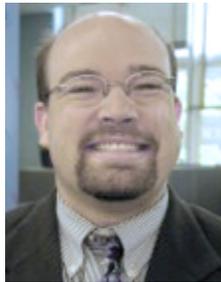




The Rise of the Rest II: How the Ascent of Russia and China Affects Global Business and Security

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[Nikolas K. Gvosdev](#)

The Rise of the Rest I took place at the Nixon Center in 2007.

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Introduction

DEVIN STEWART: Welcome to the Carnegie Council. I'm Devin Stewart. This is the finale event for the season.

We are talking about a huge topic in the international relations world: "the rise of the rest," "the world without the West," the "second world," "world without the United States," "post-America world"—there are lots of different ways of saying it.

Ours is called "the rise of the rest" today. I was joking earlier, maybe we should have called it "the return of the rest." That might have been actually more accurate, because it's China and Russia.

Let me just give you a little background. This is a discussion that we anticipated approximately, almost to the day or month, about a year ago. Nick Gvosdev organized a panel of similar fashion, called "[The World Without the West Symposium](#)." We anticipated that basically, as [Steve Weber](#) put it, economic activity between non-Western states is increasing more rapidly than between non-Western states and the West, giving non-Western states more policy options, more options for alignment, economic activity, and other things. Steve Weber, of Berkeley planned to join us today, but, unfortunate news, he had a family emergency. It came up at the last minute, he could not make it, and he sends his apologies.

Also on that panel were Dov Zackheim; [Ian Bremmer](#), who is on our Board here, from Eurasia Group; and Flynt Leverett, who is to my left.

Also joining us today are Harry Harding, from the George Washington University and formerly at Eurasia Group; and, to my immediate left, David Speedie, a Senior Fellow here at the Carnegie Council.



[Flynt Leverett](#)



[David C. Speedie](#)



[Devin T. Stewart](#)

It is really kind of a family affair today. We're all friends.

DAVID SPEEDIE: For the time being.

DEVIN STEWART: For the time being we are friends, exactly. And define "friends," right?

This discussion throughout the year with this group of people spread out. It was in [The National Interest](#) magazine. Nick is the editor of *The National Interest*, until very soon when he will be handing over to Justine Rosenthal. He is going off to the Naval War College in Newport, my home state, Rhode Island. It went off to [TPMCafe](#) with [Joshua Marshall](#) and company. And I [debated Josh Kurlantzick in Bloggingheads](#) shortly after it became affiliated with *The New York Times*.

I guess if there's a theme to our style of approaching this huge question, it is kind of more data-driven, more thoughtful; asking questions like: Well, so what? We have states that are non-Western that are rising relative to the West. What does this mean for international ethics? What does it mean for global security? What does it mean for business standards? Do we expect the relationships between the non-West and the Western countries, or countries in general, to be hostile; or do we expect a continuation of relative peace among great powers?

I also want to acknowledge [David Denoon](#), who is at the head table here, from NYU. He gave a great speech here at the Council. I tried to convince him to join this panel. We had a very focused debate on India and China.

So I know people are going to ask, "Well, what about India; isn't that the rise of the rest?" Yes, it is, you're right, and so is Brazil and a lot of other countries. We are trying to approach this methodically.

David Denoon gave a great talk on his new book, *The Economic and Strategic Rise of India and China*. We have a [transcript](#) available. We have it on [YouTube](#). Go check it out. We have it on [iTunes](#). It's all there.

I actually just want to turn it right over as quickly as possible, because there is so much to talk about. This topic has appeared on the "Charlie Rose Show," it is on CNN; and I think in our world—the think-tank world, the policy world—I think David Denoon would agree with me—it would have been the biggest question five years ago if it weren't for 9/11.

So I am going to turn it over to David Speedie. David Speedie is the Carnegie Council Senior Fellow and Senior Fellow at the Belfer Center for Science and International Affairs at the John F. Kennedy School of Government at Harvard University. From 1992-2007 he worked at the Carnegie Corporation in New York. We are working very harmoniously with the Carnegie Corporation. A lot of what you see here is thanks to some of their support for the studio concept and our future generation of not just being a think-tank or a public education institution but a studio on ethics for the world.

David is going to introduce some of his recent research, his new program, called The Global Engagement Program, and look at some of the pros and cons, the pluses and minuses, of the U.S. policy with Russia. It is not all bad. It is not all good. We are trying to have nuance here; I think that's one of our major themes.

David, thank you. Take it away.

David Speedie

DAVID SPEEDIE: Thank you, Devin.

It really is a pleasure to be here with not only a distinguished panel, but some old friends, a very special

occasion for me.

As Devin said, we have just launched a new initiative on global engagement. Basically, what that will attempt to do is to look at perhaps the future trajectory of U.S. foreign policy after an election in which both candidates are speaking eloquently and repeatedly in terms of the need for working in concert with others, of fostering and underpinning alliances, of acting collaboratively rather than unilaterally. Because we are the Carnegie Council, we will look at the ethical dimensions of foreign policy development.

It is a very exciting program. I would like to acknowledge the **Alfred and Jane Ross Foundation** as our first sponsors to get this initiative launched.

As Devin said, our focus is primarily, although not exclusively, on U.S.-Russia relations, because I would argue that, while Russia clearly sees that it has more options in terms of international partnerships, for Russia the United States is still, for better or for worse, the dominant force in its relations with the West.

The third introductory point I'd make is that I think there has been too much emphasis on what is wrong with Russia, the West, and especially with Russian-U.S. relations. There are serious causes that divide—and I will go into these in a little bit of detail—but there are ongoing areas of strategic cooperation, including the area of arms control; and there is the opportunity, as I will suggest later, for an altogether more positive dialogue based on more sober, realistic mutual expectations.

But first the bad news. There is an excellent essay in a recent edition of the U.K. political journal *Prospect* by [Stephen Kotkin](#). Stephen is the Director of the program on Russian and Eurasian Studies at Princeton. The article is called "[The Myth of the New Cold War](#)."

It begins with a rather interesting question: What is it about Russia that drives the Anglo-American world mad? It is a fair and perplexing question, and it certainly can be seen as resulting in complementary attitudes from the other side, that Russia is driven mad by the West.

Briefly, I would list three areas of difficulty for U.S.-Russian relations:

The first is, quite simply, policy differences. This year's NATO Summit in Bucharest yielded two major policy results with implications for Russia: the first was a deferral of a decision on a membership application plan for Ukraine and Georgia to NATO; and, secondly, the approval of the proposed U.S. missile defense installations in Poland and the Czech Republic.

Now, while Russia took some solace in the first of these decisions, the deferral of a decision on Ukraine and Georgia, it certainly did not fail to note that in both instances the United State was pressing hard for a policy that was inimical to Russia's interests.

This to me is symptomatic of a bilateral relationship at the moment characterized by what can be called mutual recrimination.

From the U.S. vantage point, Russia under Putin reversed post-Communist gains in human rights, persecuted dissidents; it attempted to curtail the activities of foreign and domestic NGOs through draconian registration procedures; and it used bullying tactics against the opposition in the recent elections, despite the inevitability of [Medvedev](#), [Putin](#)'s anointed successor, being elected.

From the Russian point of view, there is, among other things, the inexorable march of NATO to its borders; the missile defense issue; and what Russia sees as the illegal declaration of independence for Kosovo.

The second strain on the relationship, beyond just the simple, hard policy issues, is what Russia, I think, sees as a refusal to accept it as a high-level geostrategic player. And, even more, there are the charges from some influential quarters that Russia is actually fanning the flames of a strategic-rivalry-Cold-War

style.

Consider, for example, the 2006 report by our sister institution, the Council on Foreign Relations, called "[Russia's Wrong Direction: What the United States Can and Should Do](#)." Not much nuance or ambiguity there. The report has two main conclusions and recommendations: First, Russia under Putin has gone astray, but we, the West, led by the United States, should persist in trying to redeem Russia from its present authoritarian self.

