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Trump's Next Steps

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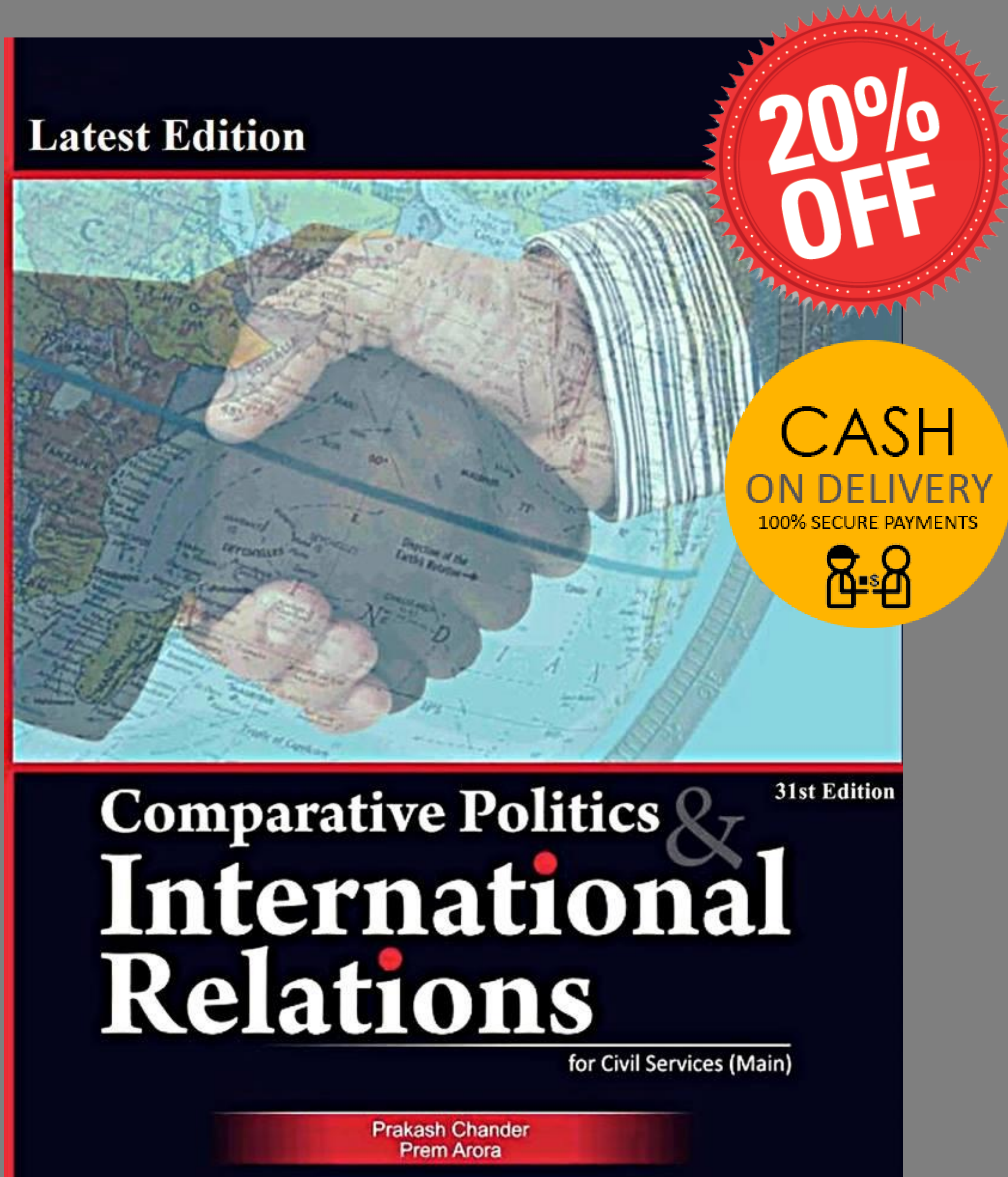
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Volume 96, Number 4

WHAT NOW?

COVER: RICARDO MARTINEZ

July/August 2017

ESSAYS

ON FOREIGNAFFAIRS.COM

Katharine H.S. Moon on South Korea's new president.

Thorsten Benner and **Thomas Gomart** on what's next for the EU.

Thomas Carothers and **Richard Youngs** on democracy's resilience.

REVIEWS & RESPONSES

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Archibald Cary Coolidge, Founding Editor
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CONTRIBUTORS

TIM KAINE is one of only 30 people in U.S. history to have served as a mayor, a governor, and a senator. Born in Minnesota and raised in Missouri, Kaine took time off from Harvard Law School to work as a Catholic missionary in Honduras, then worked as a civil rights lawyer before winning his first election in 1994. Twenty-two years later, Hillary Clinton picked Kaine as her running mate in the 2016 presidential election. In "A New Truman Doctrine" (page 36), he lays out a strategy for the United States to promote democracy over tyranny and extremism.

U.S. President George H. W. Bush once called **FRED KRUPP** "my kind of environmentalist." And in 1990, Krupp persuaded Bush to create the world's first major cap-and-trade program, which provided incentives for firms to cut sulfur dioxide emissions. Since then, Krupp, the president of the Environmental Defense Fund, has worked with a wide range of companies to prove that environmentalists and businesses need not be adversaries. In "Trump and the Environment" (page 73), he shows how the president's moves will damage the United States—and the planet.

In 1987, when **YADIN KAUFMANN** joined Israel's first venture capital fund, the country's technology industry barely existed. Two decades later, Israel had more high-tech start-ups per capita than any other country. Over the course of his career, Kaufmann has helped found a publishing company, a program that offers Palestinian technology graduates the chance to intern at Israeli or multinational companies, and two venture capital firms. In "Start-Up Palestine" (page 113), he argues that with the right investment, the West Bank can replicate Israel's entrepreneurial success.

Now the director for Asia studies at the Council on Foreign Relations, **ELIZABETH ECONOMY** began her career as a Soviet analyst at the CIA. Her 2004 book, *The River Runs Black,* sounded the alarm on China's environmental crisis. Her next book, *The China Contradiction*, will look at how President Xi Jinping is transforming China's foreign and domestic policies. In "History With Chinese Characteristics" (page 141), Economy reviews two new books that explain how China's past—real and imagined—influences its present behavior.

WHAT NOW?

The Trump administration doesn't yet have a foreign policy, but it does have an instinct—that good fences make good neighbors. But why? As Robert Frost's narrator points out, "Before I built a wall I'd ask to know / What I was walling in or walling out, / And to whom I was like to give offense." Lots of things, it turns out, don't love walls—among them the global economy, U.S. alliances, international institutions, and transnational networks of all kinds.

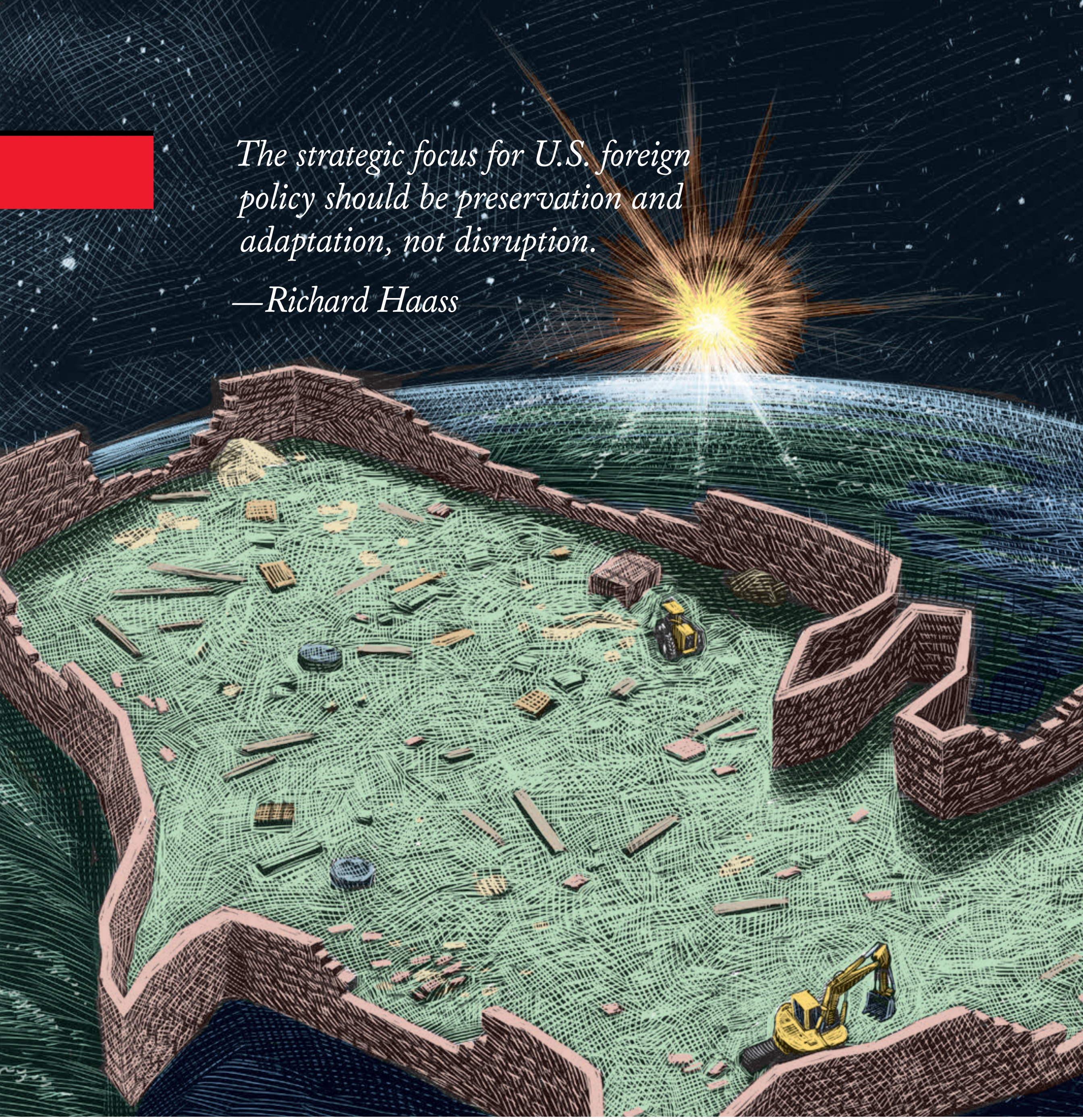
So the debate over wall building becomes a proxy for debates about Washington's proper approach to the world at large. The global populist revival has reminded everyone that opening up one's country to globalization carries costs as well as benefits and that both are distributed unequally. But closing one's country off from globalization carries costs, too—and far heavier ones than populists generally appreciate.

Globalization involves endless flows of goods, services, money, and people. When bad actors slip through the cracks, the results can be terrible. But terrible results can come from interrupting good flows, as well. For the United States to throw sand in the gears of the global economy and the liberal international order more generally would be disastrous.

In practice, of course, open and closed are not binary choices but opposite ends of a spectrum, and the interesting policy questions lie somewhere in between. What the United States needs is not a wall but a strategy for engaging with the world beyond its borders intelligently, giving due weight to both its interests and its responsibilities.

Our lead package this issue focuses on crucial policy choices that the administration is mulling, from foreign policy and national security to health care and tax reform. The details matter, but so does the general direction. As Richard Haass argues in his essay, "American patriotism can be defined and operationalized in ways compatible with responsible global leadership. And figuring out how to do that from here on in is the Trump administration's central challenge."

—*Gideon Rose, Editor*



RICARDO MARTINEZ

WHAT NOW?

Where to Go From Here

Rebooting American Foreign Policy

Richard N. Haass

Every new U.S. administration takes several months to staff itself properly, master new and often unfamiliar responsibilities, and develop a comprehensive strategy for American foreign policy. The Trump administration's start has been especially rocky. But the administration has already executed a noticeable course shift on foreign policy and international affairs, exchanging some of its early outsider rhetoric and personnel for more conventional choices. If it can continue to elaborate and professionalize its new approach, it could achieve a number of successes. But for that to happen, the administration will have to act with considerably greater discipline and work to frame its policies toward regional and global issues as part of a coherent, strategic approach to international relations that benefits the United States, its allies and partners, and the world at large.

THE CHALLENGE IN ASIA

President Donald Trump has properly concluded that the greatest threat to U.S. national security is North Korea's accelerating nuclear and missile programs, which may give Pyongyang the ability to launch nuclear-tipped missiles at the continental United States in a matter of months or at most years. The president also seems to have concluded, correctly, that several decades of U.S. policy, mostly consisting of sanctions and on-again, off-again negotiations aimed at ridding North Korea of nuclear weapons, have failed. The challenge now is to choose among the three plausible alternative options for moving forward: acceptance, military intervention, or more creative diplomacy. A fourth possibility, that of regime change, does not qualify as a serious option, since it is impossible to assess its chances or consequences.

In theory, the United States and other powers could accept a North Korean nuclear capability and rely on deterrence to lower the risk of an attack and missile defenses to reduce the damage should one occur. The problem is that deterrence and defenses might not work perfectly—so the acceptance option means living with a perpetual risk of catastrophe. Moreover, even if Pyongyang were deterred from using the weapons it developed, it would still be able to transfer them to other actors for the right price. And even if its nuclear capability were never used or transferred, acquiescence to North Korea's continued possession of nuclear weapons would further dilute the nonproliferation regime and conceivably lead Japan and South Korea to rethink their nonnuclear postures.

Military intervention could be either preventive (moving deliberately to destroy a gathering threat) or preemptive (moving quickly to head off an immediate one).

RICHARD N. HAASS is President of the Council on Foreign Relations and the author of *A World in Disarray: American Foreign Policy and the Crisis of the Old Order*.

The problem here is that any such strike would be a huge leap into the unknown with possibly devastating consequences. Officials could not know in advance just what a military operation would accomplish and how the North Koreans would react. Given Pyongyang's ability to destroy large parts of Seoul using conventional, nonnuclear forces, the South Korean government is understandably leery of the intervention option, and so any moves along these lines would need to be planned and coordinated with extreme care.

The unattractiveness of both acceptance and intervention is what keeps bringing policymakers back to the third option, trying to cap and reverse the North Korean nuclear threat through negotiations. But as decades of failed efforts have proved, diplomacy is no panacea. So the challenge on this front is not just getting back to the table but also figuring out how to make rapid progress once there. This could be done by breaking the issue's resolution into two stages, with an interim deal that would freeze Pyongyang's nuclear and missile programs, followed by longer-term efforts to reduce and eliminate the programs entirely.

The interim deal could best be executed as a bilateral agreement between the United States and North Korea, with other governments kept involved and informed through consultations. The negotiations should have a deadline for reaching agreement, to ensure that Pyongyang doesn't use the talks simply to buy time for further progress on its weapons programs. The North would have to agree to pause its testing of warheads and missiles while the negotiations continued, and the United States and South Korea would have to agree not to strike North Korea during the same period. In exchange for accepting a comprehensive, open-ended freeze on its nuclear and missile programs, intrusive inspections designed to ensure that the freeze was being honored, and a ban on any transfers of nuclear materials or missile technology to third parties, North Korea would get some sanctions relief and an agreement formally ending the Korean War, a form of de facto recognition. Follow-on talks would deal with denuclearization and other concerns (such as human rights) in exchange for an end to the sanctions and the normalization of ties.

An interim agreement would not solve the North Korean nuclear problem, but it would keep it from getting any worse and lower the risks of war and instability—as positive a result as one could imagine in the current circumstances. Since Chinese pressure on North Korea would be essential to achieve such a deal, this option would build logically on the administration's early investment in good relations with its counterpart in Beijing. And even if diplomacy failed again, at least the United States would have demonstrated that it tried negotiations before turning to one of the other, more controversial options.

As for the U.S. relationship with China itself, the administration's primary goal should be to emphasize cooperation over North Korea, the most urgent item on the national security agenda. The two countries' economic integration gives both Washington and Beijing a stake in keeping relations on course. China's leaders are likely to focus for the foreseeable future on domestic concerns more than foreign policy ones, and the United States should let them do so. That means leaving in place long-standing U.S. policies on bilateral issues such as Taiwan, trade, arms sales, and the South China Sea; the Trump administration should avoid adopting positions on these issues that could either trigger a distracting crisis or compromise U.S. interests. The result would be a "North Korea first," but not a "North Korea only," U.S. policy toward China.

Regarding the Asia-Pacific more generally, the administration should reassure U.S. allies about the United States' continued commitment to the region—something that has been called into question by Trump's abrupt withdrawal from the Trans-Pacific Partnership and by various statements from the president and other administration officials. It would have made more sense for Washington to work with the other signatories to amend the TPP (as it appears to be doing in regard to the North American Free Trade Agreement) and join the modified pact. This remains an option, although it may be difficult to achieve. Failing that, the administration could attempt to work out an understanding with Congress that would allow the United States to join the TPP but commit the country to certain courses of punitive action in specific circumstances (currency manipulation, intellectual property theft, large government subsidies, and so on), similar to what was done when it came to U.S.-Soviet arms control agreements. The understanding would be codified and voted on at the same time as the trade agreement itself, as a binding package, to reassure the agreement's critics.

FRIENDS AND FOES

In Europe, Washington should pursue stability. The EU is imperfect in many ways, but it remains a source of peace and prosperity on the continent. Its continued erosion or breakup would represent a major setback not just for crucial U.S. allies but also for the United States itself, both strategically and materially. The EU's next few years will already be tense thanks to the negotiations over Brexit and possible crises in Italy and elsewhere. The United States has little leverage to bring to bear on the continent's immediate future, but at the very least, Washington should voice its support for the EU and stop signaling its sympathy for its opponents.

Russia has been aggressively supporting just such anti-EU forces in order to weaken and divide what it sees as a hostile foreign actor, and Russia's interference in Western elections needs to be thoroughly investigated and aggressively countered. Washington's challenge will be figuring out how to support Europe and NATO and check Russia's political skullduggery while remaining open to cooperation with Moscow on making at least parts of Syria safe for residents, on counterterrorism, and on other issues of mutual concern. The administration has made its point that NATO members ought to spend more on defense; going forward, it would be more useful to discuss how to get more defensive bang for the bucks being spent. And although there is no case for bringing Ukraine into NATO, there is one for doing more to support its self-defense. Consistent with this, the sanctions against Russia levied over its actions in Ukraine should continue until those actions stop or, in the case of Crimea, are reversed.

I'll have what Xi's having: Xi and Trump at Mar-a-Lago, Florida, April 2017

CARLOS BARRIA / REUTERS

In the Middle East, the Trump administration helped itself significantly with its quick, limited air strike in April in response to the Syrian government's use of chemical weapons. The strike reinforced the international norm against the use of weapons of mass destruction and sent a reassuring signal to local partners, who, during the Obama years, had become increasingly worried about Washington's willingness to back up its threats with actions. The challenge now is to embed such actions in a broader strategy toward the Syrian conflict and the Middle East at large.

However desirable a change of regime in Syria may be, it is unlikely to come from within anytime soon, and it would be incredibly difficult and costly to accomplish from without. Nor is the United States well positioned to ensure that a successor regime will be more desirable. For the foreseeable future, therefore, Washington should concentrate its attention on attacking the Islamic State, or ISIS, and weakening the group's hold on territory in Iraq and Syria. The Iraqi army is capable enough to control liberated areas in Iraq, but there is no counterpart to it yet in Syria, so getting such a force ready, drawn primarily from local Sunni groups, should be a priority.

Turkey is a U.S. ally, but it can no longer be considered a true partner. Under Recep Tayyip Erdogan's increasingly authoritarian rule, the chief goal of Turkish foreign policy seems to be the suppression of Kurdish nationalism, even at the price of undermining the anti-ISIS effort. Washington correctly chose to increase its armed support for Syrian Kurds fighting ISIS—and because this will cause friction with Ankara, it should reduce U.S. dependence on access to Turkish military bases for these and other operations.

The Iran nuclear deal is imperfect, but the administration has been right not to tear it up and start over. Doing so would leave Washington isolated and Tehran unconstrained. What the United States should do instead is insist on full compliance with the agreement's terms, counter Iran's regional push for influence where it can, and prepare for how to constrain Iran's nuclear might after the deal expires. At the same time, Washington should resist being drawn in too deeply on the side of Saudi Arabia and the United Arab Emirates in Yemen. The conflict there is fast becoming a military disaster and a humanitarian tragedy, and the fact that the rebels are backed by Iran is insufficient justification for getting trapped in a quagmire.

The Trump administration has said various things about its intentions regarding what used to be called "the Middle East peace process." The unfortunate fact is that neither the Israelis nor the Palestinians appear ready to move forward; the most Washington can achieve right now may be to keep the situation from deteriorating further (which is actually very important, because in the Middle East, things can always get worse). There is no reason to believe that the situation is ripe for resolution or ambitious diplomatic efforts. The administration should concentrate instead on reducing the odds of violence around Jerusalem's holy sites (something that argues against moving the U.S. embassy to Jerusalem), strengthening the hand of Palestinian moderates, limiting settlement activity, and exploring unilateral but coordinated arrangements that would improve on the status quo and set the stage for more ambitious diplomacy should the parties decide they are prepared to make meaningful compromises for peace.

The Middle East is not the place to look for quick or easy victories. The struggle against terrorism, jihadist and otherwise, will inevitably be long, difficult, and never fully successful. Terrorism cannot be eliminated, only combated, and such an effort will continue to require a mix of intelligence sharing and cooperation with friendly governments, persistent pressure on terrorist financing and recruitment, and occasional military action. The number of U.S. forces deployed in Iraq, Syria, and the region more generally will likely need to be maintained or selectively increased.

A TIME TO LEAD

Back during the George W. Bush administration, in trying to articulate what the United States really wanted from China, Robert Zoellick, the deputy secretary of state, framed the question as one of whether Beijing was prepared to act as "a responsible stakeholder" in the international system. The concept is a useful one and applies now to the United States, the founder and dominant power within that system. So what constitutes responsible behavior for Washington in the world at large at this juncture?

One element is giving appropriate attention to both interests and ideals. The Trump administration has shown a clear preference for not involving the United States in the internal affairs of other countries. Such realism is often warranted, given Washington's multiple priorities and limited leverage in such matters. But there is a danger in taking this approach too far, since prudent nonintervention can all too easily shade into active support for deeply problematic regimes. Careless relationships with "friendly tyrants," as such rulers used to be called, have burned the United States often in the past, and so it is worrying to see Washington take what look like the first steps down such a path again with Egypt, the Philippines, and Turkey. Friends need to speak candidly to friends about the errors they may be making. Such communications should normally take place privately and without sanction. But they do need to occur, lest the United States tarnish its reputation, encourage even worse behavior, and set back efforts to promote more open societies and stability around the world. The president should also understand that what he says about U.S. institutions, including the media, the judiciary, and Congress, is listened to closely around the world and has the potential to reduce respect for the United States while encouraging leaders elsewhere to weaken the checks and balances on their rule.

Another element of responsible behavior is continued support for international aid and development, which is a cost-effective way to promote American values and interests simultaneously. In recent memory, for example, Colombia was racked by civil war and served as a major source of drugs coming into the United States. Since then, the provision of hundreds of millions of dollars in U.S. aid has helped stabilize the country and secure a delicate peace—saving countless lives and dollars as a result. Similar stories play out when Washington helps foreign partners address terrorism, piracy, drug trafficking, poverty, deforestation, and epidemic disease. When it gives aid wisely and conditionally, the United States is not a soft touch but a smart investor.

The administration would do well to tone down some of its rhetoric on trade. Technological innovation has been a much more important source of domestic job losses than trade or offshoring, and embracing protectionism will only encourage others to do the same, in the process killing off more jobs. What is needed is a full-fledged national initiative to increase economic security, consisting of educational and training programs, temporary wage support for displaced workers, the repatriation of corporate profits to encourage investment at home, and infrastructure spending. The last, in particular, is a multipurpose tool that could at once create jobs, increase competitiveness, and build the country's resilience against natural disasters and terrorism.

Something similar holds for immigration, which should be treated as a practical more than a political issue. However the American body politic ultimately decides to handle legal and illegal immigration policy, the danger to the country supposedly posed by immigrants and refugees has been exaggerated and is not a major national security threat. The administration should cease gratuitously insulting its southern neighbor (and promoting anti-Americanism there) by insisting that Mexico pay for a border wall. And singling out individuals from Muslim countries for special scrutiny and differential treatment risks radicalizing significant numbers of their coreligionists at home and abroad.

The administration (and Congress) needs to be careful not to set the country on a path of rapidly increasing debt.

The danger is that a combination of steep corporate and individual tax cuts, higher levels of defense spending and higher interest rates, and no reform of entitlements will do just that. Financing the debt will come to crowd out other useful forms of spending and investment (reducing American competitiveness) and leave the United States more vulnerable to market forces and the politically motivated decisions of governments that are large holders and purchasers of U.S. Treasuries.

One last policy matter involves the climate. The intensity of the opposition in some quarters to the 2015 Paris accord and to acceptance of climate change as the result of human activity is something of a mystery. The agreement is a model of creative multilateralism, one totally consistent with sovereignty; the administration would be wise to embrace it. The targets set for U.S. greenhouse gas emissions are goals the United States set for itself; as a result, the government retains the right to change them, when and how it sees fit. The good news is that the availability of new technologies, state and local regulations, and the requirements for access to many global markets will likely mean that the United States can meet its Paris goals without sacrificing economic growth.

As for personnel and process, the administration hurt itself at first by underestimating the complexity of running the government and taking a petulant and idiosyncratic approach to appointments. As a result, most senior national security and foreign policy staff positions are being filled on a temporary basis by civil servants or have been left open entirely, hamstringing effective government operations. Any thoughts of a major bureaucratic restructuring should be postponed until the administration is filled with the requisite number of qualified officials.

Trump clearly prefers an informal decision-making process, with various voices included and many points of entry, and presidents get their way. But such an approach has downsides as well as upsides, and if the administration wants to avoid the dangers that come with excessive improvisation, it needs to ensure that the formal National Security Council policy process dominates the informal one—and that significant informal deliberations are ultimately integrated into the formal process rather than carried on separately.

The president also clearly prefers to be unpredictable. This can make sense as a tactic, but not as a strategy. Keeping foes off balance can be useful, but keeping friends and allies off balance is less so—especially friends and allies that have put their security in American hands for generations. The less steady they judge those hands to be, the more they may decide to look out for themselves, ignoring Washington's requests and considering side deals to protect their interests. Frequent policy reversals, even those that are welcome, come at a substantial cost to the United States' credibility and to its reputation for reliability.

Down that route lies the unraveling of the postwar order that the United States has worked so hard to create and maintain. It is important not to forget that the United States has been remarkably well served by this order. Where things have gone the most wrong—in Korea, when U.S. forces marched north of the 38th parallel in what would become a costly and unsuccessful effort to reunify the peninsula by force, in Vietnam, in Iraq—it was because of overreach by U.S. policymakers rather than a requirement to act on behalf of the order.

But that order is now in decline. Many of its components need to be modernized or supplemented, and new rules and arrangements are needed to deal with the various challenges of globalization. But the international project should be a renovation, not a teardown. New challenges may have arisen, but the old challenges have not gone away, so the old solutions to them are still necessary even if they are no longer sufficient. The strategic focus for U.S. foreign policy should be preservation and adaptation, not disruption, so that the United States and those willing to work with it can better contend with the regional and, even more, the global challenges that increasingly define this era.

In that regard, the president's campaign slogan of "America First" was and is unfortunate, because it appears to signal a narrower U.S. foreign policy, one lacking in a larger purpose or vision. It has been interpreted abroad as suggesting that friends and allies now come second, at best. Over time, "America First" will lead others to put themselves first, which in turn will make them less likely to take into account (much less give priority to) American interests and preferences.

The slogan also unfortunately reinforces the mistaken notion that there is a sharp tradeoff between money and effort spent on international affairs and those spent on domestic concerns. In a global world, Americans will inevitably be affected by what happens beyond their country's borders. The United States needs both guns and butter, and national security is determined by how well a country meets its external and internal challenges alike. The good news is that the United States, which now spends only half the percentage of its wealth on defense that it did during the Cold War, can afford both.

If the administration does decide to retain the phrase, it should at least recognize its shortcomings and counteract them. This means finding ways to make clear that although the United States does follow its own interests, it does not do so at its friends' and partners' expense. American patriotism can be defined and operationalized in ways compatible with responsible global leadership. And figuring out how to do that from here on in is the Trump administration's central challenge.

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Trump the Traditionalist

A Surprisingly Standard Foreign Policy

Elliott Abrams

Imagine two U.S. foreign policy analysts plucked from their Washington think tanks and marooned on desert islands, one just before Donald Trump announced his presidential candidacy and the other just before the 2016 election itself. After the election, both are told that the Republican candidate won and are asked to predict the new administration's foreign policy. Whose predictions would have been more accurate?

At times this spring, the second analyst's forecasts would have been on the money. Having followed the bitter election, he or she would have foretold the nature of the transition and the early weeks of the new administration as a logical continuation of the campaign. The starkly nationalist rhetoric of Trump's inaugural address; the president's unpredictable tweets; the departure of Trump's first national security adviser, Michael Flynn, after only 25 days in office; and a whole host of other developments solidified many professionals' sense that Trump would break dramatically with long-standing traditions and with recent policy. As the months passed, however, the analyst's predictions would have been increasingly off base as the administration's foreign policy became more conventional.

Meanwhile, the other desert-island refugee, who would have missed Trump's surprising ascent and the bizarre campaign that followed, would likely have predicted that no matter who won the GOP nomination and despite any idiosyncrasies that emerged during election season, the realities of governing and of leading in a complex world would ultimately produce a fairly familiar Republican approach to foreign policy. And on balance, this analyst would have been right.

The Trump administration has been in office for less than six months, and most jobs below the cabinet level still remain unfilled, so one must tread carefully when making judgments about its approach or predictions about its future. But it is already clear that this is not a revolutionary administration. The broad lines of its policy fit easily within those of the last few decades. Trump might not be a conventional president, but so far, his foreign policy has been remarkably unremarkable.

A BREITBART PRESIDENCY?

This is a far cry from what many observers expected (and what some continue to worry about): a radical departure from tradition and the emergence of what might be called a Bannonite administration, after Steve Bannon, the populist-nationalist provocateur who chaired Trump's campaign and was later named his chief White House strategist. Before joining the Trump team, Bannon had led Breitbart News, the online publishing company that he described as "the platform for the alt-right" and that

ELLIOTT ABRAMS is Senior Fellow for Middle Eastern Studies at the Council on Foreign Relations.

Business as usual: Stoltenberg and Trump in the Oval Office, April 2017

JONATHAN ERNST / REUTERS

regularly railed against "globalists" in the foreign policy establishment.

There was good reason to think that Trump would allow Bannon to help shape his approach. After Trump's inauguration, Bannon was rewarded with a seat on the Principals Committee of the National Security Council—an unprecedented position for a political adviser. And during his candidacy, the transition, and the first few months of his administration, Trump had shown an almost gleeful willingness to part ways with foreign policy orthodoxy. He had called NATO "obsolete," warning that if the United States were not "reasonably reimbursed for the tremendous cost of protecting these massive nations with tremendous wealth . . . I would be absolutely prepared to tell those countries, 'Congratulations, you will be defending yourself.'" He had infuriated China by becoming the first U.S. leader in nearly four decades to communicate directly with the Taiwanese president and by suggesting that he might not uphold the "one China" policy, which Washington has followed since the early 1970s. He had repeatedly praised Russian President Vladimir Putin and waved off criticisms of Putin's woeful record on human rights—retorting, in one instance, "What, you think our country's so innocent?" And Trump had made stalwart U.S. allies and trading partners nervous by threatening to pull out of the North American Free Trade Agreement (NAFTA) and to "terminate" the U.S.–South Korean trade deal.

It is understandable that anyone who heard such statements or who read the scores of tweets that the president fired off might conclude that the new administration would break sharply with tradition. In reality, however, Trump has not deviated much from conventions.

In February, Trump reaffirmed the "one China" policy and abandoned his plan to label China a currency manipulator. After pledging to eliminate the Export-Import Bank, Trump changed his mind. He has failed to follow through on his threat to "tear up" the U.S.-led nuclear agreement with Iran. And after repeatedly disparaging NATO, Trump backtracked after a meeting with the organization's secretary-general, Jens Stoltenberg, in April. The alliance, Trump now declared, was "no longer obsolete." Perhaps most striking of all, despite having said many times that he wanted to improve relations with Russia and to use military force only when concrete U.S. interests were at risk, Trump launched a cruise missile attack on Syria (whose dictatorial regime is heavily supported by Russia) in response to the Syrian regime's use of sarin gas—a crime against humanity that nonetheless did not directly threaten the United States.

If the Kremlin tried to assist Trump's campaign covertly (as the U.S. intelligence community has concluded) and was initially pleased by Trump's victory, Putin and his allies might now be feeling buyer's remorse. When it comes to Russia, the Trump administration has adopted a negative tone, sometimes exuding real hostility. "How many more children have to die before Russia cares?" asked Washington's ambassador to the UN, Nikki Haley, after Syria's sarin attack. The White House has not lifted the sanctions imposed on Russia by the Obama administration in response to Moscow's seizure of Crimea and meddling in the campaign. And Flynn, Trump's first national security adviser, who was seen as supportive of closer ties with Russia, was forced to resign after reportedly misleading Vice President Mike Pence about conversations he had had with the Russian ambassador to the United States. Putin's spokesperson, Dmitry Peskov, lamented in late March that U.S.-Russian relations were "at the lowest possible point" and later complained that the U.S. strike in Syria dealt "a significant blow to relations." U.S. Secretary of State Rex Tillerson's April visit to Moscow highlighted the deep rifts between the two countries and revealed what Tillerson called a "low level of trust."

THE ESTABLISHMENT STRIKES BACK

Those who had anticipated major policy changes—with hope or with fear—began to have doubts as soon as Trump assembled his core national security team. Trump tapped well-respected retired generals to head the Pentagon and the Department of Homeland Security (James Mattis and John Kelly, respectively), a highly regarded active-duty general as national security adviser (H. R. McMaster), the chief executive of ExxonMobil as secretary of state (Tillerson), and a member of Congress with degrees from West Point and Harvard Law School as director of the CIA (Mike Pompeo). Trump's national security team embodies "the Establishment" as much as John F. Kennedy's or Dwight Eisenhower's did. The appointments suggest that, at least on foreign policy, Trump wants reliable people who will give him sober advice largely untinged by ideology. (In early April, Bannon was removed from the National Security Council's Principals Committee, underscoring the move away from the "alt-right" populism of Trump's campaign.)

There are some "America first" ideologues on the White House staff, but they are clearly in eclipse, and their influence is on the wane. The foreign policy views of Jared Kushner, the president's son-in-law and an influential White House adviser, remain largely unknown, but there is no evidence that they are out of the mainstream. So on foreign policy, the Trump administration is looking more and more conventionally Republican.

What's more, the administration's remarkable slowness in filling subcabinet posts means that currently, all the most senior advisers to top officials are not Republican political appointees but civil servants from what many Trump supporters decry as "the permanent government" or "the deep state." The Bannonite wing has managed to keep out many officials from previous Republican administrations (including me, after I was selected by Tillerson to be deputy secretary of state), usually for the offense of having criticized Trump during the campaign. But this tactic has backfired on the Bannonites: for the moment, those jobs are instead filled by career civil servants who are very likely Democrats. That will change over the coming months as cabinet members choose their own deputies. But it would be very surprising if they did not select people in their own image: experienced and conventional. If personnel is policy, the Trump administration will likely be far less disruptive than many have imagined and predicted.

THE SYRIA SURPRISE

Another way in which Trump seemed likely to represent a dramatic change was in his apparent discomfort with the traditional role of "leader of the free world." For Trump, claiming that mantle would entail too many commitments to abstractions, such as "the international community." President Barack Obama, despite occasional rhetorical gestures, eschewed that role as well, casting doubt on U.S. commitments to democracy and human rights, especially in the Middle East. In 2009, Obama barely responded to Iran's brutal suppression of the liberal Green Movement. And he did little to stop Syrian dictator Bashar al-Assad's campaign of mass murder. It was reasonable to expect that, in this regard, Trump would follow Obama's lead and would likely show even more indifference or hostility to policies based on intangible values such as international leadership, morality, and human rights.

That is what made Trump's decision to strike Syria so surprising. Trump addressed the nation to announce and explain the strikes and concluded with these words: "As long as America stands for justice, then peace and harmony will prevail." When Tillerson later spoke about the attack at a press conference, he noted the threat of chemical weapons falling into the hands of those who would use them against Americans. But he also stated that "it's important that some action be taken on behalf of the international community to make clear that the use of chemical weapons continues to be a violation of international norms." So after only a couple of months in office, the "America first" administration had used U.S. military force on behalf of justice, the international community, and international norms.

One cruise missile attack does not define a president's foreign policy. But Trump clearly wanted to establish U.S. power and credibility in a fairly traditional manner. Although Obama did not do this sort of thing, most other modern presidents have, following what Obama once dismissed as "the Washington playbook." And Trump acted at least in part to assert American moral leadership. "Even beautiful babies were cruelly murdered in this very barbaric attack," he said, referring to the Assad regime's use of sarin. "No child of God should ever suffer such horror."

DO THE RIGHTS THING

Trump's strike on Syria was a defense of human rights, not democracy, and was not meant as a prelude to the kind of "nation building" that Trump had derided during the campaign. "If I become president, the era of nation building will be brought to a very swift and decisive end," he had declared in August 2016. It is impossible to say how Trump and his aides will sort out the tension between that sentiment and the challenges the United States will face in the coming years. After all, when George W. Bush ran for president, he was equally critical of nation building. Yet he found the task impossible to avoid after the U.S.-led invasions of Afghanistan and Iraq. Trump might similarly find that nation building will be a necessary and vital part of stabilizing Syria.

More broadly, it remains unclear how the goals of protecting human rights and promoting democracy will fit into Trump's foreign policy; both tasks seem unpopular among his advisers. In March, when 11 nations, including close U.S. allies such as Canada and the United Kingdom, sent an open letter to China raising concerns about Beijing's treatment of Chinese human rights activists and lawyers, the

Trump administration declined to sign on. And when Chinese President Xi Jinping visited the White House in April, the White House made no public statements on human rights. Meanwhile, Trump seems less inclined than any of his recent predecessors to protest the repressive actions of strongmen and authoritarians. Trump has hailed Egypt's president, Abdel Fattah el-Sisi, for example, as a "fantastic guy," and Sisi, like Xi, was spared any public criticism of his horrendous human rights record when he visited the White House in March. When Turkey's president, Recep Tayyip Erdogan, claimed victory in a close and completely unfair referendum vote that awarded him more power, Trump jumped to congratulate him before the outcome had even been certified by Turkish authorities. And Trump has invited the Philippine president, Rodrigo Duterte, to visit the White House despite the Duterte government's record of extrajudicial killings.

But it's worth remembering that other presidents have taken a similar stance early in their administrations, only to shift gears later on. When the Philippine dictator Ferdinand Marcos made a state visit to Washington in 1982, the words "human rights" were never uttered in his presence. Yet four years later, President Ronald Reagan was demanding and arranging for Marcos' resignation. Reagan and George W. Bush both came to office having criticized the foreign policies of their Democratic predecessors as naively moralistic and lacking in realism. But both later concluded that holding high the banner of human rights enhanced the United States' prestige and influence in the world. And both came to see nation building as a way to avoid or shorten U.S. military interventions. No one should be surprised if the Trump administration evolves in the same direction.

OLDIES BUT GOODIES

There are some things about Trump's approach to foreign policy that are new. The administration is pursuing the defeat of the Islamic State (or ISIS) more actively than Obama ever did, investing more resources to help Iraqi forces retake the city of Mosul and putting more Americans on the ground in Syria. Under Trump, Washington is pushing back harder against Iranian aggression and subversion, more actively patrolling the approaches to the Suez Canal in the Bab el Mandeb Strait (between the Arabian Peninsula and the Horn of Africa) and giving more assistance to the Saudi-led coalition fighting Iranian proxies in Yemen.

On trade, the Trump administration will likely take a dimmer view of multilateral deals than did any of its predecessors in recent decades. Trump will not, in the end, recklessly abandon existing treaties, and his administration's proposals for revisions to NAFTA are fairly mild. But in trade negotiations, Trump will clearly prioritize the security of American jobs and de-emphasize environmental protections.

The Trump administration will probably continue to raise human rights issues only in private. That is often the right move. But the White House will sometimes choose private criticism even when public pressure seems necessary and justified. And sometimes, the administration will not bring up the topic at all, even when it should. The president seems to have a deep aversion to telling friendly authoritarians how to run their countries, and that view will be difficult to displace. If it changes, it will be because Trump comes to see human rights abuses not as abstractions but as instances of raw and obvious inhumanity—as he saw the killing of children in Syria with sarin gas. Another example: Trump said nothing about the repression of dissent in Venezuela until he met the wife of the imprisoned opposition leader Leopoldo López. The meeting made the issue concrete for Trump: this woman and her husband are brave people, and the Venezuelan government is mistreating them. Similarly, Trump not only pressured Egypt's Sisi to release an American aid worker, Aya Hijazi, from prison but then also invited her to the White House for a face-to-face meeting.

Trump's early actions offer few clues—and some conflicting signals—about how he will respond to some of the greatest tests he is likely to face. On North Korea, Tillerson rightly lamented "20 years of a failed approach," but thus far, the (hardly novel) Trump strategy appears to be asking China to do more. The administration has not junked the Iran nuclear deal and has revealed little about how it will change course on the Iranian nuclear threat—and even less about its broader Iran policy. Finally, there is no way to know how Trump will react if China proceeds with its expansionism in the South China Sea. But all of those things would be unclear no matter who was president; policy on such critical matters is never certain after only a few months, when appointees are just settling in or have not yet been confirmed.

Every administration's policies are a combination of the old and the new. In Trump's case, the expectation was that the mix would change: a great deal more of the new and a broad rejection of the foreign policies of Trump's recent predecessors. That was certainly the impression left by Trump's rhetoric. But his foreign policy and his national security appointees have so far pointed in a mostly conventional direction. Of course, this could change, but based on early impressions, the Trump era will be marked more by increasing adherence to traditional U.S. foreign policy positions than by ever-larger deviations.

The Right Way to Reform Health Care

To Cut Costs, Empower Patients

Sejal Hathi and Bob Kocher

Perhaps no U.S. law has been more passionately opposed by Republicans than the Affordable Care Act. For the past eight years, they have repeatedly pledged to abolish Obamacare, with the House of Representatives voting more than 50 times to repeal it. U.S. President Donald Trump took office promising to do just that. In May, after months of heated negotiations, including two failures to corral votes within their own party, House Republicans managed—barely—to pass their first real replacement, the American Health Care Act.

