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The State of the International Order

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Executive Summary

This report assesses the state of the international order five years after the international financial crisis and over a decade after the invasion of Iraq. We ask two questions: 1) what are the material realities shaping the options faced by the great powers (both traditional and emerging), and 2) what are the interactions that are revealing or shaping the content of great power relations and international order more generally? The report identifies eleven characteristics of the contemporary order:

1. **The Global Economic Order Survived the Crisis but Fault-lines Remain**
   The global economic order responded effectively to the immediate financial crisis of 2008—especially when compared with the response to the Great Depression—but significant fault-lines remain that will impede a return to robust growth and may threaten additional instability. The long term challenges are twofold: 1) building a deeper set of protections against financial instability; and 2) adapting global financial and trade systems to the complex new reality of the top economies having very different structural dimensions and levels of per capita development.

2. **Europe's Lost Decade**
   The Eurozone avoided the collapse of the Euro, which could have destabilized the entire global economy, but appears destined for a period of protracted stagnation with very low growth, zombie banks, and high levels of unemployment on the periphery. This lost decade is the direct result of structural shortcomings—especially a lack of fiscal and financial union—and policy mistakes. The Eurozone is unlikely to collapse but the unresolved issues will be a drag on the European and global economy and will reduce Europe's capacity and will to influence the direction of the emerging global order.

3. **The Changing Pattern of International Trade—the Rest Rises and the West Stagnates**
   Developing and emerging economies account for a much greater share of international trade today than a decade ago. They have surpassed the rest of the West as the largest trading partner for both Europe and the United States. Their rise is a positive trend that benefits the global economy but the relative lethargy of Western countries on trade is a source of concern. The progress made on mega FTAs, such as the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership, is a hopeful sign that the West may be beginning to get its act together.

4. **But, There's Trouble on the Horizon for the BRICs**
   A decade ago the BRIC countries were hailed as the new economic powerhouses destined to bring the global economy into the 21st century. They fared better than Western economies after the 2008 financial crisis. But, they are now running into serious economic trouble. Confronted with poor growth prospects for the first time in years and the potential to fall into the middle income trap, the BRICs are now facing disenchanted populations and must deal with their increasingly apparent lack of coherence as a group.

5. **The Return of Geopolitical Competition and the Risk of Great Power Conflict**
   Since 1991, the world has enjoyed a great power peace where war between the major states was highly unlikely. Unfortunately, this period appears to be ending. Several major powers are engaged in a robust security competition. The greatest risk stems from the rivalry between China and Japan in the East China Sea but rivalry also exists in Southeast Asia, between the United States and China, and to a lesser degree in Eastern Europe. The return of great power security competition not only threatens the peace—it might also complicate international cooperation to tackle common challenges.

6. **Trouble At Sea**
   We've entered a period of contest over the commons. Intractable territorial disputes in the East China Sea and South China Sea have become increasingly dangerous and could spiral into crisis. To date, efforts to introduce a code of conduct or other mechanisms to deescalate tensions have failed. This bad news is somewhat offset by maritime cooperation in the Arctic and collective anti-piracy operations in the Gulf of Aden. Despite China and India's uneasiness that the United States controls access to the world's critical sea-lanes, the U.S. Navy continues to play an indispensible role.

7. **The Use of Force and New Rules of War**
   The past decade has seen the proliferation of new technologies on the battlefield, including unmanned aerial "drones", and the shifting of the battle space into cyberspace. These new weapons have facilitated significant successes in counter-terrorism and counter-proliferation but they also come with great risks. As other states (and non-state actors) outside the United States and its allies acquire these new technologies, the United States has a strong interest and responsibility to create rules and norms which would see drones and cyber weapons used responsibly and in limited roles.

8. **Human Security Improving Everywhere Except the Middle East**
   Since the Cold War, there has been a precipitous decline in the number and intensity of conflicts, both large and small, in all regions of the globe—but now the Middle East is bucking that trend. The apparent collapse of regional order in the Middle East has resulted in a brutal civil war in Syria (estimated to have claimed 100,000 lives) with the risk of civil conflicts in Iraq, Egypt, and Lebanon. But even factoring in continuing conflicts, the broad signals of progress (infant mortality, poverty, literacy, life expectancy, etc.) are looking bright for the developing world.

9. **The Responsibility to Protect Hangs in the Balance**
   Since its ratification by the United Nations in 2005, the doctrine of the Responsibility to Protect (R2P) has faced numerous challenges, none greater than the stalemate over how to end the civil war in Syria. But R2P has also had successes: the NATO intervention in Libya in 2011, the UN intervention in Cote d'Ivoire in 2010, and efforts to hold leaders in Kenya accountable for election violence in 2007. Even so, R2P is under assault by countries whose ideal of sovereignty or whose strategic interests appear threatened by the doctrine.

10. **The New Geopolitics of Energy**
    The past decade has seen a radical shift in the global energy map as the unconventional revolution in the United States has put it on track to become the world's largest oil producer. New discoveries in the Americas have weakened the grip of traditional suppliers on the international energy market. This shake-up has also exposed a lack of governance in the global energy trade and stoked fears in China over the security of its energy sources. This new paradigm could give the U.S. enormous influence in shaping the future of the global energy trade, or it could lead to major conflict between states vying to secure their economic lifelines. But climate change remains a profound challenge.

11. **A Turbulent Gulf**
    Protecting access to the oil rich regions of the Persian Gulf was a key pillar of U.S. grand strategy for most of the post-World War II period. Now, with the U.S. shale revolution, mounting domestic concerns, and a possible comprehensive deal with Iran over its nuclear program, countries fear that the United States is preparing to reduce, or at least transform, its commitment to Gulf security. The Persian Gulf region is increasingly unstable, but the perception is beginning to take hold in America that guaranteeing stability in the Gulf is no longer a core U.S. interest. Whether a new equilibrium will emerge remains to be seen.

Introduction – Two Anniversaries

In September 2013, the world marked the five year anniversary of the collapse of former Wall Street investment bank Lehman Brothers. The collapse of Lehman, coming on the back of a deep mortgage financing crisis and the bankruptcy of American insurance giant AIG, was the wave that crested the barriers, triggering the onset of the greatest financial crisis since the 1930s, and raising the specter of a new Great Depression. The outer waves of that event are with us still.

The financial tsunami of 2008 was not just a tectonic economic event; it also revealed the shifting underlying plates of international order. The international response to the crisis both revealed and entrenched a new reality in the relative distribution of power, namely the new prominence of a set of powers whose economies and international clout had been growing steadily throughout the 2000s. Most prominent are the "big three"—China, India and Brazil—all now among the ranks of the ten largest economies in the world, and all asserting diplomatic and political influence on the world stage. The decision of President Obama to acknowledge that the G-20 had superseded the G-8 as the "pre-eminent forum" for international economic decision-making solidified and institutionalized these new powers' weight in the international economic order.

For a while, the rapid, collective, and massive response of both the established and emerging economies to the global financial crisis, orchestrated by the newly pre-eminent G-20, fostered a sense of optimism that in the evolving order, cooperation could outweigh competition, and certainly conflict. Most notably, and contrary to many predictions based on the experience of the 1930s, the major countries of the world did not resort to protectionism or blocs, but rather maintained their faith in an open trading system. But cooperation in the face of an immediate and common threat is comparatively easy. As the world has returned to a more normal and somewhat less perilous state, the state of international order has become more complicated.

2013 was also the ten-year anniversary of a very different event, the start of the U.S. war with Iraq. That event occurred during the period of American dominance on the international stage. The swift overthrow of the Taliban-backed regime in Afghanistan in late 2001 and the start of the global war on terror had launched America into a massive exercise of global power projection. Ten years later, the costs and consequences of America's twin invasions and the broader war on terrorism are in evidence. Much has changed in great power security relations over those ten years, some of it for the worse, not better.

In this report, we grapple with the question of what is the state of the international order now from two perspectives: what are the material realities shaping the options faced by the great powers (both traditional and emerging), and what are the issue-by-issue interactions that are revealing or shaping the content of great power relations, and international order more generally?

Broadly, this approach reflects the view that the state of the international order is determined at root by the interactions between the great powers and their capacity to cooperate effectively on the key issues of the day. Middle powers can play important roles too, of course, but mostly by nudging the great powers in a cooperative direction. More specifically, we are making our own judgments about what does and what does not constitute the key international issues of the day, as well as judgments about the state of play in each element. We do not attempt a net judgment across all the elements—the international economic order, great power security relations, the questions of democracy, human rights and human security, the newer but vital issues of energy and climate change, and the lingering problem of transnational threats. But we do note disturbing trends, as well as grounds for optimism.

This reflects the fact that international orders are never static. To endure, they must adapt to changing conditions. Today, it's not just the distribution of power that's in flux; it's the normative content of the order. An international order is not ethically neutral. A certain set of stable relationships between the great powers—the irreducible core question of order—can support the progression of both democratic and developmental outcomes, or their suppression or reversal—and those are very different things. These issues divide the powers, not necessarily along predictable lines, and the contest over the content of the international order remains a vivid one.

What is the International Order Supposed to Do?

"…the goal of a century that is more peaceful, more prosperous and more just."

—President Obama, UK House of Parliament, May 25 2011

"…America's vision of an increasingly freer and more open international system where catastrophic conflicts between great powers were avoided, democracy and free market capitalism flourished, where prosperity spread wider and wider and billions of people emerged from poverty… "

—Senator Marco Rubio, The Brookings Institution, April 25 2012

In the forty-five years between the end of the Second World War and the end of the Cold War, U.S. foreign policy had two central pillars: the containment of Russia, through deterrence and alliances; and the spread of the liberal international order, through economic institutions and protection of the global commons. These pillars of foreign policy reinforced one another, as the spread of the liberal order brought an ever-wider circle of states into an economic system underpinned by U.S. power. That widening circle of states sometimes believed the United States abused its dominant position in the liberal order, but that belief did not dissuade them from profiting from the system or even free-riding on U.S. power. The economic vibrancy of the liberal order was in stark contrast to the stagnation of the Soviet and Warsaw Pact economies, a fact that contributed to the eventual dismantlement of the Soviet empire.

When the Soviet bloc collapsed, American strategy similarly had two pillars: one focused on bringing the former Soviet bloc into the liberal order, which saw mixed results; and one focused on spreading the liberal economic order to a still-wider circle of states, including those whose strategic loyalties had oriented their economies away from the West. The second part of the strategy was enormously successful, with states such as Indonesia, India, Brazil and China making wholesale conversions toward the global economy. The result was the rapid rise of these states, accompanied by the largest reduction of poverty in all of human history. Charles Kupchan and others have noted the central irony of the contemporary moment: that it was the liberal order itself that enabled the phenomenal rise of China, India and Brazil, whose confident entrance onto the international stage seems now to pose the primary challenge to the order itself.[1]

This order now stands at a crossroads, a crossroads that came fast upon U.S. policy. During President George W. Bush's first term, American power was seen as so dominant that he was tempted into rejecting the constraints of order (or more precisely, to reject the notion that anything other than U.S. power itself was a valid source of that order). He rapidly found, though, that other states' attachment to the rules and institutions of that order (including core allies) meant that an attempt to move away from it posed substantial costs, and in his second term he made a *volte-face* and actively re-engaged the multilateral system. But tensions remain. President Obama has made the goal of strengthening international order, and adapting it to the fact of the emerging powers, a centerpiece of his national security policy. He intended also that the United States should set an example for the world by demonstrating that even the most powerful states can submit to the constraints of international order. He has been disappointed, however, both by what the United States is willing to accept in terms of constraints and by what the established tools of the multilateral architecture can deliver.

Whether the rise of new actors does or doesn't pose a challenge to the liberal order is a matter of fierce debate. Some see China's and India's reliance on global economic and financial systems as reason enough to believe that shared interests in a stable world economy will trump more traditional "realist" expectations of turbulence arising from changes in the relative balance of power. Others see a more complex but equally unproductive scenario, where the new powers neither directly challenge the United States nor pick up responsibilities, leading to a "G-Zero" world in which a lack of leadership erodes international order. Still others see evidence—for example in Chinese and U.S. naval build up in the South China Seas—of precisely the kind of security dilemmas that a realist reading of history predicts.

We may yet end up in a situation where the United States and China are locked in an intense rivalry in which meaningful cooperation is impossible. The fact of economic integration may contain the worst of such scenarios but not obviate them. China's ambition and regional fears combine to stoke nationalism and security competition throughout Asia. As the guarantor of much of the regional security order, the United States may find itself dragged into a volatile situation prone to crisis. None of this is anywhere near certain, though. It is surely still warranted to test the Chinese on their stated goal of contributing to a stable global system. The United States should seek to limit tensions with China even as it balances responsibly against provocative actions by the Chinese government, so as to preserve the broader project of refreshing the liberal international order. In a May 2011 speech on international order in London, President Obama confidently rejected the proposition that the rise of new powers was a threat to U.S. security or the international order. Rather, while acknowledging that the international order has already been "changed for a new century" by the rise of China, India, and Brazil (among others), he argued that this was in the U.S. interest and that interdependence would drive cooperation on new challenges. His speech underplayed the question of potential China-U.S. or other great power rivalry. Still, his call for an order that is still "more peaceful, more prosperous and more just" was compelling. It constitutes an eloquent starting point for asking this question: what in today's world are the key functions of international order?

"MORE PEACEFUL…"

Historically, one of the fundamental objectives of multilateral order is straightforward: to avoid great power war. This is both a realist and humane objective. Few if any events carry the risks of death and suffering that come with great power war, even without invoking the threat posed by a nuclear exchange. Short of war, great power tensions and security dilemmas can create enormous, deleterious impacts on other people's security and development—as the Cold War did. As such, a preoccupation with order expressed primarily in terms of avoiding great power war is consistent with the tradition of moral realism, with its understanding that the first and foremost responsibility of leaders is to avoid unnecessary war.

Avoiding great power war is a central but not sufficient function of order. An effective order must also shape the use of force: limiting it, so as not to trigger unnecessary conflict, but also enabling it to prevent unchecked aggression or abuse. In so doing, it should foster compliance by regional and middle powers with "rules of the game," minimizing the use of force as a tool for managing inter-state relations. An effective order also should be able to punish violations of that central rule (as the U.S.-led coalition did in 1991 in reversing Saddam Hussein's seizure of Kuwait). Among other reasons, this helps minimize the risk of dragging great powers into, and thereby magnifying, active conflicts.