Second, we should pursue the complementary and simultaneous policy of "selective cooperation"; in effect, choose those issues that most clearly serve U.S. interests and try to enlist a recalcitrant Russia in a supporting role. Now, regardless of the practicalities of this suggestion, it seems to me that the notion that things will be fine as long as you are the willing Sancho Panza to our Don Quixote is unlikely to evoke a positive response from Moscow.

An even more extreme version of this sort of unreconstructed Soviet-style Russia is taken by Edward Lucas in his book, [The New Cold War: How the Kremlin Menaces Both Russia and the West](#). In essence, Lucas argues that Russia is waging a new version of the Cold War—not through military might, which it no longer wields, but through the newly acquired weapon of natural resource-based economic muscle.

And, by the way, at an event at the Council on Foreign Relations introducing and discussing his book, the author emphasized that he didn't really mean that we are in a reprise of the Cold War; that wasn't really what he meant. Which begged the question of the title. It is called "The New Cold War."

But of this new anti-social Russian behavior, Lucas lists the "ingredients" as "an edgy sense of national destiny, a preference for stability over freedom, and a strong dislike of Western hypocrisy and shallowness." To which one might respond in these sentiments Russia is hardly alone in the world

And, although on the one hand Lucas takes pains to stress that Russia's new offensive is nonmilitary in character, there is an unsettled bellicose imagery to the scenario he paints. The domino theory is rolled out in asking the question: If Russia gets away with bully-boy tactics in Georgia and Ukraine, can Europe be far behind? This is an actual quote: "Eastern Europe sits on the front line of the new Cold War."

Very briefly, the final and most damning indictment goes beyond policy differences with the West, beyond assigning blame to Russia for these differences in policy. It is contained in an article in *Foreign Affairs* written this year by two friends of mine, [Michael McFaul](#) and [Kathryn Stoner-Weiss](#), "[The Myth of the Authoritarian Model: How Putin's Crackdown Holds Russia Back](#)." The authors follow the same general path as the Council report cited earlier, that of Russia's descent into authoritarianism, but they take it a step or two further by suggesting that Russia's economic revival under Putin is a sham.

I don't have time to go into all the arguments here, and I am not an economist, but Putin's economic report card surely was, at worst, mixed. His first term saw a raft of economic liberalization measures, a revised tax code, a generally tough fiscal discipline—admittedly while [Andrei Illarionov](#) was in the Kremlin, a liberal economist who later resigned in protest over some less progressive policies.

But it is again a mixed bag. As Stephen Kotkin, the author I cited at the beginning, said: "What has been achieved is something unusual, if not unique: a closed authoritarian political system along with a booming consumerist economy and growing middle class."

So back to the original question: What is it about Russia that drives the Anglo-American world mad? The answer would seem to be: Quite a bit, and especially so for the American part of the equation.

There has certainly been partly a dramatic downward spiral since the day when President [Bush](#) famously looked into his Russian counterpart's eyes and saw his soul.

However, at the outset I suggested that things were not and need not be as bad as they seem. Let me list

briefly five points that might take us in a more positive direction. They are presented with a sort of qualified optimism—a "yes, but" is attached to each.

The first, I would say, is get beyond the myths on both sides of the relationship.

For the United States this would mean getting over the idea that the economic chaos and kleptocracy under [Yeltsin](#) was a rough-and-tumble inchoate form of democracy that Putin has destroyed. Certainly, most Russians don't see it that way. Putin certainly could have amended the constitution and run for a third term.

For Russia, on the other hand, it means shedding the illusion that the FSB [Federal Security Service] was the one Soviet-era institution that remained uncorrupted through the Yeltsin years, a patriotic force that was restored to orderly leadership under Putin. Remember that Medvedev himself has spoken out against what he called "legal nihilism," the prevalent disdain for rule of law in today's Russia.

Two, realize and accept that Russia is a global economic player, although this has to be taken in perspective. There is obviously a highly visible Russian commercial presence in London, Europe's finance capital, and this will be replicated in New York. Under Yeltsin, Russian GDP peaked at \$200 billion. Under Putin, it reached \$1.3 trillion. However, even if Russia ascends to the top five global economies, it will still be a mere fraction in terms of global GDP of, for example, the United States, the European Union, and China.

Three, Russia's economic growth under Putin has included, as said before, a rising entrepreneurial middle class and a robust consumer economy. Just look at the piece in *The New York Times* a couple of weeks ago that showed the Turkish resort on the Mediterranean where Russian tourists were basking in a replica of the Kremlin and Saint Basil's Cathedral. This is the new Russian consumer with money to go abroad and be where they feel comfortable.

Negative Western reaction to this economic progress only fuels Russian resentment, the sense that the United States and the West do not want Russia to succeed. Whatever one may say of Putin—and, in the words of a wise friend, he is no Scandinavian democrat—he has instilled a Russian sense of self. Remember that Yeltsin tried twice, through two commissions, to instill an "idea of Russia," and of course failed. Putin has done this.

However, economic progress notwithstanding, the [recent brouhaha over the proposed TNK-BP joint oil venture](#) shows that Russia has to clean up her act in the business of doing business. In the *Financial Times* today, there is a report that work permits have been essentially denied to the foreign partners, which would indicate that, as perhaps some would say, this is just hardnosed business. Businessmen don't issue visas; governments issue visas.

I am going to skip over one and I am going to say at the end, Devin, this what we might call "cold peace" is not irredeemable. We should begin by recognizing that Russia is not alone in its neuralgia over certain U.S. policies. Recently, Russia and China issued a joint declaration of opposition to the European Missile Defense Shield. And, the other reason that it is not an irredeemable proposition, there have been in the 20 years since the Cold War ended severe strains, severe moments of high crisis—such as the bombing of Yugoslavia in 1999—and we have regrouped following these times.

In closing, I think of two of [Hans Morgenthau's](#) "Nine Rules of Diplomacy" [from [Politics Among Nations](#)]:—well worth revisiting, by the way, if you haven't done so recently.

- Diplomacy must be rescued from the crusading spirit.
- Diplomacy must look at the political scene from the point of view of other nations.

It seems to me that in our dealings with Russia, perhaps uniquely among nations, and for whatever

reasons of history—a Cold War hangover, domestic politics, or just plain myopia—that we really do tend to ignore Morgenthau's wise counsel.

DEVIN STEWART: Thank you very much, David.

About two years ago I hosted a group of Russian graduate students. They wanted to talk with a policy analyst here in New York City. They asked me, "Devin, is this a bipolar world, is this a unipolar world, or is it a multipolar world?" They were expecting some sound bite from me.

I disappointed them. I said, "I don't really see it like that. I think it is sort of a common wisdom, almost a cliché, to say that in international relations we had a bipolar world, in the Cold War, and then for a brief time we had a unipolar world, and now we are seeing the emergence of a multipolar world. But I think it is a lot messier."

The way I put it to these Russian students is that you have powers in certain fields. You can imagine a superpower in the energy field, for example. I recently finished a long article—actually a chapter—where I call Japan an "efficiency superpower." The world is very messy, it is very interactive, it is somewhat chaotic.

I think this is kind of getting to our next panelist. Harry Harding is going to talk about another issue that I wrote about with [Josh Eisenman](#): is China a responsible stakeholder in the international order or international system? Harry is going to scrutinize a couple of things, one of which is the existence of an international order to begin with. Are we all starting from the same page when we talk about these types of things?

It is a real honor to have Harry here. Very briefly, Harry Harding is University Professor of International Affairs at the George Washington University, a counselor to the Eurasia Group, a Senior Fellow at the Center on U.S.-China Relations at the Asia Society, and Vice Chairman of the Board of the Asia Foundation.

