

FORE~~S~~SIGHT

Global power revisited

The United States in
a changing world order



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The views expressed in the articles of this reader are solely those of the authors and do not represent the views of the conveners of the Foresight project.

Foreword: absolute power

"Absolute Power", "Mosaic", "Mission: Impossible" – these are just a few titles of Hollywood blockbusters and books that reflect the unparalleled power of American popular culture to captivate the imagination of millions of people all over the world. The leitmotif of this successful "thriller industry" has been Washington DC as a centre of power and an anonymous evil. Conspiracies are hatched by political lobbyists and sometimes even by the government itself. In these works, publicised the world over with a high advertising budget, power, money and crime form a web of intrigue that fascinates millions. At the end of the stories, it is always the good guys, played by Clint Eastwood, Julia Roberts or Will Smith, who win. But in the very next film, the omnipresent yet hidden force of evil rears its ugly head again.

Remarkably, this fictitious image of an unscrupulous America was eclipsed by the reality of torture committed by US officials in the prison camps of Iraq and Guantanamo Bay. The conspiracies of Robert Ludlum's novels were replaced by real anonymous private security services, whose "specialists" fought uncontrollable enemies in Iraq. In the last eight years, reality far exceeded the horrors of fiction. "The US island of shame" or the secret "Red Cross report on US torture at black sites" are not film titles but detailed exposés of the human rights violations committed by government agencies. These actions that diametrically opposed American values, created a profound unease, not only among the American public, but also the rest of the world. The heroes who fought in American thrillers and movies

embodied a desire for a different, better America - for better politicians.

President Obama managed to tap into this public mood during his election campaign by running against the Washington establishment with a message of "change" and "hope." The election process turned people disgruntled with politics into enthusiastic supporters of Obama's mission to build a better America. Critics in the US and abroad who accused Obama of lacking sufficient experience and connections within the Washington system only strengthened his appeal. They confirmed he was not part of the Washington system but stood for a different style of politics. The desire for better politicians and for politics opposed to the image of the US as a composition of fiction and reality made Obama popular all over the world. In Berlin alone, hundreds of thousands flocked to hear him speak, to see the new politician who emerged as a refreshing change from the establishment.

In a multi-polar world that is divided on so many issues, Obama has succeeded in uniting disparate groups and peoples in support for him. Indeed, Obama has even been lauded as a "global president," based on his widespread popularity abroad. Paraphrasing Kennedy's words, his appeal lies in the message he conveyed to the world during his first 100 days in office: "Ask not what America can do for you, but what problems you want to solve together with America." And yet, although the world has great expectations of the US under the new administration, it is still unclear whether other nations are willing to share the burden of managing international order.

Recent developments in North Korea, Iran and Pakistan present the "president of hope and change" with his greatest trial. None of the major players are agreed on how to respond to the challenges presented by these states, divided by separate and sometimes conflicting visions of the world's future and yet a clash of futures must be prevented. The Foresight project was born out of a desire to bridge these competing world views by finding points in

common that may form a basis for cooperation. This year's symposium in Washington DC follows on from the first Foresight symposium held in Moscow and further events are planned in Europe, Brazil, India and China.

Like a hero in an American story, Obama has arrived on the scene at a critical moment in world history. From Washington to London, New Delhi and

Beijing, it is apparent that attitudes are changing and there is growing awareness of the realities of interdependence. His message has generated collective hope, but if that hope turns into disappointment, the rifts that open up may be even deeper than before.

WOLFGANG NOWAK

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Introduction: seizing the opportunity

Elena Jurado and Priya Shankar¹

“Change has come to America.” The words of Barack Obama on the night of the 2008 presidential elections were electrifying. The historical significance of the elections, which brought America its first African-American president, was grasped and appreciated by millions of people watching from TV screens all over the world. For the change that Obama spoke about went beyond the symbolism of a country turning its back on a past of slavery and segregation. It was a promise to transform the United States domestically, with proposals to introduce universal health coverage, widen public access to high-quality education and build a greener America. It was also a pledge to open a new chapter of multilateral engagement.

However, the world facing the new president has irrevocably changed since the closing days of the Second World War, when America led the previous wave of multilateralism from a position of unrivalled strength. With breathtaking growth in China and India, the resurgence of Russia, a new dynamism in Brazil and an enlarged European Union, the geopolitical landscape is shifting as the world becomes increasingly multi-polar. These developments have combined with a global financial crisis that has called into question the supremacy of the American model – a process of disillusionment

with the United States that can be traced back to the previous administration. In spite of the loss of faith in American “exceptionalism” the hope and enthusiasm that greeted the new president presents the United States with an extraordinary opportunity to rebuild its relationship with the rest of the world.

The ability of the United States to seize this opportunity will determine not only its capacity to revitalise its economy and restore its international standing, but also the prospects for an international order that is better equipped to deal with today’s challenges. From the financial crisis to climate change to nuclear non-proliferation, the major players have thus far failed to reach a consensus on many critical issues and the task of rebuilding the global order has become more urgent than ever. Although the US remains the world’s pre-eminent power, it now needs to contend with other powerful players who are no longer willing to accept American policy prescriptions and yet, paradoxically, continue to expect the United States to shoulder much of the burden of responding to global challenges.

As we move towards a more multi-polar world, global stability and international cooperation will depend on establishing rules and institutions that reflect the diverse views and interests of all the major powers. This process is likely to be fraught with difficulties and will involve complex compromises on contentious issues. At the very least, it will require an acceptance on the part of the United States that its own system of values and ideas co-exists alongside other value systems that are shaped by different historical experiences.

This reader analyses the way these issues play out in the context of three global challenges which, due to their urgency, represent litmus tests for the underlying task of building a new international order: managing the economic and political fallout

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of the global financial crisis; forging an integrated international security policy based on multilateral cooperation, particularly in Iraq and Afghanistan; and the challenges of climate change, energy security and proliferation for global governance. Each challenge is explored in a separate section by an American and a non-American author, with the aim of comparing and contrasting “insider” and “outsider” perspectives on the major issues at stake. These sections also contain key data and facts that indicate some of the recent trends in each field. The key question running throughout the publication – the role of the United States in a changing world order – is explored most explicitly in the last section of the publication.

The two essays that open this volume focus on managing the fallout of the financial crisis, which is perhaps the most pressing challenge facing the new US administration.

From bank bailouts to a major domestic stimulus package, revitalising the US economy has been on the top of the new government’s agenda and some are even starting to express hope for recovery. Yet in light of economic interdependence, domestic measures designed to protect citizens at a time of crisis may inadvertently be damaging to the international economy. As banks face pressure to lend at home, international flows of capital are decreasing. Meanwhile, protectionist measures threaten to worsen a rapid decline in global trade and there are increasing fears of “de-globalisation”.

Previously, Washington could prescribe solutions and drive the international economic agenda. However, the current financial crisis, which originated in the US, has called into question the existing global economic system and highlighted the ongoing shift in economic power that has been taking place over the last few years. While emerging economies have also been affected by the economic downturn, many predict that their path to recovery will be quicker. Countries with large foreign exchange

reserves and budget surpluses, such as China, may be the only ones in a position to take the fiscal measures required to help overcome the crisis.

It is significant that for the first time the G20 is playing a key global role. While this seems to augur well for a new era of multilateralism, the diverging preferences of the major powers look set to complicate this process. As calls for a new global reserve currency indicate, the emerging economic powers will not be willing to take on larger responsibilities without demanding a greater say in decision-making.

The ways in which the US responds to these demands and a changing global environment will be crucial in determining the nature and stability of the emerging international economic order. Of course, the US economy remains extremely strong and has always shown remarkable resilience in adapting to change. The current tumult may even present an opportunity to redress some of the global imbalances that indirectly led to the crisis. However, as the essays in this section demonstrate, this will be a complex and slow task with no easy agreement on the reforms required and the way forward.

The second set of challenges examined in this volume focuses on one of the key dilemmas facing the new administration as it attempts to formulate strategies for Iraq and Afghanistan: how to forge an integrated international security policy based on multilateral cooperation.

These two long-running wars have been at the centre of US foreign policy for over eight years now, occupying the minds of the US leadership and complicating America’s relations with the rest of the world. In particular, the decision to launch a military invasion of Iraq without seeking UN Security Council authorisation seriously damaged the United States’ international standing, with consequences for the effectiveness of its military operations in Iraq and Afghanistan. By the end of 2008, even the United

States' closest allies were expressing disquiet about Washington's unilateralist strategies and excessive reliance on the use of force.

However, there is no clear answer to the question of what states should do when multilateral cooperation on questions affecting international security breaks down. In recent years, the Security Council, which remains the principal international organ charged with the maintenance of international peace and security, has been the subject of increasing criticism. India and Brazil have been leading calls for more permanent seats to reflect the new global distribution of power. The Security Council has even been accused of "irrelevance" as a result of the veto power enjoyed by its permanent members, which many argue prevents it from taking effective action. This has been a recurrent complaint of the United States, and it was on this basis that it launched its military invasion of Iraq in 2003.

As global power becomes increasingly diffused, achieving the necessary Security Council consensus on international military interventions is likely to become more complicated, raising difficult questions for a new US president that has promised a foreign policy of multilateral engagement. The US administration proposes to manage this dilemma by adopting a "smart power" approach, which involves using the right combination of "hard" and "soft" power resources to secure international cooperation. But navigating through the competing demands of global security will not be easy, as indicated by North Korea's decision to embark on nuclear brinkmanship despite President Obama's political overtures. The essays in this section explore this predicament, examining the prospects and limitations of great power efforts to manage international order through multilateral cooperation.

The third section of this volume examines the geopolitical implications of climate change including the nexus between climate change and

nuclear proliferation, which present two of the gravest dangers imaginable to humankind. Both, if not effectively controlled, could have disastrous consequences across national borders.

While the adverse effects of climate change are becoming increasingly evident, there is still no international consensus on how to confront this challenge. With the Kyoto Protocol expiring in 2012 and the Copenhagen Climate Conference taking place at the end of the year, now is the time to advance the task of forging a global consensus. Given the position of the US as the only country to have signed but not ratified the Kyoto Protocol and its historical role as the largest emitter of greenhouse gases, the new administration has a special obligation to rectify previous policies and demonstrate commitment to international efforts to combat climate change. The Major Economies Forum on Climate Change recently set up by the US government is already a first step in the process of attempting to reach an international agreement to replace Kyoto. However, as the essays in this section explore, this will be no easy task with many countries having divergent perspectives on the way forward.

With climate change concerns adding to anxieties about energy security, nuclear energy seems to be making a comeback. Yet, very few countries have the technological capacity and access to fuel to build nuclear power plants. How to ensure greater access, whether through proposals for an international fuel-bank or other measures presents a significant dilemma. As other technologies evolve, there are likely to be similar problems of access and so a need to build regulatory structures that do not risk entrenching the division of the world into "haves" and "have-nots."

At the same time, many believe that the use of nuclear energy carries its own risks of increased weapons proliferation and raises issues of how to manage waste. The dangers presented by this are exacerbated by the risk of nuclear weapons

falling into the hands of terrorist organisations. The countries with the largest reserves of nuclear weapons, such as the US, may need to demonstrate a commitment to reduce their stockpiles if agreement on a more effective non-proliferation regime is to be reached. Efforts by the new administration to engage Russia on a new treaty to reduce and limit strategic weapons are a step in the right direction, but much still remains to be done.

Although these challenges appear daunting, the new US administration has already taken initial steps to respond to them. As the other major powers contemplate and respond to these US initiatives with their own proposals, it is not yet clear how the complicated process of international give-and-take will play out. As the process of international negotiations goes forward, there are important lessons to be

learned from progress made on tackling any one of these issues that could have significant implications for the others. For example, attempts to establish more effective international financial regulation that is acceptable to all the key players could help set useful precedents for regulation in other areas such as climate change. Bearing in mind this fundamental insight may help to overcome many of the obstacles lying ahead. The underlying task is to find better ways of governing an increasingly interdependent and multi-polar world. A first step would be for the United States to better understand the perspectives of other global players, and for the rest of the world to appreciate the dilemmas facing America. It is this process that our publication and the Foresight initiative aim to facilitate.

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Section one:

managing the fallout of the financial crisis



Economic leadership beyond the crisis

Adam Posen¹

In the postwar period, US power and prestige, beyond the nation's military might, have been based largely on American relative economic size and success. These facts enabled the US to promote economic openness and buy-in to a set of economic institutions, formal and informal, that resulted in increasing international economic integration. With the exception of the immediate post-Bretton Woods oil-shock period (1974-85), this combination produced generally growing prosperity at home and abroad, and underpinned the idea that there were benefits to other countries of following the American model and playing by American rules.

Initially this system was most influential and successful in those countries in tight military alliance with the US, such as Canada, West Germany, Japan, South Korea, and the United Kingdom. With the collapse of Soviet communism in 1989, and the concomitant switch of important emerging economies, notably Brazil, China, India, and Mexico, to increasingly free-market capitalism, global integration on American terms through American leadership has been increasingly dominant for the last two decades.

The global financial crisis of 2008-09, however, represents a challenge to that world order. While overt financial panic has been averted, and most economic forecasts are for recovery to begin in the

US and the major emerging markets well before end of 2009 (a belief I share), there remain significant risks for the US and its leadership. The global financial system, including but not limited to US-based entities, has not yet been sustainably reformed. In fact, financial stability will come under strain again when the current government financial guarantees and public ownership of financial firms and assets are unwound over the next couple of years. The growth rate of the US economy and the ability of the US government to finance responses to future crises, both military and economic, will be meaningfully curtailed for several years to come.

Furthermore, the crisis will accelerate at least temporarily two related long-term trends eroding the viability of the current international economic arrangements. First, perhaps inevitably, the economic size and importance of China, India, Brazil, and other emerging markets (including oil-exporters like Russia) has been catching up with the US, and even more so with demographically and productivity challenged Europe and northeast Asia. Second, pressure has been building over the past fifteen years or so of these developing countries' economic rise to give their governments more voice and weight in international economic decision-making. Again, this implies a transfer of relative voting share from the US, but an even greater one from over-represented Western Europe. The near certainty that Brazil, China, and India, are to be less harmed in real economic terms by the current crisis than either the US or most other advanced economies will only emphasise their growing strength, and their ability to claim a role in leadership. The need for capital transfers from China and oil-exporters to fund deficits and bank recapitalisation throughout the West, not just in the US, increases these rising countries' leverage and legitimacy in international economic discussions.

¹ I am grateful for discussions of related topics with Fred Bergstein, Morris Goldstein, Simon Johnson, and Arvind Subramanian. The views expressed here, however, are solely my own.

One aspect of this particular crisis is that American economic policymakers, both Democratic and Republican, became increasingly infatuated with financial services and innovation beginning in the mid-1990s. This reflected a number of factors, some ideological, some institutional, and some interest group driven. The key point here is that export of financial services and promotion of financial liberalisation on the US securitised model abroad came to dominate the US international economic policy agenda, and thus that of the IMF, the OECD, and the G8 as well. This came to be embodied by American multinational commercial and investment banks, in perception and in practice. That particular version of the American economic model has been widely discredited, because of the crisis' apparent origins in US lax regulation and over-consumption, as well as in excessive faith in American-style financial markets.

