

# Global System on the Brink: Pathways toward a New Normal

Joint Study by the Atlantic Council's Strategic Foresight Initiative and the  
Russian Primakov Institute of World Economy and International Relations



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## FOREWORD

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Dear Reader,

We're delighted to present *The Global System on the Brink: Pathways toward a New Normal*, a joint study by the Strategic Foresight Initiative of the Atlantic Council's Brent Scowcroft Center on International Security and the Primakov Institute of World Economy and International Relations (IMEMO). The study began before the onset of the recent crisis in US-Russian relations, but is even more relevant today as we seek to avoid a greater conflict and achieve a new normal of cooperation between Russia and the West.

In keeping with previous forecasting works published by the Atlantic Council and IMEMO, the study examines current trends and potential scenarios for global developments over the next twenty years. The goal is not to predict the future so much as to highlight the challenges and opportunities ahead. The crisis in US-Russian relations is only one facet of a world at an increasingly dangerous inflection point. Despite the rapid globalization of the past few decades, which promised cooperation and integration, the potential for major state conflict is on the rise due to deep fragmentation within and between societies. The old confrontation between capitalism and communism has given way to conflicts of moral values with nationalist, religious, and historical-psychological overtones.

The crisis in relations between Russia and the West from 2013 to 2015 shows that economic interests and cooperation in international security are not sufficient to prevent conflict based on political, geopolitical, and ideological ambition. The East-West situation differs considerably from that of the second half of the Cold War era (mid-1960s to mid-1980s), when tacit "untouchable" geopolitical spheres of influence were clearly delineated, and other zones were not worth the risk of a direct military conflict. The situation from 2015 through 2035 will be far different from the first twenty-five years following the end of the Cold War—a time when the big powers avoided serious differences, often because Russia and China acquiesced to Western leadership.

The worst outcome would be the emergence of a new bipolarity, pitting a group of states centered around China and Russia against the United States and some European and Asian allies. A somewhat less dangerous outcome would be a global breakup into regional blocs and spheres of influence, in which the potential for ad hoc global cooperation would still exist.

While we particularly want to underline the seriousness of our current situation, the study also emphasizes the opportunities that exist for both our countries and the rest of the world should we find ways to narrow differences. Strengthening the nuclear nonproliferation regime and the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) requires consensus among all NPT signatories (currently 190 countries), including countries that could violate the treaty. This would be very hard to achieve under the best conceivable circumstances, but this will be totally impossible in an environment of confrontation among the great powers. During the period from 2015 to 2035, more threshold countries are likely to emerge, and in the worst-case scenario, a chain reaction could occur, in which nuclear proliferation leads to an expansion of the "nuclear club" from nine to fifteen or more members. This would make the use of nuclear weapons in a regional conflict or their acquisition by terrorists much more likely. Cooperation among Russia, the United States, and other countries is equally important on other areas of shared interest, such as counterterrorism; opposition to religious-based violent extremism; global economic growth and financial stability; combatting climate change; and safeguarding the global commons, including a peaceful outer space. Such cooperation is perhaps only possible if tensions do not escalate, and the major powers keep their competition under stringent control in other realms. Although looking out twenty years to the future might not seem like a productive way to deal with the current East-West crisis, thinking about the kind of world we want to bequeath to the next generation may actually be the best way to start the process of overcoming the conflicts and harmful differences of today.

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## EXECUTIVE SUMMARY

The world is at an increasingly dangerous inflection point. Ironically, much of the danger ahead stems from the success of the post-World War II international system: in the two decades since the end of the Cold War, globalization—the transborder flow of information, money, goods, and people—has connected economies, people, and nations more tightly than ever before and led to the massive ongoing shift of wealth and population from West to East and North to South. Globalization provides many opportunities, but it also poses serious risks. As the world becomes more interdependent and interconnected, a plethora of state and nonstate actors—some of which see themselves as marginalized by globalization—are vying for power, creating greater instability and fragmentation.

Looking out to 2035:

- The risk of conflict among the big powers, including between the United States/NATO and Russia, and China and its neighbors, is growing, and conflicts between second-tier powers, such as those between India and Pakistan, could spill over into nuclear war. Sectarian conflicts between Sunnis and Shias, and between Kurds and Arabs are worsening, potentially sparking a major war along religious, ethnic, and political lines. The growth of armed Islamic extremism as an answer to growing external interventions is another long-term destabilizing factor. The incidence of conflicts has been at a historic low since the end of the Cold War; its reversal is the single biggest threat to longer-term global economic growth and globalization itself.
- Developing countries will increasingly drive the global economy. The Chinese renminbi (RMB) will join the dollar and euro as a third reserve currency. A globally aging population introduces a new risk factor,

particularly if it pulls down growth and puts heavy pressure on public finances. By 2035, an increasing portion of the world's financial resources will be concentrated in regional clusters away from the US-UK financial hub.

- The global energy sector will experience price and investment uncertainty. A peaking in global oil consumption is likely to happen by 2035-40, but could be accelerated if the Chinese economy slows down faster than expected and India's economy fails to reach high growth rates.
- New technologies, such as robotics and automation, will take more jobs away from people, triggering a social and political backlash against established national and multilateral institutions. Over time, growing domestic inequalities may be lessened as new, well-paid jobs are created and education and skills increase.

Given the depth and breadth of the changes that will transform the global landscape, a new international order is inevitable. However, no hegemonic force can shape the global system, as was the case in the post-World War II order, and no consensus exists on what kind of new international order should be established. Nevertheless, opportunities to mitigate or avoid the risks ahead do exist. The international community's shared interests in confronting and mastering an array of global challenges far outweigh any differences. We hope that knowledge of the forces eroding the foundations of the post-Cold War international system will serve as a guide in developing an *inclusive* rules-based multilateral order that can again lower the risks of conflict, while providing the basis for global cooperation.

## THE CHANGING FACE OF GLOBALIZATION

The character of globalization is changing, creating a more volatile global environment with increasing gaps between the core and periphery of the world economy. The loss of national sovereignty is a growing battle cry for those opposed to globalization.

Globalization is no longer equivalent to Westernization; instead, it is occurring on terms set by non-Western cultures, as wealth and technology spreads to the east and the south. Globalization has reduced inequalities between developed and developing economies, but it has deepened economic differences domestically in practically all countries. Anti-immigrant sentiment is rising at a time of increasing job insecurity. The sources of instability are not just on the surface between nations, but are deeply rooted in cultures and societies undergoing immense unraveling. Financial crises can't be ruled out even if the more polycentric financial system becomes more stable. The governance deficit—the absence and ability of any regulatory body to control market forces—is seen as a universal problem in both advanced and fledgling countries.

Governmental power is becoming more diffuse. The nation-state system is challenged from above by globalization and from below by ethno-nationalism and individual empowerment, which will remain potent forces through to the year 2035. The instant, 24/7 access to information has sparked a “global awakening” in expectations—seen dramatically but briefly across the Middle East with the 2011 Arab Spring—and local, traditional sources of identity have become reinvigorated. Forces of fragmentation are evident worldwide in secessionist efforts from Scotland and Catalonia in Europe to South Sudan in East Africa. The future of the Arab state system in the Middle East is in doubt. Anti-globalization stirrings by themselves won't stop globalization, but they will undermine trust in governance at all levels, from local to global.

Demographic trends—rapid aging, greater urbanization, and increased mobility and migration—will continue to compound the difficulties of governing. Many governments will struggle to temper “demography as destiny” if aging causes an economic slowdown, and rapid urbanization and increased migration intensify public discontent.

