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Shape, Steer, and Sustain
A US Strategy for the New Global Economic Order

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Foreword by Jon M. Huntsman, Jr.

Shape, Steer, and Sustain: A US Strategy for the New Global Economic Order

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Foreword

Despite a world filled with international security challenges, we should not lose sight of the importance of economics to the conduct of world affairs and to the stability of the world order. The astounding progress of our globalized economy lifted millions out of poverty and into the middle class. It brought countries closer together and produced decades of sustained growth, despite a few downturns. It also allowed for many actors—state and nonstate alike—to have common elements in their foreign policies: the constant improvement of the human condition by empowering them with greater opportunity and capital.

Yet, what we see play out in the American presidential election and around the world is a rejection of a more globalized world and an engaged United States. As our country's prosperity continues to depend on globalization, a worldwide political backlash surfaces against its spread. Yet, we cannot ensure America's role in the world without a strong global economic strategy. This edition of the Atlantic Council's Strategy Paper series proposes to do just that.

It is up to the United States, as it usually is, to remind the world of the vitality of economic statecraft for the improvement of our future. A foreign policy with a robust economic focus can help forge interstate relationships and facilitate stability. The private sector can play a crucial role in this endeavor, but it will require a nimble and attentive government to ensure the gains are reaped to their fullest extent.

Most importantly, economic leadership will define America's role as a global power of the twenty-first century. A strong economy will support a balanced and effective military as well as a shrewd diplomacy strategy.

Anyone who believes the United States has an important role to play in the world should care about the economic tools we employ. This Atlantic Council Strategy Paper aims to equip the presidential candidates with a comprehensive overview on the global economic environment and spell out a foreign policy response for the United States to navigate the stage both effectively and innovatively.

Jon M. Huntsman, Jr.
Chairman
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Executive Summary

Ten years ago, most observers predicted a period of smooth sailing for the world economy. Growth was strong in China and much of Asia. Africa was beginning to pick up steam. A Europe whole, free, prosperous, and at peace was feeling very confident about its future. The so-called "Washington Consensus" was considered the gold standard for many countries increasingly accepting market-based reforms. Most experts anticipated further trade liberalization through a new round of global negotiations, the Doha Round, and growing adherence to the traditional, market-oriented rules of the global economic order. Most Americans were feeling good about their economy and their position in the world, and US leadership in the global economy was seen by a large majority of Americans as a positive for the nation and the world.

Today, the world looks very different. The global economy experienced a major crisis in 2008, from which many countries have not fully recovered. Europe faces a series of major economic, financial, social, and political stresses, from outside its borders and from within. Many of the fastest-growing economies from that time, especially commodity exporters, are now experiencing serious difficulties. China is still growing at a reasonable rate, but more slowly than a few years ago. Much of the Middle East is in turmoil and its economies, with rare exceptions, are suffering. The Doha Round has proved highly disappointing, failing to meet lofty expectations. Global debt rose significantly, and job creation has stalled in many parts of the world.

With the expulsion of Russia, the Group of Eight (G8) is now the Group of Seven (G7). The Group of 20 (G20), which performed so well in overcoming the financial crisis, has lost momentum and cohesion. The "Washington Consensus" is rarely spoken of anymore. Despite its relative success in recovering from the 2008 financial crisis, its energy boom, huge advances in technology, and a still-vibrant and innovative society, the United States seems to have lost much of its self-confidence, and many Americans have lost their sense of inclusion and citizenship. Many feel less optimistic than a decade ago about the nation's position in the global economy—even though that position is actually considerably stronger now than it was several years ago—and are more reluctant for US leaders to play a proactive role in that economy, especially in trade. Populist groups in the United States, and in various other parts of the world, are increasingly nationalist and hostile toward globalization and global collaboration.

In short, the international economic order of a decade ago is now facing a period of considerable disorder. It is time to rethink US strategy and tactics regarding the nation's global economic role. A new president entering the White House in January 2017 provides an opportunity to do just that.

To better deal with this new global economic environment, the United States requires a new strategy for the twenty-first century. That strategy should enable the country to *shape, steer,* and *sustain* a new global economic order that accomplishes several key objectives underpinning prosperity and stability for greater numbers of Americans. It should boost economic prospects and create jobs for large numbers of people around the world, especially in the United States and among its allies and partners, in whose well-being the country has a vital interest. It must encourage rising powers to act as constructive stakeholders whose policies support a well-functioning, globalized order. Finally, it should remain grounded in the liberal, market-oriented principles and norms that have served the interests of the United States and many other peoples for decades. Conducting an effective international economic policy in an era of populism and the global diffusion of power, to state and nonstate actors alike, will be enormously challenging. To build the twenty-first century global economic order, this Atlantic Council strategy paper outlines six pillars that must form part of any coherent global economic strategy:

Shape

1. **Forge Regional Partnerships**: American strategy must place greater emphasis on strengthening economic ties with regions that are important to the United States economically, politically, and strategically. This is especially important at a time when societies in many regions are splintering, political cohesion is weakening in various nations, and important regions are riven by tension and conflict. The United States has given special emphasis to regional trade negotiations with key countries in the Asia-Pacific region and with the European Union (EU)—via the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), respectively. These must be the most important US priorities in the period immediately ahead—not just for economic reasons, but also because they are critical to US regional foreign policy and national security interests. If Congress approves the TPP, in either its current or modified form, the world will see that as a strong sign of a deeper--and bipartisan--US political commitent to Asia. Alternatively, if Congress rejects the current agreement, or a new one cannot be negotiated, US credibility on a wide range of economic and security matter in Asia, and in other parts of the world, would suffer. Unreliability as a committed economic partner will increase concerns about US reliability as a security partner. If this were to occur, then the strategy outlined here would have to be seriously reconsidered.

2. **Establish Bilateral Economic Partnerships with Pivotal Countries**: US policymakers need to build closer bilateral partnerships with several key emerging economies whose domestic and foreign policies are important in their own right and also have enormous influence on other nations in their regions, significantly affecting US interests globally. Three countries—India, Indonesia, and Turkey— stand out for far greater US attention and strategic focus.

Steer

3. **Advance "Urban Statecraft"**: Rapid urbanization in emerging countries requires a diplomatic strategy of deeper and broader engagement with cities around the world or, in a phrase, "urban statecraft." By 2025, the six hundred cities with the largest gross domestic products (GDPs) will account for about 65 percent of world economic growth. As a result, any global economic strategy for the future must take into account cities' new and important roles in their own national economies, and in the world economy. The United States must find better ways of engaging with cities on a host of trade, investment, and other global economic issues.

4. **Promote Entrepreneurship and Innovation Statesmanship**: Innovation and entrepreneurship are among the greatest US domestic strengths. The United States has an enormous opportunity to turn these traits into vital foreign policy assets. In particular, Washington must build relationships with younger people who need US support to ensure they have the freedom to innovate in their own countries, and the opportunity to engage with Americans. The United States should promote the open exchange of ideas, as well as scientific and entrepreneurial collaboration, while discouraging protective barriers that stifle collaboration and open competition. The process has already begun, but success on a broad scale in key countries and regions of the world requires a more systematic approach abroad and major policy improvements at home.

Sustain

5. **Leverage the US Energy Boom**: The US energy revolution has proceeded at a remarkable pace, and has produced results virtually unimaginable even a few years ago. The country has reached an historic high in energy production, and is at a nearly twenty-five year low in its energy imports. This is not only the result of breakthroughs in fracking and horizontal drilling, but also of remarkable progress in efficiency and conservation. This game-changing set of developments has made the United States far less vulnerable to energy disruptions from abroad and far more able to use energy ties to support the economic and security interests of key allies and partners.

6. **Expand and Secure the Internet**: The United States must ensure that the Internet remains open, secure, and widely accessible to greater numbers of people. It is a priority the

United States shares with many other countries, as well as scores of people who see the Internet as their way of exchanging information and connecting with customers and suppliers. While some governments advocate various forms of "information nationalism"—and various countries have widely divergent views about issues such as privacy and control of some kinds of information—citizens of most countries and most businesses, entrepreneurs, researchers, students, and centers of innovation support greater Internet connectivity. They should be allies as the United States engages with and supports people and groups in a wide range of countries who are driving and influencing policies that support the freedom to innovate and communicate, in their own societies and across the world. Closer collaboration with the private sector is crucial to making this so.

To execute this strategy, the United States must not only deal effectively with a wide range of national governments, but also pursue a more dynamic approach vis-à-vis nonstate actors, which can be valuable partners in shaping the future global economic order and the policies of their countries. Thus, the United States should include in its international economic strategy active engagement with innovators and entrepreneurs, young people seeking upward mobility, advocates of open flows of information, and leaders of urban areas. Indeed, the United States must partner with these and other exponents of a global, liberal economic order who understand the importance of transparency, free competition, accountability, and opportunity in their own countries.

Compared to the 1940s and 1950s, there are now more players in the global economy and more types of issues that require US attention in the international economic sphere, but the need for strategic thinking has not changed. Just as that earlier period marked an inflection point requiring a new strategy to restore and shape the collapsed global economic order after World War II, the post-2008 financial crisis world requires a new way forward for the United States.

Introduction and Global Context

Ten years ago, most observers predicted a period of smooth sailing for the world economy. Growth was strong in China and much of Asia. Africa was beginning to pick up steam. A Europe whole, free, prosperous, and at peace was feeling very confident about its future. The so-called "Washington Consensus" was considered the gold standard for many countries increasingly accepting market-based reforms.

Today, the world looks very different. The global economy experienced a major crisis in 2008, and many countries still haven't fully recovered. Europe faces a series of major economic, financial, social, and political stresses, from outside its borders and within. Many of the fastest-growing economies from that time, especially commodity exporters, are now experiencing serious difficulties. China is still growing at a reasonable rate, but more slowly than a few years ago. Much of the Middle East is in turmoil and its economies, with rare exceptions, are suffering. And, support for US leadership of the global economy has waned considerably.

The international economic order of a decade ago is now in disorder. It is now time for Washington to rethink its strategy and tactics regarding the US global economic role.

With the expulsion of Russia, the G8 is now the G7. The G20, which performed so well in helping the world overcome the financial crisis, has lost momentum and cohesion. Despite its relative success in recovering from the 2008 financial crisis, its energy boom, huge advances in technology, and a still-vibrant and innovative society, the United States seems to have lost much of its self-confidence. Indeed, it has lost its sense of the governance process and many Americans feel they have lost their sense of inclusion and voice in the governance process.

In short, the international economic order of a decade ago is now in disorder. It is now time for Washington to rethink its strategy and tactics regarding the US global economic role. A new president entering the White House in 2017 provides an opportunity to do just that. The future prosperity of the American economy and the international community's shared economic future depend on the US ability to understand and address two major sets of factors driving change in the world.

The first is the global diffusion of international economic influence—characterized particularly by the rise of new regional and global powers, each with histories, cultures, and economic systems that differ markedly from those of the nations that established the post-World War II international order.

The second is the rapid emergence of a wide range of new, transformative technologies—including the dramatic acceleration of the digital global economy, advanced computing, robotics, artificial intelligence, and the ability to amass and utilize huge volumes of information (Big Data). Together, these technologies are altering the very fabric and structure of the global economy, significantly affecting the kinds of jobs and businesses that are created and destroyed in all nations. The implications of these technologies for international economic policy, foreign policy, and national security can only grow larger over time.

The rapidity of growth in digital globalization, for example, has become the hallmark of these economic times. Global flows of data and information today are forty-five times greater than they were just ten years ago. By contrast, over the last thirty years, trade in goods has increased by only a factor of ten. Global digitalization has dramatically affected flows of world commerce and finance, the amount and density of personal communication, the connectivity of heretofore isolated areas of the world, the ability of small businesses and entrepreneurs to become global from their inception, and the multitude and modes of social connectivity.

The swift pace of change in the global economy—the diffusion of global economic power, shifts in the drivers of economic influence within nations, and the proliferation of transformative new technologies—greatly exceeds the ability of governments and international institutions to forge agreements on new rules and norms for economic behavior. The United States, then, must seek and develop public support for a new global economic strategy, building on the fundamental principles that have served the country and the world so well for the last seventy years, and with an eye toward the incorporation of these new factors. To succeed, this strategy must use both proven and newfound tools of economic statecraft to *shape, steer*, and *sustain* the global economic order for the twenty-first century.

To do so, this strategy paper outlines a six-pillar approach that the United States must pursue as part of its global economic strategy for the twenty-first century:

Shape

1. **Forge Regional Partnerships**: Develop "strategic regional economic partnerships" that include traditional allies and important groups of emerging economies.

2. **Establish Bilateral Economic Partnerships with Pivotal Countries**: Build new bilateral economic partnerships with emerging economies that are playing pivotal geoeconomic, political, and security roles in their regions and globally.

Steer

3. **Advance "Urban Statecraft"**: Urbanize US international economic policy by capitalizing on opportunities offered by the rising wealth, power, and influence of the world's rapidly growing cities, as well as increasingly influential provinces and states, around the world.

4. **Promote Entrepreneurship and Innovation Statesmanship**: Harness and develop entrepreneurship and innovation at home to maximize one of the greatest US economic and foreign policy strengths abroad.

Sustain

5. **Leverage the US Energy Boom**: Use newfound US energy prowess to forge new strategic energy ties internationally and reduce the vulnerability of supplies for key allies and partners.

6. **Expand and Secure the Internet**: Take advantage of the multitude of opportunities offered by the rapid rise of the digital global economy, while also assessing the risks of growing interconnectivity and anticipating new challenges posed by a digitally hyperconnected world.