Thus, American global economic leadership has been eroded over the long-term by the rise of major emerging market economies, disrupted in the short-term by the nature and scope of the financial crisis, and partially discredited by the excessive reliance upon and overselling of US-led financial capitalism. This crisis therefore presents the possibility of the US model for economic development being displaced, not only deservedly tarnished, and the US having limited resources in the near-term to try to respond to that challenge. Additionally, the US' traditional allies and co-capitalists in Western Europe and Northeast Asia have been at least as damaged economically by the crisis (though less damaged reputationally).

Is there an alternative economic model?

The preceding description would seem to confirm the rise of the Rest over the West. That would be premature. The empirical record is that economic recovery from financial crises, while painful, is doable even by the poorest countries, and in advanced countries rarely leads to significant political dislocation. Even large fiscal debt burdens can be reined in over a few years where political will and institutions

allow, and the US has historically fit in that category. A few years of slower growth will be costly, but also may put the US back on a sustainable growth path in terms of savings versus consumption.

Though the relative rise of the major emerging markets will be accelerated by the crisis, that acceleration will be insufficient to rapidly close the gap with the US in size, let alone in technology and well-being. None of those countries, except perhaps for China, can think in terms of rivaling the US in all the aspects of national power. These would include: a large, dynamic and open economy; favorable demographic dynamics; monetary stability and a currency with a global role; an ability to project hard power abroad; and an attractive economic model to export for wide emulation.

This last point is key. In the area of alternative economic models, one cannot beat something with nothing – communism fell not just because of its internal contradictions, or the costly military build-up, but because capitalism presented a clearly superior alternative. The Chinese model is in part the American capitalist (albeit not high church financial liberalisation) model, and is in part mercantilism. There has been concern that some developing or small countries could take the lesson from China that building up lots of hard currency reserves through undervaluation and export orientation is smart. That would erode globalisation, and lead to greater conflict with and criticism of the US-led system.

While in the abstract that is a concern, most emerging markets – and notably Brazil, India, Mexico, South Africa, and South Korea – are not pursuing that extreme line. The recent victory of the incumbent Congress Party in India is one indication, and the statements about openness of Brazilian President Lula is another. Mexico's continued orientation towards NAFTA while seeking other investment flows (outside petroleum sector, admittedly) to and from abroad is a particularly brave example. Germany's and Japan's obvious crisis-prompted difficulties emerging from their very high export dependence, despite their being wealthy, serve as cautionary examples on the

The need to get buy-in from the rising new players to the current system is more pressing on the economic front than it ever has been before

other side. So unlike in the 1970s, the last time that the US economic performance and leadership were seriously compromised, we will not see leading developing economies like Brazil and India going down the import substitution or other self-destructive and uncooperative paths.

If this assessment is correct, the policy challenge is to deal with relative US economic decline, but not outright hostility to the US model or displacement of the current international economic system. That is reassuring, for it leaves us in the realm of normal economic diplomacy, perhaps to be pursued more multilaterally and less high-handedly than the US has done over the past 20 years. It also suggests that adjustment of current international economic institutions is all that is required, rather than desperately defending economic globalisation itself.

For all of that reassurance, however, the need to get buy-in from the rising new players to the current system is more pressing on the economic front than it ever has been before. Due to the crisis, the ability of the US and the other advanced industrial democracies to put up money and markets for rewards and side-payments to those new players is also more limited than it has been in the past, and will remain so for at least the next few years. The need for the US to avoid excessive domestic self-absorption is a real concern as well, given the combination of foreign policy fatigue from the Bush foreign policy agenda and economic insecurity from the financial crisis.

Managing the post-crisis global economy

Thus, the US faces a challenging but not truly threatening global economic situation as a result of the

crisis and longer-term financial trends. Failure to act affirmatively to manage the situation, however, bears two significant and related risks: first, that China and perhaps some other rising economic powers will opportunistically divert countries in US-oriented integrated relationships to their economic sphere(s); second, that a leadership vacuum will arise in international financial affairs and in multilateral trade efforts, which will over time erode support for a globally integrated economy. Both of these risks if realised would diminish US foreign policy influence, make the economic system less resilient in response to future shocks (to every country's detriment), reduce economic growth and thus the rate of reduction in global poverty, and conflict with other foreign policy goals like controlling climate change or managing migration and demographic shifts. If the US is to rise to the challenge, it should concentrate on the following priority measures.

Firstly, it should focus its economic diplomacy on Brazil, India and South Korea. The widely held instinct these days is to pursue China's attention and good graces obsessively if not exclusively. While good relations with China are of course important, that will not be enough, and excessive pursuit of that may be counter-productive. For the primary goals of keeping a multilateral system open in finance and trade, and making sure the world does not adhere to a truly competing alternative to the (properly chastened) US economic model, it is better to focus on the swing voters among the major emerging markets. These three countries combined have at least comparable economic weight and population to China's, and as three countries of noted independence and accomplishment, they have real legitimacy as alternative voices at the table to China's. Furthermore, these are the success stories in recent years of emerging markets that have by and large played by the US-promoted rules, and benefitted from so doing. So they are important for their own opinions and for their resonance as examples, as well as counterweights to China in the normal sense of diplomacy. They also give

opportunities in various ways for US allies in Western Europe and Japan to be constructively involved.

The US should also pro-actively seek a massive shift in voting and voice at the World Bank and IMF. The expansion of resources provided to the IMF, with a surprising absence of demands for near-term reallocation of shares and chairs, at the March 2009 G20 Summit has given a false sense of confidence. Actually, what is still happening is the major emerging markets self-insuring and removing themselves from the Fund's activities – which both leads to mercantilist tendencies and a power vacuum. The US and EU must offer up several percentage points of voting directly to China, Brazil, and India out of their current voting allocations. This should include going to just below the voting shares needed for unilateral veto power on behalf of both the EU and the US – if these voting blocs cannot get one other representative to side with them, they should not have a veto. The symbolism will be very important, especially if done 'voluntarily' ahead of the current piddling agreements on IMF share changes, even though in practice the US would retain a veto. This, of course, would require consolidation of the European seats into one euro area representative and a reorganised constituency for non-euro EU members. Promising that no European or American candidates would be nominated for the Managing Director (IMF) / President (World Bank) jobs when they next become vacant would be a nice touch.

In addition, the US needs to move quickly to adopt new coordinated or global financial regulations. This priority sounds either banal or hopelessly idealistic, depending upon who would hear it. But the US, UK, and the eurozone countries are all moving surprisingly quickly towards new financial regulatory and bank supervisory frameworks. They are doing so, however, on a strictly domestic basis. For all the talk about the new Financial Stability Board, including the G20 countries not normally part of the Basel financial committees, not much is being pursued at that level. Since the financial regulatory agenda being pursued in

each of these regions is in many ways the same, it is only a matter of political will and effort to make it coordinated if not international – there is nothing really to be given up by so doing except bureaucratic interests parochial even within countries, and arguably many of the regulations would be more effective if done globally. This is a very different situation than that which pertains in many international economic institutions where there are issues of economic burdens to share or particular sectors in one or another country being displaced. We know the sector to be displaced, it is the same in all countries, and there are no fiscal commitments required in reaching agreement.

Finally, the US should pursue a stand-down agreement on 'beggar thy neighbour' policies among the major economies. This would encompass both exchange rates and trade protections (including subsidies as well as tariffs). The G20 has paid lip service to this on the trade side, and the WTO has compiled lists of violations and violators, but they are too narrowly defined. On exchange rates, watchful deterrence seems to be the order of the day. After the crisis, exchange rates have undergone a major realignment for many countries but the Chinese, Japanese, European, and American bilateral exchange rates are all within striking distance of broadly acceptable rates. After the crisis, any hope for a positive Doha agenda of more than trivial size is dead. Let us aim for a mutual cease and desist order on unilateral exchange rate and trade intervention. This is the one place where China would indeed be asked to give up its current practices in an important area, that of pegging the renminbi unilaterally. This is also a place, however, where the US can offer something valuable to China without having to put up money, by assuring market access. Meanwhile, an assurance from the US on fiscal probity could remove the downside fears of China and other dollar reserve holders, while being in the US' own self-interest.

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Rebalancing the global economy

Xiaoqing Zhang

The subprime crisis, which started in the United States, has seriously affected the health of both the advanced and the emerging market economies. But the impact of the crisis on the two groups of states is likely to be asymmetric. The advanced economies have seen a drastic reduction in their share of world output. With their higher growth rates, the emerging market economies will experience an important increase in their economic significance. Moreover, the crisis has uncovered weaknesses in the current international economic order dominated by the US dollar and may even lead to a decline in the economic power of the United States. In this sense, the subprime crisis is likely to have a redistributive effect on the current international power regime.

This is not the first time that the United States' economy has heard alarm bells ringing. After World War II, the United States remained at the helm of the world economy for decades. But in the late 1980s, with the rise of Japan, it was widely believed that the "Anglo-Saxon" capitalist model based on short-termist behaviour in speculative stock markets would be defeated by a Japanese-German model, centred around a banking system with a long-term investment vision. Charles Kindleberger even discussed the possibility of Japan replacing the US as the leading economic power. But such a scenario did not come about. Instead, Japan experienced its "lost decade". And, from the second half of the 1990s until the start of the subprime crisis in

2007, the United States experienced the "great moderation", an unprecedented period of sustained economic stability, based on the "new economy".

The United States' ability to manage change in the past has demonstrated, to an extent, the highly flexible nature of its institutions, in particular their capacity for "error-correction". On the basis of this record, many people argue that the United States' financial market leadership, and the associated global economic imbalances, will remain the dominant characteristic of the international economic order for at least another 10 or 20 years. Unfortunately, on this occasion, this may just be wishful thinking.

An exorbitant privilege

The analysis of power shifts among nations remains an enduring interest of economic historians. Their work offers one key insight: economic powers tend to experience three specific phases of development. Initially, their economy relies on commerce and manufacturing, two important wealth-creating industries which nevertheless entail risks and uncertainties. Next, they place greater emphasis on financial markets, the exchange of assets that represent wealth. After that, they proceed to pure rentier status. From this perspective, it is easy to understand why proposals to reform the international monetary and financial system are of such direct concern to the United States, which relies heavily on its dominance and comparative advantage in financial markets.

Currently, the financial sector in the US contributes to about 20% of national output, with the manufacturing sector contributing to only 10%. Furthermore, the United States' national economy has become increasingly dependent on imports of foreign goods and foreign capital, which have not been used for productive investment but have helped sustain both high government spending and excessive mass consumption. This has only been possible because of the unique and biased position of the dollar as the world's key reserve currency, which underscores the United States' right of seigniorage: the privilege of

deriving profit from the generalised use of the dollar as international reserve, invoice, and vehicle currency, which in turn has allowed the United States to accumulate large amounts of debt in its own currency.

But can the United States continue enjoying such an “exorbitant privilege” forever? The United States’ right of seignorage was criticised as far back as the 1960s, not least by the French political establishment. By encouraging a culture of mass consumption and excessive government spending, it is also widely seen as the root cause of today’s

The United States should accept the fact that the emerging powers are here to stay, and should invite them to sit around the table to set global rules together

global economic imbalances. And these global imbalances were in turn responsible for the subprime crisis: the sharp decline in property prices and exposure of subprime mortgages only served to trigger the crisis. This is why so many people are convinced that the only way to avoid a repeat of the crisis, which has had such profound effects around the world, is to resolve the issue of global imbalances.

Carrots and sticks

There is broad international consensus about the need to manage global economic imbalances, which have been increasing since the 1990s. However, the causes of the global imbalances, which affect current account and exchange rate patterns, remain in dispute. This explains why there is as yet no agreement as to the steps needed to rebalance the global economy.

One approach focuses on exchange rate patterns and points the finger at China and other emerging countries. According to this reading, the onus lies on the emerging market economies, who must ensure

the appreciation of their currencies against the US dollar. This approach is supported by the United States, and is based on the idea of a short-term weakening of the dollar (which plays a passive role in this process), even though in the long-term the US dollar would be strengthened.

Emerging economies that reject this approach are frequently labelled “currency manipulators”. And yet, how reasonable and feasible is this approach? Let us reflect on this question from another perspective, namely, the possibility that the current dollar-based international financial system may actually be the source of global imbalances. This is the perspective taken by China and other emerging economies, who argue that we need a new global reserve currency to replace the US dollar. Adopting a new global reserve currency would result in a reduction in US dollar reserve holdings. It would also give other economies an incentive to move away from the US dollar in their own currency reserves. As a result, their local currency would naturally appreciate against the dollar and facilitate the unwinding of the global imbalances.

The two approaches would have the same short-term effects, but rely on totally different mechanisms with different long-term results. The first approach tries to maintain the current international financial system with the dollar remaining as the dominant reserve currency. The second approach attempts to reform the system by replacing the US dollar as the dominant reserve currency. Most importantly, in the first case, other countries are forced to appreciate their currency, while in the second case they have the incentive to diversify their currency reserves with the appreciation of their currencies as the natural byproduct. An added benefit would be that, as a result of the dollar’s reduced global significance, the United States would no longer be able to abuse its “exorbitant privilege” through overconsumption, thus contributing to a rebalancing of the US current account deficit.

A rebalancing process is also needed in relation to the decision-making structures of the international

financial system. According to IMF data, the emerging market economies were responsible for about 36% of world output in the 1980s; by 2008, their share of global GDP had risen to 45% based on purchasing power parity. Moreover, the IMF estimates that the output share of emerging market economies will surpass that of the advanced economies by 2014. This shift in the distribution of global economic power has not yet been reflected in the rules, norms, and governance structures which make up the international economic order. This is why the emerging economies are demanding a greater voice in the IMF and World Bank and in other international organisations. It is also the reason why they advocate a change in US consumption patterns, and monitoring of US economic policies by international supervisory bodies.

The way forward

There is no doubt that the new power dynamics represent an important challenge for the United States. In his book entitled “World Economic Primacy: 1500 to 1990”, Charles Kindleberger examines the factors that allow one country to achieve economic superiority over other countries and what it is that makes a one-time global leader decline. He argues that two combined factors typically lead to the decline of a superpower. The first is advances in knowledge and technology, which erode the value of old comparative advantages. (For example, once the Portuguese penetrated the Indian Ocean and brought goods directly from the east, the role of the Venetians and Genoese as intermediaries was greatly diminished.) The second and more important factor is the incapacity and unwillingness of a nation to respond to changing circumstances. In the present case, the United States still enjoys a comparative advantage in international finance. The key to maintaining its success therefore depends on the attitude which the United States adopts towards the changing world around it.

The United States should accept the fact that the emerging powers are here to stay, and should

invite them to sit around the table to set global rules together. The decision by the IMF and World Bank to give more voting rights and voice to the emerging economies is therefore an encouraging sign. However, a rebalancing of decision-making power within the international financial institutions will necessarily take time and involve conflicts of interest. It will require tolerance on the part of the advanced economies and patience on the part of the emerging markets. But that does not mean the latter should just wait and see. Rome was not built overnight, and both the advanced and emerging economies have to take substantive actions to avoid repeating past mistakes. Let us not forget that economists had already warned of the dangers of the dollar-dominated system during the Asian financial crisis. Ten years on, the system has hardly changed.

