was sort of pilloried during the campaign for saying that Russia is the U.S.'s largest -- the greatest geopolitical foe. Now, of course, that wrong in the sense that Russia isn't a declining power and huge trouble internally and et cetera. But it's not totally stupid in the sense that whereas I think China has such deep interests in restraint because of the scale of its overseas economic investments, because of its resource needs, et cetera, Russia's very different. And Russia, I think, is a much less predictable actor in the short term than China. And so the risks of stupid behavior or a crisis or et cetera, I think are higher with Russia in this geopolitical moment.

MR. WRIGHT: Ruchir?

MR. SHARMA: No, I think, you know --

MR. WRIGHT: Okay. Okay, we will go to the gentleman here just behind you. Yeah.

MR. BASEMAN: Hi. Ari Baseman from American University. I was wondering given the -- anyway, given the rise in unconventional fuel sources here at home, how does that impact our need for oil from the Middle East and will we be pulling out and disengaging and should we? Should we stay? What will be our role in the Middle East if we don't really need their oil anymore?

MR. WRIGHT: That's a great questions. Ruchir, do you want to start?

MR. SHARMA: Yeah, sure. I mean, you know, I think that in terms of the U.S. oil dependency is sort of now on a secular sort of decline in terms of, you know, what it needs, in terms of oil (inaudible), et cetera. Now, I'm not sure that the Middle Eastern involvement is basically such a function of oil. I just feel that that thing is a bit exaggerated in terms of, yes, that is a very important source of stuff, but I think that this narrative that the U.S. engagement is there with the Middle East primarily because of securing oil supplies just seems like a bit -- I think the reasons for sort of engagement or disengagement are much more with what we touched upon earlier about exhaustion out here with wars and dealing with international conflicts, et cetera, rather than dealing with what's happening, you know, with oil. So I don't think oil is really the big driver of U.S. engagement in the Middle East. And even though the dependency on oil in the Middle East is going to keep going down, I don't think that's going to be the driver of that dynamic.

MR. JONES: Yeah. So three additional points. There is a different here between the short term and the medium term. You know, last year our imports from Saudi Arabia went up, not down. Okay? It's still our second-largest source of oil. So the kind of narrative is ahead of the reality here. We're all talking about, oh; we're free of Middle East oil. Well, no, we're not. And we will be at some point in the not-too-distant future, but, you know, it's 10 or 12 years away.

Second point, if we didn't bring a single drop of Middle East oil to the United States, oil is still -- the price of oil is still set globally and Saudi Arabia is still by far and away the largest swing producer. So when we had to take kind of the risk of Libyan oil coming off stream during the clashes with Qaddafi, et cetera, it's Saudi swing production that stabilizes oil prices. And that's going to be true for a very long period of time.

So we don't have to have a single drop of Middle East oil in this country and the price of oil, the price that you pay at the gas pump, is still shaped by Saudi exports and by Gulf exports, et cetera. And I think this is a real misperception in this discussion about what degree of independence you have. It is better not to have to rely on that actual supply, but the price is still shaped globally.

And the third point to make about this is even if we're not importing Saudi oil, everybody else is. China is, India is, Japan is, South Korea is, Europe is, et cetera. Their economies will be shaped and influenced by the price of Middle East oil. And this is a fundamental point about the contemporary situation we find ourselves in: 25 percent of U.S. GDP is tied to international trade. That's double what it was about 15 years ago. Our economy grows if the global economy is doing well and it will be constrained if the global economy is doing poorly, so the sense that we're somehow freed up from having to worry about what happens to the price of oil, what happens to stability.

So I agree with you that the oil is not the only reason we're there. There are a series of other reasons we're there, too. But even if it were the only reason, the notion that because we don't have to use as much of it ourselves we're freed up from the dynamics is overplayed.

So this, again, goes to this issue of self-fulfilling prophecy because I think a lot of people think that because we don't have to bring in the supply itself, we are freed up from those dynamics and that becomes a reason to think about withdrawal. I don't see any sign -- none -- that we're withdrawing from the region, but there are a lot of people who believe we are and that has an impact on how people act and what calculations they make.

MR. WRIGHT: Thanks. We'll go down to the back, I think, for the next one. So just the gentleman in the middle in the white shirt.

MR. HAYES: Hi. My name's Ethan Hayes. I'm an Army strategist.