Shape, Steer, Sustain: A US Strategy for the New Global Economic Order

Shape: Forge Regional Partnerships

US strategy currently places great emphasis on integrating the country more closely with key economic regions. This is especially important at a time when the dangers of splintering and fragmentation are rising in many areas and countries, placing added stress on the global order. The United States has given special attention to regional trade negotiations with key countries in the Asia-Pacific region and the European Union—the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), respectively. These must be the most important US priorities in the period immediately ahead. While controversial at home, both agreements are of enormous importance to the US economy, and to US foreign and national security policy. Still, the US approach to each of them should address how they affect jobs and wages at home, and mitigate other potential negative consequences.

The Trans-Pacific Partnership

The TPP is of economic and strategic importance to the United States and the future of the global economic order. The United States is the second most important trading and investment partner, after China, for virtually every country in Asia. Even as China continues to consolidate and institutionalize its regional ties, the United States still has an opportunity to play a strong and influential economic role in the region. The United States must keep pace with China as a vital player in Asia.

The geoeconomic and geopolitical importance of TPP is enormous. It should become the centerpiece of an American strategic regional economic partnership in Asia. At the moment, and for the foreseeable future, there are no alternatives.

The inclusion of Japan in TPP is especially important, because of Tokyo's long history as a staunch ally. As the second-largest economy in Asia, and the largest Asian economy in the TPP, Japan's inclusion gives the agreement considerable weight. It also helps underpin the most critical US alliance in the Pacific.

If Congress approves the TPP, in either its current or internationally modified form, the world will see that as a strong sign of a deeper—and bipartisan—US political commitment to Asia. Alternatively, if Congress rejects the current agreement, or a new one cannot be negotiated, US credibility on a wide range of economic and security matters in Asia, and in other parts of the world, would suffer. Unreliability as a committed economic partner will increase concerns about US reliability as a security partner. If this were to occur, then the strategy outlined here would have to be seriously reconsidered.

In the event of a TPP failure, the Regional Comprehensive Economic Partnership (RCEP) trade negotiations, led by China, would proceed, and probably gain more adherents. Even if RCEP talks failed to produce an agreement (and there are numerous obstacles to such an agreement), China's relative standing vis-à-vis the United States on economic matters, and also on political matters, would be enhanced. More broadly, the regional and global trading systems—absent TPP, and with little prospect of progress in the World Trade Organization—would be vulnerable to deterioration.

If Congress approves the TPP, in either its current or internationally modified form, the world will see that as a strong sign of a deeper—and bipartisan—US political commitment to Asia.

For the TPP to succeed in obtaining needed domestic support, however, the United States and other participating countries need to demonstrate that the agreement facilitates job creation in the United States and other member nations, as promised. Member nations also need to demonstrate convincing evidence of benefits of an agreement that embodies market-oriented rules and practices, high workplace and environmental standards, sound intellectual property-protection requirements, and a level playing field that prevents state enterprises from obtaining support from governments to obtain an artificial competitive advantage over nonstate companies. All of these detractors should weigh their criticisms against having no agreement at all. In the absence of a fully ratified agreement that includes the United States, it is unlikely that all, or perhaps even most, of these rules and practices that are in the interest of the United States will be adhered to by some TPP negotiating partners. Moreover, the broader important model would no longer be there to serve as a model that, if successful, would attract other RCEP members.

The TPP would, therefore, provide an expanded set of enhanced trade opportunities for the United States and other member countries. It could also enhance countries' ability to attract

President Obama poses with the leaders of the other then-negotiating states of the Trans-Pacific Partnership Agreement (TPP) in November 2010. Pictured from the left are Naoto Kan (Japan), Nguyễn Minh Triết (Vietnam), Julia Gillard (Australia), Sebastián Piñera (Chile), Lee Hsien Loong (Singapore), Barack Obama (United States), John Key (New Zealand), Hassanal Bolkiah (Brunei), Alan García (Peru), and Muhyiddin Yassin (Malaysia). *Photo credit: Gobierno de Chile/Flickr*

investment from around the world, because of the wider access their products will have to the markets of other participating nations. Most importantly, TPP solidifies the United States as a leader in the most rapidly growing economic sphere in the world—one of enormous strategic importance for decades to come.

The China Challenge

China has established ambitious and extensive regional economic goals, and has undertaken a formidable set of initiatives, comparable in scope and financial commitment to the Marshall Plan launched by the United States in the middle part of the last century. It aims to create new trade and investment partnerships, expand a vast network of regional infrastructure connections by land and sea, and develop new institutions over which it will have a leading influence. China's "One Road, One Belt" Project (commonly known as the New Silk Road) aims to build highways, rail connections, ports, and pipelines that connect it by land and sea to Southeast and Central Asia, and beyond to the Middle East, Africa, and Western Europe. As noted earlier, Beijing is a leading participant in RCEP trade negotiations, which include the Association of Southeast Asian Nations (ASEAN) and ASEAN's free-trade partners in the region. It has also recently concluded free-trade agreements with Australia and South Korea.

The New Silk Road and other infrastructure connectivity initiatives are aimed at increasing market access for Chinese products to the rest of Asia and beyond, giving a boost to Chinese growth at home. China's underutilized construction industry would benefit, and many of its factories, now operating far below capacity, would find new business by selling steel and other inputs to these projects. Special emphasis is being placed on building oil and gas pipelines in Central Asia and Myanmar, as well as in Siberia and the Russian Far East, to accommodate China's large and growing energy needs—thereby avoiding the Strait of Malacca, seaways in the Indian Ocean, and parts of the western Pacific still dominated by the US Navy.

Beijing has also established an Asian Infrastructure Investment Bank (AIIB) and the Silk Road Infrastructure Fund to finance many of these projects. Such projects will also create jobs for Chinese workers now seeking new employment as China's once-booming domestic infrastructure sector has cooled; western China will especially benefit from many projects that will boost trade with Central and South Asia, helping it to catch up with the more prosperous eastern China.

From a foreign policy perspective, Beijing describes these plans as producing "win-win" outcomes with its neighbors, many of which are apprehensive about the way China will relate to them as its military and political power increases, and which are particularly concerned about Chinese claims and actions in the South China Sea. From a strategic perspective, Beijing's leaders also have concluded that economic cooperation, especially in Central Asia, can underpin efforts to fight terrorism, jihadism, and arms flows in the region that can spill over into China's often-restive Xinjiang region.

China's initiatives are part of a broader strategy, predicated on the notion that the global economic system does not fully reflect Beijing's interests. The Chinese emphasize that the fundamental rules of the international economy, and the allocation of votes and influence in international institutions such as the International Monetary Fund (IMF) and World Bank, were decided by Western industrialized nations more than half a century ago. While they have since been adapted to accommodate China and other emerging economic powers, Beijing believes these institutions should now be revised more extensively, to reflect its views and those of other emerging and low-income countries.

China's initiatives are part of a broader strategy, predicated on the notion that the global economic system does not fully reflect Beijing's interests.

Chinese leaders want to shape regional and global trade rules to be more consistent with Beijing's state-driven economic growth philosophy (even though there are significant moves to allow markets to play a greater role in some facets of the economy) and China's national interests. Beijing also believes that other emerging economies—which desire a greater voice in shaping the rules of the evolving international economic order, and are less wedded to US-articulated market principles and desires regarding workplace rules and state enterprises—can be persuaded to follow China's lead.

As President Xi Jinping told a December 2014 Politburo Conference, China is pursuing regional free-trade agreements in order to play an "even bigger role" in international trade and investment. He added that China should "inject more Chinese elements into international rules." Xi noted that Chinese cooperation with a number of emerging and low-income countries in Asia and other parts of the world, and its support for their development needs through trade and infrastructure assistance, would strengthen these countries' support for Beijing in forging the rules of the future world economy.

These initiatives provide China with important geopolitical and strategic benefits. China sees economic cooperation in the region through trade arrangements, increased investment, and closer infrastructure ties as reinforcing and strengthening its security links. The maritime components of the Silk Road initiative, for instance, will provide opportunities for increased port calls by the expanding Chinese Blue Water Navy, to enhance Chinese security and economic interests, as well as to strengthen surveillance of Western naval operations. Included in the broad plan are port investments in Southeast Asia, on the Indian Ocean, and on the eastern coast of Africa, including a base at Djibouti. This further improves the security of Chinese energy supplies and their routes to China.

That China assigns a high priority to developing regional trade institutions should not come as a surprise to the United States, or necessarily be taken as a threat. The United States has done the same in the Western Hemisphere—with the Organization of American States and the Inter-American Development Bank (IADB), the Alliance for Progress, the Central America Free Trade Agreement (CAFTA) and, of course, the North American Free Trade Agreement (NAFTA). These were natural accompaniments to the close economic and political relations that have grown over many generations within the Western Hemisphere. They are not viewed as a threat to outsiders; indeed, the IADB is a multilateral bank whose members include China, much of the rest of Asia, and virtually all of Europe.

China's economic initiatives are not necessarily a threat to US interests. They are, however, a wakeup call that the United States needs to effectively assert its own economic interests and mobilize support in Asia—home of the world's most dynamic emerging economies, and of traditional partners such as Japan, South Korea, Australia, New Zealand, and Singapore—for the economic principles and connections that support growing and stable markets in the region. Recognizing the growing economic power of Beijing in the region does not necessarily mean that the United States should concede that the rules China wants to write are good for the region, or for US interests in it. But if there is a disagreement, it should involve compelling arguments and demonstrated successes that prove America's points. Lectures or diplomatic pressure will not do the trick.

The more effectively TPP performs, and the more successful its partner economies, the more likely additional countries will want to join.

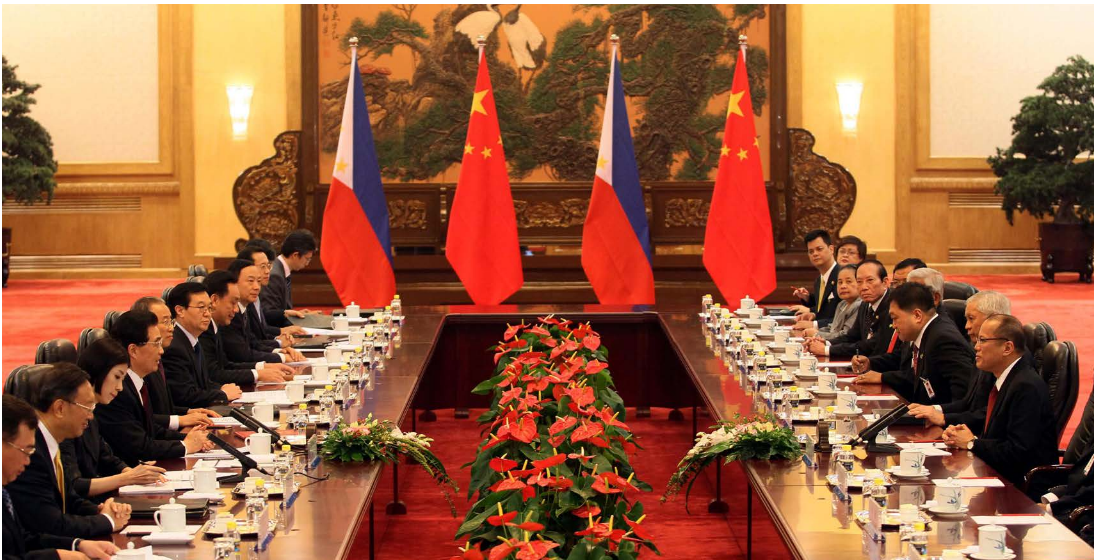
Beijing is attempting to influence the regional and global economic order in support of its interests, and it is doing so with considerable skill. The challenge for the United States will be to do likewise. The major, and virtually only, instrument available for doing so now is the TPP. Regardless of what one thinks of specific details of this agreement, the geopolitical implications of this partnership are enormous. If it fails to win support in the Congress in some form negotiated with the other partners, the United States will be left with an enormous architectural void in Asia on trade, investment, intellectual property, workplace standards, and other economic matters. Moreover, Washington will be hard pressed to find another, comparably significant nonmilitary initiative to demonstrate US geopolitical commitment and staying power in the area.

Beyond the TPP

As the TPP's foundations become established, and as its rules and practices are put fully in place (assuming, for the moment, passage), Washington has yet another strategic option further down the road: working directly with China and RCEP toward common aims and rules.

The several nations currently engaged in both TPP and RCEP negotiations—such as Australia, Japan, New Zealand, and Singapore—could form a link between them. The United States should not, however, aim for compromises that water down the standards set in TPP, or which it advocates elsewhere. In fact, TPP partners should aim for higher standards in the coming years. The goal should be to make TPP the gold standard that other nations in the region emulate and accept because of its success—and the effectiveness of its rules and standards—in bolstering prosperity and fair trade for citizens of partner countries and producing mutual benefits. Inclusive regionalism should emphasize a "race to the top" in terms of rules and standards accepted by growing numbers of countries—not simply for doctrinaire reasons, but because they are effective.

The more effectively TPP performs, and the more successful its partner economies, the more likely additional countries will want to join. This option should be left open, provided these countries are prepared to meet the partnership's high-level terms and conditions. For example, South Korea, which already has a free-trade agreement with the United States, would be a



A bilateral meeting between the People's Republic of China and the Philippines in Beijing on August 31, 2011. China and the Philippines are both members of the Regional Comprehensive Economic Partnership (RCEP). *Photo credit: Wikimedia Commons.*

candidate for TPP. In time, members of RCEP not already members of TPP will have the option of joining as well; Indonesia, for example, with a number of domestic economic-policy reforms, would be a prime candidate.