Harry, great to have you here. I look forward to hearing your comments.

By the way, Harry recently testified in front of Congress about this very topic.

Harry Harding

HARRY HARDING: Thank you, Devin.

It is an enormous pleasure to be here for at least two reasons, especially in this particular place. First of all, I am back in my home town, New York. And not only that, I grew up literally two-and-a-half blocks from here, so this is my neighborhood. It's great to be back.

Secondly, I have enormous respect for the Carnegie Council. You know, it is very rare, especially when you get on in years, that a single article you read or a single speech you hear really fundamentally changes the way you look at things. And yet, Joel Rosenthal did that for me at a conference that we both attended in Malaysia many years ago.

Now, I won't embarrass him by talking any more about it, but if you want to ask him about it afterwards, I'm sure he'd be delighted to tell you. He basically introduced me to the idea that behind every policy debate there are in fact some fundamental value questions that need to be considered. You will see some of the influence that Joel has had on me today, although he bears none of the responsibility for what are some very, very preliminary ideas.

I am going to try something new on you. It is the first of July, it's summertime, we can be relaxed, and I can try something that is intended to be a bit of an exaggeration but may be provocative and thought-provoking, and I'd love to hear what you think about it.

There are two, I think, familiar and influential views these days about the nature of the international system and China's role in it.

The first we might summarize as follows. There is an emerging international community, the members of which belong to an increasingly dense network of international organizations and institutions that have been developed over the last several decades to manage the common transnational problems and to realize the opportunities that are inherent in an increasingly interdependent and globalized world.

The members of this international community also increasingly accept a set of goals and values that are widely shared, values and goals such as peace, prosperity, development, and, although not necessarily pluralistic democracy, responsible and effective governance.

Since the end of the [Maoist era](#), this view continues, China has become an increasingly engaged and responsible member of that international community. It has joined virtually every institution and organization for which it is qualified for membership, including those that either it rejected or that rejected it in past decades. It is increasingly accepting common values that it once scorned when it was committed to revolution and war. And even taking key roles in addressing common problems, most notably the denuclearization of the Korean Peninsula.

It has done so, this argument says, not only because it needs to adapt its behavior to meet international expectations, but also because it has increasingly concluded that these norms and institutions make sense; that although China may not have created them or invented them, that China benefits from those norms and institutions, and therefore benefits from a robust international community more or less as it exists today.

Now, you can tell this first view draws very heavily on what might be called, for those of you who remember Political Science 1.01, "liberal IR theory" [international relations], with this emphasis on international norms and institutions; and also, particularly, on the work of [Iain Johnston](#) at Harvard for his interpretation of the evolution of Chinese foreign policy.

However, there is a second view, absolutely contradictory—or more or less contradictory—that draws on the other tradition, realist international relations theory. Here I cite the work of [Robert Kagan](#) of the Carnegie Endowment for International Peace, this Council's sister organization in Washington.

Robert tells us there is no such thing as the international community. The international system remains anarchic. International institutions are weak. Values are not universally shared. The key dynamic is not collective problem solving by like-minded states, but rather the competition for power among nationalist nations, exactly as Hans Morgenthau would have predicted many decades ago.

To the extent that the international system is characterized by community, there are in fact two communities, not just one: there is a community of democracies and there is a community of autocracies. China, together with Russia and some of the Islamic states in the Middle East, are, according to Kagan, the leading members of the latter.

The autocracies don't agree on everything, but their common interest is in protecting their autonomy against democratizing tendencies promoted by the league or the alliance or the axis of democracies. Some argue that the [Shanghai Cooperation Organization](#) is the core organizational form of that emergent community of autocracies. It includes China, Russia, Iran, Central Asian states, most of which themselves are authoritarian, while excluding the United States.

Now, my own view that I want to present for your consideration today actually lies somewhere between these two extremes and draws a bit on both.

First of all, I argue, contrary to Kagan, that there is at least an embryonic international community in

formation. Yes, international institutions remain weaker than the institutions of domestic political systems. We still, obviously, do not have a powerful and authoritative world government, and perhaps we never will.

But there is a system of international law. There are mechanisms for applying that law to particular cases, both through international courts and through regional and global bodies, such as the UN Security Council. The members of these do not always deadlock, they may make compromises, but they come to agreements on how to categorize the actions of various nations that are accused of violating those norms, and they do apply sanctions against those who have broken the international rules.

And yes, there are those who reject the community and its standards of behavior, but there are outliers and outlaws in any political system, including the most modern domestic political systems as well. In fact, increasingly, virtually all members of the international community give at least lip service to the same international values.

So I argue, first of all, borrowing more from that liberal argument, that there is an embryonic international community, although we should not exaggerate the degree of institutionalization that it enjoys.

However, within that embryonic international community there are the equivalent, not of two separate communities, but I will call them two political parties. They accept the idea of the community. They accept the legitimacy of its norms and its institutions. They share a common vocabulary to discuss international issues. But they prioritize their common goals and norms in different ways.

Now, these international political parties, if I can call them that, are fractious. They divide. They don't always agree on everything. Members often defect, join the other party or take a neutral position on particular issues. And not every nation actually belongs to either one of them. As in the United States, these are loose groupings, with many independents operating in the space somewhere between them. And there certainly can be bipartisan coalitions on various issues.

Now, if we take this metaphor, borrow the metaphor of political parties and apply it to the international community, what are the two parties and how can we describe them? Well, it is difficult to apply labels, but let me try.

The United States is the leader of what I will call the **Elitist Reform Party**. Basically, it promotes democracy and individual freedom in domestic systems, to the extent—we have already referred to Kosovo—of accepting self-determination, at least in some cases, of those that want to exercise the right of withdrawal from political systems to which they no longer want to be members.

This party favors the rigorous application of universal forms, even at the expense of national sovereignty, the essence of a reform party. It supports sanctions, even military intervention in some cases, to enforce those norms when they have been violated. It seeks to impose conditions on the aid, on the financial transfers, that are made to the more poor parts of the international community.

And it is skeptical—here is the elitism—of international organizations that have universal membership. It believes in selective and demanding free trade areas. It still believes that alliances matter. And it often speaks of the "coalitions of the willing."

The other party I will call the Populist Conservative Party. If these things are contradictory, just go read one of John Steinbeck's lesser-known works, called [The Short Reign of Pippin IV](#), which talks about French politics in the 1950s, where he talks about the "Christian Atheists," which is my favorite name for a mixed-up political party. This one I am calling the **Populist Conservatives**. China, along with Russia, is one of the leaders of this party.

This party promotes, not democracy and individual freedom, but rather it calls for stability, harmony, and order in domestic systems, as conservative parties usually do. And it believes very firmly in the notion of

territorial integrity, against the fractious tendencies of self-determination and independence movements.

It upholds sovereignty and cultural and political diversity against the application of universal norms. It is reluctant to apply sanctions except in extreme cases or after failed attempts at dialogue, which it says should always come first. It opposes most forms of conditionality on development assistance in the Third World, and it favors universal membership organizations. It likes looser free trade agreements. It believes in cooperative security organizations as opposed to formal alliances, especially if they are defined against enemies.

The irony of all of this is that in some ways these two political parties, because they are operating, in a sense, both domestically and internationally, are actually talking past each other. They apply different principles, different levels of the system, but in ways that mirror image each other.

The United States favors democracy at the national level but favors benign hegemony at the international level. It believes in order. It believes in basically a single core state that provides that order and security against the anarchy that it argues would come without it, while at the same time promoting democracy among the various constituent nation-states that make up the system.

China argues the opposite. It favors democracy at the international level. It opposes hegemony, unilateral rule of the United States, while arguing for hegemony, once again presumably benign, at the national level, again in the name of order and security, which is the value that those who argue for hegemony will always invoke.