In the traditional conception of international order, security issues stop at national borders. However, we have learned that disorder in significant states can have wider negative consequences (to say nothing for the moment of the human consequences). The international order is thus more effective if it helps to prevent or rapidly contain civil war, at least in strategically significant states—though there's a legitimate debate about how significant a challenge to order is posed by civil war. While many see the spiraling brutality in Syria as a significant failure of the international order, as Bosnia was at an earlier moment, others will note that the spread and impacts of many such wars is less than sometimes claimed.

If avoiding inter-state war and regulating the use of force were the two grounding principles of the liberal international order that formed the post-World War II settlement, today's security order must accomplish an additional goal, that of generating effective action against transnational threats.[2] The specter of mass casualty terrorism puts a premium also on securing nuclear materials. Also important, if more diffused, are the risks posed by the spread of lethal biological technologies. For the most part, action taken against transnational threats will have to be collective, at least to some degree. There's a striking commonality between the Bush and Obama administrations in the forms of policy innovation they've pursued to deal with the terrorism and non-state challenge, from the use of new weapons technology (especially drones) to innovation in flexible multilateralism outside of formal structures (from the Proliferation Security Initiative to the Nuclear Security Summit).

"MORE PROSPEROUS…"

Order, though, is about more than just war avoidance. It should also generate prosperity— which, of course, is also related (at least to some degree) to the maintenance of stable great power relations.

To achieve this, the contemporary order must preserve the free, stable, *and secure* operation of the international trade and finance system, on which both U.S. and emerging power interests rely. This is first of all a function of economic and financial action, such as what we saw in the response to the global financial crisis. It must also adapt to the changing realities of rapid economic growth in the emerging powers—even if, as seems most likely, that growth now slows somewhat. The challenge of accommodating the reality that the top 10 economies in the world are radically different in structure—for example, in the huge gulf between American per capita GDP and that of China and still more that of India (which is at less than 3% of U.S. per capita GDP in nominal terms)—is as of yet perhaps underappreciated.

A stable global economy, though, is also a function of security action. The security of the international trade system since the end of the Second World War has been provided for largely by the U.S. Navy, an under-recognized but vital contribution of U.S. power.

In the contemporary era, the international order will have to grapple with a related and complex challenge: balancing the escalating demands for energy and resource consumption on the part of the emerging economies against the challenge that increased consumption poses for the global climate. As the emerging economies continue to generate large new middle classes, and as the West continues its growth-and-consumption model, energy consumption is rising rapidly, mostly in emerging Asia. The default pathway for energy consumption in emerging Asia is coal and oil. A rapid shift toward natural gas and renewables will be necessary if there's to be any hope of progress in combating climate change. This is quite separate from the fraught business of negotiating a global climate agreement—which may or may not drive clean energy investments.

Issues of prosperity and energy/climate cannot be just about the major powers. When the major powers simply devise self-interested schemes, this generates free-riding, as well as competition and conflict among second-tier states. An effective international order must reassure other actors that their interests can be met within the system (e.g., that new middle or lower middle income countries have access to the benefits of the global trade system, that they will not bear an unfair burden of, nor be sidelined by, a climate regime). An effective international order must also thus facilitate access to global trade, global finance, and the global economy in general for more recently developing states, and give these states a voice on important international issues such as energy and climate. Among other things, this means defending or refreshing the legal infrastructure of the global economy, from property rights to labor regulations to communications standards to trade rules.

A more prosperous order will also be one that helps poorer but stable states create opportunities for development. This does not necessarily mean providing development aid. The question of what works and what doesn't in enabling social and economic development is a heated one, warranting continued hard-headed research and scrutiny. That is a debate about tools, though, not about objectives. The central strength of the liberal international order is that its economic model is win-win: growth in one country begets growth in another. That simple statement neglects distributional debates both within and between countries, but the proposition has nevertheless held now for six decades, including in the aftermath of the Great Recession. And development in poorer states has two advantages for the order itself: the creation, over time, of new markets for trade and investment, particularly in food and energy resources; and a lower risk of failed states, with attendant risks on regional instability and transnational threats.

"MORE JUST…"

Helping the poorest states achieve development is also a necessary feature of a just order. International order is not norms free. It should also promote human dignity, or "justice" as President Obama worded it.

This, of course, is a point of contention, not consensus, internationally. To Western backers of the liberal order it is evident and important that the international order promote human rights. To many within the West, it is equally evident that the international order should help *prevent* abuses of human rights, including gross abuses like genocide and war crimes—though huge inconsistencies in Western action in this regard require us to treat the existing commitment of major states to this function of order with some degree of skepticism. For some, the normative component of international order can be expressed in terms of defending and promoting democracy, though of course others choose to focus less on the question of competing forms of national governance and more on the question of meeting human rights and basic human needs.

For newly influential actors in the international system, it is less evident whether these functions are accepted objectives of international order. The leaders of India, Brazil, Turkey, Indonesia or China would never positively state that the international order should ignore large-scale human rights abuses or actively promote tyrannical rule, and all but a handful of states (bizarrely, until recently, the United States among them) accept the legal standing of the UN's Genocide Convention. Quite a different question, though, is the extent to which these states accept the notion that anybody other than national authorities have any form of responsibility for tackling such questions. Recent debates at the UN on "the responsibility to protect" and "the protection of civilians" provide at best mixed evidence on this.

FUNCTIONS OVER FORM: WHO PROVIDES ORDER AND HOW?

Debates about international order are often conflated with discussions of global governance. Governance, though, is a tool for achieving core functions of order, not an objective in and of itself. It is far from the only tool: as noted above, the deployment of power assets by the United States and other actors met critically important functions of order during the Cold War and since.

Moreover, discussion of governance is often conflated with talk of institutions, especially formal institutions. Formal institutions like the International Monetary Fund, the World Trade Organization, and the UN Security Council do certainly play important roles in discharging key functions of international order. How well they are discharging those functions, and how effectively they are adapting to new realities, is a matter of both substantive inquiry and political controversy. Unfortunately, the latter often outweighs the former. At best, formal institutions can discharge some portion of key functions of international order. At worst, formal institutions can add treacle, transaction costs, and tension to efforts to mobilize effective responses to real challenges. An important objective of international order policy in the contemporary moment might be to separate well-performing institutions from those that under-perform—though just saying so raises complex questions about who would make that determination, and by what standards.

It would be an absurdity to believe, however, that formal institutions alone will ever meet the purposes of a more peaceful, more prosperous, and more just world—especially at a moment when a growing number of democracies are facing the evolution of mass communication and social mobilization technologies, creating new potential for citizen and civil society engagement in both national and international governance. The challenge for international order policy and research is to figure out how to make this productive, both in tackling specific threats and promoting the broader objectives of international order: peace, prosperity, and justice.

* * *

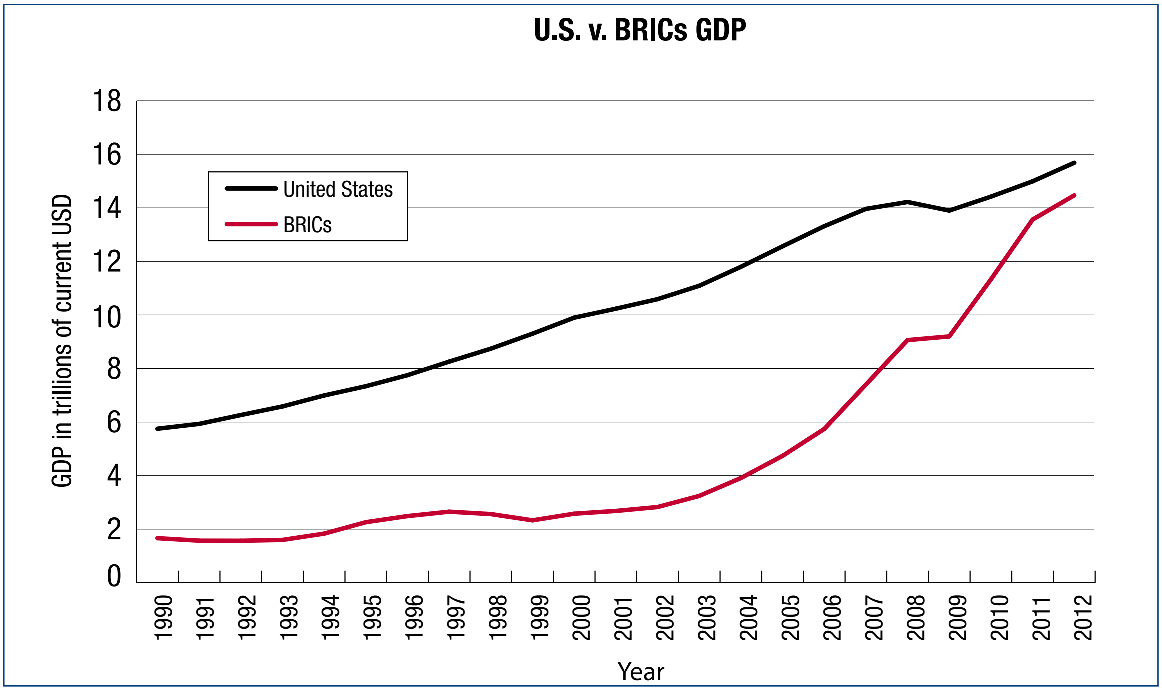
Separating these distinct functions of international order is at one level unhelpful; stable relations between states are necessary for free trade and prosperity, and an interdependent prosperity generally reinforces security. Just treatment of peoples can avoid internal conflict that in turn helps stabilize regions, also a requirement of prosperity. Virtually every measure of policy undertaken under the goals of peace, prosperity and justice are in the long term mutually reinforcing. Short-term conflicts between security, economic, and justice goals are a matter for continuous policy deliberation, but such conflicts do not obviate the wider interrelationship between these goals. That relationship was woven into the mandates of the key institutions of the post-war order, though in practice the international system to this day lacks a genuine ability to cohere security and economic policy. A deeper sense of the relationship between peace, prosperity and justice can be a useful guide to more innovative approaches to international order.

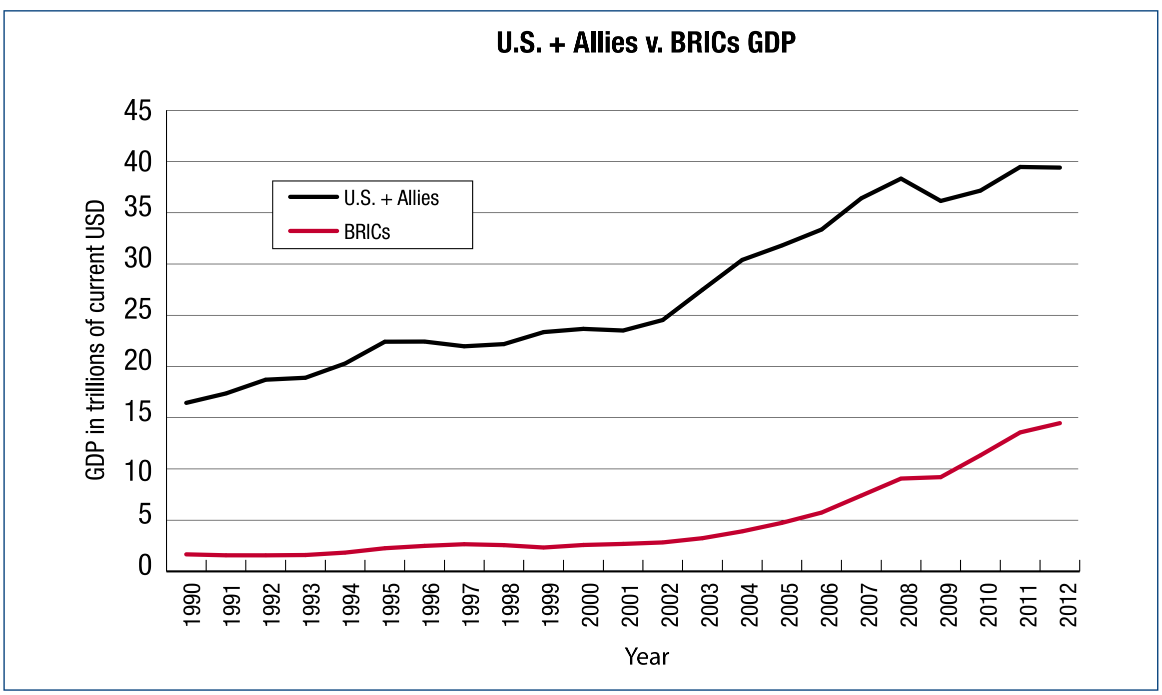
In what follows, our selection of topics for further analysis reflects the reality that the state of the international order is both an economic and a security question, as well as an ethical one. That's quite evident; but it's not fully reflected in the way either the policy community or the research community deal with the relevant questions. Far too much analysis of the state of international security relations neglects important features of globalization and economic ties and almost completely neglects the way that climate negotiations are shaping the great powers' perceptions of each other. Meanwhile, scholars and policymakers embedded in complex economic and financial relations between the major economies often turn a blind eye to mounting tensions and the risks of spiraling security dilemmas. By straddling the two domains we hope to add value to these ongoing debates.

A final introductory comment. Within the team that prepared this report, we differ somewhat in our judgments about issues, or on the relative weight that should be accorded to different facets of the order. But we share an abiding conviction that an effective international order is essential not just to American foreign policy and its role in the world but to the health of the American economy and body politic itself. We also agree that the United States retains both the capacity and the opportunity to lead efforts to retool the relations and institutions of order to cope with new realities. The window for that effort may be starting to narrow, but it's open still.