## WAR: POTENTIAL FOR MAJOR STATE CONFLICT

### SOURCES OF VOLATILITY

Despite the promise of cooperation and integration emanating from the rapid globalization of the past few decades, the potential for major state conflict is growing because of deep fragmentation within and between societies. The old confrontation between capitalism and



Demonstration against the United States-South Korea Free Trade Agreement in Seattle, September 2006. Photo credit: Wikimedia Commons.

communism has given way to nationalism and conflicts of intellectual and moral values with more or less religious and historical-psychological overtones. These differences are even more serious when linked to the domestic political interests of particular countries' ruling circles.

Compared to the last twenty years, the big powers will be more likely to get involved in various conflicts and to take opposing sides in the period of 2015-35. They might be unintentionally drawn into direct armed conflict as a result of an escalation of crises. This risk applies most immediately to the differences between Russia, the Shanghai Cooperation Organization (SCO), and the United States/NATO in the post-Soviet space, and, less likely, to Chinese and US relations with both countries' allies and partners in Asia. The growing turbulence in the Middle East and, to a lesser extent, South and East Asia sets the stage for conflict between the major powers and a potential breakdown of the world order. A conflict involving the great powers would end the already challenged ideal of an inclusive liberal world order and put the global economy at risk.

The ongoing crisis in Russia's relations with the US and the European Union (EU) starting in 2013-15 shows that economic interests and cooperation in international security can be sacrificed for the sake of political, geopolitical, and ideological ambition. The current confrontation differs considerably from that of the mid-1960s to mid-1980s, in second half of the Cold War era, when tacit “untouchable” geopolitical spheres of influence were clearly delineated, and other zones were not worth the risk of a direct military conflict. The situation through 2035 will also be far different from that of the first twenty-five years following the end of the Cold War, when the big powers avoided serious differences, often because Russia and China acquiesced to Western leadership.

## WORST-CASE OUTCOMES

The worst outcome would be a new bipolarity with the emergence of a grouping around Russia and China facing a United States with some European and Asian allies. A somewhat less dangerous outcome would be the breakup in regional blocs and spheres of influence in which the potential for greater ad hoc global cooperation would still exist but is not guaranteed. A remote possibility would be a return to a more inclusive, integrated world order, in which interstate competition was kept in check and in which there was more scope for cooperation.

For both the United States and Russia, a new global bipolarity or possible breakup of the world into regional blocs would create new challenges. US capacity would be stretched to the breaking point if tensions with Russia and China escalate at a time of increased security concerns in the Middle East. The breakup into regional blocs and spheres of influence would increase the number of players with divergent interests, making it more difficult to sustain a global coalition on challenges like counterterrorism and nonproliferation. In a new bipolar system, Russia would end up not only in confrontation with the West, but it also could be drawn into conflicts in which it originally had no part. In a regional blocs scenario, if Russia's relations with the West deteriorated even further, that would inevitably poison China's and India's relations with the Western bloc and strengthen the SCO. After its enlargement in 2015, it has increased its institutionalization substantially and already comprises four nuclear states.

**Number of Regions Ripe for Conflict.** Practically any part of the post-Soviet space and surrounding regions, the western part of the Asia-Pacific region, the Middle East, and the northern part of the Indian Ocean could become the site of serious competition between major powers. The increasing range and reduced response time of current and emerging non-nuclear offensive weapons systems and their highly automated command-and-control systems heighten the risks of accidental or provoked military incidents and rapid escalation of armed conflict.

If Ukraine continues to disintegrate and Russia becomes more-heavily involved, NATO, the United States, or a “coalition of the willing” might engage in direct military intervention, resulting in head-on conflict. If Moscow faces the possibility of a crushing defeat, it might perceive that such a conflict would, as Russia's new military doctrine states, “constitute a threat to [Russia's] statehood” and force Russia to use nuclear weapons. Even without going to such extremes, actions by the Russian and NATO navies and air forces in the Black and Baltic Seas today have raised the risk of military incidents leading to armed conflict. The threat of such crises will grow if relations with the West become confrontational and East-West tensions increase.

In the Middle East, surrounding countries and regions—such as Turkey, Egypt, and Europe—are increasingly focused on domestic issues. With less US engagement in

the region, sectarian conflicts between Sunnis and Shias and between Kurds and Arabs could worsen, eventually sparking a major conflict in the region. A “cold war” between Saudi Arabia and Iran is already under way, and a “hot” regional conflict is occurring in Yemen. Pro-Iranian Houthis, as a branch of Shia, are fighting Yemeni Sunnis supported by Saudi Arabia and its Sunni allies, including the United Arab Emirates (UAE) and Egypt. The Middle East is a platform for increasing tensions between the United States and its partners against Russia, Iran, and others who want to bolster Syrian leader Bashar al-Assad.

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In East Asia, China has been undertaking a massive buildup of its conventional forces, in particular its navy, which occurs against a backdrop of a shift in the nuclear balance of power in China's favor. The reach of China's navy will cover the entire region in which US allies and partners are located (Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam), reflecting Beijing's growing geopolitical ambitions in its neighboring seas.

If China engages in military and political expansion in the western part of the Pacific Ocean and in the Indian Ocean, a new bipolarity could develop. Such a system would include, on the one hand, a loose group centered around China and Russia, including some Collective Security Treaty Organization (CSTO) members of Central Asia, North Korea, Iran, and probably others depending on circumstances, and, on the other hand, an alliance centered around the United States, including US allies in Europe and Asia.

**Likelihood of Nuclear War Increasing.** As geopolitical tensions increase, the likelihood of conflicts spilling over into regional nuclear war between second-tier nuclear powers will also increase. Worsening relations between India and Pakistan pose the biggest risk of this kind.

Pakistan, which has no clearly formulated nuclear doctrine, heavily relies on the principle of making a first nuclear



The P5 plus Germany along with Iran announce the nuclear deal framework in Lausanne on 2 April 2015. The framework deal became the basis for a final agreement, the Joint Comprehensive Plan of Action, which was agreed on 15 July 2015. *Photo credit: US Department of State.*

strike; India, on the other hand, has pledged a no-first-use nuclear policy. A flare-up in Pakistan’s domestic political situation and the threat of Islamic radicals (the Taliban) and international terrorists (al-Qaeda) getting their hands on nuclear weapons might also lead to conflict.

A premeditated nuclear attack by North Korea against South Korea or the United States (Pyongyang is projected to develop intercontinental ballistic missile capability in the next ten to fifteen years) is unlikely. However, periodic attempts by North Korea to increase tensions could provoke an armed conflict. If the North Korean regime were to find itself facing defeat, it might resort to using nuclear weapons. In such a situation, the United States might decide to launch a pre-emptive strike using high-precision conventional weapons; Pyongyang would probably respond by using its surviving nuclear arms.

A conflict between India and China is much less likely during the next twenty years than a conflict between India and Pakistan. China would be unlikely to use nuclear weapons even if a war between India and Pakistan turned nuclear. At the same time, tensions in the Indian Ocean will probably increase and might provoke a number of armed clashes, though these would not turn nuclear.

During the next twenty years, Israel or Iran could fight an interstate conflict if either side violates the comprehensive agreement of July 2015, regarding the limitation and transparency of the program or the lifting of sanctions. If such a conflict occurs, it would be quasi-nuclear—it would not involve the actual use of nuclear weapons, but

rather the use of force to prevent their development and proliferation. The current agreement is only slated to last ten to fifteen years, opening up the potential for another confrontation if Iran does not extend its renunciation of nuclear weapons.

War, especially if the United States gets involved on Israel’s side, would risk destabilizing nuclear Pakistan and setting off a rapid upsurge in Islamic radicalism around the world. It could also push the Arab and Muslim countries into a large-scale departure from the Nuclear Nonproliferation Treaty (NPT) and encourage some countries to step up their own military nuclear programs with the aim of acquiring nuclear deterrent capability against the United States and Israel.