The United States accuses China in this ongoing political debate of being irresponsible, of protecting the rule-breakers in the name of sovereignty. Whereas China accuses the United States of being unilateralist and interventionist, let alone of being hypocritical, of applying norms and values to others that it does not accept for itself.

My key conclusion here, to wrap up, is that there is indeed an emergent or embryonic international community. But it is characterized not only by economic competition, and to some degree the possibility of military competition, but also by political competition over the priorities to be assigned to common norms and values.

The American position we have to increasingly understand is not unassailable. We are not the only political party in the system.

The Chinese position is finding—and will find—support as it tries to argue for its own definition of priorities and values and tries to de-legitimize some aspect of American positions and policies. That is, in fact, what I think is the most important element of "soft power" that China is trying to build, not the Confucius Institutes, not the promotion of Chinese traditional culture or the study of Chinese language, but rather a different political platform than that put forward by the United States. In another speech that I will give you at some other time if you have nothing better to hear, this is what I call the "harder edge to China's soft power."

DEVIN STEWART: Harry, thank you so much. Very provocative. I can anticipate that later on people are going to ask you which countries fall into which political party. France might come up as a question; I can anticipate that.

We are going to turn it over to Flynt Leverett.

I think that David Denoon actually put a lot of what we are seeing today into context in his book. He said that the 1997 financial crisis kind of set the stage for power to shift from the Pacific Rim states to the continental powers in Asia. Another huge factor that has played out, giving an opportunity for more authoritarian states to take advantage of the global economy is the increasing prices in natural resources, which are driven by increasing demand, decreasing supply, lack of energy infrastructure.

Now there is a big debate about whether or not speculators are playing a role or not. A big article today in *The New York Times*. [Paul Krugman](#) argues that it is not the case. Others believe that there is evidence to say the contrary.

Now, I think, one of the biggest areas that economists are looking at is expectations and the role of expectations. If we can stop people from panicking and believing that oil is finite, then prices will come down.

But nevertheless, this has actually provided the stage for countries like Russia or countries in the Middle East to exert more power, in line with what some people have called the shifting of the pendulum toward the rise or the return of state power, after a brief time when nonstate actors, civil society, and [Tom Friedman](#)'s "super-empowered" individual was eating away at the power of the state.

Flynt Leverett is Senior Fellow and Director of the Geopolitics of Energy Initiative at the American Strategy Program at the New America Foundation. He has an enormous amount of experience and expertise.

I just want to highlight one thing. From 1992-2003 he served as Senior Director for Middle East Affairs at the National Security Council, Middle East expert on the Secretary of State's Policy Planning Staff, and Senior Analyst at the CIA.

Flynt, it's great to have you here again and in this debate. I'd like to turn it over to you. Thank you very much.

Flynt Leverett

FLYNT LEVERETT: Thank you very much for having me.

What I'd like to do is spend a few minutes talking about what I think is really conditioning the rise of the rest, if we want to call it that.

As Americans, I think we also need to face up to the flip side of the rise of the rest, which is to some degree a decline in American standing and influence in various international arenas. I would argue that the United States is in an historically unprecedented condition. It emerged from the Cold War as this unquestioned global hegemon.

Now, not even two decades after the end of the Cold War, we have a situation in which the *military* dimension of American hegemony seems unassailable. If you look out, even with the most optimistic projections of the growth in Chinese, Indian, perhaps Russian, military capabilities, I would argue that the United States is going to have a unique capacity to project large amounts of military power around the world for at least the next two decades, and quite possibly longer than that. So the military dimension of American hegemony seems to be pretty intact.

There are, as always, limits to what military power can do for a hegemon. We seem periodically to need to remind ourselves of that. Perhaps the Iraq war is one such exercise.

But in a lot of other important dimensions of international life, particularly economic arenas, U.S. standing and influence is in decline. I think that is an historically unique situation, where you have a global power whose military hegemony continues to be quite robust but whose power and standing in a lot of other critical arenas is in decline.

Now, what has conditioned all of this, the rise of the rest and, at least to some degree, the decline of American hegemony?

I would argue that it is grounded in the intersection of two clusters of developments. One of those clusters I will describe as structural shifts in global energy markets. The other cluster I will describe as strategic trends in global financial markets. You put the two of those together, and that really is, I think, the backdrop to the issue that we are discussing today.

When I talk about structural shifts in global energy markets, I would boil those down to two.

On the demand side, we have since the turn of the millennium seen what I think can be very, very easily characterized as a demand explosion in the developing world. In the [OECD](#) world, the United States essentially accounts for most of the growth in demand for hydrocarbon-based energy. What we have seen outside of the OECD world is this huge demand explosion. And this goes well beyond the emergence of new demand centers in China and India, as important as that is.

One factoid that really struck me I came across recently. We talk a lot about India as an emerging demand center. Fair enough. The demand for crude oil in India right now is growing at a rate of roughly 50,000 barrels per day per year. In the Middle East, demand for crude oil is growing at a rate of roughly 300,000 barrels per day per year, orders of magnitude greater than demand growth in India. Demand growth in India is not trivial.

You see this pattern really throughout the developing world. In Africa, in the Middle East, in Asia, you see this demand explosion. What you have is a group of countries, emerging economies, who are at a point in their developmental trajectories where their energy demand is going to continue to grow at very robust rates. I don't really see very much out there that is likely to derail that. That is an important structural shift.

On the supply side of the international energy markets, we see productive capacity stretched all along the value chain. This is certainly true for oil and gas. It is also true for coal; prices are also going up internationally for coal. It is true for nuclear power. It is basically true across the board on the supply side.

With regard to oil and gas, this sort of stretching of productive capacity is also linked with the concentration of hydrocarbon reserves under the control of national governments and their agents, national energy companies. International energy companies—publicly traded brand names like Exxon, Mobil, Chevron, BP, Royal Dutch Shell, Total—today they own roughly 8 percent of the world's proven reserves of crude oil. No more. Roughly 8 percent. And that percentage isn't going to grow. If anything, it is going to shrink in coming years.

National governments and national energy companies own more than 80 percent of the world's proven reserves of crude oil. What that means is that the pace at which these reserves are going to be developed—you know, how fast they come on-line, who if anyone helps to develop them, all this kind of thing—that is now going to be decided not by private companies and investors; it is going to be decided by national governments and their agents, national energy companies. That, too, is a big structural shift.

In the 1970s and 1980s, one of the most important ways that the United States and its developed-country allies responded to the challenge of OPEC and the assertion of market power by OPEC was to push in as many places as possible for upstream liberalization. That set the stage for big upstream plays by major international energy companies in places like the North Sea, the North Slope, over time the deep-water Gulf of Mexico, the Gulf of Guinea in Africa, the Caspian Basin after the breakup of the Soviet Union. But there aren't any big upstream plays available today for international energy companies. That option doesn't exist anymore. That is a structural shift.

What we see alongside these developments, these structural shifts in global energy markets, I think intimately linked to these shifts, is also some important strategic trends in global financial markets. I would argue that the sustained rise in energy prices since the turn of the millennium has at this point produced the biggest transfer of wealth from one group of countries to another group of countries in

human history. And we are nowhere near the end of that transfer process.

Along with that transfer of wealth is also, at least potentially, a transfer of economic power. Who are the winners and losers in this process?

The winners break down into two categories:

- One is kind of obvious: energy exporters. You know, if you take the GCC [Gulf Cooperation Council] countries in the Middle East, you throw in Russia, and you look at how their current account surpluses in the aggregate have grown since the turn of the millennium, it tracks very beautifully on a graph with the rise in oil and gas prices. And these countries are getting richer by the day.
- The other category of winners, interestingly enough, are major manufacturing powers who serve energy exporters and other emerging markets. The three leading examples in that category are China, Japan, and Germany, the countries with the three largest current account surpluses in the world today.