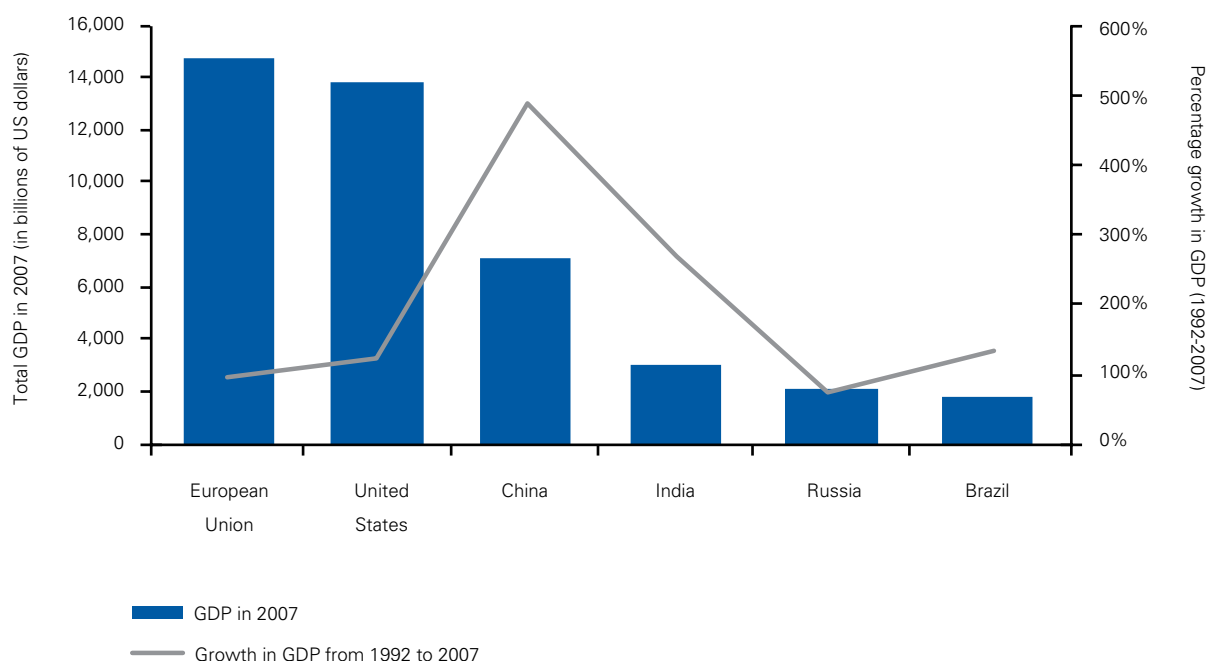
During the G20 summit and IMF and World Bank meetings this spring there were encouraging signs of action, albeit small and gradual ones. One thing is clear: the change will come about through incremental reforms, not a revolution. At first glance, reform and recovery may seem contradictory since reforms usually take a relatively long time while promoting global economic recovery is an urgent priority. But in fact, if correctly tuned and coordinated, the processes of reform and recovery could reinforce each other. Indeed, reform of the international financial system may not only ensure the global recovery but also speed it up. Without reforming the IMF, for example, it is difficult to see how emerging economies will agree to provide increased funding for its activities. Only through reform of the international monetary and financial system, will advanced and emerging economies be able to take joint action to tackle the ongoing crisis, thus bringing about a more harmonious international economic order.

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Financial and economic data

The period from the early 1990's has witnessed a shift in economic power from the United States and OECD to other regions of the world. While the US and EU remain by far the largest economies, China and India have grown at breathtaking speed in recent years. Much of this growth has been fuelled by exports, especially in the case of China which has accrued a very high current account surplus. Meanwhile, the US current account balance deficit has continued growing, leading to a significant imbalance in the global economy. The currency composition of foreign exchange reserves has also been changing. Although the share of the US dollar remains the largest, it has dropped significantly while the share of other currencies has increased. With the largest foreign exchange reserves, China will need to join the United States and other major economic players in responding to the crisis, which will involve reform of the international financial system.

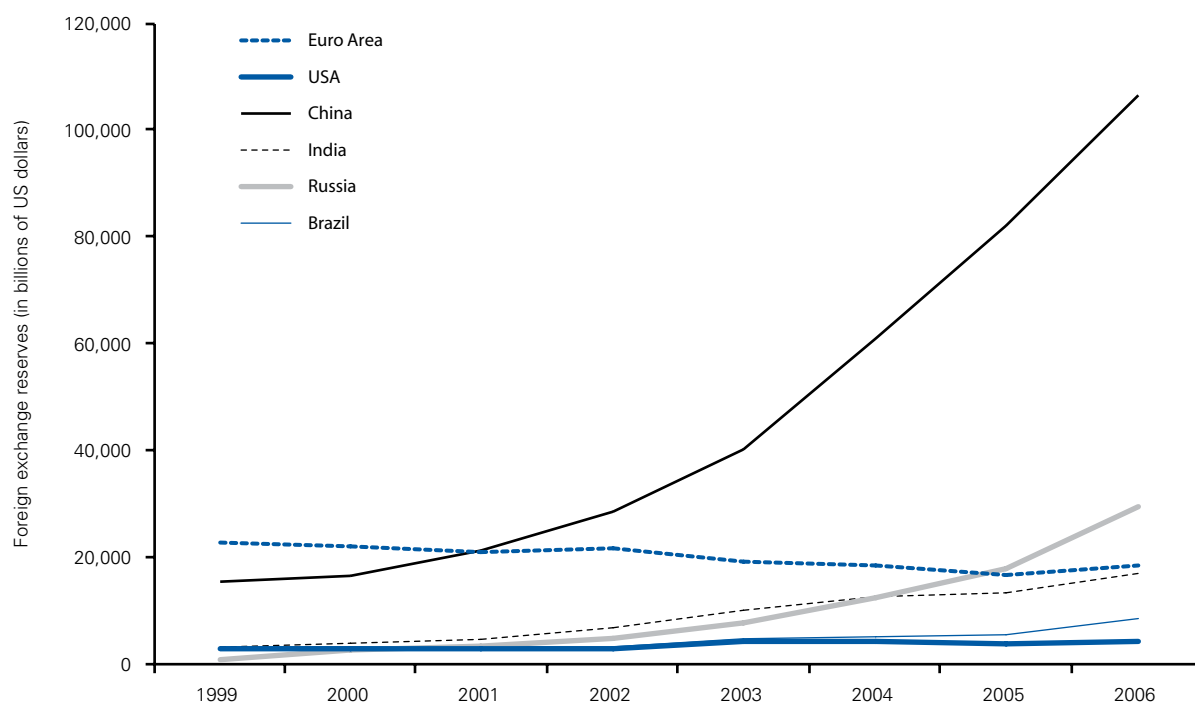
Gross Domestic Product (absolute and percentage growth)



Note: GDP is on PPP (purchasing power parity) basis

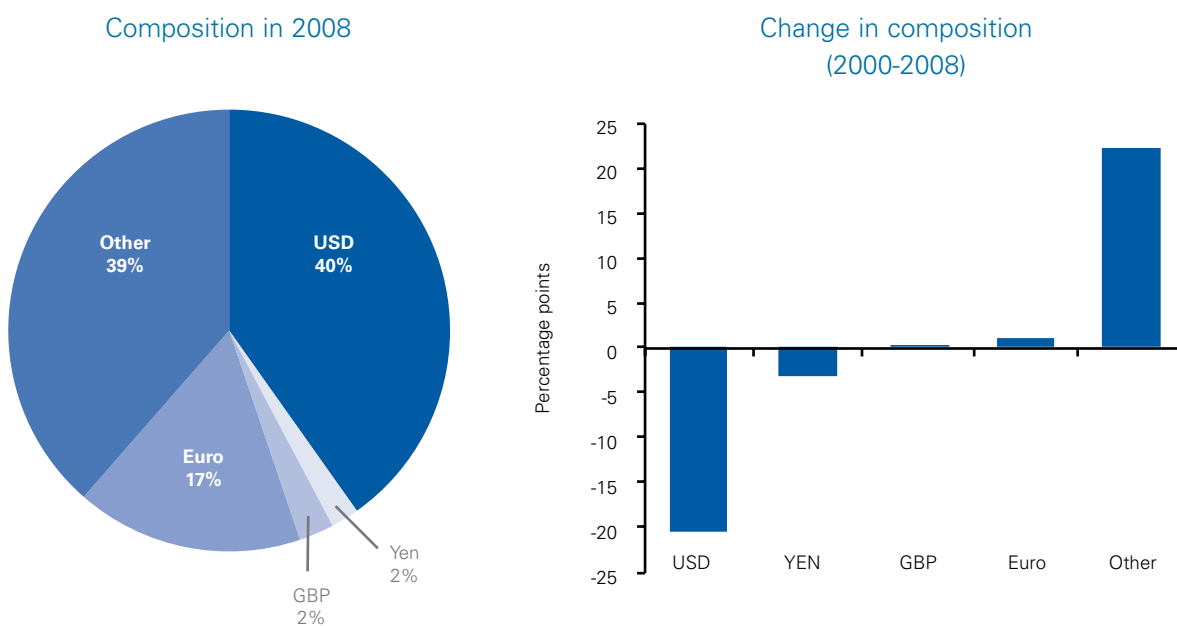
Source: IMF

Foreign exchange reserve holdings



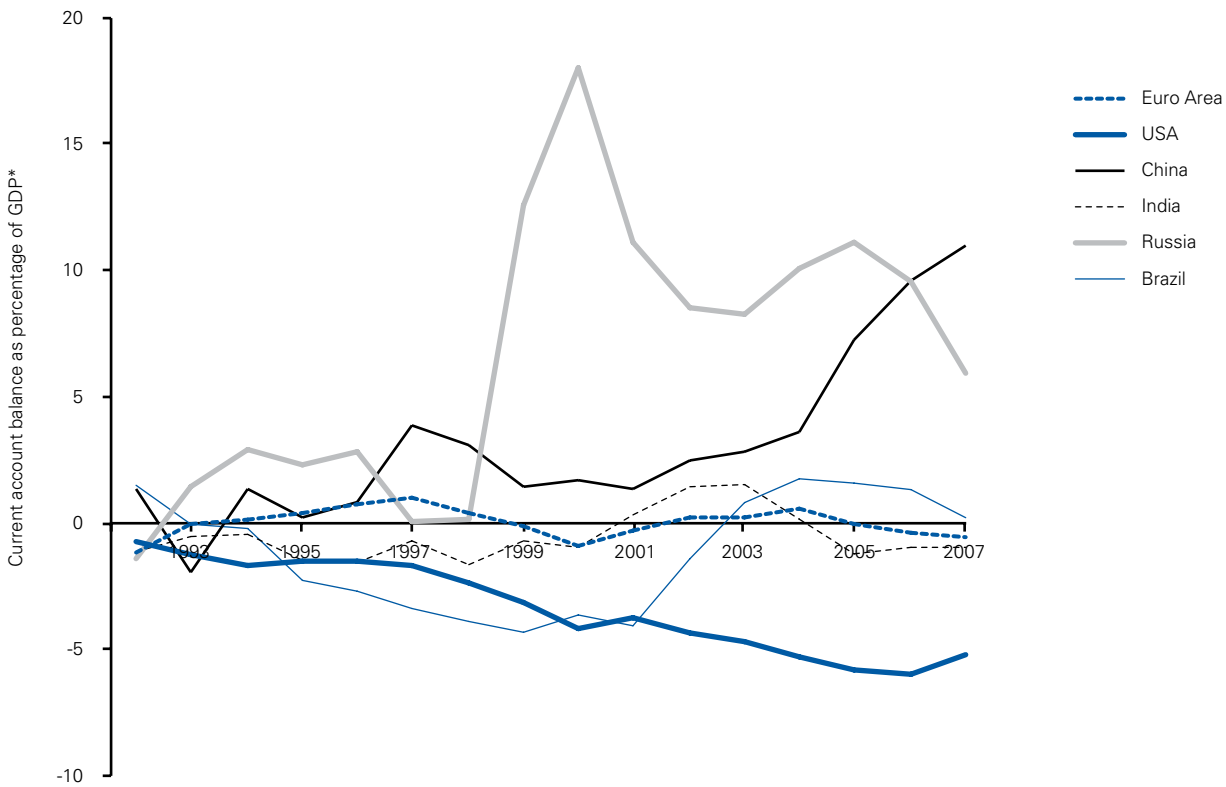
Source: UN

Currency composition of official foreign exchange reserves



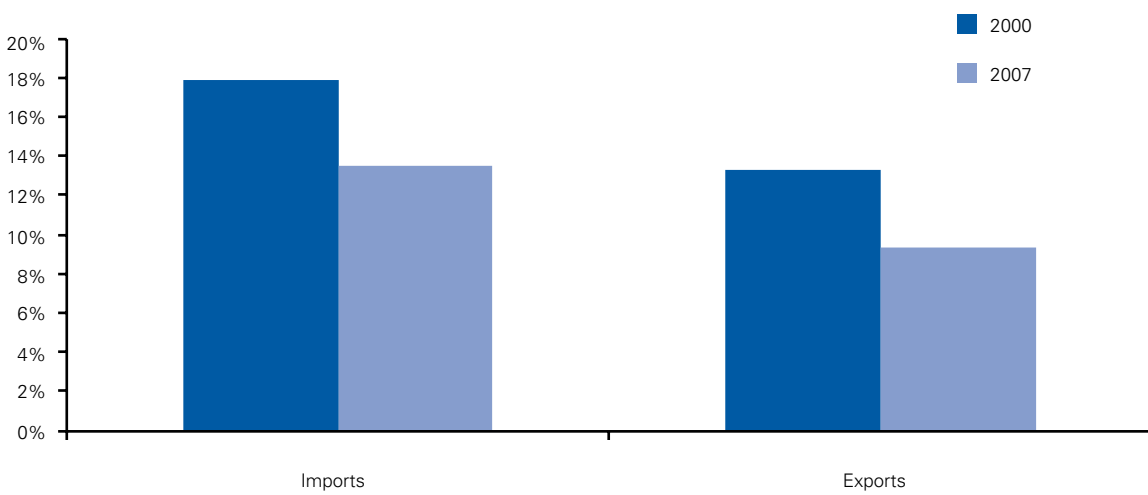
Source: IMF

Current account balance as a percentage of GDP*



*GDP in current prices
Source: IMF

US share of world trade



Source: WTO

Section two:

towards an integrated international security policy



Hard choices

Michael O'Hanlon

There is an understandable desire, both on the part of the new Obama administration and on the part of many European governments, to demonstrate through both rhetoric and action that the Bush era is definitively over. This is particularly true when it comes to questions over the use of force as an instrument for managing global order. The Bush administration upset many critics both at home and abroad with its tendency to use force frequently and relatively unilaterally. The most vociferous criticism came from Europe, where governments have long advocated the need to put less emphasis on military force and more on "soft power". This difference in outlook put unprecedented strain on the transatlantic relationship at a time of shifting global power dynamics, when the US and Europe needed each other's support more than ever. Aware of the need to rebuild the transatlantic relationship, President Obama has self-consciously adopted a different approach that focuses on engagement and consultation.