This would irreversibly undermine the legal foundations of the nuclear nonproliferation regime. The Iranian nuclear agreement paves the way for new opportunities to strengthen the nuclear nonproliferation regime and the controls over critical technology and materials through cooperation between big powers and regional players.

**Growing Regionalized Conflict.** The risk of conflict will increase during the next twenty years, even if the big powers do not get directly involved. Such conflicts will not necessarily escalate to include the use of nuclear weapons. This applies above all to the Middle East and neighboring regions, with the possibility that conflict areas could merge to form one large zone from Morocco to the Hindu Kush, also drawing in Afghanistan, Pakistan, Central Asia, and

## THE LIKELIHOOD OF A MAJOR WAR BETWEEN THE MAIN POWER CENTERS WILL INCREASE RELATIVELY, BUT WILL STILL BE LOWER THAN IT WAS DURING THE FIRST PART OF THE COLD WAR (1947-62).

Iran (if a military strike is launched against its nuclear infrastructure).

The risk of armed Islamic extremism in the region (this is an issue that is simultaneously domestic, transnational, and transregional in nature) remains the most serious threat to international security. Islamic armed extremism could take the form of attacks on secular pro-Western and anti-Western state regimes; conflict between Sunnis and Shias; and an increase in piracy in the Mediterranean and Red seas, around the entire African coast, and in the northern Indian Ocean and western Pacific Ocean.

Other regions where conflict could spread include Central and Southeast Asia and also equatorial Africa, where a growing number of countries could be drawn into conflict between Muslim and Christian populations, providing fertile ground for further expansion of terrorism.

**Nature and Types of Conflict.** The likelihood of a major war between the main power centers will increase relatively, but will still be lower than it was during the first part of the Cold War (1947-62). Hybrid wars, selective military operations, long-range precision strikes (non-contact wars), the use of small mobile units in special operations (rapid power), communication disruptions, and blockades will play bigger roles in the use of military power. Such means will not be used to achieve victory over the enemy, but to reach limited objectives. These objectives include changing the country's regime or subjugating a state through direct external threats to its territorial integrity or violating territorial integrity by engaging local armed opposition groups.

The major powers and their allies are unlikely to engage in conflict with each other over energy and other natural resources (including fresh water), Arctic transport routes, and territories and key geographic nodes abroad. The damage and consequences of any large-scale conflict for the interdependent big powers would be far greater than the hypothetical advantages to solving disputes through military means. However, large-scale military deployments and an intensive arms race to gain control over the above

assets would forge predominantly confrontational relations among the principal international players.

## OPPORTUNITIES

Despite the growing risk of conflict, the number of military operations under United Nations (UN) aegis to impose or maintain peace or to prevent genocide, ethnic cleansing, and humanitarian emergencies—and perhaps also to prevent technological disasters and to protect the environment—could increase. States no longer have the monopoly on killing or disruption on a large scale. The next fifteen to twenty years will see a wider spectrum of more accessible instruments of war, especially precision-strike capabilities, cyber instruments, and bioterror weaponry potentially being used by international terrorist and transnational criminal organizations. Concomitantly, the number of operations by states to combat them is likely to increase.

The major powers and the main regional players could also collectively use force to prevent the proliferation of nuclear weapons and cut off terrorists' access to them. Operations of this kind on a multilateral basis or under the mandate of the UN and/or regional security operations might occur more frequently during the next twenty years.

**Arms Control.** For France, Russia, China, and India, the nuclear deterrent could play a less important role in guaranteeing security than it does today, if geopolitical competition decreases. If geopolitical competition increases, there will be much weaker incentives for movement toward nuclear disarmament. The emphasis will shift to cutting-edge, high-precision, long-range offensive and defensive weapons as well as non-nuclear deterrent concepts. In a more competitive security environment, nuclear weapons would play a greater role in military-political relations between the big players and smaller nuclear powers, as well as between the new nuclear and threshold countries.

If the major powers cooperate, Russia and the United States could reduce their nuclear arsenals to around 1,000 strategic and tactical warheads. Britain and France will get involved in this process by the mid-2020s. By that time, the international community might be able to bring the Comprehensive Nuclear Test Ban Treaty into force and conclude the fissile material cut-off treaty, at least between the five big nuclear powers.

If—with the help of Russia, the United States, and China—India and Pakistan can avoid nuclear conflict, New Delhi and Islamabad could conclude a nuclear arms limitation treaty during the 2020s. In the context of general security and political and military stabilization in the Middle East and strengthening the nuclear nonproliferation regime (particularly pertaining to Iran's nuclear program), Israel could end the use of operationally deployed nuclear weapons by 2035 (following the South African example).



British, Russian, and American astronauts wearing Russian ‘Sokol launch and entry’ suits before an expedition, in November 2015. Photo credit: US National Aeronautics and Space Administration/Flickr.

Israel would keep the weapons-grade material in storage under the International Atomic Energy Agency safeguards but dismantle the explosive devices. During the next twenty years, North Korea’s political and economic system could collapse and be united with the South, likely resulting in a unified Korea that renounces nuclear weapons.

China might play a greater role in nuclear and other arms control efforts, probably working bilaterally with the United States. Greater Chinese involvement in nuclear and advanced conventional arms control efforts could be motivated by China’s desire to take Russia’s place as the second superpower, a status traditionally associated with the privileged role of the counterpart in strategic arms talks with the United States.

**Arms Cooperation or Race in Space?** The only way to prevent an arms race in space would be to improve the legal basis for activity in outer space, particularly by expanding restrictions and bans on weapons deployment in orbit and on developing land-, air-, and sea-based means of destroying objects in space. If global competition intensifies, more space incidents—such as the accidental collision of Russian and US satellites in 2009—will probably occur. In addition, antagonists might disrupt the operation of each other’s space systems, with unpredictable socioeconomic and military consequences.

**Chemical and Biological Weapons.** Regardless of whether the major powers cooperate or compete, by 2025—much later than the deadline set by the 1992 Convention—global stocks of chemical weapons held by states will have been destroyed in full. The situation pertaining to biological weapons is different, however. The ban on these weapons, established by the 1972 Convention, is not supported by a verification system. The development of new bans and controls for new types of bio-weapons (e.g. through genetic engineering) would be possible on a multilateral basis only if the big powers cooperate.

**Proliferation and the Nuclear Energy Threat.** With climate change, we can expect to see a considerable increase in nuclear energy use over the forecast period. In a worrisome trend, the increase will occur in many unstable and conflict-prone parts of the world. The current drop in global oil prices could slow the pace of nuclear energy development but will not change the fundamental trend.

During the next twenty years, a breakdown in the barriers between “military” and “peaceful” nuclear energy use is likely to occur, primarily driven by nuclear fuel cycle technology.

Nuclear energy (like the space sector, which is linked to missile technology) has both an economic and a political dimension in terms of countries’ status, prestige, and

defense capability. Nuclear weapons will increasingly morph from being one of the attributes of the leading powers to being a “weapon of the poor,” to be used against adversaries’ superior conventional forces. This shift increases the risk of their deliberate or accidental use in local wars.

Contrary to the logic underpinning the Nonproliferation Treaty (NPT), peaceful nuclear energy has not become an attractive alternative to developing nuclear weapons. North Korea used nuclear energy as a cover for developing nuclear weapons and, for many years, Iran had been suspected of following North Korea’s example. By 2035, other countries in Asia, Africa, and Latin America—many of which are unstable and/or are involved in regional conflicts—might also take this road.

Strengthening the nuclear nonproliferation regime and the NPT requires consensus among all NPT signatories (currently 190 countries), including countries that could violate the treaty. This is hard to achieve even under the best possible circumstances, but would be completely impossible if the great powers think in confrontational terms. Until 2035, more threshold countries are likely to emerge, and in the worst-case scenario, a chain reaction could occur in which nuclear proliferation leads to an expansion of the “nuclear club” from nine to fifteen or more members. This would greatly increase the probability of nuclear weapons use in regional conflicts and of terrorists getting access to a nuclear explosive device.

