

## After the G-zero world

The G-zero has had its skeptics. There were those that thought the United States was still fully willing and capable of upholding the international order. And others that believed the existing international diplomatic, economic, and security architectures would hold perfectly well, even if they were transitioning away from American leadership. It's now become clear that we are indeed witnessing the creative destruction of the old geopolitical order. And yet, it remains far from obvious what will eventually replace it.

Three questions need answering to determine what emerges after the G-zero. The first: what will be the nature of the world's most important bilateral relationship: that between the United States and China? Will it be a mostly cooperative or mostly competitive one (I'd argue in between isn't really an option, given the challenges of managing China surpassing the United States as the world's largest economy. But it's not critical to the point). In other words, how cooperative is the emerging order?

Second, to what extent will other countries matter on the global stage? Will they move to fill the vacuum led by the old order, both regionally and more broadly, or will they be bit players compared to the Americans and the Chinese? In other words, to what extent is the emerging order truly global?

And third, will states still be effective as the principal agents of leadership and governance? To what extent will states still be able to act as the sole arbiter of enforcement within their territories and, as seen necessary, beyond? Does geopolitics, as we've known it, persist?

The G-zero is now sufficiently advanced that the geopolitical implications are starting to bite. That puts the international system under stress, and in turn helps us to answer the direction of the eventual likely response. The initial answers are pretty interesting. Taking each in turn...

**i - US-China.** It's a mixed picture. On the negative side, China is growing faster than it's reforming, creating a tougher investment climate for American firms trying to compete in the Chinese market without sufficient rule of law — something that's likely to continue to deteriorate in strategic sectors as Chinese firms gain power and as the Chinese government sees continued advantage in maintaining its grip over the economy. Escalating cyber conflict sharpens these difficulties. China is working hard to build alternative structures to US-led economic institutions, spending hundreds of billions on infrastructure investment outside its borders with the intention of developing international alignments towards China... or at least hedging other countries away from a primarily US orientation. And militarily, China is building up its capabilities across Asia, creating dominant asymmetries over an independence-leaning Taiwan while also particularly unnerving southeast Asian nations. While the Americans are showing little sign of backing away from regional defense commitments.

And yet both the Chinese and American governments have shown clear understanding that managing a strong and stable US-China relationship is a reasonably high priority to them each. Both countries have looked for opportunities to present a united front: from the last summit meeting, a series of decisions around technology investments and environmental strategies were notable. While there's been no particular progress on a bilateral investment treaty (BIT) between the two countries, America's moves to conclude its trans-pacific trade partnership (TPP) ultimately hasn't increased containment as much as it's stimulated an understanding from Beijing that, like the World Trade Organization, it needs to raise its standards to avoid being left by the wayside of a world in which regional trade deals are taking over. China's global ambitions have been increasingly assertive — some in Washington would say threatening —

on the economic front. But looking at the military/security balance, China's efforts have focused much more on maintaining stability and protecting Chinese expat workers... acting more like a mid-tier European country than, say, Russia. And perhaps most importantly, on the positive side of the ledger is that both the United States and China have developed sufficient respect for each other to avoid gratuitously taking measures that would damage their relationship (again, in marked contrast to US-Russia relations). The Americans have been quieter than they might have been on Chinese human rights and on Hong Kong, while for its part China hasn't looked to score public points on American foreign policy vulnerabilities with Russia and in the Middle East. And in a few particularly tough areas — Iran, Syria, North Korea — both countries have been... perhaps not aligned per se... but nonetheless constructive.

In short, things aren't so bad. but there are a couple of factors that lean towards the negative side. The first is that China's leadership presently feels confident and consolidated, but that's unlikely to hold given the stresses of a slowing and transforming economy and the government's constraints in providing for an increasingly vocal and expansive middle class. When that becomes a vulnerability domestically, the same level-headedness and maturity in managing potential conflict externally is unlikely to persist. The second is that the United States has so far had plenty of very high priority items on its plate: Russia, Isis, and a host of conflicts in the middle east. That's allowed China a lot of room to pursue Beijing's preferences without much pushback. but again, that's not likely to persist... less because the middle east will get better (though the Russia relationship will likely stabilize — more on that in a bit) than because the scale of the perceived Chinese competitive threat will worsen.

So on balance, the overall trajectory is negative, but only slightly. Different leaders, economic conditions, and geopolitical contexts could still tip it to one side or the other.

**ii – Other countries.** This is clearer, with the world heading towards a more multipolar environment. In part we're talking about a series of countries acting much more assertively in their own backyards; in part it's about the comparative unwillingness and incapacity of the United States and China to work as either friends or adversaries to create a new leadership model.