A Snapshot: Six Rorschach Tests of the State of the Order

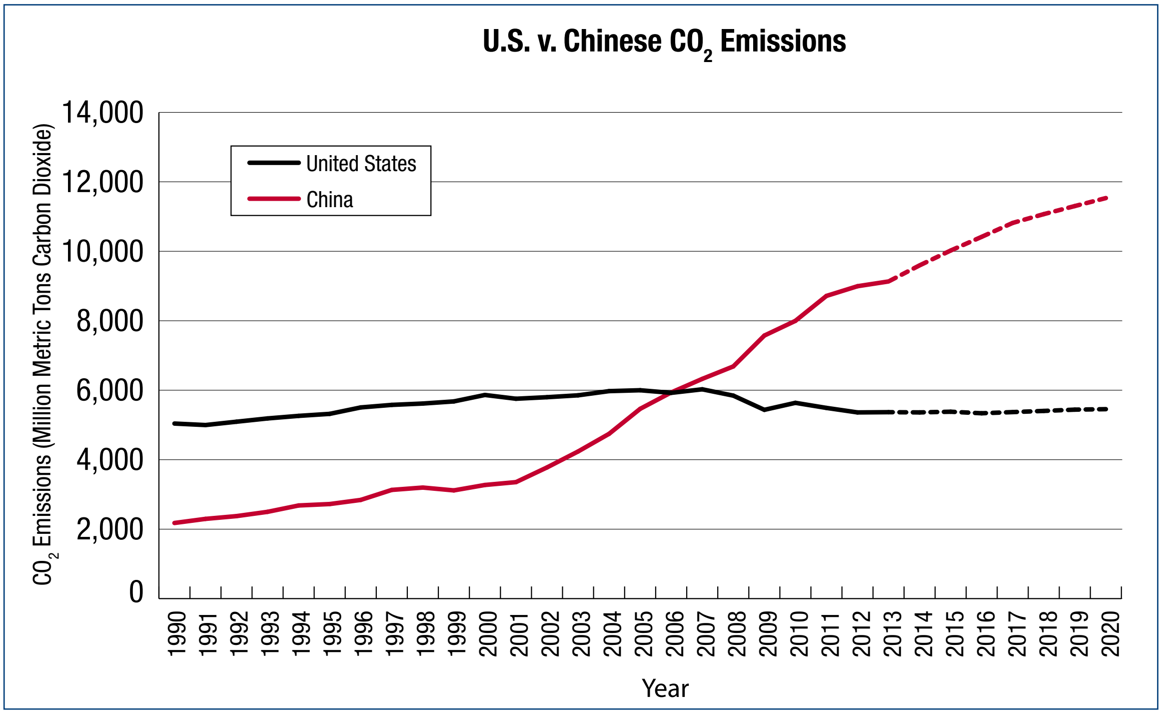
1. Rapid growth among the BRICs makes them a major fact of the international economy; but taken together, the U.S. and its allies are still far larger.



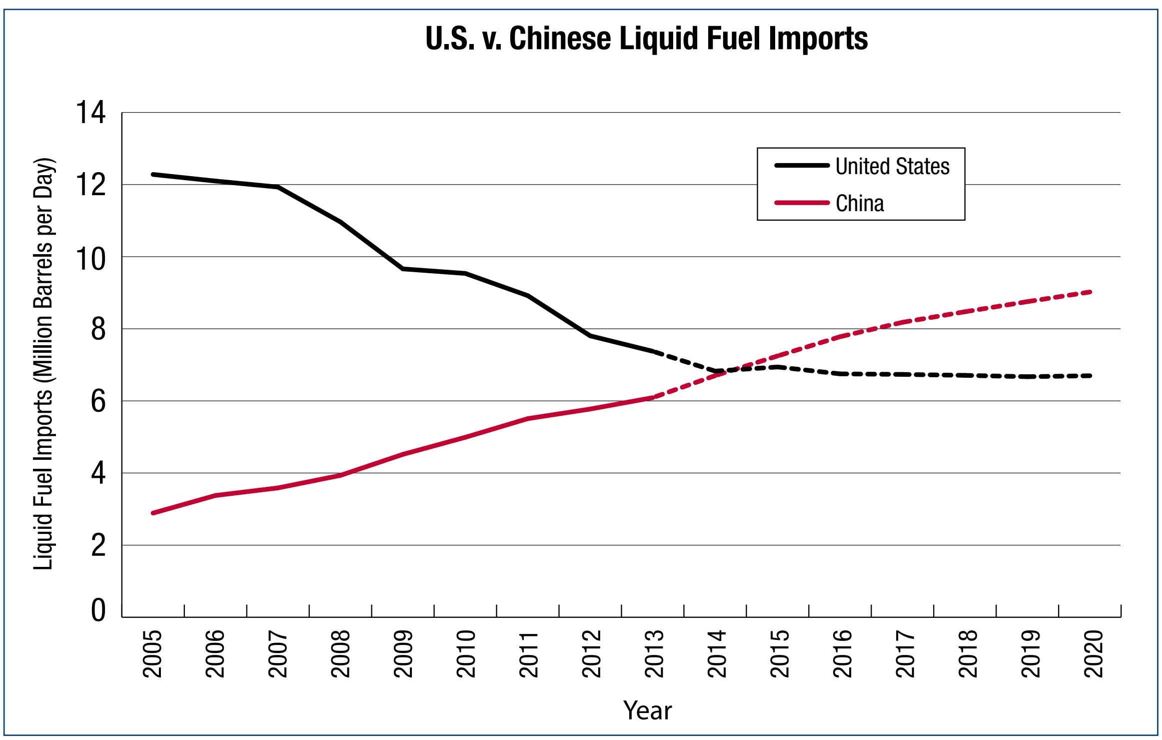


Source: World Bank's World DataBank
Allies included in calculations are EU member states, Japan, and South Korea

2. China has already overtaken the United States in carbon emissions, and will soon surpass it in fuel imports—a dubious honor.



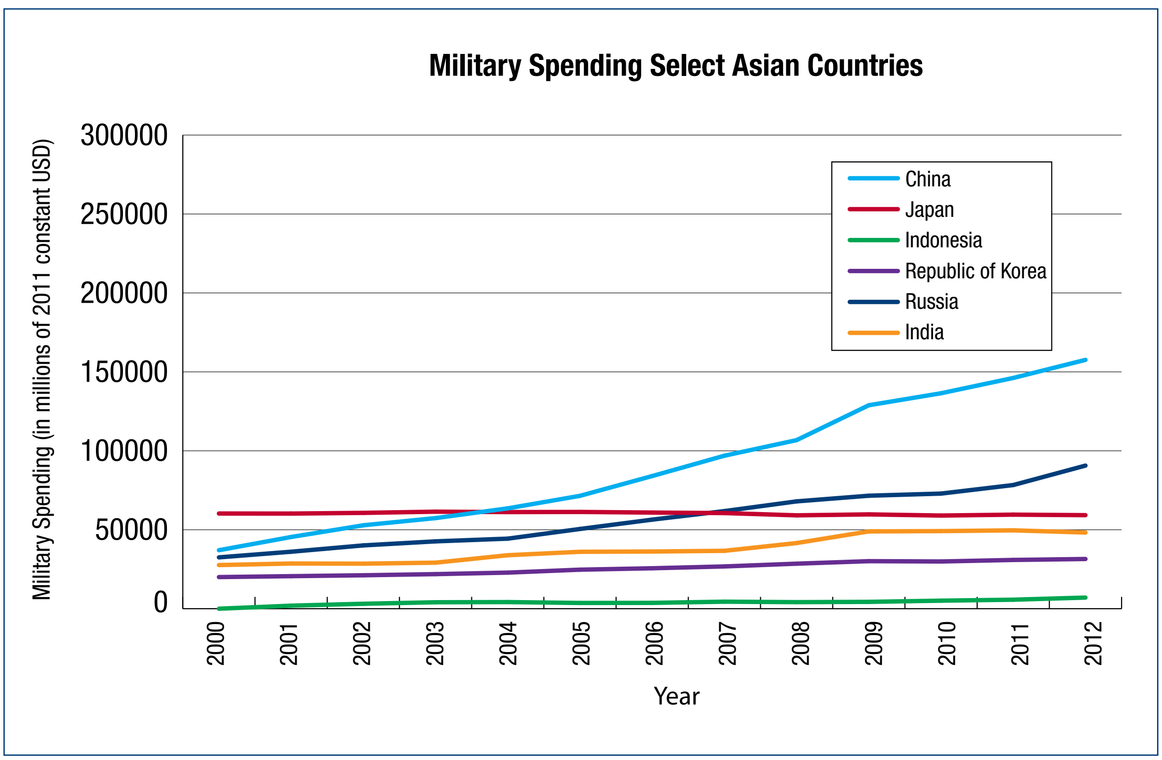
Sources: History: U.S. Energy Information Administration (EIA) / International Energy Statistics database (as off ovember 2012) / www. eia.gov/ies. Projections: EIA/ Annual Energy Outlook 2013



Sources: History: U.S. Energy Information Administration (EIA) Projections: EIA / Generate World Oil Balance Model (2013) application.

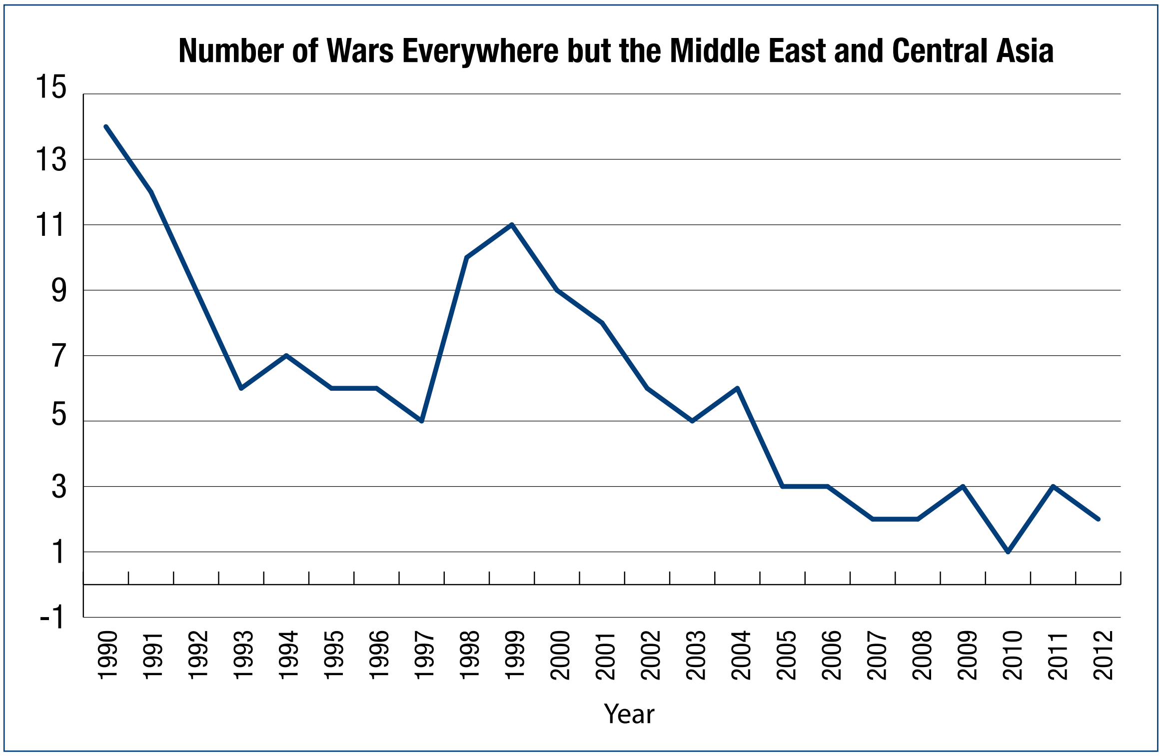
3. Changing trade patterns show increasing trade integration in Asia; but that is not forestalling the rise of military spending and new tensions.

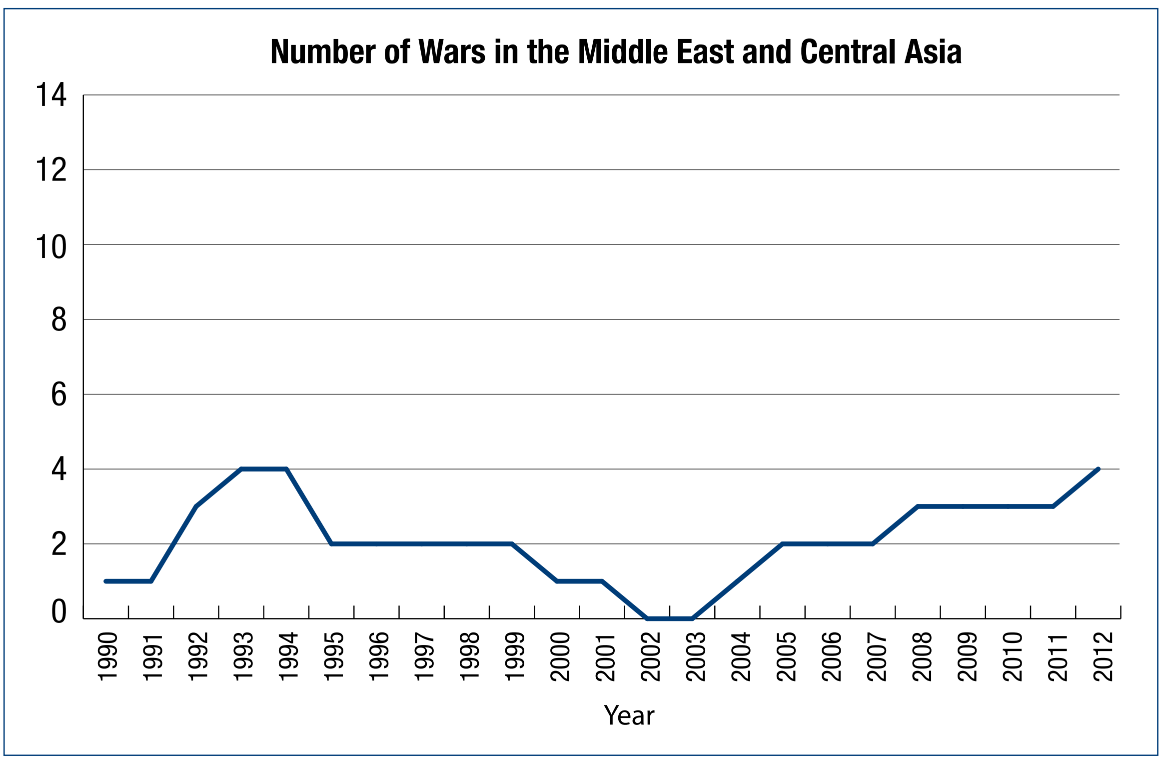
Source: IMF Direction of Trade Statistics database



Information from the Stockholm International Peace Research Institute (SIPRI), www.sipri.org/research/armaments/milex/milex_database

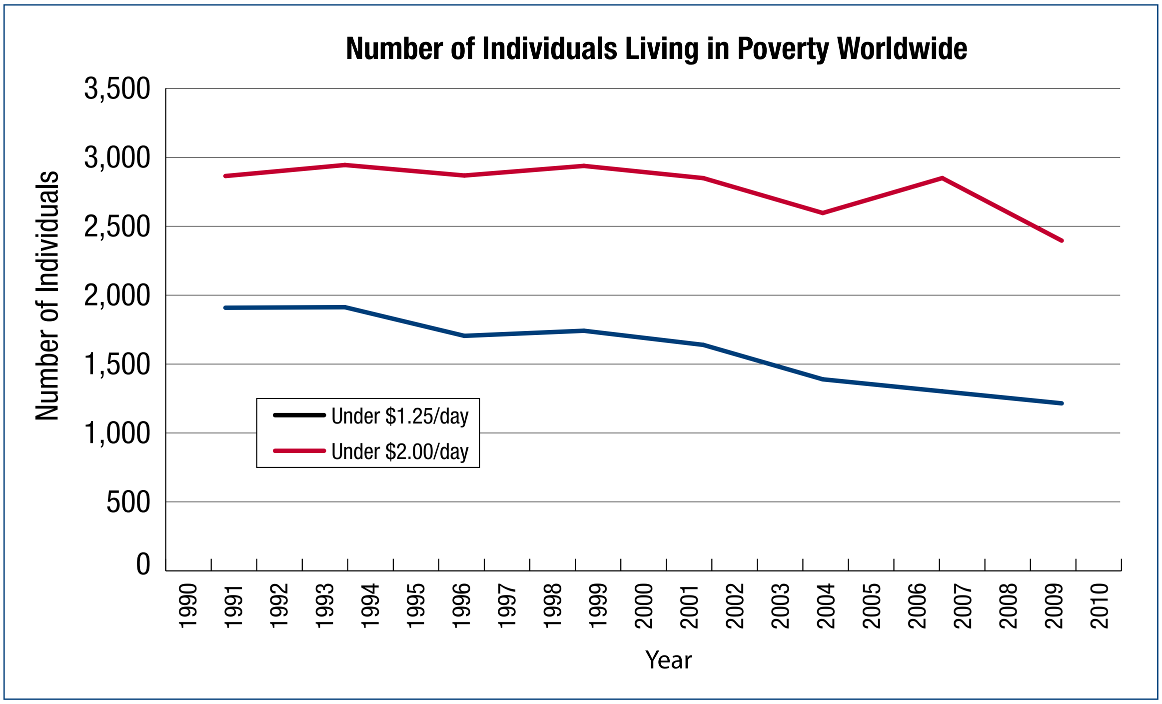
4. The past twenty years have seen a steady decline in the number and severity of wars; but the Middle East is now bucking this trend.





