

Global Agenda

Strengthening the Liberal World Order

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Strengthening the Liberal World Order

A World Economic Forum White Paper

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Global Leadership Fellow, Community Lead, North America, World Economic Forum

Council Lead: Paul Smyke

Head, North America, World Economic Forum

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Introduction

The world order that was created in the aftermath of World War II has produced immense benefits for peoples across the planet. The past 70 years have seen an unprecedented growth in prosperity, lifting billions out of poverty. Democratic government, once rare, has spread to over 100 nations around the world, on every continent, for people of all races and religions. And, although the period has been marked by war and suffering as well, peace among the great powers has been preserved. There has been no recurrence of the two devastating world wars of the first half of the 20th century.

Today, however, that liberal order is being challenged by a variety of forces – by powerful authoritarian governments and anti-liberal fundamentalist movements, as well as by long-term shifts in the global economy and changes in the physical environment. The questions we face are whether this liberal world order is worth defending, and whether it is capable of surviving the present challenges. We believe the answer to both questions is an emphatic “yes”.

To say that a “liberal” world order is worth defending is, of course, a declaration on behalf of a certain set of principles – a belief that the rights of the individual are primary, that it is the responsibility of governments to protect those rights and that democratic government, in particular, offers the best chance for human dignity, justice and freedom. This is not a universally held view. The leaders of some nations and more than a few people around the world disagree on this hierarchy of values.

There is, and always has been, a division about how nations should be governed, and about the differences in and between democratic and autocratic forms, the role of religion and the connections to economic structures. While recognizing that these differences exist and that every structure has its failings, the authors of this report are confident in their conviction that the liberal world order offers the best hope for meeting human aspirations, both material and spiritual, and for calling forth the very best in people across the world.

To strengthen and preserve this order, however, will require a renewal of American leadership in the international system. The present world order has been forged by many hands and peoples, but the role of the United States in both shaping and defending it has been critical. American military power, the dynamism of the US economy and the great number of close alliances and friendships that the United States enjoys with other powers and peoples have provided the critical architecture in which this liberal world order has flourished. A weakening of America’s commitment or its capabilities, or both, would invariably lead to its collapse.

In recent years, many have come to doubt America’s ability to continue playing this role. Only seven years ago, pundits were talking of a “post-American world” with a declining United States and a remarkable “rise of the rest”. These days, however, that prognosis appears to have been at least premature. The US has substantially recovered from the Great Recession, while the once-heralded “rise of the rest” has stalled.

America’s share of global GDP will continue to decline marginally, while China, even at slower rates of growth, will soon become the largest economy in the world as measured in total GDP. Whether this is the best measure of relative power and international influence, however, is doubtful. China faces significant problems both at home and abroad, as its leaders well recognize. America’s leading position in East Asia continues to be buttressed by strong alliances with powerful nations.

The same is true in other parts of the world where the US has played a leading role. Many around the world who once decried America’s overseas involvement as “hegemonic” now seek greater US engagement in international affairs and worry more about American retrenchment. Surveys of global opinion, including our own extensive discussions with officials and thought leaders around the world, suggest that, while there is continued ambivalence about the US, there is a worry in some parts of the world that, while American interventionism may have gone too far in the 2000s, the US has become too disengaged in recent years.¹

This view is particularly strong in the three regions where the United States has carried the main burden of providing security since World War II: in East Asia, Europe (especially in the part of Europe that borders Russia) and the Middle East. In all three of these critical regions, American allies generally seek more US leadership, not less.

Among the American public, too, there are signs of greater receptivity to a more active global role. While Americans are naturally wary of deep and extensive overseas involvement after two difficult wars, they are not embracing

¹ Wike, Richard, Bruce Stokes, and Jacob Poushter. "Global Publics Back U.S. on Fighting ISIS, but Are Critical of Post-9/11 Torture." Pew Research Centers Global Attitudes Project RSS. N.p., 23 June 2015. Web. 22 Oct. 2015.

isolationism. They have supported an active US role – in combatting ISIS, for instance – in strengthening the US role in Asia or in seeking diplomatic solutions to long-festered problems – especially when there has been bipartisan consensus in Washington on the need for such a role.²

What is missing for most Americans is a sense of strategy and purpose in US foreign policy. During the Cold War, fear of the Soviet Union and international communism did not always produce agreement on policy but did provide an answer, for most, as to why the United States needed to play an international role and what that role should be. There was a lingering memory, as well, of what the price of American withdrawal and abstention had been in the 1930s. Now these old concerns and memories have faded, and there is no global threat to replace communism and the Soviet empire. Radical Islamic jihadism is a serious threat, and will require a robust response by the US and its allies. But it would be a mistake to shape a global strategy entirely around this challenge.

One of the tasks of this paper is to try to provide an American strategy that meets present circumstances and requirements. At the core of this foreign policy is the understanding that the country's fundamental interests are still best served by upholding the liberal world order – economic, political and strategic – that was established at the end of the World War II and further strengthened and entrenched by the revolutions of 1989.