Preventing nuclear terrorism is clearly an area of common interest between the great powers and their allies, regardless of the nature of their relationship. However, cooperation among Russia, the United States, and other countries on the security of nuclear munitions and materials in a bilateral and multilateral format could be restored and expanded only if tensions do not escalate and the major powers do not compete in other realms.

## THE GLOBAL ECONOMY: GROWING POLYCENTRISM

### SOURCES OF VOLATILITY

By 2035, the structure of the global economy will be radically altered, owing to differences in growth rates between developing and developed countries. The economies of developing countries and emerging new markets will continue to grow at nearly twice the rate of the developed countries, according to Institute of World Economy and International Relations (IMEMO) modeling. Following a deep economic crisis in 2008 and the beginning of structural reforms, developed countries have seen higher growth rates in recent years, but collectively they will not achieve the same high growth rates over the next two decades as they did in the 1990s. As developing countries’ GDP continues to grow faster than that of developed

countries, so too will their contribution to global economic growth. In 1990, the developed countries accounted for 59.8 percent of global GDP, but by 2013, their share had decreased to 43.3 percent. We anticipate that by 2035, the developed countries’ share of global GDP will drop to 32 percent of global GDP in terms of purchasing power parity.

**NUCLEAR WEAPONS WILL INCREASINGLY MORPH FROM BEING ONE OF THE ATTRIBUTES OF THE LEADING POWERS TO BEING A “WEAPON OF THE POOR” TO BE USED AGAINST ADVERSARIES’ SUPERIOR CONVENTIONAL FORCES. THIS INCREASES THE RISK OF THEIR DELIBERATE OR ACCIDENTAL USE IN LOCAL WARS.**

The global reserve system will also evolve toward polycentrism. During the next twenty years, the US dollar (USD) will preserve its status as the global reserve currency, accounting for the biggest share of global finance (up to 45 percent); currently, more than 60 percent of global finance is in US dollars. At the same time, the Euro has become a de facto reserve currency, and it will remain the second reserve currency. Its share of global finance could reach 25-30 percent; currently, its share is 20-25 percent.

In the next ten to twenty years, a third reserve currency will appear. This new common currency might be the Chinese Yuan, which will account for 10-15 percent of global finance. A new common currency for Asia is another possibility, with more time and effort required and fewer chances to be realized any time soon.

The fact that the newly industrialized and emerging economies will be growing faster than developed countries will increasingly lead to big imbalances in their financial systems. These include the potential for excessive risk-taking, higher volatility and returns on financial assets, fierce inflation, heavy debt burden, piles of bad assets, and financial dependence on foreign sources.

However, a significant part of the financial markets will operate out of more mature developing countries, enhancing the financial depth of the global economy. A polycentric reserve system and financial architecture should contribute to greater stability in global finance.

Sophisticated systems of macro-prudential supervision will be developed at the national and international levels. This will lead to the dampening of volatility. The resulting economic and financial environment will probably be one of moderately increased volatility (lower than that of the 1890s-1940s but higher than that of the 1950-60s), with periodic market booms and crashes, and instances of markets getting out of control and falling into imbalances.

**Growing Regionalism.** By 2035, the world's "financial model" will be changed. At the end of the twentieth and the beginning of the twenty-first centuries, the world's financial resources were accumulated and redistributed mostly through the "US + UK + offshore" financial hubs. But by 2035, an increasing part of financial resources will pass through and concentrate in regional clusters like the EU, ASEAN, and Mercosur. Moreover, regional financial systems will become insular to some extent, owing to the integration of regional economies and the growth in their domestic demand.

The Anglo-Saxon model ("US + UK + offshore") will still serve the largest financial players in processing major capital flows. It will play a crucial role in the redistribution of financial resources among regional clusters. The "shareholder capitalism" of the Anglo-Saxon model will continue to fulfill its key global functions: the development of financial innovations and risk management, venture financing, world pricing of commodity and financial assets, and the "natural selection" of weak economies.

Regional multilateral financial institutions will play an increasingly prominent role. The development of a polycentric financial architecture and its subordinated clusters will lead to a relative decline in the role of the International Monetary Fund (IMF), World Bank, Bank for International Settlements, the Organisation for Economic Co-operation and Development (OECD), and the World Trade Organization (WTO) (financial services). The G-20 could play a greater role in the global financial system, creating its own infrastructure for financial decision-making. The Financial Stability Board, representing G-20 major economies (90 percent of global financial assets), will experience the growth of its regulatory role.

The significance of free trade zones, common markets, and monetary unions will increase. These institutions will serve as mechanisms for financial integration within regional clusters and as financial bridges between them. Free trade zones bridging Transatlantic, Transpacific, and Eurasian areas will be of particular importance.

### WORST-CASE OUTCOMES

Long-term economic and financial cycles will continue. Strong expansion and the fast growth of global investments and market capitalization are forecast from the mid-2010s to early 2020s, combined with increasing volatility and strengthening of systemic risks to the middle of the third decade of the twenty-first century.

The role of the state will strengthen in the next decade, and then this trend will be replaced after eight to ten years by a new wave of liberalization, privatization, deregulation, and structural reforms to make more space for market forces.

In the long-term cyclical expansion, the local financial crises are inevitable ("ripples on the surface of a long wave"). IMEMO modeling forecasts that there will be five to six big local crises during the next decades. These will occur either in emerging markets (Asian economies, post-Soviet marketplace, Latin America, Islamic finance), caused by their imbalances, speculative attacks, and "financial infections," or in innovative segments of developed capital markets, due to the "bubbles" of the new economy and financial innovations.

The long-term cycles of the USD exchange rate values against the Euro and a basket of world currencies will continue (it exists from the beginning of the 1970s). The related cyclic changes in the world prices of commodities and financial assets that have appeared since the beginning of 2000 will generate the waves of financial instability.

As systemic risks pile up, a chain reaction resulting in the transmission of risks will occur repeatedly, leading to financial contagion, cross-border shocks, and crises of the real economy. As a consequence, two scenarios are possible. The first and more likely scenario is the accelerated globalization and increased efficacy of financial risk management at the macro- and micro-levels. A second, less likely scenario would occur if the super-concentration of risks in global finance undermines the viability of the financial system. Finally, the separate big risks will be magnified as a consequence of financial (banking, debt, currency, etc.) crises and can spread to the real economy, causing a "waterfall" of social and economic disruptions. In this scenario, global finance and its risks will play the role of a lever to initiate the long process of degradation of the global economy.

At the beginning of the twenty-first century, developed economies, particularly the United States, have become net importers of capital that is channeled from the export-oriented developing countries (resource-based economies and the "workshops of the world"), who have become global creditors. This situation could change in the event of global economic rebalancing. If commodity prices fall and/or re-industrialization of developed countries occurs, the flows would reverse. Financial recovery of the developed economies (manifesting itself in higher saving rates, public finance restructurings, and reductions of government debt burden) could also help the United States and several other developed economies return to their role as net exporters of capital.

**Table 1. Average gross domestic product growth in 2013 purchasing power parity terms (percent)**

	1991-2000	2001-10	2011-13	2014-20	2021-30	2031-35
World	3.0	3.8	3.5	3.8	3.7	3.7
Developed countries	2.7	1.7	1.4	2.3	2.6	2.6
USA	3.4	1.6	2.0	2.7	2.8	2.8
EU	2.1	1.5	0.5	1.7	2.3	2.3
Developing countries and countries in transition	3.4	6.2	5.4	4.9	4.5	4.3
China	10.4	10.5	8.3	6.5	5.0	4.0
India	5.6	7.5	6.2	5.9	5.5	5.3
Brazil	2.6	3.6	2.8	2.5	3.2	3.5
Russia	-3.9	4.8	3.0	2.5	3.5	4.0

Source: IMEMO calculations.