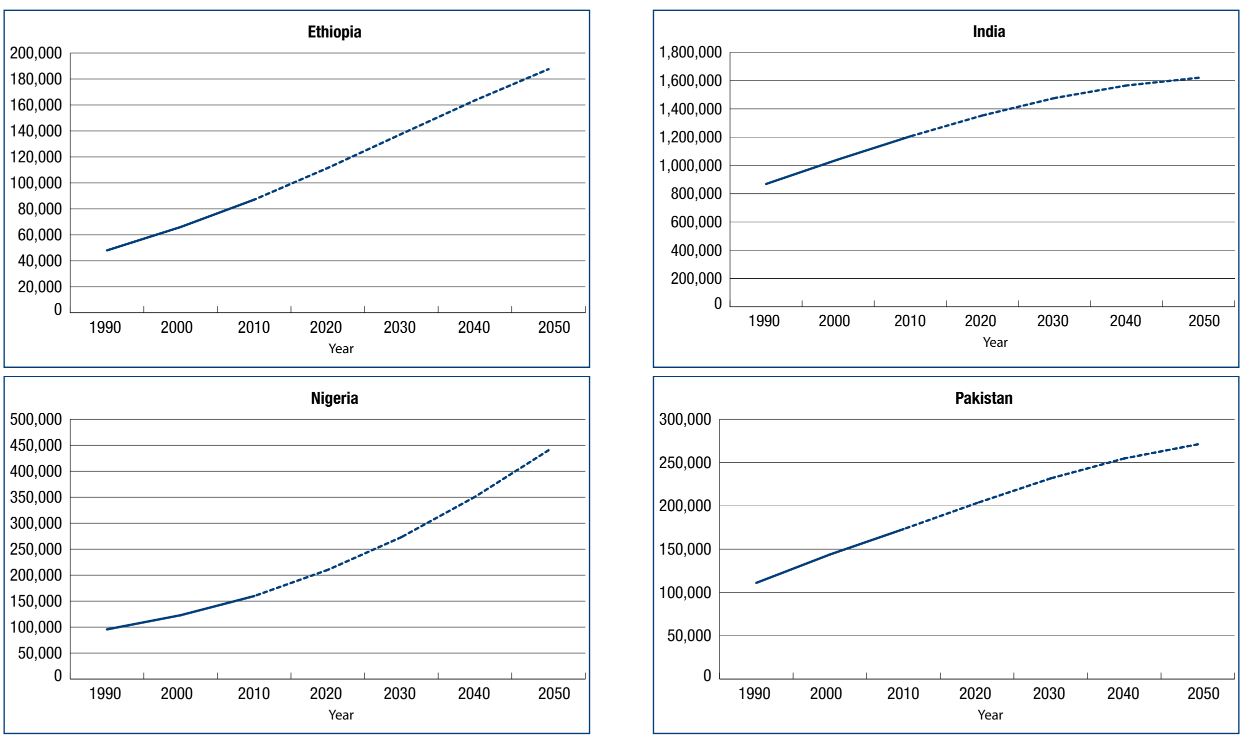
Source: UCDP/PRIO Armed Conflict Dataset, Version 4.0

5. There's been tremendous progress on poverty reduction (largely within the BRICs) and improved human development (globally); but sustained progress could be eroded by rapid population growth.



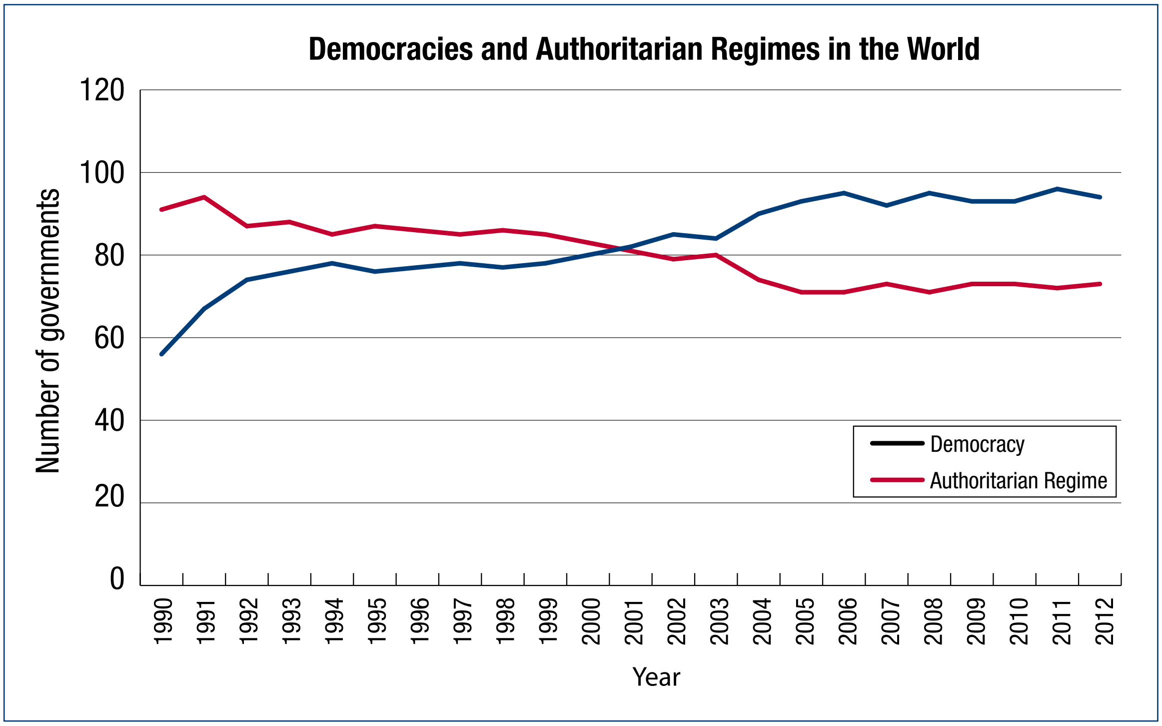
Source: World Bank's PovcalNet

Developing Countries' Projected Population Increases (in thousands)



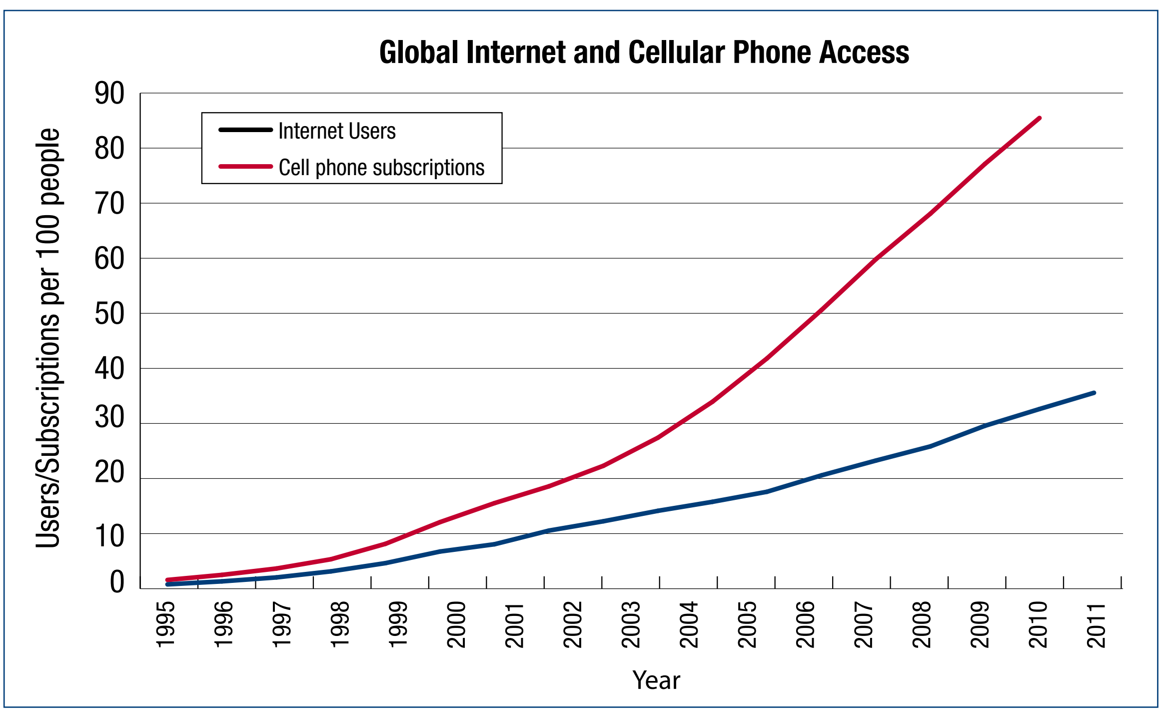
Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2012 Revision, http://esa.un.org/unpd/wpp/index.htm
Forecasts shown are derived from the medium variant

6. The rate of progress in democratic development has slowed; massive spread of citizen access to information portends new changes—whether liberating or complicating remains to be seen.



Source: PolityIV

Polity scores of 6-10 were labelled "democracy" and those below 6 were labelled "authoritarian regime"



Source: World Bank's World Development Indicators

Eleven Characteristics of the International Order

In this section we identify eleven characteristics that are defining the contemporary international order in the economic, security, regional, and transnational realms.

1. The Global Economic Order Survived the Crisis but Fault-Lines Remain

The international financial crisis of 2007–08 was the most severe shock to hit the world economy since the 1930s. By many metrics, for the first few months the crisis was as bad, or worse, than the Great Depression. Unemployment in the United States reached 10 percent and in the eurozone it hit, and stayed at, 12 percent. The global equity loss in 2008 was approximately $50 trillion or 80 percent of global GDP.[3]

In the first phase of the crisis, as Daniel Drezner has argued, international institutions responded quite well to the crisis, particularly when compared with the (disastrous) response in the 1930s.[4] The Western countries immediately turned to the G-20 rather than the G-8 or even the G-7, none of which had existed during the Depression. The G-20 coordinated a crisis response that included emergency liquidity and a massive stimulus. Shortly thereafter, the trend lines improved and it became clear that the world had averted another Great Depression. That the world economy is experiencing a slow recovery should not be a surprise. The recovery from recessions caused by financial crises is nearly always worse than recessions caused by the normal business cycle. By many measures, we are beating the clock when compared with previous crises. But, what is much more worrying is the fact that the underlying causes of the crisis have not been addressed.

When assessing the global economy since the crisis, it is important to distinguish between the institutions and rules that govern the economic order, and the economic order more generally. The first includes organizations like the IMF, the WTO, and the G-20, formal and informal cooperation between industrialized states, and rules like Basel II and Basel III. The second encompasses all of that and much more: the way major states operate in the global economy (including unilaterally), the general principles underlying global economic activity, and patterns that may arise advertently or inadvertently. Thus, financial imbalances, deregulation of the financial sector in the United States and elsewhere, and too-big-to-fail banks are all a part of the order as a whole, even if they are largely outside of the governance structures. This is an important distinction that explains why some eminent analysts believe the global economic order remains fundamentally broken while others believe that the system largely worked post-2008. For instance, one could argue that the financial imbalances in the system as a whole are destabilizing without blaming international institutions for this because the imbalances are largely the result of unilateral decisions taken by some of the major states. Domestic choices are hardly the fault of the IMF or G-20, particularly given their current design and mandate.

It is the order more generally where the real problems lie. As then-University of Chicago Professor and now head of India's Central Bank Raghuram Rajan put it, "There are deep faultlines in the global economy, faultlines that have developed because in an integrated economy and in an integrated world, what is best for the individual actor or institution is not always best for the system."[5] Sometimes the solutions are clear-cut but the political will is lacking. Unfortunately, this does not apply to the post-crisis economic order, where experts disagree profoundly about how to handle existential dangers. Take one of the greatest challenges to a healthy global economy: too big to fail banks. The major banks have grown since the crisis. They are now so large and systemically important that no government would allow them to fail, thus enabling them to engage in more risky behavior. That much is generally agreed upon but what is the solution? Is it to break up the banks and, if so, how would this be achieved? Or, as Lawrence Summers argued, would it be better to insist on "sufficiently high capital, liquidity, loss reserves, and debt that can be bailed in so that firms are impregnable even against a once-in-a-century event."[6]

While the globally integrated economy created enormous prosperity, it has also introduced greater volatility into the system with the Mexico crisis of 1994, the East Asia financial crisis of 1997, and the international financial crisis of 2008, among others. The latter two shocked the global economy to its core. The root causes of these crises were rising oil prices, financial imbalances, badly capitalized banks, large capital flows, and financial innovation and deregulation. All of these remain in place, and there is no reason to believe that they do not continue to function as hairline fractures in the global economy. Through this lens, we are in for a prolonged period of volatility.