In addition to reminding Americans and others around the world of the value of this order, and of America's central role in upholding it, we also hope to bring it up to date: reaffirming some traditional approaches where necessary, but also reforming and changing traditional approaches where needed. The world is not the same as it was in 1945, so any effort to strengthen the liberal world order must account for these substantial changes in the international system.

We believe there is an opportunity now and in the years to come to re-engage the United States effectively in global affairs, slow the wild pendulum swings of the past decade and build a steadier and more consistent US foreign policy that can best serve American interests and values while serving the interests of many others around the world who share those values.

To take advantage of the present opportunity, however, it will be necessary to strengthen American public support for re-engagement, while adapting America's engagement in a way that plays to its strengths and advantages and is responsive to the needs and concerns of others around the world. We need to establish new foundations for an effective US foreign policy for a new international environment.

Finally, we recognize that the United States is not omnipotent and faces limitations in what it can do. The emphasis must be on taking advantages of American comparative advantages in certain key areas, doing what the US does best, and in a way that reflects what those around the world want and need from America.

To this end, we focus on four baskets of policies – Strengthening and Adapting the Liberal Economic Order; Strengthening the International Security Order; Taking Advantage of the Energy Revolution; and Playing to America's Strengths in Education, Innovation and Entrepreneurship.

A key feature of our approach is that these four policy baskets are mutually reinforcing and need to be seen, and carried out, not in isolation but as part of a broad package. There is a tendency in the American political system for different groups to support different elements of this strategy, while not supporting or actively opposing other parts. This has led to incoherence and imbalance in America's overall approach to the world. The fact is, the liberal world order itself is made up of mutually reinforcing elements: a liberal, free-trade economic order tends to strengthen ties among nations and can make nations hesitant to go to war, while a healthy security order encourages economic rather than military competition and provides the necessary underlying international stability to allow the liberal economic order to function.

Pursuing engagement in all four baskets can also make US leadership more palatable to greater segments of the world. Those who may take a skeptical view of US military power or geopolitical leadership, for instance, may nevertheless welcome greater American engagement on matters of education, entrepreneurship and innovation.

A key task for American political leaders and policy advocates will be to demonstrate and explain how the pieces fit together: how trade enhances security; how military power undergirds prosperity; and how providing access to American education strengthens the forces dedicated to a more open and freer world. We believe that, by looking at the whole picture, the importance of the individual strands of policy will be clearer and therefore easier to sell.

² As New Dangers Loom, More Think the U.S. Does 'Too Little' to Solve World Problems." Pew Research Center for the People and the Press RSS. N.p., 28 Aug. 2014. Web. 22 Oct. 2015.

Basket 1 – Strengthening and Adapting the Liberal Economic Order

- Support the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership
- Support deepened US investment in a robust, representative and legitimate Bretton Woods system, including support for IMF reform
- Work with new institutions, including the New Development Bank and Asian Infrastructure Investment Bank (AIIB), to uphold high standards and collaborate and integrate with existing development institutions

As the United States emerges from the global economic crisis, it has the opportunity to refocus and reinvest in the liberal economic order it helped create and shape it for the future. Multilateral institutions within this order emerged stronger and more resilient after the crisis, with their relevance and need underscored. However, their continued centrality to the system rests on leadership from within, most notably from the United States.

Existing multilateral financial institutions, such as the IMF and World Bank, will inevitably evolve to reflect changing realities and a shifting economic balance of power. American policy should work to ensure that these changes are consistent with liberal economic norms and reflect the legitimate needs of partners that share and benefit from this order.

New institutions, meanwhile, have arisen and will continue to arise, sponsored by powers that may wish to challenge the existing order. The US, together with its allies, should strive to embrace these new institutions and engage constructively with them, encouraging them insofar as they reinforce liberal economic norms, discouraging them when they challenge those norms and, in general, urging them to engage collectively as part of a larger multilateral system, rather than seek to operate as an alternative.

Free Trade and the Global Trading System

Free, fair and open rules-based trading systems are the cornerstone of the liberal economic order, whether through the World Trade Organization (WTO) or regional trade agreements with partners. The US has benefitted from this system that it helped create, both economically and strategically, while at the same time advancing US interests and values. Other partners within this system have also benefitted, including the new rising economic powers and especially China.

The US currently has a robust trade agenda underway and should push forward to realize both the Trans-Pacific Partnership (TPP), made up of 12 countries and encompassing 40% of global GDP and one-third of all trade, and the Transatlantic Trade and Investment Partnership (TTIP), made up of the US and its EU allies representing \$1 trillion in trade every year. While not every trade agreement is a good agreement, both of these agreements should enable the US and its partners to set new and higher standards of trade that will raise the bar throughout the global trading system.

Both the TPP and TTIP agreements are ambitious in scope and substance. Congress and the American public will need to understand fully how the US can benefit from them, both economically and strategically. Given concerns expressed about trade on both sides of the political aisle, there is no guarantee that divisions between parties, and within parties, might not squander this opportunity. These trade agreements must fully incorporate the will of Congress as set forth in Trade Promotion Authority by law.

Having accomplished this objective, the US must then lead with these two important regional trade agreements to shape the future of globalization and the multilateral system. The US should also continue to push forward productive initiatives at the WTO, such as the 2013 Trade Facilitation Agreement, now awaiting ratification, which could improve efficiency in the global trading system by reducing costs and administrative burdens associated with moving goods across borders.