## OPPORTUNITIES

There will be a transition toward more complex management of macro-financial structures and financial development in order to ensure sustainable economic growth and more balanced economies. In this framework, the financial authorities will traditionally address the ideas of the twentieth century, which are related to the stability of prices, low inflation, health of public finance, and capability to effectively manage the exchange rates and interest rates.

Alongside these traditional concerns, the central issue will become the regulation of the following: the rate of economic growth, ownership structure, capital raising models in the economy, financial depth, structure of capital raising instruments, savings rates, savings and investment, the tax burden, the relationship between the public and private (corporate, household) finance, internal and external financial sources of economic growth, macro-prudential supervision, and reduction of systemic risks.

Developments of the financial system promoting sustainable economic growth and mitigation of cyclical behavior and excessive volatility will be prioritized.

A repressive system of taxing financial transactions, developed in the early 2010s, will be gradually replaced by an incentive-based tax system aimed at concentrating liquidity and long-term financing in the domestic markets.

There will be transition toward a multi-tier, polycentric system of regulation that can hold and stabilize the “supersized” global finance system, expanding at a higher rate than the real economy. The regulatory framework will be based on a hierarchical structure, supported by a mix of linear, functional, regional, and project structures. The shift of financial regulation from the national to international (primarily regional) base will continue.

With regard to international finance, the marketplace will be increasingly unified due to the harmonization of law; wider implementation of the international standards on the macro- and micro-levels; multiplication of best practices; and greater use of information sharing agreements, “Single Passport” programs for integrated markets, common rules inside global trading platforms and major infrastructure institutions, agreed formats of information disclosure, and more comprehensive international statistics.

Unregulated space in finance could be reduced. A trend toward centralized regulation will persist, including a gradual transition to centralized systems of information disclosure, safekeeping, clearing, and settlement for all over-the-counter (OTC) financial transactions, especially with nonconventional assets and instruments across weakly regulated financial institutions.

The facilities to supervise and mitigate systemic risks will be developed in global finance. Along with attention to the financial health of individual countries, the key focus of such supervision will be on the identification of deformations in global financial architecture, major dysfunctions in covering the needs of the real economy, and super-concentrations of risk at various stages of economic cycles.

In global finance, a system of quantitative restrictions will be built on global and regional levels, aimed at “taming” volatility (optimal currency areas, agreed parameters of monetary, interest rate, fiscal policies, inflation rates ceilings, limits on the public debt, capital adequacy requirements, restrictions on bank leverages, etc.). There also will be attempts to establish limits for the development of derivatives markets and structured financial products.

## ENERGY SECTOR: GROWING UNCERTAINTIES

### SOURCES OF VOLATILITY

The “shale gas revolution” in the United States and the refusal of Saudi Arabia and other Arab monarchies to maintain high oil prices in 2014 led to a significant drop in oil prices, setting off a restructuring process in all the energy markets. Over the coming years, the global energy sector will be in a state of price and investment uncertainty.

Global demand for oil is likely to increase to 91.5 million barrels per day (bpd) in 2020 and 99 million bpd in 2035. China will account for nearly two-thirds of global oil consumption growth. At the same time, global oil consumption could peak earlier, if the Chinese economy slows down faster than expected, and India’s economy fails to reach the high growth rates usually predicted in many forecasts.

Demand for coal will peak sooner. OECD countries, according to the most likely scenario, will pass their peak coal consumption by 2020. If international climate cooperation and the adoption of binding measures to limit greenhouse gas emissions become more likely, China could pass its peak coal consumption in 2020-25, and coal consumption in the development countries would peak in 2030-35.

## OPPORTUNITIES

Time has conclusively disproven the theory that a peak in oil production would be followed by a shortage of energy resources that would constrain global economic growth. Energy resources will not become a limiting factor for economic growth.

At the global level, proven oil reserves are sufficient to satisfy current oil consumption for fifty-three years, and natural gas reserves are sufficient for fifty-five years. The “shale gas revolution” has demonstrated how new production can develop rapidly using breakthrough technological advances. We can expect that production technology developed in the nonconventional hydrocarbons sector will be used in the conventional oil and gas sector, increasing usable resources and helping maintain the competitiveness of hydrocarbon fuels.

Wind and solar energy will continue to grow at faster rates, in part because of the thousands of private companies working in this sector. There is also a highly developed system for financing projects. But the small initial base and high production costs involved mean that renewable energy sources will not account for more than 2-3 percent of global energy consumption by 2020 and 4-5 percent by 2035. Some developed countries, especially the EU countries, are actively promoting the renewable energy sector through state subsidies and administrative levers: renewable energy sources could account for 6-7 percent of total energy consumption in these countries by 2035. Lower oil and natural gas prices will slow down to some extent the advancement of new energy sources in the transport sector, but will probably not have an impact on its development in the electricity sector, especially in Europe.

## NEW TECHNOLOGIES: GENERATOR OF SOCIAL DISRUPTION

### SOURCES OF VOLATILITY

We are entering a period in which the economic and social impact of new technologies is taking a toll on existing jobs, and it’s unlikely that new, well-paying employment will be created in the near term to offset the losses. It is a future in which technology substitutes for labor, and automation replaces not only jobs, but also knowledge. During the coming decade, robots will be replacing a wider array of jobs, posing both risks but also opportunities to deal with aging populations and the skills gaps that exist in many countries.

As with the previous technological revolution, this one reflects a reality in which the whole equals more than the sum of its parts, owing to an increasing synergy among technologies. This future has been enabled by the innovative application of decades of developments in information and communications technology (ICT) and

artificial intelligence, as well as big data, algorithms, the emerging Internet of Things (IoT), and new materials created through nanomanufacturing technologies, such as graphene.

This revolution involves more than just a different way of using raw materials—steel, aluminum, plastic, and other inputs—and fashioning them into different objects. Rather, it also includes the materialization of digital information. A computer-created design—or a scanned physical object—can be converted from digital bits to material atoms. This can be done remotely, by sending the digital file for the 3D object over the Internet to rematerialize anywhere in the world. It has the potential to reduce, if not eliminate, supply chains and assembly lines for many products.

## WORST-CASE OUTCOMES

Low-skill service and manual labor jobs are likely to be eliminated by new technologies, such as automation and artificial intelligence. The loss of what have been stable occupations will increase income inequality without governments taking politically controversial steps, such as taxing the rich more, in order to achieve greater income redistribution.

There's already an ongoing morality debate about the use of drones in warfare. Waging war by remote control will intensify further when robots can substitute for infantry soldiers. The degree to which robots are allowed to make life or death decisions on the battlefield is a key tipping point for many opponents. So long as there's no guarantee against erring in killing unarmed civilians or bystanders, robot police or soldiers probably won't be widely used. There may be more latitude for their use in battlefield situations, especially if putting in "live" soldiers would prove more dangerous. Terrorist groups would have fewer qualms about any collateral damage from the use of robots.

However smart machines are made to be, there are likely to be errors. The more serious the accidents, the more likely governments and publics will be slow to incorporate artificial intelligence in critical infrastructure functions despite the efficiency benefits.

## OPPORTUNITIES

The reinforcement of more local, customized production will be facilitated by the increasing convergence of a number of the new technologies such as 3D printing, nanomanufacturing, nanobiotechnology, robotics, more capable artificial intelligence, and customized personal health care. Small- and medium-sized industries (around 300,000 in the United States alone) could benefit, particularly if the cost of these emerging technologies begin to come down. It's not too hard to envisage a small business with 3D printers customizing the manufacture of bespoke products and Baxter-like robots helping in the packing and distribution.