The change in emphasis is a welcome and necessary corrective to the excesses of the Bush years. But as Obama himself has admitted, albeit in fairly soft tones, the new American approach will not eliminate the hard choices that both US and allied policymakers will have to make about the use of force. The maintenance of global order will unfortunately continue to require the threat of force, and, if history is any guide, the use of force as well, including by the Obama administration. In the coming years, the United States will need to consider, sometimes threaten, and in rare

cases actually make use of force (ideally as part of a coalition, and ideally in missions approved by the UN Security Council). This, however, does not mean that the US will be isolated in its thinking in the coming years. On the contrary, if one looks ahead at ten of the most plausible and revealing international crises Obama may face in his first term in office, it is difficult to see how any major power, let alone Europe, would disagree with the United States over the use of force in each of these instances.

1. Iraq 2003

To understand why the US and its European partners are not destined to disagree, consider a historical case. Imagine that Mr. Obama (or Mr. Gore) had been president in 2003 when the most controversial US decision of the post-Vietnam era on the use of force was made. It is fairly clear that they would not have made the same decision as Bush. Consider also that only four EU states opposed the war, while fourteen actively supported it (and participated to varying degrees). The point is that what looks in retrospect like a transatlantic divide over the use of force was actually a divide within both the United States and Europe over the appropriate response to Iraq. A dispute across the Atlantic was not inevitable, but rather the result of a particular set of political circumstances in both the United States and Europe.

2. Afghanistan

Obama's new strategy on Afghanistan emphasises a comprehensive civilian-military strategy and hints at using engagement and reconciliation with some elements of the insurgency. But at its heart, the strategy recognises that a prerequisite for stability and development in Afghanistan is the imposition of a monopoly over the legitimate use of violence. It therefore proposes to deploy 21,000 new US troops and some thousands of forces from other nations to establish that monopoly through decidedly forceful means. Few Europeans are interested in adding troops to support the strategy – but that

is not because they disagree with the strategy in the sense of believing that it is an unwise approach to the problem before us. Some intellectuals may rail against the supposed militarisation of policy, but in fact, other countries tend to recognise the policy as basically correct even though they have little interest in contributing troops themselves (of

The maintenance of global order will unfortunately continue to require the threat of force, and, if history is any guide, the use of force as well, including by the Obama administration

course, this is not to trivialise the importance of the non-US NATO contingent of 30,000 troops currently in Afghanistan). Indeed, that view extends beyond Europe even to Russia, China, and India; Russia, for example, appears to be quietly cooperating in a northern logistics route that helps deliver needed military supplies to the Afghanistan mission. As is so often the case, especially within NATO, this is a burden-sharing issue which disguises itself as a fight over principles. Indeed, the new Afghanistan strategy amounts to a repudiation of Rumsfeld's "light footprint" and is a variant on the philosophy that characterised successful NATO stabilisation missions in the Balkans – so it is not surprising that European allies tend to agree with the logic.

3. Iraq 2009

Iraq today is a similar case. Iraq remains by far the biggest western military operation in the world and the use of US troops remains critical to maintaining the brittle stability that exists there. Of course, the echoes of the 2002-2003 debates and the later military debacles remain. As a result, most Europeans have little interest in directly supporting US efforts there through troop contributions in Iraq, which is

legitimate and fair. But there is no clamouring for Americans to come home from Iraq immediately, either from Europe, from within the region, or from any other part of the international community. Indeed, it would be surprising to hear such demands at any serious level of volume, since the Iraqi government itself is a full partner in the status of forces agreement and the envisioned US withdrawal schedule over the next two and a half years.

4. Iran

Iran's nuclear programme presents itself as another looming challenge. Here the point is not that we agree that force must be used. To the contrary, it is that we do not support such an option, either in Europe or in America. It seems clear that an Obama administration will simply not, under any plausible circumstances, use military force against Iran's nuclear facilities. This would amount in effect to a revival of Bush's "preemption doctrine", and whatever the merits of such a potential decision, in the end Obama will be put off by the degree to which such an action would associate him with the Bush administration. Again, there is no fundamental chasm between Europe and the United States here (except perhaps in the case of those Europeans, and perhaps some Russians and Chinese too, who quietly wish that the United States would in fact preempt Iran and solve that problem for them while absorbing most of the consequences itself).

5. Israel-Palestine

This most intractable of Middle East problems presents a similar story. Much to their credit, European partners and allies are already committed to helping to stabilise the region through the presence of military forces in southern Lebanon. It is certainly plausible that a similar effort might be relevant and helpful with regard to the West Bank or Gaza at some point in the future. In that case, there would be little question of a divide within the international community or between the US and

Europe. Depending on the views of the parties on the ground, the US and Europe, as well as other partners would enthusiastically contribute resources – even at some risk to their troops from would-be spoilers of the process.

6. Africa

The United States has a fairly bad track record in Africa; Europe's record is perhaps slightly better but still mediocre. In the event of another genocide there, the international community would face tremendous pressure to respond. Indeed, even without a new crisis, the United States may try to be more helpful by indirectly supporting missions in Congo and Darfur now. Here again, any dispute over how to respond to Congo, Darfur, or an emerging crisis would not be over whether it was appropriate to use force, but rather over who should bear the burden of providing that force. Most likely, the list of respective military contributions will begin with African nations themselves, then involve south Asians and perhaps Latin American countries, then extend to Europe – with the United States helping only modestly, and the likes of Russia, China, and other east Asian states doing little to nothing in the military sphere. But again, even the latter are unlikely to object to the use of force for responding to genocides or for peacekeeping in Congo, Darfur or other crises in Africa.

7. North Korea

Moving to the other side of the world, the seventh case is a collapsing North Korea, a scenario that appears more likely than ever. In the event of such a conflict, Europe might seek to do as little as possible, hoping that the United States and the Republic of Korea could handle the challenge. But there would, in such a situation, be no alternative to a major effort to help stabilise the country, feed its refugees, secure its nuclear weapons, and prevent spillover of the conflict into the Republic of Korea. The notion that there could be a plausible alternative to a major exercise of the military instruments is mistaken.

Even if that exercise involved only the United States and the Republic of Korea, the notion that it would cause a heated international argument over the legitimacy of the use of force seems far-fetched. The harder questions will centre on how to involve, and coordinate with, China given its strategic interests in the region – rather than philosophical debates with Europeans about the basic utility of force in such situations.

8. Russia and its neighbours

Another likely scenario is a crisis between Russia and one of its smaller neighbours, reminiscent of last summer's Georgia conflict. Much has been made about the divergent US-European approach toward Russia during the Georgia crisis. But even during the Bush administration, there was little consideration in the United States of responding to such a crisis with military force. Under Obama, it is even more doubtful that the United States would want to respond to such a conflict with military force – and quite difficult for it to do so without active European support, given the geography. So the likelihood of a major transatlantic disagreement would be limited.

9. The Indo-Pakistani border

The nightmare scenario of an Indo-Pakistani war with the risk of nuclear escalation also needs to be considered. Neither Europe nor the United States nor anyone else has the means to respond quickly to stem such a war with force. Yet all would have to do their utmost to help keep the peace if and when a ceasefire could be negotiated, perhaps even deploying peacekeeping troops to contested regions. The interest in this case would be clear and the utility of force fairly obvious, though there would certainly be the usual disputes over how to spread the burdens.

10. Pakistan

The final and most worrying scenario is the collapse of Pakistan itself. Yet neither the US nor any other

major power is likely to believe it has a military option to prevent such a collapse. If Pakistan does fall apart, and its nuclear weapons are no longer fully secure, every state that could imagine itself a target of al Qaeda or related terrorists – certainly both the United States and most of Europe, as well as Russia – will likely feel an acute need to help re-secure them in whatever way is feasible. Securing such weapons might require the use of military force, most likely as an international coalition acting in conjunction with whatever is left of Pakistan's own armed forces.

None of these scenarios are inevitable, but they are all, to varying extents, possible and demonstrate the continuing relevance of force to international poli-

tics. There are of course other scenarios that can be imagined, and perhaps some would reveal a major divergence in European and American views on the use of force. But only very few come to mind. With Iraq in the rear-view mirror, it is easy in transatlantic forums to focus on the somewhat abstract issues of international law and moral principles that might conceivably divide us. Such divisions are real. But when measured against the situations that we might plausibly face in the world, such transatlantic disputes quickly reduce to extremely small differences.

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A smart strategy for the use of force

Volker Perthes

As the world becomes increasingly interdependent and multi-polar, the “smart power” approach is becoming the new strategy for our times. Yet, even smart power relies, among other elements, on the use of armed force. Smart power, in essence, is what the classical concept of statecraft means: the art of strategically combining all instruments, hard and soft, which a state has at its disposal, and doing so wisely. The use of force should be the ultima ratio and the continuation of politics by other means. This Clausewitzian notion has often been misinterpreted. It does not mean that the use of force begins where politics end, but rather that even the use of force needs to be guided by a political strategy, and state leaders must not employ their armed forces without knowing the political results they want to achieve. This is a key monitum for current discussions over military deployments.

The current security scenario and military intervention

The risk of major wars has been greatly reduced since the end of the Cold War, particularly for the countries that were located at its centre. Europe, as the European Security Strategy rightly notes, “has never been so prosperous, so secure, nor so free.” In many other parts of the world, too, the end of the Cold War has reduced tensions; and globalisation has brought about a more economically and socially integrated world with a much stronger interest in “harmony”

and “win-win-situations”, peaceful international relations, and stability. Note that the most war-prone regions today (the wider Middle East and parts of sub-Saharan Africa) are also the least globalised.

It is therefore not so much traditional interstate confrontations as rather the so-called new security threats, that have triggered discussions about remaining threats and challenges (both to the security of states and to human and societal security), and how to address them. These threats are partly transnational and can become more virulent as a result of globalisation and the interconnectedness of the world. The European Union, in its security strategy, lists terrorism, the proliferation of weapons of mass destruction, regional conflicts, state failure (which can fuel extremism, terrorism, and other threats that may spread beyond the conflict region), and further organised crime as key threats, and the competition for natural resources and energy dependencies as sources of potential conflict. Global climate change has been added; it is seen as a threat-multiplier that undermines stability and may trigger conflicts and large-scale population movements.

It is generally agreed that these challenges can only be dealt with through international cooperation, ideally on a global level. At the same time, it is notable that military power remains an option for responding to these new security challenges. Note that, for example, the EU is developing its European Security and Defence Policy, building up planning and command capacities of its own, and aiming at fielding tens of thousands troops for up to 19 parallel crisis missions and peace-keeping operations. Note also that the number of military personnel deployed in UN missions has been continuously on the rise (from some 10,000 in 1997, to almost 80,000 in 2008).

The question of military intervention to deal with crises remains a difficult one and it is a political decision that each state has to take with regard to its own interests, preferences, and capabilities. Yet, when assessing the merits of each case, a “smart power” approach to military intervention should rest

on two interconnected pillars: legitimacy and effectiveness. The legitimacy of an intervention is not only necessary to generate support for the use of force, but is also an element for its success on the ground. At the same time, a mission that is ineffective or seen as a failure will soon lose its legitimacy in the eyes of all involved actors.

Levels of legitimacy: international, regional and local

For the intervening countries, legitimacy is mainly related to the purpose of an intervention. For example, the EU has defined a functional list of forms and levels of interventions for which it wants to be prepared and which it regards as legitimate and permissible in the sense of pursuing a benign intention, or even the common good. This list, termed the “Petersberg tasks” includes humanitarian and rescue tasks, peacekeeping tasks and tasks of combat forces in crisis management. As useful as this categorisation may be, the fact that a mission is characterised as falling under the Petersberg tasks, or that it responds to the need to enforce international law (as recently in the case of EU’s Atalanta anti-piracy mission), does not necessarily give it international legitimacy.

International legitimacy depends critically, but not solely on the mandate of a mission, i.e. on its legality. From a European perspective, interventions should never be carried out unilaterally, and should be authorised by an international mandate, ideally from the United Nations Security Council (UNSC). Mandates from regional organisations authorising the intervention of regional states in regional crises may also be seen as legitimate. Self-mandating (as by NATO in the 1999 Kosovo war) is a dangerous exemption; it certainly does not give international legality to an intervention which affects legitimacy. The same would apply to a mandate from an alliance of democracies, or any other coalition of like-minded states.

Yet, even the legitimacy of the UNSC is not absolute. An international mandate may still not grant sufficient legitimacy to an intervention in the eyes of

all relevant actors, particularly in a regional context. The authorisation (after the invasion) of the US presence in Iraq by the UNSC has not made these troops legitimate in the eyes of many Iraqis. On the contrary, resistance to these troops has been seen as legitimate by public opinion and leaders in the region, which in turn has greatly undermined the effective-

A “smart power” approach to military intervention should rest on two interconnected pillars: legitimacy and effectiveness

ness of the mission. Or consider, theoretically, a situation where the UNSC would authorise an intervention into Sudan in order to arrest President Bashir on the basis of the arrest warrant of the International Criminal Court – would this be seen as legitimate? For much of the international community, as represented in the Security Council, certainly yes. For many African and Arab states, or at least large sections of public opinion in these states, probably not.

Legitimacy, therefore, also rests on the broadest possible consensus of local and regional actors: there is not only international legitimacy, but also regional and local legitimacy. This had been taken into consideration after the overthrow of the Taliban in 2001, and expressed by inviting (almost) all local forces and regional powers to the Bonn Conference on Afghanistan. Unfortunately, the United States and its partners have only belatedly realised that such an inclusive regional approach will also be needed to deal with the insurgency and to secure the long-term stabilisation of Afghanistan.

Effective interventions: the limits of military force

For a military intervention to be effective, the international mandate authorising it has to be appropriate to the tasks of a mission. It needs to be robust

enough (normally by authorising the mission under Chapter VII of the UN Charter) and able to authorise a sufficient number of personnel so that international forces will be able to fulfil their task even in the face of armed resistance. The use of force is the ultima ratio, but not necessarily the last instrument to be employed in a crisis. Much bloodshed could have probably been avoided if the UN troops in Bosnia or in Rwanda had a more robust mandate.

In the same sense, states that intervene (and the mandate that authorises their intervention) need to define the tasks of a mission very clearly – both as a guideline to those who carry out the mission and to help them to deploy the appropriate combination of military forces and civilian experts, and to signal to local and regional actors what the intervention is about. A clear definition of tasks is also necessary in order to determine the success of a mission (which also defines its envisioned end and the exit of foreign forces). Is it a police mission to apprehend a group of criminals or terrorists? Is it about stabilising a fragile state or about quelling violence between local groups and regional states? Is it about state building, and to what extent is success defined by criteria such as the holding of democratic elections and the implementation of human rights standards? Goals must not be set too high or be too vague, lest a mission creates expectations which it cannot fulfil (thereby undermining both its legitimacy and effectiveness).

Area and country specific knowledge is one element of success. Decision-makers have occasionally to be reminded that not all local and regional conflicts can be dealt with by the same mixture of instruments. Traditions, local political cultures, cultural sensitivities, and, of course, the nature of local and regional conflicts have to be properly understood to make interventions a success. This does not only mean that policymakers should seek the advice of area specialists (which apparently was largely neglected before the Iraq invasion). More significantly, it underlines the need to involve actors

from the region in the decision-making process and in the implementation of an intervention mission.