I'm just curious, at the beginning of the discussion you mentioned how the emerging markets may not play as big a role in the upcoming future and I'm interested in your take on how population demographics may affect that, specifically for Japan, for example, because they have a shrinking population. The Abenomics exactly -- it has to compensate for, you know, the decrease in the population. And it seems to me that especially when you're talking about the future of the global order, you're really looking at Africa that's going to, you know, add 2 billion people in the next, you know, 50 years or 40 years now.

So if you could just maybe talk about how, you know, the emerging markets also are the countries that have the highest population growth rates and how that's going to play a role into the global order.

MR. WRIGHT: Yeah, thank you.

MR. SHARMA: I mean, now, two points here. One, like I make a point that emerging markets will not play an increasing role. My point was that the characters who play a role each decade keep changing, which is that, you know, like some countries are stars on decade, other countries are stars another decade. So, in fact, I'm quite optimistic on, you know, some countries on a relative basis at least; in Nigeria, Kenya in Africa. Any my point really was the fact that these BRIC countries have their own troubles, so it was more than sort of anti-BRIC thing rather than to do with all emerging markets not doing well and also sort of showing how this game keeps changing.

Now, given the role of population, I mean, like Africa's population has been on a secular increase forever basically. Right? I mean, that the favorite chart that people show is that in the 1970s the African -- I mean, the growth of the African population since then and of, like, Asia has been almost similar, but yet we know that how Asia's been able to do much better in terms of (inaudible) East Asia and the miracle economies of East Asia compared to Africa. So this demographic, so to speak, really depends about who's able to capitalize on that demographic different, better. And like in China's case we know now that the population statistics are turning the other way, which is in terms of decline, in terms of their, you know, like demographic different like in the years ahead. So the whole point is that the actors will keep changing in this thing.

And on Japan, I think it is a very interesting sort of thing that I'm not that pessimistic on Japan's demographics, at least from an economic standpoint. And the main reason for that is that one way that I think that Japan can overcome its demographic problem is by increasing the participation of women in its workforce; that basically the -- that it's a cultural issue partly. And it's there both in Japan and in South Korea as well, you know, which we look at. Both these countries can do a lot more to help increase woman participation in the labor force. And that will really be able to help to drive growth and overcome some of this demographic negativism which exists about Japan.

MR. WRIGHT: Thank you. Bruce, do you want to comment on this?

MR. JONES: Yeah, there's only one more slightly concerning note, which is both -- I mean, the two countries which have huge demographic growth here are Nigeria and Pakistan. Nigeria is set to overtake the United States in population by 2050. Now, that could change. As countries get richer, their population rates -- so that's your extrapolation point, right? It doesn't necessarily extrapolate at the same rate as (inaudible).

MR. SHARMA: Yeah. I mean, the country -- I hate to say it, but there are all sorts of bad case scenarios. I mean, the country gets split into two, anything can happen.

MR. JONES: Exactly.

MR. SHARMA: So it's hard to sort of take these things -- yeah.

MR. JONES: Exactly. And that was my only point is that some of these, you know, I have to say, if I were looking at a place where those are very negative scenarios, Nigeria and Pakistan would be two where you have the potential for quite a lot more negative scenarios. It's a function of not taking advantage of the demographic boom and not providing jobs for a huge youth bulge. A youth bulge can be a powerful engine of growth or it can be a powerful engine of political instability, and both of those countries are going to face tough challenges to get that right.

MR. WRIGHT: Yeah. Great. Okay, we'll go just up over here and then we'll go over here.

MR. FITZGERALD: Theo Fitzgerald, George Washington University. My question is how do you assess the rebalance policy in terms of, you know, both the second risk that you mentioned and in terms of the broader question of the day, the emerging world order? Thank you.

MR. WRIGHT: Bruce, do you want to start with this one on the U.S. rebalance or, as the President calls it, the pivot to Asia?

MR. JONES: Yeah, it's interesting in that because, of course, when they announced the policy both the President and the national security advisor were incredibly careful not to call it the pivot. Right? And they never used the term. And then Hillary called it the pivot and then it was just the pivot and nobody could ever get back to rebalancing because pivot is a much sexier term. But it did raise this fundamental problematic question if you're pivoting to something, what are you pivoting away from? And so we must be pivoting away from the Middle East or pivoting away from Europe or pivoting away from something else, and none of those things are really true, but the perception is there. So a couple things about this.