Now, what is so striking about that statement is that China, Japan, and Germany have managed to continue growing their current account surpluses during a decade in which they have been paying progressively more for their own energy imports.

China today imports at least half of its energy. Germany and Japan import virtually all of their energy. They are paying the same market prices for this stuff that the rest of us are. But they have managed, by linking their exports to new markets, to continue growing their current account surpluses even as they are having to pay out more and more for their energy.

Those are the two big categories of winners in this process.

Who is the big loser in this process? The United States, whose international economic position has deteriorated substantially since the turn of the millennium.

What are the implications of this? Well, I'll suggest three:

One is that this transfer of wealth and, at least prospectively, of economic power that is going on in connection with rising energy prices is what has basically fueled the expansion of global economic imbalances over the last decade.

The biggest component in that is the growth in the U.S. current account deficit. Essentially, the U.S. current account deficit has to be financed by surplus countries.

Now, Germany is a surplus country, but in a global sense it doesn't really factor in because the German surplus essentially carries all these other deficit countries in Europe. It leaves the European Union as a whole in a very small surplus condition. Germany is not really factoring globally here.

What this really means is that the U.S. current account deficit has to be financed by China and major energy producers in the Middle East and Russia. That's the only source of financing on the scale that is required.

Second implication: As all of these trends that I am talking about have been playing out, you've had another important shift, and that is that government agencies, central banks, and nowadays sovereign wealth funds, have replaced private purchasers of U.S. assets, like Treasury securities. They have replaced private purchasers of those assets as the leading source of capital to fund the American current account deficit. It is now not just that we rely on China/the Middle East/Russia to finance this deficit; we are relying on government agencies in these places to do it.

Third—I'll throw this in, perhaps at the risk of appearing to be engaged in special pleading, as a Middle East specialist—but we are talking about the rise of the rest. The rest is not just Russia and China or India these days.

In the aggregate, the current account surpluses of the Middle Eastern oil producers are about as large as China's. And if you look at it on a per-capita basis or in relation as a percentage of overall GDP, you could argue these surpluses are even larger than that of China's.

In terms of the rise of the rest, I would argue that over the next ten years the GCC (Saudi Arabia and the five smaller states that make up the GCC) will emerge collectively as the world's most important investor.

That is really what I think conditions this discussion about "world without the West," "rise of the rest," however you want to characterize it—"post-American world." It is rooted in very, very deep structural shifts and trends in global energy markets and global financial markets.

The challenge for Americans, I think, is, first of all, to wrap their heads around this, which is not apparently a terribly easy thing for us to do, but the other challenge, I think, is to realize that there isn't any solving this, in the sense of making this go away. We are going to have to think about foreign policy and economic policy in terms of managing this, because these are ongoing realities.

The energy picture that I described is not going to change in any fundamental sense during the next 10-to-20 years. Politicians of either party who talk about energy independence—I don't know which is worse, to think that they don't understand how stupid that notion is, or to think that they really do understand it and say it anyway.

But we have to face it that we will be energy-dependent on imported hydrocarbons for many, many years to come. What does that mean for our economic policy? What does that mean for our foreign policy?

And it also means we have to start thinking about other aspects of economic policy in terms of their implications for America's international standing.

You know, Economics 1.01: If you are concerned about the decline of the dollar, what would you do to try and reverse this trend? Well, open up any economics textbook, read far enough into it, and you will figure out you should balance your budget and raise interest rates.

Now, I don't care if Senator [Obama](#) or Senator [McCain](#) wins in November. Neither a McCain administration nor an Obama administration is going to do those things. That's just not going to happen.

We have a political debate, a foreign policy debate, in this country that is basically about some other planet from the one that we are talking about right now. That is a really serious problem.

But until we begin to shape our policy debate around what I think are these inescapable realities, it is really going to be hard for policy to get smarter.

Thank you.

DEVIN STEWART: Thank you very much, Flynt. A lot of substance there. A lot of counterintuitive thoughts as well.

Just a couple of quick thoughts, Flynt, if you want to think about this. I don't know if you want to comment about this later.

One implication would be that the United States should go back to embracing the manufacturing sector as an area of growth. That seems kind of counterintuitive.

The second thing is that Japan's prospects—you paint a picture of Japan looking structurally good, but inside Japan things look fairly bleak. So the perception of Japan as an economic actor doesn't fit with the mood in the country.

The third thing I just want to pick up is that yesterday there was an interesting *Wall Street Journal* op-ed. You talking about that there is no solving this. This is an interesting kind of thought- experiment op-ed. I don't know if you caught this thing. There is no "the economy," which is, I think, very important to remember. There is a global economy, there is the universe—I don't want to get too heavy on you—but "the economy" is not separate from the world; it is basically a fairly free-flowing system.

Another area that your economics textbook might suggest is that we try to attract foreign direct investment. That might also help the situation. So you might want to talk about that as well.

There are lots of proposals, lots to talk about.

I just wanted to just pass it over to Nick Gvosdev, who is going to sweep up for us. I think he is going to try to bring it back to "the world without the West" argument from last summer at the Nixon Center and to address some of David Speedie's points on U.S.-Russian relations, which is his expertise.

Nick is the Editor of *The National Interest*, a Senior Fellow in Strategic Studies at the Nixon Center, and an Adjunct Professor at Georgetown University.

We should maybe have a little congratulations for joining the faculty of the Naval War College in Newport, Rhode Island. Congratulations, Nick.

Please take it away. Thank you.

Nikolas Gvosdev

NIKOLAS GVOSDEV: Thanks.

I have been at the magazine for seven years. One of the interesting trends was that from 2001 many of the articles that we published and that were coming in dealt with some notion of "How do you get other states to be shareholders or stakeholders in the U.S.-led international order? How do you get them to buy into U.S. policies?"—certainly more optimism in the immediate period after 9/11, when you had a convergence; then the Iraq war occurs and you see division.

But generally, the sense was that there is a U.S.-led international order that other countries are more or less interested in being a part of, and it is simply negotiating the terms for the role that they will play, the influence that they will have.

And then, beginning in 2006, we begin to see in our pages—along with some of the authors that we have are on this panel, and others—pointing out that there was another trend beginning to occur: that other states were looking at U.S. leadership; they didn't necessarily want to oppose it, but they also felt that U.S. leadership wasn't always in their best interests and that U.S.-led institutions weren't always going to be useful to them.

Then, the discussion was the extent to which other countries were beginning to create options to route around the United States, or even to route around the United States even when it was able to act in concert with the major powers of the European Union.

I do want to stress here that it is a question of having options. There is a tendency in Washington to do things in a very primitive, binary fashion ("You are with us or you are against us"), and what many of these articles and these discussions have pointed out is that countries may want to have perfectly good relations with the United States but nonetheless still want options to be able to pursue their own interests

and to go around what the United States may want.

The other thing that has been developing is regarding the assumption of the mid-1990s, the so-called "hub-and-spokes" approach to the global order, that said all roads essentially ran to the United States and that the United States, in essence, could sustain and impose norms on the rest of the world as a cost or price of doing business in the United States; that if you were going to do business here, you wanted to be involved in the United States, then it was a relatively easy exercise for the United States to say, "To do business with us we want you to do certain things."

Congress, in particular, has fallen victim to this hubris that all it has to do is pass standards at home and somehow these standards are accepted by the rest of the world. We have seen in recent years that Congress can pass legislation and other countries feel free to ignore it.

We see this with where countries and companies are going to get capital. You do not have to go to New York anymore to have a successful IPO on international capital markets. David mentioned London, which is where most of the Russian firms go. Hong Kong is emerging. Dubai may also end up relatively soon. Each of these three major competitors may have their own rules and norms—they don't necessarily have to be the U.S. ones—and this gives companies options.