The proposition that the modern international economic order is flawed is generally acknowledged in the rest of the world but is still largely ignored in the United States, where the crisis is seen as an accident or a function of avoidable bad decisions in the packaging of sub-prime mortgages. As Jonathan Kirshner wrote, Americans regard the financial crisis as a "black swan," but to the rest of the world it is a "learning moment."[7] The lesson for many outside the United States is that increased volatility and crisis are inevitable consequences of how the order is designed and structured. This has sapped the legitimacy of the American model and has also led countries to hedge, insofar as is practicable, against the risks of the economic order. Thus, we are seeing a degree of re-nationalization of the financial sector in major states, and consideration of restrictions on capital flows. There have also been repeated warnings of hedging against the use of the dollar as the key currency, though in practice we've seen very little of this behavior. More recently, as we shall show in this report, massive energy innovation in the American market is causing something of a corrective to the earlier phase of Chinese triumphalism about its state-capitalist model.

On the other hand, we see continued efforts through the G-20 to resist protectionism (most recently, in the St. Petersburg G-20 Summit in September 2013) and a shared interest in stimulating growth. In the upcoming Australian G-20 process, there's an awareness of the need to deepen financial stability norms, but also to stimulate new growth. That central challenge will continue to be at the heart of the global recovery for some time to come. Over time, though, two bigger challenges loom: building a deeper set of protections against financial instability; and adapting global financial and trade systems to the complex new reality of the top economies having very different structural dimensions and levels of per capita development.

2. EUROPE'S LOST DECADE

In the early stages of the international financial crisis, the then-German finance minister Peer Steinbruck remarked that the crisis was primarily an "American problem" and that "the United States will lose its superpower status in the world financial system. The world financial system will become more multi-polar."[8] Five years later, the current German finance minister, Wolfgang Schauble, warned that Europe faced a revolution that would bring integration to an end unless something could be done about the high levels of unemployment on Europe's periphery. The gap between these statements is illustrative of the surprising turn that the financial crisis took after the fall of Lehman Brothers. It was a crisis that began in the United States. The underlying causes (badly capitalized banks, financial deregulation, and financial imbalances that the United States played an active role in encouraging) and the trigger (subprime mortgages) all had a 'Made in the U.S.A.' stamp. Europe, of course, contributed its share to the construction of a vulnerable international financial system and, even more damningly, failed to take prudent measures to protect European economies from increasing financial volatility. Regardless of causes, the United States survived the crisis and appears better positioned than many other states to return to growth. By contrast, the longer the crisis persisted, the more it affected Europe—not just economically but also by striking at the very heart of the political and economic integration project that defined it for over half a century.

In one way, the euro crisis was amplified by the incompleteness of the European Union. Monetary union without equivalent moves in the financial or fiscal areas created a flood of easy credit and a lack of competitiveness in what is commonly described as Europe's periphery (Portugal, Spain, Ireland, Greece, Cyprus, and Italy). With the notable exception of Greece, the peripheral member states had abided by the rules and were running surpluses on the eve of the crisis. They were, however, massively exposed by private sector debt. The lack of a European-level financial backstop meant that these states had to take responsibility for these massive private sector debts to save their national financial systems. This caused a rapid increase in sovereign debt for these countries after the bubble burst and a severe deterioration of economic conditions. Potential defaults by these states posed a risk to the Eurozone as a whole but it also led to a significant divide about how to proceed. The core countries—led by Germany but also including Finland, Austria, the Netherlands, and others—were willing to provide some relief through the new European Stability Mechanism and below-market rate loans but Germany, as the dominant actor, insisted on strict conditionality and stopped short of anything resembling default or a mutualization of debt. Germany's chosen narrative was that the crisis was a morality tale in which the affected countries were reaping what they sowed. On the periphery, "bailouts" were perceived as a burden on them to bail out German banks that had made risky loans to other private banks. But, the peripheral countries had little leverage and mostly had to accept the terms of the arrangement.

The euro has teetered on the brink of collapse for almost four years now but has avoided it because there's a strong political commitment to maintain the Union—and because no one can figure out how to exit without triggering a massive economic crisis and multiple banking failures. The European Union is the world's largest economic unit, and the Eurozone is its largest component. The United States and the global economy are not, and will not become, immune from Europe's troubles. If the euro were to collapse, economists estimate that it would cause an economic crash that would cost some of its member states 40 percent of their GDP and would result in 10 percent loss of global GDP.[9] Many American banks would be unlikely to survive. China would suffer from an enormous contraction in European demand. Not for nothing did China—as well as India, Brazil, and even Russia—contribute to the IMF's emergency fund for the Euro.

But, while the eurozone remains intact, this should not be confused with success. Many policymakers and experts argued that to survive and prosper the eurozone would have to construct a fiscal and financial union to go alongside monetary union. This would include the mutualization of debt, a robust banking union, substantial fiscal measures to boost demand in the eurozone, and new federal institutions like a European Union finance ministry. But, the last is now off the table, largely because Germany is opposed to it. German opposition stems from a belief that the crisis is manageable, that a great leap forward could be costly for German taxpayers, and that a new treaty may run afoul of ratification troubles. States on the periphery are also hesitant because they are reluctant to hand over even more power to Germany. So, we are stuck with the middle ground—muddling through. This has been something of a catch-all, the policy that's left after a process of elimination.

Muddling through is something of a misnomer because it implies that Europe will get to its destination, albeit in an inefficient manner. The evidence provides no such assurance. Amongst non-German economists there is considerable support for the view that Europe is facing a prolonged period of economic stagnation characterized by low growth, high unemployment on the periphery, and zombie banks. While this stagnation will be most acutely felt on the periphery of Europe, in time it will detrimentally impact upon core countries, including Germany, because it erodes demand for their exports. The greatest threat to Europe's future is probably Europe's broken banking system. More than any other factor, the zombification of Europe's banks is preventing a recovery and causing a protracted and severe stagnation. If it continues, and all indicators are that it will, it will lead to very low growth, further budget cuts (including to defense), and an acute sense of economic crisis through high levels of unemployment, which is currently 12 percent throughout the eurozone but ranges from close to 5 percent in Austria and Germany to over 25 percent in Spain and Greece.

In many ways, Europe's future resembles Japan's long lost decade from 1991 to the mid-2000s. Based on the first four years of the crisis, the European Union as a whole has performed worse than Japan during its lost decade. For instance, from 1991 to 1995 Japan had 1.9 percent growth in real GDP compared to a decline of 0.2 percent for the Eurozone from 2008 to 2012.[10] Unemployment was very low in Japan, never exceeding 5 percent from 1991 to 2001, whereas it is much higher in Europe. It is likely to get worse. This year's balance sheet assessments of the banks could trigger renewed market volatility and a visible sense of crisis. The divide in the European Union—which is essentially becoming a two-class union between the core and periphery—will generate significant political problems of its own as voters rebel against what they perceive as artificial and imposed misery.

3. THE CHANGING PATTERN OF INTERNATIONAL TRADE—THE REST RISES AND THE WEST STAGNATES

Developing and emerging economies (which include 32 Latin American and Caribbean states and 29 developing states in Asia[11]) are increasing their share of international trade and have become a major force in world markets, contributing to the "de-Westernization" of the global economy. An analysis of global trade merchandise patterns since the 1990s demonstrates the emergence of striking patterns.

First, nearly all emerging economies have seen their share of total global imports and exports increase, while advanced economies have fallen as a share of the total. The four largest exporting regions in 1995—the eurozone, non-eurozone developed European countries, the United States, and Japan—have since declined as a share of total exports and now each export less than developing Asia.

Seen from a U.S. perspective, there are two clear trends: the decline of trade with Japan and the rise of trade with both developing Asia (primarily China) and Latin America (primarily Mexico). The United States now imports more from developing and emerging economies than from developed economies. Approximately 45 percent of U.S. exports go to developing markets compared to almost 33 percent in 2000. There's a similar phenomenon vis-à-vis Europe: while in 2000 other advanced economies were clearly the largest trading partner for Europe, today Europe trades more with developing and emerging economies (which includes China) than with other advanced economies.

For Japan, the rapid decline in the importance of trade with the United States and the sustained decline of trade with the euro area contrast with the rapid rise in exports to developing Asia. Comprising around 40 percent of all Japanese exports in 1985, exports to the United States have fallen to slightly over 15 percent of the total. The sharp increase is in exports to developing Asia, primarily in China and ASEAN states. Japan has also seen its trade with the "rest of the West" become eclipsed by emerging and developing economies. While the share of Japanese exports to non-eurozone countries has been in a sustained decline since the early 1990s, the decline of exports to eurozone countries as a share of total Japanese exports began to decline steadily in the early 2000s.

Perhaps even more striking is the fact that emerging and developing economies are finding more of their growth in trade with each other than with the West. While proximity and regional growth, as well as a gradual reduction of trade barriers, may explain the increase for Latin America, the growing importance of developing Asia, and China more specifically, is a universal trend across emerging and developing economies. In 2000 over 80 percent of China's exports went to developed economies. Today that figure is 68 percent, and the share of Asian and Latin America trade is growing as these countries consume more Chinese goods. Patterns are similar for the other major emerging powers: while the advanced country share of Brazil's exports comprised around 55 percent in 2000, by the end of 2011, this share had fallen to around 40 percent. And while the United States accounted for 26% of Brazil's exports in 2001, ten years later it was just 10 percent. Similarly, the United States and Europe accounted for 47 percent of India's total trade in 2001 but a decade later this had fallen to 29%, while the Middle East and North Africa region and developing Asia have supplanted Europe as India's primary trading partners.

In many ways, this is a positive shift because trade is generally a positive sum enterprise. Rising emerging and developing economies mean more markets for American goods and cheaper imports, which contributes to competitiveness and value for consumers. However, it also points to something else, namely the relative lethargy of western economies in the recent decade. This, more than frustration at the Doha round, is perhaps the simplest explanation for what is driving the new strategy for free trade agreements through the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) with the European Union.

TPP and TTIP are potentially the largest Free Trade Agreements (FTAs) in history and are potential game changers. TPP includes twelve countries (Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam). The TPP would build on the Trans-Pacific Strategic Economic Partnership Agreement, which was created in 2006 between Brunei, Chile, New Zealand and Singapore. TPP would account for nearly 40 percent of global GDP and would significantly reduce non-tariff barriers. TTIP is intended to create a comprehensive trade agreement between the United States and the EU, reducing tariff barriers and harmonizing regulations and standards on both sides of the Atlantic. According to the European Commission, the agreement is expected to add at least 0.5% percent to the EU's GDP each year, perhaps more.[12]

There is some concern that these mega FTAs may fall afoul of domestic politics. In the United States, for instance, President Obama still lacks Trade Promotion Authority (TPA) which may make it more difficult to successfully conclude negotiations. Other countries, particularly Japan and France, have their own difficulties. Nevertheless, the fact that these two mega FTAs have come this far is a sign of real progress on the trade front, coming as it does after a disappointing decade of multilateral talks.

The push for mega FTAs may be already yielding results. Members of the WTO who are not in TPP or TTIP have begun to recognize that if the WTO machinery doesn't begin to function better, the largest members will conclude regional deals that will leave them out. It's thus probably not coincidental that in Bali in December 2013, after a decade of failure, there was finally a breakthrough in the Doha round of WTO talks. Developing and developed countries had been at loggerheads over agricultural subsidies and other issues but in Bali they put these aside and agreed a "trade facilitation" package that could boost global output by as much as $1 trillion. The Bali deal is incomplete and modest, but it is a first step.

The data cited in this section is drawn from an analysis conducted by Mark Fischer. This analysis is posted on www.brookings.edu/internationalorder.

4. BUT, THERE'S TROUBLE ON THE HORIZON FOR THE BRICS

The BRIC countries (Brazil, Russia, India and China) have been ubiquitous in discussions of global economic growth and the North-South/West-East shift of economic power over the last decade. Even as most developed economies in North America, Europe and Northeast Asia struggled to regain their footing after the 2008 international financial crisis, major emerging markets quickly bounced back and seemed even more deserving of their long-proclaimed status as the engines of future global economic growth. The now annual BRICS Summit has become a symbol of the challenge to Western dominance of the international order.

But confidence in the BRICs' near-term economic future changed in 2011, as the aftershocks of the global financial crisis seemed to hit the BRICs more profoundly than the initial crisis. Weak demand in the United States and Europe hurt China and India while lower commodity prices slashed Russian and Brazilian export revenues. All of these countries are particularly vulnerable to the "taper" by the Federal Reserve, which is expected to continue this year. And, even if the international environment were benign, some are running into middle income trap problems—that is, they're confronting the fact that compared to the political and economic reforms necessary to move from low to middle income, the reforms necessary to vault form middle to high income status are far, far harder—especially at a time of slower overall global growth.

Brazil's growth has declined fastest; in 2012 its GDP grew at only 0.9% after a strong decade. The country's central bank and independent economists have steadily revised down 2013 growth estimates as economic weaknesses are beginning to appear structural. India faced similar challenges: from an average of 7.7% GDP growth between 2002 and 2011, India's growth rates over the past two years fell sharply—to 3.2% in 2012 and (projected) 4.7% for 2013. There was a growing sense of panic about the Indian economy, driven by high inflation, high fiscal deficits, a failure to design and implement structural reform, and currency volatility. In Russia: from 1999 to 2008, it jumped from being the world's 22nd largest economy to the 8th largest—but this was after a massive contraction in its economy that accompanied the end of the Soviet Union (when it was the 2nd largest economy in the world). Driven largely by high oil and gas prices, as well as regulatory and tax reforms, Russia experienced nearly a decade of rapid economic expansion. The 2008 financial crisis took a heavy toll on the Russian economy however as credit markets froze and foreign investment in Russia slowed drastically. The World Bank has cut growth estimates for 2013 to 1.3% as poor investment, low domestic consumption and weak commodities demand continue to take their toll on the economy, and Russia is now forecasting 2.5% average annual GDP growth from 2014 to 2030.[13]

China, so far, is holding on to better growth rates. China is by far the largest economy in the group and has consistently maintained the highest growth rates among the four, not only in the last decade by over the last 30 years. Massive stimulus by the Chinese government was able to stave off the effects of the 2008 global financial crisis for a few years, and China appeared poised to lead the world out of recession and power economic growth for years to come in the face of economic weakness in the U.S. and Europe. But like the other BRICs countries, slowing growth could not be outrun forever. By late 2012 it was clear that China could not continue to rise at the meteoric rate it had throughout the 2000s and a slower (if still very high) rate of growth would become the norm. China is on pace to hit its 7.5% growth target for 2013—the lowest level of growth in more than two decades—and there are warning signs emerging about its debt levels that could lead to a deeper slowdown. What sets China apart from its BRIC contemporaries, aside from a still relatively high growth rate, is that many economists see this slowdown as a natural sign of a maturing economy that will rely more on domestic consumption and less on exports propelled by massive state investment. Still, even China needs to tackle deep, structural reforms. At its Third Plenum the Chinese Communist Party decided to adopt a massive new reform package, designed to address persistent weaknesses in the

Chinese economy and allow China the maneuverability needed to reach developed status. Entrenched interests within the government bureaucracy, the Communist Party, and private industry are certain to make these reforms difficult and it remains to be seen if the new Chinese leadership has the political will needed to enact such wide-reaching changes.