For the local population, the legitimacy of a foreign intervention is ultimately dependent on whether it is seen as improving their situation or not. Whether this is the case cannot be determined with regard to one set of objective data – such as economic growth, or the number of schools built. Human security (the protection of the life, health and property of the local people) is key, but the feeling of improvement also depends on concepts that are difficult to quantify such as justice, good governance and development. Intervening states should ensure that: human security is a key consideration for the use of force; building trust with the people is more important than the elimination of enemies; deployed troops are accountable; local police forces and justice systems are built-up quickly; and local authorities are supported in delivering good governance.

Peace operations and crisis interventions almost always last longer than originally envisioned. Sometimes, the mere presence of foreign troops provides reasons to extend a mission: foreign soldiers can easily be perceived as occupiers – even if they do not see themselves that way – and consequently be confronted with an insurgency that requires even more troops. This is what we are experiencing in Afghanistan. More often, however, an international political and military presence creates dependencies which some local actors may find comfortable: fundamental social problems and political conflicts can remain unaddressed as long as international troops are there to prevent new outbreaks of violence or civil war. On the other hand it is important that governments that decide to send troops into an international mission make sure that the interest of their state is strong enough to maintain engagement even if success does not come as quickly as originally planned. In many cases, the long-term effects of a failed or aborted mission would be worse than if no intervention had taken place.

The key question for any state that considers military intervention is whether a given situa-

tion (civil war, regional war, state failure, spread of organised crime such as piracy, etc.) can be dealt with by military force alone. Thus, in the Indian Ocean, the question is rightly asked what an armada of modern battleships can actually do against piracy originating from a country like Somalia in the absence of basic elements of effective statehood and development in the country. In Afghanistan, the United States and its allies had to learn (again) that a war against an insurgency cannot be won by military means alone.

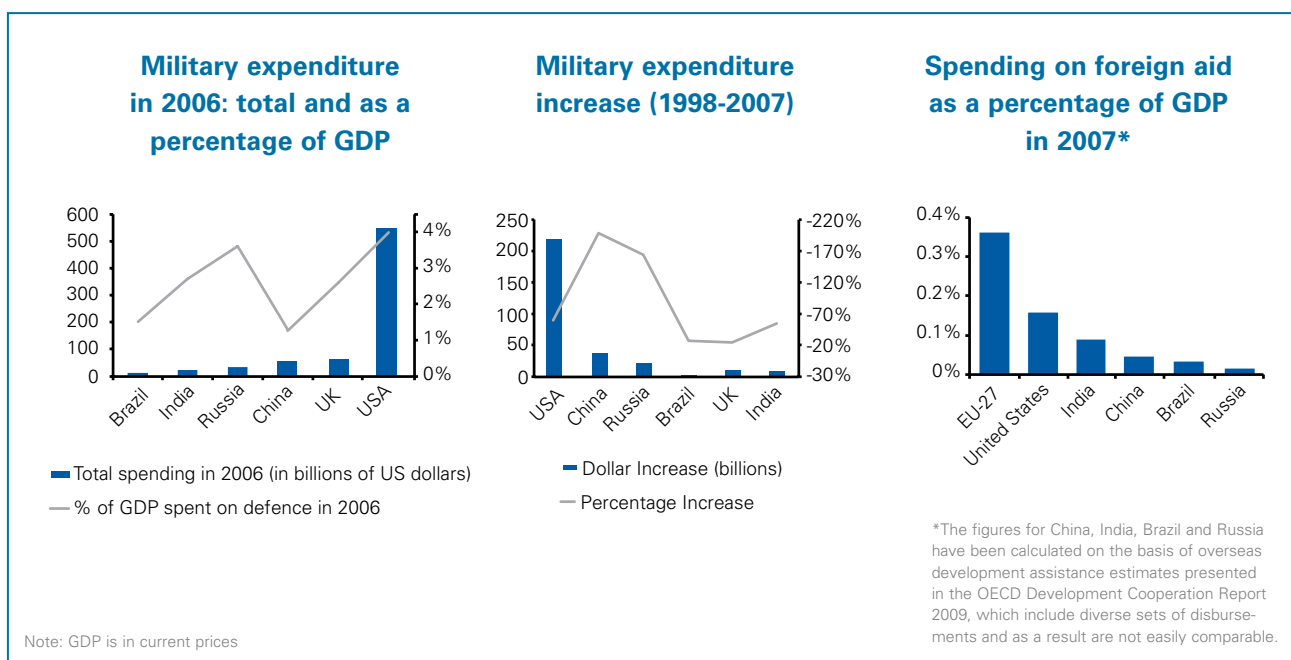
While we still have much to learn, we know that a comprehensive “smart power” strategy is needed

that combines both military and civilian efforts and allows for effective coordination and consultation among all involved actors. Not every conflict can be solved by diplomatic means alone. It also remains true, however, that armed forces cannot solve political problems. Armed forces can stabilise a situation, and give local and international actors breathing space to work out political solutions. The success of any military mission is only possible if it is part of a larger political endeavour to resolve the underlying conflicts.

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Power and international security data

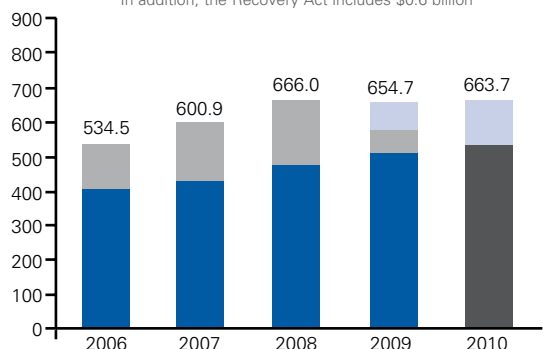
As global power becomes increasingly diffused, the existing international security architecture has come under pressure. In recent years, the United States has on occasion resorted to unilateralist action, and regional security organisations appear to be taking on a more active role in crisis management. As the defence expenditure graph and US military bases map below illustrate, there continues to be no rival to US military power, even if the military expenditure of other states is increasing. At the same time, more states are seeking to expand their repertoire of 'hard' and 'soft' power resources. The rising powers are providing foreign assistance, albeit still at lower levels, which is indicative of this trend. The decision by the new US administration to increase the budget of the State Department and cut military spending also points in this direction.



US budget for defence and diplomacy

Defence budget

In addition, the Recovery Act includes \$0.6 billion



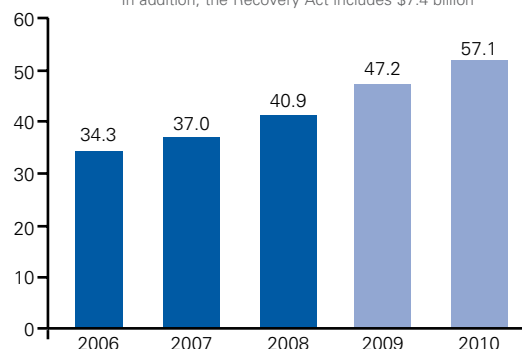
- Overseas Contingency Operations & Other Enacted
- Overseas Contingency Operations Request
- Base Request
- Base Enacted

Note: Overseas contingency operations includes costs in support of operations in Iraq and Afghanistan. Other funding includes supplemental appropriations that supported responses to hurricanes and the 2004 tsunami and that funded base activities such as Base Realignment and Closure Implementation. Also, 2009 includes amounts transferred to the Coast Guard.

Source: US Office of Management and Budget, 2009: Budget summaries

Diplomacy budget

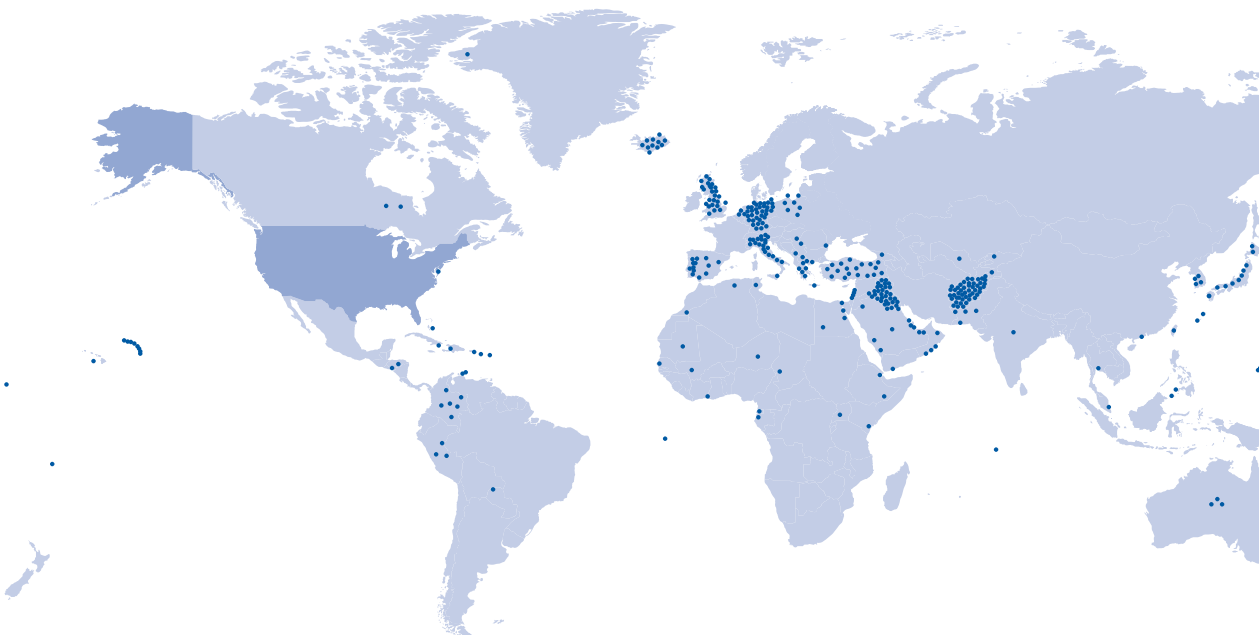
In addition, the Recovery Act includes \$7.4 billion



- Actuals, including emergencies
- Projections

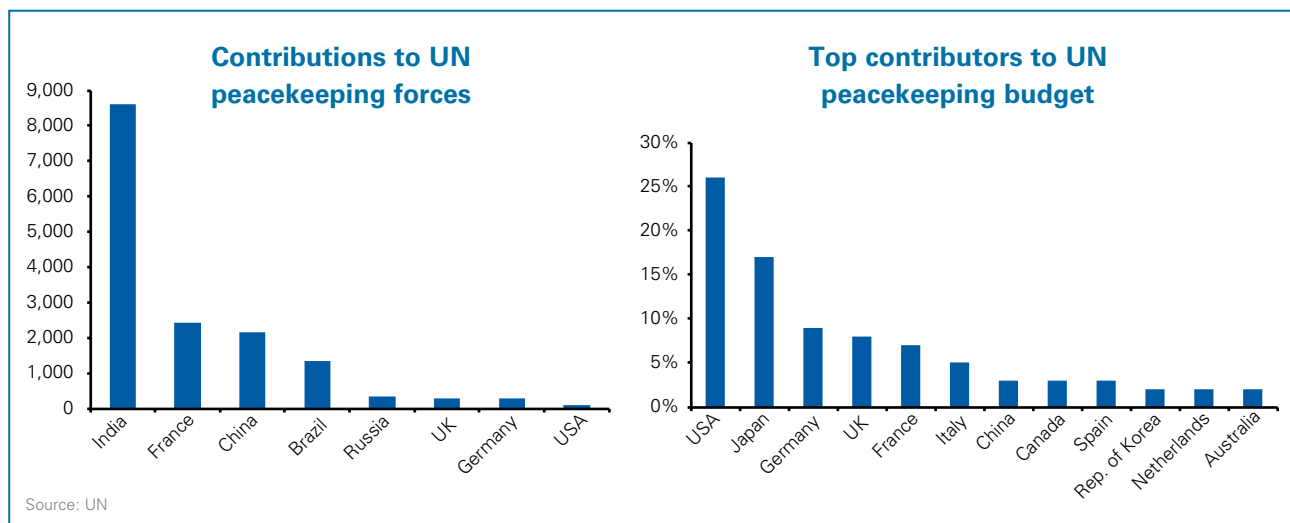
Note: Includes the budget of the Department of State and other international programme but excludes food aid and the Office of the US Trade Representative

US military bases



Note: Because of the base network's size, complexity and secrecy, base numbers are the most accurate available; locations are not always precise.

Sources: Department of Defense, "Base Structure Report, Fiscal Year 2007 Baseline (A Summary of DoD's Real Property Inventory)," 2007; Transnational Institute, "Military Bases Google Earth File," available at http://www.tni.org/detail_page.phtml?act_id=17252; Chalmers Johnson, *The Sorrows of Empire: Militarism, Secrecy, and the End of the Republic* (New York: Metropolitan Books, 2004); Chalmers Johnson, *Nemesis: The Last Days of the American Republic* (New York: Metropolitan Books, 2007); GlobalSecurity.org <<http://GlobalSecurity.org>>; news reports.



International crisis management: increasing regionalisation?

African Union (AU)

- Burundi (2004-2005)
- Darfur (2004-2007)
- Somalia (2007-)

Economic Community of West African States (ECOWAS)

- Liberia (2003)
- Ivory Coast (2003-2004)

Economic Community of Central African States (ECCAS)

- Central African Republic (2008-)

Union of South American Nations (UNASUR)

- Bolivia (2008)

Organisation of American States (OAS)

- Haiti (2006-)
- Colombia-Ecuador (2008)

European Security and Defence Policy (ESDP)

- Afghanistan (2007-)
- Kosovo (2008-)
- Georgia (2008-)
- Somalia (2008-)

North Atlantic Treaty Organisation (NATO)

- Afghanistan (2003-)

Shanghai Cooperation Organisation (SCO)

Established 2001

Section three: the geopolitical implications of climate change



Climate change and global governance

Carlos Pascual

Climate change poses an existential challenge: either all of the world's major economies join together to slow global warming and contain its effects or the world faces a wave of catastrophe. A rise in global sea levels, changes in precipitation patterns, and an increase in extreme weather may be felt most severely in developing countries, but the security and economic repercussions will reach into the industrialised world. Any effort to meet these challenges will require radical changes in fossil fuel consumption and significant advances in technology. Yet few countries are prepared to sacrifice short-term economic growth to cut the greenhouse gas emissions associated with energy use. Hence the dilemma before us – the need for an international agreement that protects all nations from global warming, yet also allows economic growth and energy security.

To create a more effective global framework to slow climate change, policymakers must overcome two challenges. First, they must use markets and prices to reduce global greenhouse gas emissions by creating better incentives for energy efficiency, alternative fuels, protection of forests, and innovation. Second, they must transfer technology, finance innovation, and support adaptation measures while bringing basic infrastructure to the world's poor – in effect, transforming developed and developing economies to halt global warming and redress its impacts. Both challenges

are connected by policy choices to price the cost of greenhouse gas emissions that cause global warming, yet each also demands solutions in their own right.