Despite this victory, the bill will likely face months of deliberation in the Senate, where legislators on both sides of the aisle have already deplored its hostility to the poor, the old, and the 24 million who stand to lose coverage.

SEJAL HATHI is an M.D./M.B.A. candidate at Stanford University.

BOB KOCHER is an Adjunct Professor at the Stanford University School of Medicine and a Partner at the venture capital firm Venrock, where he invests in health-care information technology companies. In 2009–10, he served as Special Assistant to the President for Healthcare and Economic Policy on the U.S. National Economic Council.

Yet the biggest obstacle goes beyond legislative politics. It's the subtle but unmistakable shift in perspective that Obamacare triggered among the public: for the first time in history, most Americans—60 percent, according to a January 2017 poll by the Pew Research Center—believe that it is the government's responsibility to ensure access to quality health care. So even though Republicans have full control of the government, they have found it acutely difficult to push through a plan that growing numbers of Americans philosophically oppose.

The most likely outcome, then, is that the efforts to repeal Obamacare will die in the Senate. If that happens, the more pressing question will become, How can the Trump administration address the very real flaws of the U.S. health-care system, improving care without taking coverage away? The answer is to fix Obamacare rather than replace it.

To accomplish this, policymakers must target the underlying problem afflicting health care in the United States: it costs far too much. Not only does the country spend much more on health care than its peers—18 percent of GDP in 2016—but that investment has failed to translate into better outcomes. The United States persistently lags behind other high-income countries on such measures as life expectancy, infant and maternal mortality, and rates of chronic disease. This discrepancy between spending and quality surfaces at the local level, too: as a 2017 study by Yusuke Tsugawa of Harvard and his co-authors found, even within the same hospital, physicians who spend more do not have happier patients or achieve better outcomes. The corollary to such findings is that providers could reduce spending while maintaining or even improving the quality of care.

Already, hospitals across the country are experimenting with ways to offer better care at a lower cost. Eight years ago, Grand Junction, Colorado, became the poster child of health-care reform when it was singled out by Atul Gawande of *The New Yorker* for investing in preventive care and changing the way doctors were paid in an effort to slash Medicare costs without sacrificing quality. La Crosse, Wisconsin, has achieved the lowest costs in the country for end-of-life care by having nurses ask patients to fill out advance directives about how aggressive they want their treatment to be. And Geisinger Health System, a network of hospitals in Pennsylvania, has reduced emergency-room admissions by focusing on delivering high-quality primary care, with a view toward customer service. (It even offers refunds to patients who report "uncompassionate care.") Meanwhile, a bevy of start-ups inspired by the Affordable Care Act are doing everything from matching patients with caregivers to helping people shop for insurance plans.

If policymakers really want to curb costs and improve quality, they should focus on accelerating the growth of such game changers—by enhancing the incentives of existing high-value providers to expand their market share and by unleashing the forces of capitalism to create new such providers.

A MORE DEMANDING DEMAND SIDE

No effort to encourage higher-value health care can succeed without the support of patients. Accordingly, the first goal of policymakers should be to raise demand for higher-value services by giving patients the information, incentives, and tools they need to make better decisions about their care. Several bodies have already sought to do just that. In 2011, the American Board of Internal Medicine rolled out Choosing Wisely, a campaign that seeks to get patients more involved in decisions about their care, and various insurers have experimented with shifting certain costs to patients. Despite heavy fanfare, however, these efforts have had little effect: health-care costs continue to climb faster than inflation, and the multiplicity of new efforts aimed at improving outcomes has resulted in a system that is confusing and hard to navigate.

More can be done. For starters, both insurers and providers need to simplify and expand access to data on costs and outcomes. Patients are already seeking this information: a 2014 survey conducted by Public Agenda, a nonpartisan research group, found that more than half of Americans had tried to find out the prices of various medical services before seeking care, and one-fifth had comparison-shopped. And when patients get the information they're looking for, they use it to choose providers with better track records. In a 2015 study of Medicare claims data from the last decade, Amitabh Chandra, Amy Finkelstein, Adam Sacarny, and Chad Syverson found that even for emergencies such as heart attacks, patients were willing to travel an extra 1.8 miles to receive treatment at a hospital with a one-percentage-point higher survival rate. They also found that hospitals posting superior outcomes saw their market share expand, pulling up the overall survival rate for Medicare patients.

As things stand now, however, the data that would help patients make more informed choices are often inaccessible or

Power to the patients: at a primary-care clinic in Chicago, June 2012

JIM YOUNG / REUTERS

indecipherable. Part of the problem is a lack of competition among providers. As health-care systems have expanded, they have abused their market power to obscure information about cost and quality, most commonly by inserting gag clauses into provider contracts that forbid such disclosures. Since providers even within the same area often charge widely varying prices for their services, suppressing this data represents nothing more than a ploy by the dominant players to protect their competitive advantage. This lack of transparency deprives patients and their insurers of any power to negotiate for higher-value care. Companies that allow employees to comparison-shop among providers, for instance, cannot operate without access to key performance data such as physician-level costs. In 2012, California passed a law prohibiting gag clauses in health insurance contracts; more states should follow suit.

Another challenge is the lack of infrastructure to digest and present data. In recent years, a growing number of states have established large databases to collect and organize claims data, which can help identify low- and high-value providers. Here, too, however, vested interests have fought back against data sharing, and in 2016, the U.S. Supreme Court sided with insurance companies in ruling that states can no longer require employers that fund their employees' insurance plans to submit claims to a central database. At the federal level, the Centers for Medicare & Medicaid Services (CMS), the agency that administers Medicare and oversees HealthCare.gov, has expanded access to its data, creating a special program enabling researchers and businesses to access its full data set on claims. But that data set (which is expensive and far from user-friendly) involves only Medicare; no equivalent information is available about the pediatric population covered by the Children's Health Insurance Program or about patients with commercial health insurance.

The federal government can help solve this problem. It should provide financial incentives for more states to create central databases, and it should require employers that fund their employees' insurance plans to share their privacy-protected claims data—if not through new legislation, then through rules issued by the U.S. Department of Labor under the Employee Retirement Income Security Act, the 1974 law that regulates employers' health insurance plans. (In spite of the Supreme Court's ruling, the secretary of labor retains the authority to issue new reporting requirements.)

Of course, if newly released data are to make a dent in health-care costs, then the information must be made meaningful to patients. The health-care sector has long struggled to distill the morass of quality measures into a single, intuitive index of value. Currently, for every physician, the average medical practice spends 15 hours per week navigating disparate quality reporting requirements. Patients, for their part, face a dizzying variety of quality rankings, from the CMS' Hospital Compare to the ratings on the website Healthgrades to those published by *U.S. News & World Report*. So discordant are these rankings that many hospitals considered top performers in one system sink to the bottom in others.

Even Hospital Compare, the gold standard of performance rankings, has major shortcomings. Its data are obsolete, dating back at least three to six years, and cover only a limited set of diseases and procedures. But no part of the program is more in need of updating than its process for generating final scores. Hospital Compare ranks hospitals in just three categories—worse than the national average, no worse than the national average, and better than the national average—and 97–98 percent end up in the middle category. A system that exposes such a small percentage of hospitals as below average can hardly be expected to cultivate major improvements in performance. To solve this problem, the CMS should increase the number of performance categories and weight its scores by taking into account the demographics of hospitals' patient populations.

Better information alone will not reduce costs; patients also need the power to act on it. Accordingly, policymakers should seek to increase patients' sensitivity to variations in quality and give them the tools to reward higher-value providers. Traditionally, efforts have focused on getting patients to assume a greater share of the cost of their health care, but that has proved to be a blunt instrument, indiscriminately reducing the use of both necessary care and discretionary care. In recent years, insurance companies have rolled out new plans designed to encourage patients to make smarter decisions: patients pay more out of pocket for services that evidence has shown to be less beneficial (say, surgery for back pain that could be treated with physical therapy) and less for services deemed more beneficial (such as colonoscopies for patients at risk of colon cancer). Studies have shown that such schemes improve outcomes by steering patients toward primary care and preventive services, which can catch conditions before they become serious, and by making patients more likely to adhere to their medication regimens, which keeps chronic diseases in check.

But the government can do more to promote value. For patients with health savings accounts—which allow people to set money aside tax free for medical expenses—the Internal Revenue Service should expand its list of eligible expenses to include more preventive services. Patients with hypertension, for example, should be allowed to deduct the cost of home blood-pressure-monitoring supplies. For the 55 million patients on Medicare, the CMS should consider adjusting copays for services based on how appropriate they are for a given patient. Diabetics, for instance, are susceptible to vision loss, so they should be charged less out of pocket for an annual eye exam than everyone else.

Private insurance companies can embrace the same approach by building their coverage networks around specific medical conditions or treatments instead of around facilities, as they currently do. Under such a system, insurance plans would narrow their networks to doctors who have established an excellent track record dealing with a single major condition—in the case of eating disorders, nutritionists, endocrinologists, psychiatrists, and primary-care physicians who have demonstrably better histories of treating these diseases.

As they seek to encourage the use of the highest-value care, policymakers must make sure they don't further perplex patients already struggling to make sense of their plans. No consumer product rivals health insurance when it comes to complexity, and most Americans remain in plans that they do not understand and do not wish to spend time trying to understand. One survey, by Aflac, found that nearly a quarter of Americans would rather clean their toilet than attempt to decipher their benefits.

The most sustainable innovations, then, will be those that reimagine insurance not merely to boost value but also to design plans that make intuitive sense. Some new insurance companies, such as Oscar, have made strides by offering standardized, easy-to-understand plans that simplify the process of comparison-shopping—an approach the federal government has emulated, debuting "simple choice" plans on HealthCare.gov last year. But there is much room for improvement. Little wonder, then, that the fastest-growing category of venture-backed health-care companies is so-called navigators, concierge services that help patients use their benefits smartly. Once patients better understand their insurance and take an interest in the cost of their care, demand will become more elastic and competitive, pushing overall costs down.

SHAKING UP SUPPLY

Just as patients must demand higher-value care, providers must be given the incentives to deliver it. The overarching goal of reforms on the supply side of health care should be to increase the market share for those providers that achieve better care at a lower cost. Often this means changing the way providers are paid.

So far, that has proved difficult. There are some bright spots, with innovative companies such as ChenMed, Iora Health, HealthCare Partners, and CareMore pioneering new models of primary care for the sickest patients. But these firms are all dwarfed in the markets they serve by large health-care systems that are committed to high prices and the fee-for-service model. Even Kaiser Permanente, a massive California-based consortium that practices integrated care (as opposed to the more fragmented fee-for-service model), has struggled to grow. The company entered its first new market in 20 years this past January, having previously suffered heavy losses in its attempts to expand beyond California.

On this front, the biggest challenge is to stem the tide of hospital consolidation. The last 13 years have seen more than 800 mergers of hospital systems in the United States, leaving many urban areas with just a few large providers. Although the big players claim that consolidation allows them to better coordinate care and achieve economies of scale, researchers have repeatedly shown that mergers raise prices. One study, published by the National Bureau of Economic Research in 2015, found that prices in monopolized markets are 15 percent higher than in markets serviced by four or more hospitals. Another study, by three Stanford University economists, documented a four percent price hike for every one-percentage-point increase in market concentration. The truth is that smaller practices perform just as well as, and often much better than, the big hospital networks—and rack up far greater savings in the process.

To discourage mergers, the Trump administration should bolster the enforcement of antitrust laws by increasing funding for the Federal Trade Commission, the agency within the U.S. Department of Justice charged with fostering and safeguarding competition. Congress should also pass a law capping all hospital prices at a fixed percentage above Medicare rates, which would make consolidation less attractive by reducing the market power of larger practices. A cap of 25 percent, large enough to allow providers a healthy profit margin but small enough to discourage consolidation, would be ideal.

At the state level, policymakers should empower agencies to take a more activist approach to combating anticompetitive behavior. A good model comes from Massachusetts, which in 2012 established the Massachusetts Health Policy Commission, a body that conducts detailed reviews of the impact of hospital consolidation plans. In 2014, its recommendations led to the blocking of three acquisitions by the state's largest provider network, Partners HealthCare, which the commission estimated would have increased regional health-care spending by nearly $50 million a year. In a similar vein, states and the federal government should also lower the barriers to entry in the health-care market. For instance, they should put an end to regulations that require doctors to meet their patients in person, a change that would encourage the use of low-cost but still effective telemedical services.

As important as all these reforms would be, perhaps the most powerful lever for promoting value is a 2015 law that changed the way doctors get paid for treating Medicare patients. Passed with broad bipartisan support, the Medicare Access and Children's Health Insurance Program Reauthorization Act was designed to shift health care away from the fee-for-service model and toward one based on value. The act requires any physician who sees more than 100 Medicare patients a year to choose one of two structures through which to receive payments from the government: the Merit-based Incentive

Payment System (MIPS) or Alternative Payment Models (APMs).

The former builds on the traditional fee-for-service system by adjusting payments to providers up or down according to various performance measures they report, whereas the latter moves beyond that system, rewarding providers who use new, value-based approaches to payment. For example, so-called medical homes—where a patient's care is overseen by a single team led by a personal physician—qualify for APMs. Under fee-for-service models, the government must reimburse providers for services regardless of their clinical necessity. APMs, by contrast, offer bonuses for cost-effective care.

The CMS has set a goal of moving at least 50 percent of providers to APMs by 2018. But as of today, only ten percent qualify. To reach its goal, the agency will have to make APMs more attractive. The CMS currently creates incentives for providers to move to APMs by eliminating the reporting requirements they face under MIPS and by dangling a five percent payment bonus. These inducements do not nearly go far enough.

Under current rules, medical practices that sign up for MIPS can select which six of more than 200 performance indicators to use in calculating their score. The CMS should dramatically reduce this flexibility, both to make sure the metrics chosen are relevant and to remove the perception that MIPS offers an easier path to earning bonuses than APMs. And to further discourage providers from sticking with the fee-for-service model, the CMS should either curtail or cancel the upside payments under MIPS—in other words, emphasize penalties for poor performance over rewards for good performance. At the same time, the CMS should make it easier for small medical practices to participate in APMs by reducing the financial risk they must take on in order to sign up. And the agency should increase APMs' reward payments.

By rewarding providers that stress primary care, APMs decrease the amount of time patients spend in hospitals or nursing homes and lower the number of visits they make to specialists. A few innovators using APMs have already achieved impressive results. ChenMed, a Miami-based primary-care practice, serves over 60,000 low- to moderate-income Medicare patients who suffer from multiple chronic conditions. By emphasizing preventive care and physician accountability, the company has delivered world-class care for these patients at costs that are 40 percent lower than the market average. CareMore, a California-based network of medical centers that focus on integrated primary care for the elderly, serves the highest-risk, highest-need patients. By investing in early intervention and social service programs, the group has reduced hospital admissions for its members by 20 percent compared with its fee-for-service counterparts. Both companies demonstrate that primary-care doctors can create tremendous value for their patients while building businesses that scale. Indeed, in 2012, the kidney-care company DaVita paid $4.4 billion to acquire HealthCare Partners, a leader in integrated care. The key now is to foster an environment in which more such companies can succeed.

A BETTER PATH FORWARD

All these fixes will help slow the growth of costs, but to make the biggest impact, they need to be grounded in a well-implemented health-care law and a stable health-care market. To attain the Holy Grail of high-quality, affordable health care—a system in which costs grow no faster than GDP—policymakers must take bolder steps.

Above all, they should require everyone to have health insurance. Congress must enforce the individual mandate of Obamacare, and states should follow Wisconsin's example in introducing automatic enrollment for patients eligible for Medicaid. To induce younger, typically healthier adults to enroll, the CMS should relax the Obamacare rule prohibiting insurers from charging seniors rates that are more than three times as high as the rates they charge 20-somethings. Instead, insurers should be allowed to charge seniors four times as much, which would broaden the price range of available plans and lower premiums for younger people. To offset that change, the CMS should expand tax credits for older patients. Making these tweaks would maximize participation in the insurance market and thereby make premiums more affordable for everyone.

Policymakers should also take steps to stabilize the market for individuals purchasing insurance on their own. Uncertainty over the future of Obamacare has caused many insurers to withdraw from markets across the country. In order for there to be adequate coverage options for all Americans and for premiums to remain stable and not spiral upward, both insurers and consumers must feel that it is safe to participate in the insurance market. Some counties are now at risk of having no insurers that offer Obamacare coverage. Ideally, the CMS would fix that problem by expanding the size of the regional markets through which insurers can sign up to provide coverage.

But if it doesn't, more states should follow the lead of Vermont and the District of Columbia in requiring that all individual insurance policies be purchased through the state exchanges, marketplaces established by Obamacare. Currently, 40 percent of plans in the individual market are sold off the exchange, typically to higher-income, healthier consumers. Because Obamacare tax credits do not apply to plans bought outside the exchanges, some insurers are offering plans only on the higher-yield, off-exchange market. Unifying the two markets would close this loophole and help stabilize prices on the state exchanges.

At the federal level, Congress should make permanent its funding for the provisions of Obamacare that are designed to prevent insurance premiums from rising too high. The so-called risk corridor program, for instance, which compensates insurers if their enrollees prove to be costlier than expected, is particularly valuable for small states, which remain vulnerable to the possibility that a small number of patients will skew overall costs. At the same time, Congress should reclassify Obamacare's cost-sharing reduction subsidies—federal reimbursements for insurers that cover low-income individuals—as mandatory funding rather than discretionary funding, thus insulating the program from the whims of the congressional budgetary process.

Both risk corridors and cost-sharing reduction subsidies lower overall premiums, but both have become targets of political infighting. The risk corridor program never received the funding it was supposed to, the result of a political move by Republican Senator Marco Rubio of Florida, who wanted to signal his opposition to Obamacare. As a consequence, some insurance companies lost money after setting their premiums based on the assumption that risk corridor payments would defray unexpected losses, and they have filed suit against the government, demanding payment. Congress should accept that Obamacare isn't going anywhere and appropriate funds for the risk corridor program.

The cost-sharing reduction subsidies, for their part, are the victim of both a lawsuit brought by House Republicans and a threat by the Trump administration to stop funding them, causing insurance companies to worry about these payments, too. If their anxieties are not allayed, then insurers will likely raise premiums to reduce their exposure. It's time for the Trump administration to pressure the House to drop its lawsuit against the cost-sharing reduction subsidies. Action on this front is vital, because cost-sharing reduction subsidies have a large impact on premiums. Without them, the Kaiser Family Foundation has estimated, premiums would surge by an average of 19 percent.

As for the CMS, there is a great deal it can do. To empower patients, it should make its hospital rating systems more actionable—first by standardizing quality measures across the government's many health-care programs, from Medicaid to the Department of Veterans Affairs, and then by introducing personalized rating schemes based on a patient's values and preferences. And to create effective incentives for providers, the CMS should work with Congress and state legislatures to lower the barriers to entry for providers offering innovative models of primary care.

SOMETHING FOR EVERYONE

Given the toxic political climate in Washington, it would be easy to dismiss all these proposed changes as dead on arrival. But outside Washington, legislators should find considerable support among their constituents for reforming health care with a view to lowering costs. A poll by the Kaiser Family Foundation found that three-quarters of Americans, and even a majority of Trump supporters, want the president and his administration to "do what they can to make the current health care law work" rather than make it fail so it can be replaced. Lawmakers would do well to recognize what behavioral scientists have long understood: however complicated the politics of expanding health-care coverage were, taking away coverage from millions of Americans would prove infinitely more painful.

Moreover, most of these recommendations are incremental in nature and capable of gaining bipartisan support. Both parties should find something to love in them: cutting costs and reducing the debt could motivate even stalwart Republicans, and expanding coverage to include the most vulnerable should inspire Democrats. Indeed, the benefits of reform are enticing. Billions of dollars of wasteful spending would be liberated for use in other parts of the economy. One of the biggest sources of the national debt would shrink. Millions of Americans would gain coverage. If that's not enough to generate political will, then what is?

WHAT NOW?

A Tale of Two Tax Plans

What Trump and Ryan Get Wrong

Alex Raskolnikov

Republicans have long panned the U.S. tax system; now they have a plan to change it. In fact, two plans. The first comes from Congress, the second from the White House. The congressional "Better Way" plan, championed by Paul Ryan, the Speaker of the House, and Kevin Brady, chair of the House Ways and Means Committee, would create a business tax system that has never existed anywhere in the world. The White House plan would enact a massive tax cut, mostly for the wealthy.

Each plan aims to reform both the individual and the business parts of the U.S. tax system. But although the two plans offer similar rate cuts for individuals, the proposed reforms are very different on the business side. The White House simply wants to slash taxes for all businesses. The Ryan-Brady plan would convert the current corporate income tax into a border-adjusted cash-flow tax—a tax on consumption rather than on income. Tensions over this idea among Republicans and businesses are running high. Exporters, such as Boeing and GE, have lined up behind it, whereas retailers and importers, such as Target and Walmart, are lobbying hard to stop it in its tracks.

Although no official economic estimate of either plan is yet available, it is clear that the White House proposal threatens to explode the national debt and, as a result, impede economic growth. The Better Way plan is both more promising and more responsible than the White House's outline. Still, the Ryan-Brady proposal would likely increase the national debt, disrupt global trade, harm some American companies and benefit others, cause financial problems abroad by dramatically raising the value of the U.S. dollar, and lead to pervasive and costly uncertainty. In the end, the Better Way plan is too disruptive and too risky for the United States to adopt. Nonetheless, it points tax reformers in the right direction.

THE TWO PLANS

Congressional Republicans and the White House have a similar vision of individual income tax reform. Their plans would reduce the number of tax brackets from seven to three and lower the top rate. Both plans would repeal the estate tax, the alternative minimum tax, and the tax on investment income imposed by Obamacare. And both plans would expand the standard deduction. These reforms would increase the national debt by $3–$4 trillion over the next ten years. For comparison, the nation's entire debt stood at about $6 trillion before President George W. Bush's unfunded tax cuts of 2001 and 2003 and the wars in Afghanistan and Iraq took their financial toll.

Ryan and Brady propose to make up most of the lost revenue by eliminating all personal exemptions, deductions, and credits, except those for mortgage interest and charitable giving. The White House

ALEX RASKOLNIKOV is Wilbur H. Friedman Professor of Tax Law at Columbia Law School.

Taxman: Ryan discussing the Better Way plan with reporters, Washington, D.C., September 2016

GARY CAMERON / REUTERS

outline refers to repealing "targeted tax breaks that mainly benefit the wealthiest taxpayers" but does not specify which ones. In April, Treasury Secretary Steven Mnuchin said that one of these tax breaks would be the deduction for state and local taxes. Although the wealthy do benefit from that deduction, so do millions of middle-class voters. It remains to be seen whether President Donald Trump will accept the political cost of upsetting them. The same is true of taking away the personal exemptions that Ryan and Brady want to repeal.

At first, the two plans appear similar on the business side as well. Both reduce the tax rate for corporations and partnerships, and both exempt from taxation income that U.S. firms earn from foreign operations. But these similarities are misleading. The White House plan offers a historically large tax cut for all businesses, from GE and Goldman Sachs to hedge fund managers, doctors, lawyers, and other high-earning professionals. The Ryan-Brady plan offers an even more dramatic change: it would replace the current tax on corporate income with a consumption tax.

The rate cuts in both business tax reforms would result in lost revenue. Two nonpartisan think tanks—the Urban-Brookings Tax Policy Center and the Committee for a Responsible Federal Budget—have estimated that without offsetting measures, either proposal would add another \$3–\$4 trillion to the nation's debt by 2027, in addition to the \$3–\$4 trillion in debt from the tax cuts on the individual side.

Mnuchin and other administration officials insist that much of the lost revenue will be made up by economic growth. This is a fantasy. The conservative Tax Foundation, which tends to project optimistic growth resulting from lower taxes, has concluded that the growth rate needed to pay for the White House's corporate tax cut alone is twice as high as the foundation can justify. Moreover, a major spike in the nation's debt would impede growth. As the debt skyrocketed, the government would be forced to spend an increasing share of its budget on interest payments. Businesses would have a harder time financing new projects once interest rates started to rise, as they inevitably would. This is not a pretty picture for any responsible policymaker, and especially for fiscal conservatives in the Republican congressional caucus.

Ryan and Brady have committed to keeping their tax reform revenue neutral, at least for now. Perhaps they and their colleagues will eventually accept modest long-term deficit increases, even though this would require the reform to expire in ten years because of current budgetary rules, just as the Republican tax cuts of 2001 did. Perhaps the official revenue estimators at the Joint Committee on Taxation and the Congressional Budget Office will become more optimistic about the economy's responsiveness to tax cuts. But no plausible economic forecast would project enough growth to offset the \$3–\$4 trillion shortfall resulting from the rate cuts in either version of the business tax reform. If Republicans want to produce lasting change in the U.S. business tax system, and if they are not prepared to gut the social programs on which most Americans depend, they will need to find a large, long-term revenue source.

They have three options to choose from. The first is a carbon tax. This tax has significant merits, but House and Senate Republicans voted on a non-binding resolution opposing the idea less than a year ago. The second is a value-added tax (VAT). Ryan and Brady have gone to great lengths to emphasize that the tax they propose is not a VAT. It's no secret why they have. Several recent Republican Party platforms have explicitly rejected a VAT. When, in 2010, the Obama administration's fiscal reform commission considered a VAT, 154 House Republicans signed a letter opposing the idea. The third option, Ryan and Brady argue, is the border adjustment feature of their plan.

The White House has not committed to any of these three revenue sources. "As of now," a spokesperson explained in April, "neither a carbon tax nor a VAT are under consideration." Nor does the White House plan mention border adjustment. Without new revenue, the plan's business tax reform would cause a slow-motion fiscal disaster.

The Better Way plan does include a significant revenue source. Its business tax reform is both more pro-growth and more fiscally responsible than the White House's outline. So the Better Way plan deserves serious consideration.

A BETTER WAY?

The Ryan-Brady plan would replace the existing 35 percent corporate income tax with a 20 percent tax on business cash flows. With two main exceptions, the new cash-flow tax would be true to its name: businesses would subtract their cash payments from cash receipts and pay tax on the remainder. The first exception would make things even simpler: businesses would ignore all interest, dividends, and capital gains.

The second exception would make the United States more business friendly. This is the so-called border adjustment, which would prevent businesses from deducting payments for imports but would exempt from taxation export receipts. Under a border-adjusted cash-flow tax, a firm's tax liability would depend on where customers bought its goods and services, not on where the firm produced them. If a company wanted to sell to U.S. consumers, it would have to pay the new tax no matter where its headquarters, workers, or profits happened to be. So businesses would have no reason to move abroad in search of lower rates.

The new tax would have a lot in common with the most widespread consumption tax in the world: the VAT. A VAT also taxes all business cash receipts and grants relief for cash payments. Most countries also make their VATs border adjusted, taxing imports and exempting exports. The major difference between the tax in the Ryan-Brady plan and a VAT is that the former allows businesses to deduct wages whereas the latter does not. This difference makes the new tax less regressive than a VAT, but it does not change their essential similarity.

If it sounds strange to say that a tax paid by businesses would be a tax on consumption, think of a sales tax. The government receives sales tax proceeds from businesses, not consumers. Yet a sales tax is clearly a tax on consumption. It is based on the total value of goods and services a person consumes each year. The same is true of a VAT and the proposed cash-flow tax.

STICKER SHOCK

The plan's raison d'être is to stimulate the U.S. economy. Businesses prefer to write off the cost of their capital investments as fast as they can. Today, they must deduct these costs gradually over multiple years; the Better Way plan would allow them to do so in the same year they made the investment. This change would encourage companies to buy more machines, build more factories, and hire more workers. And thanks to the border adjustment, businesses would want to make their investments and hire their workers in the United States rather than overseas.

The blueprint that Ryan and Brady released in June 2016 predicts that abolishing the corporate income tax would allow the United States to "leapfrog many of its trading partners" in competing for business. Of course, the United States would also add a new cash-flow tax on consumption. But more than 160 countries levy similar VATs, so the United States would simply be joining the club.

Unfortunately, this bright picture ignores several large dark spots. To start, the plan's effect on economic growth is uncertain. So far, two think tanks have evaluated it and come to different conclusions. The Tax Foundation decided that the plan would lead to significant economic growth. The Tax Policy Center concluded that the plan would have a much smaller effect. None of the government agencies that produce official estimates of the economic impact of proposed tax reforms has yet weighed in. But the Tax Policy Center's model is similar to those used by the government agencies. So it is reasonable to conclude that although the plan would probably increase U.S. GDP and employment, the improvements would likely be moderate at best.

At the same time, the two think tanks agree that cutting the corporate tax rate from 35 percent to 20 percent and replacing the tax on corporate income with a cash-flow tax would result in the loss of trillions of dollars in revenue in the next ten years alone.

The plan's proponents say that this is where the border adjustment would come to the rescue. Recall that this provision taxes imports and exempts exports. The two think tanks estimate that because the United States has a large trade deficit, a 20 percent tax on net imports would raise about $1.2 trillion over the next ten years. That revenue, plus the strong economic growth that Ryan, Brady, and the Tax Foundation optimistically project, would cover the shortfall.

This $1.2 trillion in border adjustment revenue is unlikely to materialize, however. Both the Tax Foundation and the Tax Policy Center ignored the fact that businesses would find ways to avoid paying a significant proportion of the new taxes. The plan's proponents emphasize that the existing methods of shifting profits abroad to avoid taxation would make no sense if the plan were enacted. They're right. But although the old tax planning would cease, new planning would proliferate. In fact, the new system would strengthen the incentives to game the tax rules. Right now, if Google shifts a $10 profit on a $100 sale to a foreign subsidiary, the U.S. parent company reduces its U.S. taxable income by $10. Under the Better Way plan, if Google figured out how to make its $100 domestic sale count as an export, it would reduce its U.S. taxable receipts by the entire $100.

The plan's supporters point out, correctly, that similar incentives exist today under all border-adjusted VATs. What they miss, however, is that those VATs exist alongside corporate income taxes, which makes gaming the system more difficult. Because the Better Way plan is unique in abandoning the corporate income tax altogether, it would give rise to entirely new tax-avoidance opportunities.

Creative minds are already hard at work finding the loopholes. If Congress passed the Ryan-Brady plan, companies would figure out how to convert nondeductible payments for imports into deductible domestic expenses and taxable domestic sales into tax-exempt exports. All these strategies would reduce the government's tax haul. The economist Brad Setser has estimated that corporate profits currently shifted offshore to avoid taxes account for as much as 40 percent of the U.S. trade deficit, or about $200 billion. If companies were even half as successful at avoiding taxes under the new regime, some of the $1.2 trillion in border adjustment revenue would not materialize.

THE DOLLAR PROBLEM

Another reason to doubt the $1.2 trillion number is the likely effect of the border adjustment on the value of the U.S. dollar. The Better Way plan would cause the dollar to rise, although it is not clear how fast or by how much.

If the new tax is border adjusted, businesses will not be able to deduct payments for imports as they currently do. So currency markets would expect importers, such as Walmart, to raise prices to pay the extra tax, causing consumers to buy less and Walmart to import less. Fewer imports would mean fewer dollars would be sent abroad. At the same time, exports would become tax free. So markets would expect exporters, such as GE, to cut prices given the benefit of their new U.S. tax savings and to sell more abroad. To pay for those exports, foreigners would need to buy more dollars. These trends would cut the supply of dollars overseas while raising the demand for them. As a result, the dollar would strengthen.

If the dollar rose by precisely 25 percent, the border adjustment would create neither an import tariff nor an export subsidy, even though it would seem to do both. U.S. importers and exporters would see no change in their profits, and U.S. consumers would see no difference in prices. This is the plan's intended result. According to economists backing the plan, the border adjustment is aimed at attracting businesses to the United States, not at creating trade barriers.

To illustrate the point, imagine that the dollar and the euro were at parity and Congress implemented the cash-flow tax without the border adjustment, so companies could deduct payments for imports just as they can today. Say Walmart bought a ten euro shirt from Greece for $10 and sold it in the United States for $11. The net cash flow would be $1, a 20 percent tax on that cash flow would be $0.20, and Walmart would be left with $0.80. Now imagine that Congress enacted the border adjustment, making payments for imports nondeductible. If the dollar rose by 25 percent, one euro would be worth only $0.80 (and $1 would be worth 1.25 euros). Now, Walmart would spend $8 (rather than $10) to buy the same ten euro shirt and sell it in the United States for $11, as before. Walmart would owe a 20 percent tax on the entire $11, not just its net cash flow. Nevertheless, as before, this would leave Walmart with $0.80 in cash ($11 from the sale minus $8 for the shirt and $2.20 in tax). Walmart would now pay $2 more in taxes but would spend $2 less on buying the shirt from Greece, given the stronger dollar. The same logic would hold for exporters: the stronger dollar would force businesses to lower the prices of their exports, offsetting the savings from the lack of a tax.

It is unlikely, however, that the dollar would appreciate by as much as 25 percent. Such a jump would make the world's reserve currency more expensive than it has been in decades. This would spell trouble for many foreign borrowers. Foreign governments, banks, businesses, and individuals with dollar-denominated debts must buy dollars in order to make principal and interest payments. In 2015, emerging-market economies owed almost $4 trillion in dollar-denominated liabilities, according to the Bank for International Settlements. In Mexico, Russia, and Turkey, dollar-denominated debts, excluding those owed by banks, amounted to between a fifth and a quarter of each country's GDP. A large rise in the value of the dollar would do serious damage to these borrowers and others like them. The result would be credit downgrades, defaults, and all sorts of fiscal pain. Foreign central banks and governments would almost certainly step in to support their currencies and resist the rise in the dollar.

Moreover, about 20–30 percent of U.S. imports are priced in dollars. Those prices may take time to adjust, especially in the long-term contracts that are common in global supply chains. The existing evidence measuring the effects of changes in VAT rates on other countries' currencies is scant and inconclusive. For all these reasons, many experts, especially those outside of academia, believe that the plan would cause the dollar to appreciate significantly, but by less than 25 percent.

If this partial adjustment took place, then in the example above, Walmart would pay more in extra tax than it would gain from a stronger dollar, causing the company to raise prices for U.S. consumers. The picture would be reversed for exporters, such as GE, which would save more from the tax exemption for exports than they would lose from charging lower prices to foreign buyers. So it is not surprising that GE is pushing the plan hard, whereas Walmart, U.S. automakers, and other importers are fighting it tooth and nail. These companies recognize that a partial dollar adjustment would create an import tariff and an export subsidy.

The plan's likely protectionist effects have already put other countries on high alert. In March, *Der Spiegel* reported that German Chancellor Angela Merkel intended to discuss the "protective tariff" resulting from the plan with Trump. That was only the beginning of the international opposition. The border-adjusted tax in the plan would almost certainly violate the rules of the World Trade Organization. European countries are already preparing their WTO case against the United States, and they might retaliate with their own tariffs even before the WTO reached a decision. The trade expert Chad Brown has estimated that if the United States lost at the WTO, it would face trade sanctions as high as $385 billion a year.

This potential disruption in trade throws yet more doubt on the projected $1.2 trillion in border adjustment revenue. That estimate assumes that the United States would continue to run large trade deficits, something the plan's protectionist effects make less likely. So not only would the border adjustment create winners and losers and lead to trade disputes; it would also fail to generate the revenue that Ryan and Brady are relying on to defend their plan's fiscal responsibility.

CUI BONO?

The Better Way plan would also affect how wealth is distributed around the world and within the United States. For starters, the plan would significantly reduce American wealth. Again, the stronger dollar would be to blame. A foreigner holding U.S. dollars or dollar-denominated assets would receive a windfall from a dramatic rise in the value of the dollar. But a strong dollar would hurt Americans with investments denominated in other currencies, since these investments would lose value in proportion to the rise in the dollar. The economist Alan Viard has estimated that the gains to foreign asset-holders and losses to Americans would run into the trillions of dollars.

Things are less clear on the domestic front. The plan would repeal the existing corporate income tax, but it is unclear who exactly would benefit. "Corporations" is not a legitimate answer: these are legal entities, which cannot feel joy, suffer pain, or benefit from anything, tax cuts included. Most economists agree that the burden of a corporate tax is split between workers and owners of capital, but they do not agree on how much falls on each group. Estimates of the workers' share range from 20 to 70 percent. If the corporate income tax falls largely on workers, then abolishing it would benefit them. If it does not, they might gain little.

The effects of the cash-flow tax are not obvious either. Economists believe that the wage deduction would encourage businesses to pay their workers more. If it did, then the burden of the new cash-flow tax would fall more heavily on the rich than a VAT would. Yet economists simply do not know how wages would adjust. For all these reasons, even the plan's strongest supporters are cautious in predicting how it would change the distribution of income among Americans.

The list of problems that the Better Way plan would create is daunting, but its most immediate cost would be pervasive uncertainty. If the plan became law, retail prices would rise, but no one knows by how much. The Federal Reserve might try to curb the resulting inflation by hiking interest rates or do nothing. The plan would strengthen the dollar, but it is unclear how fast and how high the dollar would rise. Foreign governments and central banks would respond, but no one knows when or how. U.S. trading partners would bring a case against the United States at the WTO, but the organization can take years to decide such disputes. If the WTO imposed sanctions, the United States might pay them, change the tax, or withdraw from the WTO, perhaps setting off a trade or currency war.

On the domestic front, retailers would challenge the new tax in court. They have a plausible argument that the cash-flow tax would violate the U.S. Constitution. Such disputes would also take time to settle. Finally, Congress might reverse course. It would be easy to go back to the current corporate tax if the political winds shifted again. No one can say what effect all this uncertainty would have on the U.S. or the global economy. But these questions should concern even the bravest reformers.

FIX IT, DON'T NIX IT

Ryan and Brady are right that the U.S. tax system badly needs change. The United States has the highest statutory corporate tax rate in the developed world. Congress should cut it. But lowering the corporate rate to 15 or 20 percent—below the rate in many other rich countries—would cost about $2 trillion in revenue over the next ten years. So Congress should make up this revenue elsewhere. It is time for the United States to join the rest of the world and enact a VAT.

Republicans have opposed a VAT for decades. They resist new taxes, and they worry that because taxpayers would notice a VAT increase less than they would an income tax hike, Democrats would raise the VAT rate again and again. Democrats are also reluctant to embrace a VAT, because it would fall more heavily on lower-income people. These are real concerns.

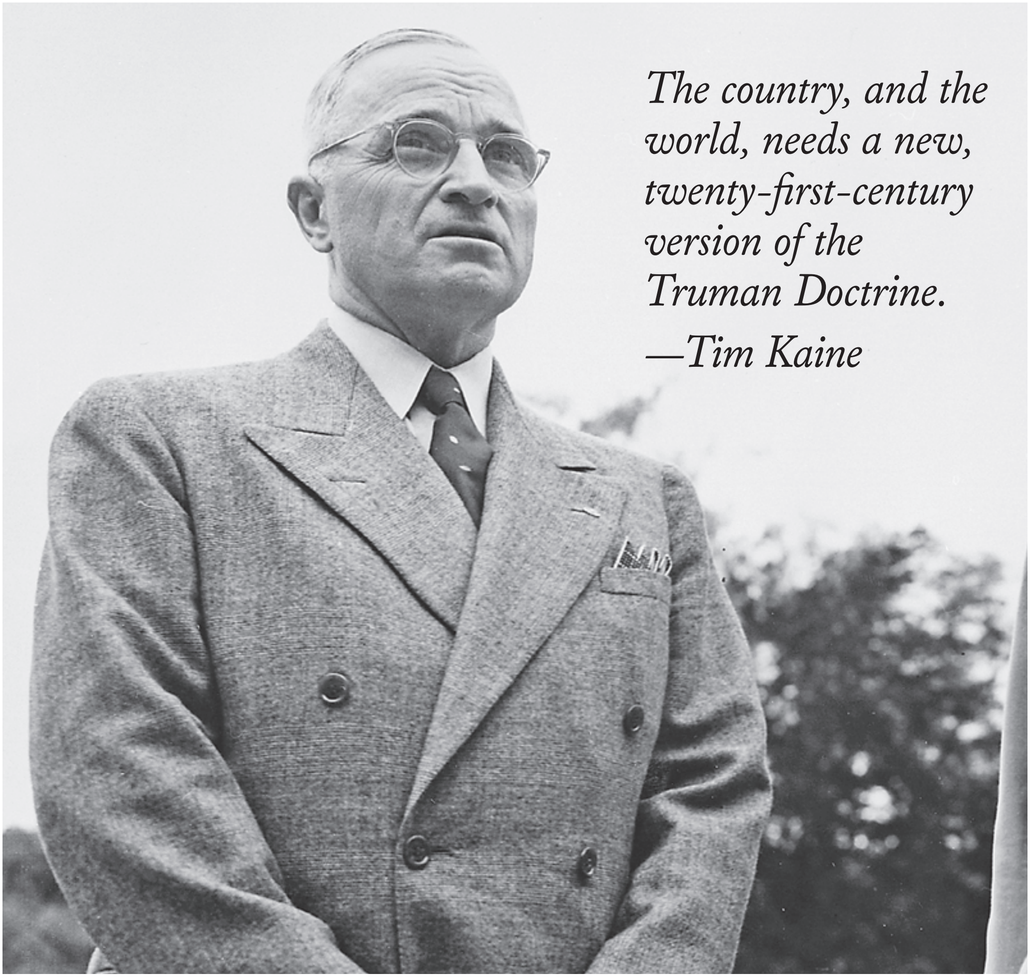
The Better Way plan, however, points toward a solution. In essence, the plan proposes a VAT with a wage deduction. Congress could achieve the same result by enacting a typical border-adjusted VAT while providing a direct tax credit to wage earners. This seemingly minor change would avoid many of the problems that the Better Way plan would cause.

A VAT would comply with all U.S. international trade and tax obligations. If Congress granted a tax credit only to lower-income, rather than all, workers, that credit plus a VAT would be more progressive than the Ryan-Brady cash-flow tax. This might appease Democrats concerned that the other part of the reform—a corporate tax rate cut—would benefit primarily the wealthy. Moreover, a VAT with a credit for only lower-income wage earners would generate more revenue than Ryan and Brady's proposed tax. This extra revenue, in addition to the revenue from a 15 or 20 percent corporate income tax, would allow Congress to impose a VAT at a rate significantly lower than the 20 percent proposed in the Better Way plan. This would mitigate the negative effects of a rising dollar.

Granted, the new VAT would be yet another tax. But perhaps Republicans would accept it as the price of cutting the corporate tax rate by roughly half while keeping their commitment to fiscal responsibility.

These ideas are not new. Several politicians, including Democratic Senator Ben Cardin of Maryland, have already turned similar suggestions into legislative proposals. These are the proposals on which policymakers should focus. Congress should improve, not abandon, the current system. In tax policy—as in life more generally—it rarely makes sense to reinvent the wheel.