Another future option is for TPP member nations to work together to integrate TPP's rules and practices into the World Trade Organization (WTO). At some point, the United States—which led the negotiations to establish the General Agreement on Tariffs and Trade (GATT) seventy years ago, and then the WTO decades later—needs a strategy to ensure that the WTO does not fade into the background, and that its global rules and dispute-settlement procedures provide a framework for fair global trade opportunities and dispute-settlement procedures for Americans. The United States will also want to see the application of market-oriented and open global norms in a variety of new areas, such as e-commerce and global data flows, which are important to American companies, but which the WTO rules barely touch. If the major economies continue to focus almost exclusively on regional trade agreements for a long period, they risk undermining the wider global system and the credibility of the WTO, leading to a more fragmented world economic order.

Chinese businesses and leaders know that even if RCEP serves their objectives in parts of Asia, they also have trading and investment interests throughout the world—especially in oil and raw materials, but increasingly in technology and manufacturing—that they cannot protect in countries where their influence is not as great as it is in their own region. These interests will be growing rapidly. The Asia Society Policy Institute estimates that China could invest $3.5 trillion abroad over the next six years. Much of this will be in non-RCEP member countries. And Chinese companies will become more heavily involved in more sectors. According to the Asia Society Report, they are investing heavily in automobile production, information technology, machinery, aviation, and medical devices. And much of this is investment by private-sectors companies; more than 80 percent of Chinese investment in the United States, for example, is by private companies. Much the same trend is occurring elsewhere. Private Chinese companies do not always enjoy the power of large Chinese state enterprises in their activities abroad; they want the stability and predictability of global rules and dispute-settlement procedures to protect and enhance their business.

In this environment, Beijing has a growing stake in working with the United States to ensure that the global trade and investment order—particularly the WTO—functions well and predictably, and avoids discrimination against Chinese companies. Over time, Chinese companies in far-flung parts of the world will want to be treated like other private companies, operating under the same international rules and dispute-settlement mechanisms.

This presents an opportunity for the United States, in the WTO, to influence China's views on key issues of concern to American business and workers, which will also be important to many Chinese companies and their employees operating abroad. For example, Chinese companies are rapidly moving up the technology ladder, incorporating more intellectual property and valuable trade secrets in their own products. They want to be protected from predatory intellectual-property practices abroad. Chinese companies also want to sell more to foreign government entities, and to invest in a greater numbers of sectors abroad on the same terms as companies from other countries.

Beijing will be in a better position to obtain these objectives for its companies if there are strong international rules and norms on intellectual-property protection, transparency and fairness of government procurement rules, and reliable investor rights in the WTO—and if China undertakes domestic reforms and accepts international commitments consistent with these rules and norms. The United States does reformers in China no favor by relenting in its insistence on such rules. Indeed, it should insist on the need for such rules for America's own companies and underscore their benefits to China's most dynamic private-sector companies, which the country relies on to create new jobs.

Washington's priority should be to establish credible agreements with Beijing and numerous other emerging economies on this set of issues, and others of a similar nature, and incorporate them into bilateral trade arrangements, regional partnerships, and the WTO. The most recent prototype is the 2013 WTO Trade Facilitation Agreement—which included China and the United States, as well as a multitude of other nations—to increase trade efficiency by reducing red tape that raised costs and encumbered trade across international borders. Separately, addressing certain investment restrictions and incorporating protections into the Bilateral Investment Treaty now being negotiated between Washington and Beijing would give the process of cross-border investment a huge boost, and would establish templates that could be accepted more broadly elsewhere.

Cooperation among the World Bank and the new financial institutions—such as the AIIB, the New Development Bank (informally known as the BRICS Bank), and the already well-established Asian Development Bank (ADB)—should be another priority. Asia and other emerging areas need more infrastructure; the AIIB and the New Development Bank can finance such projects. But while Asia and other regions can have coexisting institutions, these organizations should not have widely different standards regarding quality of projects, openness and fairness to all prospective bidders, procurement transparency, or management practices.

China has already agreed to coordinate the AIIB's efforts with other multilateral institutions and made this part of its bylaws—an important indicator that it wants to use this institution to perform to high standards and strengthen links with the global financial system. Japan, which has announced its own $110 billion infrastructure-investment initiative for Asia, and the United States can both play leading roles in supporting that coordination effort and encouraging their own companies to participate in AIIB projects. But both also need to work with the management of the bank and other members, in order to ensure that procurement procedures are transparent and standards of performance remain high.

The ADB's and the World Bank's methods of doing business have proved sound over the years, and both institutions have been able to respond to the changing needs of member nations. Close ties between the United States and the AIIB could provide useful guidance, even if the United States is not a member for the time being; this would enable US companies to develop a closer set of relationships with the management of the bank. In addition, many of the countries in which the AIIB plans to make loans, such as Afghanistan, are strategically important to the United States, so projects that strengthen that economy should be welcomed by Washington—as long as there are no political strings attached. Indeed, there are other nations in the region where stronger growth and infrastructure can be politically stabilizing and help overcome the unemployment that provides fertile ground for jihadis. Good AIIB projects can support these objectives.

Also, US companies want opportunities to sell more in Asian markets. Infrastructure represents a major opportunity, and the AIIB will play an important role in financing it. Building a better

Beijing's central business district (CBD), home to hundreds of multinational companies and financial institutions. *Photo taken on August 23, 2008.*

relationship with the bank, after an initial negative US reaction to it, should be a significant priority for Washington and the US business community.

In order to strengthen its role and status in the international financial system, China has positioned its currency, the renminbi (RMB), to move toward greater convertibility and become a global reserve currency. China has already gained acceptance that it will be added to the IMF's special drawing rights (SDR) basket of currencies. Use of the currency in cross-border trade has already grown dramatically; in 2014, the RMB's use in China's cross-border trade settlements reached RMB 5.9 trillion, a 42.6 percent increase from 2013. This represented roughly 22 percent of China's trading volume.

China's role in the international financial and monetary system will grow, as will the role of its currency. The RMB will increasingly compete with the dollar, although it will not approach the volume of the greenback in trade or finance anytime soon. This rise of a competitive currency vis-à-vis the dollar is not new, nor a threat. The euro already plays a major competitive role in the system. The RMB's acceptability as a transaction and reserve currency over time will depend on the quality and nature of China's fiscal and monetary policy, as well as of its regulations and capital markets. If this acceptability is to occur, Beijing will have to move to more open capital markets and stronger regulatory oversight, as well as a more market-oriented currency—and these are directions that the United States is encouraging. They will also reduce the potential for financial volatility in China, which will reduce the potential for spillover into the United States. So if the RMB becomes a stronger global currency due to more successful financial, monetary, and regulatory policies that increase international financial stability, this should be seen as a plus for the United States and the global economic order.

The Transatlantic Trade and Investment Partnership

At the same time that the United States is focusing on Asia, a vitally important trade negotiation is taking place between the United States and the European Union—a negotiation with great economic, political, and strategic implications. The TTIP talks must also be part of a US strategy to establish a strategic regional economic partnership with Europe. The major economic goal of these talks is to produce substantial benefits for both sides by, inter alia, significantly harmonizing or reducing differences in regulations and standards, while maintaining high levels of health, safety, and environmental protection. They are not primarily about tariffs, because previous rounds of negotiations have already substantially cut both sides' tariff rates.

Over time, the TTIP will likely boost job creation on both sides of the Atlantic. A European Commission study suggests that it could create hundreds of thousands of new jobs—or even one million—that depend on exports. A 2013 report by the Atlantic Council found that TTIP would create as many as 750,000 new jobs in the United States.

But giving an economic boost to Europe and the United States is only one objective of the TTIP. It has to stand on more than this because, rightly or wrongly, many Europeans and Americans remain skeptical about the economic benefits and whether large numbers of people will actually see new jobs or higher wages.

All of this is taking place while cohesion in various European nations, and among them, is being severely tested by the refugee crisis and the lingering aftereffects of the Great Recession and Europe's own financial crisis. As a result, many Europeans have lost confidence in EU institutions and their national leadership, as well as trust in their neighbors. Highly divisive right-wing and left-wing populist parties—many aided and abetted by Moscow, utilizing its intelligence and propaganda services—are exacerbating the problem.

In the United States, where confidence in government and most institutions is also low, criticism is growing about financial support of NATO. Too few Americans see Europe's problems as relevant to them. Similarly, too few Europeans place much weight on the strategic imperative of the United States, and particularly NATO, to the continent. Younger Europeans in some countries are particularly disenchanted with too-close ties with the United States. A successful TTIP negotiation is hardly a panacea for all this, but if it creates jobs and underpins security ties for the United States and Europe, it can strengthen the Atlantic community and reverse the existing negative public narrative.

A TTIP-driven boost to job creation in Europe, as well as the United States, would have important security benefits. Economically weak European nations, with high unemployment and new expenses for refugees, are unlikely to have sufficient resources or the necessary domestic political will to maintain effective militaries and intelligence services to resist Russian coercion and pressures, or Moscow's attempts at political destabilization. Apart from this economic and military-linked component of security, there is the less tangible one of sending a signal of resolute transatlantic solidarity and cohesion to Moscow.

The Russia Challenge

Russia has constructed a mini-version of a free-trade agreement, the Eurasian Economic Union (EEU), which comprises Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan. Moscow seeks to utilize this union to strengthen trade ties in the region and use them to underpin closer political and security bonds. President Vladimir Putin's long-term strategy does not rely on these types of agreements to bolster Russia's position in Europe, however, because few European countries beyond Belarus want to tie themselves to the faltering and poorly run Russian economy. Central Asia, more isolated and with fewer alternatives, is a somewhat different case. There, Moscow seeks to pull some of the former members of the Soviet Union together economically, and to ensure that China's economic push to the west in Central Asia does not displace completely Russian interests.

In Europe, Putin relies more heavily on Western weakness and division to advance his interests. One way is to sustain conflicts, or "frozen wars," on Russia's borders, which prevent neighboring countries from prospering or sustaining unified societies.

More broadly, however, Moscow is seeking to take advantage of the emergence of extremist populist forces in Europe. This trend has gained momentum and adherents due to the series of financial crises that have disrupted several European economies for the last several years, high levels of unemployment on the continent, disenchantment with various decisions in Brussels, and, most recently, the waves of refugees that have entered Europe from the Middle East and North Africa. All of these have had enormous social and economic repercussions.

Europe's right-wing populist parties are both highly nationalistic and strongly anti-immigrant. Moscow seeks to bolster them, exacerbating and deepening current divisions within and among EU members, in order to hinder their ability to solve their own and Europe's internal problems—or, perhaps, to cause the collapse of the "European Project" altogether. Even if Moscow fails to succeed in this endeavor, it sees this tactic as a way to convince these populist groups to support Moscow's foreign policy objectives—including the weakening of NATO—in Europe and elsewhere, and to undermine Europe's ability to counter Russian pressures and threats by sustaining sanctions and engaging in additional military preparedness.

A powerful message would be sent to the Kremlin if its efforts to divide Europe and weaken NATO were countered by a major trade agreement that solidified transatlantic ties. Failure to reach an agreement would, on the other hand, exacerbate divisions across the Atlantic, confirm Putin's analysis about the divisions in the West, and embolden him to continue to press his advantages in his "near abroad."

Three countries stand out for far greater American attention and strategic focus: India, Indonesia, and Turkey.

The Way Forward on the TTIP

To succeed, leaders on both sides of the Atlantic must begin with a compelling narrative. That narrative needs to be about the values and fundamental interests Europeans and Americans share. The United States and Europe, more than any two major actors in the world, share profound and historic values: support for democracy, freedom of speech and religion, respect for religious and cultural diversity, tolerance of differences, open government, providing citizens with the opportunity to succeed to the best of their abilities, and importance of the dignity of the individual. Support for TTIP must rest on its promotion of these principles, even if there are differences on specific trade issues.

On an economic level, TTIP must demonstrate that closer trade and investment ties across the Atlantic, and fewer barriers to trade and investment, can and will draw together the two continents and their societies in the face of threats from Moscow, turmoil in the Middle East, terrorist actions, domestic extremists, pressure from refugees, and severe economic problems.

The TTIP, however, is not just a matter of intensified transatlantic ties. Establishing a strategic regional economic partnership across the Atlantic will strengthen the ability of the United States and Europe, holding common social and economic values on most matters, to work together to build a consensus on regulations and standards that they can introduce collectively in other fora, especially the WTO. Ultimately, both have an interest in shoring up the global trading order.

Shape: Establish Bilateral Partnerships with Pivotal Countries

In parallel with Washington's focus on establishing strategic regional economic partnerships, US policymakers also need to build closer bilateral partnerships with several key emerging economies whose domestic and foreign policies will have enormous influence on other nations in their regions, and on US interests more broadly.

Three countries stand out for far greater American attention and strategic focus: India, Indonesia, and Turkey. All are major regional powers. All are also members of the G20. They all play major maritime roles. All are democracies and market-oriented economies. All have largely moderate Muslim populations and are strong opponents of terrorism, having suffered from it on numerous occasions. Their people desire greater connectivity to the global economy and have formidable entrepreneurial skills. However, none are included in the TPP or TTIP. And, overall, these countries have had relatively disappointing levels of economic interaction with the United States.