As growth has slowed in the BRICs, political dissatisfaction has risen. Brazil was racked by major demonstrations in all of its major cities in June 2013. The demonstrators were initially protesting against increased bus and metro fares but soon expanded their list of grievances to include the country's high cost of living, poor public services, wasteful government spending on the 2014 World Cup and 2016 Rio Olympics, and general corruption. India's slowdown has similarly been accompanied by a middle-class protest movement that is fueled by persistent corruption, stagnant politics, and unreliable services, especially the frequently failing power sector which has subjected large swathes of northern India to regular rolling blackouts.

As the Russian economy has faltered, many Russians, especially in the growing urban middle class, have become increasingly disenchanted with the country's authoritarian leadership and the centralization of power around Putin personally. The much disputed 2011 Russian legislative elections produced a protest movement that was reinvigorated by the 2012 presidential election and 2013 Moscow mayoral election. China, again, has escaped from the worst of this, and has benefited from relative stability and cohesion with no analogous movement to the major protests that have gripped the other BRICs in recent months and years—but this is in part due to the Chinese security services strict control over the dissemination of information within China. Even then, China still experiences significant protests on a range of issues, including corruption and the environment.

Chinese resilience aside, in addition to their respective economic woes, the BRICs have been hindered by their inability to find coherency as bloc. Efforts to create a BRICs Bank to rival the World Bank and other Western-dominated development schemes like the Asian Development Bank and the Inter-American Development Bank stumbled badly at the 5th annual BRICS summit in Durban South Africa when the countries couldn't agree on $50 billion dollar initial capital investment. Disagreements between the three democratic and two authoritarian member countries over issues like the Syrian Civil War continue to hamper cooperation beyond a vague commitment to development and frustration with Western financial institutions. They've failed to make serious headway on currency cooperation, failed to come to an agreement on a BRICS candidate to lead the IMF or the World Bank; and are deeply divided over Security Council reform. And China and India continue to cast a wary eye at each other over their contested border: in late 2013, India announced the creation of an additional 80,000 strong brigade designed to buttress its defenses along the India-China border.

In short, there's brewing economic trouble in the BRICs, a grouping which already rests on shallow foundations. A strong recovery in the United States and Japan and high growth among a second tier of emerging economies including Turkey, Vietnam, Poland, and Indonesia could seriously undermine the relevance of the BRICs as the perceived strategic bloc of the future.

5. THE RETURN OF GEOPOLITICAL COMPETITION AND THE RISK OF GREAT POWER CONFLICT

From 1991 until recently, the world has experienced a stable great power peace. While war was not inconceivable between the major powers, it was highly unlikely. The United States and China had a couple of tense moments—over Taiwan in 1996 and the Hainan Island incident in 2001—but these were resolved quickly. The United States and Russia never developed the close relationship that some hoped for but they stopped competing for influence, in large part because Russia was so far behind. Whatever the cause, relations between the major powers until 2008 were more peaceful and less prone to security competition than any other period since the Concert of Europe era.

This period of stability shows signs of ending. Recently, there has been an increase in the level of security competition between major powers. In some cases, great power conflict is more thinkable than at any time since the Cold War. The most dramatic example of the new era of major power security competition is between China and Japan, the world's second and third largest economies. Relations have steadily declined, and there is now a significant risk of a military clash, perhaps even a limited war, over the Senkaku/ Diayou islands. China's announcement of an Air Defense Identification Zone over the South China Sea demonstrates the risk involved. Some observers say that any conflict over the disputed islands would be limited and contained. Even if that were true—and no one can confidently predict the course of war once it starts—the outcome would likely inject poison into the heart of Asian geopolitics for decades to come, thus storing up much more trouble down the road.

Major power security competition is not confined to China and Japan. The United States and China are competing for influence in Southeast Asia. Militarily, the United States is trying to ensure it can speedily and effectively project power into the region, while China is seeking to develop the capabilities to deny the United States access (or, perhaps more accurately, to deny the United States the ability to impede Chinese access), thus undermining its alliances and various strategic commitments. The naval standoff in December 2013 between a Chinese ship and the *USS Cowpens* illustrates the risks. Meanwhile, China and India are each engaged in a naval buildup driven by long-term concerns about competing for access to scarce resources, which is complicated by land disputes over their mountainous border region.

Outside of Asia, geopolitical tensions are rising even if they have less of a security dimension than in previous eras. Russia is more authoritarian and more confrontational with the West than at any time since the Cold War. Russia is actively arming the Syrian regime and has helped prevent outside intervention to facilitate Assad's departure. In Europe, Russia is looking to frustrate EU efforts to conclude partnership agreements with Armenia, Ukraine, and Moldova, with notable recent success in Ukraine. On the other hand, there's substantial cooperation between the United States and Russia, for example in Russian facilitation of the NATO presence in Afghanistan would have been unimaginable during the Cold War.

Geopolitical tensions have even spread to democracies. South Korea and Japan have had a very troubled past but they made significant progress toward improving their relationship in 2010, which included progress on some historical issues, a currency swap agreement, discussions on an FTA, and greater security cooperation. Whatever progress was made unraveled in 2012 and 2013. Disputes over historical issues—so-called "comfort women," slave labor, and visits by senior Japanese officials, including Prime Minister Abe, to Yasukuni Shrine—and the sovereignty of the Dokdo islands have plunged relations into the deep freeze. The two countries are now barely on speaking terms. While there's no risk of conflict between Korea and Japan, the effect of this dispute has been to drive a wedge between two of America's closest allies, and raise questions about Japan's commitment to South Korean security. It is possible, though, that China's moves with its air defense zone have reversed some of this tension, reminding Korea of the merits of the U.S. strategic alliance.

Why are we seeing the revival of geopolitical competition and why is it most prevalent in Asia? First, unresolved historical tensions are preventing a deepening of cooperation between the affected states and provide fertile ground for populist nationalism. In East Asia, differences over how Japan has handled its World War II past have increased anti-Japanese sentiment in China and South Korea while also prompting a backlash in Japan. Second, the presence of territorial disputes, which have a zero sum quality to them, provides a focal point for security rivalry and a venue for a crisis that could inadvertently spiral out of control. East Asia is replete with such disputes, particularly at sea. Fortunately, there are fewer elsewhere.

Third, states are competing for access to scarce resources, particularly energy. As Asian economies become more dependent upon far away sources of energy, especially in the Middle East, they have an incentive to build the naval capabilities to secure these resources. Finally, this all occurs against the backdrop of a perceived power transition whereby China is rising at the perceived expense of its neighbors. This dynamic empowers nationalists in China who want to claim what they see as rightfully theirs and nationalists in the rest of Asia who want to stand up to China before it is too late.

The return of geopolitical competition has the potential to transform the international order. If it worsens it may make collective action on human rights and the responsibility to protect more difficult because the interests of the major powers will collide more than when they are not in competition with each other. It may make cooperation more difficult, although not impossible, on energy, economic crises, and even responses to environmental catastrophes—although so far such cooperation endures. Even as tensions in the South and East China Sea have risen, for example, the United States and China have deepened their cooperation on climate change; and it was striking that even during the heat of the crisis over the air defense zone, China, Japan, and South Korea inked an agreement on cooperation on nuclear safety. Above all, geopolitical competition introduces the possibility of real regional security crises between major powers.

One thing it does not do is usher in a Cold War-style global struggle for supremacy. All countries in Asia desire deep economic ties with China while the United States and China are also highly interdependent. These are powerful forces for close engagement. But that should not induce complacency because the risks that exist are real enough. Investing in tools for crisis management and de-escalation, and mitigating the deleterious effects of geopolitical competition will be crucial challenges for the United States and the international community.

6. TROUBLE AT SEA

Increasing competition at sea is a rapidly evolving and generally disconcerting trend in the international order. The intensification of maritime territorial disputes in Asia, driven by a desire to control strategic sea lanes and exploit potentially vast hydrocarbon reserves as well as rising nationalism and historical animosity, risks pulling several states into open conflict. This has been exacerbated by a general buildup in naval power as emerging powers seek to project their influence in their regions. The bad news has been somewhat balanced by more positive trends—cooperation on the opening up of the Arctic and on anti-piracy efforts in the Gulf of Aden.

The United Nations Convention on the Law of the Sea has been in effect for nearly twenty years. All major maritime powers have signed the agreement; the United States has not ratified it but it abides by its provisions in practice. But even so, half of all international maritime boundaries remain undefined and interpretations of the convention's provisions vary, sometimes drastically, from country to country.[14] Various competing maritime territorial claims, many dating from before World War II, have taken on increased urgency in recent years as technological innovation and resource scarcity have made the exploitation of potentially vast deep-sea resource deposits both a possibility and a virtual necessity. In the Arctic, shrinking sea ice has created new routes for international shipping while opening up once inaccessible regions to hydrocarbon exploration.

In the East China Sea and South China Sea, countries are scrambling to assert their claims to long ignored reefs, rocks and islets in an effort to secure expanded control over major shipping lanes and access to potentially enormous resource wealth. The competing claims also reflect a desire by countries in the region to reclaim historical territory and affirm their influence. The disputes over the Senkaku/Diaoyu islands, the Dokdo/Takeshima rocks, and the Spratly and Paracel islands and other contested areas have ratcheted up tensions as fishing trawlers, scientific vessels, coast guard cutters, and naval ships increasingly clash and spar in the waters around the disputed territory. Rising nationalism—particularly in China, Japan, Vietnam, and the Philippines—has added a domestic dimension to the various disputes, while China's increasingly assertive tactics in support of its claims have driven many Asia-Pacific countries toward greater defense cooperation with one another as well as with the United States, the traditional security guarantor in the region. This raises the specter that a minor stand-off over some uninhabited rocks could spiral out of control, leading to a major great-power conflict—perhaps the most serious since the Second World War.

Developments on the Arctic have been much more encouraging. Despite the Arctic's dangerous mix of great power competition, unresolved territorial disputes, and increasingly accessible oil and gas reserves, there has to date been little actual discord. Unlike in the South China Sea, which faces a similar mix of uncharted energy resources and contested boundaries, Arctic states have pledged to solve disputes in an orderly process, managed the peaceful resolution of a major territorial conflict, and concluded a binding agreement to cooperate on search and rescue. More important still, the Arctic states have agreed to use the dispute resolution mechanisms established by the Law of the Sea—despite the fact the United States, has not ratified that treaty.

Elsewhere, Iran's 2008 threat to close the Strait of Hormuz in retaliation for a U.S. or Israeli strike against its nuclear program (repeated in 2011 and 2012) reignited a debate about the vulnerabilities of the world's major maritime "choke points" and the responsibility of the United States and other countries to keep such waterways open to commerce. There is also a longer-term question about whether the United States should continue to bear the burden for protecting Middle East petroleum exports that now disproportionately flow to China and India rather than to the United States and Europe, as in the past. During the 2008 stand-off China vocally admonished Iran and invoked its core security interest in free passage through the Strait, while India has begun openly considering its own interests in patrolling the region. Neither country is entirely comfortable leaving access to the world's most strategic resource entirely in the hands of the U.S. military, even while recognizing that small states and substate actors pose a serious threat to their energy supplies and therefore their economic vitality. For the foreseeable future, though, only the United States has the naval power to sustain a formidable presence in the Gulf.

Over the past ten years, ever more numerous and more daring raids by pirates operating in the Gulf of Aden and off the Horn of Africa have been a bane to commerce in some of the world's most heavily traversed shipping lanes, the main conduits for the transportation of goods from Asia to Europe and of energy from the Middle East to Asia. The fight against piracy and maritime terror has ironically become one of the bright spots in maritime security as there has been unprecedented cooperation and coordination between international naval forces in combating (mostly Somali) pirates whose attacks appear indifferent to national flags. That this cooperation encompasses the navies of China, India, and Russia operating under NATO coordination is particularly striking.

Even as gains have been made in the western Indian Ocean, piracy is creeping up in the hydrocarbon-rich Gulf of Guinea, where politically driven pirate groups operate in a far more violent manner than their East African counterparts. Piracy also persists in the strategically vital Strait of Malacca, an area where anti-piracy operations were almost exclusively unilateral until recently, but coordination between the security forces of Singapore, Malaysia, and Indonesia has helped to push pirates out of the Strait. Unfortunately the pirates have shifted their operations into the Indonesian archipelago, an area that remains rife with piracy and where attacks are on the rise. Efforts to stitch together a more comprehensive and effective counter-piracy regime at the global level are in their infancy.

Thus, there have been some advances on maritime security—particularly in the realm of antipiracy and on the opening up of the Arctic—but there is reason for serious concern about the potential for disputes to spiral into conflict in Asia. In Asia, the best that can be hoped for in the short term is a code of conduct and responsible behavior. Placing maritime security in Asia in a larger global context—with a view to fostering cooperative behavior and rules of the road—could help mitigate the risks of conflict. Whether the risks can be mitigated or not will go a long way toward determining whether Asia will be stable and peaceful or volatile and conflict prone.

7. THE USE OF FORCE AND NEW RULES OF WAR

The last decade has seen a number of technological advances redefining the ways that we work, learn, and communicate. But some advances are also redefining the way in which states go to war. Advances in robotics now allow even some developing countries to field sophisticated, semiautonomous weapons of war, including armed and unarmed military vehicles capable of surveillance and offensive strikes. On the software side, viruses and malware crafted by states now have the capability to attack critical infrastructure.

The United States has been at the forefront of these technological advances, pioneering both flying drones and cyber strikes. The U.S. military now possesses more than 8,000 unmanned aircraft conducting 500 strike missions per year, and the U.S. Air Force's drone pilots now number 1,300—nearly ten percent of all USAF aviators.[15] The United States Cyber Command has recently become operational, and alongside the collocated NSA and other military cyber initiatives, the United States now spends billions of dollars on information warfare. But these advances are not limited to the United States. As the technology proliferates it also becomes cheaper and more accessible. In April 2013, Israel, for the second time in six months, shot down a drone it believed to have been sent by Hezbollah on an intelligence-gathering mission. Cyber-attacks originating from China and Russia (often of the denial-of-service type, but some much more sophisticated) bombard the United States every day, buffeting media and private business alongside military and government targets. Even the *New York Times* has fallen victim to alleged Chinese military hacking.