We are also seeing it with Iranian sanctions. The high point was in 1996, the [ILSA](#) [Interstate Labor Standards Association] legislation, where the United States unilaterally imposed very stringent sanctions on both Iran and Libya, and essentially said that other countries would have to face a choice: you do business with the United States or you do business with Iran.

What we found out, and what the [GAO](#) [U.S. Government Accountability Office] released earlier this year, is that, particularly since 2003, to the tune of \$30 billion many other countries and companies have decided that they will do business with Iran rather than with the United States, and that unilateral U.S. sanctions, and even U.S.-European sanctions, on Iran no longer automatically carry with it the threat that Iran is cut off from the global economy if China, Japan, India, Russia, and other emerging countries continue to do business with Iran.

And so this puts some constraints, then, on what the United States can or cannot expect to do in the global order.

Unfortunately, as Devin had mentioned, Steve Weber was not able to be here. Let me just summarize a few of his points about what he had done in his original piece for *The National Interest* last year, and which has been a recurring theme since then.

Steve and his colleagues, because he wrote this with several colleagues from Berkeley, said that—and this fits in to some extent with Harry's notion of the two global political parties—in contrast to the U.S.-led international order, you are seeing the emergence of an alternative world order, which he and his colleagues described as neo-Westphalian—that is, it puts primacy on the state as the actor and on the sovereignty of the state.

It says that the international order is not defined by any nebulous appeals to international standards or values, but is basically contractually defined. States sit down, they negotiate, they reach a treaty. The treaty has contractual obligations reached in it. The international order is no more or no less than those obligations which states freely accept on themselves.

And finally, and especially in contrast to the work of Thomas Friedman and others, this order is predicated—you will remember in our own Constitutional Convention a few centuries back the question was: Is the Constitution for people or for imaginary institutions called states?

In Weber's view, what is emerging is that the international order is for states; it is not for individuals. Individuals, super-individuals, the primacy of the individual, is not the defining factor of the international

order. The international order are states that get together, reach their decisions, and individuals only interact with the international order through the national state with which they belong.

It puts a great stress on sovereignty, as we've heard. Certainly, Russia has been able, in its diplomacy over the last several years, to play upon the unease that you find in many parts of the world with what appears to be from the West's perspective the desire to abandon sovereignty, or at least to abandon sovereignty when it comes to the rest of the world.

The United States is very jealous of its own sovereign prerogatives but is happy to impose norms and behavior on other states. So you are seeing this reaction where other states are saying, "Well, we're sovereign actors as well and we like a world system that is predicated on sovereignty and that is based upon the actual balance of power."

Russia did this when it led the campaign to try to break through the informal European-American understanding about how you select the head of the World Bank and the managing director of the IMF by putting forward an alternate IMF candidate and essentially getting the backing, formally or informally, of other non-Western states.

Russia's ability to try to help create informal new arrangements—the RIC and [BRIC](#) formats—that is, Russia/India/China, and then to take the Goldman Sachs moniker of Brazil, Russia, India, and China—I don't think that when report was released in 2003, that they actually thought that this was a body that would be created in international affairs, but to actually have the foreign ministers of Brazil, Russia, India, and China now beginning to meet on a regular basis.

They keep the expectations low. They don't say that this is some kind of magic super-alliance. It's for these countries simply to consult. But it is important because it gives all of them a sense that they have options.

The BRIC in some ways has been much more effective, I think, at the United Nations than the Democracy Caucus that was set up with so much fanfare by the United States several years ago.

And the sense that sovereignty matters is important. You witness the Indian reactions to what frankly, in my opinion, were somewhat insulting letters from members of Congress telling them what they should or shouldn't do to get a nuclear deal with the United States on issues that had nothing to do with the nuclear deal.

Then there is the Brazilian ambassador's letter at the end of May to *The New York Times* responding to the op-ed about international management of key natural resources, where he said: "Thank you very much. Sovereign states will manage their own resources. We'll do it in cooperation, but Brazil is a sovereign country and the Amazon is our sovereign territory."

And certainly, as I said, Russia has been very active in helping to cultivate these views and these reactions. That is why you see in world opinion surveys what I have called the "Putin gap," in terms of how Putin has been perceived.

The last survey that was done by World Affairs showed that there was a real gap: very negatively seen, to take David's point, in Anglo-American countries, Putin overwhelmingly seen as a negative figure; in continental Europe, seen perhaps not as a democrat but seen as someone who Europe can do business with; in Japan, relatively a negative figure; and then, throughout much of the rest of the world, seen as a positive figure who restored stability in his own country, brought prosperity back to Russia, and stood up to the United States.

There is a clear gap that you see in how he has been perceived by different areas of the world, and I think this speaks to this division.

Harry had mentioned these global political parties. I think what is going to happen in the upcoming years—and we'll have to see how a new U.S. administration plays its part—is that essentially four dialogues are going to be taking place about the shape of the global order:

- The most important will be the Sino-American dialogue, in how Beijing and Washington begin to discuss how they will interpret norms, how they will interpret rules, how they will interpret obligations.
- The Russian-EU dialogue will play a similar role, perhaps lesser than the Sino-American one, but this will also be a critical one.
- The India-China one, because this is bridging the divide in a way that has not been anticipated by many in Washington, which is the extent to which the world's largest democracy and China are finding common ground on a number of issues, much more than they might find in their shared dialogues between Beijing and Washington and New Delhi and Washington.
- And finally, overall what I might term the southern democracies, the dialogue among and between the southern democracies and other states—southern democracies and Europe, southern democracies and the United States.

How these four dialogues go will do a lot to determine how these global political parties work, whether or not there will be some grand bargains, consensus, who may stay in which party, who becomes an independent.

Steve in his article raises this question, and he identifies the southern democracies as the independents essentially, and says that their allegiance right now is up for grabs, but it's not clear how or on what side of this line they will come on.

If we look at the reaction to the cyclone in Burma/Myanmar, southern democracies did not mostly really feel comfortable with the French trying to invoke responsibility to protect on the grounds that if a country fails its citizenry as a result of a natural disaster, that this gives other countries the right to intervene.

This was not well received in South Africa or India or Indonesia. It was not actually well received in many parts of Latin America. For those of you who followed the informal debate outside of the Security Council chamber, it was clear that there was very much a North-and-West split from the South-and-East. So we'll see how that develops.

A point that Flynt raised, which is I think very important, and since we're here in New York, to bring it up, is the question of reaction within the United States and is there going to be a growing divergence between Pennsylvania Avenue and Wall Street.

I think Wall Street doesn't have as much problems with the GCC being the world's banker or an investor, and in fact they want to help in how the GCC chooses to invest. But how that will be playing out on Pennsylvania Avenue and Capitol Hill, because, whether the GCC will want to work with Wall Street or not— if Capitol Hill wants to sue OPEC, they may decide that maybe they don't need Wall Street's help.

And then there is the extent to which Wall Street may become more involved in how this debate plays out in Washington, because in a lot of these issues, particularly the U.S.-Russia relationship, but in a number of these other things, Wall Street has essentially ceded policy to Capitol Hill, even at the expense, perhaps, of some of their interests. That may change.

Two things for the next administration, whether Republican or Democrat.

Increasingly, I don't think the position that the United States can essentially determine the global order

and just needs to make slight modifications to appease the Europeans and a few others is going to fly. I think we are going to have to reopen and have much more honest dialogues.

Again, the reaction to the recent Sino-American dialogue in Annapolis on the Hill is not encouraging, in that the Executive Branch seemed to be more willing to talk about a number of issues and that Capitol Hill hasn't caught up.

The other thing is the willingness of the United States to let other countries do things as their resources increase. I was struck by the almost complete lack of coverage in Washington of the recent IBSA maneuvers. For those of you not familiar, this is the India/Brazil/South Africa multilateral arrangement. They would like to begin playing a much greater role in patrolling the south Atlantic and the Indian Ocean.