If you look at logistics, if you look at where we have prepositioned ships, where we have increased our stockpiles of fuel, where we have expanded bases, et cetera, we are beginning to lay the infrastructure for a naval pivot to Asia. Okay? And I think one of the things that happens in this town is there's an extraordinary amount of churn around, well, you said you were going to do this this year and I haven't seen the results. It's like, well, this is going to take time. Right? This is the kind of project over a substantial period of time and we are beginning to lay the foundations.

I would say, though, that the administration has not done what's necessary diplomatically to convince Asia that we are making the pivot. Right? So you have a situation right now where the Secretary of State spends an extraordinary quantity of his time dealing with Iran and the Middle East peace process, Iraq, et cetera. And I'm very happy that somebody is doing that, but I'd be much happier if an equal amount of time were being put into the diplomatic relations in Asia. And that's not happening at the kind of level of sustained engagement that's needed.

So the kind of narrow definition of a rebalance, a kind of shift of military resources out of Central Asia, which is the one place we are clearly pivoting out to a certain degree, out of Central Asia and towards

Asia is beginning to happen. But the framework and the diplomacy about it, I think, has suffered.

MR. WRIGHT: Ruchir, does the rebalance and this sort of strategic debate here about U.S. strategy factor into, you know, the assessments and analysis that you make on the sort of future of the global economy?

MR. SHARMA: Well, I mean, like, it just seems like a very natural thing in terms of I think that the resource commitment there is what -- you know, like they felt more, like it should be in that area. So I don't think this is driven much by economics. It's just, you know, the new reality which they had come to see as to where they see the sort of, you knows, things happening. But I don't see this as a big factor really in our world at all in terms of what's going on.

MR. WRIGHT: Okay. Great. I think we're going to take a few questions together because we have about 10 minutes, so we'll maybe gather 4 or 5 or so. So let me start here and then we'll go over here, then there's a couple back there, and maybe one over here.

MR. CAULFRIDER: Hi. I'm Bill Caulfrider, president of Center for Alcoholism and Drug Research and Education. I'm an ECOSOC member, United Nations.

First, healthcare. I'm interested in healthcare, but no mention of healthcare.

Number two, a study -- an EU member, extreme corruption, $170 billion, unbelievable corruption. Another study shows narcotics, drugs, Vienna two years ago, triple, $700 billion narco terrorism.

Number three --

MR. WRIGHT: So just the three points and then we'll have to move on because we're --

MR. CAULFRIDER: Okay. Last question, Chinese apartment buildings, and 60 million vacant apartment units unused. Explain. Thank you very much.

MR. WRIGHT: Okay, thanks. Just hold that thought for a moment. We're going to take a few more, so just over there. This gentleman, then there were two down there, and then we have one -- I think one over here.

MR. ABRAMOWITZ: David Abramowitz from Humanity United.

I thought it was interesting that Brazil was not mentioned once in this conversation, and I was wondering what you could say about Brazil. Are they sort of blown up out of proportion or is Washington so not focused on Latin America that it's just something we don't talk about?

And India, also, mentioned only briefly in passing and somewhat seeing them as not really a player. They've had a bad couple of years, but they have a lot of fundamental strengths, it seems to me. And what do they look like and how -- given the concerns about China's increasing influence, will they be a factor? Obviously in the Bush administration there was an effort to increase partnership as a way of, in their focus, balancing China, but that seems -- we're not against that. We haven't changed that, but we talk about it a lot less.

So Brazil and India. Thanks.

MR. WRIGHT: Great. Just back down here. And I should say that I was the one who sort of chose China to ask you about, but India and Brazil are very big parts of your book as well.

MR. SHARMA: Sure, yeah.

MR. SHUTLEY: Peter Shutley, retired State Department and Brookings.

And a word that is a basic source of U.S. strength I didn't hear mentioned, which is soft power. So my question is do you both see any prospects for a long-term decline in U.S. soft power? And what might bring that about?

MR. WRIGHT: Great, thanks. The gentleman right behind you.

MR. COULTER: Yes, my name is Jeff Coulter. I'm a serving U.S. Army officer.

In your opinion, gentlemen, what does the future hold for the U.S. relationship with Israel?

MR. WRIGHT: Okay, slightly different topic, but if you have a chance to get on to that, and then there's actually two over here and then we'll call it. So just the gentleman at the back and then the gentleman in the sweater and the -- yeah.