ESSAYS



The country, and the world, needs a new, twenty-first-century version of the Truman Doctrine.
—Tim Kaine

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A New Truman Doctrine

Grand Strategy in a Hyperconnected World

Tim Kaine

Donald Trump's victory in the 2016 U.S. presidential election has prompted a major reassessment of the United States' global role—the most fundamental rethinking since the immediate aftermath of World War II.

I am not a neutral or independent observer. I was Hillary Clinton's running mate last fall. We won the popular vote handily but lost where it counts: in the Electoral College. Following the election, I returned to the U.S. Senate, which is now engaged in a task that would have seemed surreal a few years ago: the review of successful efforts by the Russian government to interfere in an American presidential election. Many questions remain to be answered—and answered they will be.

But the election is over, and Trump is in place. Much effort is now being expended to figure out his administration's priorities, yet it is already clear that Trump's election will continue at least one trend that has been under way since the collapse of the Soviet Union. For some 40 years following World War II, the United States had a fairly coherent foreign policy, which both parties supported. That policy—the Truman Doctrine—saw the world as a bipolar competition between the Soviet bloc and the U.S.-led bloc. When the Soviet Union collapsed in 1991, however, the Truman Doctrine lost its viability. Although fragments of the strategy still shape U.S. thinking, no administration has come up with a comprehensive plan to replace it.

Trump's views on trade and the importance of international institutions are very different from those of Presidents Barack Obama, George W. Bush, and Bill Clinton. Trump will prioritize immediate economic gains over security and human rights. But like his immediate predecessors, Trump will probably also make foreign policy in an

TIM KAINE is the junior U.S. Senator from Virginia.

executive-driven, reactive way, without a clear or lasting strategic vision that he shares with Congress or the American people. Such an approach has some advantages: in theory, it's a good way to avoid blunders and unnecessary adventures. But its risks are even greater. The country, and the world, needs a new, twenty-first-century version of the Truman Doctrine: a sustained U.S. national security strategy that is proactive rather than reactive and sets a course for this administration and those that follow it. At a time when countries such as Russia are attempting to subvert other nations' democratic institutions, the world needs a reinvigorated campaign to peacefully and forcefully promote the virtues of democracy over authoritarianism or extremism. The United States is best suited to lead that campaign, and failure to do so will hurt both the United States and people around the world.

OPLANS BUT NO STRATEGY

As a member of the Senate Armed Services Committee, I benefit from constant dialogue with U.S. military leaders. Early in 2016, I was struck by something one of our most senior uniformed officers told me. "We have OPLANS [operational plans] but no strategy," he said. He was right, and his complaint laid bare a key problem the United States faces today. While operational plans are important—and the U.S. military creates them for virtually every contingency—the country lacks an overall framework for looking at and leading in today's complicated world.

This thought occurred to me often during my 100-plus days on the campaign trail last year. There was so much discussion of national security topics, including the Islamic State (also known as ISIS), the Zika virus, terrorism, China, Russia, North Korea, the Middle East, and cyberthreats. Debates over the value of immigration, trade, diplomacy—including our advances with Cuba and Iran—and institutions such as NATO and the United Nations dominated much of the election. Yet each issue was treated as a one-off, briefly discussed without much context or connection. Beyond platitudes such as "America first," little attention was paid to overall strategy.

Although that problem is common during campaigns, it's not the way the United States and its allies have always done things. Seventy years ago, in three famous speeches, leaders of the free world laid out a markedly different approach.

The first of these speeches was delivered by Winston Churchill in March 1946. At U.S. President Harry Truman's request, the former (and future) British prime minister delivered a talk at Westminster College in Fulton, Missouri. Churchill used his address to flatter the United States as standing "at the pinnacle of world power" but urged the country to match its primacy with "an awe-inspiring accountability to the future." Warning Americans about the rise of a militant Soviet bloc—lying behind the "Iron Curtain" he was the first to describe—Churchill called for the creation of an "overall strategic concept" to shape the U.S. and allied response. The core of this mission, Churchill argued, should be an effort to shield the world from war and tyranny.

One year later, Truman sought to put these principles into practice. With the governments of Greece and Turkey facing threats from Soviet-backed extremists, Truman went to Congress in March 1947. The United States was war-weary and, in the 1946 midterm elections, had repudiated Truman and his party by handing Republicans control of both houses of Congress. But Truman didn't shrink from the task. In his speech, he highlighted the dangers facing Athens and Ankara and pointed out that no other country had the means to help them. And the cause was urgent. As Truman declared, "It must be the policy of the United States to support free peoples who are resisting attempted subjugation by armed minorities or outside pressures. I believe that we must assist free peoples to work out their own destinies in their own way."

The United States should strive to reestablish its position as the world's exemplary democracy.

A few months later, in June 1947, U.S. Secretary of State George Marshall gave the third key speech, in which he sought to give shape to the emerging policy. In a commencement address at Harvard University, Marshall, who had led U.S. forces during World War II, proposed that the United States assist in the rebuilding of war-torn Europe. The plan—which Truman shrewdly recognized would be more likely to win Congress' favor if it was named after a war hero—was designed to use economic aid to promote stability and reduce Soviet influence in Europe and, later, Japan. Congress agreed, and the United States soon began providing aid to Greece and Turkey, and then to many of their neighbors, too.

Kaine at a rally in Sterling, Virginia, November 2012

KEVIN LAMARQUE / REUTERS

And so a grand strategy was born. For the next four decades, the United States would be openly interventionist. It would strive to reduce the threat of war, check Soviet communism, and promote freedom—as defined by Western ideals of democracy. Washington would use international institutions as a first resort. But as the world's democratic superpower, the United States would act unilaterally when necessary.

The fact that the Truman Doctrine lasted as long as it did does not mean that it was perfect. Without it, the United States might have avoided taking over France's colonial fight in Southeast Asia—a fight that became the Vietnam War. It might not have intervened to help topple the democratically elected governments of Iran, Guatemala, Congo, and Chile. It might not have attempted to invade Cuba during the first months of the Kennedy administration. Too often, in attempting to thwart real or perceived Soviet influence, the United States threw its weight behind authoritarian regimes—thus turning a doctrine meant to promote its best values into one focused on checking its adversary. And as President Dwight Eisenhower famously observed, the doctrine also led to an overemphasis on militaristic solutions, thereby robbing the Treasury of dollars that might have been better spent on domestic priorities.

Yet for all of the doctrine's flaws, at least the United States had a strategy during these years—one that shaped its military posture, its budget, its diplomacy, its humanitarian aid, its engagement with international institutions, and even many of its great domestic social programs. And by its own terms, that doctrine succeeded: the United States dominated the second half of the twentieth century, and the Soviet Union, unable to compete, eventually collapsed. When it did, however, Washington suddenly found itself without an organizing principle to animate its foreign policy—and so it reverted to the pragmatic, case-by-case approach the country had pursued prior to World War II.

Now, there is something to be said for careful pragmatism in international relations. The George H. W. Bush administration, for example, demonstrated the virtues of this approach in 1990–91, when it pushed Iraq out of Kuwait but then refrained from toppling Saddam Hussein. Nondoctrinal pragmatism also suits the American psyche. Americans are a practical and concrete people: we tend to be suspicious of theory and favor commonsense approaches to problem solving.

But there are also downsides to a case-by-case approach. It is too often reactive. It doesn't give allies, adversaries, or the U.S. public any way to predict what the U.S. government will do. And it can lead to incoherence. During the 1990s, for example, the United States intervened to stop genocide in the Balkans but refused to do the same in Rwanda. Today many people assume that that difference was based on a judgment that African lives mattered less than European ones. That is a haunting thought.

After al Qaeda attacked the United States on September 11, 2001, the George W. Bush administration tried to define a new American mission: "the global war on terror." In the years since, that mission has led the country into a number of military conflicts: in Afghanistan, Iraq, the tribal areas of Pakistan, Syria, North Africa, the Horn of Africa, and the Arabian Peninsula.

Although terrorism remains a central—perhaps the central—security challenge of our era, the idea that this problem could define U.S. foreign policy had collapsed by the end of Bush's second term. Collective embarrassment over an Iraq war sold on the basis of a nonexistent nuclear threat was part of the problem. But on a deeper level, the military struggle against shadowy nonstate actors was simply inadequate to fully describe or determine the many ways in which the United States interacted with the world.

By the beginning of the Obama administration, the United States had once again entered a murky and nondoctrinal phase in its international relations. Since 2008, the country has struggled to answer its hardest foreign policy questions—Should it stay in Iraq or Afghanistan? Intervene in Libya or Syria? Pivot to Asia? Respond to Russia's invasion of Ukraine? Negotiate new treaties and trade deals?—without a clearly articulated doctrine to help it. As the United States continues to wrestle with these and deeper questions, other nations have had a hard time anticipating what it will do and how it will deal with new crises. The recent presidential election only heightened those concerns.

It seems unlikely that the Trump administration will articulate a clear strategy of its own.

I strongly supported Obama and generally agreed with his foreign actions. By reviving the hunt for Osama bin Laden, he managed to eliminate the architect of the 9/11 attacks. He also reinvigorated U.S. diplomacy by normalizing relations with Cuba, pursuing a high-stakes international nuclear deal with Iran, leading the Paris negotiations on curbing greenhouse gas emissions, and helping end the civil war in Colombia. Obama's general inclination to defend the United States unilaterally even while participating in the rules-based order and seeking to promote democratic values through multilateral coalitions was sound.

But Obama's suspicion of grand strategy proved problematic. He once said that his national security strategy was "don't do stupid stuff" (although he used stronger language), and that quip revealed a lot about his pragmatic and nonideological inclination. His desire to avoid doing stupid stuff may have helped the country avoid some bad decisions. But sometimes not doing stupid stuff became an excuse for not doing stuff it was stupid not to do. I believe that the Obama administration's unwillingness to forcefully intervene early in the Syrian civil war will come to haunt the United States in the future, much as the Clinton administration's failure to help avert the horror in Rwanda haunts the United States today. And the lack of a clear strategy led to a lackadaisical response to Russia's cyberattacks and its unprecedented interference in the 2016 election.

At this point, it seems unlikely that the Trump administration will articulate a clear strategy of its own. Trump touts the virtues of unpredictability. His promises to put "America first" recall the country's isolationist bent in the years preceding World War II. And the deep ideological divisions among his military, national security, and diplomatic advisers make it likely that his administration will continue to deal with challenges on a case-by-case basis.

This approach—OPLANs but no strategy—may help the country avoid doing stupid stuff. But should Washington pursue it, it will miss clear leadership opportunities and produce a lot of confusion abroad at a time when the world still looks to the United States for leadership.

THE TRIPOLAR WORLD

So how should the United States do things? Simply calling for the creation of a new grand strategy is easy. The problem is that the modern world is significantly different from the world Churchill, Truman, and Marshall confronted. Given how hyperdiffuse and hyperconnected power has become, it's worth asking whether it's even possible to conceive of a comprehensive national security strategy today.

I think it is. Before getting into the details, however, I must make one other basic point. The Truman Doctrine was created by a Democratic president who was able to convince a Republican Congress to embrace it. For a new national security strategy to succeed, it, too, will need bipartisan support—since Congress, among its other prerogatives, retains the exclusive power to declare war. That said, the strategy itself must once again come from the president, to whom the Constitution gives significant power to formulate and execute foreign policy. Individual senators and representatives can help inform the process, as can think tanks, academics, military leaders, diplomats, foreign allies, journalists, and citizens. But today's Congress—which has been reluctant to vote on the war against ISIS, to ratify important treaties, and to confirm ambassadors and other key diplomats (at least under Obama), and which views trade deals and globally focused institutions such as the Export-Import Bank with suspicion—is generally uninterested in acting to support U.S. global leadership. Most other nations, furthermore, are used to strong executives and expect the same from the U.S. president. So no lasting strategy will ever catch hold absent a clear articulation by the commander in chief.

In trying to define a new grand strategy, a president should start with the same question that Churchill, Truman, and Marshall asked themselves in the late 1940s: What is the current arrangement of power around the globe? Things are much more complicated today than they were during the Cold War, when the world was dominated by the competition between a U.S.-led democratic capitalist bloc and the Soviet-dominated socialist bloc. Wealth has become far more diffuse, and there is more parity among nations. At the close of World War II, the United States enjoyed both economic and military dominance. These days, although the United States stills boasts overall primacy, it faces far more constraints, such as high debt levels, which have created a powerful push to reduce spending on international aid, diplomacy, and the military. Such constraints narrow the United States' qualitative edge and limit its choices—if not always the rhetoric coming out of Washington.

A second change from Truman's day is the increase in interconnectedness. Today, travel, communication, information sharing, technology, immigration, and commerce draw nations together far more closely than ever before. And the post–World War II system of international norms, rules, and institutions—a system the United States played a major role in building—draws countries closer together still. This interconnectedness is generally a positive thing, but not entirely so. The tighter ties linking markets means that national financial problems, such as the Greek debt crisis, can have a much bigger impact on other countries—including the United States—than they would have had a few decades ago. Immigration brings valuable flows of talent to the United States but also raises concerns about security. More trade means more export-related jobs, but it also means fewer jobs in sectors where other nations' lower costs give them an advantage.

A third key difference between Truman's era and our own is the tremendous increase in the power of nonstate actors—from terrorist groups to criminal syndicates to international nongovernmental organizations to transnational businesses. Many of these forces are benign, even beneficial. But the ability of nonstate actors to use violence and evade laws and accountability is both pernicious and destabilizing. The rise of these nonstate actors is undercutting the Westphalian consensus, which dates back to the mid-1600s and was based on the assumption that power, especially military power, was to be exercised by nation-states—and only nation-states—and within generally accepted boundaries. Today's world is not bipolar, as it was during Truman's day. It's tripolar: power is now exercised by democratic states, authoritarian states, and nonstate actors. A contemporary U.S. security doctrine must operate in that framework and offer a guide for action that treats each group distinctly.

Let's start with democracies, which now come in many different shapes and styles and exist all over the planet. U.S. policymakers tend to spend most of their time focusing on trouble spots, and not worrying much about democracies, which they assume can take care of themselves. But such complacency is problematic. Democracies throughout the West are currently struggling with anti-Semitism and other forms of ugly sectarianism. Europe's democracies have suffered an energy-sapping fiscal crisis, which the United Kingdom's exit from the EU will make even more complicated. Countries aspiring to greater democracy, such as Ukraine, are now threatened by authoritarian neighbors, and others, such as Tunisia, are under assault by terrorist groups. Finally, democracies everywhere are grappling with fundamental questions regarding immigration and national identity, which often involve tough decisions about how to balance security with individual liberty. All these tensions risk making democracies more authoritarian, as their anxious leaders curtail individual freedoms in their desperate attempts to hold things together.

Democracies everywhere are grappling with fundamental questions regarding immigration and national identity.

Any new U.S. national security strategy should therefore start by looking for cooperative, not coercive, ways to shore up the world's existing democracies. The United States can do this best by making the best use of its own example and showing how its democratic institutions promote prosperity, peace, and happiness. The better the United States does, the more its example will inspire other democracies to keep improving.

Authoritarian states represent today's second major global power base. Like modern democracies, contemporary authoritarian states differ substantially from one another. And just as some democracies are starting to betray authoritarian tendencies, so some authoritarian nations have begun to democratize in certain spheres—by increasing participation in local governments, for example, as Vietnam has done.

The United States should skillfully challenge such states in the hopes that they will increase their commitment to democratic values, as well as their commitment to peaceful relations with other nations and their integration into global institutions. Challenging authoritarian nations requires different tactics depending on the issue. Sometimes the United States should cooperate, sometimes compete, and sometimes confront. The United States' current relationships with China and Russia show how complex these interactions must be. Washington cooperates with Beijing and Moscow in many areas, from trade to climate change. That's as it should be. Engagement deepens U.S. understanding of these regimes. It doesn't guarantee success, but refusing to engage usually guarantees failure.

Of course, sometimes cooperation with nations such as China and Russia isn't the right approach. So the United States also competes with them—by forming military and trade alliances with their nervous neighbors, for example. And at other times, Washington must confront Beijing and Moscow: over human rights, for example, or China's construction of islands in the South China Sea, or Russia's aggressive behavior in eastern Ukraine and elsewhere.

The final type of power the United States faces today is the nonstate actor. Many such entities—companies and nongovernmental organizations, for example—help build bridges between nations and individuals. Such organizations should be supported. Those that use violence to achieve their ends, however, must be fought and defeated. This fight is the key area in which the United States has cooperated, and should continue to cooperate, with authoritarian states. All countries that agree that military force should be exercised only by nation-states—or international coalitions of nation-states—and not by nonstate organizations must work together to defeat violent extremists. Trump is therefore right when he argues that the United States should work with Russia to defeat groups such as ISIS. While there are many reasons to be skeptical about Russian intentions in other areas, fighting terrorist organizations has long been a key Russian priority, and there is no reason not to work together toward that end.

Terrorists aren't the only nonstate actors who use their peculiar status to avoid accountability and legal restrictions. Speaking about

ExxonMobil, Lee Raymond, then the company's CEO, once famously said, "I'm not a U.S. company, and I don't make decisions based on what's good for the U.S." On one level, corporations seeking to avoid paying taxes seem quite different from transnational drug cartels. But both types of groups now take advantage of the mobility of capital and people in a roughly similar way. The United States must therefore work with other nations to close the loopholes that allow organizations to amass economic power while evading accountability to any national legal system.

FROM INDISPENSABLE TO EXEMPLARY

As the United States builds a strategy for navigating today's tripolar world, the first step should involve setting aside the idea that it is "the indispensable nation." This concept was largely a statement of fact when Churchill and Truman promoted it in the 1940s. And it was arguably still a statement of fact when then U.S. Secretary of State Madeleine Albright made it the 1990s. But it doesn't accurately describe the United States' place in the world today. Other nations are growing in power. Growth is a positive development, and the United States should find ways to accommodate it in a framework designed to help both American citizens and people around the world.

Too often in the past, the idea of American exceptionalism has slid from justified pride in U.S. accomplishments into a belief that the United States is exempt from the rules that everyone else must follow. When the Soviet Union worked with Cuba to provide military support to rebel groups in the Western Hemisphere from the 1950s through the 1980s, Washington correctly perceived such behavior as a threat—and responded accordingly. Why, then, did Washington fail to anticipate how Russia would see NATO's expansion into former Soviet territory under Clinton and Bush? And why was Washington surprised when China viewed Obama's "pivot" to Asia as a threat and strengthened its own military posture in response?

Washington's fondness for opining about who should or should not lead other nations also often proves counterproductive. In recent years, at various times, the U.S. government publicly stated that Saddam Hussein, Hosni Mubarak, Muammar al-Qaddafi, and Bashar al-Assad had to go, and it went to war twice—once in Iraq, once in Libya—to effect regime change. Trump's missile strike against the Syrian government may or may not be a precursor to another such war. These statements and conflicts make it easy for authoritarian nations to dismiss Washington's just criticism of their policies by arguing that the United States is only interested in overthrowing their governments. The United States should condemn atrocities whenever and wherever they are committed, and use appropriate tools—such as sanctions, UN Security Council resolutions, prosecution by the International Criminal Court, or multilateral military action—to punish breaches of global norms. But a United States justifiably outraged at the efforts of Russian President Vladimir Putin to affect the outcome of the 2016 U.S. presidential election has no right to decide who should lead other countries.

Instead of proclaiming its own indispensability, the United States should strive to reestablish its position as the world's exemplary democracy. Doing so would be the best way to advance the needs of American citizens and make the most persuasive case for the virtues of democracy over authoritarianism or extremism.

Those virtues are not as immediately obvious today as they were in Truman's era. Authoritarian governments such as Russia's are using propaganda and active subversion to make it seem as though democracies cannot govern effectively. And too often, democratic governments provide evidence to support this claim, by failing to stand up for themselves or deal effectively with issues such as immigration and the promotion of human rights.

The good news is that if the United States decides to reinvest in the power of its example, it will have an exemplary foundation to work with. Ever since Thomas Jefferson put equality first on his list of "self-evident" truths in the Declaration of Independence, the country has progressively expanded civic participation. The country witnessed a number of remarkable firsts in just the last decade, including its first minority president, its first Supreme Court justice of Hispanic descent, and its first female presidential candidate nominated by a major party. It extended the right to serve in all positions in the U.S. military to anyone who meets the qualifications, regardless of gender or sexual orientation. It expanded access to health care to tens of millions of people of modest means, and it granted marriage equality to LGBT citizens. Although the harsh rhetoric during the recent election and the election result have threatened to undo some of this progress, history has shown that such pushbacks never erase all the gains made—and often provide new motivation for champions of equality to move society forward. Indeed, the recent uptick in civic activism and peaceful protest shows that this dynamic is already working.

There are so many other areas in which the U.S. example is strong. Chief among them is the American culture of innovation and entrepreneurship, fostered by the rule of law, the protection of intellectual property, strong institutions of higher education, a big supply of immigrant talent, and a willingness to accept failure and allow second chances. As China and India continue to grow, the United States may not remain the world's largest economy forever. But there is no reason why it should stop being the world's most innovative economy.

Of course, being the exemplary democracy also requires a willingness to criticize oneself. The recent election should shake Americans out of their complacency, awakening them to the country's persistent regional and racial gaps in economic success, abysmal record electing women to federal office, and shockingly low voter-turnout rates (even in high-stakes presidential elections)—these all show how much work remains to be done.

Another key way to restore the United States' status as the world's exemplary democracy is by supporting democracies around the globe. Together with its allies, Washington should establish a new global pro-democracy initiative—one that is separate from military alliances such as NATO—that will highlight and advance the virtues and viability of democracy worldwide. Such an effort would look like an expanded Organization for Economic Cooperation and Development or Community of Democracies. It would have a global reach—emphasizing the success of democracies on all continents and not just in North America and Europe. It would focus on sharing best practices for improving the effectiveness of democratic institutions. Democracy today needs a champion. If the United States refuses to play that role, the strength of the democratic model will likely diminish.

LEVERS OF INFLUENCE

The primary goal of the U.S. military is to protect the country. Succeeding in that mission requires both capacity and determination. The U.S. military's capacity—the skill of its troops and the sophistication of its weaponry—remains superb. But the dysfunction in Congress imperils that advantage, not just by making it harder to continue to invest in troops and weapons but also by making the government's investments less predictable. Legislative gimmicks, such as budget sequestration, continuing resolutions, and overseas contingency operations, are all part of the problem, and Congress should abandon them.

Equally problematic is the government's lack of determination. Russia's interference in the 2016 presidential election succeeded only because Moscow was not afraid to try. Washington's failure to articulate a clear deterrence strategy in the realm of cyberspace and its dithering over what to do once it learned that the United States was under attack will go down as low points in the country's national security history. To protect itself in the future, the United States must always send a clear message to those who mean Americans harm: don't mess with us. And Washington must back that message up by always defending the country, the American people, and U.S. institutions with swift, visible, and overwhelming force. Failure to do so emboldens U.S. enemies and undermines American allies' confidence that Washington will come to their aid when needed.

A second major role for the U.S. military—and one that is growing in importance today—is to serve as the security partner of choice for other countries trying to protect themselves. U.S. efforts to help train foreign militaries, through programs both abroad and in the United States, consume a small fraction of the country's overall defense budget. But using U.S. resources to build the defense capacity of other nations, while reinforcing respect for norms such as civilian control of the military and the unacceptability of torture, is one of the best investments the United States can make. The United States may no longer have the resources or the will to be the world's protector, but it is still the best builder of smart military capacity, and it should hold on to that position and focus its efforts on democracies.

Another way the United States has historically amplified its influence is by acting as a rule builder, not an empire builder. The Trump administration now seems intent on abandoning that tradition, even though Americans and everyone else have benefited greatly from the hard work Washington has done to help craft international standards over the last seven decades. While the president has raised some important questions about the United Nations, NATO, and various trade deals, and while such institutions must be reexamined and reinvigorated over time, it would be foolish to abandon them or cede the United States' leadership role. The battle against international threats such as ISIS requires coordination among states. Undermining the international forums designed to promote such coordination would make the United States weaker, not stronger.

As for trade, rapid advances in transportation and communication technologies guarantee that it will accelerate in the years ahead. Most new demand for goods and services will come from outside the United States. The United States wants access to those markets. Why, then, should it not continue to help draft the kind of rules that would guarantee that access? Trump is right that a bad trade deal is worse than no deal. Washington's failure to robustly enforce the rules of existing deals and its inadequate commitment to helping American workers whose lives have been disrupted by globalization and automation have soured the public on international agreements. But the answer to this problem is to craft new and better rules—not abandon trade deals altogether, or let others rewrite them.

There is no reason why the United States should stop being the world's most innovative economy.

Another key role the United States must preserve is that of humanitarian leader. When crises occur around the world—whether a tsunami in the Pacific or an Ebola outbreak in Africa—people turn to the United States for help. That impulse can seem like a burden, but it should also be a tremendous source of pride: it shows that people around the world know that not only does the United States have the capacity to help; it also has the instinct.

This work goes way beyond what the State Department, the Pentagon, the U.S. Agency for International Development, and other government agencies provide. Americans have also helped drive the growth of nongovernmental organizations around the world. And increasing numbers of American corporations have begun to provide humanitarian assistance in order to make a good impression in new markets. Yet Washington's role remains essential. The U.S. government currently spends less than one percent of its annual budget on foreign aid, yet the return on this investment—in terms of security and goodwill—is enormous. Carrying out the administration's intention to slash funding for diplomacy and foreign aid, announced in its 2018 budget blueprint, would therefore be a huge mistake.

Finally, as the United States seeks to define a new grand strategy for the twenty-first century, it needs to correct one long-term trend. Since the country's earliest days, its policymakers have tended to think in East-West terms. We have focused most of our attention on Europe, Japan, the Soviet Union, the Middle East, China, Southeast Asia, and Russia, while neglecting the global South. We have seldom paid enough attention to the Americas, in particular, and when we have—whether through the Monroe Doctrine or by battling communist movements during the Cold War—we have focused more on blocking outsiders from building influence in the Western Hemisphere than we have on the nations already there.

That must change. The United States needs an "all Americas" national security policy that places primacy on North, Central, and South America. It should not be an "Americas only" policy, one that limits the United States' involvement with democracies elsewhere. But the United States should shift its focus. The 35 nations that make up the Americas share significant cultural similarities and boast a combined population of more than one billion. Thanks to the cease-fire that Washington helped broker in Colombia, for the first time in recorded history, there are now no wars being fought in the hemisphere. The region is also home to two of the United States' top three trading partners, Canada and Mexico, and the United States' commercial ties to these and other countries in the Americas will continue to be critical to the U.S. economy. Meanwhile, the move toward the normalization of U.S. relations with Cuba has removed a perennial obstacle to improved relations with other parts of Latin America.

Despite the progress, Americans must remember that the problems still faced by various countries in the region—from poverty to violence to drugs to political instability—can and do directly affect the United States. Historically, the U.S. government has looked south only during crises and then, once the problems have been addressed, quickly shifted its attention back to Europe or Asia. The United States' top diplomats spend little time in the hemisphere, and Washington devotes few resources to the U.S. military's Southern Command. Other countries have noticed this lack of focus and taken advantage of it. As one South American president told me recently, "We prefer dealing with America and American companies because of our close ties—language, culture, history, immigration. But you are largely absent from the region, while China is very present. And so we work more with them."

Increasing U.S. engagement with the Americas would have major upsides. It would help the United States compete with the huge Chinese and Indian economies. Building new bridges through cooperation on commerce, education, defense, and intelligence would increase U.S. security. And such efforts would carry little risk if undertaken respectfully. Many of the problems the United States is currently experiencing in its relations with China and Russia come from their concern over U.S. activities in their backyards. Increasing the United States' focus on the Americas would not raise similar suspicions. Given the budget constraints that have made it difficult to project power globally, moreover, Washington should consider how much more it could do by increasing investment closer to home.

GREATNESS THROUGH GOODNESS

The seeds of the United States' remarkable dominance in the twentieth century were first planted in the late 1860s, when the elimination of slavery and the reunification of the nation after the Civil War allowed the country to start looking outward. By 1890, the U.S. economy had become the world's largest. Under President Theodore Roosevelt, the U.S. military became much more powerful, and under President Woodrow Wilson, the country intervened to end a pointless and destructive world war and thus established itself as the most promising broker of international peace and stability. Barely two decades later, the United States played the decisive role in the defeat of German and Japanese fascism. It then helped construct a postwar architecture of rules, norms, and institutions that has benefited people all over the world. And it led a coalition of nations in successfully resisting the Soviet bloc.

This history helps explain why, despite all the mistakes made and the envy American dominance inspires, so many nations still want the United States to exert global leadership. I hear this regularly when I travel around the world and interact with foreign leaders. They know that, although the United States must always put its own interests first, the country's unique combination of resources and principles makes it the best source of humane solutions to humankind's most pressing problems. This desire for U.S. engagement remains the most important measure of American power.

On August 10, 2010, the USS *John S. McCain*, a guided-missile destroyer, docked in Da Nang harbor, in Vietnam, to commemorate the 15th anniversary of the normalization of relations between Washington and Hanoi. It was a momentous and emotional moment, in which the Vietnamese military command welcomed an American warship named after the father and grandfather of my fellow senator John McCain—a former naval aviator who had been held prisoner in the country for more than five years. The Vietnam War killed some 60,000 Americans and between 1.5 million and three million Vietnamese. Yet now Hanoi wanted an even deeper military and economic partnership with its former adversary, because it knew that this was the best way to improve its citizens' security and quality of life.

Today—in the aftermath of one of the most bitter elections in recent U.S. history—is a good time for Americans to remember that story and remind themselves just how much influence the United States still possesses around the world. The key question the country now faces is what to do with it. It can continue along a reactive path and even reduce its commitments to its allies and the international institutions it helped create. Or it can start articulating a broad new strategy for reengaging with the world as its leading democracy. Americans should recognize their country's unique strengths without indulging in either paranoia or unnecessary self-congratulation. That is what Truman and the U.S. Congress did 70 years ago, at a moment when bipartisan cooperation seemed unlikely. There is no excuse for failing to live up to the challenge today.

RESISTING AUTHORITARIAN POPULISM

Lessons From/ For Singapore

PRESENTED BY THE LEE KUAN YEW SCHOOL OF PUBLIC POLICY

The Donald Trump presidency and Brexit have dominated public discourse this year. Both have been characterised as manifestations of what appears to be a rising tide of right-wing populist politics in many parts of the world.

Six years ago, in 2011, Singapore's ruling People's Action Party (PAP) won the country's general elections, but earned its lowest percentage of the popular vote since coming into power more than half a century ago. Although many viewed these more competitive elections and improved prospects for political opposition as a sign of political liberalization and maturity, a few were quietly concerned that Singapore's paternalistic and technically rational administrative state, credited with the republic's remarkable success and largely insulated from political pressures, would start to succumb to populism, and that the Singapore success story would start to unravel.

This, in fact, has not happened.

In the years leading up to the next general election in 2015, the PAP government carefully studied the situation and adjusted its policies to reassure the voters—including those who were feeling left out of Singapore's economic success story—that their concerns and needs were being taken into account, even as the global city became more and more expensive and crowded to live in. In 2015, Singapore grandly celebrated 50 years of independence and memorialized founding father Lee Kuan Yew's heroic leadership following his death. The PAP was rewarded with a very comfortable majority, securing once again the dominance that is the only system that many Singaporeans have ever known.

Although a young, small, and multi-ethnic nation-state, Singapore is prosperous, peaceful, and surprisingly influential in the global imagination. But its international image has attracted contradictory reactions.

On the one hand, the liberal West criticizes Singapore for not adequately defending human rights, freedom of expression, and freedom of assembly. The West acknowledges that Singapore's elections are free, but argues they are not sufficiently competitive, as they always produce and legitimize the same authoritarian outcome.

But authoritarian Singapore's economic success has been impressive, celebrated in the myth of the "Four Asian Tigers" and in the city-state's own national narrative of developing rapidly from third world to first. Singapore's success has been explained, and its authoritarian methods justified, by constructing an ideology first of Confucian values and later of Asian values. These have been held up as a shield against an occidentalized image of Western insensitivity, ignorance, hypocrisy, and arrogance. Singapore's material success, and ideological expressions of this success, have had the effect of weakening the legitimacy and force of liberal criticisms.

On the other hand, there has also been widespread admiration for the Singapore model of development and governance. Developing countries have looked to Singapore not only for a model of rapid growth and development, but also for viable alternatives to liberal democratic trajectories.

Advanced countries of the West have looked favourably upon the seriousness with which Singapore takes governance and policy making. They admire the pragmatism of a technocratic government that has managed to escape the paralysis of ideological and political deadlock, and to enjoy the luxury of focusing on performance and results, upon which its legitimacy and popular support are staked. Singapore is also viewed as a policy laboratory, especially relevant at the scale of cities, where ideas can be tested and, if successful, adapted elsewhere.

History presents numerous examples of fragility where liberal democracies are concerned. Political philosophy tells us that diversity—and nearly every society today is diverse—can

About the author
Kenneth Paul Tan is Vice Dean for Academic Affairs and an Associate Professor at the National University of Singapore's Lee Kuan Yew School of Public Policy. His recent book is Governing Global-City Singapore: Legacies and Futures After Lee Kuan Yew (Routledge, 2017)

weaken the communitarian basis of a society, making it difficult for the state to function well and eroding the trust that binds people to one another and to their institutions. Without a strong institutional basis, the nation-state can become vulnerable to authoritarian populism, particularly when hit by crisis. Out of a demoralized society, moral and political entrepreneurs, often skilful demagogues, emerge and compete for power by mobilizing a collective sense of victimhood directed against an allegedly corrupt establishment as well as scapegoats such as immigrants, ethnic minorities, and sexual minorities, upon whom the entire blame for all of society's ills are placed.

To prevent this, liberal democracies need to focus not only on aggregating the votes and voices of their citizens; just as much, they need to strengthen state institutions and build resources, capacity, and shared narratives to protect an inclusive and vibrant public space in which diversity helps to shape public moralities, rather than allow a singular public morality to restrict and even eliminate diversity. Liberal democracies need to do a better job of producing and implementing coherent and effective policies that are not harmfully constrained by the limits of electoral cycles. How can all of this be achieved?

Singapore's strong state may provide some answers. Its rigorously meritocratic institutions attract the most talented Singaporeans into public service, forming an unashamedly elite government that is able to implement policies, even unpopular ones, that it deems to be in the long-term public interest. High quality education, which has been consistently lauded in international benchmarking tests, is available to all and has helped to build a broadly reasonable citizenry. To attract the best people for public service and keep it clean, Singapore pays some of the highest public service salaries in the world. The incentive structure and harsh punishment have made corruption not only a risky but also an irrational choice. Integrity is more than just an organizational slogan. It is deeply suffused in the culture.

Singapore's clean and meritocratic government is also a pragmatic one. Policymaking is mostly grounded in evidence, research, analysis, and the projection of future scenarios. Refusing to be shackled by ideological, moralistic, and sentimental rigidities when it matters, the government's focus has been on performance and results. Formal international validation of Singapore's success together with the day-to-day experience of ordinary Singaporeans, who have seen their country transform into a global city of the first rank, have given the state good reasons to earn performance legitimacy. Despite their specific grievances and mild resentment of Singapore's often-arrogant establishment, the people of Singapore on the whole trust their government highly, as surveys regularly indicate.

For liberal democracies to thrive and not collapse under the weight of their unavoidable diversity, they could benefit from instituting a strong, meritocratic, clean, and pragmatic state to ensure peace, stability, effective policies, a well-educated citizenry, and generalized trust. These can help to regenerate civic life and fortify it against the threat of authoritarian populism.

Although Singapore may offer some lessons to strengthen liberal democracies, Singapore itself can afford to learn many lessons from healthy liberal democracies to prevent its own institutions from degenerating and to keep them dynamic. Without a healthy dose of political competition, for instance, there is nothing stopping Singapore's meritocracy from degenerating into vulgar elitism, producing a self-serving establishment consisting of individuals who are self-congratulatory, unrepresentative, unresponsive, complacent, and lacking in imagination and courage. Such an elite will devote much of their energies to keeping themselves in power or defining merit exclusively in their own image. Armed with expertise, leaders can appear like cold technocrats, arrogant and incapable of understanding the challenges of ordinary life or of making policy decisions in an inclusive and empathetic way. Without social and political mobility, the elite can lose the motivation to excel and the masses can become disillusioned with and disengaged from the system. As ordinary Singaporeans continue to witness a rise in relative poverty, socio-economic inequalities, cost of living, and immigration, the global city may also become vulnerable to authoritarian populism.

Increasingly aware of these dangers, Singapore's government has attempted to rebalance and re-qualify its rhetoric and practice of meritocracy. It now speaks regularly about compassionate and inclusive forms of meritocracy, focusing on skills and not academic qualifications alone, and implementing new programs that purport to advance continuous lifelong learning. Clearly, for the rhetoric to be more believable and the programs effective, more needs to be done, particularly in the coming years as disruptions to the economy and the nature of work will create a bigger pool of disenfranchised Singaporeans.

Similarly, Singapore's government speaks more articulately of sustainability, resilience, and foresight as essential aspects of its practice of pragmatism. They have the potential to dislodge the system from its now crude and sometimes even dogmatic adherence to neoliberal economic growth, made respectable by the fig leaf that is Singapore's rhetoric of pragmatism. But success makes it difficult to shed the formulas that have led to it, even when it seems to make sense to do so.

Liberal democracies need strong government—clean, meritocratic, and pragmatic—in order to survive the constant threat of authoritarian populism. At the same time, Singapore's strong state can be made more resilient by heightening competition in the political system, including instead of avoiding alternative positions and points of view, embracing change, and developing capacity for more empathetic modes of engaging and including a diverse public.

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Why Globalization Stalled

And How to Restart It

Fred Hu and Michael Spence

For many decades after World War II, a broad range of countries shared a fundamental economic vision. They endorsed an increasingly open system for trade in goods and services, supported by international institutions; allowed capital, corporations, and, to a lesser extent, people to flow freely across borders; and encouraged the rapid spread of data and technology. As trade expanded, global living standards improved dramatically, and hundreds of millions of people escaped from poverty.

Today, every aspect of this globalized economy is under assault. A popular backlash against free trade and unrestricted cross-border movements of capital has picked up momentum. The ideal of freely flowing information has clashed with growing calls for privacy rights, the protection of intellectual property, and increased cybersecurity. Across the developed world, sentiments have turned strongly against immigration, especially as waves of Middle Eastern refugees have flooded Europe. And after several successful rounds of multilateral trade negotiations in the postwar years, new agreements have become much rarer: the World Trade Organization (WTO) has not completed a single full round of successful negotiations since its creation in 1995.

Last June, the United Kingdom voted to leave the EU, sparking the worst political crisis in the union's history. Meanwhile, in the United States, President Donald Trump has vowed to put "America first." In his first week in office, Trump withdrew from the Trans-Pacific Partnership (TPP), the 12-nation free-trade deal orchestrated by Trump's predecessor, and he has pledged to renegotiate the North American

FRED HU is Founder and Chair of Primavera Capital Group.

MICHAEL SPENCE is William R. Berkley Professor in Economics and Business at New York University's Leonard N. Stern School of Business. He received the Nobel Prize in Economics in 2001.

Free Trade Agreement, which he has called "the worst trade deal maybe ever signed anywhere, but certainly ever signed in this country." The Transatlantic Trade and Investment Partnership, a deal currently being negotiated by the United States and the EU, also faces an uncertain future, bogged down in strong opposition on both sides of the Atlantic.

As the United States loses interest in nurturing the international order that it played the lead role in building, the future of globalization will depend in large part on China. So far, Beijing appears committed to preserving an open global system. But for now, China will struggle to replace the United States as the sponsor of an open, multilateral order. In an era of rapid and disruptive technological change, politicians and policymakers all over the world will need to push for reforms that can preserve the achievements of globalization—and fix its flaws—before it's too late.

PITCHFORK POLITICS

Over the past seven decades, and especially since the end of the Cold War, globalization has accelerated steadily. For much of this period, most countries accepted the open global trading system. But governments often erected barriers to manage the pace of change. Developing countries, for instance, frequently delayed opening certain sectors of their economies to foreign trade to protect so-called infant industries, and they imposed capital controls to avoid destabilizing their financial systems. Although developed countries generally accepted the costs of the open economic system, they, too, sometimes intervened to reduce the disruption caused by trade. In a largely unsuccessful attempt to help the domestic auto industry, for instance, the Reagan administration imposed restrictions on car imports and pushed Japanese automakers to build plants in the United States.

In the past two decades, however, developed countries have failed to mitigate the negative side effects of international trade and rapid technological change. Western publics have blamed free trade for the decline in manufacturing jobs and for widening income inequality, and anti-trade sentiments in middle America helped catapult Trump into the White House. Among the traditional champions of globalization—the United States, the United Kingdom, and continental Europe—support for economic openness has declined precipitously. In November 2016, a YouGov/*Economist* poll found that less than half of Americans, Britons, and French believed that globalization was a "force for good."

Such attitudes are hardly limited to the grass roots; antiglobalists have come to power or have grown closer to achieving it. And they are finding common cause: on the day after the United Kingdom voted for Brexit, Steve Bannon, now Trump's chief strategist, invited Nigel Farage, then the leader of the UK Independence Party, onto his radio show. "The European Union project has failed," Farage announced. "It is doomed, I'm pleased to say." "It's a great accomplishment," Bannon said. "Congratulations." Ahead of France's recent presidential election, Trump expressed support for the National Front leader Marine Le Pen and her protectionist agenda.

Although Trump's unorthodox tenure in Washington has dominated headlines, in Europe, too, the globalized economy is facing intense challenges. The United Kingdom, home to Europe's most important capital market, is about to exit the EU; the terms remain unclear, but there is no question that Brexit represents a victory for antiglobalization, nativism, and nationalism. Meanwhile, much of the rest of Europe is plagued by low growth and high unemployment, factors that, alongside the refugee crisis, have fueled support for populist parties across the continent. Europe is trapped in a failing economic system that has too few adjustment mechanisms. Growth and inflation remain too low to reduce high unemployment and debt levels, and debt restructuring would be almost impossible without breaking up the eurozone. The euro's exchange rates with other major currencies are too low for Germany and some other countries in the north, driving up their trade surpluses, but too high for those in the south, which remain far less competitive.

Brexit represents a victory for antiglobalization, nativism, and nationalism.

In the current political environment, as nationalism rises across the continent, sensible economic reforms, such as increased fiscal integration, are unlikely to gain traction. But the British vote to leave the EU and Trump's election might serve as a wake-up call for European elites, triggering real reform. Nonetheless, with a new and inexperienced president in France and with elections looming in Denmark, Germany, and Italy, Europe will remain preoccupied with its internal political and economic challenges for the foreseeable future.