While enhancing and enforcing the legal and institutional architecture of the global free trade system is of strategic and economic importance to the United States, so too is the imperative that trade routes channeling trillions of dollars' worth of goods around the globe remain open and safe for trade and commerce. Whether in the South China Sea or in Arctic waters, the principle of freedom of navigation underpins the global trading system and must be maintained.

Existing Institutions and the Bretton Woods System

The United States was the principal founder of the institutions in the Bretton Woods system, including the IMF and World Bank. These institutions have been important partners in supporting the liberal order. The US and its allies have looked to these institutions to address the economic dimensions of the Ukraine crisis and the West African Ebola crisis. As the largest shareholder, the US has led these institutions through many transitions.

These institutions need to be robust, representative and legitimate to work. This means that they need to reflect economic realities, including the growing economic contributions of nations like China and India. A multilateral economic institution in which the Benelux countries have a greater voting share than China cannot expect to play a central role in the global economic order of the 21st century. Because the US has an interest in the continued health and legitimacy of such institutions, it is in America's interest to support the necessary reforms of those institutions.

There is enough blame to go around, but for several years Congress failed to approve the US-led 2010 IMF quota reforms to expand representation of emerging economies to reflect their role in the global economy and increase financial resources. As a result, the US risked losing a substantial degree of influence at the IMF or seeing the IMF itself delegitimized. China and others benefitted from US inaction on IMF quota reform to gain support for the AIIB and the New Development Bank. In the future, Congress and the Administration need to act cooperatively and decisively to show that the US will engage constructively and lead the IMF through transitions to come.

Further, Bretton Woods international financial institutions play a crucial strategic role in the rules-based liberal international economic order and should not be taken for granted. The United States must refocus and re-invest in its own system and provide the financial and intellectual resources necessary to ensure that these institutions can fulfil their mandates. In addition to contributing sufficient financial resources, this includes ensuring continuous, highly qualified US representation on each of the executive boards of these institutions. The past several years have seen many of these board seats left vacant. The US should continue to be actively involved in leadership selection as the management terms at these institutions come to an end.

Finally, the US should seek ways to amplify the impact of these institutions in the field of public-private cooperation. In a world in which private capital flows to developing countries outweigh official development assistance by more than 10:1, finding ways to meld institutional actors and business is crucial.

This entails standard-setting, confidence-building and ensuring the existence of predictable rules and legal security. Here the Bretton Woods Institutions and especially the World Bank Group play a key role. The US should lead the push to reinforce the IFC and, in particular, to strengthen the Multilateral Investment Guarantee Agency through bolstering its mandate and increasing its operational funds. Channeling the forces of the private sector is one of the challenges and necessities of the global liberal economic order.

New Institutions

Rising economic powers have already responded to their lack of proportional influence at existing development institutions by creating new institutions, such as the New Development Bank and the AIIB, where they can wield greater influence. The emergence of new institutions must be expected, and some of these new institutions may well challenge not only the existing institutions, but also the liberal economic order itself.

It is very much in the interest of those with a stake in the liberal economic order for the US and its allies to help shape these new institutions in a way that is compatible with the existing liberal economic order. This is possible. Over the decades since World War II, new regional development institutions emerged without the United States' direct involvement, such as the Islamic Development Bank, CAF (the Development Bank of Latin America) and the European Investment Bank, with each finding its role within the greater development institutional system and leaving the overall system no weaker.

The United States should strongly encourage new development and financing institutions, like the New Development Bank and the AIIB, to collaborate and integrate with existing regional and multilateral development institutions to ensure they uphold high standards. It should also be willing to embrace them if they prove through their actions that they aim to complement and engage rather than compete in the existing system.

Basket 2 – Strengthening the International Security Order

- Reassure allies and friends of US reliability as a guarantor of security
- Establish a modus operandi with non-allied independent powers on common interests
- Demonstrate American effectiveness in diplomacy and problem-solving, and its capability in building partnerships and pulling nations together in common efforts
- Deter and contain real or potential adversaries while showing the benefits of integration in the liberal world order
- End sequestration and increase US defense capabilities and international affairs budget

The liberal world order that arose after World War II rested on three pillars: a liberal economic order that could bring a greater degree of prosperity to all who participated in it; a liberal political order that favored democratic governance; and a strategic order that suppressed the great power conflicts that had produced so much destruction in the first half of the 20th century.

The first two involved extensive mutual cooperation among nations and peoples. The latter depended almost entirely on the power and commitment of a single power: the United States. It was the US military presence in both Europe and Asia that effectively put an end to the cycle of warfare that had plagued both regions. American military power acted as a guarantor of mutual security that allowed former enemies – such as Germany and France – to join in economic and political union without fear of another conflict.

In East Asia, the American presence allowed Japan, and later China, to focus on economic growth and modernization without fear of another round of conflict that had caused such damage to both countries between the 1890s and the 1940s. In the Middle East, too, albeit with less consistent success, the United States served as a mediator and guarantor of the security of the leading nations, even those that were engaged in conflict with one another.