WE ARE ENTERING A PERIOD IN WHICH THE ECONOMIC AND SOCIAL IMPACT OF NEW TECHNOLOGIES IS TAKING A TOLL ON EXISTING JOBS, AND IT IS UNCLEAR HOW OR WHEN NEW, WELL-PAYING EMPLOYMENT WILL BE CREATED TO OFFSET THE LOSSES.

The developing world may benefit the most from 3D printing and other emerging technologies once they are more low cost. Today, African countries import many basic consumer goods that, in the future, could be easily manufactured through 3D printing. The expense involved in building a 3D printing facility, including a computer, printers, materials, and Internet access, is less than \$10,000. By comparison, a conventional factory could cost much more. We've seen how mobile telephones were transformative in such economically challenged environments. It's not too hard to imagine that 3D printing as well as other new technologies—most of which don't require massive infrastructure investments—could be also beneficial for low income economies.

## REGIONAL TRENDS

### EURO-ATLANTIC: GREAT POTENTIAL, BUT ALSO BIG PROBLEMS

Despite their political differences, North America, Europe, and Russia/Eurasia have the greatest potential to create a common economic space because of their shared interests and cultural affinity. This common economic space could see the most intensive trade and investment flows in the world by 2035, despite the rapid strengthening of emerging markets. The potential for stronger science and technology (S&T) linkages should not be underestimated either. Geopolitically, the United States, Europe, and Russia will all be battling terrorism and extremism in various forms for years to come and have common interests in lowering tensions in the Middle East.

Another direction for creating global common market will be the upscaling of the Trans-Pacific-Partnership (TPP), which will also foster economic, financial, and technological cooperation between the US and China, with China probably joining the partnership in ten to fifteen years.

A rise in political populism and nationalism could make it impossible for North America, Europe, and Russia/Eurasia to come together despite shared interests. The countries in these regions have many peripheral areas that are less economically competitive, have weak links to the main research and development hubs, and have made only limited use of the information revolution's achievements. Thus, inequalities will remain. Even many prosperous countries in North America and Europe face the threat of increased poverty. Millions of people in developed countries will most likely be functionally illiterate and unable to exploit the benefits of technological progress. The growing number of immigrants from other cultures could become one of the biggest challenges for Euro-Atlantic countries during the next twenty years.

The potential for higher GDP growth rates would increase with greater regional integration. Without this increased integration, the region, which currently accounts for more than half of global GDP, risks a sharper loss of economic leadership.

### ASIA: SHIFTING BALANCE OF POWER

During the next twenty years, China will increasingly become the United States' main competitor in military, economic, and technological realms. Its role as an enabler of S&T and the industrial development of other regions, such as Eurasia, will grow. Beijing will face a choice: either join the frameworks initiated by the United States (e.g., the TPP) or rely on free trade agreements initiated by China, in which Washington is not welcome. Though the first option carries the risk that China will be subordinate to US regulations, it seems to be more probable because of China's growing global political and economic involvement. The second option contains the risk that China's partners will switch—for economic and political reasons—to areas and associations subject to US regulations. A third option could also arise in fifteen to twenty years if Silk Road–Eurasian Economic Union area succeeds. That would bring more stimulus for closer cooperation with the EU.

With growing capitalism in **China** and its anti-corruption drive, there will be an increasing need for political reforms, particularly as it seeks to develop its innovation capacity. Chinese President Xi Jinping's current anti-corruption campaign demonstrates that the Chinese leadership understands reforms are necessary to protect the party's position and legitimacy. The biggest challenge for the Chinese leadership will be to work out a fuller concept for democratization.

China will certainly not become the leading power in international relations comparable to the United States. Worries about becoming overextended will act as a constraint on Chinese foreign policymaking. China wants to avoid what it sees as the United States' entrapment in global problems like the Middle East.

**Japan** will play less of a role in the region, largely as a result of the dual nature of Tokyo's goals, which include a desire to maintain alliance relations with the United States to ensure Japan's security and to strengthen its own defense capabilities. At the same time, while China will continue to be its main strategic security challenge, Tokyo will need to strengthen its economic ties with Beijing and other regional powers to promote sustainable economic growth. A continued resistance to a large-scale influx of foreign laborers and the opening of traditionally closed sectors to foreign competition would hinder Japan's involvement in deeper regional liberalization.

MILLIONS OF PEOPLE IN DEVELOPED COUNTRIES WILL MOST LIKELY BE FUNCTIONALLY ILLITERATE AND UNABLE TO EXPLOIT THE BENEFITS OF TECHNOLOGICAL PROGRESS.

**India** has a good chance of achieving high economic growth if it can raise educational levels and find ways of balancing the interests of major social and political groups. Geopolitically, it will be pulled in a number of directions. Worried about a domineering China, it—along with Southeast Asian states—will develop stronger security ties with the United States. At the same time, trade and investment with China are increasing; China also is becoming a more important player in Central Asia on India's northern border as the United States and NATO retreat.

**ASEAN** will not become the locomotive of Pacific integration, despite its focus on removing internal barriers and promoting cooperation within the association.

Attempts to address the issues on the **Korean Peninsula** through negotiations among the major regional powers are highly unlikely to succeed; the only solution to the problem of tensions on the Korean Peninsula would be the peaceful reunification of the country. That won't happen unless there is an acute collapse of the North Korean regime.

**Territorial disputes** will also remain a critical security issue for all of Asia. The key to establishing new security architecture in the Asia Pacific region could be the promotion of security dialogues between China and Russia on one side, and the United States, Japan, and the Republic of Korea on the other, along with involving China in international talks on strategic stability.



A Chinese navy destroyer is docked in the American port of Pearl Harbor, Hawaii, in 2006. *Photo credit: US Navy/Wikimedia Commons.*

## THE MIDDLE EAST: VIOLENCE FEEDING ON ITSELF

The Middle East will be the region that will be the most unrecognizable in 2035. There, the nation-state is under more threat than anywhere else because of deeply divided societies and external interventions in major countries like Iraq and Syria. Today's national boundaries—many of which were set after the end of the First World War—are highly unlikely to survive intact. The formation of new states in the region, along with the fragmentation of existing states, is certain. By 2035, fossil fuel use may be peaking, eliminating a key revenue source for a large number of Middle Eastern states. The youth bulge will be disappearing, but it will not have delivered a “demographic dividend.” The big question will be the degree to which conflict spreads, either engulfing the whole region or being contained and dying out by 2035.

A non-nuclear Iran would increase the chances for greater regional security, but equally plausible is a scenario in which Iran is seen by its neighbors as being nuclear-capable—despite the recent agreement with the West—and very dangerous. This latter perception could trigger a nuclear arms race. A Sunni-Shia “cold war”—if not escalating into a hot conflict—is also a possibility. Positive scenarios for the region are not impossible, but unlikely in the next few years.

How the Middle East evolves has huge implications for the broader international system. Large-scale conflict would increase the dangers of a much more rapid spread of jihadism, raising the terrorist threat elsewhere in Europe, Russia, and the United States. The global economy would take a big hit if a conflict resulted in the closure of the straits of Hormuz, preventing oil supplies from reaching customers in Asia and Europe. Given how other countries' interests would be affected, an all-out Middle East conflict might have the ironic effect of cementing closer ties among the great powers—the United States, Europe, China, Japan, India, and Russia. All of these countries would be hurt by such a major conflict and would have an increased interest in banding together to try to stop such a war from spreading.

## SUB-SAHARAN AFRICA: INCREASING OPPORTUNITIES, BUT STIFF CHALLENGES COULD MAR DEVELOPMENT

Sub-Saharan Africa will be the only region with a growing and youthful population in 2035. Failure to overcome the impediments to economic development will have long term global implications as a growing and large proportion of the world's population will be African in 2035 and beyond. There are many positive signs that Africans are turning around their economies, but nevertheless the progress has

not been enough to signal confidence about a bright future across the entire region. In 2035, Africa is likely to remain a region of contrasts and contradictions.