Protectionist in chief: Trump at a factory in Indianapolis, Indiana, December 2016

MIKE SEGAR / REUTERS

Multilateral institutions that have played a key role in the post–World War II order will also struggle to provide global leadership. Institutions such as the International Monetary Fund and the World Bank have had trouble adapting to the rise of the emerging economies: the United States and Europe still dominate them, eroding their credibility and influence among developing countries, especially in Asia. Yet neither the United States under Trump nor the EU, which has been embroiled in a conflict with the IMF over Greece's debt, is likely to invest many resources in these organizations in the coming years. As the multilateral institutions are marginalized, the global economic system will become more vulnerable to local and systemic financial crises.

Meanwhile, the early optimism about the Internet and the free flow of information, another central element of globalization, has faded. The disclosures by the National Security Agency leaker Edward Snowden regarding U.S. surveillance programs, Russia's alleged cyber-attacks during the U.S. presidential election, the rise of "fake news," and terrorist organizations' use of digital communications to recruit followers and plan attacks have made clear that information technology can subvert the globalized liberal economic order as well as support it.

The Internet faces a much more complicated, regulated, and fragmented future than the one imagined by many in the 1990s. In China, stringent regulations have built a sort of digital Great Wall that partially seals off Chinese Internet users from the rest of the world, and the EU has taken strong positions on privacy, attempting to constrain the practices of some Web-based platforms created by Facebook and Google through legal action. In the next few years, other governments are also likely to restrict the free flow of information, data, and knowledge in the name of security.

WHERE IT ALL WENT WRONG

Many of the global economy's current challenges have their roots in the years around the turn of the millennium. In 1999, the euro was launched, setting the stage for Europe's recent economic woes. Nearly three years later, in December 2001, China joined the WTO, opening its domestic markets to imports and gaining full access to the global economy. Meanwhile, the economic impact of automation and digital technology began to accelerate.

In the United States, manufacturing jobs had been declining for two decades, but they dropped sharply in the early years of this century: between 2000 and the present, the number of U.S. manufacturing jobs fell by between six million and seven million. As the number of jobs in the so-called tradable sector, which produces goods and services that can be consumed anywhere, barely grew, the nontradable sector absorbed around 25 million new entrants to the job market, in addition to the displaced manufacturing workers. It was a buyer's market for medium- and low-skilled labor, and as a result, wages stagnated.

For many years, automation has been eliminating blue-collar jobs and some lower-paying white-collar jobs. But recent breakthroughs in sensors, machine learning, and artificial intelligence have left even more jobs vulnerable. In almost every developed economy, middle-income jobs are decreasing while lower- and higher-paying jobs are increasing.

Countries have responded in different ways. Some have acted to reduce inequality by redistributing wealth through the tax system, expanding social security programs and other safety nets, and increasing support for education and job training. These efforts have proved successful in countries such as Denmark, Germany, and Sweden, where

organized labor wields strong bargaining power, businesses and unions trust each other, individual and corporate wealth have limited influence on politics, and egalitarian cultural norms prevail. In all three of these countries, inequality remains below the average for the Organization for Economic Cooperation and Development, a group of mostly rich countries.

But in countries where these factors are absent—especially the United Kingdom and the United States—disparities of income, wealth, and opportunity have widened dramatically. The absence of a meaningful policy response, and the apparent lack of concern among these countries' elites, has aroused deep anger among those who have lost out in the changes wreaked by globalization and technological progress.

The rejection of the old order was not immediate. For a while, people believed that their economic woes were a temporary result of the global financial crisis of 2008. But over time, they began to suspect that disappearing jobs and stagnant wages had become lasting features of the economic landscape. They turned against the elites they held responsible, including business leaders, academics, and the political establishment. And as they watched powerful economic and technological forces buffet their countries—forces over which policymakers at the national level appeared to exert little control—they sought to regain ownership of their destiny and reassert national sovereignty. This has played out most dramatically in Europe, where real and perceived erosions of sovereignty, above all concerning immigration, played a major role in the British vote to leave the EU. Even privileged citizens who had thrived in an open global system voted for Brexit, believing that doing so would allow them to take greater control over their lives.

GLOBALIZATION WITH CHINESE CHARACTERISTICS

As the United States and Europe turn inward, much of the responsibility for maintaining a globalized liberal economic order will fall to China. In his address at the World Economic Forum, in Davos, in January, President Xi Jinping reaffirmed China's commitment to globalization. By sponsoring numerous economic initiatives, including the Asian Infrastructure Investment Bank (AIIB), the Belt and Road Initiative, and the New Development Bank (formerly known as the BRICS Development Bank), and by making substantial overseas investments, Beijing has signaled that it intends to support an inclusive, multilateral form of globalization.

As the world's second-largest economy, China will undoubtedly help shape the future of the global economy. But for now, it remains unclear whether China can replace the United States as the primary champion of globalization. China is in the middle of a challenging domestic structural shift, as it transitions from an economy led by exports and investment to one based more on consumption and services, and its economy faces strong headwinds, including excess capacity and high corporate debt. Should the United States withdraw from its leadership role, China would not be able to supply the world economy with a large and accessible market for other countries' exports, deep capital markets, or the kind of strong institutions, such as the Federal Reserve and the IMF, that have allowed Washington to stabilize the global financial system for decades. And China has recently tightened its capital controls in an effort to stem capital flight—backtracking, at least for now, from its attempts to internationalize the renminbi.

The early optimism about the Internet and the free flow of information has faded.

Still, Beijing's support for multilateral structures represents an important step forward. A world based on bilateral relationships might work for the most powerful countries, but multilateralism has built a big tent in which the smaller, poorer countries can participate and prosper. They will suffer if they have to fend for themselves. China's embrace of multilateralism has already enhanced its stature among countries with smaller economies. Despite strong opposition from Washington, 57 countries joined the Chinese-led AIIB, many of them long-standing U.S. allies, such as Australia, France, Germany, Israel, Saudi Arabia, South Korea, and the United Kingdom. In the first quarter of 2017, another 13 countries agreed to join, including Afghanistan, Belgium, Canada, Hungary, Ireland, and Peru.

But if Washington retreats into bilateralism and Beijing wants to fill the void, the Chinese economy must keep growing and other emerging economies must increase their access to the Chinese market. Among the members of the aborted TPP, the vast majority, including Australia, Japan, and South Korea, already depend on exports to China, by far their largest trading partner, as do emerging economies all over the world. But if the United States turns toward protectionism, the $12 trillion Chinese economy is still not large enough to support global growth alone.

The new U.S. administration has blamed trade deals for manufacturing job losses and trade deficits and has threatened to impose sanctions on some of the United States' top trading partners, such as China, Germany, Japan, and Mexico. In the short run, the U.S. government may introduce targeted hikes in tariffs on, for instance, steel imports, as well as aggressive antidumping penalties and broader trade restrictions justified by the alleged currency manipulations of China, Germany, and Japan. The Trump administration may also try to browbeat companies, urging them to set up factories in the United States. So far, aside from tearing up the hard-won TPP agreement and sharply criticizing trade deals and trading partners alike, Trump has refrained from launching more aggressive actions. But if his domestic agenda runs aground, a frustrated Trump administration could turn toward more strongly protectionist policies and, in the worst-case outcome, ignite full-scale trade wars with other countries.

But there is a more optimistic scenario. Tax reform, public investment in infrastructure, and deregulation—all goals of the new administration—could stimulate private investment and boost U.S. growth and, with it, global growth. But to achieve this outcome, Trump must avoid becoming bogged down in unnecessary and divisive fights with the media and the courts and must firm up congressional support in his own party. In the meantime, policymakers and businesses in other countries should hope for the best but prepare for the worst.

THE AGE OF AUTOMATION

For all the focus on globalization, in the long run, the most important force shaping the labor market and income inequality will be not trade or politics but technological change. Automation has already transformed the economies of the developed world and the nature of employment there, and almost all experts believe that the scope for expanding automation is enormous. As costs fall and the pace of innovation accelerates, the impact of automation will spread to middle-income countries and, eventually, to lower-income ones, as well.

As capital-intensive technology replaces labor-intensive manufacturing, early stage developing countries across Africa and Southeast Asia will cease to enjoy the comparative advantage offered by lower wages and production costs. Overall trade in goods will probably decline as the price of labor no longer determines where goods are produced, allowing production to move closer to consumers and cutting the costs of transportation and logistics.

Of course, no one knows with certainty how quickly such changes will occur, and every country should invest in education, technology, and infrastructure so that it can anticipate them better. For now, trade will continue to play a crucial role in allowing developing economies to grow rapidly. Although trade in physical goods may decline, trade in services will probably rise, as more and more services can be carried out remotely. As a result, developing countries should seek to grow their service sectors, especially in the tradable sector. They should also invest in innovation hubs, which can help replace lost manufacturing jobs.

As developing countries advance into middle-income status, they can no longer offer cheap labor. Such places should follow China's lead by investing heavily in the high-tech sector. Doing so has helped China transition away from traditional manufacturing and leapfrog over some of its competitors in a number of promising new industries, such as robotics, renewable energy, mobile messaging, and e-commerce.

As the history of technological change has demonstrated, technology displaces only specific kinds of jobs; it does not displace labor, at least not in the longer term. But in the short term, automation renders certain kinds of human capital redundant. This can cause difficult and sometimes lengthy transitions, both for individuals and for whole economies. In the end, however, machines raise human productivity and increase incomes and prosperity. As the economists Erik Brynjolfsson and Andrew McAfee have explained, economies shift from creating jobs for which machines are substitutes to creating those for which they are complements.

Smart investment in job training can accelerate and ease these transitions. Policymakers should learn from the Nordic countries, where governments have combined training programs with various forms of income support and redistribution. Governments should not offer training only to the unemployed. Displaced middle-income workers, who often end up in lower-paying service jobs, can benefit from retraining that will help them compete for higher-wage work.

SAVING GLOBALIZATION

Predictions that the era of globalization will soon end are too pessimistic. To be sure, the rapid expansion of trade, rising cross-border capital flows, and, above all, the spread of new technologies have transformed the global economy. They have created difficult challenges, and countries will continue to struggle to increase growth and productivity, while reducing inequality and creating good jobs. But there are also enormous opportunities. Turning back the clock to restore the old frameworks is impossible. The challenge is to build new ones that work.

Waving the banner of protectionism and nationalism may attract popular support, at least temporarily. But history has shown that, ultimately, it may well threaten global peace and prosperity. The United States, China, and the world at large would be far better off if they could find a path to a more sustainable globalization, reforming the existing global order rather than tearing it down completely.

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Course Correction

How to Stop China's Maritime Advance

Ely Ratner

The South China Sea is fast becoming the world's most important waterway. As the main corridor between the Indian and Pacific Oceans, the sea carries one-third of global maritime trade, worth over $5 trillion, each year, $1.2 trillion of it going to or from the United States. The sea's large oil and gas reserves and its vast fishing grounds, which produce 12 percent of the world's annual catch, provide energy and food for Southeast Asia's 620 million people.

But all is not well in the area. Six governments—in Brunei, China, Malaysia, the Philippines, Taiwan, and Vietnam—have overlapping claims to hundreds of rocks and reefs that scatter the sea. Sovereignty over these territories not only serves as a source of national pride; it also confers hugely valuable rights to drill for oil, catch fish, and sail warships in the surrounding waters. For decades, therefore, these countries have contested one another's claims, occasionally even resorting to violence. No single government has managed to dominate the area, and the United States has opted to remain neutral on the sovereignty disputes. In recent years, however, China has begun to assert its claims more vigorously and is now poised to seize control of the sea. Should it succeed, it would deal a devastating blow to the United States' influence in the region, tilting the balance of power across Asia in China's favor.

Time is running out to stop China's advance. With current U.S. policy faltering, the Trump administration needs to take a firmer line. It should supplement diplomacy with deterrence by warning China that if the aggression continues, the United States will abandon its neutrality and help countries in the region defend their claims. Washington should make clear that it can live with an uneasy stalemate in Asia—but not with Chinese hegemony.

ELY RATNER is Maurice R. Greenberg Senior Fellow in China Studies at the Council on Foreign Relations. Follow him on Twitter @elyratner.

ON THE MARCH

China has asserted "indisputable sovereignty" over all the land features in the South China Sea and claimed maritime rights over the waters within its "nine-dash line," which snakes along the shores of the other claimants and engulfs almost the entire sea. Although China has long lacked the military power to enforce these claims, that is rapidly changing. After the 2008 financial crisis, moreover, the West's economic woes convinced Beijing that the time was ripe for China to flex its muscles.

Since then, China has taken a series of actions to exert control over the South China Sea. In 2009, Chinese ships harassed the U.S. ocean surveillance ship *Impeccable* while it was conducting routine operations in the area. In 2011, Chinese patrol vessels cut the cables of a Vietnamese ship exploring for oil and gas. In 2012, the Chinese navy and coast guard seized and blockaded Scarborough Shoal, a contested reef in the Philippines' exclusive economic zone. In 2013, China sent an armed coast guard ship into Indonesian waters to demand the return of a Chinese crew detained by the Indonesian authorities for illegally fishing around Indonesia's Natuna Islands.

Then, in early 2014, China's efforts to assert authority over the South China Sea went from a trot to a gallop. Chinese ships began massive dredging projects to reclaim land around seven reefs that China already controlled in the Spratly Islands, an archipelago in the sea's southern half. In an 18-month period, China reclaimed nearly 3,000 acres of land. (By contrast, over the preceding several decades, Malaysia, the Philippines, Taiwan, and Vietnam had reclaimed a combined total of less than 150 acres.) Despite assurances by Chinese President Xi Jinping in September 2015 that China had "no intention to militarize" the South China Sea, it has been rapidly transforming its artificial islands into advanced military bases, replete with airfields, runways, ports, and antiaircraft and antimissile systems. In short order, China has laid the foundation for control of the South China Sea.

Should China succeed in this endeavor, it will be poised to establish a vast zone of influence off its southern coast, leaving other countries in the region with little choice but to bend to its will. This would hobble U.S. alliances and partnerships, threaten U.S. access to the region's markets and resources, and limit the United States' ability to project military power and political influence in Asia.

MISSING: AMERICA

Despite the enormous stakes, the United States has failed to stop China's assertiveness in the South China Sea. For the most part, Washington has believed that as China grew more powerful and engaged more with the world, it would naturally come to accept international rules and norms. For over a decade, the lodestar of U.S. policy has been to mold China into what U.S. Deputy Secretary of State Robert Zoellick described in 2005 as "a responsible stakeholder"—which would uphold the international system or, at the least, cooperate with established powers to revise the global order. U.S. policymakers argued that they could better address most global challenges with Beijing on board.

The United States complemented its plan to integrate China into the prevailing system with efforts to reduce the odds of confrontation. U.S. Secretary of State Hillary Clinton spoke of the need to "write a new answer to the question of what happens when an established power and a rising power meet." She was referring to the danger of falling into "the Thucydides trap," conflict between an existing power and an emerging one. As the Athenian historian wrote, "It was the rise of Athens, and the fear that this inspired in Sparta, that made war inevitable." Wary of a similar outcome, U.S. policymakers looked for ways to reduce tensions and avoid conflict whenever possible.

This approach has had its successes. The Paris climate accord and the Iran nuclear deal were both the direct result of bilateral efforts to solve global problems together. Meanwhile, U.S. and Chinese officials interacted frequently, reducing misperceptions and perhaps even warding off major crises that could have led to outright conflict.

Applying this playbook to the South China Sea, the Obama administration put diplomatic pressure on all the claimants to resolve their disputes peacefully in accordance with international law. To deter China from using force, the United States augmented its military presence in the region while deepening its alliances and partnerships as part of a larger "rebalance" to Asia. And although Beijing rarely saw it this way, the United States took care not to pick sides in the sovereignty disputes, for example, sending its ships to conduct freedom-of-navigation operations in waters claimed by multiple countries, not just by China.

Although this strategy helped the United States avoid major crises, it did not arrest China's march in the South China Sea. In 2015,

U.S. NAVY

Troublemaker: a Chinese ship harassing a U.S. one in the South China Sea, March 2009

repeating a view that U.S. officials have conveyed for well over a decade, U.S. President Barack Obama said in a joint press conference with Xi, "The United States welcomes the rise of a China that is peaceful, stable, prosperous, and a responsible player in global affairs." Yet Washington never made clear what it would do if Beijing failed to live up to that standard—as it often has in recent years. The United States' desire to avoid conflict meant that nearly every time China acted assertively or defied international law in the South China Sea, Washington instinctively took steps to reduce tensions, thereby allowing China to make incremental gains.

This would be a sound strategy if avoiding war were the only challenge posed by China's rise. But it is not. U.S. military power and alliances continue to deter China from initiating a major military confrontation with the United States, but they have not constrained China's creeping sphere of influence. Instead, U.S. risk aversion has allowed China to reach the brink of total control over the South China Sea.

U.S. policymakers should recognize that China's behavior in the sea is based on its perception of how the United States will respond. The lack of U.S. resistance has led Beijing to conclude that the United States will not compromise its relationship with China over the South China Sea. As a result, the biggest threat to the United States today in Asia is Chinese hegemony, not great-power war. U.S. regional leadership is much more likely to go out with a whimper than with a bang.

THE FINAL SPRINT

The good news is that although China has made huge strides toward full control of the South China Sea, it is not there yet. To complete its takeover, it will need to reclaim more land, particularly at Scarborough Shoal, in the eastern part of the sea, where it currently lacks a base of operations. Then, it will need to develop the ability to deny foreign militaries access to the sea and the airspace above it, by deploying a range of advanced military equipment to its bases—fighter aircraft, antiship cruise missiles, long-range air defenses, and more.

The United States has previously sought to prevent China from taking such steps. In recent years, Washington has encouraged Beijing and the other claimants to adopt a policy of "three halts": no further land reclamation, no new infrastructure, and no militarization of existing facilities. But it never explained the consequences of defying these requests. On several occasions, the United States, along with the Association of Southeast Asian Nations (ASEAN), the G-7, and the EU, criticized China's moves. But each time, Beijing largely ignored the condemnation, and other countries did not press the issue for long.

Consider Beijing's reaction to the landmark decision handed down in July 2016 by an international tribunal constituted under the UN Convention on the Law of the Sea, which ruled that most of China's claims in the South China Sea were illegal under international law. The United States and other countries called on China to abide by the decision but took no steps to enforce it. So China simply shrugged it off and continued to militarize the islands and police the waters around them. Although the United States has continued to make significant shows of force in the region through military exercises and patrols, it has never made clear to China what these are meant to signal. U.S. officials have often considered them "demonstrations of resolve." But they never explained what, exactly, the United States was resolved to do. With that question unanswered, the Chinese leadership has had little reason to reverse course.

For the same reason, U.S. President Donald Trump's idea of reviving President Ronald Reagan's strategy of "peace through strength" by beefing up the U.S. military will not hold China back on its own. The problem has never been that China does not respect U.S. military might. On the contrary, it fears that it would suffer badly in a war with the United States. But China also believes that the United States will impose only small costs for misdeeds that stop short of outright aggression. No matter how many more warships, fighter jets, and nuclear weapons the United States builds, that calculus will not change.

DARE TO ACT

In order to alter China's incentives, the United States should issue a clear warning: that if China continues to construct artificial islands or stations powerful military assets, such as long-range missiles or combat aircraft, on those it has already built, the United States will fundamentally change its policy toward the South China Sea. Shedding its position of neutrality, Washington would stop calling for restraint and instead increase its efforts to help the region's countries defend themselves against Chinese coercion.

In this scenario, the United States would work with the other countries with claims in the sea to reclaim land around their occupied territories and to fortify their bases. It would also conduct joint exercises with their militaries and sell them the type of weapons that are known to military specialists as "counterintervention" capabilities, to give them affordable tools to deter Chinese military coercion in and around the area. These weapons should include surveillance drones, sea mines, land-based antiship missiles, fast-attack missile boats, and mobile air defenses.

A program like this would make China's efforts to dominate the sea and the airspace above it considerably riskier for Beijing. The United States would not aim to amass enough collective firepower to defeat the People's Liberation Army, or even to control large swaths of the sea; instead, the goal would be for partners in the region to have the ability to deny China access to important waterways, nearby coastlines, and maritime chokepoints.

The United States should turn to allies and partners that already have close security ties in Southeast Asia for help. Japan could prove especially valuable, since it already sees China as a threat, works closely with several countries around the South China Sea, and is currently developing its own defenses against Chinese encroachment on its outer islands in the East China Sea. Australia, meanwhile, enjoys closer relations with Indonesia and Malaysia than does the United States, as does India with Vietnam—ties that would allow

Australia and India to give these countries significantly more military heft than Washington could provide on its own.

Should Beijing refuse to change course, Washington should also negotiate new agreements with countries in the region to allow U.S. and other friendly forces to visit or, in some cases, be permanently stationed on their bases in the South China Sea. It should consider seeking access to Itu Aba Island (occupied by Taiwan), Thitu Island (occupied by the Philippines), and Spratly Island (occupied by Vietnam)—members of the Spratly Islands archipelago and the first-, second-, and fourth-largest naturally occurring islands in the sea, respectively. In addition to making it easier for the United States and its partners to train together, having forces on these islands would create new tripwires for China, increasing the risks associated with military coercion.

This new deterrent would present Beijing with a stark choice: on the one hand, it can further militarize the South China Sea and face off against countries with increasingly advanced bases and militaries, backed by U.S. power, or, on the other hand, it can stop militarizing the islands, abandon plans for further land reclamation, and start working seriously to find a diplomatic solution.

KEEPING THE PEACE

For this strategy to succeed, countries in the region will need to invest in stronger militaries and work more closely with the United States. Fortunately, this is already happening. Vietnam has purchased an expensive submarine fleet from Russia to deter China; Taiwan recently announced plans to build its own. Indonesia has stepped up military exercises near its resource-rich Natuna Islands. And despite President Rodrigo Duterte's hostile rhetoric, the Philippines has not canceled plans to eventually allow the United States to station more warships and planes at Philippine ports and airfields along the eastern edge of the South China Sea.

But significant barriers remain. Many countries in the region fear that China will retaliate with economic penalties if they partner with the United States. In the wake of Trump's withdrawal from the Trans-Pacific Partnership trade agreement, Southeast Asian countries are increasingly convinced that it is inevitable that China will dominate the economic order in the region, even as many are concerned by that prospect. This growing perception will make countries in the region reluctant to enter into new military activities with the United States for fear of Chinese retribution. The only way for Washington to prevent this dangerous trend is to offer a viable alternative to economic dependence on China. That could mean reviving a version of the TPP or proposing a new and equally ambitious initiative on regional trade and investment. The United States cannot beat something with nothing.

Washington should also do more to shape the domestic politics of countries with claims in the South China Sea by publicly disseminating more information about China's activities in the sea. Journalists and defense specialists currently have to rely on sporadic and incomplete commercial satellite images to understand China's actions. The U.S. government should supplement these with regular reports and images of China's weapons deployments, as well as of Chinese navy and coast guard ships and Chinese state-backed fishing vessels illegally operating in other countries' exclusive economic zones and territorial waters.

Beijing will not compromise as long as it finds itself pushing on an open door.

Countries in the region will also be more likely to cooperate with Washington if they can count on the United States to uphold international law. To that end, the U.S. Navy should conduct freedom-of-navigation patrols in the South China Sea regularly, not just when Washington wants to make a diplomatic point.

Critics of a more muscular deterrent argue that it would only encourage China to double down on militarization. But over the last few years, the United States has proved that by communicating credible consequences, it can change China's behavior. In 2015, when the Obama administration threatened to impose sanctions in response to Chinese state-sponsored theft of U.S. commercial secrets, the Chinese government quickly curbed its illicit cyber-activities. And in the waning months of the Obama administration, Beijing finally began to crack down on Chinese firms illegally doing business with North Korea after Washington said that it would otherwise impose financial penalties on Chinese companies that were evading the sanctions against North Korea.

Moreover, greater pushback by the United States will not, as some have asserted, embolden the hawks in the Chinese leadership. In fact, those in Beijing advocating more militarization of the South China

Sea have done so on the grounds that the United States is irresolute, not that it is belligerent. The only real chance for a peaceful solution to the disputes lies in stopping China's momentum. Beijing will not compromise as long as it finds itself pushing on an open door.

And in the event that China failed to back down from its revisionist path, the United States could live with a more militarized South China Sea, as long as the balance of power did not tilt excessively in China's favor. This is why China would find a U.S. threat to ratchet up military support for other countries with claims in the sea credible. Ensuring that countries in the region can contribute to deterring Chinese aggression would provide more stability than relying solely on Chinese goodwill or the U.S. military to keep the peace. Admittedly, with so many armed forces operating in such a tense environment, the countries would need to develop new mechanisms to manage crises and avoid unintended escalation. But in recent years, ASEAN has made significant progress on this front by devising new measures to build confidence among the region's militaries, efforts that the United States should support.

Finally, some critics of a more robust U.S. strategy claim that the South China Sea simply isn't worth the trouble, since a Chinese sphere of influence would likely prove benign. But given Beijing's increasing willingness to use economic and military pressure for political ends, this bet is growing riskier by the day. And even if Chinese control began peacefully, there would be no guarantee that it would stay peaceful. The best way to keep the sea conflict free is for the United States to do what has served it so well for over a century: prevent any other power from commanding it.

Gateway to Innovation

Japan apparently needs to step up its game if it wants to regain its leadership in technology. Over the past few years, news articles have continually reported how South Korea, Taiwan and China have eclipsed Japan as the world's technological powerhouses.

Japan's heavy hitters like Sony, Hitachi, and Fujitsu, were once the darlings of the high-tech world. Now, challengers from neighboring countries have ended their dominance.

While it may appear Japan has lost some of its luster, its competitive edge cannot be measured simply by brand recognition. Japan's established companies don't fully reflect how the world's third-largest economy continues to push technological frontiers.

To appreciate the long-term prospects of Japanese innovation, one must understand the role that high quality engineering and design play in the manufacturing of products that find their way around the world. This passion for finely engineered things is rooted to the ancient Japanese concept of monozukuri, or the art of making things.

For Nobuhiko Tomishima, President and CEO of espresso machine maker FMI Corporation: "Japan's competitive strength lies in its millions of SMEs specializing in one product, but are unmatched with respect to quality. As an SME, we endeavor to grow together with global partners."

MORESCO Corporation is another SME that found success in the global market by selling one-of-a-kind products such as lubricants for the car industry and hard disk surfaces. President Akada said, "We believe that specialized Japanese SMEs like us contribute to enhancing the presence of Japan in various regions by supporting the development of local economies."

Niigata boasts many local industries, such as food manufacturing (sake and rice crackers) and textiles for kimonos, as well as metalworking and Western tableware that Tsubame and Sanjo are so famous for.

"What this means is that in Niigata you can easily find customers, resources vital to your business, and business partners that use advanced technologies," Governor Ryuichi Yoneyama said.

The capital city Niigata has also launched an ambitious project, dubbed Niigata Sky Project, to bring together manufacturers across the prefecture to facilitate collaboration and coordination among themselves.

"This is the first example in Japan where a city government owns a manufacturing base. We are confident that the whole movement will gain momentum as this helps not only Niigata's workforce, but also national manufacturers and financial sectors across the country," Mayor Akira Shinoda said.

Meanwhile, the Greater Nagoya region, principally comprised of Aichi,

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A Japanese city shows the world how to go green

The City of Kitakyushu once grappled with unsustainable development and pollution back in the 1960's as Japan was experiencing its economic boom. Because most of the country's metal foundries and factories were based here, the city suffered severe air and water pollution.

But with the unified action by its residents, businesses and public sector, Kitakyushu transformed itself from a heavily polluted industrial city into one of the world's best examples of a green and clean urban center. Kitakyushu is continuing to develop while maintaining a balance between environment conservation and economic growth.

Since his election in 2007, Mayor Kenji Kitahashi has been sharing Kitakyushu's experience and knowledge to the rest of the world, particularly with his Asian colleagues:

"Kitakyushu is a top runner in international environmental cooperation and has accepted trainees from over 150 countries and regions, mainly from Asia. I am certain that Kitakyushu can be a successful model for overcoming severe industrial pollution, which is of interest to other cities that want to improve their infrastructure on the face of issues with water and waste."

Kenji Kitahashi, Mayor of the City of Kitakyushu

Kitakyushu's environmental and technological leadership holds itself up as an excellent partner of cities that want to overcome their environmental problems.

The city and its residents have proven that a low-carbon society is possible by striking a healthier balance between business interest and environmental considerations. ■

www.city.kitakyushu.lg.jp

Mie, Gifu and Shizuoka, is the epicenter of Japan's manufacturing strength.

With its focal point in Nagoya, the region's industrial output places it alongside the top GDP countries.

Leading this drive to attract foreign investments is the Greater Nagoya Initiative, which acts as a guide for manufacturers, exporters and foreign companies.

"We aim to be a one-stop support center for foreign companies wanting to enter the Greater Nagoya region and Japanese SMEs wanting to expand globally. This is why we build a lasting relationship with foreign companies that enter the region and provide access to companies in Aichi, Mie and Gifu, as well as some parts of Shizuoka and Nagano, all within a 100-km radius of Nagoya," Manager Kiyono Watanabe explained.

At the eastern end of Chubu is Shizuoka, a city divided into three sections: East, Central, and West. The West excels in manufacturing and optoelectronics, Central in food science, and the East in pharmaceuticals. These three sectors have set up centers in main areas in Shizuoka to support innovation.

For Hamamatsu Agency for Innovation Executive Director: "Honda, Suzuki, and Yamaha are located in Shizuoka. This attests to the long manufacturing history of the prefecture. People here have well-developed technical skills. At the same time, people here are open-minded and venture spirited, so having new ideas and creating new products is usual."

The mild climate, low commercial rent and dynamic residents have made Kyushu very attractive to investors. Like other major cities in Japan, Kyushu's infrastructure is highly developed and its airport is located near the city center. The country's fifth-largest city and its capital, Fukuoka has seen its population grow by 15,000 each year and, as of 2016, is around 1.5 million.

"The difference between Fukuoka and Kyushu is geographic location. Kyushu's main population centers face the Sea of Japan. This means we are safe from tsunamis. It is also closer to one of the world's most dynamic regions, the ASEAN countries," Kyushu Economic Federation Chairman Yutaka Aso said.

"Our mayor also has very strong ties to Tokyo and is a visionary whose policies helped spur startups, venture capital firms and a spirit of entrepreneurialism. With energetic people, it is no surprise that Fukuoka is Japan's fastest growing city," Aso added.

Responding to the fast changing social and economic landscape, the city established The Fukuoka Directive Council, a multi-body organization tasked with overseeing the development of the region

Shuhei Ishimaru, Fukuoka Directive Council Director General, said: "To get Fukuoka future-ready, we bring together both the private and the public sectors, discovering the best in each of them to get them working together. Regional development used to be about building infrastructure. For us, it's about making Fukuoka a human and technological gateway to the rest of East Asia. ■

Monozukuri: A unique spirit in manufacturing

The Japanese take the concept of *monozukuri* so seriously that they apply that ethos of craftsmanship to every step of production, whether they are making food or assembling electronic devices consumed by billions of people around the world.

Since the 1980s, Technican Co. Ltd. has ensured the freshness of Japanese food. Seeing that dining out was becoming more popular, company founder and president Yoshio Yamada developed new freezing technology that preserved beef and seafood for weeks, and in some cases for years, without compromising their taste, appearance and texture.

"I see that our freezing equipment will revolutionize the food industry in terms of transportation, supply management, and business benefit for food companies. Food can be frozen during its peak season at its lowest market price and sold in other seasons when high in demand. On a bigger scope, we envision a stable food supply for our future world. Imagine all the food that won't go to waste," Yamada said.

"For the first time since I started the business, government and large organizations have taken notice. Although we already have a large share in the market, we are excited to take this idea farther, to the rest of the world," he added.

Technican, based in Kanagawa, is also working with the medical sector to study ways its technology can help the industry, such as with blood banks.

In neighboring Shizuoka, where food also occupies pride of place, wasabi has become the definitive product of the prefecture, which accounts for 76 percent of the country's production. Family-run Tamaruya Honten, led by fifth-generation president Hiroyuki Mochizuki, went from selling only wasabi pickles to forming business-to-business relationships with food companies to make wasabi-flavored products.

INOAC'S headquarters in Nagoya

"*Monozukuri* is not limited to industrial products alone. Creating food products is also an art. To invite more partnerships, we will be focusing on further product development and on looking for more applications of wasabi," said Mochizuki, who is eyeing the United States, the UK, France, Singapore and Hong Kong for potential partnerships.

That same spirit is alive in Eureka Lab President Seiji Katayama. Eureka Lab Co. was mostly involved in the R&D of medical supplies. This led to the development of an emulsification device for hydrogen water that can erase oxygen radicals.

Since then, Eureka Lab has been devoted to the development of a new technique to cure diseases related to reactive oxygen.

It has also acquired a patent in the United States for its system and is looking for research and product development partners.

With an inclination to build things, plastic models producer Tamiya is a brand

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recognized by millions of hobbyists in Japan and the rest of the world.

"We want to encourage people, especially children, to construct our kits and to nurture their creative side and that *monozukuri* spirit," said Chairman Shunsaku Tamiya.

"To achieve this, we have to be first in quality. After all, that is the ultimate edge of Japanese brands. With that, everything is done in-house, from design to production to packaging," said Tamiya, whose company entrusts its U.S. subsidiary and at least 30 partners worldwide with the distribution of its scale model kits, radio-controlled cars and modeling tools and supplies.

Despite concerns that Washington may adopt protectionist trade policies, Yoshimitsu Kaneyuki, the president of Kyushu-based Canycom, remains generally optimistic about its prospects in the massive North American market.

The manufacturer of small construction and agricultural machinery is among the thousands of Japanese family-owned SMEs that recognize possible risks of doing business in the United States. But having lived in the United Stated, he understands that the key to success in this market is in delivering more specialized value to its specific customers bases.

So; Canycom is responding to such specific market needs by collaborating with specialist companies in North America, where it has operated since 2001.

"We changed our business model there from agricultural machinery to small construction and brush cutting machinery. We have been co-developing new products with our U.S. partners for a couple of years now. We keep a close eye on our markets and come up with the best solutions for each of them," Kaneyuki said.

Mie-based Nabell Corp. is another company that has shown how to adapt swiftly to changes in its industry and venture beyond its original boundaries. Starting out as a producer of optical camera bellows, Nabell had to develop other applications for its technology.

"The smartphone phenomenon changed the landscape completely. We had to examine what purpose our products truly served," President Norio Nagai recalled. This led to a new line of products and innovative applications.

"Our solutions involve things that can expand and contract. With this idea, we changed our domain strategy and entered the medical field and even solar power," Nagai said. In partnership with Mie University, Nabell launched a foldable modular solar panel that weighs only three kilograms. The company currently holds 27 patents for its various products.

In Aichi, one company has taken innovation to its very heart. Inoac Corporation, whose name is a mix of innovation and action, started out as a manufacturer of bicycle tires and tubes and introduced polyurethane foam to Japan. Over the years, rather than specializing in one thing, it extended its technological know-how to rubber, plastic and new materials.

Apart from expanding its expertise, Inoac also widened its operations around the world to include data gathering and R&D. It is present in North America, Europe and Asia.

"We want to continue making innovation on a global scale. For example, we see the U.S. not only as a sales partner but also as a technology partner," Chairman and CEO Soichi Inoue said.

Aichi-based Tajima Group has stuck to its original product while constantly innovating it. Starting as a small sewing machine manufacturer, the Tajima family set up its first assembly factory 50 years ago. Today, it has a one-third share of the global market and a 60 percent share in the United States, with 60 distributors worldwide.

Chairman Hitoshi Tajima noted that they did not attain this success easily. "The market has been quite tough recently with players coming in from China, Korea, and Germany. To survive, we have to remind ourselves that we are Japanese manufacturers, and our advantage is in upgrading and developing our products," he said.

"Companies sometimes ask for our technology and we develop something new together. We welcome business collaboration and seek innovation. We will never be satisfied with the present and will always aspire to grow," Tajima stressed.

In the field of semiconductors, the *monozukuri* spirit is exemplified by Teikoku Taping System, a producer of semiconductor manufacturing equipment based in Nagoya. The company has stayed ahead of the competition by using 3D semiconductor fabrication and packaging technologies.

President H.C. Lee sees great potential within the IoT and automotive sectors. For these fields, the company is targeting large progressive markets, such as the U.S. and Europe, where companies generally appreciate the high quality products that Japanese brands, such as Teikoku Taping System, can offer.

Spurred by the West Coast's vibrant and cutting edge semiconductor industry, the company is confident of its business in the US. At the same time, Lee believes that maintaining its manufacturing base in Japan is better for the long term than relocating to a country with cheaper production costs.

"If everything were the same, we could leave Japan because it's cheaper. But we remain in Japan because we are after the intellectual resources to create

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solutions for more challenges and technological breakthroughs. We want to stay in a place where there is an active culture of *monozukuri*," Lee said.

Aside from adopting that craftsman-like ethos, Aichi-based engineering company Chuozuken adds to its work ethic the idea of *kotozukuri*.

"Japan industries are known for their craftsmanship or *monozukuri*, which literally means creating things. We would like to introduce the concept of *koto*, which is the solution that adds value to *mono* or things," President Masashi Yanagida explained.

Chuozuken has built a strong reputation in mechanical design and in computer-aided engineering analysis, as well as in operations and maintenance. More than half of its business comes from its operation and maintenance services, with many of its clients coming from the aerospace and automobile industries.

Yanagida notes that although Chuozuken is heavily involved in the manufacturing industry, it does not do any manufacturing.

"There are already so many companies producing things so we do not need to play that field. What we can do instead is add value," he said.

Yanagida's priority is helping raise the standards of Japanese manufacturing through Chuozuken's innovative solution. "Although we are open to doing business with global leaders like Raytheon, we also want to focus on the domestic companies because we want to support them in upgrading and innovating the *monozukuri* arena in Japan." ■

Advancing Japan's biotech and healthcare

Japanese companies are known as pioneers in a host of industries. One such company, Osaka-based Japan Bio Science Laboratory (JBSL), has made health foods and ingredients since 1974. It was the first worldwide to produce fermented soybean extract with a high content of Nattokinase (branded as NSK-SD®).

"Nattokinase is the fibrinolytic enzyme contained in the Japanese traditional fermented soybean called natto, which is used in dietary supplements intended to prevent thrombosis and protect cardiovascular health," said President Kenichiro Azuma.

"As many people now live longer, the risk of cardiovascular diseases increases. Quality of life matters more and more and attention is given to disease prevention through appropriate exercise and healthy diet. Because of the safety and efficacy of our product, we want to share this with the world," Azuma added.

One good example of its efficacy was demonstrated in 2016 in a randomized, double-blind, placebo-controlled, human clinical trial, wherein a hypertensive population saw a reduction in blood pressure with the consumption of Nattokinase.

Now that the product has gained the approval of the European Food Safety Authority, Azuma believes the company is ready to market its pioneering product around the world. JBSL is seeking the most effective sales channels abroad.

Also in Osaka, generic drug manufacturer and distributor Towa Pharmaceutical will maintain its focus on Japan and contribute to the Abe government's goal of increasing the volume usage of generic drugs to 80 percent by 2020.

"To achieve this goal, there needs to be a stable supply of generic drugs in Japan," said President Itsuro Yoshida.

For distribution, Towa Pharmaceutical has employed the Towa Direct Sales System. Among generic manufacturers, it has the largest number of medical representatives in Japan.

"This allows our representatives to directly enlighten clients about our products and also gather feedback. We can then easily incorporate their comments into the way we improve our products," Yoshida said.

"To add value, we have been particular in developing certain properties about our drugs, like masking bitterness in taste while maintaining dissolution time and bioequivalence," he added.

Yoshida hopes that the manufacturing and formulation know-how gathered over 60 years in Japan will help them once they expand to the United States and other nations and regions.

Towa Pharmaceutical's plant in Yamagata, Japan

Meanwhile, Nippon Gene aims to advance the overall biotech industry. Being the first biotechnology venture established in Japan in 1982, it has proven to be a trailblazer among its peers.

Over the last 35 years, Nippon Gene has focused on the health of humans, animals, plants, and the earth through its two business segments: research tools and diagnostic tools.

"We see ourselves as a *monozukuri* company. With our distinct focus on craftsmanship within the biotech sphere, we believe we can utilize our Toyama factory and contribute to the advancement of the industry. That is the role we want to play," said Founder Yuko Yoneda.

Nippon Gene has formed a partnership with a company in Belgium and began selling its products in Europe. It is now interested in entering the U.S. market. ■

Japanese schools welcome the world

In recent years, Japanese universities have stepped up their efforts to reaching out to the Asia Pacific region and beyond. Supported by Japan's highly industrialized economy, they have also expanded their role as a critical partner to development in other countries.

According to the Organization of Economic Development, as of 2012, 94 percent of foreign students in Japan came from Asia. So 2017 was significant because Japan universities opened new networks in booming regions of Southeast Asia, Central Asia, Africa and the Middle East.

Japan's global leadership in specialized manufacturing, healthcare and business has helped nurture an intellectually stimulating atmosphere, wherein students can acquire the communication, critical thinking and decision making skills needed in the 21st century.

Innovation through design

One area where Japan's leading edge shines is in engineering products.

The Advanced Institute of Industrial Technology was set up by the Tokyo municipal government in 2006 to offer a rigorous science education and to train its students on how to quickly apply fast-changing developments in information science and technology.

AIIT President Dr. Seiichi Kawata believes this interdisciplinary approach to information science and technology will further sharpen Japan's competitive edge in technological innovation.

"In 2008, AIIT established the Masters' Program for design and engineering in response to the rapid changes in the market, especially in terms of product design. We teach our engineers that human-centric design is just as important as superior build quality," Kawata explained.

Inside Linden Hall, which forms part of Japan's Tsuzuki Education Group

"We keep close contact with Japan's industry leaders to listen to what they need and the challenges they face. Today, innovation no longer belongs to one person. Innovation becomes more possible with collaboration," he added.

World-class disaster and emergency response

Japan's geographic location makes the islands susceptible to natural disasters such as earthquakes and typhoons. Through the centuries, the country has developed survival techniques and now wishes to share the knowledge with other countries facing the same challenge.

"We hope that Nippon Medical School doctors will play a role in international missions and in practical clinics. Across the region, we have shared our top-notch technology with countries that face the same challenges as Japan, such as natural and man-made disaster response. We deployed our team during the 2004 earthquake in Aceh, the 2008 Cyclone Nargis in Myanmar and the 2012 earthquake in Nepal," said Nippon Medical School President Dr. Akihiko Gemma.