A successful US strategy involves intensifying interactions with the forces of positive change within each of these countries. These include innovators and entrepreneurs, who see the open, market-oriented US economic system as a model that provides the freedom to connect to counterparts around the world, to start new businesses, and to generate positive societal changes. These forces of change also include small and medium-sized enterprises (SMEs), which play vital roles in giving opportunities to unemployed young people, thereby enhancing future stability. They include mayors, governors, and chief ministers who want to enhance global connections for their localities and see connectivity to US businesses and innovation as boosting prosperity in their areas. Finally, these forces of change see closer trade and investment ties with the United States as helping their countries to sustain growth and diversify their markets and sources of capital. Sustained, multilevel consultations—at the national level, and with influential urban leaders, innovators, and champions of information freedom in the private sector and among nongovernmental organizations (NGOs)—will be required to explore areas in which US economic interests and the objectives of each of these countries and influential groups within them overlap, and how best to build on that.

INDIA

The US-Indian relationship is a particularly good example of one in which two major nations—in this case, the world's largest democracies—share common philosophical views on many issues. These include supporting entrepreneurialism and innovation, pluralism and religious diversity, the value of a thriving information-technology industry, the vital role of maritime security, and the fight against terrorism. India's ability to balance a vigorous, participatory democracy with a remarkable diversity of ethnic groups underscores its highly pluralistic, yet also highly unified, character. Still, the US-Indian relationship is also an example of two major nations that previously missed important opportunities for achieving significant mutual economic benefits from their relationship. The United States is the world's largest economy, and India is the tenth largest. Yet, trade and investment flows, while they have steadily increased, remain relatively small. There is now scope and opportunity for major improvement.

India plays an important role in South and Central Asia, the Indian Ocean, the Gulf of Aden, and many parts of the Middle East and East Africa. It is a major and well-respected participant in global institutions. Its location enables it to play a constructive bridging role between the Middle East, Southeast Asia, and East Asia—as well as a vital security role in protecting sea lanes in the region.

India and the United States have established a dense and comprehensive multilevel institutional architecture for collaboration. Roughly forty different bilateral dialogues exist between Washington and Delhi. The centerpiece is the annual ministerial-level Strategic and Commercial Dialogue, created in 2015 to add an economic dimension to the earlier Strategic Dialogue established in 2009. The India-US CEO Forum provides a prestigious and high-level environment for exchanging views among private-sector leaders; recently, it has focused on protection of intellectual-property rights and infrastructure development. Additional options, however, need to be considered to more broadly develop what has the potential to become one of the closest US partnerships on both regional and global issues.

India is in a pivotal geographic, strategic, and economic position, playing an increasingly important role in Southeast Asia and strengthening ties with China, Iran, and Japan.

Prime Minister Narendra Modi has translated the "Look East" policy of former Prime Minister Manmohan Singh to an "Act East" policy that involves closer links with ASEAN, China, and Japan on trade, maritime, and other issues. India is the leading and founding member of the South Asian Association for Regional Cooperation (SAARC), established in 1985. Delhi has since expanded its trade ties through agreements with ASEAN, particularly the ASEAN-India Free Trade Area (AIFTA), established in 2010. And it is a participant in the above-mentioned RCEP, with ASEAN and China.

Through these and other vehicles, India is in a pivotal geographic, strategic, and economic position, playing an increasingly important role in Southeast Asia and strengthening ties with China, Iran, and Japan. But Delhi is also fiercely proud of its independent foreign policy, and wary of how far China's influence pushes into its neighborhood, on land and sea, so it is looking for partners to bolster its own influence and assets in these areas.

Delhi now seeks to establish closer economic relations with Russia and its neighbors in Central Asia through increased trade links. Delhi harbors suspicions about China's "One Belt, One Road" initiative; it is concerned that this might constrain options for India to strengthen its economic and political ties with countries in this region with which it has historic ties and seeks to expand commercial and diplomatic links. In 2012, Delhi embarked on a "Connect Central Asia" initiative. Early in his administration, Prime Minister Modi advanced relations with a trip through Central Asia. During his visits, he sought to build closer economic, political, and cultural ties—the latter of which he advanced by emphasizing the shared heritage between India's large Muslim population and those of other countries of the region.

Delhi and Moscow are now discussing potential Indian membership in the Russian-led Eurasian Economic Union, which would further strengthen economic relations in the region. India has also recently joined the China-led Shanghai Cooperation Organization (SCO), a group established two decades ago to reinforce security cooperation in Central Asia, but which now includes a focus on economic cooperation.

Furthermore, Delhi is aiming to build new transportation and energy infrastructure connections with Iran, India's neighbor across the Arabian Sea. This includes development of Chabahar port in southeastern Iran, a potential trade gateway to Afghanistan—a country in which Delhi and Beijing share an interest in stability, keeping the Taliban down and jihadis out—and Caspian Sea nations, making them accessible to trade with India without goods having to go through Pakistan, and counterbalancing China's investment in the strategic Gwadar port in Pakistan. In addition, Delhi has established closer economic cooperation with Japan, and closer trade and investment ties with its eastern neighbor Myanmar (on China's southern border).

As Delhi reaches out to new economic partners for economic and strategic reasons, the United States has an opportunity for closer and more productive relations. To take advantage of this opportunity, Washington needs a strategic narrative and a strategy that differs from those of the past.

Instead of thinking separately in terms of an Indian Ocean Strategy and a Pacific Ocean Strategy, Washington needs to develop an Indo-Pacific Strategy that centers on India, but which also includes key players, such as Indonesia (another pivotal country that will be discussed shortly), and numerous other nations in the region. A corollary to this strategy would be one that sees South Asia and Central Asia as intimately connected, as India does, and a region where Washington and Delhi share views on trade opportunities and security threats.

A key new pillar would be an Indo-US Trade and Investment Partnership. This would require a bold vision on both sides. It would be an eclectic agreement, recognizing the limits that constrain both the United States and India regarding full free trade, to reach agreement selectively on various principles and practices embodied in the TPP and TTIP that expand trade and investment, and generally strengthen bilateral economic ties. While India, like China, has hundreds of millions of low-wage workers, trade between the United States and India has been

President Barack Obama and then-Secretary of State Hillary Clinton posing for a photo with the Indian delegation at the US-India Strategic Dialogue reception, which took place on June 3, 2010 at the US Department of State. The Dialogue was part of a discussion on the future of the US-India relationship. *Photo credit: White House.*

far more balanced than Sino-US trade. India sells relatively few low-cost manufactured goods to the United States, so US domestic politics need not be controversial on that point.

To the extent that negotiations could produce considerably freer trade and enhanced investment flows, they could enable US liquefied natural gas (LNG) exports to go to India without the current prior-approval process that is required for non-FTA members; this goal would be an inducement for India to reduce or eliminate some longstanding impediments to trade with the United States. Also, expansion of opportunities for LNG imports would greatly enhance energy connectivity and strategic ties between Washington and Delhi, and reduce India's dependence on the Middle East.

In parallel with this, both sides should jointly pursue a Bilateral Investment Treaty, building on the existing framework of the current India-US Investment Initiative. This would be a significant creator of jobs on both sides, and would strengthen the highly productive collaboration among American and Indian innovators and entrepreneurs.

Another component of an Indo-Pacific Strategy would be to advocate for Indian inclusion in the Asia-Pacific Economic Cooperation (APEC) forum. This would incorporate India in a group that includes the other large economies of Asia (China, Russia, and Japan), as well as the United States. APEC is based on voluntary adherence to high standards in areas such as "free and open trade and investment," including lower tariffs and nontariff barriers, enhanced investment standards, stronger intellectual-property protection, and reduction of local content requirements. Annual meetings of national leaders and lower-level working groups exert peer pressure through periodic reviews. Such a process strengthens the hands of domestic reformers in member countries, and could do so in India as well, while enhancing the integration of Indian officials at all levels into the process of regional integration. It would improve their ties with counterparts in the United States, which is a key player in this organization.

For its part, however, India needs to demonstrate a strong commitment to APEC by participating in advance in many of the key working groups that exist in this forum. There is hesitancy in Washington and other APEC capitals about inviting India to join now; officials are looking to determine if Delhi's commitment to the organization is strong and credible. If Indian officials attend APEC working groups to which they have been invited, regularly and at senior levels, and make substantial contributions that strengthen India's relationships with other countries in ASEAN and the organization itself, Delhi's case for membership would be greatly enhanced.

Complementing closer trade ties would be closer maritime cooperation to bolster political and security ties in the Indo-Pacific. The Indian Ocean is crossed by vitally important sea lanes, and contains critical potential "choke points" like the Strait of Malacca. As China and India play greater naval roles in the region, for economic and military reasons, the need increases for cooperation to develop agreed security and governance conventions and practices. The United States has a strong interest in working with both countries to do this. Moreover, if the United States should decide to reduce its naval presence in the region, it will want India to have a growing capacity to assume a more meaningful security role and greater responsibilities; close coordination now can enhance India's capabilities and patterns of Indian-US maritime collaboration on safety and freedom of navigation. Because roughly half of the world's seaborne cargo goes through the Indo-Pacific region, the stakes for the United States and the world economy are extraordinarily high.

For economic, political, and security reasons, the United States has a strong interest in working with India to strengthen economic ties with Central Asian nations, the political and strategic importance of which has heretofore been under-recognized in Washington. At present, China and Russia are courting several of these countries, which need close trade and investment ties with both in order to sustain their prosperity; these ties are a natural outgrowth of geographic proximity, and of the countries' recent and distant histories. The United States has no interest in trying to break these close ties, and could not do so if it tried. But at the same time, many of these countries, while welcoming closer trade with both Russia and China, are concerned about too much influence from Moscow and Beijing. They largely welcome alternatives to these two large neighbors in order to diversify their trade, investment, and security relationships. India is working to provide such an alternative, and to increase its trade and investment with the region—the so-called "stans." Efforts to strengthen the US economic role in the area in conjunction with India, through political and commercial interaction, would complement this effort.

India also has a strong interest in reducing the potential for terrorist threats and actions, and seeks to avoid Islamic extremism in this area. It has been a victim of terrorism, and is therefore resolute, both in fighting it and working with other countries—notably including the United States—to do so.

In particular, India is increasing its efforts to support economic development in Afghanistan, where various groups present terrorist threats to the region and other areas. A strong US partnership with Delhi can serve both countries' interests to prevent the continued growth of the Taliban, al-Qaeda, and the Islamic State of Iraq and al-Sham (ISIS). China and Russia (and Iran) have an interest in this effort as well, so a broadened partnership may well be a new dimension for US diplomacy.

Enhanced energy cooperation between the United States and India has represented an important new dimension to the relationship, and should be a growing component in the trade and investment partnership. This will be enhanced if the US Department of Energy continues to allow US LNG to be sold to India. (As noted, a future free-trade agreement would make such approvals unnecessary, but they are currently required.) Two already-approved contracts, which will amount to roughly six million metric tons per year of LNG shipments to India through its largest state-owned natural gas company, GAIL, will meet more than 10 percent of India's LNG imports. That will significantly assist India in diversifying its gas sources. These shipments will strengthen energy ties, and provide a base for more extensive strategic energy cooperation between Delhi and Washington.

Building on this cooperation, the United States can further advance the already-important role US companies are playing in the development of Indian solar and wind power. The United States and India already have a robust set of institutionalized energy ties: the US-India Energy Partnership Summit that engages their private sectors, and the US-India Energy Dialogue between the two governments. Both assess worldwide geopolitical developments in energy production and trade, monitor factors that might affect international production or the flow of energy to India—especially from the Middle East—and support the introduction of new technologies that expand Indian production.

Through a series of high-level visits, the United States and India are working to further strengthen and deepen cooperation in science and technology. This is done through their commitment to periodic US-India Technology Summits and the US-India Science and Technology Joint Commission meetings; both are focused on clean energy, climate change, innovation, and entrepreneurialism. There are already highly developed programs for space and earth observation through satellites of both countries, with weather projections being

The entrance to Bowling Green Wind Farm in Ohio, where wind turbines can generate up to 7.2 megawatts of power. In addition to fracking and horizontal drilling, conservation efforts have played a significant role in increasing US energy independence. *Photo credit: Dustin M. Ramsey*

distributed to India's farmers, who use the information to determine planting and harvest times. Last year, the first US-India Startup Konnect took place in Silicon Valley, to showcase the many facets of India's start-up ecosystem. It underscored the high degree of connectivity that exists to advance innovation in key sectors such as agriculture, biotechnology, medicine, financial inclusion, and business incubation.

A major component of the original Strategic Dialogue between the two countries has been to establish a program for greater state-to-state contacts, designed to bring together Indian and American state and local leaders to discuss mutual trade and investment opportunities. Both nations have dynamic state and city governments, and several of the fastest-growing cities in the world are in India. As will be discussed later in this paper, under the heading of "Urban Statecraft," rapidly growing cities have enormous power; their success or failure on economic, environmental, infrastructure, and educational matters can play a decisive role in the success or failure of their nations in the twenty-first century.

Exchanges on ways to increase trade and investment between businesses in Indian and American cities should be a major topic for dialogues among their mayors, dialogues that should be upgraded as a feature of US diplomacy in India. Intensified and more expansive dialogues on this subject should also take place among leaders of Indian and American states. Such interchanges also deepen personal contacts among a whole new group of leaders and officials in both countries. They strengthen local public support of the overall relationship, and for policies in Delhi that reduce barriers to closer economic ties.

These represent the kinds of interactions that can tie these two countries together more closely in the future—not just at the central-government level, but also among various levels and sectors of the two societies—and can be built upon and extended to encompass various other fields. It is an example of building ties not only at the top, but also among influential groups at other levels that can shape the course of the relationship, and in areas where the economic, political, and security interests of the two countries are reinforced.