The fact that the world has gone seven decades without a great power war is, in historical terms, a remarkable achievement. Even the “long peace” that followed the end of the Napoleonic Wars was not without costly great power wars (the Crimean War of the 1850s and the Franco-Prussian War of 1870-1871). This long and broad era of strategic peace has, in turn, made possible the other successes of the liberal world order: the unprecedented prosperity of the post-war era and equally unprecedented spread of democratic governance.

Today, however, this strategic order is being challenged on several fronts. In Europe, Russia has committed the first cross-border aggression by a major power since World War II, raised the specter of renewed nuclear competition and caused tensions with NATO allies from the Baltics in the North to Turkey in the South.

In East Asia, China’s greater military power and expanding strategic reach have raised questions about the reliability of America’s security guarantees to its allies and to America’s ability to play its traditional role of keep international trade routes and sea lanes open. These challenges promise to be especially pressing in the South and East China Seas, where Chinese territorial claims conflict with those of other nations, including close allies of the United States, and in some cases conflict with international law.

In the Middle East and Persian Gulf, Iran has deployed forces in Syria and supported guerrilla forces in Syria, Lebanon and Palestine in a bid for growing hegemony in the region. The forces of ISIS have gained control of territory spanning the border between Iraq and Syria and threaten to grow stronger, feeding off sectarian strife in both countries. The crises in the Middle East have also spilled over into Europe, putting immense pressure of European political institutions and on security ties among European countries and between Europe and the United States.

The chaos and destruction in Syria and elsewhere in the Middle East have produced the largest mass movement of people since World War II. This has tested institutional ability and strained the capacity of frontline states. It has also fuelled populist and xenophobic rhetoric intended for domestic political audiences in the United States and particularly Europe that has sought to blur the lines between those owed international protection and economic migrants.

While the security concerns are real, and vetting and vigilance are necessary, it is crucial that the US and its partners live up to their commitment to protect internationally endangered persons under the Refugee Convention. This is not only a question of doing the moral or legally obligated thing, it is smart policy. Denying entry to refugees based on a fear of radicalization at home does not resolve security concerns, it merely pushes greater numbers of at-risk communities towards the conditions that foster violence, hopelessness and alienation.

At the same time, the United States and its partners must lead an effort to update the current legal and institutional

framework established after World War II and ill-suited for the modern world.

These challenges will not go away but must be addressed, intelligently and firmly. The US must provide leadership, including military leadership, to help provide a solution to the Syrian political crisis while also reducing and eliminating the threat posed by ISIS.

Overall, to sustain the liberal world order requires that the United States continue to play the role it has played since World War II in providing security and deterring aggression. At a time when much of the world has come to doubt America's will to continue its global engagement, steps need to be taken to provide reassurance.

Reassuring Allies and Friends of American Reliability

The first task is to reassure friends and allies of the dependability of US security guarantees. Nations that begin to question America's reliability will seek other means of protecting their security, and while we would like to believe that they do so in ways that serve both their interests and ours, it is more often the case that the courses they choose are destructive and disruptive to the liberal order and to general security.

Gulf States supporting radical forces in the sectarian struggles of the Middle East, for instance, have lessened everyone's security, including their own. A close ally such as Japan should not be left on its own to meet the challenges of a region where the exercise of Japanese military power, unmoored from close ties with America, raises historical concerns. In Asia as well as in Europe, allies facing a China growing in power and ambition or a Russia with great power and expansionist ambitions need to be reassured that the US has both the will and the capacity to provide defense against aggression. That has been and remains the cornerstone of the security system that has undergirded the liberal world order.

To this end, we must first work to strengthen the political, military and economic capacity of allies. The stronger they are, the more effective is the deterrence provided by the alliance. While dependence on the US for ultimate security is unavoidable in this international system, to the degree allies can do more on their own and can partner with the United States to provide overall security, the alliances will be healthier and American public support for a globally engaged foreign policy will be greater.

At the same time, it is important to demonstrate to friends and allies that the US can provide diplomatic solutions to problems, has a unique capacity to bring parties together to find common solutions to problems and does not pursue aims by strictly unilateral or military means. Although effective leadership often requires moving out ahead of other powers, the United States needs to avoid creating the perception of being a rogue superpower.

Establishing a Modus Operandi with Independent Powers

We also need to find ways to incorporate rising democratic powers and organizations that are not traditional American allies into the overall security framework. This means finding a modus operandi with nations like India and Brazil, or the Arab League, which do not want to join an American alliance system but share some common interests. Whether this requires new institutions or simply a supple diplomacy remains to be seen. But an effective American policy will find a way to work with independent powers that nevertheless share a common world view.

Having reassured allies and friends of America's reliability as a provider of security and a facilitator of diplomatic solutions, it becomes possible to deal more effectively with real and potential adversaries. There is no more effective deterrent to opponents of the liberal world order, and to a stable security order, than the reality and perception of a strong, unified alliance and cooperation among friendly states that share common goals. Behind that must be the evident willingness and capability of the United States to act to deter aggression; but the perception of effective US leadership, and the welcoming of an American role by friends and allies, adds significantly to deterrence.