"For us, the development of emergency medicine is important in order to respond to terrorist threats and natural disasters. Japan has hosted and will host some of the world's most significant events, such as the G-7 summit in 2016 and the Olympic Games in 2020. Because of our strengths in emergency re-

sponse, the Nippon Medical School Hospital is the most important hospital in Japan, so we must develop this system in order to respond to these challenges," Gemma also said.

More than medical pioneers

Established in 1907 by Dr. Ichigoro Nakahara, Nippon Dental University has established a reputation as a pioneer in the field of regenerative medicine. Having celebrated its 110th anniversary in 2016, NDU is looking towards the next century by taking on medicine's greatest challenge: how to regenerate parts of the human body.

And as the number of 65-year-olds and above is predicted to exceed 25 percent of the population by 2025, Japan is seeing the importance of geriatric medicine increasing. Ahead of that demographic challenge, the number of dental treatments of elderly people especially, treatments of periodontitis and dental caries have been growing every year.

"Five years ago, NDU established the world's first dental pulp cell bank. We see a lot of potential in utilizing the stem cells derived from deciduous teeth (milk teeth) to cure various forms of illnesses. As countries face rapidly changing demographics, regenerative medicine will play a big role in maintaining quality of life," explained President Dr. Sen Nakahara.

NDU is Japan's largest dental school with more than 2,000 students, 1,000 teaching staff and 20,000 graduates. It also boasts several international partnerships, among them with the University of Michigan, University of Pennsylvania, University of Maryland, University of Paris, and Mahidol University in Thailand.

But Nakahara sees a larger mission than just being medical pioneers: "Being the largest dental school in the world and developing the field of regenerative medicine, Nippon Dental University recognizes its obligation to society. We established the TAMA clinic in Tokyo, which is the only oral rehabilitation clinic in Japan meant to improve the oral health of elderly and handicapped patients. NDU has also established mobile clinics in Niigata Prefecture in order to reach populations with no access to dental care.

One region that is emerging popular among international students is along Japan's western coast.

Forming a new role in the future, Niigata University has stepped up efforts to deepen ties with its foreign partners and form new partnerships in Japan, East Asia, and the rest of the world.

"We are welcoming ever increasing numbers of foreign students wishing to study at Niigata University. Many of these international students see Niigata University as a cultural, academic and business hub for study in or about the East Asian Rim regions, and ultimately a gateway to East Asia and the world," said President Sugata Takahashi.

"We hope not only Japanese students, but also East Asian students and students from other areas of the world, will obtain the knowledge and skills they need for their future at Niigata University. Students and researchers alike can expect Niigata University

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to be a vibrant hub of academic activity," Takahashi said.

Nurturing global citizens

As the only national university in the prefecture, Mie University is committed to solving problems in rural areas around Japan. Because more than two-thirds of its graduates leave the area to seek work in larger cities, the university works closely with the local government, institutions and businesses to encourage its students to stay and contribute to the sustainable region's development.

"Young students play a very important role in Mie. To entice them to stay, we are revitalizing the system to ensure good education and quality research," President Yoshihiro Komada said.

The university has partnerships with more than 100 international schools across Asia, Africa and the rest of the world. It also has set up unique research institutes, such as Ninja Studies and Whale Research, which have attracted foreign students.

In recent years, Mie University opened several satellite offices to promote itself and strengthen cooperation with other universities and companies. By doing so, the school hopes to broaden the worldview of its students by teaching them about regions that are very different from theirs.

"We are fostering the future community leaders through this global education," Komada said.

Raising the profile of women

One of the aims of Abenomics is to increase the role of women in the working world. In OECD's latest available statistics, 61 percent of women aged 24 to 34 did well above the OECD average (45%) and better than Japanese men of same age with the same level of education (56%).

But significant challenges remain to fully integrate women into working society. Japanese tertiary institutions are doing their part.

Sugiyama Jogakuen's 111-year history traces its roots as a sewing school for women. After the Second World War, the school became a full-fledged college with a new mission to equip women with skills and knowledge to meet the demands of the 21st century.

University President Kimio Morimune believes that the institution must expand its mission beyond education and become a huge contributor to the ongoing global debate over the evolving role of women in society.

Morimune noted: "Now more than ever, there's a need for action to create a bigger role for women in Japanese society. We can only attain clear visibility of Japan's future once women form part of that vision."

While the all-women school accepts a small number of international students, it wants to partner with more universities abroad for student exchange programs.

"Our professors are our ambassadors. When foreign students come here, they enjoy the experience because the school takes very good care of international students and encourages them to interact with the locals and work together," he said.

Fast-forward Fukuoka

Due to a dynamic population and an aggressive focus to become a center of entrepreneurship, Fukuoka has attracted many young people, both Japanese and foreign. In fact, the city is home to more foreign students per capita than anywhere else in Japan. Fukuoka Women's University is one such university where foreign students get to experience Japan through its unique housing set up

Fukuoka Women's University opened its doors in 1923, as Japan's first public college and later, in 1950, became a full-fledged university. In addition to its broader mission of forming globally-minded students, the university does not neglect the nurturing of the "heart."

President Tisato Kajiyama

has placed great importance on emotional intelligence or *kansei*, which means "sophisticated feelings" in Japanese. "High grades are important, of course. But we further equip our students to embrace a more globalized future by being aware of diversity. We are surely the only college in Japan to emphasize the importance of *kansei* in education and campus activities, " he explained.

While more than 70 percent of its students have experienced studies abroad, the university also introduced mixed nationality dormitories to further complement its efforts to internationalize the learning environment.

"The students not only learn English with their foreign peers but, through the shared housing set up, they live and breathe the language. This transforms our students in so many ways, such as honing a spirit of nurturing and emotional intelligence," Kajiyama said.

A global campus in Kobe

Ever since its foundation, Kobe International University has prioritized internationalization. As of 2017, around 28 percent of its freshmen were foreign students, while 10 percent of its Japanese students have joined overseas programs. To further raise those numbers, KIU has partnered with several international universities to allow its students to take fully-credited courses abroad.

"My idea of a global campus is to share our campus and academic programs with our worldwide partner universities. Thus, all the prospective students can participate in them according to their needs. KIU's aim is to grow together with our partners, learn from them, develop new programs and finally innovate a new era of global education," President Yuki Shimomura said.

As KIU marks its 50th anniversary in 2018, Shimomura said the school will continue its internationalization program.

"Globalization is not new to us. In the next years, we hope to find more partners with whom we can grow and work together to create an actual ground for globalization," he said.

Revitalizing Japan's *shonin* spirit

The Kansai Region is the home of Japanese industrial giants, such as Panasonic. Composed of Osaka, Kyoto and Kobe, the region is a major trading hub and traces its roots to Japan's *shonin* or merchant class that propelled the country to rapid industrialization.

The Osaka University of Commerce has stayed true to its origins by creating an environment that is very conducive to molding Japan's future leaders in trade and commerce.

"A large number of Japan's CEOs came from our school, which reflects its reputation as a world-class institution. Moreover, as Japanese companies continue to expand overseas and in new markets, we invite students from these countries to experience Japan and learn the Japanese way of doing business. Doing so would enhance communication and would benefit regional development and partnerships with Japan," President Dr. Ishiro Tanioka said. ■

Gateway to Asia, Gateway to the World

60th Anniversary

Across the Asia Pacific region, the flow of goods, people and ideas is growing at an increasing rate. Nowhere is this movement more pronounced than in the area of education.

In 2008, the Japanese government under Prime Minister Yasuo Fukuda launched the "300,000 Foreign Students Plan" campaign in order to attract more talent from abroad and spur innovation within the country. To date, Japan has about 216,000 and is on track to reaching its target.

Shifting demographics within Japan and increasing technological competition from its neighbors are some of the challenges that Japan is facing. Aware of the need to adapt to a fast changing world, the country's largest education group sees its schools as a crucial player in raising the country's living and working attractiveness.

For Tsuzuki Education Group Chancellor Kimiko Tsuzuki, the task of forming 21st century minds is both challenging and exciting: "Japanese society is at a crossroads. We need to ask: How do we welcome new talent? What ideas will propel Japan forward? At the same time, how can Japan's unique fusion of tradition and innovation impact the world?"

ORIGIN: FROM TRADITION

Composed of some 37 schools and campuses offering primary education until graduate level studies across the country, two philanthropic foundations, and supporting education in developing countries such as in Africa, the 60-year-old organization has evolved throughout the years to meet the needs of Japanese society. Today, the Tsuzuki Education Group aims for its universities to be both centers of excellence within the Asia Pacific region, and to contribute to the present and future needs of Japan.

Founded on its philosophy of "Training for Life through Development of Personality," Tsuzuki Education Group, as it faces new challenges in a fast-changing world, has adopted the principle of *Wakon Eisai* or "Japanese Spirit and Talented Scholar."

"It is about striving for constant learning and openness to the world without having to sacrifice what it is to be Japanese," Vice Chancellor Asuka Tsuzuki explained.

Six of its universities, for example, each specialize in pharmacology, economics, technology, and social and medical welfare. For pharmacology, what they uniquely offer are qualifications on traditional medicine and an education that fuses the best of Western and Eastern medicine. Graduates from the Yokohama, Daiichi, and Japan University of Pharmacology receive certification in western pharmacy and also have competent knowledge with traditional medicines.

"This reflects in a specific field the wider philosophy of the group to retain the best of Japanese traditional culture and combine it with the best practice and knowledge of the wider worlds."

Kimiko Tsuzuki also said: "We adopted this motto as the group celebrated its 60th year anniversary in 2016. It reflects the idea that globalization is not a one-way affair where Japan accepts simply innovation from the outside. Through Japan's social and economic advances, we think Japan's ancient culture can become a stabilizing influence throughout the region."

The number of the schools' overseas students reflects the international character of the group. Over 5,000 foreign students from more than 30 countries consider Tsuzuki Education Group's schools their home in Japan, and they bring back the experiences they gained in Japan that benefit their home countries. "We make sure they receive the best support from our high caliber faculty, state-of-the-art facilities and prestigious international partnerships, such as those with our partners in Cambridge and Oxford universities," Kimiko Tsuzuki said.

For example, Japan University of Economics (JUE) sends its English language students and researchers to St. Anne's College in Oxford and Fitzwilliam College in Cambridge to learn English in its country of origin as part of its Research of Original Schools of English Program (ROSE).

Tsuzuki Education Group Chancellor Kimiko Tsuzuki (left) and Vice Chancellor Asuka Tsuzuki

Linden Hall

Yokohama University of Pharmacology

Through the Tsuzuki Scholarship Program (TSP), the group has given some Oxford and Cambridge students the opportunity to study Japanese culture and language in Japan for a full year. In the 20 years since the program began, more than 200 students have benefitted from this opportunity, viewed as an effective cultural bridge between Europe and Japan.

In fact, situated in the JUE Campus is the English Garden, a symbol of partnership and friendship between England and Japan, and marked the beginning of the relationship with St. Anne's College Oxford and Fitzwilliam College, Cambridge. With around 100,000 roses spread across 100,000 square meters, the English Garden is also, in a way, the physical manifestation of the Wakon Eisai spirit through the fusion of Western and Eastern design and approach.

One of Tsuzuki Education Group's most interesting and innovative projects that embodies "Wakon Eisai" is Linden Hall (LH). The school follows the Japanese curriculum but conducts its classes in English. The combined approach provides students with all the skills, language included, sought by any good IB World school, as well as a substantial foundation in their own language and culture such as Zen Buddihism. Many graduates of LH have been accepted to Ivy League schools in the United States, Russell Group universities in the UK, and top national and private universities in Japan.

Japan's elites have held on to the *bunbu-ryōdō* ethic, which values martial and cultural skills and achievement.

"We at Linden teach the various traditional arts with this very much in mind. At the same time, the students hone the language skills to acquire and contribute to knowledge around the world," she explained.

PROMOTING A UNIQUE CIVILIZATION

In his bestselling, critically acclaimed book "The Clash of Civilizations," Harvard professor Samuel Huntington accorded Japanese civilization a status unique from that of neighboring China.

The Tsuzuki Education Group established the Japanese Civilization Institute, whose fields of studies fall into five categories: Ideology, Philosophy and Ethics; Economy and Management; Industrial Art and Technology; Medicine; Politics and Religion. Its goal is to study Japanese civilization and pass it to people in and outside Japan.

By disseminating the conclusions of its studies, the group hopes to be making its own contribution to efforts to promote peace and development in Japan and the outside world.

DESTINATION: TO THE FUTURE

The 1964 Tokyo Olympics marked the rebirth of Japan as an economic power and technological pioneer as the event coincided with the inauguration of the *shinkansen* or bullet train, the world's first high speed train.

"The next Olympics in 2020 will happen at a time Japan sees itself as more comfortable and more confident in its role as a benevolent economic power. Through our *Wakon Eisai* philosophy, our students learn the value of individuality and independence and become more comfortable in welcoming change while being confident in Japan's perennial traditions as a force for good," Kimiko Tsuzuki said.

For Asuka Tsuzuki, the question about Japan's future is closely tied to how Japan molds the minds of its youth: "What is the future of Japan's universities? What kind of social space will make the students flourish in their own right? Forming independence has been our teaching principle for 60 years. We will enhance this through cutting edge innovation, new paradigms of learning and a fresh approach to the world." ■

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Trump and the Environment

What His Plans Would Do

Fred Krupp

When U.S. President Donald Trump and Chinese President Xi Jinping met in April at Trump's Mar-a-Lago resort, one topic was not on the agenda: the environment. Perhaps they couldn't find enough common ground. Xi, a chemical engineer by training, has often spoken publicly about his concerns over the effects of climate change on China, where almost 20 percent of the land is desert, an area expanding at a rate of more than 1,300 square miles per year. Analysts believe Xi is also determined to help China dominate the clean energy industry. In 2015, China installed more than one wind turbine every hour, on average, and enough solar panels to cover over two dozen soccer fields every day, according to Greenpeace. As part of its drive to clean up dangerous air pollution in Chinese cities, Beijing has canceled the construction of more than 100 coal-fired power plants this year alone. Such measures, coupled with Xi's commitment to the 2015 Paris agreement on climate change, have turned Xi into a global leader on energy and the environment, filling a void created by the man who sat across the table from him at Mar-a-Lago.

Trump's position on environmental protection has been consistent: he wants far less of it. Unlike Xi, Trump and many of his cabinet secretaries question the scientific consensus that human activities are the main driver of climate change. In the name of regulatory reform and job creation, they want to increase domestic fossil fuel production and roll back limits on both greenhouse gas emissions and the release of conventional pollutants. During his campaign, Trump promised to "get rid of" the Environmental Protection Agency (EPA). "We're going

FRED KRUPP is President of the Environmental Defense Fund. Follow him on Twitter @FredKrupp.

to have little tidbits left, but we're going to take a tremendous amount out," he said in March 2016. And his administration is considering withdrawing from the Paris agreement, a move that would undermine the United States' standing in the world, cede clean energy jobs and investment to China and Europe, and expose U.S. companies to retaliatory trade measures.

If enacted, Trump's agenda would erode the environmental and public health safeguards that Republicans and Democrats alike have put in place over the past 50 years. As a result, it would lead to more disease and more premature deaths, weaken the U.S. economy, and yield environmental leadership to China. But it is not too late for the administration to change course.

THE WAR ON ENVIRONMENTAL PROTECTIONS

In late March, when Trump appeared at the headquarters of the EPA to sign an executive order unraveling President Barack Obama's efforts to combat climate change, he declared that his goal was no less than "ending the theft of American prosperity." "Come on, fellas," he said, turning to a group of coal miners who were flanking him at the event. "You're going back to work."

Reducing red tape and making federal rules more effective are worthy goals. But they require a careful balancing of risks and benefits and a consideration of the views of many stakeholders. The Trump administration has sought the views of just one: the industry affected. All of Trump's cabinet secretaries who oversee energy and the environment have ties to the fossil fuel industry, and none has a history of advocacy for cleaner air, cleaner water, or public health. The president's choice to lead the EPA, the Oklahoma attorney general Scott Pruitt, rose to prominence by teaming up with fossil fuel producers to sue the agency 14 times. As attorney general, he allowed industry lobbyists to draft some of his letters to the EPA; now he runs the organization. It is the governmental equivalent of a hostile takeover.

The EPA's annual budget currently stands at about $8.06 billion, close to its lowest level in 40 years. This sum represents just two-tenths of one percent of total federal government spending. Yet Trump and Pruitt want to reduce the agency's budget by almost one-third, cutting it more than any other agency's budget. This would severely weaken the EPA's ability to monitor pollution levels and enforce public health safeguards. It would cripple the Superfund and Brownfields

Green day: the People's Climate March in Washington, D.C., April 2017

MIKE THEILER / REUTERS

programs, which clean up contaminated sites, and eliminate more than 50 programs, including ones involving research into climate change and the restoration of the Great Lakes and Chesapeake Bay.

Trump's political team has imposed new restrictions on public communications by EPA staff and, in late April, ordered the agency's climate science webpage to be taken down; it now redirects to a page that says updates are pending "to reflect EPA's priorities under the leadership of President Trump and Administrator Pruitt." The president's proposed budget for fiscal year 2018 calls for thousands of layoffs in the agency, and morale is understandably low. A budget proposal is a trial balloon, designed to set the terms of debate. In the funding bill for the remainder of the current fiscal year, Congress imposed only modest cuts on the EPA, but the big fight, over next year's budget, is just beginning. If Congress passes anything close to these proposed cuts, it will destroy the EPA as it currently exists.

Yet the coal workers Trump used as props at his EPA photo op are in for a cruel surprise: undermining the EPA and revoking environmental regulations will not bring back many mining jobs. Demand for coal has declined not primarily because of the EPA or the spread of renewable sources of energy but because of huge increases in the supply of cheap natural gas. According to the U.S. Energy Information Administration, as demand for coal for electric generation fell by 22 percent from 2011 to 2015, power-sector demand for natural gas rose by 32 percent—dwarfing the increase in power generation from renewable sources, which rose by six percent over the same time period. What's more, mining has become so mechanized that even increased demand for coal won't create many more jobs.

Every job matters, but the debate about coal misses a much bigger point. Blaming environmental protection for job losses ignores one of the greatest success stories in recent U.S. history. From 1970, the year President Richard Nixon established the EPA, through 2015, U.S. GDP increased by 246 percent, whereas national emissions of six common air pollutants, including sulfur dioxide, a leading cause of acid rain, dropped by an average of 71 percent. The number of U.S. jobs, meanwhile, increased by more than 90 percent.

To be sure, the United States has witnessed a hollowing out of the middle class, and that problem demands a concerted response. But trying to return to the fuel sources of the last century is no solution. Instead, the United States should embrace the clean energy sources of this century, such as wind and solar power. Improvements in battery storage and other innovations have already begun to generate millions of high-paying jobs. More than two million Americans now work in jobs related to energy efficiency, such as retrofitting homes or manufacturing efficient appliances, and the wind and solar power industries employ half a million more. In total, twice as many Americans work in renewable energy fields as do in jobs that involve extracting and generating electricity from fossil fuels. Clean technology has begun to transform labor markets in states that rely on manufacturing. Illinois and Ohio each have more than 100,000 clean energy jobs, according to a study by BW Research Partnership. Minnesota and Missouri each have more than 50,000. And the numbers are rising rapidly in half a dozen other Midwestern states. No wonder a Gallup poll conducted in March found that 72 percent of Americans favor more government support for wind and solar power. And in February, a bipartisan group of governors sent Trump a letter pointing out that the nation's wind and solar resources are

Undermining the EPA and revoking environmental regulations will not bring back many mining jobs.

transforming low-income rural areas "in ways not seen since the passage of the Homestead Act over 150 years ago." One reason: U.S. wind facilities pay rural landowners $245 million in lease fees each year, a figure projected to climb to $900 million a year by 2030.

As renewables become fully competitive with fossil fuels and as states such as California and New York continue to drive policies that support them, they are sure to play a growing role in the power mix no matter what the president does. Red states such as Iowa, Oklahoma, and Texas are installing thousands of wind turbines. Red congressional districts boast more large-scale wind and solar energy production than do blue ones. According to the asset-management firm Lazard, between 2009 and 2016, the price of electricity generated by land-based wind turbines, without any subsidies, plummeted from 14 cents to 4.7 cents per kilowatt-hour—making it cheaper than the energy produced by most new natural gas or coal-fired power plants. Nationwide, the price of electricity generated by utility-scale solar power has dropped by roughly 90 percent over the last decade. Even the Kentucky Coal Mining Museum, in Benham, in Harlan County—the heart of the U.S. coal industry—is switching to solar power. A spokesperson said that the decision would save the museum money.

DON'T WAIT FOR WASHINGTON

The challenge, of course, is that renewable sources of electricity don't produce power around the clock. Until grids become smarter and storage technology cheaper, the United States will need to rely on natural gas power plants, which can be fired up when the sun isn't shining or the wind doesn't blow. Fortunately, the price of energy storage is falling dramatically. The question is whether government policies will speed or stymie this trend. So it was discouraging when, in April, Energy Secretary Rick Perry, who as governor of Texas saw his state become the top producer of wind power in the country, asked his department to prepare a study on whether policies that encourage the use of clean energy, such as production tax credits for wind and solar power and mandates that set goals for utilities to increase the proportion of green energy they provide (known as "renewable portfolio standards"), imperil the security of the grid by forcing coal-fired and nuclear power plants to retire prematurely.

Clean energy advocates fear that the move is part of a broader attempt by the administration to slow the growth of renewables and create new subsidies for coal and nuclear power. But it is troubling that Perry has said that the administration reserves the right to preempt state clean energy policies. Moreover, Perry's study will focus on clean energy subsidies while ignoring the billions of dollars the United States spends each year on fossil fuel subsidies in the form of tax breaks. Trump, meanwhile, has resumed the sale of coal mined on federal land, reversed an Obama-era restriction on dumping mining waste into waterways, and ended Obama's mandate that federal agencies must consider climate change in a broad range of decisions.

Although federal action may be in short supply for some time to come, state and local governments and leading corporations are accomplishing a great deal. Walmart, the world's largest retailer, recently announced Project Gigaton, which aims to remove a gigaton of greenhouse gas emissions—more than the annual emissions of Germany—from the company's global supply chain by 2030. Last December, in Illinois, Republican Governor Bruce Rauner signed the Future Energy Jobs Act, which will temporarily subsidize existing nuclear plants in the state, create clean energy jobs, and accelerate the shift from coal to renewable energy sources—delivering a remarkable 56 percent reduction in carbon dioxide emissions from the state's power sector by 2030. (By contrast, Obama's Clean Power Plan would have reduced emissions in Illinois by 34 percent.) The Future Energy Jobs Act is proof that state action can deliver major breakthroughs. It's the kind of progress that will be necessary at a time when Washington has abdicated leadership.

Rolling back regulations will take its toll on public health.

Trump has also signaled his intention to lower vehicle fuel-economy standards. In March, Trump ordered the EPA to reopen its recent favorable midterm review of rules that require auto manufacturers to meet fleetwide averages of 54.5 miles per gallon by 2025. Some industry leaders have complained that reaching this goal will be too costly. But in the long run, relaxing these standards will only hurt the U.S. auto industry. The rest of the world's automakers are electrifying their fleets and boosting gas mileage. China is subsidizing its electric vehicles and creating a massive internal market for them. Loosening fuel-economy standards would encourage Detroit to build more gas-guzzling SUVs and fewer electric vehicles just when global consumer demand is shifting toward cleaner cars. It's not only environmentalists who recognize this trend: Total, one of the world's largest oil producers, projects that electric vehicles could account for almost a third of new automobile sales by the end of the next decade.

UNHEALTHY OBSESSION

In addition to setting back the fight against climate change, the administration's attitude toward environmental regulation will make it harder for the EPA to fulfill its vital role as the country's public health watchdog. Although the EPA has made progress in fighting dangerous pollution over the past few decades, its work is not complete. A new report by the American Lung Association, for example, found that almost four in ten Americans—about 125 million people—live in counties with unhealthy levels of air pollution.

Rolling back regulations will take its toll on public health. For example, revoking the Clean Power Plan and thus allowing companies to emit more dangerous air pollutants would cause up to 3,600 more premature deaths, 1,700 more heart attacks, 90,000 more asthma attacks, and 300,000 more missed work and school days each year, according to the EPA's own analysis. In another worrying sign, lawyers representing the Trump administration recently asked the U.S. Court of Appeals for the D.C. Circuit to delay hearing a case on an EPA standard that, in 2011, set the first national limits on the amount of mercury, acid gases, and other toxic pollutants that power plants could emit. Such pollutants are hazardous to human health even in small doses: mercury causes brain damage in children; acid gases cause serious lung diseases; and metal toxics, such as chromium and nickel, cause cancer. Legal analysts have interpreted the request to delay as a sign that the administration intends to revisit and weaken these safeguards.

Pruitt is also trying to overturn rules that require oil and gas companies to monitor and reduce emissions of methane, a greenhouse gas that is 84 times as potent as carbon dioxide for the first 20 years it exists in the atmosphere. U.S. oil and gas companies emit eight million to ten million metric tons of methane annually—enough natural gas to supply the heating and cooking needs of every home in Ohio for a year. Methane emissions contribute to smog, which triggers asthma attacks and causes other respiratory illnesses. At times, the air quality in some rural areas where oil and gas are produced, such as Pinedale, Wyoming, and Vernal, Utah, has been worse than it is in big cities. Reducing emissions wouldn't cost much—according to a study by the consultancy ICF International, a 40 percent cut would cost just one cent per thousand cubic feet of gas produced—and rolling back these rules would help only laggards in the industry that haven't kept up with best practices. And it would also shortchange U.S. taxpayers, since companies pay no royalties on the $330 million worth of natural gas that they leak or vent on public or tribal lands every year. In May, the Senate rejected an attempt to revoke rules controlling methane emissions on federal land; every Democratic and three Republican senators voted to protect these standards. It was the first big win this year for the environmental community, and proof that its voice still counts—but the administration has said that it will look for other ways to undo the safeguards.

Before the EPA proposed rules to control methane, in August 2015, state governments had led the way—and now that the Trump administration is trying to reverse course, the states will have to step up once again. In early 2014, Colorado became the first state to limit methane emissions from oil and gas operations. It introduced rules that reduced approximately 65,000 tons of methane and some 90,000 tons of smog-forming compounds each year, equal to the amount produced by all the cars and trucks in Colorado.

Not every state has the political will to follow Colorado's lead. That's why action is needed at the federal level. But the Trump administration has shown no interest in sensible oversight, and Pruitt has ignored the views of his own experts. Over the objections of EPA scientists, for example, he recently decided to allow the continued use of the pesticide chlorpyrifos, which is applied to much of the fresh food that Americans consume. EPA scientists had recommended banning it because it may cause neurological damage in children. Pruitt overruled them. He also plans to cut funding for research into potentially harmful chemicals—some linked to breast cancer and birth defects—found in products most Americans have in their homes, such as flame retardants. And he is seeking to decrease grants to monitor the safety of tap water, paving the way for more disasters like that which occurred in the city of Flint, Michigan, where up to 9,000 children under the age of six were exposed to lead in their tap water. An estimated six million to ten million U.S. homes still receive their drinking water through lead pipes.

STAND UP FOR SCIENCE

If the administration is serious about responsible regulatory reform, it should study the Frank R. Lautenberg Chemical Safety for the 21st Century Act, which passed in the House last year in a bipartisan landslide of 403 to 12 and passed in the Senate by a voice vote. For decades, various legislators had tried in vain to fix its deeply flawed predecessor, the Toxic Substances Control Act of 1976, which gave the EPA the authority to regulate chemicals but was so broken that the agency couldn't even ban cancer-causing asbestos.

The Lautenberg Act succeeded because industry leaders, public health groups, and environmental organizations came together to work out a practical path forward. Supported by Democrats such as Senator Tom Udall of New Mexico and Republicans such as Senator Jim Inhofe of Oklahoma, the law sets clear and enforceable deadlines for the EPA to evaluate existing chemicals, imposes new safety standards, and improves transparency. The administration should recognize that chemical-safety reform was driven by a bipartisan recognition that both industry and the public need strong, credible, and well-funded federal oversight.

The passage of the Lautenberg Act was a triumph of bipartisan regulatory reform—yet now it is at risk of being undone by congressional efforts to paralyze the EPA's ability to implement the law. Inspired by calls by Steve Bannon, the White House adviser, for "the deconstruction of the administrative state," at least six antiregulatory bills have passed the House so far in this Congress. They would hamstring the process for issuing or implementing safeguards, making it nearly impossible in some cases and undoing the hard-won improvements to chemical policy introduced by the Lautenberg Act.

Yet there are some grounds for optimism. The environmental protections now in place were introduced with ample time for comment and judicial review, and they cannot be undone with the stroke of a pen. More than 60 percent of Americans would like to see the EPA's powers preserved or strengthened, according to a poll that Reuters/Ipsos conducted in January. And in April, a poll by CNBC found that fewer Americans supported—and more opposed—Trump's plan to roll back climate protections than supported any other part of his policy agenda. Americans everywhere care deeply about the health of their children, about clean air and water, and about safe communities and safe food—and the process of regulatory unraveling will give them plenty of opportunities to prove it.

In April, hundreds of thousands of Americans protested in marches held around the country in support of action on climate change and serious, unbiased science. By rejecting the administration's assumption that it can eliminate hard-won environmental safeguards without consequence, they can help turn back the worst of the administration's environmental agenda. Their voices were critical, for example, in persuading the Senate to reject the administration's attempt to revoke commonsense rules to control methane emissions on federal land. That was one vote; there will be many more, and common sense will surely not prevail every time. But if enough people stand up and make their voices heard, the president himself may even decide to steer a new course.

Paris Isn't Burning

Why the Climate Agreement Will Survive Trump

Brian Deese

For decades, the world has understood the threat of climate change. But until recently, the economic and political obstacles to tackling the problem stymied global action. Today, that calculus has changed. Technological progress has made clean energy a profitable investment, and growing popular pressure has forced politicians to respond to the threat of ecological disaster. These trends have enabled major diplomatic breakthroughs, most notably the 2015 Paris agreement. In that pact, 195 countries pledged to make significant reductions in their greenhouse gas emissions. "We've shown what's possible when the world stands as one," proclaimed U.S. President Barack Obama after the talks concluded.

Now, however, that agreement is under threat. When it comes to climate change, U.S. President Donald Trump has replaced urgency with skepticism and threatened to pull the United States out of the Paris agreement. He has spent the early months of his presidency attempting to roll back the Obama administration's environmental regulations and promising the return of the U.S. coal industry.

The Trump administration has not yet decided whether to formally leave the Paris agreement. Whatever it decides, the agreement itself will survive. Negotiators designed it to withstand political shocks. And the economic, technological, and political forces that gave rise to it are only getting stronger. U.S. policy cannot stop these trends. But inaction from Washington on climate change will cause the United States serious economic and diplomatic pain and waste precious time in the race to save the planet. Sticking with the deal would mitigate

BRIAN DEESE is a Senior Fellow at the Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School of Government. From 2015 to 2017, he was a Senior Adviser to U.S. President Barack Obama.

the damage and is clearly in the U.S. national interest, but Washington's failure to otherwise lead on climate change would still hurt the United States and the world. So U.S. businesses, scientists, engineers, governors, mayors, and citizens must step forward to demonstrate that the country can still make progress and that, in the end, it will return to climate leadership.

MORE FOR LESS

A decade ago, the Paris agreement could never have been negotiated successfully. Effective collective action on climate change was simply too difficult to achieve because of the vast costs involved. But since then, rapid reductions in the price of renewable energy and increases in the efficiency of energy consumption have made fighting climate change easier, and often even profitable. By the time of the Paris negotiations, the world had reached a milestone that energy analysts had previously thought was decades away: in many places, generating energy from solar or wind sources was cheaper than generating it from coal. According to research from Bloomberg New Energy Finance, in 2015, clean energy attracted twice as much investment globally as fossil fuels.

As a result, the world has adopted clean energy far faster than experts expected. Consider the projections of the International Energy Agency, the world's most respected forecaster of energy-market trends. In 2002, the agency predicted that it would take 28 years for the world to generate more than 500 terawatt-hours of wind energy; instead, it took eight. And in 2010, the agency projected that it would take until 2024 to install 180 gigawatts of solar capacity; that level was reached in 2015, almost a decade ahead of schedule.

This improbable progress has upended the once dominant assumption that economic growth and rising greenhouse gas emissions must go hand in hand. Between 2008 and 2016, the U.S. economy grew by 12 percent while carbon emissions from energy generation fell by about 11 percent—the first time the link between the two had been broken for more than a year at a time. This decoupling of emissions and economic growth has begun to occur in at least 35 countries, including China, where many believe that emissions will peak and begin to decline in the next few years, more than a decade earlier than the 2030 target China has set for itself. In fact, 2016 was the third year in a row when global emissions did not rise even as the global economy

Captain Planet: Obama at a UN climate summit in New York City, September 2014

grew. Before this streak, only recessions had ever brought emissions down. This quiet shift represents a seismic change in the political economy of clean energy. Once, countries had to trade faster economic growth for reducing emissions. Now, they are racing against one another to claim the economic benefits of clean energy.

The pace of change will likely continue to outstrip projections. Technological breakthroughs in energy storage will make renewable power cheap enough to use in more places and accelerate the move to electric cars and other electric transportation systems. China plans to invest $340 billion in renewable energy sources by 2020; Saudi Arabia is investing $50 billion. In the last year alone, India doubled its solar capacity. It is installing solar panels so fast that Prime Minister Narendra Modi's audacious goal of reaching 100 gigawatts of solar capacity by 2022 no longer seems like a pipe dream.

WE'RE ALL ENVIRONMENTALISTS NOW

As new technologies upend the economics of climate change, the politics surrounding the environment are changing, too. In 2008, the U.S. embassy in Beijing made a routine decision to place an air-quality monitor on its roof and tweet out the readings. It began as a way to provide information to Americans and other expats living in Beijing about how safe it was to go outside at any particular moment; most

MIKE SEGAR / REUTERS

Chinese were unable to see the tweets, since China's "Great Firewall" generally blocks Twitter. But as more Chinese citizens acquired smartphones, app developers created ways for them to bypass the filter and access the air-quality updates. Beijing's middle-class residents reacted with outrage at the prospect of exposing their children to dangerous air pollution. Schools built giant domes for pupils to play in, safe from the polluted air. Many children started wearing heavy-duty masks on their way to school. The furor forced the Chinese government into action. By 2013, it had installed hundreds of air-quality monitors in over 70 of China's largest cities. That same year, the government promised to spend billions of dollars to clean up the air, and it pledged to set initial targets for reducing the emissions of air pollutants in major cities.

The incentives for politicians to address climate change will only strengthen.

Meanwhile, environmental activism across the world was moving from the fringe to the mainstream. Parents in India worried that pollution from vehicles was damaging their children's health. Inhabitants of remote islands such as Kiribati anxiously watched the sea rising around them. Ranchers in the western United States saw their land ravaged by droughts and wildfires unlike any they had experienced before. Along with other alarmed citizens all over the world, they began calling on politicians to act, with louder and more unified voices than ever before.

When world leaders gathered in Paris in December 2015, they were responding to this wave of climate activism. At the conference, a group of over 100 countries that had traditionally been at odds on climate change formed the "high-ambition coalition." Propelled by grass-roots activism, they successfully demanded that the agreement adopt the ambitious goal of limiting the warming of the earth's atmosphere to 1.5 degrees Celsius. "Anything over two degrees is a death warrant for us," said Tony de Brum, then the foreign minister of the Marshall Islands, an informal leader of the coalition. The incentives for politicians to address climate change will only strengthen as more people, particularly in developing countries, leave poverty for the ranks of the middle class and gain access to information about how climate change is directly affecting their lives and livelihoods.

This shift is already well under way. In January, in a speech that stood in stark contrast to China's previous unwillingness to accept responsibility for tackling climate change, Chinese President Xi Jinping told the World Economic Forum, in Davos, that "all signatories should stick to [the Paris agreement] instead of walking away from it, as this is a responsibility we must assume for future generations." And the day after Trump signed an executive order to begin undoing the rule known as the Clean Power Plan, which Obama had implemented to reduce emissions from power plants, the EU's climate action and energy commissioner, Miguel Arias Cañete, tweeted a picture of himself hugging China's chief climate negotiator. "A new climate era has begun, and the EU and China are ready to lead the way," the caption read.

THE ART OF THE DEAL

These economic and political forces made the Paris agreement possible, but to get the entire world to sign on, negotiators still needed to clear a major diplomatic hurdle: deciding who should do what and who should pay for it. For about two decades after the 1992 Rio Earth Summit, climate negotiations were predicated on the idea that since developed countries had been responsible for the lion's share of past greenhouse gas emissions, they should shoulder the burden of addressing global warming.

By the end of the last decade, that concept had clearly outlived its usefulness. As the world saw the economies of China and India grow rapidly, the United States and other developed countries could no longer justify to their citizens accepting limits on emissions when major emerging-market countries were doing nothing. And when China overtook the United States as the world's largest emitter of carbon dioxide in 2007, it became clear that developed countries could not solve the problem alone. Indeed, by 2040, close to 70 percent of global emissions will come from countries outside the Organization for Economic Cooperation and Development, a group of mostly developed countries.

Yet for years, governments could not agree on an alternative approach. The size of the problem meant that all would have to participate. But no country was prepared to accept a supranational body that would dictate and enforce targets and actions. The failure of the 2009 Copenhagen climate conference showed that insisting on a rigid goal would create a zero-sum game in which every country tried to do less and make others do more. The Paris agreement solved this problem by combining the ambitious goal of a universal compact with the conservative method of allowing each country to decide for itself how it could contribute to hitting the overall target.

Obama hoped that if China and the United States—the two largest emitters—bought into this approach, others would follow. To that end, he sought an agreement between the two countries well in advance of the Paris negotiations. In November 2014, in a joint announcement, the United States promised to reduce its emissions by 26–28 percent below their 2005 levels by 2025, and China pledged to cap its emissions by 2030. The deal demonstrated that countries could move beyond the old approach and created the possibility of a universal effort to reduce emissions and claim the economic spoils of a clean energy boom.

The agreement has proved surprisingly durable.

With striking speed, countries at every stage of economic development joined the race. Before the negotiations had even begun in Paris, enough countries to account for over 90 percent of global emissions had established their own targets. This meant that, unlike in Copenhagen, countries came to Paris agreeing that they would all have to reduce emissions in order to meet the challenge of climate change.

Even with these commitments in hand, the process of getting nearly 200 countries to let go of the old model was painful. Perhaps inevitably, allowing each country to determine its own way forward meant that the initial pledges were insufficient. According to a study by a group of climate scientists published in the journal *Science* in 2015, even if all countries meet their targets and global investment in clean energy technology accelerates, the world will still have only a 50 percent chance of limiting warming to two degrees Celsius, and the 1.5 degree target will remain out of reach. Nevertheless, the move from a head-to-head climate battle to a global clean energy race created the potential for collective action to accelerate progress.

More than a year later, the agreement has proved surprisingly durable. Throughout 2016 and early 2017, countries moved aggressively to reach their targets, even as world events, such as the Brexit vote and Trump's election, signaled a global shift away from multilateralism. India recently set a goal of putting six million hybrid and electric cars on its roads by 2020 and ending the sale of internal combustion vehicles in the country by 2030. Last December, Canada created a national carbon-pricing regime. In April, the United Kingdom went a full day without burning coal to generate electricity, the first time it had done so since 1882. And although most expected that it would take years for enough countries to ratify the Paris agreement for it to formally take effect, the world accomplished that goal just 11 months after the talks ended. Even OPEC has embraced the accord.

This progress suggests that the agreement's main assumption—that countries would grow more ambitious over time—was a reasonable bet. The agreement encourages governments to raise their climate targets every five years, but it imposes no binding requirements. A more stringent accord would have looked better on paper, but it might well have scared many countries away or led them to set their initial targets artificially low. Because the economic forces that gave rise to the agreement have continued to accelerate, more and more countries now see the benefits of leading in the fast-growing clean energy industries. So they will likely raise their targets to reap the rewards of staying ahead of the pack.

SELF-HARM

Although the Trump administration cannot halt global progress on climate change, it can still hurt the U.S. economy and the United States' diplomatic standing by abandoning the Paris agreement. On everything from counterterrorism and trade to nuclear nonproliferation and monetary policy, the Trump administration will need to work with other countries to accomplish its agenda. If it pulls the United States out of the Paris agreement, it will have a harder time winning cooperation on those issues because other countries increasingly see leadership on climate change in the same way they see security pledges, foreign assistance, or aid to refugees, as a test of a country's commitment to its promises and of its standing in the global order. When, in 2001, the Bush administration stepped away from the Kyoto Protocol, it was surprised by how harshly China, India, the EU, and many others criticized the move. Since then, the world has made dramatic progress on cooperation over climate change. So abandoning the Paris agreement would do far worse diplomatic damage.

Leaving the Paris agreement would also cause the United States to lose out to other countries, especially China, on the benefits of a clean energy boom. More than three million Americans work in the renewable energy industry or in the design, manufacture, or maintenance of energy-efficient products or clean energy vehicles, such as electric cars. Employment in the solar and wind energy industries has grown by about 20 percent each year in recent years, roughly 12 times as fast as employment in the economy as a whole. Maintaining this pace will require sustained investment and the ability for U.S. industries to capture larger shares of the growing clean energy markets abroad.

On this front, China is already starting to overtake the United States. According to data from Bloomberg New Energy Finance and the UN Environment Program, in 2015, China invested $103 billion in renewable energy; the United States invested $44 billion. China is home to five of the world's six largest solar-module manufacturers and to the world's largest manufacturers of wind turbines and lithium ion, which is used to make the batteries needed to store renewable energy.

It is likely inevitable that much of the manufacture of lower-value-added clean energy products will move away from the United States. But it is troubling that the country risks ceding ground on clean energy innovation, as well. According to a study by the public policy experts Devashree Saha and Mark Muro, the number of clean energy technology patents granted in the United States each year more than doubled between 2001 and 2014, but it declined by nine percent from 2014 to 2016. Other countries are filling the void. "In 2001, both U.S. and foreign-owned companies generated about 47 percent of [clean energy technology] patents each," Saha and Muro write. But "by 2016, 51 percent of all cleantech patents were owned by large foreign multinationals, while only 39 percent were generated by U.S. companies."

A lack of U.S. leadership will cost the world valuable time.

Should the Trump administration abandon the Paris agreement, these trends will likely get worse. If Washington is not part of crucial discussions as details of the agreement are finalized over the coming years, other governments could shape the rules around intellectual property, trade, and transparency in ways that would disadvantage the U.S. economy. Some countries have also suggested that if the United States leaves the Paris agreement, they would consider imposing retaliatory measures, such as import taxes. Even if they do not, with the United States outside the Paris agreement, foreign governments, international agencies, and private investors might direct funds for clean energy research, development, and deployment to U.S. competitors. China has already pledged more money than the United States has to help poorer countries develop their markets in clean energy. If the United States leaves the discussion, it will lose its influence over where and how those funds get spent. And if Washington skips future rounds of negotiations within the UN framework, an emboldened China might look for ways to water down the Paris agreement's rules on important issues, such as requiring all countries to submit their emissions plans to independent reviews.