INDONESIA

Indonesia, like India, is a pivotal player in a vital region of the world, and highly influential on global matters as well—as evidenced by the country's role in the G20. The Indonesian archipelago sits astride the strategic Indo-Pacific maritime corridor. For the United States to have a credible and effective Indo-Pacific Strategy, it must include closer ties with Indonesia.

Indonesia is strategically placed on the Strait of Malacca, through which a large portion of Middle Eastern oil and LNG bound for East Asia passes, as does much of East Asia's commercial traffic heading west. Growing numbers of naval ships traverse the area as well, and the figures are likely to grow. Indonesia is the principal Southeast Asian country on the maritime portion of the Silk Road, the biggest economy in Southeast Asia, and the most populous Muslim country in the world.

To emphasize Indonesia's importance to the United States, Hillary Clinton visited Indonesia on her first foreign trip as Secretary of State in 2009, setting the stage for the signing of the US-Indonesian Comprehensive Partnership Agreement during President Barack Obama's 2010 visit. This agreement has provided a framework for strengthened US-Indonesian engagement on maritime, education, investment, energy, and trade issues. It has given the United States a substantial role in the modernization of Indonesia's defense capacity; the United States has recently agreed to sell Jakarta Apache attack helicopters and radar technology.

In 2015, President Obama and President Joko Widodo agreed to strengthen ties further, committing to build a strategic partnership that would "expand cooperation on specific strategic interests." In order to implement this, the two leaders agreed to establish annual strategic

US Secretary of State John Kerry shakes hands with President Joko Widodo of Indonesia during Secretary Kerry's visit to Jakarta on October 20, 2014. Despite an agreement between President Obama and President Widodo to strengthen ties between the two countries, US foreign direct investment into Indonesia remains lower compared to other countries in the region. *Photo credit: US Department of State.*

dialogues between their foreign ministers, as well as to conduct other ministerial exchanges on multilateral and bilateral issues.

But despite this movement, trade and investment flows are quite modest, given the size of the two economies. Total trade between them was $27 billion last year, less than half of China's trade with Indonesia. US foreign direct investment (FDI) into Indonesia remains below that of Singapore, Japan, and South Korea. Constraints on commerce and investment cited by American companies include Indonesian protectionist measures, limited and outdated infrastructure in parts of the country, and uneven application of Indonesian laws. The two nations consult regularly to resolve trade disputes and coordinate on issues in multilateral fora under the US-Indonesia Trade and Investment Agreement (TIFA), signed in 1996.

Although the two countries work well together in APEC, the ASEAN Regional Forum, and the East Asian Summits, Indonesia is not a participant in TPP, unlike its ASEAN partners Brunei, Malaysia, Singapore, and Vietnam. It is, however, engaged with all other ASEAN countries, and with China, India, and Japan in RCEP negotiations. If these succeed, trade and investment flows with the United States could be even more constrained; intra-RCEP tariffs and various investment barriers will decline, while external tariffs on US products and any existing impediments to FDI from the United States will remain the same.

There are numerous options for strengthening US-Indonesian ties. If this relationship is to become an effective and meaningful strategic partnership, a key pillar must be intensified—US support for President Widodo's vision of Indonesia as a global maritime axis.

Key elements of such an effort would include supporting Jakarta's efforts to enhance connectivity among a larger number of the 1,700 islands that comprise the archipelago, which will require assistance in modernizing a large number of ports and helping the country build a number of new ones. Port constraints make the cost of moving goods and people between most islands very expensive, and they weaken Indonesia's ability to secure sections of its vast territory.

Stronger and more comprehensive US support would also involve collaboration on maritime safety and security matters with Indonesian naval forces and those of regional players such as Australia, India, Malaysia, Thailand, and Singapore, as well as China and Japan. This would fit in well with the aforementioned Indo-Pacific vision for US maritime strategy in the region, a strategy that connects US economic, political, and strategic interests broadly throughout the greater Indo-Pacific region. Because Indonesia has an exclusive economic zone (EEZ) of roughly 1.5 million square kilometers, this is especially important to the stability and freedom of maritime traffic in the area.

Depending on the fate of TPP over the coming months, the option of including Indonesia as a new member should receive high-level consideration in the United States and other partner nations. Given Indonesia's size and importance, it would be a logical candidate. However, because of the complicated rules for TPP membership—which require detailed bilateral agreements with each member country on exceptions—and Indonesia's longstanding protectionist stance toward some agricultural and other products, TPP membership for Indonesia is unlikely to be accomplished soon.

A bilateral investment treaty should also be considered. This will be highly controversial, due in large measure to the sensitivity in Indonesia about investor-state dispute-settlement mechanisms in past treaties. These mechanisms allow foreign investors to bypass local courts and seek compensation in international tribunals if they have disputes regarding certain host-government actions regarding investments. Indonesia's last president terminated more than sixty such treaties, based on concerns that they circumvented national laws and regulations. Such provisions are also controversial in the United States, and have been a hotly debated subject in the presidential campaign. The outcome of US presidential elections will have a direct bearing on the future of TPP, and on the prospects for a new bilateral investment treaty with Indonesia.

Depending on the US political situation, other steps might be possible. The United States should discuss with Indonesia the negotiation of a bilateral agreement that incorporates key elements of a comprehensive economic partnership—one that encompasses trade in goods and services, intellectual property, agriculture, and investments. It would be similar, at least in some areas, to the TPP, thus giving Indonesia at least a few of the benefits of closer trade ties with the United States, and resolving a number of troubling issues vis-à-vis Indonesia that the United States has sought to address for years.

As with India, the United States should assign a high priority to visits by US mayors and governors, and by local US business associations, to develop ties with their counterparts in Indonesia —as well as visits by their counterparts to the United States. These would broaden and deepen US subnational trade and investment bonds with a country that is unfamiliar to many US businesses, and connect Indonesia more closely to the United States, both economically and politically.

Connections to influential pro-market groups in Indonesia, which favor improving the environment for innovation and for a more expansive information infrastructure, could also encourage them to support government policies that lead to closer economic ties with the United States, and remove the barriers that have hindered those ties. The US Department of Commerce is currently supporting a number of initiatives that aim to improve the ease of doing business in Indonesia for American investors, including reforms of Indonesia's public procurement systems and supporting energy grid development in remote areas. These would broaden and expand the base of American-Indonesian economic relations.

TURKEY

A new, high-level effort to improve trade and investment ties with Turkey—a longstanding and vital US ally—should be a US priority in the period ahead. This is true despite several current differences between leaders in Washington and Ankara, and US concerns about the current direction of Turkish politics.

Such an effort is especially important given Turkey's increasingly central strategic and political role in the fight against ISIS, and in managing the recent flood of refugees. But as a moderate, democratic, pluralistic, stable, and prosperous Muslim country, Turkey can also be a stabilizing force in many parts of the region.

A full assessment of Turkey's enormous and complicated role in the region—relating to the refugee issue, the fight against ISIS and terrorism, the relationship with the Kurds, and future membership in the EU—is well beyond the scope of this paper. Suffice it to say, the policies of Turkey have an enormous impact in all of these areas. Like India and Indonesia, Turkey plays a geographically pivotal role—in this case, between Europe, Central Asia, the Middle East, and Russia.

Early in his administration, President Obama put forward a vision of a "model partnership" between the United States and Turkey. Yet, little meaningful progress has been made, and there is frustration on both sides that only modest increases in trade and investment have taken place. In Ankara, in particular, there is considerable annoyance that the United States has not met the expectations to which President Obama's pronouncement gave rise.

While the United States continues to pursue TTIP with the EU, Turkey is not a participant in the negotiations because, although it is a member of NATO, it is not a member of the EU. And there are currently no plans in Washington to negotiate a free-trade pact with Turkey.

A successful TTIP would establish common trade rules, tariffs, and procedures for the EU and the United States, which together account for nearly two-thirds of world GDP, and almost half of international trade. But Turkey would be left outside. Thus, Ankara has seen a successful TTIP as highly disadvantageous to its economic prospects. Its trade would be adversely affected, due to the reduction of intra-TTIP barriers, while Turkish trade would enjoy no such benefit. In fact, its situation would be even worse.

Because it is a participant in a Customs Union with the EU, Turkey would be required to provide improved trade access to its market for American goods (which would be included in the TTIP deal reached with Washington), but the United States would not be required to extend reciprocal market access to Turkish products. Accordingly, US tariffs on Turkish products would remain at current levels.

Recently, the EU and Turkey have been discussing ways to update their current Customs Union Agreement to enable Turkey to be a party to all free-trade agreements negotiated by the EU, including TTIP. This would, in effect, be a way for Turkey to slide into TTIP without actually being a full negotiating partner or EU member. What effect this would have on the negotiations with Washington—and whether the United States would agree—would still need to be worked out. It also remains to be seen what the Turks would do if this arrangement could not be accomplished, including whether they would carry out an earlier threat to leave the EU-Turkey Customs Union. Moreover, if full Turkish accession talks to the EU are sped up, as agreed to recently between Ankara and the EU, would this change the calculus?

These are not just economic issues. How they are managed will have a profound geopolitical and strategic impact—bringing Turkey closer to Europe, or alienating it from the EU and the West and forcing it to develop closer commercial ties to its east and north. The United States and the EU will have to devote considerable strategic thought to how this situation is managed. And, depending on how supportive of US interests Turkey's policies are in other areas, the US administration will need to find a way to work with Congress to address the needs of Turkey, even as it seeks to complete the TTIP negotiations.

As these complicated scenarios are unfolding, the United States and Turkey still have the ability to more effectively address bilateral trade issues under their cabinet-level Framework for Strategic Economic and Commercial Cooperation, established in 2010. The Turkey-US Business Council, also established in that year, has helped to strengthen economic ties and can play a role in further expanding trade and investment. However, greater efforts are needed in both groups.

A well-thought-out alternate trade strategy, depending on political circumstances, is needed if Turkey cannot benefit fully from TTIP; this can be done through amending the EU-Turkish Customs Union. One possibility would be to initiate negotiations on a US-Turkey Economic Partnership, with portions similar to provisions in TTIP—or, at a minimum, find a way to apply some of the measures agreed to between the United States and EU in TTIP to US-Turkey trade and investment relations. The goal would be to enhance the US-Turkey bilateral economic relationship by creating a US-Turkey Trade and Investment Partnership, with rules and mutual benefits as consistent as possible with those of TTIP (although there are limits on how extensively this can be done). This would not be an easy negotiation, and the Turks would be called upon to respond to numerous concerns of US companies about restrictions on business opportunities in Turkey before this kind of arrangement would pass muster in the US Congress.

A less ambitious endeavour would be to negotiate a new, updated Bilateral Investment Treaty to replace the one negotiated more than a quarter century ago. Its aim would be to strengthen investment links by improving procedures to resolve disputes and enhance investor protection. A strengthened partnership would also include a robust engagement between Turkish and American entrepreneurs, and another between mayors and governors in both countries.

Leaders representing their countries at the G-20 Summit attend a working dinner on November 15, 2015 in Antalya, Turkey. Although Turkey participates in a Customs Union with the European Union (EU), it is not party to TTIP because it is not a member of the EU. *Photo Credit: Yasin Bulbul/Turkish Presidency Press Office/Anadolu Agency*

As emphasized earlier in this paper, one of the most powerful twenty-first century links the United States can have with other countries is a link between entrepreneurs. In 2011, Vice President Joe Biden attended the Global Entrepreneurship Summit hosted in Istanbul. Turkey already has a thriving entrepreneurial community, with close connections to those of other nations in the region. Closer ties between entrepreneurs and innovators in the United States and Turkey can strengthen the constituency for an open-information society in Turkey. More broadly, they can give a substantial boost to broader and deeper trade and investment between the two countries.

Turkey has a dynamic small and medium-sized enterprise (SME) sector that could be linked more closely with counterparts in the United States. The US Chamber of Commerce has worked closely with Turkey's well-organized business associations to advance such relationships. One new dimension would be to employ, to a greater degree, the increasingly available medium of the Internet, and platforms such as Amazon and eBay, to boost e-commerce between Turkish and American SME suppliers and customers.

As with India and Indonesia, a series of subnational economic dialogues, engaging US mayors and governors and their Turkish counterparts, should be high on the bilateral agenda. Turkey is a large and diverse country of more than eighty million people. Although many Americans are familiar with Istanbul, there are other large and important cities and eighty-one provinces, some of which wield considerable economic and political weight. Contacts with urban and provincial leaders by their American counterparts, through mutual visits, could bring economic benefits to both sides. These contacts can enhance and broaden the geographic base of understanding regarding the importance of strong diplomatic and security ties in both countries, especially given the threats Turkey faces, the need for this key member of NATO to play a sustained role in the fight against ISIS, and the efforts of the coalition to reach a constructive solution to the war in Syria.

Rapid urbanization in emerging countries requires a diplomatic strategy of deeper and broader engagement with cities and urban areas, or, in a phrase, "urban statecraft."

Steer: Advance "Urban Statecraft"

Rapid urbanization in emerging countries requires a diplomatic strategy of deeper and broader engagement with cities and urban areas, or, in a phrase, "urban statecraft." By 2025, according to the McKinsey Global Institute (MGI), the six hundred cities with the largest GDPs will account for about 65 percent of world economic growth. As a result, any global economic strategy for the future must account for cities' new and important role in the worldwide market, and in forging national economic policies.