In dealing with actual or potential adversaries, the first step must be effective deterrence and containment. It is essential that the United States make clear that the costs of aggression outweigh the benefits and that success is impossible. This requires, above all, maintaining sufficient military strength, and the will to use it, so that potential challengers have a clear sense of the risks. Nothing invites aggression like ambiguity, in terms of both means and will, on the part of the deterring power.

With effective deterrence established, however, it is possible and desirable to offer would-be challengers an alternative

path. While making it clear that military action will not succeed and will be costly, the United States can also make clear, through diplomatic and economic “carrots and sticks”, that a peaceful rise through integration into the existing economic and political system is a much more fruitful course. Wherever possible, coalitions that espouse these views should be assembled with the US operating as an indispensable partner.

Ending Sequestration and Increasing US Defense Capabilities

The United States spends more on defense than any other nation in the world, and indeed more than the next 10 nations combined. This fact is often noted to suggest that the US defense budget is either high enough or too high. What many fail to take into account, however, is that the United States plays a unique role in the world. No other nation has the global responsibilities that the United States has shouldered.

The fact is, the US has been the main provider of security throughout the world for the past 70 years. Its navy keeps the sea lanes open to international trade. Its land, air and naval forces help maintain the peace in East Asia, Europe, the Middle East and the Persian Gulf. Therefore, American forces must have far greater capacity and reach than those of other nations.

Today, as a result of budget cuts, including those mandated by the so-called sequester, America’s ability to continue playing this vital role in all these theatres is increasingly in question. Every recent secretary of defense, every chairman of the joint chiefs of staff and every head of every service has warned that, unless spending on defense increases, US forces will lose their capacity to provide security, will “hollow” out, will be inadequately trained and equipped to carry out their global missions.

Given the role that the US plays in providing the underlying security that allows the liberal world order to function and flourish, continuing down this path not only threatens US security, but also the order itself. To carry out any of the goals in this report, therefore, will require taking on the political challenge of fighting to lift the sequester caps. As a political matter, this may require compromises on both taxes and non-defense domestic spending. If so, those compromises should be made.

Basket 3 – Taking Advantage of the Energy Revolution

- Help European and Asian allies diversify energy sources, especially in gas
- Leverage US influence, productive capacities and declining energy prices to increase pressure on energy-exporting autocratic nations hostile to the liberal world order
- Support and hasten the weakening of OPEC and other energy cartels by creating investment environments that support increased production and therefore diversified supplies on the global market and working with other producers to support liberal economic policies

The US is leading a revolution in energy – with profound implications for America’s standing in the world, its relations with other major powers and for global order. In less than a decade, US oil and gas production exploded as new technologies released abundant fuels from shale rock formations across the country. This revolution and other global factors contributed to a nearly 50% decline in the global price of oil since June 2014.

Today, the US is the world’s largest producer of both oil and gas, outpacing Russia, and largest oil producer, topping Saudi Arabia. However, because oil is a global commodity and gas is increasingly becoming so, the US is still affected by global movements in supply and demand. At the same time, through increased energy efficiencies, utilization of domestically produced gas and use of renewables, the US has significantly reduced greenhouse gas emissions and is reducing its dependence on oil.

As a result of these holistic changes in US energy abundance and consumption, America is entering an era of energy security unlike any it has enjoyed in the last half-century. Energy security is not only an achievable goal for US policy; it is close to a reality – one that can and should affect the way the United States engages the rest of the world.

The US Energy Revolution

Hydraulic fracturing – or fracking – has transformed the energy picture in the United States. Since 2008, US oil and gas production have increased by 80% and nearly 30%, respectively. This is a marked turnaround from the last decade, when the US was importing large quantities of oil, and companies sought applications for constructing liquefied natural gas (LNG) import terminals as the domestic demand for natural gas was expected to far outpace domestic supply. With new hydrocarbon discoveries and continuing declining cost of production, this growth is projected to continue throughout this decade.

Another huge energy revolution was the largely unpredicted decline in US oil consumption, despite a recovering US economy, and the increase in clean fuel sources such as renewables and natural gas. Americans use less petroleum today than in 1997, despite the fact that the economy is 50% larger. The major reason for decline in oil consumption is the transport sector, which accounts for 70% of US oil consumption. Americans are driving less, and the cars they are driving are more fuel efficient and utilize alternative fuels.

Additionally, over this period, the US increased its use of renewables and natural gas as a percentage of electricity generation, displacing coal usage. Non-hydropower electricity generation has nearly doubled since 2008. Although China is the world's largest producer of electricity generated from renewable sources, including hydropower, the US generates more electricity from non-hydropower renewables.

This comprehensive energy revolution has had a huge impact on the US and global markets, in addition to increasing the country's energy security and self-sufficiency. The US decreased carbon emissions by around 10% from 2005 because of increased use of natural gas and renewables in electricity generation, decreased oil consumption, structural changes in the economy and energy-efficiency mechanisms.