Africa is one of the fastest-growing regions of the world, yet sixteen of the top twenty states on Foreign Policy magazine's Fragile State Index are African.

- The continent contains the world's most uncultivated arable land, yet it has the lowest agricultural productivity and is a net food importer.
- Africa is a major energy exporter, yet half its energy use is biomass and one in four Africans lacks electricity.
- Democracy has spread, yet a governance deficit exists, with up to one-third of African countries mired in civil conflict of varying degrees.

High proportions of working-age population was a key ingredient in Asian development. Africa's annual population growth rate is 2.2 percent, more than double that of Asia's 0.9 percent. Though this rate is expected to slow to 2 percent, Africa's population is projected to reach 1.6 billion by 2035. The region already has the youngest population in the world, with more than half of its total population under the age of twenty-five and a median age of eighteen. Almost 200 million Africans are between the ages of fifteen and twenty-four.

As Africa's largest state and the continent's largest economy, Nigeria is a major concern. Nigeria, which has made some modest strides to address corruption and enhance transparency, is often viewed as a frontier investment destination with significant diversification into manufacturing and services. However, the country's socioeconomic situation is disproportionately shaped by its petro-wealth, and it faces continued ethnic and religious divisions. One measure of Nigeria's governance deficit is its inability to address the Islamist threat to stability from Boko Haram. This group has become more virulent during the past two years; it now controls swathes of territory in the northeastern area of the country—in one estimate, upwards of 15 percent of Nigeria.

Agriculture is a fundamental challenge for Africa. At the same time, however, the region is ripe for its version of a "Green Revolution," which benefited other parts of the world in the 1960s and 1970s and is an imperative for sustaining growth. Raising production levels to those of India or China would mean a doubling or more of African grain production, and by some estimates, would lead to a 10-12 percent increase in global food production.

Sustaining the continent's economic growth trajectory from the past decade will require the improvement of governance and resource management, a resolution of longstanding conflict, better governance—including rule of law—and a qualitative leap in functional regional integration.

## LATIN AMERICA: FALLING BEHIND ASIA IN CATCHING UP WITH THE WEST

The key question for the future is whether the Latin America region can maintain the same economic momentum, which has fueled a commodity boom over the last decade, particularly with China's slowing growth. The region suffers from modest productivity growth, which is lower than the OECD median. To boost productivity, Latin American countries will need to spend more on education—on top of the recent increased investment. Latin American educational rates are still below par compared with those of advanced economies. Moreover, the region's research and development (R&D) expenditures remain low. The region invests 13 percent of GDP in innovation capital versus the 30 percent average for the OECD.

Population trends in Latin America have never been as favorable as they currently are, but the populations of Latin American countries will begin to age significantly by 2035. Latin American countries will need to work hard to realize a demographic dividend during this relatively short remaining window.

With many in the recently emerging middle class vulnerable to falling back to poverty, populism is likely to be an ever increasing concern throughout the region. According to one estimate by Brookings Institution experts, 39 percent of the total middle class population in Latin America could lose its newly found middle class status as economic growth ebbs in the coming years. Another big threat to governance comes from the still high levels of organized crime and related violence in Mexico and Central America.

Latin America is increasingly divided. Pacific Rim and northern countries are attracted to, and enmeshed in, the US-driven and Asian-focused trade initiatives. Until recently, Brazil has looked to Europe for political and economic models, but has grown increasingly dependent on the commodity trade with China. There are divisions in terms of development models: over half of regional GDP comes from those countries in Latin America that are promoting free and open markets; the other half like Bolivia, Ecuador and Venezuela are tied to regulated economies in which there is a large amount of state control. Finally, attempts at regional integration has failed to find success. Taking account of these sharp intra-regional divisions along multiple lines, it's questionable whether the region could project a distinctly unitary political voice even by 2035, given the entrenched diversity and discordant perspectives.

## ANOTHER WORLD ORDER IS INEVITABLE, BUT WHAT KIND?

For the first time since the end of the Cold War, countries are developing competing visions of the world order. In addition to the re-emergence of major powers such as

China and India, a burgeoning strata of dynamic rising middle powers (particularly Brazil, Indonesia, Iran, Nigeria, South Africa, South Korea, Turkey) is already playing an increasingly important role in regional security and global rules-shaping. Some of these emerging states—democracies (liberal and illiberal) as well as authoritarian regimes—harbor resentments against the US- and Western-created and controlled global institutions, whose governing structures have been largely unchanged since 1947. Whether it is evidenced by Brazil, Russia, India, China, and South Africa (the BRICS) launching their own dialogue framework and development bank; China pushing its “One Belt, One Road” mega-strategy and initiating an Asian Infrastructure Investment Bank (AIIB) to support it financially; Turkey becoming an illiberal democracy and distancing itself from the United States and the EU; or radical Islamists becoming increasingly intent on bringing about a clash of civilizations, a paradigm shift in global governance is unfolding.

**39 PERCENT OF THE TOTAL MIDDLE CLASS POPULATION IN LATIN AMERICA COULD LOSE ITS NEWLY FOUND MIDDLE CLASS STATUS AS ECONOMIC GROWTH EBBS IN THE COMING YEARS.**

Today’s world is fragmented and messy, but not classically multipolar, as characterized by relatively equal poles. The United States remains the sole military superpower, with a defense budget larger than the rest of the world combined. Yet—as evident in the outcomes of the wars in Iraq and Afghanistan—military force is often of limited use in solving regional problems. A stable, modernizing Middle East is not, for example, an outcome that the application of external military power can achieve. Solving global problems such as poverty, disease, or climate change may lie more in public-private partnerships than diplomatic arrangements among states or military action.

In this increasingly post-Western world, developing countries increasingly question Western policies and norms that they view as threats to their national sovereignty. Thus, values-based issues such as democracy promotion and the Right to Protect (R2P) tend to spark strong counteraction from not just authoritarian regimes but also many emerging democracies that worry about maintaining their national sovereignty. India, for example, is reluctant to “name and shame” other nations or favor regime change. “Humanitarian interventions,” such as the 2011 one in Libya that resulted in the overthrow of

Muammar Qaddafi but led to violent internal conflict, have undermined the sense of legitimacy of such policies.

The lag between the diffusion of power in the international system and the distribution of power in the structure of multilateral institutions fosters resentment in countries with emerging economies and complicates efforts at global problem-solving. It is relatively easy for nations to block global actions, such as the Kyoto accord on climate change, the Doha global trade round, or UN efforts to forge a treaty to cut off production of fissile material. The growing trend of trying to fashion alternative institutions—from the Chiang Mai Initiative spurred by the 1997-98 Asian financial crisis to China’s AIIB—increases the difficulty of forging international cooperation to address global problems.

## FOUR POTENTIAL NEW WORLDS

The potential for breakdown of the international liberal order is greater than ever before. The possibility of turning the clock back to a more inclusive, integrated world order, in which interstate competition was kept in check and there was more scope for cooperation, seems remote. We paint a picture below of different global orders and how they come about from the same starting point—the current fraying international order.

### A NEW COLD WAR

In a repeat of Churchill’s 1946 dictum: a new curtain descends across the world. As was in the first half of the earlier Cold War, establishing an equilibrium in this world order would be an immense feat. Countries do not know each other’s redlines. Major state-on-state conflict is no longer unthinkable. Nationalism is rearing its ugly head. Revisionist history is afoot. Globalization is seen as a sham—despite the numbers of people who have climbed out of poverty, the East and South see globalization as a device that has promoted Western interests. In the West, globalization is seen as benefitting the United States’ and its allies’ enemies.