Power and economic influence, as noted earlier, are becoming more dispersed—not only among nations, but within them. The number of people living in cities around the world is predicted by MGI to grow by more than 2.5 billion over the next forty years, mostly in emerging nations such as China, India, Brazil, Indonesia, and Mexico. Much of that growth will occur in places that were small towns or modestly sized cities just a few years ago. Many of these localities, often termed "second-and-third tiered" cities, are on their way to becoming larger than New York City or Los Angeles.

Cities in emerging economies have become powerful centers of innovation, hubs for business development, leaders in increased citizen involvement in governance, and keys to the world's environmental future, as they craft their building codes, systems of urban transportation, and ways to satisfy growing power needs. How well cities meet the basic requirements of the hundreds of millions of people flocking to them from rural areas—and how they accommodate the many millions searching for jobs, especially their teeming masses of discontented young people—will have a profound impact on future political, social, and economic stability and growth in their countries. And many cities, states, and provinces exert a powerful influence over policy in national capitals and changes in national economies.

Successfully managed cities can be powerful generators of economic growth, and laboratories of dynamic change at a time when national governments are often blocked by bureaucratic inertia, corruption, or political gridlock.

The success of urbanization in many countries will have important economic and security consequences—not only for them, but also for the United States. US international economic policy will need to recognize the significance of the political and economic dynamics and power of cities, states, and provinces, many of which are distant—physically, economically, and culturally—from national capitals where US diplomats are most knowledgeable and connected. But this is changing. US diplomats and senior officials are already working closely with key localities in China, India, and other countries. Expansion of this practice—as discussed in the above sections on India, Indonesia, and Turkey—should be a higher economic and diplomatic priority in the future, through a multitude of subnational engagements. The goal would be for mayors and governors to exchange experiences with counterparts abroad on urban challenges, and build trade and investment ties that boost economic activity among businesses in their constituencies, thus creating new job opportunities.

Successfully managed cities can be powerful generators of economic growth, and laboratories of dynamic change at a time when national governments are often blocked by bureaucratic inertia, corruption, or political gridlock. To do so, they need to nurture and advance technological creativity, protect intellectual property in order to encourage and attract investment, maintain an inviting environment (e.g., clean air and water) in which talented workers and business leaders want to live and raise their families, maintain an infrastructure that facilitates commerce and worker mobility, and maintain good school systems that train young people for the jobs of the present and the future.

Many cities have transcended national political difficulties and developed their own systems to address local problems. Several have become key players in efforts to curb carbon dioxide

(CO_2) emissions and facilitate efficient urban transport. Recognizing that air and water pollution are frequent sources of social protests and unrest in urban areas—and discourage investment and talented employees from moving there—city leaders in emerging economies have become highly innovative in developing programs to reduce harmful emissions from buildings and cars.

Just as the policies and interests of national economies differ from one another, so too do the interests, qualities of leadership, and policies of localities within individual nations. There is often intense urban and regional competition to attract investment, build strong local industries, and help companies sell abroad. A number of big cities engage in rivalries with one another to become important centers of technology, driving innovation by supporting research and development in local universities and labs, and protecting intellectual property to attract innovative companies. Numerous national leaders have gained their experience in local government and earned national respect by virtue of their successful local leadership, including China's President Xi Jinping and India's Prime Minister Narendra Modi.

Dynamic and progressive cities, and the states and provinces in which they are located, will play a major role in the various US subnational strategy initiatives. Many of the initiatives they are undertaking, with US support, will strengthen entrepreneurialism, connectivity, opportunities for younger people, and environmental progress. To the extent that US national government officials and local authorities can successfully assist them, these localities can be stronger advocates of closer ties with the United States, and of economic and other policies it advocates. Their success and voice can be strong building blocks for the kind of international economic order that serves their interests, and US interests as well.

Local governments led by internationally oriented mayors, governors, or chief ministers, regularly engage in international economic policies of their own, building closer trade and investment ties with localities abroad. These subnational relationships are an increasingly important generator of international economic activity—trade and investment, as well as cross-border exchange of ideas and students. The United States should actively support this process, in Washington and through the full engagement of the US Conference of Mayors and the National Governors Association.

Top officials of US cities and states have already forged close trade and investment relationships with counterparts in cities and provinces abroad. The process of encouraging and enabling local government and business leaders in the United States to establish more and deeper ties—and ensuring that the Departments of State and Commerce are well represented in key localities abroad to support them—is already well under way, but it is still limited in terms of human and financial resource commitments, and of scope.

Government agencies should encourage and assist US mayors and governors to enable their local companies to take advantage of opportunities in booming foreign cities and regions. A concerted effort is especially required to help SMEs gain market access and find buyers for their goods and services in foreign markets. Due to distance, expense, and different cultural and regulatory practices, they often find this difficult. As a result, they frequently get little out of trade agreements, relative to big companies. This limits the potential job-creating benefits of such agreements, and diminishes support for them among a group of companies that could have a positive political impact on legislators, if they receive more benefits and are enthusiastically vocal about them.

One way to help SMEs and boost local jobs would be for government officials, at state and local levels, to provide support and advice for how SMEs could use the Internet to make connections with foreign buyers. There are now enormous connectivity opportunities for SMEs that did not exist a few years ago—by harnessing new technologies for the benefit of larger numbers of them. As the earlier-cited MGI study notes, approximately 12 percent of global goods trade is conducted by international e-commerce, and 86 percent of tech-based start-ups surveyed by MGI report some type of cross-border activity. US cities and states, employing the skills of local information-technology experts, and local universities and technology centers, can broaden the benefits of trade for many categories of SMEs by enabling them to join robust e-commerce platforms such as Alibaba, Amazon, eBay, and countless others in the United States and elsewhere. Doing so would have significant multiplier effects, and could help boost foreign sales, as well as circumvent the often-expensive cost of trips to other countries.

Efforts should be made to help US city and state governments be more proactive in support of foreign investment in local infrastructure and manufacturing. Foreign capital creates large numbers of jobs throughout the United States. Roughly seven million Americans now work for foreign-owned companies that have invested in the United States. Much of this investment comes from major industrialized countries, with Japan topping the list. But emerging economies are becoming large investors as well. In the first half of 2015, for example, Chinese firms spent $6.4 billion on foreign direct investment in the United States, in eighty-eight transactions; this was the highest first-half figure ever recorded for China. Chinese firms now employ roughly 80,000 people in the United States. More than 80 percent of Chinese investment is by private-sector companies. These numbers are likely to grow steadily.

US mayors and governors also should be encouraged to more actively seek investment in their cities and states through visits to potential sources abroad, especially by organizing delegations of their local businesses—again, with a special emphasis on assisting SMEs that might not otherwise be exposed to such opportunities. Many SMEs have difficulty locating foreign investors. There is scope now, again using the Internet, to achieve a higher rate of success, due to the ability to expose SMEs to a wider range of global investors. Washington should assign a high priority to facilitating this process, while local leaders and business associations take responsibility for much of the follow-up.

There are additional opportunities for urban statecraft. US diplomats and policymakers can learn from US businesses that operate in foreign cities and regions far from national capitals or financial centers. Many US subsidiaries have deeper and more enduring connections with local leaders and communities than those of US government officials. The wide scope and experience of these businesses—and US Chambers of Commerce in various regions—can be assets to US policymakers in developing and executing this subnational strategy. Their advice and relationships will not only ensure that US officials have a better idea of political and economic developments in outlying regions, but will also enable them to be of greater assistance to newly arrived US companies in their efforts to navigate the business environment. In addition, they will be better able to develop relations with local leaders who influence policy in national capitals—and who, in time, may lead their countries.

Steer: Promote Entrepreneurship and Innovation Statesmanship

Innovation and entrepreneurship are among the greatest US domestic strengths. The United States has enormous opportunities in coming years to also turn them into key foreign policy assets. The process has already begun, but success on a broad scale in key countries and regions of the world requires a more systematic approach abroad and major policy improvements at home.

Many entrepreneurs, innovators, and scientists in emerging and low-income countries place a high priority on working with counterparts in the United States. Their governments are generally supportive; they see such collaboration as a way to create new and better jobs at home. For many, it is also an opportunity to enhance their nations' innovation and entrepreneurship capabilities in order to diversify their economies, which are often heavily dependent on a single product or sector, such as raw materials or energy, that make their budgets and growth vulnerable to price volatility. The adverse impact of the sharp drop in the price of oil and other commodities is a reminder of how harmful such overdependence can be. And although such products often account for a large portion of a country's GDP, extractive industries do not create a lot of jobs.

To reduce their heavy dependence on a single sector, countries need to engage in substantial economic diversification. Kazakhstan, Saudi Arabia, and the United Arab Emirates (UAE), among others, have already launched major diversification programs to reduce dependence on oil and gas exports, and on raw materials. For example, Mohammed bin Rashid al-Maktoum, the UAE's Prime Minister, recently emphasized that his country "will continue implementing a long-term plan facilitating our transition to a knowledge economy—an area where the UAE is currently leading the Arab world—as we aim to triple national spending on research and development before 2021."

At the second Global Entrepreneurial Summit in Istanbul, Turkey, on December 3, 2011, Vice President Joe Biden led the US delegation and highlighted the importance of entrepreneurs as a driving force for job creation and economic growth in the United States. *Photo credit: White House.*

More recently, the Deputy Crown Prince of Saudi Arabia, Mohammad bin Salman, announced a major diversification program for his country to reduce oil dependency. Diversification does not only mean creating or attracting high-visibility Silicon Valley-type technology firms; it also includes support for a wide range of less spectacular small and medium-sized businesses, many of which produce basic products and services, but nonetheless are innovative and collectively employ a lot of people.

The technological, scientific, and entrepreneurial strengths of US businesses, innovators, universities, and scientists are assets that no other country has in such great abundance, and in so many sectors. They dovetail well with the aspirations of large numbers of people, particularly young people, in emerging and low-income countries. Yet, although a number of significant programs exist, as highlighted when Vice President Biden attended the Global Entrepreneurial Summit in Turkey, the United States does not fully mobilize these strengths, and has not yet incorporated them into a more comprehensive set of policies.

Scientific and entrepreneurial exchanges—raised to a higher level in US foreign relations—would be an attractive feature of US outreach to numerous emerging and low-income nations. Such exchanges would reinforce strong constituencies in such nations for their countries' relationships with the United States, as well as for more open policies relating to free markets, free flows of information, and greater opportunity for talented women. Like innovative cities, exchanges can be important building blocks of the international economic order that serve US as well as other nations' interests. There is much overlap here.

US policy is moving to take greater advantage of the country's strengths in this area. In May 2015, President Obama addressed an entrepreneurial conference in Washington in which more than twenty countries were represented. In that same month, he appointed nine new Presidential Ambassadors for Global Entrepreneurship—a group of private-sector leaders committed to supporting the efforts of the US government to promote entrepreneurship around the world. And in July 2015, he addressed the Sixth Global Entrepreneurship Summit in Nairobi, Kenya. As Secretary of State, Hillary Clinton assigned a high priority to entrepreneurial and scientific exchanges, leading the effort to build the department's capabilities in these areas.

The United States should also insist that those countries' markets be open to US technology and other products—and that US intellectual property and trade secrets receive full protection.

In coming years, the United States needs to significantly intensify its innovation and entrepreneurial statecraft efforts, for a variety of reasons. One is to strengthen ties with key emerging and low-income countries. Strategically important emerging nations—such as Brazil, India, Indonesia, Jordan, Turkey, and the UAE—already have thriving communities of innovators and entrepreneurs with whom American companies and investors are connected. But given the size and geographic diversity of some of these countries, broader programs are needed.

As entrepreneurs in other countries have increased access to the US market for their products, as well as US venture-capital financing and research centers, the United States should also insist that those countries' markets be open to US technology and other products—and that US intellectual property and trade secrets receive full protection. The same companies that benefit from entrepreneurial connections to the United States should be urged to advocate for these objectives in their own countries and oppose "information nationalism" or "forced localization." US government entrepreneurial-support programs should favor countries that do not engage in such restrictive practices, and avoid those that maintain them.

Numerous countries in the Middle East, eager for more and closer international connections for their entrepreneurial young people, find the bonds established by financial and technical support for their innovators from US venture capitalists and companies to be important to their stability at home, and to their relationship with the United States. Young entrepreneurs in Egypt, the UAE, Israel, Jordan, Saudi Arabia, and the Palestinian territories, with support from the United States, started businesses that have created significant numbers of jobs. Many Arab entrepreneurs have links and support from Israeli entrepreneurs, and several joint ventures have emerged.

In many countries, the greatest threat to domestic stability comes not from abroad, but from disaffected and frustrated citizens at home who want a better life but find few job opportunities or chances for upward mobility. Helping these countries to establish a fertile environment of policies, laws, corporate-governance practices, and financial support for the establishment and growth of new businesses that provide new avenues for young people to achieve their entrepreneurial aspirations could produce higher and more inclusive growth and job creation. In turn, this would help enhance these countries' political stability and reduce prospects for terrorist recruitment.

Successful programs and relationships with emerging and low-income countries would also further underscore the benefits of the market-oriented, rule-of-law, free-flow-of-information, entrepreneurial US approach to economic policy and governance. In the ongoing debate over how to shape national policies and the global economic order of the twenty-first century, in the business and entrepreneurial communities of the Middle East, Africa, Latin America, and Asia, advocates of principles and practices that support innovation and entrepreneurialism should be encouraged to influence their respective governments to adopt and adhere to them. That would directly help US companies as well. US business does best in countries that embrace the open competition and equality of opportunity that most innovators and entrepreneurs in these countries support, and in which they thrive. Their efforts, in turn, should be supported by US government officials.