Scientific basics

As human and industrial processes release increasing amounts of carbon dioxide and other greenhouse gases, these gases remain in the atmosphere, trap the heat of the sun, and thus lead to rising global temperatures that alter the climate of the earth. The longer these gases are emitted, the more difficult it becomes to mitigate the impacts on human life. The UN's Intergovernmental Panel on Climate Change (IPCC) established that the maximum temperature increase that the world can undergo by 2050 without causing irreparable damage is roughly 2.0-2.5°C. The IPCC believes that greenhouse gas emissions (carbon dioxide and equivalent gases, or CO₂e) must remain within 445–490 parts per million (ppm) to contain the earth's temperature increase within the 2.5°C mark. Current global levels are estimated at between 420 and 445 ppm of CO₂e – in other words, we have little room for manoeuvre. If we continue current trends, emissions will rise by 25–90% by 2030 and even more by 2050. The IPCC concludes that global CO₂e emissions must peak in 2015 to keep temperature increases to less than 2.5°C and to avoid the worst changes in our environment.

Competing political interests

The foremost political challenge confronting a new climate regime is historical inequity. The industrialised world produced the concentrations of greenhouse gases that cause climate change, yet the cooperation of emerging economies and developing countries is required to forge a solution. Developing countries argue that they should not bear the cost of a problem they did not create, but the nature of the problem means the crisis cannot be solved without them. Even if all high-income countries had zero carbon emissions as of tomorrow, the

rising emissions of emerging and developing nations would still put the world on a trajectory to climatic disaster and threaten the very economic growth and stability the developing countries desire.

The combination of inequities and interdependence has produced five blocs of countries which must work together to shape a new international

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framework. The first bloc is anchored by Europe and, with less fervour, Japan, and supports adopting an international treaty with common and binding global emissions targets.

The second bloc supports setting a long-term, internationally agreed goal on emissions levels and medium-term commitments that are binding only at the national level. In the past, the United States led this group. It is an open question whether the Obama administration will move the United States to the first bloc. That will depend on whether and when the United States can pass legislation to create a transparent and predictable price on carbon – a challenge made harder by the recession, since many industries shedding jobs in the United States (steel, coal, aluminum, automobiles) are the industries that would be affected most by pricing carbon.

The third bloc, emerging-market economies led by China and India, has resisted binding international targets that might constrain growth, and has focused on getting access to and financing for clean technologies. The fourth group comprises developing countries, which contribute least to greenhouse gas emissions but would bear the brunt of the flooding, desertification, and other catastrophic effects that

would result from global warming. They demand financing to adapt to the impacts of climate change.

An emerging fifth group is made up of energy suppliers who see the world shifting away from fossil fuels. Either they could emerge as facilitators of transition if they invest their wealth in technology dissemination and position themselves as winners in a greener international market, or they could be spoilers who drive up prices to capture profits during transition.

Finally, a more subtle element of the climate change debate is the link to nuclear proliferation. The need for non-carbon alternatives to generate electricity, together with volatile fossil fuel prices and supply risks, have accelerated demand for civilian nuclear power. Over thirty states have declared their intent to develop civilian nuclear power programmes. Today just twelve countries, out of the 56 states with civilian research reactors, can enrich and commercially produce uranium. As nuclear power becomes competitive with other alternatives, the international community will need to strengthen the firewalls between civilian and weaponisation programmes to avoid an explosion in proliferation risks.

Towards a strengthened multilateral architecture

To be successful, a new international framework on climate change must combine the inclusivity of the UN's negotiating forums with the powerful engagement of the world's major emitters, both developed and emerging economies. It must create incentives for the private sector to invest and innovate. It must institutionalise a role for NGOs to inject their insights, sustain scrutiny, and create pressures for compliance.

The United States, because of the scale of its economy, the level of its emissions, and its technical capacity, must be a central part of any solution. Europe, which has gone the furthest to create a regional regime to reduce greenhouse gases, must continue to lead in setting goals that drive the international community to match its policies and actions

with pressing scientific realities. Japan's technical prowess in energy efficiency can be a foundation for practical cooperation. Emerging economies must have confidence that they can continue to grow and develop. A global regime must also address the need to bring electricity to the 1.6 billion who lack it.

The goal must be a new, legally binding agreement to arrest global warming under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC). It should incorporate all the major economies, ideally include all 192 signatories to the UNFCCC, and be built on the IPCC's scientific findings. Signatories to the agreement would commit that they will not allow the temperature of the planet to increase more than 2.0-2.5°C by 2050 relative to pre-industrial levels, to reach a peak in global annual CO₂e emissions in 2015 and therefore to reduce CO₂e emissions by 50-85% by 2050.

To achieve these goals, the agreement must include two tracks that are separate but linked: (1) an "investment track" that gives nations the incentives and the means to conserve energy, develop and commercialise energy-saving and energy efficient technologies, protect rainforests, and adapt to the effects of climate change; and (2) an "abatement track" that establishes the targets, timelines, policy framework, and accountability measures to control emissions. Because scientific understanding and technology continue to evolve, the agreement must be adaptable. It must include a formal annual review to tighten or loosen performance targets based on scientific evidence. It must explicitly call for NGOs to contribute to and monitor these reviews.

The UNFCCC seeks to complete a successor agreement to Kyoto at its Conference of the Parties scheduled for Copenhagen in December 2009. This is a good goal, with caveats. An agreement in 2009 would give countries time to ratify it and for it to come into effect when the Kyoto Protocol's first commitment period ends in 2012. Talks have been scheduled to negotiate a draft by the time of the

Copenhagen conference. Yet, nearly six months into 2009, much remains to be done to forge domestic consensus on a climate and energy strategy, and pass legislation to underpin a US negotiating position. China will not commit to an international strategy if the United States is silent. Furthermore, the international financial crisis will make it harder for countries to commit to policies that may constrain short-term growth.

Ideally, both tracks of a new international agreement – on investment and abatement – will merge by the time of the conference in Copenhagen next December. If they cannot, they should be separated and proceed in phases. An agreement on investment is within reach. Developed and developing countries alike need access to technology and resources to control emissions. Success on the abatement track will be far more difficult; key states remain far apart. If the tracks are phased, Copenhagen could endorse the principle of pricing carbon to promote conservation and innovation. It could also reinforce the mandate for a major emitters Climate Group. This group would formulate a proposal to restrict emissions and bring it to the UNFCCC with the aim of a binding agreement on emissions by the end of 2010.

The phased introduction of a new agreement would reflect a meeting point between the realities of science and international politics. First, it is imperative to agree to change investment patterns and establish a peak for global emissions as soon as possible. Second, Copenhagen needs to sustain momentum among the parties and not explode a process that has no alternative to consensus. Better to have the parties emerge demonstrating unity and a sustained commitment for better results than to leave a policy and procedural void, as occurred at the blow-up of the Doha trade round in July 2008. Third, the parties should not simply settle on an ineffective substantive outcome for the sake of agreement. It is better to create bargaining space for more effective policies when countries

have stronger political will and possibly more technological options.

Managing the negotiations

To reach an agreement and set it on a constructive course, there must be clarity on the roles of two key actors – the UNFCCC and a grouping of major emitters that account for the vast majority of the world's greenhouse gases.

The complex intersection of science, technology, economics, politics, international security, and bureaucratic politics demands one authoritative forum. The UNFCCC must provide that forum and sustain a network among other key actors, particularly the IPCC, UNEP, the World Bank, and the Food and Agriculture Organisation. For all its limitations, the UNFCCC has a mandate from 192 nations to avert the catastrophic impacts of climate change. It has a process for negotiations. Europe, China, Japan, and developing countries have engaged in that process, as has the United States (although during the Bush administration usually with the intent to restrain rather than advance consensus). The UNFCCC and the IPCC have already established a mechanism to incorporate scientific findings into the negotiating process; that should be retained and not reinvented.

The second key body is a smaller grouping of 16-20 countries, currently called the Major Economies Forum (MEF). The purpose of this smaller grouping should be to formulate proposals that can then be brought to the full UNFCCC. The MEF should be established as a formal Subsidiary Body for Scientific and Technical Advice (SBSTA) within the UNFCCC. Creating a forum for negotiation among major economies within SBSTA would create a means for core countries to set objectives, rationalise priorities,

create bargaining space, and set the foundation for actions within the larger UNFCCC process.

Recent international negotiations have seen debate over a possible new World Climate Organisation (WCO). Certainly, once negotiated, a new international agreement will need an effective coordinating mechanism, and a new agreement may well create demands for new capabilities and new mechanisms that could justify transforming the UNFCCC into a WCO. For now, the UNFCCC should be the central point for implementing any agreement until such time as new agreements require new mechanisms.

Final note

A successful framework on climate change must meet certain tests. The first is to set in motion the policies that will drive innovation and investment. The second is to bring together major and rising economic powers – which together will produce close to 90% of all carbon emissions by 2030. That will require giving emerging economies time before pricing policies on carbon constrain their economic growth. Better to get the major emitters moving toward these common goals now rather than pushing for targets that China and India will reject. The final test is to tap private capital, technology, and analytic capacity. In comparison to 1945, when the primary actors in the international system were states, we now have an array of national, regional, for-profit, and nonprofit actors. All need to be engaged for success.

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Climate change: challenge, opportunity and justice

Chandrashekhar Dasgupta

The threat of climate change cannot be met without a truly revolutionary transformation of the energy sector. Ever since the 18th century, with the advent of the Industrial Revolution, human beings have been burning increasing quantities of hydrocarbon fuels, particularly coal and petroleum. The progressive accumulation in the atmosphere of the carbon dioxide emissions resulting from the use of these fuels is the main cause of global warming. Thus, tackling climate change requires a massive shift of tectonic proportions from hydrocarbons to renewable energy (solar, wind, tidal, etc) and nuclear energy. Currently available technologies permit only limited applications of renewable energy. Major technological breakthroughs are needed for the transformational shift to renewable energy that is now imperative.

Energy security considerations powerfully reinforce the case for a shift from oil to renewable energy. Unlike coal, global petroleum reserves are heavily concentrated in politically unstable, volatile or conflict-prone countries. Oil prices have been subject to sharp fluctuations. Most industrialised countries tend to be net importers of oil. Energy security calls for reduced dependence on a commodity whose price and assured availability is subject to significant uncertainty.

In fact, long before climate change appeared on the international agenda, energy security concerns led the United States to perceive the importance of renewable energy. "Oil dependence is a problem we can solve. We have the political consensus and the technological opportunity. This is a moment to seize", declared President Nixon in January 1974, after the embargo imposed by the Arab states in the previous year drove up oil prices from three to eleven dollars per barrel. To perceive the national interest is one thing; to act upon it is another. For the past quarter century, despite periodic reaffirmations, the United States has failed to translate this vision of energy security into reality. Vested interests in the oil industry have triumphed over the declared national interest of the United States. In recent years, concerns about climate change have added to existing anxieties about energy security and now is the time for a massive shift to renewable energy.

At the global level, this shift will touch on questions of equity and justice, which lie at the heart of every environmental issue. The basic environmental principle is that the costs of remedial actions should be borne by those responsible for causing the damage. The "polluter pays" principle, in one form or another, applies both to domestic and international environmental protection regimes. Thus, the universally accepted UN Framework Convention on Climate Change rests on the principle of "common but differentiated responsibilities". The industrialised countries account for less than one - fifth of the global population but are responsible for the major part of accumulated greenhouse gas concentrations in the atmosphere. Hence, while all countries have certain common commitments under the convention, additional commitments related to emission reductions and provision of financial resources are laid down for developed countries alone, reflecting their differentiated responsibilities. The convention provides the framework for international governance in the climate change area. It is interesting to note that purely economic considerations also call for

similar differentiation between the respective roles of industrialised and developing countries. Climate change poses asymmetrical challenges for developed and developing countries. These asymmetries require differentiated responses from developed and developing countries.

A great opportunity for advanced economies

The economic opportunities presented by the technological research and breakthroughs required to make renewable energy more affordable and accessible will be available mostly to advanced industrialised countries. For example, solar energy, in particular, has immense potential but storage and transmission costs are excessively high and there would be immense economic opportunities should a breakthrough in solar technology occur. The new technologies that are needed will emerge mainly from the developed countries that possess the requisite knowledge, skills and capital resources. The United States, European Union and Japan are likely to be the major competitors in the new technological race and the companies that succeed will reap enormous rewards. Developing countries such as Brazil, China, India and South Africa may also make a contribution but the lion's share of the market for emerging renewable energy technologies will certainly be captured by advanced industrialised countries.

Climate change thus opens up vast economic opportunities to developed countries. The challenge for these countries is to stimulate technology development through a system of incentives and disincentives. In order to provide an adequate impetus for major breakthroughs in low-carbon technologies, developed countries need to commit themselves to implementing deep reductions in their carbon emissions. The transformational shift to renewable energy will not be possible in the absence of this impetus. The short-term costs of implementing emission reduction commitments should be viewed as investments that will yield rich

dividends in the medium or long-term. A leading economic power that fails to make this investment will be left behind in the race to develop new climate friendly technologies and, as a result, will forfeit its leadership position. If climate change mitigation imposes significant short-term costs for developed countries, it also offers corresponding opportunities for long-term gains.

Building capacity in the developing world

The prospects for developing countries are very different. These countries will be the major victims of climate change because they lack any significant capacity to cope with its impacts. The world's poor will suffer the most because they do not possess the financial, technological and human resources required to adapt to climate change. Because of their flimsy infrastructure, they are even unable to cope with relatively modest seasonal variations, leave alone the potentially devastating effects of global warming. Every year, a billion Indians pray for a good monsoon. Yet, when their prayers are answered, many thousands are rendered homeless as strong winds blow away thatched roofs and floods breach embankments, inundating low-lying villages. Resources are lacking for construction of sturdy infrastructure capable of withstanding the extreme weather events that are among the expected results of climate change. Traditional farmers in developing countries are highly vulnerable to variations in temperature and rainfall patterns. Adaptation requires an ability to shift to drought resistant crops or seed varieties, drip irrigation and other water conservation measures, improved watershed management, etc. Traditional farmers have neither the financial resources nor the technical skills needed to adopt these measures.

For developing countries, top priority must be accorded to building up adaptive or coping capacity. In order to achieve this, they must overcome the barriers posed by lack of financial, technological and human resources. In other words, rapid and

sustained economic and social development and poverty eradication must be an essential part of the climate change policy of a developing country. In the absence of rapid development, future generations in poorer countries will remain exposed to the devastating impacts of climate change, without any meaningful coping capacity. The UN Framework Convention on Climate Change rightly recognises that “economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties.”

Of course, developing countries must also contribute to the global mitigation effort. They should implement measures to moderate their greenhouse gas emissions wherever this is possible without diverting resources from overriding development priorities. There is ample scope for initiatives that simultaneously promote development and climate change goals. Above all, cost-effective energy efficiency and energy conservation measures must be systematically identified and implemented for achieving both development and climate change objectives. There are vast untapped possibilities for these measures in sectors such as power generation and transmission, industry, transportation, and construction. Social development objectives related to public health and ambient air quality may likewise call for measures that also have co-benefits in terms of climate change mitigation. For example, the decision to replace diesel by compressed natural gas in the public transportation systems of some major Indian cities was primarily intended as a measure to reduce air pollution but it also proved advantageous in terms of moderating carbon emissions. In many developing countries, energy security requirements for sustained development are driving investments in renewable energy. This appears to explain the importance accorded to renewable energy by countries such as India and China. However, it would be counterproductive for developing countries to implement mitigation measures involving substantial incremental costs since this would slow down

development and impair adaptive capacity. The climate change convention requires developing countries to implement these measures only where the incremental costs are covered by affluent developed countries.