MR. MANDALAKAS: John Mandalakas with the Emerging Markets Private Equity Association.

I'm kind of curious about regional integration and how you see that shaping the future of the world order, particularly given the euro zone crisis and then emerging markets integrations, like East African community, ASEAN, et cetera.

MR. WRIGHT: Great, thanks. And the final question then is at the very back.

MR. WIESEL: Hi. Edward Wiesel. I was just -- you both mentioned briefly a crisis emanating from China and how that could destabilize the world. I was just wondering what the probability of that is as they try and navigate growing wages and what might be a housing bubble, et cetera.

MR. WRIGHT: 27.5 percent roughly. (Laughter) Okay.

There's a lot on the table there, so why don't you both -- well, we'll start with Bruce and then go to Ruchir, but just, you know, pick and choose whichever is the easiest question. No, I'm just kidding. But try to cover as much ground as you in the limited time that we have, a few minutes each.

MR. JONES: Briefly on the narcotics issue, and one of the factors that we should be paying attention here is the way in which shifting patterns in organized crime and drugs trafficking are destabilizing substantial parts, West Africa being kind of case in point. There's a region otherwise moving on a relatively stable path being severely impacted by the flow of drugs. The only point I'd make in this context is that it's not an issue that divide the powers. It's an issue that unifies the powers. Nobody has an interest in seeing the stuff.

David, good questions. Brazil -- it was very funny. I did a session with a lot of these characters and (inaudible) there was all these debates going on. And the Brazilian guy who was there finally said, you know, I guess we -- I'm sort of realizing that we really suffer from the fact that we don't have any troubles with our neighbors, we never fought a war. It was clear a bad thing for us in international politics because you can just ignore Brazil.

I'm a big fan of Brazil. I spend a lot of time in Brazil. Its economy is in trouble for reasons that Ruchir can talk about. I think Brazil will be an important player in the world and it becomes a very important test case. It's something that Hillary Clinton said, which is we're entering a moment in which you can be a great power without being a military power.

What's interesting is the Brazilians don't believe it. So they're about to launch a substantial expansion of their overseas military capability. They're building new bases overseas, they're investing in embassies overseas because they perceive that unless you're operating militarily in stabilization and those kinds of games, you're just getting left behind. And so they're kind of changing -- they're moving away from a soft power to a more blended soft and hard power role precisely to be able to play in the kind of international order games. And they have interests as well.

India, you were very bullish in your book about India, so it's interesting to know what you think now -- or reasonably bullish in your -- in breakout nations you were relatively bullish about India.

MR. SHARMA: 50/50.

MR. JONES: 50/50, okay. But it really matters. It matters in strategic terms. I think it matters to the United States what happens with India as a kind of natural balance to China. It matters in maritime power. They are the only other actor that's sort of substantially increasing their naval capability, and that's going to matter. I think it matters most fundamentally on energy and climate.

India is slated to be a larger source of growth in oil imports than China over the next 15 years. If you look at population rates and mission rates and energy consumption, left to current pathways, India as a whole new European Union to carbon emissions over the next 15 years. And there's zero chance of hitting a two degrees target on climate if that happens. So I think we have fundamental stakes in the success of India and the nature of the success in India in terms of its growth and in terms of its growth model.

I'm not competent to talk about the U.S.-Israel issue only to say there's a huge amount of turbulence in the Middle East. That's obviously a major drain on American resources right now.

The one silver lining in the kinds of terms that we're talking about today seem to me that whereas you might have said in a sort of 19th century historical moment that increased trouble for the United States in the Middle East was good for its rising competitors, that's not what we're seeing. Nobody profits. India doesn't profit. China doesn't profit. Japan doesn't profit. Nobody profits from seeing the U.S. ability to manage crises in the Middle East going down. So in great power terms there's this -- a silver lining there.

And you know much more about the last two questions, so I'll leave it at that.

MR. SHARMA: Okay. I'll start with China then. I think that -- I mean, if you just look at the probabilities, the other countries which have expanded their debt so quickly as China has done, which I was saying in my opening remarks, typically those countries, the probably of suffering a crisis in the subsequent 5 years, some sort of a financial crisis, a credit crisis, tends to be nearly 70 percent. And the probability of it having a major economic slowdown tends to be 100 percent. I mean, just look at the past.

Now, of course, China can break the odds. It is an exceptional country. It has broken many rules in the past in terms of how it's been able to sustain its economic miracle, but if you just look at the past playbooks, that are what you, get in terms of probability outcomes.