Finally, major scientific breakthroughs could occur by bringing together the minds, energies, and talents of diverse groups across borders to address global challenges in medicine, the environment, energy, information technology, and a wide range of other areas. The enormous contributions of the dynamic US immigrant community provide a vivid and compelling illustration of how cognitive diversity and the pooling of talents can achieve remarkable success.

The Fogarty International Center of the National Institutes of Health (NIH) has done a particularly impressive job of supporting international cooperative endeavors in medical research. To the surprise of many, a number of longstanding and mutually beneficial medical collaborations have been taking place for years between Iranian and US researchers (often funded by the Fogarty Center) on topics such as HIV/AIDS, cancer, hepatitis, and opiate addiction. The Iranian example illustrates that the United States and other countries need not agree on everything—or, indeed, on most things—in order to enhance cooperation in these areas. Nations should build on this success.

One way to advance cooperation between innovators in the United States and those in other countries is by engaging more top US entrepreneurs to meet with aspiring entrepreneurs in emerging and low-income economies. The Presidential Ambassadors Program is a good template for what needs to be done, but the effort needs to be conducted on a far larger scale.

In other countries, many American entrepreneurs enjoy popularity equivalent to that of rock stars. They could help greater numbers of young people to understand how the US innovation ecosystem works. They could be especially effective by citing their own examples and experiences. They could also provide useful guidance on how entrepreneurs and innovators in emerging and low-income countries could plug into the policymaking process of their own governments. By doing so, these innovators could induce their governments to develop a supportive ecology and regulations that facilitate the new business opportunities and free flows of information they need to succeed. The program should include a wide range of US leaders with experience in starting businesses, introducing cutting-edge technology, and conducting scientific research, enabling them to meet with receptive communities abroad.

Although large conferences such as the ones the President addressed at the White House and in Nairobi can enable entrepreneurs, scientists, and innovators from the United States and elsewhere to make contacts and network with potential collaborators, well-organized follow-ups—provided they include US venture capitalists and entrepreneurial mentors—can make the biggest difference.

The Young African Leadership Initiative, which provides instruction and grants to budding entrepreneurs on that continent, is a good example of a program that does this through follow-up online contact and training. This would be a good template for similar programs in the Middle East, North Africa, Southeast Asia, the Caribbean, and Latin America. US embassies should be provided with greater expertise on these subjects, and a mandate to assign a high priority to programs that facilitate exchange grants and visits from US experts.

A vital component of a successful program would be the direct engagement of American entrepreneurs and scientists to help governments in these countries understand that excessive regulation and top-down directives—as well as heavy controls over information and enterprise—frustrate, rather that facilitate, innovation. Even the best entrepreneurs and innovators—those in in the tech community, as well as small-scale businesspeople simply trying to open a shop or a factory—find it difficult to flourish, or indeed survive, in a repressive or stultifying environment.

The message of these American envoys would be that scientific inquiry and technological innovation, as well as low-visibility business in the cities and towns of their country, cannot achieve their potential if constrained by heavy government controls, religious or cultural dictums, or bars to the full participation of women or ethnic and religious minorities in the process. Moreover, they should emphasize that failure of a start-up enterprise should not stigmatize the entrepreneur, as it is part of the innovation process. Over time, messages from respected leaders in the field are likely to produce a greater and more constructive outcome than lectures from diplomats or leaders in Washington.

Sustain: Leverage the US Energy Boom

The US energy revolution has proceeded at a remarkable pace, and has produced results virtually unimaginable even a few years ago. The country has reached an historic high in energy production, and is at a nearly twenty-five year low in its energy imports. This is not only the result of breakthroughs in fracking and horizontal drilling, but also of remarkable progress in efficiency and conservation.

The US energy revolution has proceeded at a remarkable pace, and has produced results virtually unimaginable even a few years ago… This game-changing set of developments has made the United States far less vulnerable than in the past to energy disruptions from abroad.

This game-changing set of developments has made the United States far less vulnerable than in the past to energy disruptions from abroad. But that does not mean the country can turn inward. Shortages or disruptions resulting from events in other parts of the world can adversely affect key allies and friends, from both a political and security perspective. They can also cause volatility in world oil or gas prices, which would, in turn, produce high levels of domestic energy-price volatility—as Americans have experienced in the past. A supply glut abroad can, and has, sharply cut prices at home and caused a drop in new energy exploration and development. A sharp and substantial supply disruption abroad can have the reverse affect, almost overnight. Price spikes in the past have slowed US growth and jacked up inflation.

The oil surge in North America has been a key factor in reducing the international price of oil, benefiting importers around the world. In July 2008, oil reached a record high of $145 per barrel. Early in 2016, it fell below $30. The US production surge, and America's capacity to assist other nations increase production and energy efficiency, helps to achieve a broader objective: the plunge in US oil and gas imports has freed up more oil and gas from the Middle East and elsewhere to flow to Europe and East Asia, permitting a higher degree of diversification and a widening range of alternative sources that deprive countries such as Russia of the ability to use energy as a weapon or source of leverage. They also increase global resilience in the face of other kinds of disruptions, such as sabotage of pipelines or refineries, civil wars that cut off exports, and acts of terrorism in key waterways.

The US energy revolution also provides a great opportunity for the country to establish closerinternational links through the sale abroad of American natural gas—which is now just beginning—as well as through technical cooperation on fracking, horizontal drilling, developing and deploying non-CO2-emitting alternative energy sources, and advancing conservation technologies.

To effectively realize the foreign policy and national security benefits of its energy revolution, the United States needs to establish its role as a reliable supplier of liquefied natural gas and source of innovative energy technology. Such an approach would create energy partnerships that can have important geopolitical benefits. By providing LNG, as well as technical support for other low-pollution fuels, the United States can improve prospects for international cooperation and support on a number of other issues. This is where American economic and strategic, as well as environmental, interests converge in a very direct and substantial way.

Accelerating and sustaining US government approvals of new LNG-export terminals and new export contracts between US companies and those of large importers such as India, Japan, and South Korea have already strengthened strategic ties with those countries. Making new direct sales to Europe will give that continent a wider range of supply options, reduce vulnerability to potential disruptions in the Middle East, and increase price-negotiating power vis-à-vis Russia.

Europe has learned the lesson of overdependence on Russian energy; it has developed a more flexible, transparent, and competitive internal energy market, with diversified foreign supplies and delivery routes. US LNG exports and the formidable new energy technologies of US companies can support Europe's continued efforts. The EU-US Energy Council has been in place since 2009 to coordinate on energy security, and produce regulations that encourage efficient and sustainable use of energy, as well as enhance collaborative research and development to advance clean-energy technologies. It is co-chaired by the US Secretary of State and Secretary of Energy, along with comparably high-level EU officials.

Although the current period of low prices and a global supply glut has produced considerable complacency about sustained price stability in some importing countries, energy nonetheless deserves continued high priority as a component in US diplomacy and national security strategy—especially for Europe and allies in East Asia. The concern for Europe, for example, should not be just about Russia, but also about the possibility of serious supply disruptions in an increasingly volatile Middle East. A sound strategy warrants sustained interaction between US and European energy officials and private-sector companies. Washington and major EU capitals should aim to strengthen government-to-government and business-to-business

The process of fracking uses water tanks such as the ones shown above to create a highly pressurized fluid that fractures rock in order to yield the flow of natural gas. Advancements in fracking and horizontal drilling have contributed to an increase in US energy production.
Photo credit: Joshua Doubek

energy cooperation as the third pillar of a closer Atlantic community—NATO, TTIP, and energy cooperation.

It is especially important that the United States keep up the supply momentum, because low prices around the world have caused a sharp decline in non-OPEC supply—for example, in Africa and Latin America. Many more ambitious and expensive exploration and development efforts in large emerging countries, on these continents and elsewhere, are beginning to be cut back or cancelled, due to the expectation that prices will stay low for a long while, and due to difficulty in obtaining capital. This is making the world relatively more dependent on Middle East energy, and more vulnerable to disruptions there. Thus, North American supply availability is especially important.

In the maritime field, a different sort of challenge confronts the United States. The US Navy has been the de facto guarantor of the security of the sea lanes over which most oil and gas are shipped from the Persian Gulf to Europe, Asia, and other parts of the world. As US energy imports decline, and the Department of Defense looks for new ways to cut costs while shifting more of its naval assets to the Pacific, the prospect of its being able to sustain US public support for this energy-security protection will probably decline, as will the administration's ability to muster necessary funding. This has already become an issue in the US presidential campaign, and is likely to remain an issue.

Changing energy, political, and budgetary circumstances, over time, will likely require a new strategic plan that sustains secure energy routes at a lower cost to the United States, featuring a reduced naval presence in some regions. In developing such a plan, Washington would need to consult with its closest allies, both in Europe and the Indo-Pacific region. A full-blown agreement on increased sharing of responsibility to maintain safe maritime transportation lanes is unlikely to emerge quickly, but it needs to receive greater attention in coming years.

But the United States will still have a strong interest in the freedom and security of sea lanes. Abdication of that responsibility would damage the interests of the United States and its allies and partners in various parts of the world.

The prospect of an agreement is likely to be most complicated when it comes to East Asia, due to competing claims in the South China Sea. These claims pose maritime and territorial issues, and raise questions regarding which nations have the rights to drill for oil and gas in certain areas, and where ships can freely navigate. Following the model of the EU, an Indo-Pacific dialogue should be organized to consider ways to make markets in the region more flexible, transparent, and competitive, with diversified supply routes and sources of energy. US LNG exports—most of which are likely to end up in East Asia for a while due to higher prices paid there—will facilitate diversification and reduced vulnerabilities. Countries that benefit from these shipments, however, should also assume greater responsibility for protecting sea lanes, ensuring freedom of navigation, and reducing tensions that could lead to disruptions in energy shipments. Some will doubtless be called on by Washington to help reduce the degree of US security responsibility—or, at least, the cost of maintaining that responsibility.

But the United States will still have a strong interest in the freedom and security of sea lanes. Abdication of that responsibility would damage the interests of the United States and its allies and partners in various parts of the world. The country's energy exports and its sharply diminished imports can make other countries less vulnerable to disruption. But the lesson some mistakenly draw from this is that the United States can now sharply reduce its naval presence in the Middle East and critical energy sea routes elsewhere, and pay less attention to the global energy situation. However, international oil markets and prices at the pump in individual nations, including the United States, are closely interconnected. In time, as more natural gas is shipped in the form of LNG worldwide, those markets will be more connected, and more vulnerable to international volatility.

A crisis or disruption in one part of the world—such as a technical failure, fire, or explosion in a major refinery, a massive Internet network outage crippling a large pipeline or electrical-power distribution grid, blockage of a key strait, or an act of sabotage in one link of an interconnected system—can have instantaneous, and highly disruptive, global effects. These could quickly and severely harm the US economy. They could also badly harm US economic interests by causing major disruptions overseas. For instance, economic injury to major US trading partners would sharply reduce US exports, on which large numbers of American jobs depend.

The Internet is emerging as the world's most powerful economic force, driving economic change and opportunity in virtually every country and community.

For these reasons, broader strategic planning between the United States and key partners is required, to anticipate potentially disruptive occurrences affecting energy supplies, and to identify ways in which a problem in one area can be resolved or worked around. The interests of many emerging and industrialized countries also overlap on such matters. Pulling various countries together to anticipate and react in a coordinated way to such occurrences must be a US economic and strategic priority.

Sustain: Expand and Secure the Internet

The world economy is being transformed by the enlargement of advanced communication networks, driven by the global expansion of the Internet and the number of countries, companies, and individuals connected by it. The Internet is emerging as the world's most powerful economic force, driving economic change and opportunity in virtually every country and community. It supports vital infrastructures and systems connectivity (the Internet of Things) and critical information flows. Virtually all trade and finance is directly or indirectly supported by it. According to the MGI study cited earlier, roughly 900 million people are connected by social media and 360 million people take part in trans-border e-commerce—with a growing part of e-commerce accounted for by SMEs and companies in emerging and low-income nations.

Large investments are being made to expand this connectivity and support related technology. The Internet will continue to be a rapidly expanding generator of economic and productivity growth, providing a platform for economic, social, and political innovation. However, the pace of technological change driven by digital globalization—and the accelerating empowerment of individuals and communities of users who drive and benefit from it—rapidly exceeds the ability of governments to understand, much less regulate, Internet use, or to establish internationally consistent governance practices.

Nations differ considerably in their approaches to such matters as information privacy, rules governing the Internet, and the degree to which governments should control various kinds of information flows. Strong government restrictions on the Internet and public access to certain types of information exist in China, but China is hardly alone. To varying degrees, other nations—for example, many in the Middle East—have imposed restrictions on information flows. Differences in approach and policy also exist among and, indeed, within industrialized nations. Within the United States itself, there have been heated and very public debates on national security and privacy issues.

There are also disagreements with emerging countries that center on requirements to utilize only domestic technologies such as servers, national limitations on the access of foreign companies to some information-technology sectors, the inflow of some kinds of foreign-sourced information, and requirements relating to data protection. A wide range of issues and differences need to be sorted out among governments and other stakeholders to preserve the borderless, secure, stable, and globally interoperable quality of the Internet. Various kinds of Internet crime, intrusions, and disruptions could degrade confidence in the technology, or erode public trust in various kinds of transactions and connectivity. That would diminish this technology's growing contribution to productivity within, and among, nations.