In this scenario, war breaks out between the major powers, first on Russia’s borders in the wake of the ongoing crisis in Ukraine and then in Asia, where the United States and China come to blows. The UN is immobilized. The G-20 is a shell. Only half of the member countries show up when a meeting is held in a Western capital. China is talking about pulling out of the IMF and the World Bank. The number of Chinese students in the United States has plummeted.

Globalization had been cyclical—the last big burst ended with the First World War—but at the beginning of the twenty-first century, it was thought to be everlasting.

### EURASIA LEADING THE WAY

US-led sanctions against Russia at the time of the Ukraine crisis drives Russia to look East, particularly to China, India,

and Pacific Asia as a whole. Russia sees its long-term energy future in Asia, and nearly half a trillion dollars in gas and oil deals with China has bolstered a shaky economy.

China gains a valuable partner—instead of a rival—for stabilizing and modernizing Eurasia—which China no longer sees as a backwater, but as its economic future. China’s “One Road, One Belt” or “pivot West” to Eurasia is turning a vulnerability—a border with fourteen nations—into a strategic asset.

**THE WORST OUTCOME WOULD BE THE EMERGENCE OF A NEW BIPOLARITY, PITTING A GROUPING AROUND CHINA OR RUSSIA AGAINST THE UNITED STATES.**

A successful partnership in Eurasia boosts what had been an ailing backward region by putting in infrastructure and serves a double purpose: economic development there helps counter what has been a growing trend of extremism that threatens Moscow, Beijing, and numerous Central Asian regimes. China and Russia use their success to showcase the non-Western model of authoritarian-style state-centric capitalism. Africa and Latin America—where China development largesse has already made inroads—are reaping lessons from Eurasia’s rapid development.

Sino-Russian cooperation extends into other realms, including the UN, WTO, and other Bretton Woods institutions. More importantly, Russia and China develop the SCO into the premier regional body, overshadowing the TPP. India and Pakistan joined SCO years ago: it has become the place that China and India are beginning to settle their differences and build cooperation. SCO could become a body where India-Pakistan tensions could calm down, just like how the EU and NATO canceled the centuries old-conflict between Germany and France.

### A NEW GLOBAL CONCERT

For the first time since the 2008 financial crisis—when the global economy was threatened and G-20 leaders were forced to work together to prevent a worldwide depression—the prospect of a nuclear war brings Western leaders and the leaders of emerging powers together. Alone, the West has neither the will nor capacity to defuse the military escalation in the Middle East and South Asia. As nuclear powers, Russian and Chinese leaders have a motive for preventing proliferation and an outbreak of war between Israel and Saudi Arabia against Iran in the Middle East. As in 2008, such a war would undermine the global

economy, potentially destabilizing the economies of China and Russia, as well as their political positions. The stakes for Western leaders are equally high.

No agreement is perfect, but the newly established “global concert” starts anew a global process of arms control and nonproliferation. The G-20 is beefed up and becomes the new UN Security Council. Asians are given a much bigger role in the Bretton Woods institutions. Most importantly, the peacekeeping force sent to the Middle East reflects the strong multipolar effort. NATO, the Chinese People’s Liberation Army, India, and Russia command and coordinate the effort as a group. It is as if the Congress of Vienna had been updated for the global multipolar world.

### COMING APART AT THE SEAMS

Most observers expect that the great powers are on a collision course with one another—until each of them starts to collapse from within. The great powers all start to topple like bowling pins. The wrecking ball is not a war with one another; rather, it is the internal decay that has been festering within each country for some time, the result of social cohesion being ground down by globalization, the technological revolution taking away jobs, and the inability of governments to rise to those challenges in the eyes of the citizenry. The advanced democracies prove to be just as vulnerable as the authoritarian states.

Owing to the dysfunction of all the major powers, the simmering Sunni-Shia conflict eventually leads to a nuclear war. Climate change promises are not kept, and there are no extra efforts made to keep the rise in temperatures to below two degrees. The world is on track to a four-degree climb in temperatures by the end of the century—something future generations are left to deal with.

### RECOMMENDATIONS

We see a rich and critical agenda of shared interests, which cannot be ignored during this period of heightened global tensions. Without leadership from the United States, Russia, Europe, and China, as well as from other countries, these issues cannot be tackled:

- Stemming nuclear and weapons of mass destruction (WMD) proliferation
- Countering religious-based violent extremism
- International trade
- International environment (e.g. oceans, climate change)
- Global Commons—move toward new norms, rules, codes of conduct in maritime, air, cyberspace, and outer space

A world in which there is no agreement among the major powers would be harmful to everyone's interest and future. Developing inclusive mechanisms—such as those that existed with the P5+1 engagement with Iran over its nuclear program—to deal with major issues will be critical for successfully resolving them and may help to resolve existing differences. Another example is the six-party process (China, Japan, Republic of Korea, Russia, and the United States), which has gradually lessened differences between the parties and established a consensus among the five principal outside actors on their policies toward North Korea. The worst outcome from the current differences would be the emergence of a new bipolar division between Russia and China on one side and the United States and Europe on the other.

The risk of fragmentation in the global system is increasing, despite economic, technological, and environmental interdependence. In a fragmented, bipolar world, competing ideas of regional and global order and norms (e.g. precepts of European security versus the Sinocentric institutions proposed by Beijing) are only likely to grow in intensity. As a brake on further fragmentation, the G-20 should be institutionalized as the central forum for global economic management, expanding its role to be able to forge more political consensus.

Both the United States and Russia face critical strategic choices if they want to successfully navigate the increasingly treacherous seas of global interdependence.

**Russia's strategic choice:** Russia is both a European and Pacific power with substantive economic and security interests in the East and compelling historical, economic, cultural, and security interests in Europe. Securing inclusion in a broader transatlantic economic and security architecture will remain critically important as Russia explores a broader agenda of cooperation with its Eurasian neighbors, including China.

**The United States's strategic choice:** In moving from primacy to *primus inter pares*, the United States needs to update the international system to reflect the new weight of emerging economies. Finding ways to overcome differences in interests and values will ensure that an international system does not fragment and remains open to the free

flow of commerce, technology, and new ideas. The conflict in Ukraine has now become the focal point for renewed tensions between Russia and the United States/Europe, though it may well change in a long term perspective. In this regard, there are areas where US and Russian interests on Ukraine overlap, areas where there is a wide gap, and areas where efforts to reconcile them are needed:

- Neither the United States nor Russia want Ukraine to become a failing, unstable state or the economy in eastern provinces to remain shattered.
- In regard to trade, Ukraine (and Russia) could have trade agreements with both the EU and the Eurasian Union. Ukraine's trade goes in both directions.
- Minsk 2 and future formal processes should seek to find a balance of US, EU, and Russian interests. To the United States and the EU, Russia's actions constitute a violation of another country's sovereignty; for Russia, it is about historical interests, culture, identity, and respect for Russian interests in the post-Soviet space.
- A stable, prosperous, and military-neutral Ukraine that is integrated into the regional and global economy is in everybody's interest. There is a need to move beyond another "frozen conflict" and define mutually acceptable understandings and commitments on European security and an inclusive Russian role.
- Knowledge of the forces eroding the foundations of the post-Cold war international system can serve to animate a sense of mutual responsibility. This can narrow the gap in global governance and motivate efforts to develop an inclusive, rules-based multilateral order that can lower the risks of conflict, while providing the basis for global cooperation.
- Keeping the communications channels open is critical for both sides. A lack of mutual understanding can only aggravate the sense of resentment and hostility on both sides. The US, Russian, European, and Chinese governments should encourage efforts by universities, think tanks, and scientific and business organizations to step up their exchanges. These exchanges remain critical at this time of heightened tensions.