As the United States bears the principal responsibility for the introduction of these weapons into modern warfare, for much of the rest of the world and many in the United States, it also bears the responsibility for shaping the discourse and establishing the norms which may one day lead to a governance regime regulating the use of such weapons. For a long time (far longer than seems reasonable, given the ubiquitous presence of drone strikes in the news) the crafting of a doctrine of use for cyber and drone warfare was hampered by the fact that the U.S. government generally refused to acknowledge the existence of its programs. Even today, the ongoing CIA drone campaigns in Pakistan and Yemen, and American-Israeli responsibility for the Stuxnet virus that attacked and hampered Iran's uranium enrichment program, remain officially classified. Both have been widely reported in the press and acknowledged either explicitly or tacitly by Obama administration officials and the President himself. As these weapons move out of the darkness of covert military operations and into the light of modern warfare, opportunities to discuss reasonable controls and doctrines of use present themselves.

In a May 2013 speech at the National Defense University, President Obama announced that his administration was redefining the way that unmanned vehicles would be used in attacking terrorist targets. While defending its effectiveness and legality, Obama stated that the drone program would be "heavily constrained" and shifted away from the CIA's portfolio, with the Defense Department taking over primary responsibility for executing drone strikes. Obama further stated that new rules were being imposed upon the program, including limiting potential targets to those that: pose an imminent threat to the United States, cannot be captured by U.S. or other government forces, or are members of Al-Qaeda or an affiliated group. The president also said there must be "near-certainty that no civilians will be killed or injured" in a drone strike. Obama stated that the drone campaign is "bound by consultations with partners, and respect for state sovereignty," but he did not specify the degree to which host or target countries have the opportunity or ability to grant or withhold consent for American strikes.[16]

Obama's speech was a step in the right direction and reflected a willingness to impose some limits on the

U.S. ability to utilize its technological advantages in order that the same prohibitions might apply to America's rivals. While the speech left many questions unanswered (Does the United States require specific permission to strike a target within another country's borders, or even a more general consent agreement? What constitutes an "imminent threat"? When can drones be used against other states?), it begins to shape the contours of where the offensive use of unmanned weapons of war will be considered appropriate and legitimate.

If the United States truly hopes to establish lasting norms, the administration will need to flesh out and formalize the rules governing drone strikes and present them in a more transparent fashion. Encouraging partners and allies to adopt similar strictures—particularly those, like the United Kingdom and Israel, that possess comparable offensive hardware—would go a long way toward turning an American doctrine of drone warfare into globalized rules of the road. A similar speech or speeches on cyber weapons is still needed (and is likely sometime off), and convincing countries like China, Russia, and Iran to sign onto Western-defined restrictions before they even possess equivalent technology will be a nearly impossible sell. But the President of the United States has begun to tie his own hands, and likely those of his successors as well. That, alongside a growing awareness of and backlash against China's offensive cyber activities, is worth noting as a positive trend.

The ideas expressed in this section are drawn in part from a memo entitled "An Obama Doctrine on New Rules of War" by Dr. Peter W. Singer and Dr. Thomas Wright, which appeared in the Brookings briefing book Big Bets & Black Swans, published in January 2013.

8. HUMAN SECURITY IMPROVING EVERYWHERE EXCEPT THE MIDDLE EAST

No region of the world is entirely free of conflict; but over the past twenty years, almost every region of the world has seen the number of conflicts shrink, the intensity of conflict drop, and the deaths associated from war decline. And while that's happened, poverty has declined too, dramatically, while human development has risen. Every region, that is, except the Middle East—where conflict has risen recently and seriously, and risks rising farther still.

It matters to see today's conflicts in perspective—not just how many conflicts are there today, and at what degree of intensity, but how does this compare to the recent past? Here, for several years now, the story line has been a good one—and like many good news stories has gotten less attention than it deserves. The simple version of the story line is this: from a peak in 1992, the total number of civil wars in the world, the percentage of states in civil war, and the intensity (the death toll) of those wars declined steadily.[17] Look region by region and the overall story is the same, though the impact was staggered: Latin America, the Middle East and Asia and Europe had declining levels of internal war already by the mid-1990s, while conflicts in Africa stayed steady or grew slightly. Then in the 2000s, Africa followed suit. Between 1992 and 2012 major conflicts—those involving more than 1000 battle deaths per year—declined steadily and substantially.[18] Minor conflicts—those involving a mere 25 battle deaths a year—also declined.[19]

It is arguable, too, that the international responsiveness to civil war and humanitarian crisis has improved. Events in the Central African Republic drew comparisons to events in Rwanda almost twenty years earlier. But in the Rwanda case, a UN peacekeeping presence already on the ground when genocidal violence broke out *withdrew* in the face of the fighting, which began in April 1994. An estimated 800,000 people were killed before a French military contingent deployed into western Rwanda in a late and limited bid to halt the killings. In the CAR, by contrast, international estimates so far are of roughly 1000 people killed.[20] The real number is surely substantially higher, as access to parts of the country has been limited. But it was a matter of days, not months, before a French military contingent was deployed in to help stabilize the situation. In Rwanda, the U.S. military refused to have its equipment used by potential African troop contributors to a UN force; in the CAR, the U.S. air force is flying

African troop contributors in to rapidly reinforce an African Union mission there.[21] After a short-lived surge in the mid-1990s, UN peacekeeping levels fell to around 20,000 by the end of the 1990s. Then they grew steadily through the early 2000s to reach a level above 100,000, and have stayed above that level since.[22] NATO peacekeeping levels were even higher, though concentrated in Afghanistan.

And even when we contemplate the situation in CAR, South Sudan, Somalia, Mali, the DR Congo, we have to remember that all of these states were in conflict of varying levels of intensity (often higher) throughout the 1990s and 2000s, but so were many other states besides them. States from Rwanda and Burundi to Liberia and Sierra Leone to Guinea to Algeria to Mozambique and Angola—to Philippines and Columbia—were also at war and many of these states now are at relative peace. That's after long wars that generated extraordinary death tolls—an estimated 1,000,000 dead in Angola, an estimated 2,000,000 dead in Sudan's long war, and estimates that range wildly but are not less than massive in the D.R. Congo's decade long war, and so on.

Of course, this doesn't mean that no conflicts are occurring; they are, in every region. Political crisis in Thailand is brewing again as we write, and there's a risk of genuine conflict there. Organized crime is also a growing challenge. But across Asia, levels of war are well down, and the bad news from Thailand is offset by the end of the world's longest civil war in Myanmar, the end of separatist and terrorist and government violence (at least for now) in Sri Lanka, and the end of a brutal civil war in Nepal. In Europe, Ukraine faces serious turmoil, perhaps a crisis, but it's unlikely that events there will rival the brutal eight year long civil wars in what used to be Yugoslavia, with estimates of death tolls in the 130,000-200,000 range.

The region that has begun to defy this positive global trend is the Middle East. Starting in the late 2000s, the number of conflicts in the Middle East began to tick upwards, and that trend has continued.[23] The brutal civil war in the Syria has already caused 80,000+ military deaths and upwards of 40,000 civilian deaths. Of course, the crises in the Middle East are not without a political logic; while it would be hard to find a moral upside to Rwanda's genocidal violence in 1994 or Somalia's anarchic violence of much of the past two decades, the same cannot be said for the uprisings in North Africa and the Middle East, whose originating impulse, at least in part, was overthrowing repressive regimes. Libya now faces internal strife and the risk of worse, but Libya under Col. Qaddafi was no bastion of stability, human rights or development. An eventual judgment on what this period has meant for human security will depend substantially on the eventual contours of governments across the Arab world—a process that will take years, perhaps a decade or more, to sort out. But in the meantime, there's a risk of serious deterioration, including as violence spills over from Syria to Iraq (which saw its worth death tolls in several years in 2014). The risk of regional conflict in the Middle East is real, and would carry major human as well as strategic consequences. Already the refugee outflow from Syria is among the most severe ever witnessed.

Human security is about more than freedom from violence. And when we look more broadly we see more good news. Over the past fifteen years, we've seen dramatic reductions in levels of poverty worldwide: in 1990, 64.6% of the population lived under \$2/day. Today, that number is down to 41%.[24] Much of this is attributable to the economic rise of China, and to a lesser degree India, Brazil, Indonesia, South Africa, Mexico and other emerging markets. Remarkably, during the period between 2000 and the onset of the global financial crisis *every* developing country in the world, except those in major conflict, grew its GDP. And even where there's been little to no growth, living conditions have improved substantially. Even the sharpest critics of aid concede that it has likely contributed to the following: life expectancy in poor countries has risen from fifty-three years to sixty-one; infant mortality rates have declined dramatically (from 104 deaths per 1000 to 56 deaths per 1000); both primary and secondary school enrollment has skyrocketed;[25] and access to water and in Africa (through most of the past four decades the worst performing continent on many measures) sanitation went from 20% of the population to 60%.[26]

Africa is now home to five of the ten fastest growing economies in the world, and across the continent boasts as many middle class consumers as China.[27] There's a raging debate about how much of this is attributable to aid, how much to emerging market growth, how much to the declining levels of war—but the point is, all of these are moving in the same, positive direction. And serious improvements in living conditions portend even better growth results in the coming period.

There's also a fierce debate about whether these improved human development conditions are related to a further development (and in which direction)—that is, growing levels of political freedom. There, the trend follows roughly the inverse pattern as civil wars—substantial improvements through the 1990s and 2000s, but now with rates of improvement flattening out. The number of electoral democracies remains stable after a period of growth. Additionally, while the percent of democracies that are identified as full democracies increased steadily from the early 1990s through 2003, the numbers now are more varied and, overall, flat.[28] Civil liberties ratings have dipped since 2001, and—though the number of democracies has increased—ratings of political rights have remained stagnant.[29]

Though there's no certainty to this, research suggests that improving human security in the 1990s and 2000s was a function of three things: emerging markets growth, especially in the 2000s; the huge explosion in international efforts to mitigate and quell civil war; and, to some modest degree, aid flows. The central question becomes this: has enough been accomplished that improvements will be sustained if we now see slower growth in emerging markets? And will cooperation on development and combating civil wars continue even if great power competition rises? The early evidence is mixed—while the great powers are blocking each other in Syria and have little interest in getting involved or re-involved in Iraq, they're actively cooperating on conflicts as diverse as Mali, Sudan, the D.R. Congo, and Timor Leste. As the emerging powers have broader interests, they're taking on greater roles on development and international peacekeeping—a Brazilian force commander led the UN's big push against Congolese rebels in the DRC in fall 2013, while China contributed its first combat troops to a UN peacekeeping operation in Mali in the same period. (India has been the backbone of UN peacekeeping for decades, a role it continues despite the fact that it now loses rather than makes money on peacekeeping participation.) But if geopolitical tensions take a serious turn for the worse, some of this may be in jeopardy. There's a lot at stake.

9. THE RESPONSIBILITY TO PROTECT HANGS IN THE BALANCE

One of the most important developments in the evolution of the international order since 2008 has been with respect to the Responsibility to Protect (R2P), which was approved by world leaders at the United Nations in 2005. R2P rests on three pillars: 1) every state has a duty to protect its people from genocide, war crimes, ethnic cleansing, and crimes against humanity, 2) the international community has a commitment to assist states in fulfilling their responsibilities, and 3) if states cannot or will not fulfill their responsibility, the international community has an obligation to take remedial action.

R2P is now eight years old. Understandably and justifiably, much of the public focus around it is on the failure of the international community to prevent or stop horrific mass killings in Syria. By some estimates, over 100,000 people have died, and millions have been forced from their homes, and there is no end in sight. The United Nations is deadlocked on whether and how to intervene, although even if it were not it is unlikely that the United States or a combination of states would undertake action with a reasonable prospect of ending the killing. Syria is extremely important and does highlight significant divisions in the international community on how to respond to mass killings.

It is also necessary to place the question of intervention in a broader context. There have been successes and failures on R2P in recent times. There are also a number of outstanding questions, which stem more from the successes than the failures. Let's start with a look at the balance sheet. In addition to Syria, the international community has been slow to react to mounting risks and casualties in the Central African Republic, and efforts in Sudan have fallen short of what is required.

However, there are also some successes. While the third pillar of R2P attracts most of the press attention, the first two pillars are at least as important. Effective diplomacy helped create the conditions necessary to avoid violence following the disputed 2013 Kenyan elections, such as what had hit that country in 2007. The international community mobilized to stop killing and displacement of civilians in Cote d'Ivoire by forces loyal to incumbent president Laurent Gbagbo after he lost the December 2010 election; notably, given divisions over Libya, the Security Council adopted this Responsibility to Protect position unanimously, with positive votes cast by Brazil, China, India, Russia, and South Africa. This action authorized a combination of sanctions and airstrikes, which forced Gbagbo to relinquish the office of the Presidency, and who was subsequently prosecuted by the International Criminal Court.

For many in the West, Libya was a remarkable R2P success. Muammar Qaddafi was perhaps hours away from sacking Benghazi. The international community responded rapidly and reversed its previous position of non-intervention. With France, the United Kingdom, and the United States leading the way, NATO prevented a massacre, pushed back government forces, and eventually facilitated the overthrow of the regime and its replacement by a new government. Unfortunately, by failing to establish a credible stabilization operation following the overthrow of Qaddafi, the West snatched defeat from the jaws of victory. Moreover, not everyone shared the West's optimism. This success was to prove more controversial and divisive than the many failures. Some countries grew concerned that the United States and other western powers were using R2P to advance their own interests, including regime change in places where an adversary of the West was in power. Russia, Brazil, India, South Africa, and others argued that NATO's intervention in Libya, following approval by the United Nations Security Council, quickly morphed from an operation to protect civilians into a mission to depose Qaddafi.

The Libya experience led Brazil to formulate a concept called Responsibility While Protecting (RWP), which seeks to introduce more rigorous criteria for the use of force and to limit the freedom of western powers once military operations are underway. In November 2011, Brazil offered a concept note on RWP that laid out criteria for the use of force, argued that the use of force has been largely counterproductive, and criticized the West for having a hidden agenda of regime change.[30] Above all, through RWP, Brazil, India, and South Africa wanted greater accountability and consultation with the Security Council once the use of force has been authorized. The benign version of this is to more effectively keep the UNSC in the loop. The more radical version is to give the UNSC a say over Western military operations and maybe even to require a continuing resolution for military operations after a certain period of time. The introduction of RWP saw a frank exchange of views between western and emerging powers, but it was eventually dropped by Brazil in the face of strong opposition from the United States and Europe. One important point that is often lost is that the RWP concept note acknowledged the legitimacy of R2P, which was a significant change in Brazil's position.