On the one hand, Congress always complains about all the free riders and freeloaders, all these countries that don't do anything, and the United States has to take up this burden. But, on the other hand, the United States also is usually in the position that it likes to be the best man at every wedding and the gravedigger at every funeral.

If you have a situation where other countries are, not actively opposing the United States, but saying "We don't really want you to be involved" or "We are going to take on more responsibilities," I don't know how that will play out. Again, we'll see how a new administration handles it.

For those of you who have been seeing some of what I have been writing, my concern is that there is still very much an attitude in Washington of reset, that this election is to reset back to 2000 or to 1992, that all you need to do is get rid of George Bush and then the world says: "George Bush is gone. We can go back to the way it was prior to 2000, even, if necessary, back to 1992." That is not going to happen.

Let me just leave you with this last thought, perhaps a canary in the coal mine, something to watch to get a sense of how some of these trends may play out.

This has to do with the global nuclear industry. Particularly as Flynt mentioned, there is immense demand for energy. Increasingly, countries are not going to permit their economies to stall. India is not going to, I think, want to have blackouts in its cities for the foreseeable future because the United States may not be eager to move as quickly on a number of things.

Up to now, the United States has played a major role in shaping how the global nuclear industry operates—its norms, its standards of behavior. I think that patience may run out. The test for me will be whether or not within the next several years countries—like India, China, Australia, France, Kazakhstan, Russian, and South Africa—will begin to say, "The United States is a drag on the ability to formulate standards and norms for the global nuclear industry of the 21st century, so we are just going to begin bypassing the United States on this."

That has, obviously, a number of ramifications for U.S. policy. But I would just alert everyone that this is something maybe to keep an eye on—that not only, as we would expect, Russia or China might have issues with how the United States does things, but particularly India, South Africa, Australia, and even France, also may decide that their interests are no longer served by continuing to have the United States as a player in the room and needing the U. S. to sign off on deals and arrangements and standards and norms, as countries' demand for energy goes up and as other countries, frankly, see more and more lucrative possibilities in this area.

We've talked a lot about "world without the West" in a very theoretical discussion in the past. For me, the global nuclear industry is one of those things to watch, where "world without the West" moves from the pages of a journal as theory and starts to become a reality.

Questions and Answers

DEVIN STEWART: Thank you very much, Nick.

I want to get some audience participation.

But before that, real quick, I think, Nick, in the nuclear industry it has begun to happen already in some sense. I believe that China is already trying to get the capacity to build the casing for the core reactor of nuclear power plants. So the capacity is already underway, technologically and politically.

I want to give the panel a moment to comment intra-panel. But, to give them time while they are taking their notes and getting their ammunition ready, I want to just throw this out.

I want to carry on this analogy of two camps or looking at the world through a very basic political science lens. Harry, I hope you take this first, because it is your analogy of looking at the world as two political parties.

We could describe the past few decades as perhaps moving from a two-party system to some kind of hegemon, which you described—I don't know what you would call that—that was a brief time in history; and then maybe there was a short period where people were calling it multipolar, so maybe this is a parliamentary system; and now we are again seeing the emergence of a two-party system that rhymes with history perhaps.

Using the political science glasses, can we make the leap to say that cooperation is less likely or more likely? If you think about a parliamentary system and all these vying interests, it's very chaotic, you can't get anyone to agree on anything. And then, the opposite, a two-party system, is pragmatic and practical, in the sense that parties can organize their arguments and make concessions.

I think it's [Richard Haas](#) who believes that the current system is going to see such a closing of the power gaps that you will actually see less cooperation.

Harry, do you see more or less cooperation?

HARRY HARDING: That's a wonderful question. In fact, as I was thinking about where we have come from, I think that is the key question if you were going to use my analogy: Is bipartisanship possible?

I don't think we had a two-party system before. I think during the Cold War we really did have two separate communities. Globalization, the end of the Cold War, has created this emergent, this embryonic, this incomplete international community.

I think the United States has hoped it would be, in the political science term, a single-party-dominant system, where basically our role in the international community would be approximately the same as the [LDP](#)'s role in Japan: We basically run things; and there may be some opposition parties, but they never get elected, their influence is minimal.

What I am suggesting is that we are unlikely to enjoy that degree of hegemony politically within this community and we are going to have to be able to wage a different kind of competition than we were used to in the past, when it was seen as a military competition against enemies, or even an ideological competition against another community.

But to answer your question about the prospects for bipartisanship—in other words, for cooperation—let me make the optimistic view and then have the others rip me apart.

One way that you get bipartisanship is when the problems are so great that both parties realize that they have to work together or the consequences will be extremely dire.

I suspect that climate change is going to be one. Perhaps energy security will be another. We have a number of issues that are so compelling that an optimist would say it compels cooperation and a spirit of the equivalent of bipartisanship.

Secondly, I would suggest that, fortunately, the major representatives, the leaders, of these two parties so far are not extreme. Certainly, China and, if we take David's comments seriously, as I do, Russia are not extreme conservative populists. They are somewhere in the center of the spectrum. The United States has been, I think, extreme, but it is moving back towards the center of the spectrum. And I think certainly Europe and Japan would be there as well. So that, to the extent that the leaders are closer to the center, you have a greater space for and prospects for bipartisanship.

And then, finally—and this draws on something that the Chinese often talk about, and that I take extremely seriously actually—is how much personal contact, personal trust, personal relationships, are there.

If you listen to people in Washington, including those who have lived there a long time, talk about what is broken about our system, one of the things they emphasize is the absence of personal contact and relationships among members of Congress, that they are so busy doing other things that they don't have time to interact in a social way, and then the partisanship and the nastiness take over.

So there is a personal dimension to this as well. I'm not sure where we are here, but I think that it is something that deserves attention. As we get a new administration, a President McCain or a President Obama I think needs to spend some time actually meeting with his counterparts, not only within what I've called the elitist reform party, but also the more bipartisan-minded members of the populist conservative party as well.

DEVIN STEWART: Anyone want to follow up on this analogy or any other comments? We have a microphone. Let's start right here.

QUESTION: Two major concerns as I see it.

One is energy/oil, which could be resolved by offshore digging on either coast of the United States and the Americas, South America as well.

The other issue is sovereign funds. You pointed out, Mr. Gvosdev, the issue of sovereign funds is really drastic because there has been a tremendous transfer of funds from this country to the Middle East and China, and of course from Europe to Russia. The real threat is that these countries, these sovereign funds, can buy up all the assets and industries of the rest of the world and create all sorts of security, military, and economic problems, political problems as well.

Would it be possible to set up some sort of an organization, like the IMF or the World Trade Organization, to restrict sovereign funds to only lending to the global economy? That would solve most of the problems and give liquidity to the global economy.

Could you comment on those?

FLYNT LEVERETT: First of all, presumably, if you wanted to act in some sort of concerted way to limit the activities of sovereign wealth funds, you could in theory have better countries or countries to whom sovereign wealth funds would be sending capital in various ways.

Yes, they can draw up rules and restrictions on what sovereign wealth funds do. I would just say, first of all, be very careful what you wish for because you might not like it if you got it.

I mean we've had one major Wall Street institution, Bear Stearns, disappear in the current credit crunch crisis, however you want to describe it, on Wall Street. If it had not been for Asian and Middle Eastern

sovereign wealth funds and their willingness to put capital into other Wall Street banks, I think you would have had several major American financial institutions go under within the last few months.

Just given where pools of capital are, and given the amounts of capital that are required to fund the American deficit alone, I don't think it is really very smart to be trying to go out and craft overly restrictive rules on sovereign wealth funds.