Slower-than-expected demand for oil, increased production in the US and OPEC's decision not to cut production put downward pressure on global oil prices by about 50% in the past year. In the face of declining demand, few major oil suppliers have been willing to cut production, either because they have few other sources of income, are unwilling to cede market share to others or for geopolitical reasons. The low prices are expected to stay in the short term.

Increased US natural gas production put downward pressure on natural gas prices, particularly in the US. This translated into increased US competitiveness, especially of gas-intensive industries like fertilizers, petrochemicals and certain manufacturing businesses. The shale boom, related economic activities and increased efficiencies have helped to accelerate economic growth in the United States to the tune, by some estimates, of 2%-4% of annual GDP and will add almost 2 million new jobs by 2020.

Foreign Policy Implications of the Energy Revolution

This energy revolution is a potential source of tremendous power for the United States – a source that can underpin a strong domestic economy, strengthen alliances, weaken adversaries and sustain a liberal international order. The US has long been a central player in the international energy market but, at least for the past 40 years, mainly as a world-class consumer. Henceforth, its power in the market derives from being a world-class producer. How can it use that power effectively? Three possibilities stand out.

First, the US can use its energy power to help allies in Europe and Asia to diversify their sources of energy supply, notably of gas. For much of Europe, Russia remains the most important source of supply for natural gas, especially to Central and Eastern Europe and Germany. Moscow has manipulated this growing dependence, both for political effect when interrupting supply and as a means to extract long-term contracts binding European consumers to high prices. Despite declining prices, European industry and consumers pay much more for natural gas than Americans do. Part of this is due to the difficulty of getting natural gas to market; but a key part is due to Moscow's central role as the gas supplier of first – and last – resort.

The shale boom may provide a way to diversify global supply – at least in the longer term. In the second half of this decade, the United States will begin exporting LNG in significant quantities. Most terminals are still being reconfigured, and each application requires Department of Energy (DOE) approval to export LNG to countries that have not signed a Free Trade Agreement (where such approval is automatic). While DOE has approved permits, conclusion of the TTIP and TPP negotiations would allow automatic approval of exports to allies such as the EU, Japan and others.

Market forces will decide where the physical supply of gas goes, but even without direct supply of gas to a given

country, the growing production of shale gas in the US can exert a profound and positive impact on allied economies in Europe and Asia. As a result of the US cutting gas imports, global supplies increased and suppliers that once shipped gas destined for America instead sold to alternative markets in Europe and Asia. Once exports begin, increased supply from the US increases diversity of supply on the world market and, through contracts without destination clauses, enables greater flexibility in the marketplace.

Moreover, other new suppliers – notably Australia – are entering the LNG market. Not only do these developments provide Europe and Asia with an alternative source of supply, but these new sources also provide leverage for negotiating better deals and much-needed supplies of energy to fuel strong economic growth. This scenario already played out in Europe, when European countries were able to negotiate better contracts with Russia; and in Japan after the Fukushima disaster, when Japan sought greater supplies of LNG to substitute for nuclear power generation that went offline.

Second, as the United States emerges as a major player on the global energy supply market, it can exert influence in ways that weaken some of its most important adversaries – notably Russia and Iran, who are both reliant on hydrocarbon exports for their economic well-being. A decrease in US imports of crude oil as a result of increased domestic production and OPEC's decision not to decrease production levels led to the recent downward pressure on oil and gas prices to around \$50 per barrel. According to the IMF, Russia needs oil prices to be about \$90 per barrel to finance its budget, Iran needs it to be \$130, and Venezuela even more.

Enabling the export of US crude oil would enhance diversity of supply on the world market. It also would enable the US to diminish the economic burden of its allies when the global community seeks to increase pressure and sanction hydrocarbon imports, as was done with Iran and Saddam Hussein's Iraq.

Third, the emergence of the United States as the world's largest oil producer, coupled with the growing output of neighboring Canada and Mexico, calls into question the continuing ability of OPEC to determine world oil prices. As *The Economist* notes, "an effective cartel requires three things: discipline, a dominant market position and barriers to entry."³ OPEC fails on all counts. Key OPEC members are breaching production quotas, all the more so when prices are falling. Once dominant, OPEC today accounts for little more than one-third of the world's oil supply. And the US, Canada and other countries are entering into the oil production business – with the fracking revolution offering the possibility that other countries will follow suit.

The limits of OPEC have become evident in the latest collapse of the world oil price. Increased supply of oil from North America coupled with weak demand in Europe and Asia put pressure on world prices. In previous years, Saudi Arabia might have led OPEC to reduce production quotas to stabilize prices. But, with most OPEC countries unable or unwilling to cut production, the Saudis decided to keep their pumps open and let prices fall. In the short and medium term, Riyadh was more interested in keeping market share than making profits. As a result, prices have been set by market conditions rather than imposed by cartel behavior. With non-OPEC production likely to grow in the years ahead, the ability of OPEC to manipulate the oil market will be steadily reduced – at least until such time that the growth of global demand begins to outpace the growth in global supply.

America's energy revolution provides a tremendous opportunity to solidify a liberal international order based on strong alliances with key allies in Europe and Asia, weakening revisionist forces in Russia and elsewhere, and fostering market conditions for the trade in oil and gas. The energy revolution alone will not be sufficient to secure these outcomes, but it provides the United States with a major new advantage in seeking to bring them about.