EMISSION CRITICAL

For all these reasons, the Trump administration should keep the United States in the Paris agreement. Yet that by itself will not be enough. Even inside the agreement, if Washington otherwise fails to lead on climate change, the United States will still suffer, as will the rest of the world. Without robust government investment in clean energy, and government policies that help set a stable price for greenhouse gas emissions, the U.S. economy will not see the full dividends of the transition to clean energy.

A lack of U.S. leadership will not just hurt the United States; it will cost the world valuable time. Rising temperatures are outpacing efforts to cut emissions. Last year was the hottest on record, the third year in a row to earn that distinction. Sea ice in the Arctic and around Antarctica has reached record lows. And the pace of extreme weather events is accelerating across the United States and the rest of the world.

To reverse these trends, countries need to move to decarbonize their economies even faster. Although other countries will move forward with the Paris agreement even without the United States, getting them to dramatically raise their targets without U.S. leadership will be difficult. China and the EU will continue to compete in the clean energy race, but only the United States has the political clout and resources to spur other countries to action, the way it did before the Paris negotiations. A U.S. president using every possible diplomatic tool at his or her disposal—as Obama did—can bring remarkable results.

Because the Paris agreement calls on most countries to set their next round of national targets after 2020, much will hinge on the next U.S.

presidential election. If the next U.S. administration restores U.S. leadership on climate change, it might be able to make up for lost time.

Meanwhile, not all progress in the United States will stall. Several states, including California, Nevada, New York, and Virginia, are cutting their greenhouse gas emissions and seeing the economic benefits firsthand. They should raise their sights even further and remind the world of the collective impact of their efforts. Major U.S. cities are finding novel ways to go green. They should explore new partnerships with foreign counterparts. American companies will need to speak loudly and clearly about the economic benefits of a credible plan to reduce emissions and the costs of ceding leadership on clean energy to China and other countries. American scientists and engineers are poised to transform several technologies crucial to tackling climate change, such as batteries and those used for carbon capture and storage. Engineers could exploit recent breakthroughs in satellite technology, for example, to create a real-time global emissions monitoring system that could settle disputes between countries over the extent of their past progress and allow diplomats to focus on the future. And concerned citizens must continue to organize, march, and convey to politicians that ensuring clean air and water in their communities is a requirement for their votes.

The Paris agreement represents real progress, but it alone will not solve the climate crisis. Its significance lies primarily in the economic, technological, and political shifts that drove it and the foundation for future action it laid. Its negotiators made it flexible enough to withstand political changes and policy differences while betting that the global movement toward cleaner energy would continue to accelerate. The road may not always be smooth, but in the end, that bet looks likely to pay off.

Don't Follow the Money

The Problem With the War on Terrorist Financing

Peter R. Neumann

In the first days of the "war on terror," before the United States had launched air strikes against the Taliban or Special Forces raids on Osama bin Laden's compounds, President George W. Bush signed Executive Order 13224. The presidential decree, which dates from September 23, 2001, targeted al Qaeda's money by "prohibiting transactions" with suspected terrorists. "Money is the lifeblood of terrorist operations," Bush said at the time. "We're asking the world to stop payment." Five days later, the UN Security Council followed suit, calling on states to "prevent and suppress the financing" of terrorism in its first substantive resolution since the 9/11 attacks.

More than 15 years later, the war on terrorist financing has failed. Today, there are more terrorist organizations, with more money, than ever before. In 2015, for example, the self-proclaimed Islamic State (also known as ISIS) had a budget of up to $1.7 billion, according to a study by King's College London and the accounting company Ernst & Young, making it the world's richest terrorist group. That same year, the total amount of all frozen terrorist assets amounted to less than $60 million. Only three countries—Israel, Saudi Arabia, and the United States—had seized more than $1 million.

Driven by the assumption that terrorism costs money, governments have for years sought to cut off terrorists' access to the global financial system. They have introduced blacklists, frozen assets, and imposed countless regulations designed to prevent terrorist financing, costing the public and private sectors billions of dollars.

PETER R. NEUMANN is Professor of Security Studies and Director of the International Centre for the Study of Radicalisation and Political Violence (ICSR) at King's College London. Follow him on Twitter @PeterRNeumann.

This approach has probably deterred terrorists from using the international financial system. But there is no evidence that it has ever thwarted a terrorist campaign. Most attacks require very little money, and terrorists tend to use a wide range of money-transfer and fundraising methods, many of which avoid the international financial system. Instead of continuing to look for needles in a haystack, governments should overhaul their approach to countering terrorist funding, shifting their focus away from the financial sector and embracing a broader strategy that includes diplomatic, military, and law enforcement options. Otherwise, they will waste time and money on a strategy that cannot deliver security for many more years to come.

MONEY FOR NOTHING

One month after terrorists killed 130 people in Paris on November 13, 2015, the UN Security Council hosted a special session on combating the financing of terrorism. "In the face of such indiscriminate barbarism," the French finance minister, Michel Sapin, declared, "we all have a duty to act." He described ISIS' main sources of funding: "trading in oil, antiquities and works of art, kidnappings and ransoms, extortion, [and] human trafficking." Yet instead of explaining how the international community could stop oil smuggling or prevent kidnappings, he called for the freezing of financial assets, more screening by banks, better financial intelligence, and tougher regulation of digital currencies.

Sapin's speech was far from unusual. Even if governments understand the many and varied sources of terrorist funding, they almost always turn to the financial system to crack down on it. The obvious explanation is that in most countries, the responsibility for choking off terrorists' funds lies with finance ministries, which are disconnected from broader counterterrorism strategies. As a result, governments typically respond to attacks by tightening due diligence procedures, demanding that banks freeze more assets, and further empowering the Financial Action Task Force (FATF), an intergovernmental body that monitors international standards on money laundering and terrorist financing. In a telling statement, then U.S. Treasury Secretary Jacob Lew, speaking at the same Security Council session, said that the aim was not to deprive terrorists of their money but "to protect the international financial system."

This approach has failed for two reasons. First, terrorists' money is hard to find. Al Qaeda's leader, Ayman al-Zawahiri, and ISIS' selfdeclared caliph, Abu Bakr al-Baghdadi, surely do not have bank accounts in their own names, and lower-ranking members and middlemen tend not to be officially designated as terrorists by governments or international institutions such as the UN. Without the names or identities of terrorists or their financers, banks struggle to single out suspicious transactions. If banks were to investigate every movement of money for which they could not immediately see a legitimate economic rationale, they would have to scrutinize tens of millions of transactions every day. Given that terrorist operations are cheap—none of the recent attacks in Europe cost more than $30,000—they would have to carry out in-depth investigations of the circumstances behind millions of transactions of less than $1,000. As long as governments are unwilling to share more intelligence about suspects and suspicious entities with banks, calls for the financial sector to crack down on terrorist financing serve as little more than political rhetoric.

Large amounts of terrorist funds never enter the global financial system.

Second, large amounts of terrorist funds never enter the global financial system. In such countries as Afghanistan, Iraq, Somalia, Syria, and Yemen, where al Qaeda and ISIS have their strongholds, only a tiny percentage of the population holds bank accounts. Even large and legitimate transactions are carried out in cash, which means that most people never interact with the international financial system at all. As a result, few of the financial transactions of terrorist groups appear on bank statements.

In fact, not only has the focus on the financial sector proved ineffective; it has also harmed innocent people and businesses. To address policymakers' demands, financial institutions have "de-risked" their portfolios, shedding investments and clients that might be linked to terrorist financing. Without intelligence on specific individuals and entities, banks have relied on open-source databases for their due diligence. But these databases contain inaccurate and outdated entries. De-risking, moreover, has resulted in the de facto exclusion of entire countries, mostly poor ones such as Afghanistan and Somalia, from the global financial system. The bank accounts of refugees, charities that operate in regions torn apart by civil war, and even Western citizens with family links to so-called risk countries have been closed.

Practically no Western bank now offers cash transfers to Somalia, for example, although 40 percent of the population depends on remittances from abroad. When the last U.S. bank to offer such payments shut down its service in early 2015, Somali Americans started a Twitter campaign using the hashtag #IFundFoodNotTerror.

In addition to disrupting countless lives and undermining the work of legitimate charities, de-risking has fueled a boom in informal—and unregulated—financial services. Rather than use Western banks, immigrants to the West increasingly rely on informal money-transfer systems, known as hawala networks in the Muslim world, to send remittances home. In contrast to banks, these networks depend on trust, require little identification, maintain no systematic or centralized records, and lie outside the remit of government regulators. In other words, driving terrorists away from the international financial system has inadvertently made it easier for them to move money around the world undetected.

MONEYMAKERS

But the problems with the current strategy run deeper: the very idea of terrorist financing is misguided. It implies that there is a set of financial methods that all terrorist groups employ. Nothing could be further from the truth. The concept of terrorist financing is defined by its purpose, and this makes it difficult to generalize about its sources and methods. Different groups fund their operations in different ways, and for transnational networks such as al Qaeda, the methods may even differ from place to place. Consider the alleged involvement of the East African jihadist group al Shabab in the ivory trade. When this first became public in 2013, journalists and experts were quick to add wildlife poaching to their list of terrorist-financing methods, and politicians, such as former U.S. Secretary of State Hillary Clinton, started calling for action against the ivory trade as part of the global war on terrorism. In reality, there was no risk that ISIS would start poaching elephants in Iraq and Syria, and it should have been clear that combating the ivory trade outside al Shabab's areas of influence would do little to combat terrorism.

Three factors determine how terrorist groups finance their operations. The first is the groups' level of support. Although few disagree that al Qaeda and ISIS are terrorist organizations, most other groups are labeled as terrorists by some governments but not by others—as the saying goes, one man's terrorist is another man's freedom fighter. Hamas and Hezbollah, for example, are viewed as terrorist organizations by the West but operate more or less openly in many Arab countries. And when groups are involved in civil wars in which all sides are accused of committing atrocities, they can often count on voluntary contributions from the people they claim to represent, financial support from sympathetic charities and diasporas, and even state sponsorship. Financial regulation can't eliminate any of these funding sources—only sustained political pressure, sanctions, or negotiated solutions can.

A second factor determining terrorist groups' fundraising methods is the extent to which they can tap into illicit economies. Terrorists often profit from the smuggling of antiquities, oil, cigarettes, counterfeit goods, diamonds, or, indeed, ivory. They usually exploit existing networks and often collaborate with criminals. Heroin production in Afghanistan dates back to the 1970s, long before the Taliban arrived on the scene. Wildlife poaching in East Africa did not begin with the birth of al Shabab, nor will it end with the group's collapse. And the smuggling routes in Iraq and Syria, which have existed for decades, are certain to outlive ISIS. As a result, the goods from which terrorist groups have profited—oil in Iraq, cigarettes in the Sahel, or diamonds in West Africa—simply reflect one or another region's illicit economy. To counter terrorist financing, therefore, governments need to tackle the underlying economic structures of these regions or, at the very least, break those structures' connections to terrorism. Promoting development, improving governance, and cracking down on corruption will play a far more important role than preventing terrorists from using the international financial system.

The third factor shaping the ways in which terrorists finance their activities is their capacity to access legitimate sources of money. U.S. authorities first knew bin Laden as a financer of terrorism, yet the sources of his wealth—his family money and the construction and farming businesses he owned—were entirely legal. Likewise, the Irish Republican Army set up numerous businesses, including taxi services and hotels, that were properly registered and paid their taxes, but the group channeled the proceeds toward its armed struggle. Because terrorists can draw on legitimate sources of income, cutting off the spigot is harder than fighting money laundering or organized crime.

MO MONEY MO PROBLEMS

However significant terrorists' fundraising methods may be, however, only one thing can truly revolutionize a terrorist group's finances: the seizure of territory. Until 2013, ISIS made most of its money from protection rackets, Iraq's illicit economy, and, to a much lesser extent, foreign donations. But in 2013 and 2014, the group captured vast swaths of territory in eastern Syria and northern Iraq. By mid-2014, when ISIS declared its caliphate, some six million to eight million people lived under its rule.

The group's finances skyrocketed. In 2014, its budget, according to the study by King's College London and Ernst & Young, soared to $1.9 billion, up from less than $500 million the previous year, 90 percent of which stemmed from its newly acquired territory. As it seized land, ISIS looted banks and shops and confiscated the property of minorities and the people who had fled. The capture of Mosul alone, the caliphate's commercial capital, probably generated $500 million to $1 billion—making looting the group's most significant source of income.

Like the Iraqi and Syrian governments, ISIS collects taxes, charges fees, and levies tariffs on trade; the group's 2014 revenues from such measures exceeded $300 million. It also imposes fines, typically for what it considers "un-Islamic" behavior, and exploits natural resources, especially oil fields in the eastern Syrian province of Deir ez-Zor and in territories in northern Iraq that had been controlled by the Kurds. Although ISIS uses most of the oil it acquires for domestic consumption, it also smuggles some of it into neighboring territories for sale. At its peak in late 2014 and early 2015, the group earned between $1 million and $3 million per day from oil revenues.

But ISIS' territorial conquests have come at a price. The group has transformed into a quasi state—with all the costs that entails. Now that it holds so much territory and controls so many people, the group has to maintain a bureaucracy. And it has to create the utopia it has promised. No longer able to limit its expenses to funding fighters and buying weapons, the group must pay for schools, hospitals, and infrastructure and employ judges, teachers, and street cleaners. As ISIS has become more like the state it claimed to be, its additional revenue has been matched by new expenses.

For international regulators, the rise of ISIS has presented a challenge, because none of the group's major sources of income can easily be intercepted with financial tools, such as blacklisting individuals or seizing bank accounts. In a major policy document released in early 2016, the FATF recognized that ISIS' "strategy has been to rely on funds generated within the territory it controls." Yet all of the document's proposals focused on preventing the group "from exploiting the formal financial sector." Given that ISIS has had little need to use the international financial system, these recommendations made no sense.

That ISIS' finances have nonetheless declined—from an estimated $1.9 billion in 2014 to less than $1 billion in 2016—is due more to military action than to actions by the FATF. Since October 2015, the U.S.-led coalition has targeted the group's oil infrastructure, transportation systems, and cash depots. According to the coalition's figures, by November 2016, ISIS had lost 62 percent of its territory in Iraq and 30 percent of its territory in Syria. At the same time as its tax base has shrunk, ISIS has lost control over an estimated 90 percent of its oil wells. By thwarting the group's territorial expansion, the coalition has also eliminated ISIS' ability to profit from looting. The resulting cash shortage has not only weakened ISIS' military power but also blunted its ideological appeal.

CHEAP THRILLS

Yet these efforts have not impeded the ability of groups such as ISIS or al Qaeda to launch or inspire terrorist attacks in the West. Terrorist operations are cheap, and according to a 2015 study by the Norwegian Defense Research Establishment, over 90 percent of the jihadist cells in Europe between 1994 and 2013 were "self-funded," typically through savings, welfare payments, personal loans, or the proceeds of petty crime. For example, the terrorists who carried out the January 2015 attack on the French magazine *Charlie Hebdo* were low-level criminals who had met in prison and shared a dozen convictions between them. One of them, Chérif Kouachi, had reportedly received $20,000 from a radical preacher in Yemen seven years earlier, but Kouachi had probably spent the money by the time he and his collaborators started planning the operation. Instead, the men financed the attack by taking out fraudulent loans, selling counterfeit sneakers, and dealing drugs. These crimes generated far more money than they needed—the loans alone were worth nearly $40,000.

The Norwegian study also found that more than 40 percent of the jihadist terrorist plots in Europe between 1994 and 2013 were funded at least partly through crime. This figure has likely risen, as more and more criminals have joined groups such as ISIS. And according to the German Federal Police, two-thirds of the 669 German foreign fighters for whom it possessed information in late 2015 had police records, and one-third had criminal convictions. Alain Grignard, a commissioner in the Belgian Federal Police in Brussels, has described ISIS as "a sort of super gang."

Personal funds are another important source for foreign fighters traveling to conflict zones such as Iraq and Syria. Reaching Syria via Turkey, a popular holiday destination for many Europeans, is cheap—in most cases, it costs less than $1,000 for a budget airline ticket and the trip to the airport. To pay for their travel, many jihadists have used their own savings and welfare payments or taken out small loans; others have borrowed money from their friends or family. In one case, a young man in the United Kingdom who hoped to make it to Syria convinced his mother that he needed a new laptop; in another, in Germany, the excuse was a school trip. Even the most sophisticated methods of following the money through the global financial system would not catch these transactions.

What's more, unlike al Qaeda, which tried to convince its supporters to build homemade bombs, ISIS, more than any other jihadist group, appears to understand that sowing terror requires neither explosives nor sophisticated skills nor money. "If you can kill a disbelieving American or European," the group's spokesperson, Abu Muhammad al-Adnani (who has since been killed), declared in a 2014 speech to Western supporters, "then rely upon Allah, and kill him in any manner or way however it may be: smash his head with a rock, or slaughter him with a knife, or run him over with your car, or throw him down from a high place, or choke him, or poison him."

ISIS' territorial conquests have come at a price.

These instructions have inspired many of the most devastating attacks in recent years. In the summer of 2016, a 16-year-old boy attacked passengers on a commuter train in southern Germany with an ax, and in France, two men who entered a Catholic church beheaded an 85-year-old priest with knives. Terrorists have also used vehicles, attempting on two occasions in 2014 to drive cars into crowds at French Christmas markets. In July 2016, a truck killed 86 people during the Bastille Day celebrations in Nice, and later that same year, a jihadist drove a truck into a Christmas market in Berlin, killing 12. And in March 2017, near the Houses of Parliament in London, an attacker drove his car into a crowd and then stabbed a policeman. None of these attacks cost more than $300—the price of renting the truck in Nice. The majority of them cost nothing at all.

DON'T TAKE IT TO THE BANK

More than a decade and a half into the war on terrorist funding, policymakers must recognize the drawbacks of their current approach. Financial tools cannot stop lone attackers from driving cars into crowds, nor can they do much when groups such as ISIS hold territory and earn most of their income from within it. Policymakers need to acknowledge that the war on terrorist financing, as it has been conducted since 2001, has often been costly and counterproductive, harming innocent people and companies without significantly constraining terrorist groups' ability to operate. Unless governments find ways to revolutionize how they share information with the financial sector, most of the current procedures for identifying suspicious transactions will continue to be little more than costly box-ticking exercises.

Instead, governments should integrate their efforts to restrict terrorist financing into their wider counterterrorism strategies. Instead of delegating this mission to finance ministries, which perpetuate the excessive focus on the banking sector, governments should include it in broader political, diplomatic, and military decisions. At times, actions aimed at countering terrorist funding may involve the financial system, but on other occasions, governments should use the military and law enforcement instead. In January 2016, for example, the U.S. military bombed ISIS' cash depots, destroying tens of millions of dollars in a single day—more than the entire international financial system had seized since the rise of the caliphate.

Finally, methods for countering terrorist financing should be tailored to the group and the theater being targeted. Terrorist groups raise money in myriad different ways, but governments tend to respond with the same narrow set of counterterrorism tools. Choking off terrorist financing in Brussels should look very different from doing the same in Raqqa. In Brussels, it may involve cracking down on gangs and petty crime; in Syria, it requires bombing oil facilities and cash depots. Instead of lobbying for Security Council resolutions, governments should pursue a more pragmatic and targeted approach to deprive terrorists of their money. After spending over 15 years and billions of dollars on a strategy that has had little discernible impact, it's past time for a new approach.

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Keine Atombombe, Bitte

Why Germany Should Not Go Nuclear

Ulrich Kühn and Tristan Volpe

The election of U.S. President Donald Trump last November confounded Berlin. What, German politicians, policymakers, and journalists wondered, should they make of Trump's vague or even hostile stances toward the EU and NATO or his apparent embrace of Russia? Some hoped that Trump meant to push NATO members to spend more on defense but would, in the end, leave the long-standing U.S. guarantee of European security intact. Others, less optimistic, argued that the days when Germany could rely on the United States for its defense were over—and that the country must start looking out for itself.

Those fears have given new life to an old idea: a European nuclear deterrent. Just days after Trump's election, Roderich Kiesewetter, a senior member of Chancellor Angela Merkel's Christian Democratic Union, said that if the United States no longer wanted to provide a nuclear shield, France and the United Kingdom should combine their nuclear arsenals into an EU deterrent, financed through a joint EU military budget. Then, in February, Jaroslaw Kaczynski, the leader of Poland's ruling Law and Justice party, spoke out in favor of the idea of the EU as a "nuclear superpower," as long as any EU deterrent matched Russian capabilities.

Some German commentators even suggested that those proposing a British-French deterrent under the auspices of the EU didn't go far enough. Berthold Kohler, one of the publishers of the influential conservative newspaper *Frankfurter Allgemeine Zeitung*, argued that the British and French arsenals were too weak to take on Russia. He suggested that Germany consider "an indigenous nuclear deterrent which could ward off doubts about America's guarantees." Other

ULRICH KÜHN and **TRISTAN VOLPE** are Fellows in the Nuclear Policy Program at the Carnegie Endowment for International Peace. Follow them on Twitter @UliTKuehn and @TeeAndersVolpe.

German analysts, such as Thorsten Benner, head of the Global Public Policy Institute, in Berlin, and Maximilian Terhalle, a scholar of international relations, have come to the same conclusion. "Germany needs nuclear weapons," Terhalle wrote in *Foreign Policy* in April.

For now, those calling for a German bomb are a fringe minority. For decades, Germany has stood as one of the world's staunchest supporters of nuclear nonproliferation and global disarmament. In February, a spokesperson for Merkel told the press, "There are no plans for nuclear armament in Europe involving the federal government." She and others evidently recognize that such plans are a bad idea: a German arsenal would destabilize EU-Russian relations and heighten the risk that other countries would attempt to go nuclear.

But even though Germany's current nuclear flirtation may reflect nothing more than a passing reaction to Trump's presidency, it reveals a deeper problem: insecurity in Berlin, caused by years of meandering U.S. policy toward Russia and Europe. To solve this problem, Germany and the United States must work together. Merkel's government should encourage the EU to coordinate more effectively on defense. The Trump administration, meanwhile, should double down on the U.S. commitment to the success of the EU and NATO while also pushing for broader negotiations with Russia over the future of European security.

THE SHADOW OF THE PAST

Over the last decade, Europe has experienced a series of intensifying crises, culminating in Russia's annexation of Crimea in 2014. Each time, Germany, as the EU's largest country, has led the response. In 2015, for example, Germany led the negotiations between Russia and Ukraine that resulted in a shaky cease-fire. But every time Germany takes the lead, its neighbors recall history and grow nervous about German hegemony over Europe.

Such fears go back at least as far as the creation of the modern German state in 1871. From then until the country's partition after World War II, European leaders confronted "the German question," a simple but unsolvable dilemma. Germany's size meant that no single European country could ever balance its economic or military power. Yet Germany was never powerful enough to rule over Europe alone. Part of the problem stemmed from the country's so-called *Mittellage*, its location at the center of Europe, surrounded by potentially hostile coalitions. Germany responded to external threats by pursuing what historians have called its *Sonderweg*, or "special path," a term used to describe the country's affinity for authoritarian rule and attempts to impose that rule throughout Europe. Whenever it did that, the resulting wars devastated the continent.

Germany's partition—after Hitler led the country's last and most disastrous attempt to rule over Europe—temporarily solved these problems. West Germany could not dominate Europe during the Cold War since the struggle between the East and the West subsumed European rivalries. And after reunification, in 1990, the institutional bonds of the EU and NATO prevented the German question from recurring. Surrounded only by friends, Germany did not have to worry about its *Mittellage*. At the same time, the U.S. military retained a limited presence in Europe (including Germany), and the former western Allies successfully transformed Germany into a peaceful and democratic nation, making the pursuit of *Sonderweg* unthinkable. The U.S. security guarantee also allowed Germans to maintain their largely antimilitaristic stance, reap the economic benefits of peace, and, at times, claim the moral high ground over Washington for its overreliance on military power.

The halcyon era for Germany ended abruptly in 2009.

This halcyon era for Germany ended abruptly in 2009. The Great Recession and the subsequent EU debt crisis led many EU countries to demand German leadership. But when Germany imposed its solutions on the rest of the continent—for example, by insisting that southern European countries follow austere economic policies—it triggered accusations of rising German hegemony. In 2015, for example, the ruling Greek Syriza party claimed that Germany had threatened "immediate financial strangulation" and "annihilation" of Greece if the Greek government rejected the harsh terms of the proposed EU bailout.

The first major shock to European security came in 2014, when Russia invaded Ukraine. Merkel's once pragmatic relationship with Russian President Vladimir Putin deteriorated rapidly. Sidelining the United States, Germany joined France in brokering a shaky truce in eastern Ukraine, led EU efforts to impose sanctions on Russia, and sent German forces to reassure nervous Baltic NATO allies. Years of mercurial U.S. policy toward Moscow that veered back and forth between efforts to repel Russian influence in eastern Europe and attempts to "reset" the strained relationship left Germany with little choice but to take the lead.

Against this backdrop, Trump's election heightened the tensions among competing factors: the need for German leadership, the limits of German power, and Europe's intolerance of German dominance. During the campaign, Trump displayed indifference to the possible breakup of the EU and praised nationalist political movements such as the Brexit campaign, a stance that threatened Germany's core political identity as the heart of the EU and put pressure on Berlin to defend the union. Worse still, by declaring NATO "obsolete," Trump undermined the system that has kept Europe safe and Germany restrained for over half a century.

But worst of all, by appearing to cozy up to Putin, Trump put Germany in a new *Mittellage*—this time between the White House and the Kremlin. The effect was not confined to Germany; the prospect of a rapprochement between Putin and Trump has left the entire EU in an uncomfortable position. In January, when Donald Tusk, the president of the European Council, ranked the threats facing the EU, he highlighted not just the traditional menaces of jihadism and Russian aggression but also "worrying declarations by the new American administration." Across the continent, leaders feared that Trump would support populist forces seeking to break up the EU or trade away the U.S. nuclear guarantee of European security in a grand bargain with Russia.

A DANGEROUS IDEA

Should Europe find itself caught between a hostile Russia and an indifferent United States, Berlin would feel pressure to defend Europe militarily rather than just politically. But then it would face the problem of how to guarantee European security without reviving fears of German hegemony. And if Germany boosted its military power without integrating it into the European project, that might well lead to German isolation and the breakup of the EU.

Nuclear weapons seem to offer Germany a way out of this impasse. In the eyes of their proponents, they would deter existential threats and reduce European dependence on the United States without raising fears of German dominance. "Nuclear power projection on the part of Berlin would be accepted as legitimate," Terhalle wrote, because "World War II has no real political weight in today's relations." Instead,

Bombs away: at an antinuclear demonstration in Biblis, Germany, April 2010

JOHANNES EISELE / REUTERS

it is the "perception of threat from Russia" that determines policy in central and eastern European countries. This claim rests on a shaky foundation. Russia's actions in eastern Ukraine may be driving European nations together, but the fear of a German resurgence has not gone away entirely. If Germany built nuclear weapons, the EU's current unity would quickly fracture.

Even if the rest of the EU accepted German nuclear weapons, that would not end Europe's security woes. Nuclear weapons cannot deter the kind of limited wars Russia has waged so successfully in Crimea and eastern Ukraine, whoever provides the deterrent. Even simply replacing the U.S. nuclear deterrent for Europe with a German- or EU-led one would not be easy. The United States struggled for much of the Cold War to convince the Soviet Union that it would defend West Berlin with nuclear weapons, especially given the Soviets' conventional military superiority; Germany would face the same problem as it tried to persuade Russia of its willingness to use nuclear force to defend other EU countries, especially the Baltics, which are under the greatest threat from Russia.

Both France and the United Kingdom already possess nuclear weapons. Their experiences offer mixed lessons of the benefits of a nuclear arsenal. Both gained some independence from the United States after fielding their own nuclear forces, yet both still relied on the United States to supply conventional military force in Europe, and neither country's nuclear arsenal could match the Soviet Union's. Nor did their nuclear forces do a great deal to improve NATO's collective defense. Only the United Kingdom pledged to use its deterrent to defend other NATO members, while France stayed outside NATO's nuclear structure. And it took the United Kingdom a great deal of time and effort to make its commitment credible. Germany should remember that simply possessing nuclear weapons does not automatically make allies more secure.

Nuclear weapons cannot deter the kind of limited wars Russia has waged so successfully in Crimea and eastern Ukraine.

Regardless of the ultimate effect of a nuclear arsenal, Germany would have to surmount major technical, political, and security hurdles before acquiring one. It would need to either repurpose its nuclear energy infrastructure for weapons production or sprint to the bomb from new military facilities. Either path would take substantial time and effort. Each would involve activities that, if detected, would ring alarm bells. Germany would struggle to keep any effort to build nuclear weapons in military facilities secret given the vast construction work this would involve. Nor could it simply rely on its civil nuclear infrastructure. In the wake of the 2011 Fukushima nuclear accident in Japan, Merkel's government decided to phase out all of Germany's nuclear power plants by 2022. This decision makes it difficult for Germany to take technical steps toward the bomb under the guise of a peaceful program. Even seemingly innocuous moves, such as keeping a few large reactors online past the deadline, would raise suspicions.

In any case, the time would eventually come when Germany could no longer hide its nuclear ambitions. At that point, the German government would face intense domestic political opposition and perhaps even civil unrest from a population that determinedly opposes nuclear weapons. A March 2016 poll found that 93 percent of Germans favor an international ban on nuclear weapons and that 85 percent would like to see the United States remove all its nuclear weapons from Germany. The German population would not back a public nuclear weapons program, and any leader who authorized a clandestine effort would face political ruin.

Moreover, a German nuclear arsenal would risk bringing down the international nonproliferation regime. Before acquiring the bomb, Germany would have to leave the Nuclear Nonproliferation Treaty, a move that would threaten the continued existence of the treaty itself. Despite the NPT's successful record, the treaty's future already looks uncertain. Under the NPT, states with nuclear weapons agreed to pursue disarmament, but in recent years, progress toward this goal has stalled, and nonnuclear states have increasingly voiced their frustration that the nuclear weapons states have not fulfilled their promise. A foundational goal of the treaty, moreover, was to keep Germany from building nuclear weapons. If Berlin defected, the nonproliferation regime might collapse entirely, because other countries would no longer feel bound by the treaty's collective bargain.

Germany would also need to modify or withdraw from the so-called Two Plus Four Treaty, the agreement on reunification that East and West Germany signed with France, the Soviet Union, the United Kingdom, and the United States in 1990. In that document, Germany affirmed its "renunciation of the manufacture and possession of and control over nuclear, biological, and chemical weapons." The treaty was meant not only to end the Cold War but also to prevent any future German *Sonderweg*; abrogating it would bring back the German question and deliver an affront to the four countries that paid such enormous costs to defeat Nazi Germany in World War II.

Worst of all, the pursuit of a German nuclear arsenal, rather than deterring aggression, could increase the risk of conflict in Europe, since Russia would likely work to prevent Germany from acquiring the bomb. Moscow could assassinate German nuclear scientists, use cyberattacks to sabotage German nuclear industrial infrastructure, and perhaps go so far as to strike German nuclear facilities from the air. Even covert operations could quickly spiral into outright confrontation.

Even if Germany managed to acquire nuclear weapons, it would then face the daunting task of making sure they could survive a Russian attack. In recent years, Russia has moved its missiles westward, targeting Germany and other NATO members. Now that Russia has allegedly deployed multiple cruise missiles in violation of the 1987 Intermediate-Range Nuclear Forces Treaty, under which the Soviet Union and the United States agreed to abandon midrange missiles, its ability to destroy a fledgling German nuclear stockpile is only growing. Unless Germany managed to conceal and protect its nuclear weapons almost immediately, German leaders could, during a crisis with Russia, feel pressure to launch a preemptive nuclear attack against Russia in order to avoid losing the arsenal to a Russian first strike.

These formidable barriers to a German nuclear program have led some to return to the idea of a British-French deterrent. But the United Kingdom's impending departure from the EU leaves Germany with the sole option of reaching out to France. This would not be the first time that France and Germany have considered a joint European nuclear deterrent. In 1957, shortly after the Suez crisis, when tensions between France and the United States were running high and the French government began to doubt the credibility of the U.S. nuclear guarantee, France suggested to Italy and West Germany that the three countries develop nuclear weapons together. The next year, French President Charles de Gaulle took office and quickly canceled the secret negotiations and began an indigenous French nuclear program, only to raise the prospect of nuclear cooperation again with German Chancellor Konrad Adenauer in 1962. And in the 1990s, France offered to extend its nuclear umbrella to Germany after reunification in an attempt to decrease U.S. influence in Europe. All these efforts failed, in part because the French consistently refused to relinquish control over their arsenal, as to do so would have been to give up French autonomy in foreign policy. This calculus has not changed, a fact that should give German policymakers pause today. Moreover, by reviving such talk, Berlin risks giving isolationist elements in the Trump administration exactly what they want: an excuse to disengage.

STRONGER TOGETHER

Nuclear weapons will not solve Europe's current woes, but Washington should not dismiss German nuclear yearnings, as they reflect a growing sense of uncertainty in Berlin. This uncertainty stems from an incoherent U.S. policy toward Russia, which began well before Trump took office. Since 2000, Washington has faced competing policy options: focus only on defending NATO allies and containing Russia; offer indefinite support to former Soviet states, such as Georgia and Ukraine, that struggle under Russian dominance; or cooperate with Russia to tackle global security challenges.

The United States has experimented with all three. It has welcomed new countries into NATO despite dire, if vague, warnings from Russia. Washington continues to keep the door to the alliance open in the hope that former Soviet states will eventually join, but it lacks the resolve to force Moscow to respect the sovereignty of countries such as Georgia and Ukraine. At the same time, successive U.S. administrations have tried to cooperate with the Kremlin on various issues, such as counterterrorism and stopping the Iranian nuclear program.

Three years after the annexation of Crimea and the start of the war in Ukraine, Washington has yet to choose a clear policy. This inconsistency, coupled with Russian aggression, has led Europe to the brink of a new Cold War. Add to this Trump's erratic stances toward Russia and NATO, and it is not surprising that Europeans are asking what Washington's long-term priorities really are and how the United States intends to achieve them.

This crisis in transatlantic relations presents many perils, but it also offers opportunities for leaders in Berlin and Washington. For Germany, that means taking practical steps to increase Europe's ability to provide for its own conventional security, not proposing dangerous nuclear fantasies. Germany should not focus on NATO's blunt spending goal of two percent of GDP but instead seek closer cooperation among national EU militaries; contribute larger and better-equipped forces to the EU Battlegroups; encourage EU countries to avoid duplicating one another's military R & D, production, and procurement; overcome German national pride and work to develop a common European defense industry; and increase the resilience of EU states to Russian propaganda.

For its part, Washington must recognize the limits of U.S. power and focus on strengthening its existing alliances in Europe. To that end, it should send more high-ranking officials to the Baltics and deploy another light battalion to the region to reinforce U.S. security commitments to NATO's most vulnerable eastern members. Washington should also probe whether Moscow's aims are limited to protecting its core interests in the former Soviet states or whether the Kremlin has broader ambitions. To this end, U.S. officials should put the option of ending NATO's open-door policy on the table during future negotiations with Russia over the war in eastern Ukraine. Should this strategy fail to stop the Kremlin from threatening NATO members, the United States could always return to its proven approach of containment.

For this policy to work, Germany must play its well-established role of interlocutor. Washington should take up a long-standing German suggestion to embark on a round of negotiations concerning European security among Russia, the United States, and all European countries. In 1975, a similar meeting in Helsinki improved communication between the Soviet and U.S. militaries and produced a tentative commitment to respect individual rights and freedoms. EU and U.S. officials should aim for an agreement that increases the security of both NATO members and Russia, ends the bloodshed in Ukraine, and helps develop the economies of former Soviet states. Past U.S. administrations have shown few signs that they believe in such a vision. The Trump administration should take this opportunity to rethink U.S. policy.

As the sudden desire for nuclear weapons in Germany demonstrates, even offhand remarks calling into question European security can have serious consequences. So the Trump administration should change its tune and instead buttress the EU and NATO whenever possible. It should also offer a broader vision for Russian and European security. U.S. leadership would allow Germany to delicately balance the EU's need for direction against its fears of German hegemony. Together, Germany and the United States can renew the transatlantic bonds on which Europe is built.

Start-Up Palestine

How to Spark a West Bank Tech Boom

Yadin Kaufmann

For decades, Israeli and Palestinian politicians have pursued a political solution to the Arab-Israeli conflict, only to see their hopes dashed again and again. Today, the prospects for a comprehensive peace agreement remain dim. Policymakers must therefore start looking for other ways to improve the situation on the ground and preserve the possibility of a two-state solution.

Creating a viable Palestinian economy will be central to this effort. Should the Palestinian economy collapse, that failure would hurt Palestinians and their neighbors just as much as a failed political state would. And it would jeopardize their future as well, since no peace deal will succeed unless the Palestinian economy is able to stand on its own.

The idea of economic development as a precursor to peace is not new. But so far, efforts to boost growth have largely failed. Per capita GDP in the Palestinian territories is currently just $2,000, and a quarter of the labor force is unemployed. What growth the economy has achieved has come primarily from foreign aid and cash remittances from Palestinian workers abroad. And that aid—which in any case has done little to create good, high-paying jobs—has been declining since 2012.

As the economy has stagnated, a sense of despair has grown among many Palestinians. Such hopelessness, combined with the already volatile mixture of religious extremism, a large population of young people, and a stalled peace process, could prove extremely dangerous.

To break out of this trap, the Palestinians must look to private industry, not external aid agencies or the territories' bloated public sector, to drive growth. More specifically, technology start-ups offer the best path forward. High-tech start-ups create well-paying jobs and support growth elsewhere in the economy while avoiding many of the roadblocks that prevent other Palestinian businesses from succeeding.

YADIN KAUFMANN is a Founding Partner at Veritas Venture Partners and Co-Founder of Sadara Ventures, the first venture capital fund to invest in Palestinian technology companies.

That said, the Palestinians cannot create a thriving technology ecosystem by themselves anytime soon. Israel and the United States will have to help. If entrepreneurs, engineers, and venture capitalists from all three places work together, they can generate prosperity and hope for millions of Palestinians—and perhaps improve the dimming prospects for peace.

INVESTMENT OPPORTUNITY

The West Bank has a small technology sector, but it is already changing the economy. As recently as five years ago, the territory had no venture-backed start-ups. Today, it boasts several local investment funds and accelerators, and multiple international funds have made initial investments in the territories. At least 15 start-ups have received some funding and are developing products and services aimed at foreign markets, primarily in the Gulf states. Thanks in part to these companies, the Palestinian technology sector now employs around 8,500 people, up from 5,000 in 2011. The sector now accounts for over six percent of Palestinian GDP and is growing at around ten percent each year.

Most Palestinian technology companies are relatively young, having been founded in the past five years. And that youth is an asset: although most start-ups fail, those that succeed go on to create more jobs than established firms and generate great wealth for their founders and key employees. In the Palestinian territories, each new job in the technology sector contributes $190,000 in economic output every year, compared with an average of $16,000 for jobs in other sectors. And technology jobs offer the highest wages: an average of $29,000 per year, compared with less than $6,000 for jobs in other parts of the economy. Thanks to those high wages, each technology employee helps create another three jobs—by eating out at local restaurants, buying goods in local stores, and purchasing new homes.

So far, however, the emerging Palestinian technology sector has not been able to create enough opportunities to turn the local economy around, or to stem the territories' long-running brain drain. Every year, around 2,500 Palestinian students graduate with degrees in fields related to information technology. But since local technology jobs remain scarce, many of them must either leave their chosen profession or leave the territories. Both types of exoduses damage the economy.

This situation is all the more frustrating because a huge market awaits would-be Palestinian technology entrepreneurs. In recent years, Arabs in the Middle East have adopted new technologies faster than people anywhere else in the world. The number of Arabic-speaking Internet users has soared from an estimated five million in 2001 to more than 170 million today. The proportion of the population using smartphones in the countries of the Gulf Cooperation Council (GCC)—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—is among the highest in the world. E-commerce is also growing quickly throughout the region. Frost & Sullivan, a consulting firm, has estimated that by 2018, it will reach $10 billion a year in the United Arab Emirates alone.

Yet Arabic-language Internet content has not kept pace; start-ups have only recently begun to supply the sorts of sites and services in Arabic that Western users have flocked to for years. Part of the problem is that Western technology companies don't have a firm grasp of Arab cultural and purchasing norms; for example, few people in the Arab world use credit cards online. Western technology firms have generally avoided making investments in the region, preferring to focus on larger and more familiar markets closer to home or in Asia. Technology sectors have sprung up in recent years in several Arab countries, notably Dubai, Egypt, and Jordan, but they are still small.

Israel has refashioned itself into a global technology leader.

If Palestinian entrepreneurs can find a way to fill some of these gaps, they will transform their society. To understand the potential impact, look no further than next-door Israel. In the mid-1980s, the Israeli economy still reflected the country's socialist origins. Per capita GDP was around $6,000 in today's dollars. Growth was sluggish, inflation was rampant, and the country's best-known export was oranges. Today, by contrast, Israel's per capita GDP stands at $36,000. The country has refashioned itself into a global technology leader with a concentration of entrepreneurial activity and success second only to that of Silicon Valley. Spurred by its excellent schools and universities, military conscription, strong links to the United States, and several government programs to encourage investment in high-tech start-ups, Israel has truly become the "start-up nation" about which Dan Senor and Saul Singer first wrote in 2009.

To be sure, the Palestinian economy is currently even weaker than Israel's was in the mid-1980s. The territories also lack several elements that contributed to Israel's growth: a powerful military that funds technology research; an influx of engineers and scientists from the former Soviet Union in the early 1990s; and, of course, sovereignty. The occupation and the persistent threat of violence drive talented young people away from the West Bank and Gaza, prevent many Palestinians from adopting advanced technologies, make traveling to and within the territories more difficult, and discourage foreign investment. What's more, the Palestinian educational and legal systems are in dire need of reform; schools generally focus on rote learning rather than critical thinking, and local laws do not allow Palestinian companies to use various legal and financial tools, such as issuing preferred shares for investors or stock options for employees, that technology companies elsewhere rely on.

Still, Palestinian society today shares many similarities with preboom Israel. Like Israel in the mid-1980s, the Palestinian territories have a small domestic market and few natural resources, so growth must come from a well-educated work force that can export to the wider world. Like Israel, the West Bank and Gaza boast a young and educated population, a sizable network of well-placed expatriates working in technology companies, and access to a vast potential foreign market. Israeli companies have traditionally targeted consumers in the United States; Palestinian start-ups could target the 390 million inhabitants of the Arab world. The technology revolution in Israel has generated vast export revenues, attracted billions of dollars in foreign investment, invigorated the Israeli economy, and improved Israel's global standing. Repeating the formula has the potential to do the same for the Palestinian territories.