The result isn't equal across the board. The most obvious country looking to make a mark for itself on the new global map is Russia. Feeling mistreated for decades, facing economic troubles at home, benefiting from improved military capabilities, and under a particularly strong and consolidated president Vladimir Putin, Russia's looked to stake a clear claim over an extended sphere of influence in its backyard. beyond the intervention in Ukraine, this includes active funding of nationalist organizations and political parties across Europe, an extremely capable formal and informal global media/propaganda campaign (including probably the most effective of any country on social media), and military leadership in propping up Syria's Bashar al-Assad.

India intends to step beyond its traditional non-geopolitical role, with prime minister Narendra Modi putting real resources into his country's military and improving alliances and economic deals across Asia and beyond — with successful recent engagement with the United States and a variety of leaders across Africa. While India remains limited in diplomatic resources, picking and choosing carefully has created opportunities for Modi, especially building a broad alliance with Japan, with both countries now feeling the other is their closest partner. Japan, too, matters more these days, given a strong prime minister Shinzo Abe who is developing an infrastructure investment strategy that pales in size to China's, but remains much bigger than anything we've seen from Japan in decades.

The Middle East is a different story, of course. But there's plenty of effort to display regional leadership — Iran on the ascendance, Saudi Arabia in decline, and Turkey with plenty of bluster but unsure exactly what side it's on.

The biggest exception is Europe, where growing crises on the continent are leading to fragmentation, rather than a realization of the need to come together. Germany's weakness is particularly notable on this front — with some 40% of the German population now favoring Chancellor Angela Merkel's resignation. France and Britain are struggling mightily with what they stand for as nations. Italy is alone in its increased assertiveness; both for its place at the helm in Europe's future (generally) and in Libya (as a short-term project), where Rome is now preparing for a military role (though how long that could persist given the state of the country's economy and political system is an open question). So Europe is the clear weak link here. And just to complete the circle, in Latin America, Brazil's a completely absent force on the foreign policy landscape as the country faces through the worst political scandal in its history.

All in all, the trajectory on this second question is easier to project. But as with US-China relations, it's developing slowly. Russia has been fast to act in Ukraine and Syria, but otherwise hasn't had much impact on international outcomes on most issues and, given the country's economy, remains wary of overplaying its hand. India's growing geopolitical relevance is clear but from a very low base; so too Japan's, given its recent absence of global diplomatic and military engagement. And to be sure, Europe will still matter, or at least a few key European states will, but they have to get through the Brexit referendum and the refugee crisis before it's clear what kind of a Europe the world is going to have, who leads it, and with what purpose. So too with Brazil and the Lava Jato crisis. So multipolar, yes, but slowly, slowly, slowly.

**iii - States as actors.** The most interesting, and perhaps surprising, of the three developments is the relevance of states themselves. The aforementioned first two factors are moving slowly in part because state governments are becoming more constrained. That's originally become somewhat true as a consequence of globalization — an ever-growing web of economic interconnectedness eroding the zero-sum "security dilemma" and, with it, a clear delineation of national interests. But states as actors have also, and far more, been weakened because of more recent explosive trends in technology. Large, institutionalized states are less capable of responding to domestic and international environments that change increasingly rapidly; while citizens have more tools to be aware of government inefficiencies and organize and take action in response. That populations are less interested in doing so in comparatively wealthy states than in poorer ones has more to do with the comparative resilience of those government institutions (high) than their (low) effectiveness in providing leadership.

We're seeing potential for this development to evolve on a wide range of issues, as non-state actors assert themselves more clearly on the geopolitical stage. On climate. Huge infrastructure investments would have to be made. By themselves, most national governments are unwilling to spend the political capital to try to make such big long-term commitments. So sets of other actors are making more of a difference. Local governments most affected by poor air quality or rising seas. Corporate leaders with narrower vested interests in developing new technologies. Billionaires with philanthropic aims. The Paris summit was ultimately (somewhat) successful, particularly in comparison to its predecessors, for that reason.

On cyber, companies will find governments too large and less supportive of their interests. We mentioned in this year's top risks the decision of Anonymous to go after ISIS given limited willingness and effectiveness of governments in this space. For private sector organizations, especially those that see themselves as

increasingly not-aligned with the interests of their "home" government, many will go to outside organizations to investigate outcomes and launch counteroffensive measures. Interesting that we're also seeing the new launch of the global cyber alliance — municipal organizations (the NYC district attorney's office and the city of London police) together with the private sector.