Basket 4 – Education, Innovation, Entrepreneurship: America's Most Desired Commodities

- Increase the number of high-performing foreign students studying in the US, encourage strategic foreign language study by American students and encourage two-way, people-to-people educational exchanges
- Enable global entrepreneurship through encouraging reform of regulations, supporting access to small and medium-sized enterprise finance and training by assisting developing nations in the creation of community colleges and vocational training centers
- Support multi-country research endeavors with mutually beneficially outcomes
- Connect foreign innovators with American companies and financing

³ "Making the Best of a Low Price." *The Economist*. *The Economist Newspaper*, 06 Dec. 2014.

The United States is a world leader in higher education, has the world's greatest innovation culture and fosters the collaboration of all the institutional elements necessary for entrepreneurship to flourish. This constellation of American assets stimulates imitators around the world seeking similar technological and economic drivers. Yet, when US diplomats reach out to foreign governments for cooperation on issues ranging from the Ukraine to the Middle East, the international financial system or nuclear proliferation, the response is often wary. Fears of American hegemony, suspicions about the consequences of globalization, hostility to what some regard as the imposition of "Western values" can make cooperation difficult. Foreign governments are not sure they want what the United States is offering.

And yet both in public polling and in deeds, it is clear that foreign publics and governments continue to see the US as a model when it comes to education, innovation, science and technology. Their people want to send their children to US colleges and universities. Their entrepreneurs want access to the American market, to American finance and to American innovation. In 2013-2014, more than 800,000 international students were enrolled in American universities, a 72% increase since 2000. Half of these students were from China, India and South Korea, with China accounting for 31% of the total.

Meanwhile, businesspeople around the world seek to replicate American-style entrepreneurship and innovation in their countries, trying to build up their own "Silicon Valleys" and other US-style centers of innovation and entrepreneurship. The world has come to recognize that education, creativity and invention are essential drivers of prosperity. And here American ideas, support and leadership are most welcome from both public sector leaders and the private sector.

The US private sector has been engaged for some years, and will undoubtedly increase its role in the future. But the interaction between the US private sector and the US government is not consistent, resulting in less than full benefits and opening up vulnerabilities for the US (both public and private sector). It is time the US government engages the private sector more fully and robustly in tackling the challenges to collaboration with developing countries.

These "soft assets" of education, innovation and entrepreneurship are not controlled by Washington but, rather, reside in complex networks of private actors; and US companies often bring high standards in corporate governance, foreign direct investment and innovative technology. Many companies see their future growth tied to the rest of the world – with 95% of the world's population. Companies need clear rules of the game, trained staff and workers, growing consumer classes and supply chains that are reliable, and respect human rights and environmental standards.

The US should embrace this opportunity and position education, technology-driven innovation and entrepreneur-focused economic growth as central elements of its international policies. Countries everywhere can benefit from free and open exchange of ideas and innovations, and a broadly-educated citizenry unlimited by gender, race or class.

Increase Two-Way Educational Exchanges

A good starting point is to leverage America's educational strengths. During the Cold War, the US invested heavily in government-funded scholarships for students from the developing world to study in the US. It helped educate two generations of elites in developing countries who spoke English, had an appreciation of the core values of openness, honest and open dialogue, and an unencumbered search for insight, ideas and meaning. The US should find public and private resources to further increase the number of graduate students to study needed skills such as science, math, engineering, city planning, public administration and agriculture in US institutions of higher learning and then ensure that they bring those skills and the recognition of the power of ideals and ideas back to their home countries.

This can be achieved through increased educational exchange programs, with an increased focus on implementing bi-directional exchanges. Too often these programs are hampered by insufficient information, arduous and slow visa policies and limited funding capacity. For example, According to a survey of prospective international students conducted by the Institute of International Education (IIE) from 2009-2013, 50.3% of prospective students agreed that the US has difficult or complex visa procedures – more than twice the number (24%) who said the United Kingdom's visa process was complex, which itself was perceived to have much more difficult visa procedures compared to all other countries covered (e.g. Germany with 10%).

More and more governments are willing to create scholarships for their students to study in the US and other nations. The US should work to encourage more of these programs, and do more to support both American students and faculty studying in foreign institutions. While high tuition costs remain a primary concern for international students looking to study in the US, the vast majority of students do not look to the US government for assistance. Today, funding for international students' education comes overwhelmingly from the private sector, with 64.7% coming from personal and family sources and just 0.5% from the US government. While increasing US government funding for

students from certain less-developed countries would be very useful, increases in government assistance for tuition would be just a drop in the bucket when it comes to driving greater educational exchanges overall.

Even after obtaining a visa, many students must deal with the hassle of renewing their visas each year. However, due to reciprocal agreements between the US and certain other countries, some students are lucky enough to have visas that remain valid for longer periods of time. For example, the US agreed with China in November 2014 to extend student and exchange visas from one to five years in duration, eliminating the need for Chinese students to make the costly journey home to renew their visas each year and opening up students' summer vacations for further study and cultural exchange. The US should work to create similar arrangements with as many other countries as possible.