So while not betting on a crisis, I would say the probability that China's economy has a major economic slowdown because it's at a much more mature phase and the growth of the last four to five years has been a bit artificial due to too much debt, is, I'd say, extremely high. So that would be my base case, so to speak.

And this relates to the question that you asked first about all the vacant sort of homes and the ghost towns and cities that you speak about because there has been far too much excessive investment, a lot of it not really productive. No country has sustained an investment-to-GDP ratio as China has done over the past few years. So this is all related. It's sort of too many excesses, which is excessive credit leading to some excessive property investments and property speculation, and both those seems to -- at a stage of unwinding over the next three to five years or so. And the probability of that happening, to me, is extremely high.

Just briefly on India and Brazil, on Brazil, I mean, like, I think this country really sort of -- as President Lula said in 2007, that's when it had its magic moment. I think it's blown its magic moment from an economic perspective in that Brazil's growth rate is, I think, now sort of -- if you look at Brazil's growth rate it basically sort of tends to grow at about 2 percent. When commodity prices are booming it gets to 4 to 5. When commodity prices really fall it doesn't grow. And I think at the margin, I think commodity prices really aren't going anywhere the next three to five years. And I find it very difficult to emphasize a scenario where Brazil's growth rate is any better than 2 percent or so. And so I think that even from an economic standpoint the interest in Brazil has already faded a lot within the financial community and I think that's going to sort of percolate itself into the other spheres as well.

So I'm not an optimist. Even though I love visiting Brazil, I have a great time out there and I'm hoping to go there, you know, for the World Cup, and I hope I'm not banned from getting there, and so forth, but it's a country that, for an economic standpoint, I don't feel too excited about.

On India, I'm a bit sort of, you know, like I tend to have strong opinions, which is pretty apparent now for different countries, but on India, like, I feel conflicted, maybe because I'm a bit too close to the situation since I come from there. But in India's case the good thing is the fact that its per capita income level is so low, ironically. And that very low base allows India to make mistakes and still be able to grow. And the fact that in India's case I think what's happened is that even though the center has been very dysfunctional, you have a lot of state actors who have emerged as chief ministers of different states of India who have done quite well.

So in a way this is a version of power which has been spoken about here at Brookings a lot as well, about sort of, you know, the rise of the cities and the mayors and stuff. Something similar is going on in India at a somewhat bigger scale, I would say, because India has a similar problem. The U.S. where the center is very dysfunctional, but that's giving way for these state actors to rise and to do very well. So at the margin I think that, like with India, things seem to be turning a bit for the better, but it's a country where to expect dramatic change is not feasible. It's very difficult within that setup to make dramatic changes, but the margin, I feel okay as far as India is concerned.

So I'd say that in terms of the emerging economies, you know, there are so many countries out there that we can go on and on covering about them, but a lot of countries which are doing well now are countries which were, in fact, laggards last decade, but they now have new leaders out there trying to make changes. The most exciting story in the financial community has been Mexico in terms of the changes that they have made and the reforms that they have carried out. And in places like East Asia, you have countries like the Philippines which have emerged from really nowhere to now being the fastest-growing economy in Asia after China. Its growth rate last year was 7 percent.

So that really, to me, is the central thing, that the characters keep changing as to who are the stars and you have to sort of be on the lookout for that. And typically, stars don't do well for more than a decade. The people who do or the countries which do well for more than a decade are more exceptions that the rule.

MR. WRIGHT: Thank you. Before we finish I just have a couple of brief announcements to make. The first is that the Managing Global Order Project at Brookings, we'll be changing our name to the

Project on International Order and Strategy in the next couple of weeks. So when you get e-mails from us with that, that's the rebranding that's taken place. And to mark that, on the 25th of February we'll be launching a report here in the Falk Auditorium. We'll be deciding on the time in the next few days, but it's on the 25th and the report is "The State of the International Order" in which we'll be going through 11 sort of major trends in the international order since the financial crisis in 2008.

I'd like to thank Bruce and Ruchir. Both of them have books either out already or imminently coming. Ruchir's book is *Breakout Nations*, which is now available. And Bruce's is *Still Ours to Lead*, which is on the U.S. foreign policy and the future of the international order, which will be released on March 17th, and we'll doing an event here then and I hope to see you all then or on the 25th of February. Thank you for coming. (Applause)

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