There are more traditional security implications as well. An increase in the number of failed states as well as pieces of states that are ungoverned... but nonetheless have large populations of consumers that need to be served. Many multinational corporations will want to enter these markets but doing so means having to take the law into their own hands — with some effectively developing their own paramilitary forces. Russia's Gazprom has taken the lead on this, with essentially a standing army of some 15,000 troops; many Chinese state-owned firms, also with particularly volatile geopolitical exposure, have taken a similar path. so has the growth of small private navies to ensure safe passage in ungoverned areas of the seas, where piracy has become a growing risk. Over time this type of behavior is likely to become more commonplace.

In all of these places, we're seeing weaker central governments. Further, there are more powerful non-state actors around. Certainly given the importance of data as a tool and weapon, compared to traditional military capabilities, companies in those spaces are becoming much more powerful. And their capabilities are frequently well ahead of the awareness of governments to determine how they should harness or regulate them.

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What all of that means is that after the G-zero, we may not be heading to a new geopolitical order as such. We could instead see an "order" in which inter-state geopolitics ultimately recede, and states share the stage as principal actors with NGOs, local actors that have governing power but aren't recognized as states, corporations, and even potentially individuals. Taking last week's discussion on the fourth industrial revolution one step further, the G-zero may herald the beginning of the end of the Westphalian system.

In other words, the world is presently moving towards a formal geopolitical model of multi-stakeholdership. Including membership in international organizations and alliances. Today the principal international organizations, whether the g7/g20, and IMF and World Bank (as well as other non-western led organizations like China's AIIB and the Shanghai cooperation organization) are governed exclusively by countries. That would either become less true in the coming decades, with formal governance opened to other types of actors, or other more flexible actors will emerge and start to supplant them.

Even for an organization like Nato, a security alliance of countries that make sovereign decisions... what happens if these states' sovereignty erodes dramatically? We'll see the emergence of new security agreements with constellations of provincial/municipal and corporate leaders. Or warlords and tribal chieftains. The details will depend on where you are and the local level of development. But the idea is the same.

That's a radically different world in terms of governance and political risk. Probably much more unequal, likely to prove effective and adaptable for some problems and in some areas. And not at all in others.

## Japan

Lots of news coming out of unlikely Japan. First a major corruption scandal involving one of prime minister Shinzo Abe's most important cabinet ministers, economics minister (and transpacific partnership

negotiator) Akira Amari. His quick decision to resign will reduce the chances of Abe taking a major hit in popularity, though the whole scandal was a bad omen for the prime minister who has a long agenda to get through.

Then there was the Bank of Japan's decision to move to negative interest rates right after that announcement. Shows much more willingness by governor Kuroda to take on risk to continue to stimulate the economy, in line with the government's goal. It's not ultimately going to make or break Japan's trajectory. But it shows leadership.

Perhaps most interesting to me though, because it's been largely unnoticed, is Japan's evolving geopolitical context. In the last two years, Japan has had the best geopolitical trajectory of any major economy. The US relationship, subject of considerable worry before, feels much more steady with the transpacific partnership and US commitments around the alliance and regarding the East China Sea. Japan has steadied its relationship with China, including in the economics sphere where ties are fraying a bit but are no longer in crisis. Japan has also improved its South Korean relationship somewhat. And the recent Japan-India summit heralded a broad alliance between those two countries — which was nowhere when Abe was first promoting his "league of democracies" during his first stint as prime minister.

Next up: Russia. Abe called to return Russia to the G-8, a bold move given that the United States opposes it (and Japan's leadership hadn't mentioned to the White House its intention to make that statement in advance). The Japanese move will put pressure on the us-led coalition that has imposed sanctions on Russia. In particular, EU states opposed to the measures will take note —and we're heading for big debate on Russia sanctions in the second quarter.

## **Russia – Saudi Arabia**

A momentous rally in oil prices on the news that Russia and Saudi Arabia might get together and reduce their oil production. A big change in direction... if it happens. But it's probably not going to.

Most importantly, the Saudis continue to be skeptical of giving any opportunity for others to pick up market share, particularly the Iranians who are on a path to expand production by one million barrels per day this year. Along with Libya and the (Iran-allied) Iraqis, there's a lot of production increase planned for the region. Let alone the fact that Russia can't quickly shut off wells in Siberian oilfields... especially this time of year.

The Saudis would love to get enough momentum to pull together a broader coalition. If Russia looked committed, that might be possible. But it's tough — these two sides don't like each other. Geopolitically, Russia's actually siding with Iran on middle east proxy wars, and as such maximally untrusted by Saudi's deputy crown prince and minister of defense Mohammed bin Salman. Which means that for as much as both sides want oil prices up and would love to kick the American's out of the market... that's just not going to happen right now.

So at best, the recent announcements are a plausible feint to show that the Saudis and Russians are still needed by the international market — and should be supported (and not pressured) accordingly. But it's not a tipping point in the politics of oil supply. Lots more needs to happen before I'd consider this imminent.