While there is evidence to suggest R2P has not been completely abandoned by significant parts of the international community, there is no doubt that on the most controversial of cases, like Syria, it is effectively dead in the water at the UN Security Council. This is not to say there are not instances where R2P missions will be undertaken; as described above, there are, but these are more likely to be in Africa than regions that are more geopolitically contested.

The United States and others invested in the development of the R2P regime will need to address three key questions in the years ahead. First, is there any diplomatic strategy that can persuade the opponents of R2P to support it in specific cases? What conditions need to be present? Second, can a reasonable version of the "responsibility while protecting" idea be resuscitated, perhaps recalling that during the Bosnia operation, NATO reported monthly to the UN Security Council, with no negative effect on its operations. Third, most controversially, if the Security Council opposes a Chapter VII R2P resolution, can the United States or NATO—or a regional organization like the African Union or the League of Arab States—still invoke it to justify a military intervention, and if so, what international support is required for such an operation to be legal and/or legitimate? What are the risks of that option? Can we envisage a more effect concept of post-intervention stabilization, and the tools to implement it? The answers to these questions will go some way to determining whether R2P continues to be a key component of the international security order.

10. THE NEW GEOPOLITICS OF ENERGY

There are few dimensions of international life that have undergone such dramatic changes in the past several years as that of the production, transport, and import of energy. Three basic patterns are changing the landscape of international energy markets.

The foremost of these changes is the energy revolution in the United States. A combination of technological innovation, regulatory changes, and market dynamism has reshaped the picture of American energy production. Most of the attention has gone to so-called "fracking"—technically, hydraulic fracturing, or the use of massive volumes of water and chemicals under huge pressure to break through rock formations to unleash natural gas deposits. Natural gas production in the United States has risen by 25 percent in the past five years. But there's more to the U.S. energy revolution. New technologies have also allowed drilling for what is known as "tight oil," or oil trapped in rock formations in small quantities (but in thousands of different sites). And new discoveries have also brought online new "elephant" fields, or 1,000,000+ barrel fields. The combination of these developments has resulted in this startling fact: according to the International Energy Agency, by 2015 the United States is on track to overtake both Russia and Saudi Arabia to become the world's largest oil producer. Combine oil, gas, and coal and the United States is set to become the most important player in global energy markets.

The second change is the steady increase in energy needs and imports by China and to a certain degree also India. China will overtake the United States at some point in the next year or two in terms of volume of oil imports. Much of this oil, and an increasing quantity of gas, is imported by sea—much of it via the Straits of Hormuz and almost all of it through the Malacca Straits. Already in 2004, after the U.S. invasion of Iraq the prior year had contributed to spiking oil prices, Chinese President Hu Jintao had identified China's "Malacca dilemma"—its fundamental economic dependence on energy imported through maritime straits under the control of other navies. While China has invested heavily in developing its navy, it is still two or more decades away from having the naval capacity to fully secure its energy imports. And meanwhile, those imports have grown, steadily. What's more, China is increasingly dependent on oil and gas produced in highly unstable markets—including Angola, Iraq, and Venezuela. China has made big strides in renewables during the same period, but the growth in its energy needs has outstripped that progress.

All of this—as well as new oil coming onstream from Brazil, new gas from the Persian Gulf, instability in Iraq, and deepening oil sanctions on Iran—has roiled international energy markets, which are in a state of flux. But there's no account of these changes that doesn't suggest a substantial strengthening of the U.S. position. This has consequences for U.S. import security and for U.S. manufacturing (which is gaining a boost from cheap energy prices: the United States pays less than half of what Europe pays for natural gas, for example, and merely a quarter of what the major Asian states pay). Increasing U.S. energy security has increased U.S. leverage with allies and non allies alike, especially in Asia—where India, Japan, and South Korea are all angling for approvals for U.S. natural gas exports to help meet their energy needs. And there are impacts in China, too. The global financial crisis brought with it a degree of Chinese triumphalism about its state capitalist model, which contrasted with the more chaotic American model. But China's economic managers are increasingly aware that their model has not been able to produce anything remotely like the American energy revolution, which relies on technology and regulation to be sure, but also on a highly decentralized and highly dynamic market capitalism.

These changes also have exposed a major weakness in international energy governance: namely, the fact that the major international body devoted to stabilizing the flow and price of oil, the International Energy Agency (IEA), has only had the participation of western consumers, members of the Organization for Economic Cooperation and Development (OECD). In November 2013, the IEA did establish an "outreach mechanism" to begin a more intensive dialogue with the new non-OECD consumers: Brazil, China, India, Indonesia, Mexico, and South Africa.[31] Similar outreach mechanisms established by the OECD in the field of development, and by the G-8, have a history of weak performance, even divisiveness. There are some grounds for optimism about the IEA mechanism, though, in growing Chinese dependence on the data and analysis provided by the IEA Secretariat. Still, international energy governance is a comparatively weak, albeit rapidly evolving field.

And there's a further development. Energy changes cannot be separated from the fraught question of climate change. As the U.S. energy mix has started to shift toward natural gas, and combined with important regulatory shifts, U.S. coal use has declined and with it, U.S. carbon emissions have declined as well. However, this has led to coal exports to Europe, and the increased use of coal in Europe, as well as in China, has more than offset American emissions reductions. As the global energy mix changes rapidly, international climate change negotiations are struggling to keep pace.

11. A TURBULENT GULF

The stability of the Persian Gulf, and in particular its role as the principal source of oil to the global market, has long been a critical element of global stability and prosperity. Since the Iranian revolution in 1979, the United States has provided that stability through the provision of military forces, deterrence, and punishment of cross-border aggression, and, particularly in the last ten years, the isolation of Iran. But now, for better or for worse, the U.S. role seems set for a fundamental change. The desire in the United States to focus on domestic concerns, the shale energy revolution, and the potential to resolve the U.S.-Iranian nuclear dispute through negotiations all point toward a reduced or at least transformed role for the United States in the Persian Gulf. It is not likely that these factors will cause the U.S. to rush for the exits as many in the region fear, but they do mean that the United States will in the next several years look to reduce its commitments in the Persian Gulf and look to alternative mechanisms to maintain stability there.

Over the course of the last 35 years, the United States has increasingly taken responsibility for Persian Gulf security. During the Iran-Iraq War in the 1980s, the United States protected the safety of Gulf shipping and ensured that oil from Kuwait and the other Gulf states could get to market. The United States intervened directly against Iraq in 1990–91 for the explicit purposes of liberating Kuwait and protecting Saudi Arabia—and in the process acquired seemingly permanent military bases in the region. The U.S. presence expanded again to as serve as logistical hub for the NATO presence in Afghanistan and to fight the war in Iraq beginning in 2003. Today, the Persian Gulf is effectively an American lake. The United States has firmly taken on the responsibility of protecting the sea lanes, keeping open the Straits of Hormuz, and protecting its Gulf partners against external threats, particularly those emanating from Iran.

But recently, that core American role has come under increased scrutiny. The United States is in no danger of being chased out of the Persian Gulf by a resurgent Iran or a newly hegemonic China. But there is a growing perception in the United States that U.S. hegemony over the Persian Gulf is no longer necessary to secure American interests. This perception stems from multiple factors:

First, the domestic shale energy revolution means that the United States will over time import ever less oil and get an increasingly smaller share from the Persian Gulf. The International Energy Agency projects that by 2035 nearly 90 percent of Persian

Gulf oil exports will go to Asia, with the United States getting a negligible amount. Of course, the Persian Gulf will still contribute a huge share of global oil and gas production and thus will still have a strong effect on U.S. oil prices and their volatility. But domestic politics in the United States stubbornly refuses to acknowledge this fact and continues to seek an "energy independence" that will enable the United States to extricate itself from some of its commitments in the Middle East.

Second, with the withdrawal of its military forces from Iraq and Afghanistan, the United States will no longer require the immense force posture that it has maintained in the Persian Gulf to support those conflicts. The U.S. military presence in the Persian Gulf went up dramatically after the September 11 attacks. Now, many believe that the end of the wars that followed those attacks means that presence can be reduced to its earlier level. Budgetary pressures in the United States also mean that U.S. policymakers have any number of other uses to which they would prefer to put the money spent on America's Persian Gulf presence. These include both domestic priorities associated with "nation-building at home" and new foreign policy priorities, such as the administration's "pivot" to Asia.

Finally, the potential deal between Iran and the P5+1 on Iran's nuclear program opens up new possibilities in U.S.-Iranian relations and thus for the U.S. presence in the Gulf. Of course, that deal remains very tenuous. Even were it to come to fruition, one deal, no matter how important, will not build the trust necessary to overcome thirty-plus years of enmity. But within that context, if the U.S. rapprochement with Iran were to progress and Iran's military nuclear program were to end, one of the principal reasons for the continued U.S. presence in the Gulf would fall away.

It is noteworthy that none of these trends mean the Persian Gulf will suddenly become more stable. Even the end of the nuclear dispute with Iran would not end the bitter and arguably sectarian rivalry between Iran and Saudi Arabia. Rather, these trends mean that some in the United States no longer believe it needs to control or to guarantee stability in the Persian Gulf. That view is likely to steadily gain adherents if these trends continue. But without such an external balancer, stability in the Gulf may prove elusive. There are no other external aspirants to the position of Persian Gulf hegemon. China, which is occasionally mooted as a candidate, has a strong interest in Persian Gulf energy, but has shown little interest in such a role and remains far from acquiring the capability in any case.

Indeed, from the standpoint of the Gulf monarchies, particularly Saudi Arabia, a reduced U.S. presence may prove de-stabilizing. In their view, a U.S.-Iranian nuclear deal would not rehabilitate, but rather free a dangerous regional rival to focus on them. This explains both why the deal is so popular among some in Washington and so unpopular in Riyadh. Overall, the Gulf states are wealthy but militarily weak and divided, while Iran is a traditional regional hegemon with a large population and tremendous potential once its isolation ends. A resurgent and still ideological Iran would represent a threat to the internal stability of states such Saudi Arabia and Bahrain. If a new balance is not found, new conflicts in the Persian Gulf might soon test the American assumption that stability there is no longer important to U.S. interests.

Because of that possibility, the United States is unlikely to make the rush to the exit that many U.S. partners in the region fear and that many fiscal hawks in Washington desire. But the trends described do mean that the United States will likely be progressively reducing its presence in the region and actively seeking to find new mechanisms to achieve balance between the Gulf states and Iran.

Conclusion

The state of the international order is decidedly mixed. There have been several successes over the past decade. The order bounced back relatively strongly after the invasion of Iraq. Cooperation between the major powers was not shattered as some had predicted. The alliances amongst Western powers were repaired and they engaged constructively with emerging powers like China, India, and Brazil. On the economic front, the world experienced the most severe financial crisis since the Great Depression, only to recover more quickly than in the 1930s. Civil conflict is less widespread and less lethal than in the 1990s and 2000s, especially in Africa. And all the powers are cooperating, in several theatres, on fragile states and confronting terrorism and piracy. The trends on energy production are positive and even on the fraught issue of climate change there are signs of greater commonality of approach between the United States and China.

However, this good news is offset by several areas of concern. At the time of writing, emerging markets may be on the verge of a new economic crisis. Military conflict is no longer unthinkable between the world's second and third largest economies, China and Japan. In fact, some analysts believe the risks are unacceptably high because of the accident prone nature of those two countries presence in the East China Sea and the contested airspace above. The regional order in the Middle East seems to be imploding with no clear alternative equilibrium emerging yet. And, new technologies are transforming the use of force in ways that may be destabilizing. The glass is half full or half empty, as is invariably the case whenever news is mixed. But, it is hard to deny that the seeds of a major future crisis have been sown, whether it is another financial crisis or even more worryingly full blown sectarian war in the Gulf or a major power conflict in Northeast Asia.

Clearly, the United States and other major powers should be prepared to act early to prevent a major crisis from emerging but it is unclear whether or not they will be able to do so. On the economic front, five years of bail outs, scandal, and recession have drained the public's willingness to support controversial policies designed to stabilize the financial system, let alone to help other countries. With regards to the Middle East, a decade of war and the sense that the situation has become chaotic with interventions—diplomatic or military—standing little chance of success mean that decision-makers have very little room for a robust engagement and weak if any public support. And, in East Asia, where the United States is very much engaged, there is widespread agreement that the current situation is accident prone and innovative proposals to deescalate tensions (such as a hot line or an effective code of conduct) are unlikely to be adopted by the relevant parties. None of this is to suggest that the international community give up—serious efforts to prevent a crisis are more important than ever—but rather to underscore the seriousness of the challenge. And this is before we factor in the complex challenge of climate change.

The role of the United States will be crucial. There is much it can do to put the order on a more stable footing. The Obama administration can push hard for Trade Promotion Authority in order to successfully conclude the negotiations on TPP and TTIP and kick start international trade. It can prioritize economic diplomacy and the G-20 to pull large-scale private savings into new productive spending, and to ensure an effective response to any crisis arising from emerging markets. In the Middle East, progress on the Israel-Palestinian Peace Talks and a comprehensive agreement that significantly degrades Iran's nuclear capacity would go some way to restoring a sense of equilibrium in the region. And in East Asia, the United States still has some room to increase its diplomatic efforts to deter states from actions that threaten the status quo, especially in the South China Sea and East China Sea.

Elsewhere, other states have a role to play. Australia's leadership can help restore confidence in the G-20, and countries like Australia can innovate on naval crisis management arrangements and energy security. Europe is experiencing a protracted period of economic stagnation but TTIP offers a way of increasing the chances of recovery—the benefit would be psychological as much as financial. Europe can build on its recent successes on trade and Iran to play an active role in world affairs. The United States and Europe can also work together to better deal with Russia (for example over Ukraine) and engage emerging powers, especially now that they are facing economic difficulty, to better integrate them into the international order. The responsibility does not lie with the West alone, however. Ultimately, how China acts will be at least as consequential in determining whether or not the regional order in East Asia will be stable or not. The choices made by state and non-state actors alike in the Middle East will be equally decisive there. They should all be aware that strategic choices made with a view to influencing their neighborhood could reverberate globally.

Much has been made of the centenary of World War I. It is largely meaningless. The one hundredth anniversary of something makes it no more relevant than any other marker of time. Yet, it is worth reflecting on at least one thing—the way in which an order that seems to work reasonably well can be suddenly brought to an end. The contemporary order is working reasonably well, and there are as many sources of optimism as concern. It is up to all of the states that benefit from it to ensure that it does not come to an end.

Endnotes

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