And it is not like these funds don't have other options, other places where they can put their money. I mean to try and negotiate mutually agreed codes of conduct, this kind of thing, I don't have anything against that, but I think, given the realities of the current environment, I am not really sure that trying to restrict sovereign wealth funds in special ways, to treat them in fundamental ways differently from the way you treat other investors, is a particularly good approach.

On energy, I am kind of agnostic on whether or not we should lift the federal moratorium on offshore drilling and leave it up to the states to decide. I would say it's a matter of how much oil you are going to get and when you're going to get it. It is not going to make a strategic difference to America's energy situation for many, many years, if we were to do it.

There may still be arguments for doing it. I think I understand the arguments against doing it. But, wherever you come down on that, just don't have any illusions that it is somehow going to solve something in the next 20 years.

DEVIN STEWART: Harry?

HARRY HARDING: Could I comment on that? I speak about financial matters, in New York especially, with trepidation. But your question reminds me of the debate that happened after the Asian financial crisis in the late 1990s, as to the relative consequences of having capital flow by basically investment as opposed to lending.

Of course, the argument was that the Asian financial crisis was caused largely by a large amount of liquidity going into, especially in the first instance, Southeast Asia by lending institutions that basically were making unwise loans.

So what you're really saying is that then the sovereign wealth fund is transformed into a series of government-controlled banks, and the question that you are raising is whether these can be expected to operate in a sounder way than sovereign wealth funds making basically equity investment through markets.

I would simply say that we might have a debate over which of those two mechanisms - each of those mechanisms has its strengths and weaknesses. But I'm not sure that transforming sovereign wealth funds into international government-controlled, basically commercial, banks is necessarily a sound idea.

DEVIN STEWART: Nick?

NIKOLAS GVOSDEV: Just very briefly, I think that both of the points there come back to something that's fundamental, which is negotiating the terms of the degree of influence that a country gets for providing energy and cash to the United States, or investment.

I think one of the things that, again, worries me about Washington is the view that other countries will do this out of the goodness of their hearts, that they will put money or they will supply energy to us and then expect nothing in return.

Then, even within this hemisphere, what would we be prepared to do with, say, Cuba—assuming the offshore fields from Cuba—Venezuela, and even Brazil, to come into a more preferential energy relationship with us? At minimum, I think you would have to probably not try to overthrow governments

in Cuba and Venezuela if you want preferential energy relationships, for the same reason that we have never tried to democratize Saudi Arabia by force. You don't do that to the people. That's an understanding: "We provide you energy; you stay out of our internal affairs."

It's the same dilemma that you have in Europe with Russia. Germany has reached one set of conclusions in its relationship with Russia, where you have very preferential energy arrangements between Russia and Germany, and now preferential financial arrangements. The German financial institutions are buying into Russian ones, creating these interlocking directorates. Not surprisingly, Poland, Latvia, and Estonia have a different view of their relationship with Russia and what they expect to get out of it.

I think that what the Europeans have started to do, and we haven't caught up with yet, is we've got to start thinking through what we are prepared to put on the table. If the price is too high, then we'll live with the consequences—even if that means paying \$8 at the pump. But again, show me the politician who is going to say, "Energy independence means \$8 at the pump, but those Saudis won't tell us what to do anymore."

DEVIN STEWART: If you take what we've said today on this panel as a starting point, I would assume that Latin America would probably be coming up as another focus in the next administration. Would people agree with that? Just a nod of the head.

Yes from Nick. Do you think Latin America would come back as a policy focus of the next administration?

NIKOLAS GVOSDEV: There are people in both of the campaigns that are saying that we need to pay a lot more attention to Latin America than the benign neglect of the past.

QUESTION: I wanted to come back to something that Flynt Leverett said, particularly the ability of the United States to project military power, and link it to the issue of control of oil, because to some extent that projection is very much predicated on control of oil resources.

Now, given the scenario that you very graphically pointed out, that only 8 percent is controlled by, say, Anglo-American companies or Western oil companies, then a lot of what we see in the world is competition to control the remaining 80 percent. So one could see, say, the fact that what happened in Iraq effectively increased the 8 percent, or de facto increased the 8 percent. And perhaps some of the pressure on Iran right now is an attempt to bring Iran, or a successor regime, into the U.S.-led political party. I was wondering if you could comment on that.

One senses with Iraq that the ability to project has now been guaranteed, perhaps, for a couple of decades more there is that security. [Saddam](#) at one point was actually flirting with Chinese oil futures, talking of invoicing oil in euros, all these dangerous things from our point of view. But I was wondering if you could comment on that.

FLYNT LEVERETT: Yes. It kind of goes back to the question about to what extent was the Iraq war a war for oil. In the spirit of revealing my own biases, I left my position as Senior Director for Middle East Affairs at the National Security Council in March of 2003. The timing of my departure was not coincidental.

I am tempted to say—this may be a little bit flippant—if the Iraq war was a war for oil, it was an even more incompetently planned and carried out operation than I think it was. If you just look at where Iraqi production is, even compared to under Saddam and under sanctions, this has not been a raving success as far as getting Iraqi reserves on-line.

I think there is still an enormous uncertainty about how rapidly Iraqi reserves can be monetized, under what conditions they will be monetized. I think, in any event, you are more likely to see the Iraqis operating under service contracts for a long time rather than even going down the road of production-sharing agreements. Production-sharing agreements will be enormously controversial in Iraqi politics.

Outside of the Kurdistan region, in the mature oil provinces of Iraq, production-sharing agreements are enormously controversial.

So I think there is enormous uncertainty about that, and we are certainly nowhere near a return to the old days of concessions. That was never in the cards anyway.

As far as the bigger question about the U.S. military and control over oil, I think that the U.S. military has been used by policymakers since the late 1970s, and I think with a high degree of international legitimacy, to protect the free flow of oil out of the Persian Gulf. The ultimate test of that was when Saddam invaded Kuwait. Essentially, the whole world joined with the United States and said: "Yeah, you guys need to use military force to stop this. Fine. We'll even help. We'll basically pay for it."

I think it's when the United States uses military force in oil-producing regions for something that looks like it may be going beyond simply protecting the physical flow of oil out that we actually run into some serious problems with the legitimacy of that action.

The U.S. military in 1990-1991 came perilously close to actually making money on the Iraq war, we had so many countries basically writing us checks to pay for it. Of course, we are just shelling out hundreds of billions of dollars all on our own for this Iraq war. I think the difference is telling.

DEVIN STEWART: Thank you.

QUESTION: My question is for Harry Harding. Harry, you used the term "political parties," and you didn't use the word "coalition," which would be a more traditional term to use. Do you see, for example, China and Russia the countries of Central Asia in the Shanghai Cooperation Organization really being able to make concessions to each other that would be like a political party, where in some cases they would gain and in some cases they would lose?

HARRY HARDING: That's a good question.

I said that I saw these parties as being fractious. It's interesting that Robert Kagan, in his book that I have drawn some inspiration from, actually sees both, what he calls the different communities, as being fractious, but that the community of the autocracies, he implies, is even more fractious than the community of the democracies. So these are going to be very loosely structured things.

I think the Shanghai Cooperation Organization has worked better when it has dealt with the areas where the various parties clearly have fairly immediate common interests. Originally, it was to deal with the remnant issues of the old Sino-Soviet border, then confidence-building measures along the nearly defined border, then the common interest in basically dealing with issues of extremism and terrorism and separatism as it was defined. I suspect that as you build out beyond that set of original core interests you are going to have more and more differences of opinion within that organization.

So I would not use my framework to analyze the SCO. That is a classic sub-regional international organization. My sense is the more it goes out from beyond its core mission, its original mission, the less easy it is going to be to create the kind of coalition and coherence that you are talking about.

DEVIN STEWART: We have been extremely pleased to carry on this wonderful debate from Washington and various parts of the world right here at the Carnegie Council in New York.

I'll see you in the fall.

Thank you very much for coming.

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