Independently of any ethical consideration, purely economic calculations call for differentiated responses to climate change on the part of the industrialised and the developing countries

A just global response

Climate change and energy security considerations require a massive shift from oil to renewable and nuclear energy. Since the new technologies will emerge mainly in the industrialised countries, the economic interests of these countries will be served by deep emission reduction commitments, which will provide the incentives for developing new technologies. Thus, independently of any ethical consideration, purely economic calculations call for differentiated responses to climate change on the part of the industrialised and the developing countries. The long-term economic interests of advanced industrialised countries are sufficient to justify ambitious commitments to achieve deep cuts in their greenhouse gas emissions. For developing countries, mitigation actions are appropriate only where these do not involve significant incremental costs - unless these costs are met by affluent developed countries under arrangements laid down in the convention. Poorer countries must accord topmost priority to building up their adaptive capacity through rapid and sustained development.

Though economics and ethics point to broadly similar conclusions, a global response to climate

change based solely on economic calculations will fail to meet the test of adequacy. A comprehensive global response must address more fully the adaptation concerns of the most vulnerable poorer countries – in particular, the hundreds of millions living in low-lying coastal regions or islands who face an existential threat from climate change. A comprehensive approach will also require financial transfers from more affluent industrialised countries to meet the incremental costs of mitigation actions in developing countries.

International regulations and global governance structures must recognise the fact that the atmosphere is a common resource of humankind to be shared on an equitable basis. Developing countries will reject any proposal that restricts their share of the atmospheric resource to a level below that of industrialised countries. In a world where hydrocarbon fuels are still the main sources of energy, there is a broad (though not exact) correlation between per capita levels of carbon emissions, energy consumption, and income. Developed countries have much higher per capita emissions, per capita energy consumption and, of course, per capita incomes compared to developing countries. Poorer

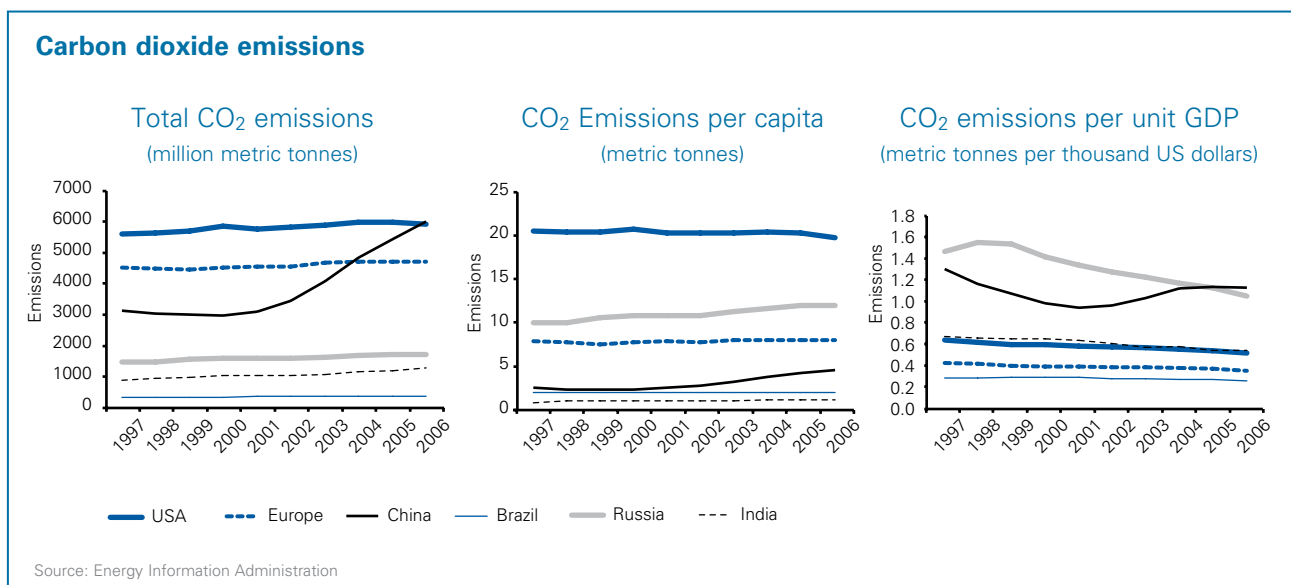
countries cannot be expected to accept any global climate change regime that would require them to indefinitely restrict their per capita emissions (and, therefore, energy consumption levels) below that of industrialised countries. Developed countries should sharply reduce their per capita emissions. Per capita emissions of developing countries are currently very low and will inevitably increase as a result of economic growth. These countries should take cost-effective energy efficiency and conservation measures to moderate their rising emissions to the extent possible. Per capita emissions of all countries, as well as their per capita utilisation of the global atmospheric resource, should converge over a period of time.

Every human being has an equal right to global atmospheric resources and developing countries will not accept a denial of this right. A global climate change regime must be based on the principle of equity and will only meet the test of adequacy if it rests on environmental justice.

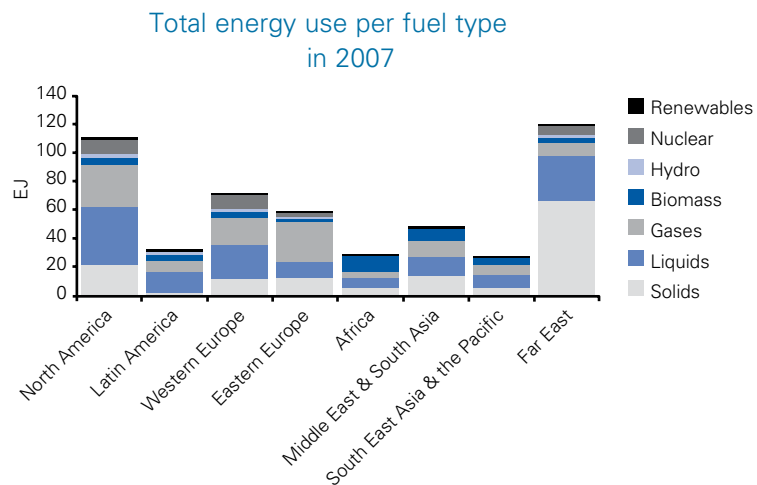
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Climate change, energy and proliferation data

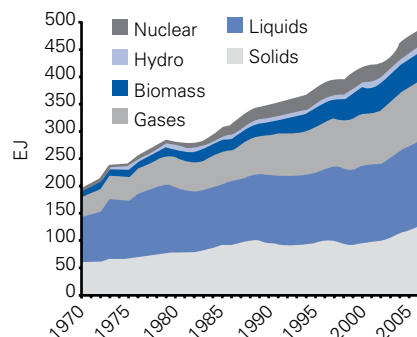
Climate change and nuclear proliferation both present dangers of severe destruction, and require international cooperation to guard against them. With major international treaties in both areas either expiring or up for review, now is the time to improve efforts to address these challenges. However, this will be no easy task. As the carbon dioxide emissions graphs below illustrate, the worst offenders vary depending on how one views the scenario – total, per capita or per unit GDP. Meanwhile, as the search for alternative forms of energy continues, nuclear energy appears to be making a renaissance. Yet, as the map below illustrates, very few states have access to nuclear energy and many of the ones that do are also nuclear weapons states. Therefore, issues of access and equity will need to be addressed while attempting to reach a conclusion on the key treaties in both these areas.



Energy mix

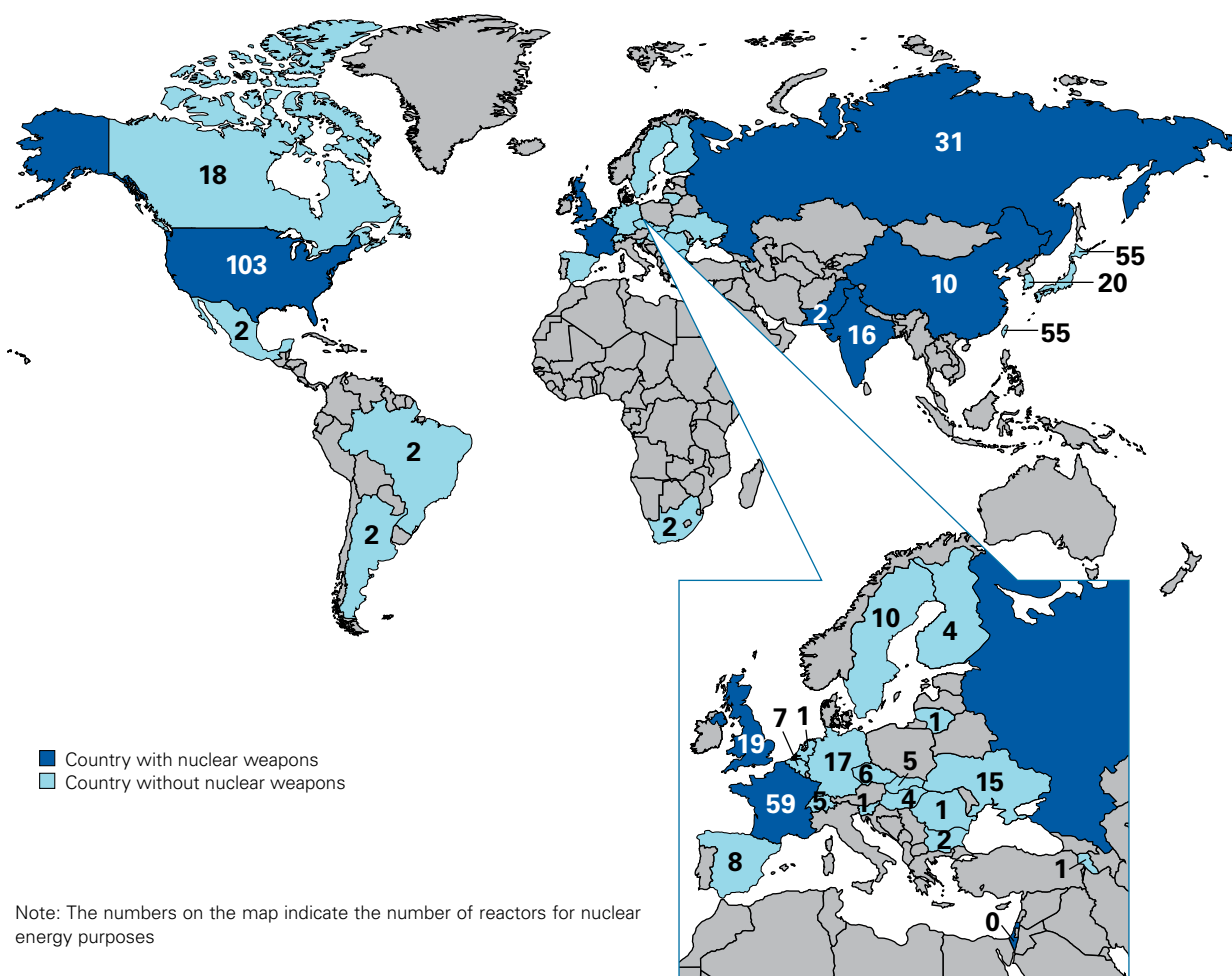


Breakdown of world total energy use per fuel type 1970-2007



Source: IAEA

States with nuclear capacity



Source: IAEA

Key treaties on the international agenda

Kyoto Protocol (2005- 2012)

- Principle of 'common but differentiated responsibilities'
- Binding reductions in CO₂ emissions from 37 industrialised countries
- Utilises 3 market-based mechanisms – emissions trading, clean development mechanism and joint implementation
- 184 signing countries have ratified protocol. US only country to sign but not ratify
- Upcoming meeting – Copenhagen climate conference (6-18 Dec, 2009) – government level meeting for last-time before agreement needs to be renewed. Key issues: emissions reductions by industrialised countries, emissions limitation by developing countries, financing
- The new US administration has launched 'Major Economies Forum on Energy Security and Climate Change' to facilitate the process of achieving consensus for a successful outcome at Copenhagen

Non-Proliferation Treaty (1968)

- Three pillars: 1. non nuclear-weapons states agree not to manufacture nuclear weapons and accept safeguards on nuclear activities for peaceful purposes; 2. five nuclear weapons states (US, Russia, UK, France, China) agree to pursue negotiations toward disarmament; 3. Recognised 'right' to use nuclear energy for peaceful means
- Review conferences every 5 years. 2005 Review conference failed to produce an agreed outcome document
- 189 states have signed – non-signatories are Israel, India and Pakistan. North Korea withdrew from treaty in 2003
- Upcoming meeting – 2010 Review Conference, New York (4-15 May 2010). Key issues: disarmament commitments, Middle East, CTBT, FMCT, universalisation of treaty, nuclear programmes of North Korea, Iran and Syria, reporting mechanisms, establishing an NPT secretariat

Comprehensive Nuclear Test-Ban Treaty (not yet in force)

- Aims to ban any nuclear weapon test explosion in order to constrain the development of nuclear weapons
- Not yet entered into force – opened for signature in 1996- it must be ratified by all 44 of the Annex-2 states that formally participated in the 1996 session of the conference on disarmament and possess nuclear weapons or research reactors
- Signed by 180 states, ratified by 148 states
- States yet to ratify/sign include: North Korea, United States, India, Pakistan, Indonesia, Iran, Israel, China, Egypt, Saudi Arabia

Fissile Materials Cut-off Treaty (proposed)

- This would be a binding international commitment that would ban production of fissile material for nuclear weapons or other explosive devices
- Resolution in UN General Assembly for such a treaty in 1993, but committees have been unable to negotiate a treaty until now
- Points of contention include: existing stockpiles, verification procedures etc.
- The new administration says that the US will seek a verifiable treaty, which departs from the position of the previous government

START (1991)

- Bi-lateral treaty between US and Russia for nuclear arms reductions – expires in December, 2009
- The US and Russian leadership have recently agreed to negotiate a new treaty to replace START
- The new treaty would aim to further reduce US and Russian nuclear arsenal

Section four: the indispensable nation?



Beyond multilateralism

James Goldgeier

"America stands alone as the world's indispensable nation," Bill Clinton declared from the steps of the US Capitol in January 1997 in his second inaugural address, repeating a theme he had introduced during his re-election campaign. "The world is no longer divided into two hostile camps; instead, now we are building bonds with nations that once were our adversaries. Growing connections of commerce and culture give us a chance to lift the fortunes and spirits of people."

For Clinton and his secretary of state, Madeleine Albright (with whom the phrase became later identified), talk of America as an indispensable nation conveyed both a fact of international life and a mission to inspire the American people. They were stating the obvious: there were few global problems that could be solved without the active participation or support of the United States. Nuclear proliferation, climate change, terrorism, the stability of the global economy – solving any of these would require active American engagement. And while the phrase "indispensable" grated on the ears, particularly of America's allies (does that mean, they asked, that they were "dispensable"?), the audience the president and his secretary of state were trying to reach was not overseas. Clinton and Albright sought to explain to an American public weary of international engagement after the Cold War that the United States must maintain an activist global role to ensure its own peace and prosperity.