Growth led by technology start-ups would allow Palestinians to evade many of the constraints currently holding their economy back. Selling digital services to the Arab world would reduce the Palestinians' extreme dependence on trade with Israel, which today accounts for around 82 percent of exports from the territories. Digital exports would also largely avoid Israeli security restrictions on shipments of physical goods. And political tensions would not have a significant impact on technology companies, since they generally don't require large investments or government involvement. A few talented people with an idea and some seed capital can form a start-up quickly, and largely on their own.

Looking for networks: a freelance Web programmer in Nablus, West Bank, April 2013

MOHAMAD TOROKMAN / REUTERS

BUILD IT, AND THEY WILL COME

The idea that the technology sector could lead Palestinian development is not as fantastic as it might sound: several Palestinian start-ups have already developed products aimed at export markets and are growing fast, offering living proof of what others can hope to achieve.

So far, most Palestinian start-ups have taken models that have worked elsewhere, such as online hotel booking, and customized them to suit Middle Eastern markets. No Palestinian technology company has yet achieved the ultimate goal of technology firms: selling themselves to a larger corporation or going public by listing their shares on a stock exchange. But several are making rapid progress, and such "exits," as they are known in the tech world, will come. When they do, they will provide a major boost to the entire sector. A few successes will encourage more talented young Palestinians to start businesses and tempt others who left for greener pastures abroad to return, bringing valuable experience back with them. Once investors see an investment in a Palestinian technology company turn a profit, more capital will flow into the region. The founders and employees of the first wave of start-ups will take the experience and networks they've built and start new ventures. Multinational companies will take notice and establish joint enterprises with Palestinian start-ups, invest in them, or even acquire them as a way to increase their market share in the Middle

East. This is the way of technology ecosystems everywhere; the same virtuous cycle powered the development of Silicon Valley and the Israeli high-tech boom.

START-UP REGION

The Palestinian technology sector is unlikely to complete this cycle by itself anytime soon, however, and the region can't afford to wait. The territories' educational, legal, and regulatory systems need reform. Israeli restrictions on movement into and within the territories hamper business and restrict some foreigners, especially Israelis, from visiting. Worst of all, Palestinian entrepreneurs currently work in near isolation. No multinational technology company has an office in Ramallah, and foreign executives rarely visit. And to date, only a handful of experienced Palestinian expatriates have returned home. The typical Palestinian entrepreneur has never worked at a technology company and does not know many people who have. Finally, there are few experienced Palestinian technology investors who can make introductions and advise novice founders.

This is where Israel can help. Israel's technology sector has benefited hugely from cooperation with the established technology and financial ecosystems in Silicon Valley, in the Route 128 area around Boston, and on Wall Street. Countless Israeli engineers studied in the United States, gained experience at leading U.S. companies, raised funding from U.S. sources, partnered with U.S. firms for development and marketing, sold their businesses to U.S.-based companies, or took them public on the Nasdaq.

Israel can play the same role for aspiring Palestinian entrepreneurs today. The country is home to outposts of 300 of the world's leading multinational corporations, including such giants as Amazon, Apple, Facebook, Google, and Microsoft, most of which have already acquired Israeli companies. The Israeli R & D operations of Cisco, Microsoft, and others have begun to work with Palestinian developers; many others will find natural partners across the Green Line.

Hundreds of Israeli entrepreneurs have already completed the journey from idea to exit and thus can provide contacts and mentoring. Some of them operate in the same sectors as Palestinian entrepreneurs, such as e-commerce, Internet services, and gaming, and so can help them access and understand international markets. Israeli venture capitalists, some of whom represent the leading Silicon Valley funds, can provide funding and support.

Best of all, cooperating to build Palestinian start-ups is in Israeli's self-interest. Unlike the political negotiations between the Israeli and Palestinian governments, business dealings are not zero-sum. Israeli technology companies are largely shut out of the huge Middle Eastern market, as a result of cultural, legal, and political barriers. Partnering with Palestinian companies—whose employees speak Arabic, understand Arab cultures, and in some cases have worked in Gulf countries—could change all of that.

Experienced Israeli entrepreneurs could also employ Palestinians directly. Israel's booming technology sector has created an extremely competitive market for talent, making educated West Bank developers attractive to Israeli employers. These employers also understand the benefits of creating jobs for those nearby rather than bringing in workers from, say, India or eastern Europe at a similar cost. Again, a few bold firms have already shown the way. In 2012, for example, Zvi Schreiber, a British Israeli serial entrepreneur, founded Freightos, an online freight marketplace aimed at simplifying the logistics of the global shipping market. The company has raised venture capital funding from several international investors, including Sadara Ventures, a firm I co-founded. Most recently, in early 2017, Freightos raised $25 million from a group of funders led by GE Ventures. Schreiber decided to build his R & D team in Ramallah and recruited a Palestinian engineer, Fareed Qaddoura, who had spent years in senior positions at Amazon in Seattle, to be the company's chief technology officer. Today, Qaddoura manages a team of several dozen engineers in Ramallah and Jerusalem for the fast-growing company.

Entrepreneurs everywhere tend to shun ideology in favor of pragmatism.

Such companies reveal the potential for cross-border cooperation. Although Israeli and Palestinian entrepreneurs have vastly different life experiences, they face many of the same challenges, and they know that they have a stake in each other's future. Entrepreneurs everywhere tend to shun ideology in favor of pragmatism. And many Israeli entrepreneurs understand that Palestinian economic development will reduce political tension—and thus is in their country's interest as well as their own.

Over the past three years, the Palestinian Internship Program, which I started in 2014, has brought several dozen recent Palestinian university graduates in engineering and finance to Israel for three-month internships at multinational and Israeli companies. The program helps interns gain valuable skills and contacts, while also benefiting their host companies and changing Israeli attitudes. The signs of the shift aren't hard to find. A decade ago, when I first started working with Palestinians in the technology sector, friends and colleagues typically thought I was crazy. "What could you possibly be looking for in Ramallah?" they asked. Today, many Israelis get it. Once they hear about the technology story unfolding in the Palestinian territories, they see the hope such programs represent. People no longer ask what's wrong with me. Instead, they ask, "How can I help?"

FOUNDATION FOR PEACE

Economic growth will not solve the Israeli-Palestinian conflict on its own; only a political solution can address Palestinians' aspirations and Israelis' concerns about security. But a solid economic footing and business partnerships across the border would help politicians reach a deal and ensure that a future Palestinian state endures.

Palestinian economic development, especially if it comes in part from working with Israelis, would also isolate violent extremists and strengthen those Palestinian factions that favor a two-state solution. Indeed, it would create important lobbying groups for a political settlement on both sides of the Green Line. The experiences of Northern Ireland and South Africa show that lobbying by businesspeople can help bring peace. The same could work for the Israelis and the Palestinians.

Bilateral business relationships can undo the damaging myth—promoted by partisans on both sides—that there is "no partner for peace." Many Israelis currently blame the Palestinians for responding to the 2005 Israeli withdrawal from Gaza by attacking Israel with rockets rather than by building their own economy. Were the Palestinians to focus on entrepreneurship today, that might begin to change Israelis' minds. Those Israelis who help Palestinian technology businesses will also help change attitudes on the other side, among a people who have come to see Israelis as only soldiers and settlers.

Of course, changing such attitudes will not be easy. Many Palestinians believe that until the Israeli occupation of the West Bank ends and a Palestinian state is established, Palestinians must refrain from doing anything that treats the status quo as normal. This position has deterred many Palestinian businesspeople from openly cooperating with Israelis.

But those who believe in a two-state solution should strongly support cooperation. Palestinian-led boycotts of Israeli goods and services have not had a significant economic impact on Israel—but they have helped condemn the Palestinian economy to slow growth. Some Palestinians still fear that those Israelis promoting economic cooperation with Israel are hoping to buy them off by trading prosperity for their acquiescence in the continued Israeli occupation of the West Bank. Yet Palestinians need not waive their political demands in order to work with Israeli technology companies and investors. On the contrary, increased business interaction will make Israelis more sympathetic to Palestinian aspirations, since they will be hearing about them directly from their business partners.

Although many Palestinians might prefer to find other partners to build their emerging technology sector, only the Israelis can provide the necessary knowledge and assistance in the near term. Distance, fear, and ignorance combine to ensure that there is little appetite among technology entrepreneurs outside the region for engaging deeply in the Arab Middle East. Few people are even aware that a Palestinian technology ecosystem is beginning to emerge. Silicon Valley is far away, and its investors and entrepreneurs are busy with what they see as larger opportunities. Europe, although closer, has struggled to develop its own start-up culture.

Some Israeli businesspeople may worry that, whatever its potential, cooperation with Palestinians remains too risky given the ever-present threat of violence. In the technology sector, however, this concern is mitigated by the fact that colleagues can communicate remotely and share their work without having to move physical products. Israelis themselves have addressed similar concerns from international partners in recent years by noting proudly that during periods of conflict, Israeli start-ups continued to deliver their products on schedule, even as missiles rained down on Israel.

AMERICA'S ROLE

Although most of the responsibility for developing the Palestinian economy lies with those who live in the region, the United States can and should play a crucial role, both by working directly with Palestinian technology firms and by acting as a bridge to Israel. U.S. companies should collaborate with local partners to develop, customize, and market products and services in the Middle East. U.S.-based multinationals should consider opening R & D centers in Ramallah. American firms should help Palestinian companies market their products abroad. And American engineers, financiers, and executives should offer mentorship to Palestinian entrepreneurs and their employees to fill the gaps in their international networks and experience.

Washington should also do its part, by drawing on a successful program it launched four decades ago: the Israel-U.S. Binational Industrial Research and Development Foundation, or BIRD, to which Israel and the United States each contributed $55 million in 1977. BIRD introduces Israeli start-ups aiming to develop a new product or service to large U.S. companies and then provides grants equal to 50 percent of the development costs, with the remainder coming from venture capital funds and other sources in the private sector. The program has been a runaway success. It has poured millions of dollars into Israeli start-ups, enabled U.S. companies to provide valuable know-how to fledgling Israeli ventures, and supported projects that have generated billions of dollars in revenues.

The U.S. government should replicate BIRD's success by establishing a similar foundation to provide matching funds for new business ventures that include a Palestinian company and an Israeli or U.S. company. U.S. technology companies could participate through the R & D centers that many of them have already established in Israel.

This model would be both cheap and easy to implement. Given the low cost of labor in the West Bank, $50 million would suffice to sustain the program for several years. The United States could provide part of this sum by redirecting some of the over $200 million in annual bilateral assistance it currently provides to the West Bank and Gaza. Since this would not involve increasing the foreign aid budget and the approach has proved so effective in Israel, the Trump administration should consider it a cheap way to fulfill Trump's promise, made at a press conference in May with Mahmoud Abbas, President of the Palestinian Authority, to work to "unlock the potential of the Palestinian people through new economic opportunities." The U.S. government could also ask GCC countries to contribute, especially as many of the products built by the resulting ventures will flow into Middle Eastern markets. Support from the GCC would be crucial, as it would make participating in joint ventures with Israeli companies more publicly acceptable for Palestinian firms.

Neither the Palestinian Authority (which lacks the resources) nor the Israeli government (whose involvement would complicate matters politically) is likely to provide financing. But getting the Palestinian Authority to officially bless the program would increase the likelihood that Palestinian entrepreneurs and other Arab entrepreneurs and governments will accept the idea. To facilitate collaboration, the United States should ask Israel to loosen restrictions on Israeli, Palestinian, and foreign technology workers wishing to cross the border—and remind Jerusalem of all the ways that doing so would be in its interests.

Over the past two decades, U.S. and Israeli politicians have come up with various ideas designed to boost the Palestinian economy, from building industrial parks to creating the $4 billion investment program announced by U.S. Secretary of State John Kerry in 2013. Yet all these plans have failed; they proved too complex or too expensive to work. Supporting technology start-ups, by contrast, would cost little and could start tomorrow. The risks would be low and the payoff enormous: should the Palestinians, helped by Israel and the United States, succeed in building a technology ecosystem that powers Palestinian economic growth, they will reduce their reliance on foreign aid, improve the lives of millions of people, and help lay the groundwork for lasting peace.

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The Next Energy Revolution

The Promise and Peril of High-Tech Innovation

David G. Victor and Kassia Yanosek

The technology revolution has transformed one industry after another, from retail to manufacturing to transportation. Its most far-reaching effects, however, may be playing out in the unlikeliest of places: the traditional industries of oil, gas, and electricity.

Over the past decade, innovation has upended the energy industry. First came the shale revolution. Starting around 2005, companies began to unlock massive new supplies of natural gas, and then oil, from shale basins, thanks to two new technologies: horizontal drilling and hydraulic fracturing (or fracking). Engineers worked out how to drill shafts vertically and then turn their drills sideways to travel along a shale seam; they then blasted the shale with high-pressure water, sand, and chemicals to pry open the rock and allow the hydrocarbons to flow. These technologies have helped drive oil prices down from an all-time high of $145 per barrel in July 2008 to less than a third of that today, and supply has become much more responsive to market conditions, undercutting the ability of OPEC, a group of the world's major oil-exporting nations, to influence global oil prices.

That was just the beginning. Today, smarter management of complex systems, data analytics, and automation are remaking the industry once again, boosting the productivity and flexibility of energy companies. These changes have begun to transform not only the industries that produce commodities such as oil and gas but also the ways in which companies

DAVID G. VICTOR is Professor of International Relations at the School of Global Policy and Strategy at the University of California, San Diego, and Co-Chair of the Initiative on Energy and Climate at the Brookings Institution.

KASSIA YANOSEK is an Associate Partner in McKinsey & Company's Global Energy and Materials Practice.

generate and deliver electric power. A new electricity industry is emerging—one that is more decentralized and consumer-friendly, and able to integrate many different sources of power into highly reliable power grids. In the coming years, these trends are likely to keep energy cheap and plentiful, responsive to market conditions, and more efficient than ever.

But this transition will not be straightforward. It could destabilize countries whose economies depend on revenue from traditional energy sources, such as Russia, the big producers of the Persian Gulf, and Venezuela. It could hurt lower-skilled workers, whose jobs are vulnerable to automation. And cheap fossil fuels will make it harder to achieve the deep cuts in emissions needed to halt global warming.

GET SMART

There are three trends driving the new energy revolution: smarter management of complex systems, more sophisticated data analytics, and automation. The first trend has allowed companies to become much more efficient while drilling for oil and gas in ever more complex geological environments. Beginning around 15 years ago, for example, advances in imaging technology made it easier for companies to find oil deposits in deep waters, such as in the Gulf of Mexico and off the coast of Brazil. But as oil and gas companies rushed to recover these resources, the technological demands of operating in deep waters and through thick layers of sediment and bedrock drove up costs. By 2014, new deep-water projects were so costly that many broke even only when the price of oil was at almost $100 per barrel. As the price of oil tumbled from above $100 per barrel in early 2014 to below $50 per barrel in January 2015, many of these projects stalled. By early 2016, companies had put on hold an estimated four million barrels per day of new oil output, 40 percent of it from deep-water sources.

As drilling stalled, oil and gas operators, desperate to cut costs, began to rethink the complex systems they used. Some savings were easy to find: reduced activity meant that critical equipment and services, once scarce, now sat idle. The daily cost of renting an oil rig, for example, fell by half. But the industry is also cutting costs and improving performance through fundamental productivity improvements. Simpler, standardized designs make drilling and production platforms easier to replicate, less expensive, and less likely to suffer costly delays and overruns in construction. And companies are transferring the lessons they've learned across the industry. Shell, for example, recently announced that it is applying techniques from onshore shale operations, such as drilling horizontal wells and injecting water into them, to increase production in mature deep-water fields.

Today, thanks to these innovations, the average breakeven prices of new deep-water projects have fallen, to just \$40–\$50 per barrel in the Gulf of Mexico—an important global bellwether because it is one of the most responsive regions in the world to changes in market conditions. Even though oil prices remain low (and many in the industry expect them to stay low), investment is once again growing. Ten deep-water projects were approved for investment in 2016 and the first half of 2017 alone.

Smarter management of complex systems is also reshaping the electric power industry. For decades, centralized, base-load energy generators—mainly coal, nuclear, and large hydroelectric plants—dominated the industry. But in the last two decades, governments have subsidized wind and solar energy and pushed them into the electricity system, in the hopes of diversifying their countries' energy sources, creating new jobs, and reducing emissions. Until recently, these new sources were too small to have much of an effect on the overall system.

The energy revolution will profoundly change politics, economics, and the environment.

Today, however, as the cost of renewables is plummeting and their share of the power supply is rising, they have begun to transform electricity markets. In Germany, wind and solar power account for almost 30 percent of the power mix; in Hawaii, they account for about a quarter. Traditional utilities have struggled to adapt. In March, grid operators in California shut down 80 gigawatt-hours of the state's renewable power because the grid couldn't handle the afternoon solar surge; without more capacity to store power, even larger curtailments will occur. In Texas, among many other places, prices occasionally turn negative when the wind is blowing hard but people don't need too much electricity—in other words, companies are paying customers to use the electricity they generate. Utilities that have failed to see these changes coming have floundered. The market valuations of the top four German utilities are about one-third the level they were a decade ago—in large part because they were stuck with the costs of the old electric power system even as the government provided lavish support for renewables.

Renewables are just one part of this transformation. In the coming years, utility companies may face an existential challenge from smaller and more decentralized energy systems known as "microgrids." Microgrids first emerged decades ago, driven by customers, such as the U.S. military, that prized reliability above all else and that did not mind paying more for it: military bases have to keep functioning even if the bulk power grid fails. Early adopters also included remote communities, such as in Alaska, that are far from the conventional grid. But now, microgrids are spreading to other places, such as university campuses and hospitals, where they generate reliable power and are often designed to save money by using waste energy to heat and cool buildings.

New technologies, such as fuel cells and battery storage systems (to store extra power produced by renewables), along with more sophisticated software, have led to even smaller systems called "nanogrids," which Walmart and other megastores have begun to adopt. And picogrids may be next. As more and more people rely less on the traditional grid for power (while still interconnecting with it to help ensure reliability), policymakers and companies will need to create new regulatory systems and business models. Some states, such as New York, have embraced these changes, aggressively promoting decentralization by rewarding companies that invest in decentralized systems. But no one has yet worked out a detailed plan for how to integrate new grids with traditional power systems.

HI, ROBOT

The second major source of innovation is better data analytics. Oil companies, for example, have begun to use complex algorithms to analyze massive amounts of data, making it easier for them to find oil and gas and to manage production. In April 2017, for example, BP announced that, using these methods, it had identified another 200 million barrels of oil in an existing field in the Gulf of Mexico. According to BP, data crunching that used to take a year now takes just a few weeks. And cloud processing makes it possible to generate millions of scenarios for developing an oil field. When firms can evaluate more options, production from fields can rise by five percent, with a 30 percent cut in the investment required to drill holes and begin producing oil. The industry has also begun to use data analytics for "predictive maintenance," reducing unplanned downtime by analyzing historical data to predict equipment failures before they happen. This practice, pioneered by industries such as the aircraft engine business, is helping cut costs on oil and gas rigs, where compressors and other rotating equipment can cause costly interruptions when they fail.

The third and most important trend is automation. In remote offshore oil fields, robots have already begun to perform dangerous tasks, such as connecting pipes during drilling operations, a job traditionally carried out by the versatile workers known as "roustabouts." Soon, intelligent automated systems will enable remote drilling, controlled almost entirely by a handful of high-tech workers in onshore data rooms hundreds of miles away. And companies are developing robots that can live on the ocean floor and inspect offshore pipelines and underwater equipment. At the moment, offshore oil rigs typically employ 100–200 workers, a figure that could fall. Although people remain indispensable for critical safety roles that require complex decision-making, automation will transform the industry's work force. According to a McKinsey study, within ten years, oil and gas companies could employ more data scientists with Ph.D.'s than geologists.

Changes in the industry could destabilize countries whose economies depend on revenue from traditional energy sources.

Automation has already changed the power industry, where smart meters have all but eliminated manual meter readings. In the future, automation, along with better data analytics, will make it easier to manage the variation in supplies that comes from using renewable sources such as wind and solar energy and more complex, decentralized grids. It can also make the grid more reliable. The inability of grid operators to understand what is happening in real time plays an important role in many power outages; automation and improved human-computer interaction could make blackouts much rarer.

Yet innovation can create new problems. Automation in the energy business, for example, could make it more difficult for governments to perform some of their traditional functions, such as safety regulation. When technological changes on rigs, production platforms, and grids proceeded slowly, regulators could keep up, learning and applying lessons from occasional failures. Today, the sheer complexity of highly automated systems makes observing and predicting their behavior much more difficult. So regulators will need to evolve as quickly as the industry—and develop early warning systems to identify places where oversight is required. They will need to learn more rapidly from each other. Regulators in other countries could study the Norwegian offshore oil and gas regulatory body, for example, which is becoming adept at managing the high levels of uncertainty inherent in the offshore industry, or they could learn from the U.S. nuclear industry, which has figured out how to use peer review inside the industry to judge the management of plants.

WINNERS AND LOSERS

The coming transformation of the energy industry is, for the most part, good news for the world. But as the revolution unfolds, it will profoundly change politics, economics, and the environment. Policymakers and business leaders will need to tread carefully.

For starters, sustained lower energy prices could weaken the economic and geopolitical influence of many major oil suppliers, which have relied for too long on their control of nearly all of the world's cheap oil resources. In response, some of these countries have begun to act. Last year, for example, Saudi Arabia launched Vision 2030, a program to reduce the kingdom's dependence on oil and diversify its economy. The government has announced plans to sell around five percent of the state oil giant, Saudi Aramco—the kingdom's crown jewel—in an initial public offering next year, which may help the firm become more efficient. These reforms are promising and long overdue, but they face significant resistance, and whether they can be successfully implemented remains to be seen.

Russia, too, must continue to reform. A decade ago, the Russian government could balance its budget only when the price of oil topped $100 per barrel. Today, however, the country expects to balance its budget by 2019 with oil at just $40 per barrel, even though 35 percent of the government's revenue still comes from hydrocarbons. But this situation remains unstable, and Moscow will have to continue cutting its expenditures. Other countries, such as Angola and Nigeria, have failed to introduce sufficient reforms, and the fall in energy prices has contributed to their instability. Fiscal prudence and a more reliable environment for foreign investors would help local industries get access to the latest technologies and compete in international energy markets.

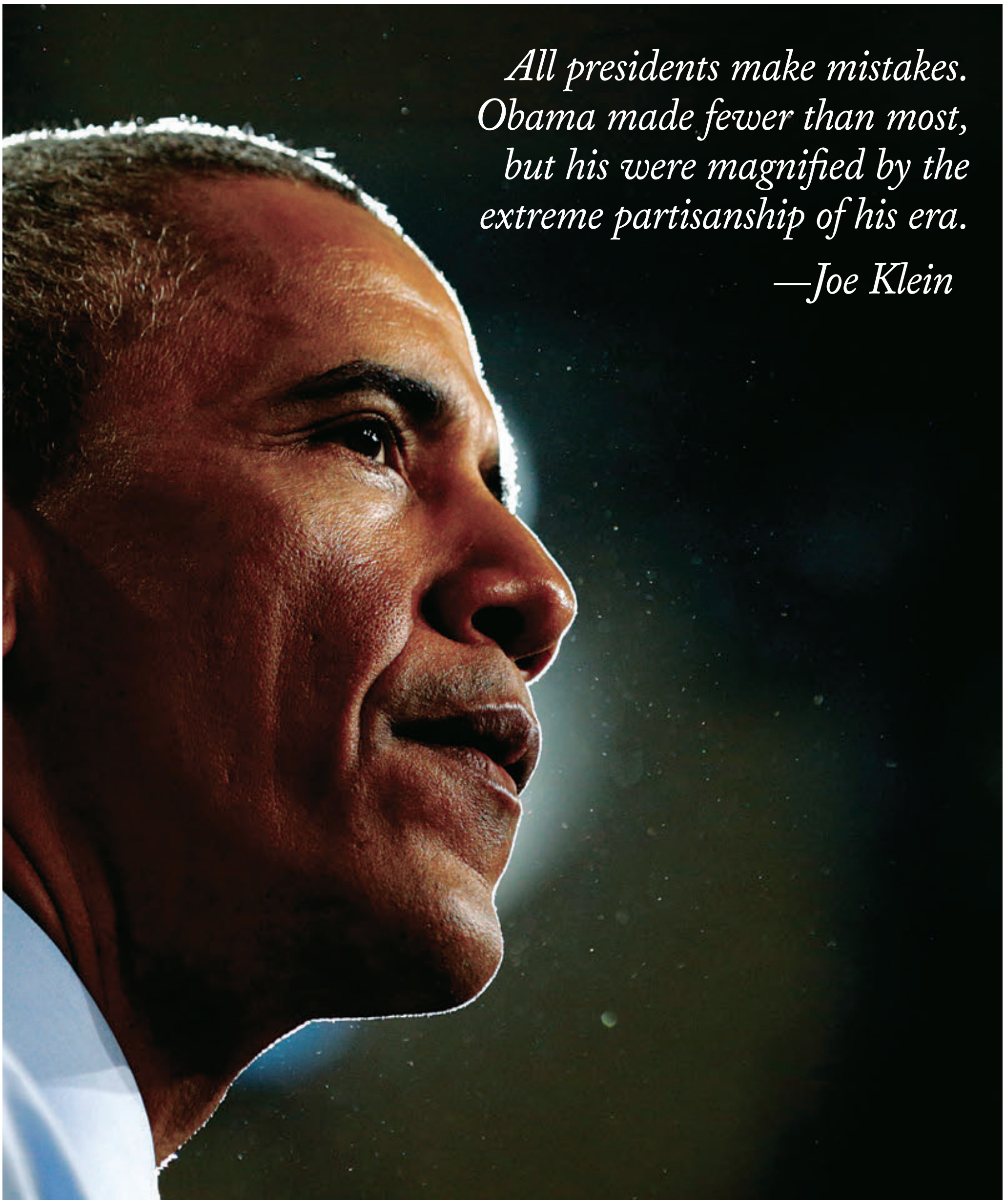
In the United States, the energy revolution will have profound effects far beyond the jobs and economic growth that cheap energy will catalyze. When it comes to electricity, the economics increasingly favor natural gas and renewables—making it even harder for coal, which accounted for almost half of U.S. electricity generation in 2007 but just 30 percent in 2016, to compete, no matter what politicians may claim. Most coal jobs are not coming back.

The United States has not yet had a well-informed public debate about how the nature of work in the modern economy is changing. The energy industry has witnessed this transformation firsthand and is well positioned to show how the work force itself can adjust. Energy companies, for example, have begun to figure out how to retrain workers over the course of their careers as jobs in power plant control rooms and on production platforms shift toward the overseeing of automated systems. Education and training are changing, too. Texas A&M, for example, is launching a master's degree in geospatial technologies specifically targeted for the oil and gas work force.

Climate change remains perhaps the greatest challenge of all. According to the latest assessment from the Intergovernmental Panel on Climate Change, the world will need to cut emissions by about 80 percent if it is to slow and, eventually, stop the rise in global temperatures. The last two decades of summits and negotiations have shown that this will not be easy. And the revolution in fossil fuel production may make it even more difficult, because the prices of carbon-based fuels are likely to remain highly competitive with those of their lower-emission rivals. The solution lies in part in investing more in innovation, and at the Paris climate change conference in late 2015, the world's biggest governments pledged to double their spending on energy R & D. So far, however, they have not delivered. Although there has been an uptick in private-sector investment, across the industrialized world, government spending on energy R & D has remained roughly flat for almost four decades.

Already, huge benefits from the technology revolution in energy are reaching consumers. The 92 million barrels of crude oil that the world economy consumes every day cost about $2 trillion less annually than that amount did a decade ago. In the United States, the energy revolution has helped sustain economic growth: from 2008 to 2014, lower prices saved the average household over $700 a year. The era in which energy policy focused on the security of raw resource supplies—access to barrels of crude oil, tons of coal, and volumes of natural gas—is over. Today, the task for policymakers is to manage the implications of a new world of cheap, plentiful energy.

REVIEWS & RESPONSES



KEVIN LAMARQUE / REUTERS

Yes He Did

Judging Obama's Legacy

Joe Klein

Obama: The Call of History
BY PETER BAKER. *The New York Times*/ Callaway, 2017, 320 pp.

Audacity: How Barack Obama Defied His Critics and Created a Legacy That Will Prevail
BY JONATHAN CHAIT. Custom House, 2017, 272 pp.

A Consequential President: The Legacy of Barack Obama
BY MICHAEL D'ANTONIO. Thomas Dunne Books, 2017, 320 pp.

"My name is Barack Obama, I'm a black man and I'm president of the United States," Obama once told his staff, as he pondered a risky domestic policy choice. "Of course I feel lucky." This was unusual. Obama was not one for melodrama. His presidency was historic—and implausible—because of his ethnicity: his middle name was Hussein, and his last name was easily mistaken for that of Osama bin Laden. He governed through memorable crises, domestic and foreign. There were landmark successes and some notable failures. But all of these happened within the context of regular political order. Obama's campaign promise of "hope and change" seemed pretty dramatic at the time; the expectations ran as high among liberals as they would later for Donald Trump's populist radicalism among some conservatives. And yet, Obama was not a radical. He was an adventurous moderate at home and a cautious realist overseas. He was careful, sometimes to a fault, thoughtful, subtle, and restrained at a time when those qualities were not highly valued by the public or the media.

It is, of course, far too early to give a measured evaluation of Obama's presidency. But intrepid journalists always try to sum things up. (I did, too, at the end of the Clinton presidency). Peter Baker's *Obama* is a coffee-table book, chock-a-block with stunning photos, that rises above its genre thanks to the quality of the author's reporting and analysis. Baker had a front-row seat for the Obama presidency, as White House correspondent for *The New York Times*. Jonathan Chait's *Audacity* is a smart, partisan account of Obama's domestic successes—and of the political forces, on the left and the right, that prevented a rational accounting of his achievements as they were taking place. Michael D'Antonio's *A Consequential President* doesn't break new ground, but it gives a more human cast to Obama's presidency than Chait's austere and policy-centric portrait.

WONK IN CHIEF

Chait does get the nature of Obama's domestic policy right: "Many of Obama's policies borrowed from and updated the moderate Republicanism that its old party had forsaken." The Affordable Care Act, or Obamacare, took its core principles, the individual mandate and health insurance markets

JOE KLEIN is a columnist for *Time*.

(called "exchanges"), from the conservative Heritage Foundation. Obama's quiet but profound shift away from fossil fuels had its roots in the environmental policies of Richard Nixon and George H. W. Bush. His essential foreign policy realism also flowed from Bush the Elder's administration. The Obama Doctrine—"Don't do stupid shit"—was the foreign policy equivalent of the Hippocratic oath, a welcome humility after George W. Bush's naive idealism and military overreach. Obama's failures, in Libya and Syria, came when he wandered away from his doctrine. Obama didn't break up the behemoth Wall Street banks, even after they had demonstrated their tendency toward moral hazard; he chose instead to regulate them, a policy that elicited some initial prudence from the banks but will be judged fairly only in the fullness of time. His greatest success, the 2009 stimulus plan, was a carefully constructed, centrist combination of tax cuts and public works.

But D'Antonio notes that the Dow Jones industrial average dropped some 300 points the day the stimulus was passed, and Chait notes that in a 2010 Pew poll, only a third of Americans asked said they believed the program had "helped the job situation." The inability of the public and the media to logically evaluate Obama's programs when they were proposed, and even after they were enacted, was a striking aspect of his presidency. Was it racism, political extremism, or—perhaps worse—a steady decline in the American public's ability to understand or care about complicated issues? The fact that the default position of the news media had moved from skepticism to cynicism—implying that every political act was a form of partisan gamesmanship—certainly played a large part.

The reaction to Obama's signature achievement, the Affordable Care Act, serves as a case study in the difficulties Obama faced as president, and the difficulties in evaluating his record even now. "The exaggerated metaphor," the prescient conservative populist Pat Buchanan once observed, "is really the staple of American political language." By the time Obama came to office, the exaggerated metaphor had devolved into flagrant misrepresentation. Republicans called Obama's health-care plan "socialized medicine," even though it depended on free markets and private insurance companies. Former Alaskan Governor Sarah Palin discerned nonexistent "death panels" in the legislation. Republican Senator Mitch McConnell of Kentucky called it "the single worst piece of legislation passed in the last 50 years." William Kristol, then the editor in chief of the conservative *Weekly Standard*, observed, "The coming Obamacare train wreck is endemic to big government liberalism."

There were serious flaws in the legislation. The state health-care markets were too narrowly drawn; they should have been regional, which would have made them more competitive. They also should have been open not just to individuals but also to all businesses, which would have increased the risk pool. The plans themselves were too restrictive, mandating too many required services; simple, catastrophic coverage would have made the program more attractive to young people. But "the coming Obamacare train wreck" hasn't come. Although insurers dropped out and some states were reduced to offering only one health plan, an additional 20 million people now have health-care coverage. Obama also made some progress toward cost containment, by giving financial incentives to health-care providers that moved away from inefficient "fee for service" systems and instead paid doctors salaries. As Chait observes, more than three-fifths of consumers still have a choice among three or more plans. He goes on: "Even at their higher levels, premiums will be almost exactly what the Congressional Budget Office had forecast when Obamacare passed."

The struggle of the Republicans in the House of Representatives to "repeal and replace" the Affordable Care Act is a testimony to the program's essential worth; it can easily be repaired. But somehow, the public perception of Obamacare was far more dire than the reality. One problem was that the media were unable or unwilling to clarify complicated policy issues. Republicans could decry it using simple sentences; compound sentences with abstruse subclauses were required to defend it. Another problem was that Obama's name was attached to the program; polls consistently found that more people favored "the Affordable Care Act" than "Obamacare." To make matters worse, compromise that it was, the act had few passionate defenders on the left—which truly favored socialized medicine.

But Obama himself, often a great communicator, was part of the problem, too. He tried to sell the program using its most popular focus-grouped elements: the prohibition on coverage caps, the ban on denying coverage due to preexisting conditions, and the provision for children up to the age of 26 to remain on their parents' plans. At the same time, he allowed a central misperception of the program to stand: that Obamacare was a giveaway for the indigent. In fact, the poor were already covered through Medicaid, whereas his was a program for uninsured working people and the self-employed.

Obama's other domestic successes were similarly muffled. He unveiled reform programs in education, such as Race to the Top, a competitive grant, that were opposed by the teachers' unions, perhaps the most powerful Democratic special interest group. He acknowledged that Head Start, the early childhood education program that was universally assumed to be successful by Democrats, had serious problems—a comprehensive government study showed that it was having a minuscule impact—and needed to be reformed. His support for alternative energy, especially through tax credits embedded in the 2009 stimulus package, helped wind and solar power surge toward the critical mass that will make Trump's efforts to revive the coal industry irrelevant. The response of the Obama administration's Justice Department to the police shooting of Michael Brown in Ferguson, Missouri, was notable for its balance: the officer was exonerated, but the city and the police department were found to be guilty of systemic racism. As was the case with so much of Obama's presidency, neither the left nor the right was satisfied.

OBAMA ABROAD

Overseas, Obama avoided major disasters during a period of historic turmoil, especially in the Middle East. The region's straight-line national borders were beginning to unravel, 100 years after the colonial powers drew them. George W. Bush's invasion of Iraq had hastened the chaos, but a radical transformation was probably inevitable. Iraq, Libya, Syria, and Yemen were theories more than countries. Afghanistan and Pakistan were rendered perpetually unstable in 1893 by the Durand Line, drawn across the Hindu Kush, which divided the Pashtun nation and led to Taliban rebellions on both sides of the Afghan-Pakistani border. Obama privately regarded Pakistan as the most dangerous place on earth, with not only the Taliban insurgency in the north but also guerrilla movements elsewhere—to say nothing of its estimated 120 nuclear weapons. Worse, this ostensible ally had a history of military coups and a penchant for harboring terrorists. Adding to the region's chaos, Saudi Arabian charities funded radical Salafists, such as al Qaeda and the Islamic State (also known as ISIS). Meanwhile, tensions between the Shiite power Iran and its Sunni neighbor Saudi Arabia devolved into proxy wars in Syria and Yemen.

Obama made the reasonable assumption that full-scale U.S. military intervention in the region would only make matters worse. Instead, he expanded the use of special operations forces, drone strikes, and cyberwarfare to limit terrorist threats to the United States. His most important and riskiest diplomatic action in the region, the deal restricting Iran's nuclear program, had the potential in the long run to give the United States leverage—and neutrality—in the Shiite-Sunni struggle. The hope was that Iran's essentially moderate and middle-class populace would eventually compel the theocratic military dictatorship to curb its nuclear excesses and perhaps even cooperate with the United States in areas of mutual interest—namely, the struggle against ISIS and the Taliban. Although the Iranian government did abide by the terms of the deal, its truculence has made this marriage of inconvenience near impossible in the short run. But in the future, a more balanced U.S. stance in the Shiite-Sunni conflict remains a possibility.

Chait, clearly more comfortable on domestic turf, dismisses Obama's foreign and national security policy in one cursory chapter. Afghanistan is barely mentioned; the growing centrality of cyberwarfare is barely acknowledged. He faults Obama for not creating a "transformational" foreign policy, "a Monroe Doctrine or Rooseveltian Big Stick," but doctrines are highly overrated in a multipolar world. And at any rate, Obama did have his Hippocratic creed, an important corrective after the recklessness of the Bush administration.

Indeed, the Obama Doctrine probably should have had a corollary: "Don't say stupid shit, either." Strangely, for a president proud of his self-discipline, there was a lot of loose talk, and it often got him into trouble. It was imprudent for the leader of the most powerful country in the world to say that Bashar al-Assad "must go" in the midst of Syria's complicated civil war, and then do little to achieve that goal. It was foolish, likewise, to establish a "redline" against the use of chemical weapons in Syria, and then not enforce it. When Assad used such weapons after Obama departed, Trump demonstrated via cruise missile that the United States could take proportionate action if the line was crossed. The Obama administration announced a "reset" with Russia and a "pivot" to Asia, both of which proved more rhetoric than reality. The president was more controlled when it came to domestic policy, but he still occasionally lapsed into unnecessary overstatement: "No matter how we reform health care, we will keep this promise to the American people: If you like your doctor, you will be able to keep your doctor, period. If you like your health-care plan, you'll be able to keep your health-care plan, period. No one will take it away, no matter what." As it happened, a relatively small number of people who had policies that didn't include the coverage mandated by the Affordable Care Act weren't able to keep their doctors or their plans—which gave Republicans additional fodder for their misrepresentations of the bill.

Still, despite those stumbles, Obama's personal style was meticulous. He studied hard and worried a lot. Baker reports that Obama told his staff after months of deliberation about the troop surge in Afghanistan, "I've got more deeply in the woods than a president should, and now you guys need to solve this." His flagrant intellectuality sometimes annoyed Republican leaders in Congress, including the Speaker of the House. "President Obama was on the telephone, and John Boehner had grown weary of the long-winded lecturing," Baker reports. "Finally, Boehner put the phone down on his desk and lit up a cigarette while the president kept talking. Mitch McConnell had similar conversations with Obama and, while he never put the phone down, he sometimes watched baseball on television while the president went on and on."

At other times, especially when the media demanded a histrionic response to an outrage that Obama didn't consider outrageous, he could seem maddeningly aloof. After the Deepwater Horizon oil platform blew up in the Gulf of Mexico, for example, the Democratic political strategist James Carville grew frustrated. "He just looks like he is not involved in this," he said on television. "Man, you got to get down here and take control of this and put somebody in charge of this thing and get this thing moving. We're about to die down here."

Obama's diffidence after terrorist attacks was more problematic. His "robotic stoicism," as Baker puts it, was meant to be tactical. The president believed that the media, and political rivals such as Trump, were overplaying the threat. Terrorism was a low-grade fever that would spike occasionally despite the United States' best efforts. In a speech at West Point in May 2014, he seemed to signal a downgrading of the war on terrorism, saying, "The threshold for military action must be higher." The timing was unfortunate. ISIS began taking broad swaths of Iraq and Syria that spring.

But Obama did take terrorism seriously—and reacted proportionately. He ratified Bush's domestic data-mining program, despite the opposition of civil liberties advocates. According to Baker, he once told his aides, without irony, "The C.I.A. gets what it needs." Obama kept the special operations pressure on, ordering the raid on bin Laden's compound and targeted drone strikes, including the killing in Yemen of Anwar al-Awlaki, a U.S. citizen who had inspired terrorists around the world. But Obama also understood that some of the so-called terrorist attacks—such as the killing of 49 people at a gay nightclub in Orlando, Florida—were better categorized as mass killings by deranged individuals. Obama stubbornly refused to use the term "radical Islamic terrorism." He also foolishly played golf on Martha's Vineyard the day after the American journalist James Foley was beheaded by ISIS, an act on Obama's part that seemed to ignore the enormity of the outrage.

When an unnamed aide celebrated Obama's subtlety and sophistication in supporting the attack on Libya by telling *The New Yorker* that the president was "leading from behind"—the Europeans launched the air strikes, with U.S. support—it became a metaphor oft-used by his opponents, a euphemism for cowardice. Over time, the reason for Obama's reticence became manifest: Europe and the Arab League had neither the interest nor the ability to build a nation after Muammar al-Qaddafi was dispatched. Libya became Obama's failure.

In the end, Obama paid far more attention to foreign and national security policy than did his Democratic predecessor, Bill Clinton, but then again, they governed in different eras. Clinton assumed the presidency directly after the end of the Cold War, a time of unprecedented global quiet and American prosperity. His training, as governor of Arkansas, and his personal interests were domestic. He thought that the greatest American contribution to global stability was the expansion of economic growth through globalization—economic policy was foreign policy, he often said. Clinton knew little about the military (he famously had to learn how to salute), and it wasn't until late in his first term, with Ambassador Richard Holbrooke's success in ending the Balkan wars, that he began to focus on events overseas. He would be criticized for allowing the growth of al Qaeda in his second term, and in retrospect, a more aggressive effort to destroy bin Laden's operations in Afghanistan might have been warranted. Clinton admitted privately that he would have liked to test his mettle in a crisis, but he was lucky: history didn't give him one.