The unique model of governance of the Internet is demonstrated by the role of the Internet Corporation for the Assignment of Names and Numbers (ICANN), which develops policy through global stakeholder participation based on a "multistakeholder model" that brings together, inter alia, interested individuals, companies, governments, technology experts, and entrepreneurs worldwide. Several years ago, ICANN made access to the Internet considerably broader by expanding designated domain names to include the use of non-Latin characters such as Cyrillic, Arabic, and Chinese. In terms of languages used on websites, the numbers testify to the Internet's international character: English is first, followed closely by Chinese, Spanish, and Arabic.

This is no longer a purely US-dominated technology, and has not been one for some time, so the United States needs to work with a wide range of nations and partners around the world who drive and influence change in this technology. And such partners need to come from the business, technology, scientific, and NGO sectors. A high degree of collaboration and joint thinking is needed to shape the rules and norms of the system, as well as to understand the kinds of changes the Internet will make to societies and governance, and on security matters. Sustaining the multistakeholder model is and must remain a top American priority, especially in the face of more nationalistic pressures.

The world's growing reliance on digital networks and hyperconnected information flows also presents new challenges, with extensive economic and security implications.

The United States can do a lot to recruit other nations, and influential partners within them, to support the broad principles it advocates for Internet governance. One way is by giving more people around the world a stake in an open system of information and data flows, by providing them with access to it. The State Department is aiming to do this through a new initiative called Global Connect, which seeks to bring online 1.5 billion people in developing countries, who currently lack Internet access, by 2020.

The implications of the rapid expansion and mushrooming use of the Internet for trade and investment remain a challenge. On one hand, the Internet has played a dramatic role in expanding world trade and financial flows. The number and kinds of businesses in all parts of the world participating in e-commerce as buyers or sellers—from large companies in the United States, Germany, or Japan to small artisans in remote villages in Africa—has exploded. The Internet plays a role in virtually every aspect of international trade and investment today.

The advent of three-dimensional (or "additive") printing continues to erode the already-blurred line between conventional trade and investment and transformative uses of digitized information flows to create physical products all over the world. That line will become even less clear in the future. So far, the amount of additive printing as a portion of overall manufacturing is low, compared to the actual volume of goods that cross borders. But in larger volumes, this rapidly advancing technology will render tariffs and other barriers at the border meaningless for some products.

There will be other issues: How do countries maintain restrictions on sensitive military technology exports if the technology can be transmitted by the Internet? What does this technology mean for factories in low-wage countries if their products can be produced in a high-wage country using 3-D printing? What are the implications for high-wage counties if goods can be produced anywhere in the world, evading patent or copyright laws? What does this mean for the shipping industry?

No sooner will the ink be dry on the final outcomes of current trade negotiations than negotiators will have to turn to these complex and novel twenty-first century techno-trade issues.

The world's growing reliance on digital networks and hyperconnected information flows also presents new challenges, with extensive economic and security implications. Digital networks underpin critical national infrastructure around the world and are woven into—but also taken for granted in—everyday life. Connected electricity grids, cellular systems, water resources, transport networks, banks, information systems, healthcare facilities, and businesses within and among countries depend on complex digital systems; many are vulnerable to disruptions and cyber crime. Attacks by governments, terrorist groups, and lone-wolf individuals, as well as accidents or technical failures, can have a huge impact on the US economy and national security—and can produce massive, systemic shocks.

Cyber threats are multiplying. In 2014 alone, the United States experienced an estimated 42.8 million cyberattacks. This equated to roughly 117,000 each day, according to a study by the consulting firm PricewaterhouseCoopers; this figure was up almost 50 percent from 2013. The number of countries, groups, or individuals capable of using cyberattacks for malicious ends is expanding. In many cases, such actions might be aimed at economic targets, to achieve disruptive economic objectives. However, many also have the ultimate goal of damaging a nation's ability to defend itself, because many systems essential for national defense are connected to digital grids. Some attacks are aimed at causing widespread domestic instability, to force a country to alter its foreign policy.

In December 2015, for instance, a cyberattack on Ukraine's electric grid led to widespread power outages. US intelligence and national security officials have studied this closely, because it represents a major demonstration of how a cyberattack can disrupt such an important component of a country's economy and can, therefore, disrupt important security-related infrastructure. (After a dispute with Russia in 2001, Estonia was subject to a cyberattack, which was largely focused on denial of service.) Power grids, and many other infrastructure facilities, in the United States and other countries have many of the same vulnerabilities as the Ukraine grid.

Cyberattacks are likely to be a formidable tactical and strategic threat for decades to come, a prominent feature of future wars, and a weapon that spearheads aggressive efforts by nations and nonstate actors to undermine stability in, or exert political leverage against, their adversaries.

Terrorist groups, such as al-Qaeda or ISIS, might see cyberattacks against the core infrastructure of the United States as strategically effective ways of disrupting critical parts of the country's economy, such as causing massive blackouts and disabling air-traffic control systems—a form of cyber terrorism. Other nations are also vulnerable, including China, Russia, Japan, France, and Germany. Meanwhile, terrorist organizations have proved adept at using the Internet and social media to spread propaganda and recruit jihadists to perpetrate acts of terrorism in various countries, and to join their forces in the Middle East. The technological skills of such groups have enabled them to connect with disaffected individuals around the world and encourage attacks on domestic targets. Again, numerous countries have a strong interest in finding ways to undermine and stop these efforts.

Because the Internet is the digital infrastructure for virtually all other infrastructures, failure of a weak or vulnerable link could cause massive, cascading system disruptions in many countries, or across national borders.

There has been progress on such issues. The United States and China last year reached agreement that neither government would conduct or provide support to cyber theft of intellectual property. This was the product of several years of negotiations, and a mutual recognition that both countries were vulnerable. While many details need to be sorted out, and implementation needs to be followed closely, this might be a template for similar agreements with other countries and, ultimately, for more extensive cybersecurity-related covenants.

A committee of the United Nations has reached agreement on a series of broad principles by which governments agree not to permit activity by their citizens to "intentionally damage critical infrastructure or otherwise impair the use and operation of critical infrastructure to provide services to the public" in other countries. The United States hopes to be able to reach more binding agreements with a number of countries on this set of commitments and principles, as a way of strengthening cooperation and ensuring robust implementation. That process would also extend to working together to prevent nonstate actors from committing destructive acts of cyber warfare—and to broaden the kinds of infrastructure attacks this prohibition covers.

Because the Internet is the digital infrastructure for virtually all other infrastructures, failure of a weak or vulnerable link could cause massive, cascading system disruptions in many countries, or across national borders. Establishing a framework for avoiding catastrophic systems failures or interruptions is an urgent requirement, as is an ongoing process to prepare for such events.

A key ingredient in this effort is already underway, as government and private-sector experts have been working together for some time in the financial sector, and numerous others, to identify national and international systemic vulnerabilities and determine best practices for hardening networks and firewalls. Such collaboration should include a frequent series of crisis-response drills to develop tools and techniques for managing an actual crisis among private-sector companies, security officials, and regulators. The process will require the mobilization of different sets of officials from different agencies, and a variety of national technology experts. Regular meetings and constant communication between government and private-sector experts, even on minor issues, can prepare them for the kinds of major disruptions that a highly interdependent world is likely to face in the future.

There are currently no agreed-upon international rules or principles to prevent or respond to cyberattacks aimed at disrupting key digital networks and crippling a nation's vital economic or security systems. Far too little international progress has been made in establishing a consensus on the principles, methods, or institutions for governing, regulating, and protecting the panoply of strategically interconnected networks or, importantly, on deciding on retaliatory actions if such attacks take place. Given the nature of global digital networks, the large number of countries, groups, and individuals able to deploy digital weapons to serve their narrow—and, often, highly disruptive—ends, the intense differences over appropriate types of government control, and the cultural and political issues that separate nations on significant matters, agreeing on effective practices governing the protection of digital networks may take considerable time. Nonetheless, the effort to do so must receive high priority.

US collaboration with other vulnerable governments—particularly, China, Russia, Japan and members of the EU—to identify and counter Internet terrorist threats in coming years will be imperative. Even with countries with which the United States has had differences in such areas in the past, especially over the issues of data privacy and information control, the need to counter and retaliate against terrorist actions should be a new, unifying force.

Conclusion

The goal of this Atlantic Council strategy paper was to identify the six strategic imperatives for the United States to *shape, steer,* and *sustain* the new global economic order. Each set of challenges and opportunities requires the United States to assume purposeful and coherent leadership, to ensure the constructive evolution of the twenty-first-century international economic order.

The effort to achieve these goals must be part of an ongoing process. To develop a more comprehensive way forward, and specific plans for implementation, more work will be required in the coming months and years. That will include ways of working with other countries around the world, and with various groups and individuals within those countries who will help shape national policies and play direct and influential roles on global economic issues.

This engagement includes: leadership in cities, states, and provinces that will play a growing role in shaping national policies and the international economy; harnessing global connectivity to facilitate trade and investment; and small and medium-sized businesses, the major job creators in most nations, taking advantages of opportunities afforded by new technology platforms to buy and sell across borders and tap growing global markets. It also includes innovators and entrepreneurs working with governments, and across borders with one another, to drive technological change and transform economies and societies. And it includes exponents of a liberal, transparent, rules-based economic order within countries and internationally, one that understands the importance of accountability and expanded opportunities for fair competition at home and in the global market.

The ability of the United States to remain the preeminent leader in international affairs will be, as in the past, closely connected to its ability to ensure a robust, resilient, and dynamic economy at home—an economy that does a better job of creating employment, generating higher wages for low- and middle-income workers, and facilitating upward mobility. Many of the changes occurring in the global economy can be harnessed to the United States' advantage to help achieve these goals. The United States can lead in shaping the global economy in ways consistent with the nation's values and interests, and which promote its domestic objectives—but only if Washington takes the right measures and pursues the right strategy to do so.

This paper has suggested some ways for the United States to proceed in the period ahead, but the environment is not favorable. Changes are needed at home to enable the United States to be more effective abroad—and, conversely, being more effective abroad can help overcome some of the difficulties the country faces at home.

In the United States, public frustration and anger have grown in some quarters due to the slow decrease in the rate of unemployment during this recovery, coupled with sluggish wage growth and high income inequality. These may not reflect the concerns of the majority of Americans, but they do reflect the views of large and vocal segments of the population. Many Americans who are dissatisfied with their own situations and feel ignored by their government resist further trade liberalization. They seek disengagement from other nations, many of which are traditional allies on security and political matters, as well as important trade and investment partners. These people want their government to focus on problems at home—a legitimate desire—but underestimate the degree to which a stronger and better functioning global economy will facilitate domestic improvements or the degree to which a deteriorating global economic order will worsen them.

The xenophobia and dismissal in some quarters of the need for a proactive international role on key issues—already have had a negative impact on the United States' image and stature abroad.

These factors and the stridency of the domestic debate—the xenophobia and dismissal in some quarters of the need for a proactive international role on key issues—already have had a negative impact on the United States' image and stature abroad. The US economy is now performing considerably better that it was several years ago, and is generating growth and jobs faster than the vast majority of other industrialized nations. Moreover, it retains enormous intrinsic strengths, due to its remarkable innovative strengths, the energy boom, and a solid foundation in the rule of law and competitive spirit. However, the economic and social strains that have emerged in recent years—from the large numbers of people who have not benefitted or who feel marginalized, as manifest in the tone of some candidates and their followers—have heightened uncertainties in many parts of the world about the direction and steadfastness of US policies. Further, without a healthy and upwardly mobile middle class, the United States will find it difficult to sustain a high level of political consensus on the need to play a constructive and forward-looking international economic and political role. Forging an effective international economic strategy, in a period of growing populism, will be an enormous challenge.

A successful US strategy for shaping the new global economic order, therefore, must satisfy and address a number of the economic needs the country faces at home, as discussed earlier in this paper. It must also be supported by a large number of Americans, and be based on a narrative that most accept, because it credibly serves US domestic economic interests, as well as vital foreign policy and national security interests. But for many Americans, the first of these—especially the degree to which it supports job creation and new opportunities—will be the most important for the time being.

A strong US economy, and a high degree of political and social cohesion, are vital pillars of US influence. But, as regularly mentioned in this paper, they depend in a number of ways on a well-functioning global economy. International markets, financial stability, rules of fair competition, partnerships to resolve global problems, and a well-functioning Internet are all important to US prosperity and the opportunity for millions more to benefit from it. There are more players in the global economy, and more types of issues facing the country in the international economic sphere, that require American attention than there were in the 1940s and 1950s, but the need for strategic thinking has not changed. Just as that earlier period marked an inflection point, requiring a new strategy to restore and shape the collapsed global economic order after World War II, the post-2008-financial-crisis world requires a new way forward for the global economy, and for the United States' role in it, if that economy is to serve US interests.

A strong US economy, and a high degree of political and social cohesion, are vital pillars of US influence.

US success in achieving the country's international economic objectives will require proactive and steady leadership. While devoting new energy and new efforts to revitalizing the US economy and increasing its inclusivity, American leaders—and larger numbers of Americans who share the goal of sustaining and broadening the base of US prosperity—would benefit from a public and nondoctrinaire discussion of international economic issues during this campaign period, and certainly after the election. This must include frank talk about the many ways in which a deteriorating or weak global economic order will exacerbate economic problems at home—and damage foreign policy and national security interests as well—and the kind of strategies and leadership required to avoid that and instead shape, steer, and sustain the global economy in ways that reinforce US economic prospects, and serve a wide range of other vital interests. Hopefully, the ideas provided in this paper will be useful in encouraging and facilitating that process.

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– Henry Kissinger, former United States Secretary of State

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