Although non-Americans increasingly viewed the phrase as a code word for the unilateral use of

American military power, Clinton himself, as he did more generally in his foreign policy approach, tried to emphasise the ties of international commerce. The global economy, he believed, depended on a strong America – and America depended on a strong global economy. If the United States failed to lead in the push for more openness and integration in the global economy, the entire world, including the United States, would suffer. For a Democratic Party whose centre of gravity was strongly protectionist, this message was a tough sell throughout the Clinton presidency.

Has America changed?

As Clinton was introducing the phrase "indispensable nation" to the foreign policy lexicon, analysts were comparing the United States to Rome in its unrivalled power compared to the rest of the world. It not only had a military stronger than that of the other major powers combined and the world's leading economy, which was strengthening in the midst of an unprecedented boom, but it had what Joseph Nye has called "soft power," the power of its ideas, its diplomatic prowess, and its cultural reach. One didn't have to believe in Francis Fukuyama's "end of history" thesis to recognise that countries around the globe aspired to build free markets and democratic political systems in the aftermath of the west's Cold War victory. When the world went into an economic tailspin in 1997-98 (in what was then known as the greatest economic crisis since the Great Depression), the Federal Reserve, United States Treasury and the International Monetary Fund worked hand-in-hand to condition aid to countries from Thailand to South Korea to Brazil on their adoption of American economic ideas. Millions were impoverished during the crisis, but leaders listened to Alan Greenspan, Robert Rubin and Larry Summers because the United States had a sterling reputation for understanding the nature of international markets.

The past eight years seems to have cured both Americans and non-Americans alike of the notion

that the United States has all the answers. The Bush administration badly miscalculated in Iraq, putting enormous strains on America's military and causing untold damage to America's standing in the world. And the lack of regulation in the American housing and financial markets has produced global economic turmoil. Barack Obama understood on his first trip to Europe as president that he needed to enunciate a new theme. Not America as indispensable, but a humble America working with other nations that might have good ideas for global governance themselves.

"Now there's plenty of blame to go around for what has happened, and the United States certainly shares...blame for what has happened," Obama said at his town hall meeting in April in Strasbourg, France. "But every nation bears responsibility for what lies ahead," he continued, "especially now, for whether it's the recession or climate change, or terrorism or drug trafficking, poverty, or the proliferation of nuclear weapons, we have learned that without a doubt there's no quarter of the globe that can wall itself off from the threats of the 21st century."

Obama stressed the foreign policy theme that has become a hallmark of his young presidency. "I've come to Europe this week to renew our partnership, one in which America listens and learns from our friends and allies, but where our friends and allies bear their share of the burden." He added, "Let me say this as clearly as I can: America is changing, but it cannot be America alone that changes. We are confronting the greatest economic crisis since World War II. The only way to confront this unprecedented crisis is through unprecedented coordination."

One clear sign of how much has changed has been the allied response to an America that "listens." Sixteen years ago, in May 1993, only a few months after taking office, US Secretary of State Warren Christopher set out on a trip to Europe to engage NATO allies on how the west could respond to the ongoing catastrophe in Bosnia. Christopher came to these discussions, he said, "in listening mode." He was excoriated for not coming to Europe with

a plan; French President Jacques Chirac was soon bemoaning that the position of the leader of the free world was "vacant."

While multilateralism sounds great in theory, there is no substitute for the range of tools America has at its disposal, as well as its willingness to shoulder the burdens of global leadership

Today, the rest of the world says it no longer wants to be told what to do. The Russians felt that the decade of the 1990s was one long American lecture, and the Putin years have restored the belief that Moscow has a significant role to play in world affairs. The Chinese pushed back hard when the incoming US Treasury Secretary Timothy Geithner complained about Beijing's currency manipulation in his confirmation process, and since taking office, the new American team has recognised that it cannot afford a dustup with a Chinese government that funds the enormous American deficit. The notion of a more humble America listening to others has struck a chord, and it has given President Obama an opening to embark on the strategy of engagement that he believes can accomplish much more than the bellicosity of his immediate predecessor.

And yet....

While the Europeans are itching to be taken seriously in global affairs, do they have a plan for how to prosecute the war in Afghanistan, not to mention the ongoing crisis in Pakistan or the Iranian nuclear problem? On Afghanistan, Secretary of Defense Robert Gates made his frustrations clear in a recent interview on the CBS television programme "60

Minutes.” Asked about the European role in fighting the Taliban, Gates replied, “well, I’ve been disappointed with NATO’s response to this ever since I got this job.” At the end of the day, it will be American leadership and American decisiveness that will be the key to solving these types of problems.

Or take the Russian president’s proposal for a pan-European security architecture. After Dmitri Medvedev floated the idea, American officials asked their counterparts about the substance. But there wasn’t any; Moscow appears to be waiting for the United States to come up with ideas for what the framework would mean in practice.

This is not to suggest that the Obama team shouldn’t listen to what its allies and others in the global community have to say. On issues such as democratisation and development, for example, the Europeans have learned valuable lessons, while the Japanese can teach us a great deal about developing new technologies and new business practices to combat climate change. Still, when it comes to the major crises in the world, problems that require a mix of sticks and carrots to solve, while multilateralism sounds great in theory, there is no substitute for the range of tools America has at its disposal, as well as its willingness to shoulder the burdens of global leadership.

That is why the Iranian nuclear programme is perhaps the most interesting test for the new administration’s approach to foreign policy. Obama throughout the campaign promised to emphasise engagement, and he has delivered on that promise in his first months in office. His argument has been that if engagement fails, the United States will be in a stronger position to garner international support for stricter sanctions and a tougher global response. But we don’t really know whether that’s how the negotiations would play out. If all goes well, the engagement strategy will succeed, and Iran will abandon its pursuit of nuclear weapons. But what if it does not? Will China and Russia really go along with punishing Iran for its

recalcitrance? Or will the United States be forced to consider actions that run counter to the wishes of these two permanent members of the United Nations Security Council? After all, Bill Clinton came into office promising to embrace multilateralism; by 1994, he was telling the United Nations General Assembly, “When our national security interests are threatened, we will act with others when we can, but alone if we must. We will use diplomacy when we can, but force if we must.” No American president would ever suggest otherwise.

We will also learn much about the world’s dependence on American leadership when it comes to international trade. The entire post-World War II free trade agenda was made possible due to the United States. It was hard enough for Bill Clinton to push his party to support NAFTA and the legislation establishing the World Trade Organization, and he only prevailed in Congress due to Republican votes. Given the politics today, it will be even harder for Barack Obama to advance a free trade agenda; he will likely be playing defence merely to avoid allowing protectionist sentiment on Capitol Hill to undermine America’s trade policy. But can the G20 advance a free trade agenda that has boosted global wealth without strong American leadership during a major financial crisis? Highly doubtful.

Even after all that has occurred in the intervening years, America still remains indispensable. It cannot solve most global problems on its own, but no significant global problem can be solved without American leadership. Fortunately, for the next four years and perhaps the next eight, the US president will be an individual widely admired at home and abroad. Countries around the world are happy that Barack Obama is listening now, but they will come to depend on his ability to lead.

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Organising for the world

Fyodor Lukyanov

At the end of the 1990s, when the United States was at the peak of its power and influence in the world, a new term, “indispensable power,” came into use. America started to believe that in the era following the “end of history,” its global leadership was predetermined. But the limits of American power revealed themselves very soon. Even the United States could not achieve its goals through force-based domination. Meanwhile, its reliance on force undermined another traditional source of US influence – its moral and ideological authority. Many states began to view the “indispensable power” concept as a symbol of Washington’s arrogance. In addition, it was not backed by a real ability to perform the key functions of the main global regulator and provider of global governance. The Obama administration will have to make great efforts to repair the damage caused by its predecessors. However, in the new world situation, the United States may indeed become an indispensable power – not because America has declared itself as such, but because it occupies a unique position in global politics.

A new multi-polar world: the emergence of regional powers

The current global economic crisis has come as a catalyst for processes that had begun earlier. Many analysts say that the crisis will result in the regionalisation and consolidation of separate centres of gravity, around which zones of economic growth

will be formed. Guy Verhofstadt, former prime minister of Belgium, writes about the emergence of political and economic entities “potentially made up of many states and peoples, united by common structures and modern institutions, often nourished by diverse traditions and values and rooted in old and new civilisations... What matters is the political stability and economic growth that they can create at a regional level, not for one or other of them to rule the whole world.” Such centres certainly include China, which is consolidating east and southeast Asia around itself, and the European Union, which itself is a large “sphere of influence” with expansionist tendencies. Russia, also, has potential for attraction. It is not accidental that even countries representing different geopolitical orientations have asked for its help during the crisis. Active efforts at regional integration are also being made in the Gulf region and Latin America.

The world in the new multi-polar era will differ from what it was at the time of American domination; but neither will it resemble the well-known eras of great power rivalry of the past.

First, unlike the great game of the 19th century, the present aggravation of competition is taking place in a situation of universal interdependence, which makes linear patterns of interaction impossible. The result of a zero-sum game is not equal to zero, although the parties seem to be playing according to the classical rules. Second, there cannot be a balance of forces in today’s multi-polar world. Power indicators include not only military force and economic parameters, but also many other factors – demographic potential, the quality of human capital, the attractiveness of a country in terms of life quality, and its ability to rely on its own sustainable identity. Identity is particularly important now that traditional national self-identification is being eroded under the impact of globalisation. If a large country is lagging behind others in some indicators, it can compensate with advantages in other areas. On the whole, the outcome of all these

factors is very complex, and it is not clear how to reach a balance.

The unique role of the US

Even considering the relative weakening of US capabilities compared with the situation of 10 years ago, the United States will remain the most powerful country in the world and will surpass all the other states in virtually all parameters of influence. One specific advantage is that the problem of how to “melt” different identities into a new one is familiar to the United States since the time of its founding, while European powers are just starting to learn this process.

More importantly, the United States is the only great power that will not be content with the status of a regional centre with its own sphere of influence in the coming decades. Europe, China, India, Russia, Brazil, Iran, South Africa, Japan and others would be quite satisfied with such a status. (This does not mean that all of them will be able to play such a role.) American global hegemony is no longer possible. But the US position as the only global force among many various-sized regional forces may prove to be advantageous, although utilising this position will require sophisticated tactics.

In his keynote article published in *Foreign Affairs* in the summer of 2007, Barack Obama called on Americans to rethink and renovate US leadership. He proposed repairing the traditional set of US foreign policy instruments mutilated by George W. Bush, strengthening the moral attractiveness of the US, restoring relations with allies, and relying on multilateral institutions. But even if Obama succeeds, he will not be able to return his country to the situation of ten years ago – because the conditions have changed.

At the beginning of the George W Bush presidency, America began to speak of an empire – for the first time ever in a positive manner. Thanks to the neo-cons, the United States tried on Roman armour – much to the horror of the bulk of the country’s intellectuals. The “empire’s” decline began

faster than anyone could expect: Iraq showed the illusiveness of the hopes for hegemony.

“We will never be the Roman empire,” said Edward Luttwak, author of the forthcoming “Grand Strategy of the Byzantine Empire”. “Bush, the genius, if he’s lucky, will create a situation as in Byzantium, where the different enemies fight each other.” To a certain extent, this statement could reflect the transformation of the US approach to world politics in the coming years. “Out for America the triumphant imperial (materialistic) Rome of the sons of Mars, in the Christian, sophisticated, cultivated, smart Byzantium,” Italian researcher Alessandro Politi commented. A “sophisticated” and “smart” approach will be required, considering the situation of asymmetric multi-polarity.

Global interdependence, regional integration and competition between poles are creating a very complicated system of relationships between all the parties. An indispensable power might be needed in this scenario – not as the global hegemon, without which no one has the right to decide anything, but as an essential element for establishing a balance in each specific case. As the only state with a global horizon, which sees its interests around the globe, the United States could serve as a stabiliser in hypothetical conflicts between regional centres – be it China and India, China and Russia, Iran and Saudi Arabia, or some other countries. This role might be compared with the role the United States played in Europe after World War II – the American presence there guaranteed the non-resumption of hostilities between European powers. (It is a separate question whether the US has fulfilled this particular role and whether its withdrawal from Europe may cause the continent to return to its conflict-prone traditions.)

Of course, in the 21st century one cannot speak of the deployment of US troops around the world. No one will allow that. In addition, US military capabilities turned out to be overstretched even at the beginning of this decade, although the country, far from having a global reach, was only involved

in two regional conflicts. But we can speak of a politico-diplomatic role of America as a force that can operate everywhere and fairly quickly, guided by concrete circumstances.

In a diversified world where many models and interests fiercely compete... community organising in a civil society style seems to be the only way to forge solutions to acute international problems

Beyond ideology: international community organiser

At the same time, we will hardly see any ideology in US actions, although this has always played an important role in US foreign policy. The era of great ideologies that shaped world politics remained in the 20th century. Totalitarian ideas (fascism and communism) were the first to go, and the end of the century saw a failed attempt to build a global system based on liberal principles. The policy of promoting democracy, pursued by the George W. Bush administration, was the culmination of the latter approach and, simultaneously, a caricature of it. It was an alloy of the messianic pathos of global reconstruction and the unswerving pursuit of US mercantilist interests. It became impossible to separate these two things, leading to a situation which damaged them both. Ideology prevented cold-headed geopolitical calculations, while mercantilism discredited US ideals. The Hamas victory in “democratic elections” in Palestine, Mikheil Saakashvili portrayed as a “torch of democracy”, “nation-building” in Iraq and Afghanistan – statements like these have made senseless the principles which US policy has always sought to uphold.

The United States is a country built on ideological principles, so one cannot expect a transition to

complete realism. But, as Charles Kupchan and Adam Mount wrote in a recent article, the Americans will need “a more progressive understanding of America’s liberal tradition. Just as it does at home, the United States should welcome diversity abroad, accepting that liberal democracy must compete respectfully in the marketplace of ideas with other types of regimes”.

Today, the international environment is again largely dominated by states, their national interests and sovereign rights, which have never been undermined despite the feeling in the 90’s that sovereignty was bound to dissolve in a global milieu. In this scenario, the US has a great opportunity.

The American President, Barack Obama, has emphasised his experiences as a community organiser in Chicago, which he considers as the crucial period for building his political identity. Community organising is a genuinely American notion linked to the classical grass-roots-based civil society. The role of organiser is not to force people to take certain actions or to place oneself at the head of a movement, but to bring people living in proximity to each other together in an organisation to act in their common self-interest. The key principle is inclusiveness, which means that all involved should be taken on board and their interests should be regarded as part of a common solution.

This role projected on the international community may bring us back to the notion of an indispensable power. In a diversified world where many models and interests fiercely compete, but where all states face similar global challenges, neither hegemony, nor traditional ways to harmonise interests through the balance of power will work. Community organising in a civil society style seems to be the only way to forge solutions to acute international problems. Due to its traditions, the US is best suited to fulfill this function, but this will require a profound rethinking of its foreign policy approach.

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