The US government should streamline and facilitate visas for study and even tourism (which is an effective diplomatic tool in itself). While security concerns in a post 9/11 world are important, and some of the issues have been addressed, the country is still far from the welcoming place it was at the turn of the millennium. More thought must be given on how to responsibly address these concerns in a time of rapidly advancing technology, as the nation needs to be able to figure out how to make such decisions quickly, while balancing two competing needs.

Many nations are interested in working with US educational institutions to develop stronger schools of their own, but both sides lack the resources to pay for such partnerships. There is strong interest in community colleges as part of an aggressive program of workforce and vocational/technical training in developing countries to align private-sector needs with skills taught in schools. Relevant education and training opportunities are key to converting the current "youth bulge" into a development dividend, such as the large youth population that fuelled growth in Asian countries in the 1960s.

Getting the untrained or uneducated into the workforce will stimulate economic growth abroad and build demand for US products. The US government, private sector and education institutions should partner and play a role in facilitating technology and training to advance skills development across all sectors of employment.

Enabling Entrepreneurship

The agenda of stimulating innovation and entrepreneurship holds enormous potential for shared gain by the US and its international partners. But to realize that potential, it will be essential to focus on US and foreign regulatory, legal and financial systems.

The US government should find ways to enable and equip entrepreneurs, particularly with catalytic support and convening power to disseminate best practices among developing countries. A powerful tool in this effort has been the World Bank's "Doing Business Indicators."

The US private sector has an important function to play in supporting workforce/vocational training. Integrating young people into the formal economy is in the country's enlightened self-interest. Many industries such as tourism/hospitality, construction and ICT will need hundreds of millions of skilled workers in the future. Only the private sector understands fully the future needs for skills to fuel the economy, and it should play a central role in guiding civil society, educational institutions and governments to provide workforce training on a very large scale in all regions.

The central point is that entrepreneurship will only succeed if the essential elements are internalized by local private-sector institutions (whether locally owned or FDI). The US can inject ideas, for example by sending individual entrepreneurs to speak in other nations, but those ideas must have local legitimacy. People in other nations need accelerators and venture capital, but above all, they need a culture that accepts both the frequent flame-outs and the creative destruction that entrepreneurial innovation generates. Advances in information communication technologies and greater access to finance have democratized innovation, empowering individuals, companies and developing-country governments to create their own solutions to local problems; technological solutions no longer need to be imported into developing countries.

The US government can be a catalyst for innovation around the world. USAID's Global Development Innovation Ventures, for instance, leverages investments from private investors, philanthropists, corporations and governments to fund efforts to address development challenges.

The US can also empower foreign innovators by connecting them to US companies and markets, providing greater access to finance and fostering the exchange of ideas. With the right mix of private sector and donor support, science- and technology-based approaches to development have significant economic impact.

One such example is M-Pesa, a mobile payment application started in Kenya and developed by Vodafone subsidiary Safaricom. It was initially supported in part by a £1 million grant from the United Kingdom's Department for International Development (DFID). The app has facilitated an average of \$240 million per month in person-to-person transfers since 2009. Roughly one-third of Kenya's gross national product flows through it.

The M-Pesa example illustrates the importance of partnerships to identify local needs and jointly support innovative ventures that meet these needs. Identifying and incubating efforts of similar examples should be a US priority not only because of the immediate economic impact, but also because of the potential for reverse innovation – when products originally developed for emerging markets are repackaged and used in the developed world with tremendous benefit to US companies and developing-country needs.

This short list is simply a beginning. The critical message is the enormous potential of focusing on advancing education, innovation and entrepreneurship at home and abroad. Few initiatives have such opportunities for win-win outcomes, and few would be so welcomed across the globe.

Conclusion

The liberal world order that has been in place since 1945 is showing signs of deterioration. The turmoil and multi-sided conflict in the Middle East; Russia's invasion and seizure of territory in Ukraine; the pressures on the liberal political and economic order in Europe; China's growing power and ambition in Asia; the tenuousness of the international consensus on free trade and multilateral economic institutions – all these combine to put this order at risk.

There is no single solution to this manifold challenge, nor can this challenge be met by one nation, no matter how powerful. There are no unilateral answers to today's problems, any more than there were to yesterday's problems. The role of the United States, however, is special and important. As the principal creator of this liberal world order, and as the power that has played a large role in upholding it over the past seven decades, the United States continues to have a large share of the responsibility to defend this order now that it is under challenge.

We believe it is in the American people's interest to defend this order, from which they have so greatly benefited. It is also in the world's interest that the United States come to the aid of the liberal order in an intelligent, open way that combines power with understanding.

This paper has laid out a multi-pronged approach for the United States to preserve and defend this liberal world order against the many challenges it faces. A key premise of this paper has been that there is no one answer, no single "silver bullet" that can meet these challenges. What is needed is a grand strategy that pulls together the military, the political, the economic and the cultural, which plays to American strengths and responds to the varying needs of many around the world. This paper has attempted to present that grand strategy and its component parts. What we offer here does not and should not represent the end of thinking on this important and complex subject. We believe, however, that it provides a strong beginning.



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World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org