Obama, by contrast, spent every day of his presidency at war. He came to the office inexperienced but interested in foreign policy. His ambitions greatly exceeded Clinton's. Before the economic crash of 2008 forced his attention on domestic recovery, he hoped his greatest contribution would be to change the United States' unilateral and bellicose posture toward the rest of the world, particularly the Muslim world. The address he delivered in Cairo in June 2009 was a plea for a new, postcolonial order in the region. Obama saw himself playing a dramatic role in this regard. He hoped that his rise to power would herald the end of the era of Western condescension toward the rest of the world. Instead, the world seemed to turn in a different direction: inward, toward a populist tribalism that represented the opposite of his cosmopolitan vision.

NO ESCAPE

All presidents make mistakes. Obama made fewer than most, but his were magnified by the extreme partisanship of his era—and by the expectations he brought with him. His model was Abraham Lincoln, who also governed a divided country. He used Lincoln's Bible to take the oath at his inauguration. But in the end, Obama was not a transcendent leader. No one could be. He was an admirable leader, whose eloquence could lift the country in hard times. His responses to the shootings in Sandy Hook, Charleston, and Dallas were personal and stunning. His efforts at gun control, by contrast, were a complete failure; the power of the National Rifle Association was curiously unassailable, given that most Americans agreed with the modest reforms Obama proposed. But the clarity of his mind, his relentless rationality, cut through the usual political boilerplate and bromides. Here he is explaining why the use of force was sometimes necessary, when he received a Nobel Peace Prize he knew he didn't deserve:

> As someone who stands here as a direct consequence of Dr. King's life work, I am living testimony to the moral force of non-violence. I know there's nothing weak—nothing passive—nothing naïve—in the creed and lives of Gandhi and King.
>
> But as a head of state sworn to protect and defend my nation, I cannot be guided by their examples alone. I face the world as it is, and cannot stand idle in the face of threats to the American people. For make no mistake: Evil does exist in the world. A non-violent movement could not have halted Hitler's armies. Negotiations cannot convince al Qaeda's leaders to lay down their arms. To say that force may sometimes be necessary is not a call to cynicism—it is a recognition of history; the imperfections of man and the limits of reason.

But the simple power of the speech was lost amid public controversy. The prize was awarded, conservatives said, as a sigh of European relief after the bellicose presidency of Bush. Some on the left carped that Obama was hardly worthy of a peace prize: he was leading two wars, and mounting a major counterterrorist campaign, when he spoke in Oslo. In the end, a thick and noxious cloud of partisanship and pettiness cast a shadow on everything Obama did.

History With Chinese Characteristics

How China's Imagined Past Shapes Its Present

Elizabeth C. Economy

Everything Under the Heavens: How the Past Helps Shape China's Push for Global Power
BY HOWARD W. FRENCH. Knopf, 2017, 352 pp.

The Beautiful Country and the Middle Kingdom: America and China, 1776 to the Present
BY JOHN POMFRET. Henry Holt, 2016, 704 pp.

On November 15, 2012, the day he became general secretary of the Chinese Communist Party, Xi Jinping stood onstage at the Great Hall of the People, in Beijing, to reflect back on his country's 5,000 years of history. After citing China's "indelible contribution" to world civilization, Xi called for "the great revival of the Chinese nation." And he acknowledged that others had "failed one time after another" to realize that goal. Implicit in Xi's remarks was a promise: unlike his predecessors, he would not fall short.

ELIZABETH C. ECONOMY is C. V. Starr Senior Fellow and Director for Asia Studies at the Council on Foreign Relations. Follow her on Twitter @LizEconomy.

Xi's narrative of rejuvenation has resonated deeply among today's Chinese. It places the country not only at the center of the international system but also above it, casting the nation as one that inspires emulation by the force of its advanced culture and economic achievements. It also evokes historical memories of a time when China received tribute from the rest of the world, was a source of world-class innovation, and was a fearless seafaring power. And it implies that in the past, China did not need to use force: its virtue alone engendered deference from others.

Xi is not the first contemporary Chinese leader to call for national revival. Deng Xiaoping, Jiang Zemin, and Hu Jintao all embraced the theme of rejuvenation or invigoration to remind the Chinese people of past glories in an attempt to bind them to modern China. Xi has, however, surpassed his predecessors in the sheer scale of his efforts to achieve the goal of national revival. He has put in motion a massive infrastructure plan, the Belt and Road Initiative, which is designed to revive the ancient Silk Road and the maritime spice routes that flourished as early as the Han dynasty, thus reinforcing the claim of Chinese centrality. He has also articulated the idea of a "new type of great-power relations," whereby China would enjoy the status of a global power on par with the United States. And he has revived the country's centuries-old claims to the South China Sea and other disputed areas.

Beyond providing China's leadership with a legitimating rationale at home, this narrative also has the benefit of suggesting to the rest of the world that the current situation—in which the United States is the reigning Pacific power, the global leader in innovation, and the country with unrivaled soft power—is merely a historical aberration. Xi's rhetoric suggests that China today is simply reclaiming its proper place in the global order and righting the scales of history.

Because of the confidence with which Xi, other officials, and Chinese strategists assert their historical right to future greatness—as well as the Communist Party's lack of a vibrant tradition of historiography—this story has gone largely unchallenged. Yet two fascinating new books—Howard French's *Everything Under the Heavens* and John Pomfret's *The Beautiful Country and the Middle Kingdom*—suggest that there is much more to the story. French's book raises important questions about the accuracy of the rejuvenation narrative, and Pomfret offers a nuanced study of China's relations with the United States. Both books use their historical findings as a jumping off point to explain contemporary China and advise U.S. officials formulating policy toward it.

THE PAST IS A FOREIGN COUNTRY

French pays greatest attention to China's relations with its neighbors. He doesn't dispute the basics of the rejuvenation narrative, portraying China as the preeminent power in Asia for the roughly 1,300-year period from the beginning of the Tang dynasty, in 618, to nearly the end of the Qing, in 1912. As French describes, under the principle of Chinese centrality known as *tian xia* (all under heaven), China loosely governed the region through a hierarchical order of relations in the form of the "tribute system" (although, as French notes, the Chinese did not use that term). Under that system, countries acknowledged the cultural and political superiority of China and expressed deference to Chinese authority—including literally kowtowing before the Chinese emperor in order to trade with China.

Yet French calls the rejuvenation narrative a story of "a half-idealized, half-mythologized past." In many respects, he suggests, form masked substance. While seeking to placate their giant neighbor, the countries on China's periphery often used various forms of subterfuge, subversion, and even outright defiance to get their way, contributing to a significant gap between China's self-image and the geopolitical reality. As early as 600, for example, Japan subtly began to assert its independence from and sense of equality with China. In that year, a Japanese delegation brought a letter to the Sui dynasty's emperor referring to Japan's empress as the "son of heaven in the land of the rising sun" and to her Chinese counterpart as the "son of heaven in the land of the setting sun"—implying that the two stood on equal footing.

Beginning in the early 1600s, Japan also conspired with the kingdom of the Ryukyu Islands to deceive China. While pretending to be a loyal tributary of China, the kingdom was secretly a vassal of Japan; unbeknownst to the Chinese court, a Japanese clan selected each of the Ryukyu kings. According to French, one Ryukyu leader believed that if the kingdom offended China, "it could explain things away, but if it

Don't touch my junk: an Edward Duncan painting of an 1841 battle in the First Opium War

offended Japan, it would be punished." Other regional monarchs rejected Chinese rule more overtly. An emissary of the Ming Chinese emperor once visited Burma to demand an end to that kingdom's insubordination. The king replied, "Ruling this country, I only understand that others kowtow to me, how do I kowtow to others?"

French also takes on the deeply entrenched idea that China was a fundamentally different kind of hegemon. As the Chinese version of the story goes, unlike other colonial powers, China managed its neighbors through kindness and virtue and so had little use for military power. As Xi himself noted in a speech to the Australian Parliament in 2014, "Countries that attempted to pursue their development goals with the use of force invariably failed. . . . This is what history teaches us. China is dedicated to upholding peace." Or as Chinese Premier Li Keqiang put it in a speech in London that same year, "Expansion is not in the Chinese DNA."

In French's retelling, however, China has not lacked for expansionist and colonial impulses. For example, over the course of 1,000 years, various Chinese dynasties invaded what is now Vietnam and attempted to conquer it. The Vietnamese defeated China seven times. When the Ming finally prevailed in the early 1400s, they killed as many as seven million Vietnamese in the process. And as colonial rulers, the Chinese did not prove particularly enlightened: they required Vietnamese schools to teach only Chinese, confiscated Vietnamese literature, barred local traditions, such as betel-nut chewing, and forced Vietnamese women to wear Chinese dress. No surprise, then, that Chinese colonial rule lasted only 21 years before the Vietnamese pushed out the Ming army.

French even calls into question the righteousness of the legendary Zheng He, the Ming dynasty explorer who remains much revered to this day. Zheng is typically portrayed as a peaceful admiral whose mission was to spread, in the words of two Chinese academics quoted by French, "knowledge of the emperor's 'majesty and virtue.'" But French unearths evidence suggesting that Zheng was actually an agent of Chinese expansionism; when Sumatra and Ceylon (modern-day Sri Lanka) refused to yield to China's hegemony, for instance, Zheng invaded. Although his expeditions were not designed to secure territory, they were intended to ensure that nations subordinated themselves to China, a demand that it would enforce with military power if necessary. The Chinese, it turns out, discovered Finlandization centuries before the Soviets did.

By demythologizing China's past, French provides an important addition to contemporary political debates over the nature of China's rise. Chinese scholars and officials routinely claim that their country is different from other powers—peaceful, noninterventionist, and noncolonial—to assuage concerns about its growing military strength. As French shows, however, such claims have little merit; China, like all imperial powers, used force in the service of territorial expansion.

Nonetheless, the broader rejuvenation narrative has proved so potent because it portrays the triumphal return of China to its rightful position after having endured the "century of humiliation"—the 100-plus years between the mid-nineteenth-century Opium Wars, during which China suffered dramatic military defeats and acquiesced to unequal treaties, and the Chinese Communist Party's 1949 triumph in the country's civil war. Over this period, China was penetrated, plundered, and otherwise bested by outside powers—above all, Japan. Japan not only annexed the Ryukyu Islands in 1879 but also defeated China in the First Sino-Japanese War in 1895 and invaded and occupied Manchuria in 1931 and 1932. What made Tokyo's conquests so humiliating was that the Chinese had long viewed Japan as inferior and largely derivative of their own country. China's domination by this upstart contributed to a deep-seated sense of insecurity that Chinese leaders still have yet to shake.

AN OCEAN APART

Thousands of miles away and independent only since 1776, the United States engaged with China in a radically different manner from the way the Middle Kingdom's neighbors did. As Pomfret reveals, starting in the 1780s, China and the United States enjoyed a rich, two-way relationship, with important players on both sides admiring the accomplishments of the other. In 1915, for example, the American poet Ezra Pound published his translations of Tang and Song dynasty poems in *Cathay*, a collection that inspired other American writers, such as Ernest Hemingway. Prominent Chinese figures studied in the United States, including the Nationalist leader Sun Yat-sen (who went to secondary school in Hawaii), the philosopher Hu Shih (Cornell and Columbia), and the businessman T.V. Soong (Harvard and Columbia). Many of them subsequently called on their compatriots to learn from the United States' innovative spirit and political system.

When Americans traveled to China to do business during the early 1800s, Chinese officials and merchants often described them as polite, compliant, and respectful; the Chinese particularly appreciated the Americans' preference for paying in the in-demand commodity of silver as opposed to opium. The Americans, in turn, benefited from the Second Opium War (1856–60), which, through the treaties that ended it, forced China to open more of its ports for trade with the outside world and enabled American Christians to proselytize inside the country. In the decades that followed, the number of missionaries swelled, to nearly 4,000 by 1900, many of them American, and U.S. dollars funded a number of charitable organizations, medical schools, and YMCAs and YWCAs.

Cultural exchanges between the two countries flourished. In the 1920s, basketball and baseball took China by storm. Around the same time, Chinese restaurants debuted to great acclaim in the United States, as did stories set in China—including the 1933 children's book *The Story About Ping*, featuring a duck who lived on the Yangtze River. And Chinese who trained in the United States went back to China prepared to help transform their country. Pomfret recounts the story of Shi Meiyu (also known as Mary Stone) and Kang Cheng (also known as Ida Kahn), two women who were educated—and, in the case of Kang, raised—by a U.S. missionary in China. In the 1890s, the Methodist Church supported their education at the University of Michigan's medical school, after which the two returned to China as doctors and started their own clinics. Universally admired in both

China and the United States, Shi and Kang inspired a generation of Chinese women to become physicians.

Yet as Pomfret describes, the growing interaction between the two countries also led to growing friction. In 1862, China opened up its educational system to Western ideas and established a government school known as the Tongwenguan, which originally trained interpreters in foreign languages but later expanded to teach other Western knowledge. Chinese traditionalists fought the incursion of Western intellectual influences, and many Chinese resented the American missionaries' efforts to spread Western religions. One essay, "A Record of Facts to Ward Off the Cult," claimed that church rituals included Sunday orgies and smeared blood.

The United States confronted its own debates over the relationship. In 1868, with the signing of the Burlingame Treaty, it prohibited discrimination against Chinese workers and mandated reciprocal treatment for Chinese and Americans residing and traveling in each other's countries. But then came the long depression in the United States that began in 1873. Some Americans blamed Chinese immigrants for the poor economy, and anti-Chinese sentiment flared. In 1882, Congress passed the Chinese Exclusion Act, which banned all Chinese immigrants.

Unlike China, the United States never had a deep debate over the insidiousness of the values and ideas flowing across the Pacific. But some Americans did have concerns about undue Chinese influence. When Madame Chiang Kai-shek, the Wellesley-educated first lady of Nationalist China, traveled to Washington in 1943, President Franklin Roosevelt and other U.S. officials worried that her call for help in defeating the Japanese would undermine his Europe-first policy. And in the wake of China's successful communist revolution and the Korean War, Washington feared that American prisoners of war had been brainwashed into seeking to spread communism on their return. Rather than celebrate the soldiers' homecoming, the U.S. Defense Department locked them up and subjected them to intense psychiatric deprogramming.

BACK TO THE PAST

French and Pomfret could easily have limited their ambitions to writing informative new histories of China's foreign relations. Both, however, try to use their findings to enhance understanding of China today and to offer advice to U.S. policymakers.

The parallels between China's historical relations with the outside world and its relations today are easiest to see in the country's relationship with the United States. As in the past, Pomfret notes, the Chinese debate whether the country should emulate the West's self-reliance, innovation, and ability to meld so many cultures or reject Western influence in order to preserve an essential Chinese culture. Meanwhile, China's current efforts to spread its own values—by setting up government-funded cultural centers called Confucius Institutes around the world and by broadcasting state-run English-language radio and television—are increasingly raising concerns among U.S. officials.

French, too, finds ample evidence that China's historical mindset continues to resonate. He suggests that its rejection of the decision by the Permanent Court of Arbitration (which found the country's claim to all the territories in the South China Sea within the so-called nine-dash line to be without merit) exemplifies China's traditional sense that its great-power status allows it to ignore international law. Echoes of imperial China's tribute system can be heard in what French characterizes as China's main message to the rest of Asia: "In order to ensure your prosperity, hitch your wagons to us. Yes, we expect deference, but isn't that a small price to pay for stability and co-prosperity?" According to French, some in the region actually accept this message and are willing to return to the past. The Philippine scholar Eduardo Tadem, for example, argues that states should reach a bargain with China in which they might again pay deference to China in exchange for Beijing's relaxing its sovereignty claims in the South China Sea. Of course, many others in the region would consider such a deal unacceptable.

That said, French also sees continuity where none may actually exist. His claim that "habits of mind and of statecraft" are so "deeply ingrained in China" that they still shape policy today sounds reasonable. But his prime example misses the mark. He argues that China's offer to the United States to join the Asian Infrastructure Investment Bank reflected its "cultural self-confidence and belief that as China gradually but inevitably becomes number one, other countries including the United States will slowly come to appreciate that resistance is pointless and will petition for admission into the Chinese court." The reality, however, is that from all accounts, the Chinese leadership was astonished at its success in bringing advanced industrialized nations on board to the Asian Infrastructure Investment Bank. Jin Canrong, a professor at Renmin University of China, told *The New York Times*, "Such wide and warm support was unexpected." Many Chinese officials and analysts believed that the bank would fail or, in the best-case scenario, attract only developing countries.

WHAT NOW?

French and Pomfret differ on what constitutes the biggest challenge to U.S.-Chinese relations. French identifies Chinese expansionism as the main problem, arguing that Beijing seeks to supplant the United States in Asia. "Everything about its diplomatic language says that it views the Western Pacific as it once did its ancient known world," he writes. Pomfret, in contrast, argues that the greater concern is citizens in both countries who actively oppose "a Great Harmony"—on one side, "populists who seek to blame China for the world's ills," and on the other, "anti-American bigots."

Despite their differing diagnoses, French and Pomfret arrive at the same prescription. Both think that the best way forward is a better version of what the United States has tried in the past: engagement. Both sympathize with China's desire for greater power and influence. French, for example, calls on Americans to understand the feelings of exclusion that China suffered as a result of bad historical timing: it was right after World War II, just when China had reached its lowest point, that the international community established a raft of treaties and organizations. He argues that the United States should welcome China's voice more and accept

Chinese initiatives with more serenity. Pomfret says that the United States should "redouble its efforts to complete its historic mission to pull China into the world and to seek this Great Harmony, even if it is ultimately unattainable."

At the same time, French and Pomfret recognize that domestic political and economic forces also shape each country's foreign policy. After recounting China's many domestic economic and social challenges and the United States' economic and cultural strengths, French concludes that the United States can hold its own against the "Chinese juggernaut." He also points out that China continuously risks overplaying its hand, with its assertiveness giving India and Japan reason to rise up in opposition. Pomfret urges U.S. policymakers to follow China's lead and focus on developing the United States' own "comprehensive national strength"—in other words, invest in infrastructure, education, and smart immigration policies. And he suggests that China will have to undertake political reform in order to preserve both peace at home and good relations abroad. None of these recommendations breaks new ground, but French and Pomfret do readers a favor by anchoring their advice in an understanding of China's historical patterns of interaction with the outside world.

On the face of it, the authors' proposals for the United States to meet China halfway (or more than halfway) in its bid to shape global institutions, while shoring up the United States' economic and security capabilities, appear wise. Yet the reality is that a largely business-as-usual strategy is unlikely to be sufficient for managing an increasingly powerful and illiberal China. Pomfret's depiction of a time in which ideas, culture, and trade flowed expansively between China and the United States does not reflect the present reality. Xi's government seeks to limit the flow of foreign ideas and capital into China while asserting China's own political, economic, and military influence abroad.

For now, then, the best path forward for the United States is to acknowledge the importance of cooperating with China while adopting a greater element of reciprocity in the bilateral relationship. For example, Washington might limit Chinese firms' access to the U.S. market in areas where China's economy remains largely closed to U.S. companies, such as media and the Internet. Or it could insist that since China is establishing Confucius Institutes in the United States, the U.S. government has the right to sponsor similar institutions to promote American culture and values in China. U.S. policymakers should take to heart the lesson that China's "century of humiliation" taught: unequal treatment breeds dissatisfaction and resentment. The relationship will thrive only if each country remains open to the goods, ideas, and culture of the other. An open door must go both ways.

Dirty Deeds

Will Corruption Doom China?

Dali Yang

China's Crony Capitalism: The Dynamics of Regime Decay
BY MINXIN PEI. Harvard University Press, 2016, 376 pp.

It is hard to overstate the degree to which China has been transformed in recent decades. Between 1959 and 1961, tens of millions of Chinese starved to death in the Great Famine. Today, China boasts the world's second-largest economy. The country has virtually eliminated severe poverty among its citizens, a burgeoning middle class thrives in ever-expanding cities, and hundreds of Chinese citizens have become billionaires. Human history offers no other socioeconomic shift of equivalent magnitude.

Yet development has not come without costs. All boats have not risen at the same rate, and inequality has increased so much that China—which for decades was shaped by Mao's enforced egalitarianism—now ranks alongside such long-lasting bastions of wealth disparity as Brazil and the United States. One factor driving this extreme inequality is the corruption that has seeped into every aspect of Chinese society. In his latest book, the political scientist Minxin Pei vividly demonstrates how corruption in China is not merely a governance challenge: it is a fact of life. Corruption permeates business, politics, and even personal relationships to a startling degree. To Pei, China represents not so much an economic miracle as the triumph of *guanxi*, the Chinese term for the connections that fuel cronyism and self-dealing. It is a damning portrait, in which China resembles the United States during the Gilded Age, complete with robber barons, crime bosses, and dirty politicians—and with all the excesses intensified by authoritarian one-party rule.

Pei deems this state of affairs unsustainable and believes that it signals the not-so-distant demise of the Chinese Communist Party (CCP) and the regime it has built. Proponents of liberalization and democratization in China might hope that conclusion would support an optimistic vision of the country's future. They will be disappointed by Pei's book. Corruption has become so entrenched in Chinese society, Pei believes, that "genuine market-oriented economic reform" and a transition to democracy remain highly unlikely: self-dealing elites would have far too much to lose from such changes. "If a regime transition should come," he writes,

> the initiating event is more likely to be a breakdown of the decaying autocracy, possibly induced by a spilt among the elites inside the party-state, a devastating economic shock, an Arab Spring–style mass revolt that the authorities fail to crush quickly, a disastrous external adventure, or a combination of such events.

DALI YANG is William Claude Reavis Professor in the Department of Political Science at the University of Chicago, where he also serves as Senior Adviser to the President and the Provost on Global Initiatives.

And even if such calamities were to usher in democracy, Pei maintains, corruption would endure and prevent a functioning liberal state from emerging: Chinese democracy wouldn't be much better than Chinese authoritarianism. In his view, whatever happens, crony capitalism will outlive the CCP and hobble China's future.

Pei's bleak view is sobering, especially because his conclusions are based on careful analysis of a rich data set. But even though Pei is correct to complain that many observers are too sanguine about Chinese corruption, Pei himself is too pessimistic. The CCP has proved to be a remarkably resilient organization, and although corruption has surely weakened the Chinese state, it has not hollowed it out altogether. Indeed, Chinese President Xi Jinping's ongoing anticorruption campaign demonstrates how the party has enhanced public support for its approach to development by using its power to rein in, discipline, and hold accountable the ineffective and crooked local officials whom Chinese citizens often blame for the problems that matter most to them. Corruption may be the party's greatest weakness. But its response to corruption may demonstrate its greatest strengths.

PAY TO PLAY

Pei bases his observations and arguments on a set of 260 prominent corruption cases he assembled from the past quarter century. All these cases were revealed to the public and prosecuted by central or local authorities. Although they represent a tiny fraction of the hundreds of thousands of cases that authorities dealt with during that time period, they span a broad range of situations and sectors.

Pei's analysis reveals how two important features of the contemporary Chinese state have combined to create a perfect environment for corruption. First is China's hybrid "socialist market economy." Even as China has gradually liberalized and the state has expanded the scope of acceptable market activities, the CCP has retained control over major sectors of the economy and still plays a leading role in the allocation of capital, land, and labor. But beginning in the 1990s, the party began to decentralize its administrative hierarchy. Today, each level of government controls appointments in the level immediately below it; the party thus retains a high degree of loyalty and influence, but individual bureaucrats, especially local party chiefs, also enjoy a decent amount of autonomy. This combination of state control and decentralized authority has created almost unlimited opportunities for corruption, as officials exploit state assets and resources for their own private gain.

Focusing on collusion among elites, Pei paints a vivid (if necessarily partial) picture of these complex and often hidden deals. In particular, he explores the extensive market for political offices. A typical case involves a poorly paid official bribing a superior in exchange for a plum appointment or a promotion. The pernicious effects of such a scheme reverberate widely because, to finance their bribes, officials frequently rely on gifts or contributions from business contacts or even collect their own bribes from others. Everyone involved expects to make a return on his or her investment. Pei dissects the motives of buyers and sellers, the problem of risk management, and the ways in which officials come up with prices for various positions.

Truth will out: testifying at a corruption trial in Jinan, Shandong Province, August 2013

CARLOS BARRIA / REUTERS

Of course, Chinese crony capitalism goes far beyond the buying and selling of offices. Pei reveals in great detail the many manifestations of collusive corruption, including the embezzlement of public funds and bribe taking in contract bidding and capital finance. Corrupt networks conspire to buy land from rural communities at low-ball prices and profit from state-owned enterprises through self-dealing and asset stripping. Pei also shows how people in positions of influence often arrange for their immediate family members to become involved in businesses and then use their access to other officials to help their relations profit. Through such interactions, officials often develop enduring ties with particular businesspeople, offering them protection from investigation in exchange for payoffs. Such relationships and networks have spread throughout the armed forces, the judiciary, and the central regulatory agencies. And in some places, local authorities have joined forces with organized crime.

Pei demonstrates how, for most officials, this kind of corruption has traditionally been a low-risk, high-reward proposition: until very recently, it would take many years for investigators to ferret out corrupt officials, most of whom were never caught at all. Pei argues that this laxity has produced a "progressive degeneration of the organizational norms of the party-state" that constitutes a long-term existential threat for the Chinese regime. Here, Pei parts ways with leading political scientists and analysts, such as Andrew Nathan, who stress the party's resilience and ability to adapt. In contrast, Pei asserts that the CCP regime is in an advanced stage of decay. In his view, crony capitalism has sapped the state's institutional integrity, degraded the quality of governance, weakened the

CCP's political authority, and intensified elite fractiousness and power struggles.

ROTTEN TO THE CORE?

Pei is hardly the only one to recognize the risks that corruption poses to the CCP. Indeed, one of the loudest voices on the issue in China belongs to the country's president, Xi. Since taking office in 2012, Xi—together with Wang Qishan, secretary of the CCP's Central Commission for Discipline Inspection—has carried out the most far-reaching anticorruption campaign in the CCP's history. In 2016, the party disciplined 415,000 people for corruption-based offenses, including 76 officials at the ministerial level.

Xi has touted these results, and his anticorruption campaign has won plaudits from some good-governance advocates. But Pei dismisses the crackdown as mostly a ploy in a power struggle between Xi and his competitors within the party. Pei believes that, far from eliminating crony corruption, Xi's campaign will only intensify elite rivalry and increase the fragility of the CCP regime.

Although Pei rightly highlights the CCP's continuing vulnerability, his intense pessimism about the regime's trajectory seems overwrought. History is full of examples of authoritarian regimes that appeared remarkably stable—until they suddenly did not. But the CCP has survived many crises and periods of decay and weakness. Damning though Pei's indictment of crony capitalism may be, it's not clear that corruption represents an insurmountable obstacle to the party's survival in the foreseeable future. Consider, for example, that all the corruption cases included in Pei's data set were investigated and dealt with by the Chinese authorities. The sheer volume and severity of corruption in China are undeniable—but so is the fact that, under Xi, the government is finally tackling the problem.

CRACKING DOWN OR CRACKING UP?

China's rulers have eagerly absorbed lessons from the collapse of other communist and authoritarian regimes and have made use of the CCP's formidable resources to cope with the profound transformations taking place in the country. Guided by Xi, China's leaders have sought to promote market-oriented economic reforms and law-based governance. At the same time, of course, they have also curtailed the expansion of civil society and resisted liberal ideas and political reforms. It's a tricky balance, riddled with incongruities and contradictions, and they have struggled to improve the efficiency of state bureaucracies, curb corruption, and take on the quality-of-life issues, such as air pollution and food safety, that have become focal points for China's burgeoning middle class.

Still, the approach has mostly worked. One reason is that beginning in the 1990s, but especially under Xi, the central party-state in Beijing has emphasized its role as the overseer of local authorities: monitoring and sanctioning officials at the provincial, municipal, and township levels and making sure they respond to public demands and direction from Beijing. This posture reflects and reinforces an enduring element of Chinese political culture that social scientists refer to as "hierarchical trust." In many countries, the public tends to have more faith in local officials than in central or federal authorities. In China, the reverse has long been true, a fact borne out by decades of polling evidence showing that somewhere between 80 and 90 percent of Chinese citizens trust the central authorities—one of the highest rates of public trust in central government found anywhere in the world.

Of course, since the Chinese party-state also maintains the world's most elaborate system of media guidance, control, and censorship, one might justifiably wonder about the credibility of such poll findings. But scholars such as Lianjiang Li have found that even when one adjusts the figures to account for state control of the media and repression of dissent, it is still clear that Chinese authorities enjoy levels of trust that would be the envy of most other governments.

Party officials in Beijing take advantage of that trust by positioning the central state as the public's partner in its struggles against maladroit or corrupt local authorities—even though those authorities are often merely carrying out mandates imposed on them by Beijing. By cracking the whip on local potentates, the party bolsters its already substantial public support and reinforces the power of central institutions. In quite a number of instances, key provincial officials have been removed and prosecuted for corruption. In May, for example, the CCP expelled Vice Governor Chen Shulong of Anhui Province from his office and from the party. In announcing the move, the party used harsh terms to describe Chen's misdeeds, accusing him of bribe taking and of having "absolutely no moral bottom line."

But what the party didn't mention was that Chen was just one more culprit on a growing list of Anhui provincial officials who have been prosecuted for corruption. Again and again, the party's leadership has congratulated itself for going after corrupt local officials. Pei might suggest that the fact that such corruption continues and that officials seem undeterred by Xi's crackdown means that the problem runs deeper than the CCP is willing to admit.

Yet China's leaders do recognize that they need to confront corruption and other forms of malfeasance at the root. They are now experimenting with the establishment of provincial supervisory commissions, and in the coming months, the national legislature will consider a new "state supervision law" that would create a firmer legal basis for anticorruption efforts. And with other recent reforms, such as a new mandate requiring more court verdicts to be made available online, the party is trying to improve the transparency of its anticorruption efforts. The dizzying pace of change in China makes it difficult to predict the country's political future. But right now, it seems likely that the forces of rejuvenation and reform will overcome the dynamic of decay.

How Deep Is Iran's State?

The Battle Over Khamenei's Successor

The Reformists Fight Back

Alex Vatanka

In "Iran's Next Supreme Leader" (May/June 2017), Sanam Vakil and Hossein Rassam convincingly argue that the death of Iran's supreme leader, Ayatollah Ali Khamenei, will mark a turning point in the Islamic Republic. They are right that Khamenei desperately wants a smooth transition and is insisting that someone personally and ideologically close to him take over the helm once he dies.

But Vakil and Rassam err when they contend that "the deep state"—defined as "an intricate security, intelligence, and economic superstructure composed of underlings who are fiercely loyal to him"—will "safeguard the Islamic Republic long after he is gone." The problem with this argument is that the deep state is hardly invincible, and those in the regime who are aching for reform, including President Hassan Rouhani and his circle, are hardly impotent. In fact, the reformists consider Khamenei's departure a golden opportunity to steer the regime in a new direction, and they appear ready for battle.

A HISTORY OF FRICTION

Even though Vakil and Rassam are at times equivocal about it, Iran's deep state can be summed up in one name: the Islamic Revolutionary Guard Corps. As strong and sprawling as the IRGC is—consisting of not just a military-industrial complex but also media outlets and three separate intelligence agencies—it is innately aware of the limits to its power.

That's because the IRGC is but one of three legs of the Islamic Republic, after the office of the supreme leader and the presidency. Although the supreme leader and the IRGC do control much of the country's domestic and foreign policy, of the three institutions, the IRGC has the least claim to a political function. In his will, Khamenei's predecessor, Ruhollah Khomeini, explicitly asked the military to stay out of factional politics, warning, "The revolution belongs to all the nation." Even Khamenei, who has embraced the IRGC much more closely, has stressed the same message. In an October 2016 communiqué, for example, he forbade military, security, and intelligence forces from intervening in elections. Inside the labyrinth that is the Islamic Republic, no single group has an outright monopoly on power.

Indeed, the IRGC has long had a contentious relationship with the other centers of power, constantly resisting their attempts to marginalize it. It clashed first with President Ali Akbar Hashemi Rafsanjani in the late 1980s, when he sought, unsuccessfully, to incorporate the IRGC into the regular armed forces. Today, the group again finds itself in a struggle to maintain its stature. But this time, its rival is

Rouhani, who, since Rafsanjani's death in January 2017, has emerged as the leader of an informal political network that has always been part of the Islamic Republic yet separate from the IRGC. In Tehran, they are usually referred to as "the technocrats."

In part, the mutual suspicions between the IRGC and the technocrats owe to their very different backgrounds and worldviews. The IRGC's leadership is made up of men who were in their early 20s when they joined Khomeini's movement for an Islamist utopia and first put on the IRGC uniform. They hail predominantly from poor urban or rural backgrounds and came to prominence during the Iran-Iraq War, when they managed to help repel the Iraqi army at a time when postrevolutionary Iran was seen as weak. The technocrats were also once young Islamist revolutionaries, but instead of donning IRGC uniforms, they manned the civilian ministries. Rather than rising out of poverty, they came from middle-class homes. Many were educated in the West.

Both groups were forged in the chaos that immediately followed the 1979 revolution, but each took a different lesson from that period. At the ministries in Tehran, the technocrats learned firsthand how revolutionary fanaticism—cutting off trade with the outside world, for example—could lead to international isolation and harm the economy. The IRGC, meanwhile, found that same fanaticism indispensable for mobilizing a small yet determined base to advance its interests, first on the battlefield against Iraq's Saddam Hussein and later against opponents on the home front. Today, the technocrats and the IRGC generals hold very different views on the merits of reform. The former want to bring Iran into the global economy, whereas the latter fear that the arrival of Western capital and technologies will endanger their economic interests.

As the principal beneficiaries of the regime, in terms of both power and money, the IRGC generals have all the reason in the world to oppose reform. Hence, after Rouhani was elected in 2013, the IRGC was quick to mobilize against his agenda. When Javad Zarif, Rouhani's foreign minister, managed to secure the international deal on Iran's nuclear program in 2015, the IRGC-controlled media portrayed him as not a real revolutionary, pointing out that he was pursuing a doctorate at the University of Denver when the IRGC's current leaders were in the trenches fighting Saddam. They have also pilloried Bijan Zangeneh, Rouhani's oil minister, for trying to bring Western investment into Iran's ailing oil and gas sector, never missing an opportunity to depict him as a sellout.

But the IRGC's efforts to defend its interests are not tantamount to a complete rejection of all Rouhani stands for; the generals recognize that they depend on the technocrats to keep the machinery of government running. After Rouhani became president, the IRGC engaged in another round of awkward give-and-take. Its official budget has increased, as has its meddling in Iraq and Syria, but at the same time, the president has tried to persuade the generals to lessen their domestic political and economic footprint. For example, he has used the nuclear deal to bargain with the IRGC: in exchange for staying further away from politics, its generals would get a share of the economic opportunities that result from the deal. The political tango is ongoing, but Rouhani is undeniably pushing back against the IRGC's penetration of state institutions.

Despite the ill will, all the factions within the regime engage in self-control, recognizing that a breakdown in political order could bring about the end of the Islamic Republic altogether. A desire to see the regime survive could compel the IRGC to compromise on its pick for supreme leader.

At the same time, Vakil and Rassam are far too dismissive of the power of Rouhani and the moderate-reformist ship he is now captaining; the technocrats will not sit idly by as the IRGC attempts to grab more power. After seeking to co-opt the IRGC, to no avail, Rouhani offered a blunt assessment of the group. "If you put intelligence services, guns, money, investment, and the media into the hands of one entity, then Salman himself would have been corrupted," he said in a 2014 speech, referring to the Prophet Muhammad's first Persian convert. Alluding to the IRGC's economic extortions, he added, "What used to happen under the table is now happening on the table." Rouhani's comments infuriated the IRGC's bosses. Mohammad Ali Jafari, the group's commander, reacted by implying that the president had a hidden agenda designed to undo the revolutionary character of the regime.

Rouhani also has something the IRGC and the supreme leader do not: legitimacy among the public. After all, the president is answerable to the ballot box. And unlike the security-focused IRGC, Rouhani and his technocrats can speak to the many socioeconomic problems affecting everyday life in Iran, from unemployment to environmental degradation to draconian social laws. Even in an autocracy, popular legitimacy matters, and in Iran, the technocrats come closest to reflecting the aspirations of ordinary Iranians.

KHAMENEI'S QUANDARY

No analysis of Iran's power struggle is complete without taking Khamenei into account. Vakil and Rassam do an excellent job outlining the supreme leader's patient consolidation of power since he took over in 1989. As they point out, Khamenei institutionalized the office of the supreme leader in ways his predecessor never did and greatly expanded his staff. But Khamenei made these changes not out of choice but out of necessity. He needed a well-oiled institution to compensate for what he lacked: the sheer stature of Khomeini. Khomeini needed only a microphone to mobilize his supporters; Khamenei has never had that luxury.

Indeed, Vakil and Rassam overestimate Khamenei's ability to drive events. It's worth noting, for example, that the constitutional changes that led to the creation of the Expediency Council—which is meant to be the final arbiter in the regime and whose members are chosen by the supreme leader—were decided before Khamenei became supreme leader. In fact, the idea of such a body had been floating around since the early 1980s. Khamenei became the key beneficiary of the 1989 constitutional changes, but he was not their instigator.

To secure his role, Khamenei entered into a marriage of convenience with the IRGC. In the 1990s, as the technocrats experimented with economic reforms, Khamenei and the IRGC were busy consolidating their power. At the end of the decade, as Vakil and Rassam explain, a group of IRGC commanders openly threatened to remove President Mohammad Khatami for not doing enough to crack down on student protesters. But contrary to the authors' account, rather than demonstrating the IRGC's power, the threat reflected its mutually dependent relationship with Khamenei. Khamenei needed the IRGC's muscle to deal with the protesters, and the generals needed his religious cover to act.

Khamenei and the IRGC have also shown themselves to be capable of political miscalculation. Consider their short-lived alliance with former President Mahmoud Ahmadinejad. Once the darling of Khamenei and the IRGC, the far-right politician eventually decided to go his own way, increasingly challenging the clergy. That proved to be his undoing. In April 2017, the Guardian Council, which vets candidates for elected office, let Ahmadinejad know that he was no longer qualified to run for president. In response, all Ahmadinejad could do was lash out, in coded language, against Khamenei and his IRGC allies. In the end, they had backed a man who proved more loyal to his populist supporters than to them.

What does all of this mean for the process of selecting Iran's next supreme leader? Given the regime's history of internal power struggles, Khamenei probably realizes that the IRGC cannot deliver a smooth succession on its own; that will require a broader compromise within the regime. Ahmadinejad and his cronies can be marginalized without disturbing the functioning of the state, but the technocrats around Rouhani, who actually run the government, are a key pillar of the regime. As one of the original revolutionaries from 1979 who brought the shah's mighty armed forces down, Khamenei knows that guns alone cannot keep the regime in power.

Meanwhile, the regime is far more divided today than it was in 1989, the last time it had to select a supreme leader. There are no towering figures who can oversee the process the way Rafsanjani did then. In other words, the probability of acrimony spilling out into the open during the transition is real, and the outcome of the process is hardly preordained. As for the Assembly of Experts, the body that elects the supreme leader, it is more likely to rubber-stamp whatever compromise is reached among the regime's elites than to actually influence the decision itself.

Yes, the IRGC is a far bigger power broker today, and yes, it sees Rouhani and his team as rivals with a soft spot for the West. But it is not so brazen as to suppose that it can handpick Khamenei's successor without risking deep disorder within the regime. Above all, what it and Khamenei cannot determine is the extent to which the technocratic faction will put up a fight. What they know for certain, however, is what they do not want: a bungled transition that drives the public out into the streets. At the end of the day, that fear should deter any single faction from imposing its choice on the others.

ALEX VATANKA is a Senior Fellow at the Middle East Institute and the author of the forthcoming book *The Making of Iranian Foreign Policy*. Follow him on Twitter @AlexVatanka.

Vakil and Rassam Reply

Alex Vatanka is right to contend that "the moderate-reformist ship" captained by President Hassan Rouhani should not be underestimated in the forthcoming battle to replace Ali Khamenei. Seeking to transform the Islamic Republic from within, "revisionists," in the words of hard-liners, are indeed challenging the stability of the regime. The faction does retain relative popular legitimacy, as Vatanka suggests, and it represents a significant threat to Iran's deep state. But that is precisely why the deep state has actively sought to check the power of Rouhani and his technocratic team in advance of Khamenei's death.

The deep state is certainly not invincible, and it does have a track record of missteps, as Vatanka rightly claims. These errors are due to the reactionary and evolutionary process through which the deep state was created; it was not an organized conspiracy that commenced on a certain date and at a certain time. Above all, the deep state seeks to preserve the revolutionary nature of the Islamic Republic, and so its organization and capacity have grown in reaction to what it sees as internal threats.

Vatanka errs when he claims that the deep state is limited to the Islamic Revolutionary Guard Corps. As we wrote in our article, the deep state is "an intricate security, intelligence, and economic superstructure." Although the IRGC is an important pillar, the deep state contains a raft of other essential institutions, including the intelligence and security services, the judiciary, the religious bureaucracy, charitable foundations, various semiprivate entities, and even the office of the supreme leader.

Under Khamenei's stewardship, these institutions have grown more powerful than the elected bodies of the presidency and the legislature. Consider that Khamenei's office approves ministers of foreign affairs, intelligence, the interior, and defense before the parliament does. (It even vets Iran's ambassadors to Afghanistan, Iraq, and Syria.) Or consider that the IRGC's intelligence organization has the power to arrest and detain citizens and dual nationals without executive oversight.

Moreover, the deep state has a monopoly not just on force but also on wealth. The majority of the Iranian economy is effectively state-controlled—a share that is not limited to officially state-owned enterprises; it also includes semiprivate entities tied to the deep state. According to the research arm of the Iranian parliament, privatization has resulted in the transfer of almost 90 percent of government-controlled assets to companies and businesses associated with the deep state. As we wrote, one of those is the holding company Setad, which boasts an estimated $95 billion in assets. To understand the company's power, consider what happened after Rouhani's crowd introduced a new system for oil contracts designed to attract foreign investment: it was only after Setad itself was able to sign such a contract that the hardliners dropped their opposition to the program.

Revenues from entities such as these keep the deep state running—and will keep it running after Khamenei's death. That's because they have allowed the deep state to develop a patronage system that has secured the loyalty of millions of Iranians. As the succession battle heats up, that network will only prove more important, because the deep state will count on these constituents to support its political moves.

It is also important to correct Vatanka's misreading of the deep state's fear of foreign investment. Despite talk of self-sufficiency, the deep state does not oppose economic interaction with the wider world. In fact, in order to fund the deep state, the many private and semiprivate entities associated with the supreme leader, such as the charity Astan Quds Razavi, regularly do business with foreign companies. Their commercial ventures provide a critical source of revenue and employment. The difference between these economic links and what the revisionists want is that the deep state seeks a diversified portfolio of investment, from the United Kingdom, Russia, China, and beyond, rather than relying solely on Western capital and expertise. The hard-liners justify their version of foreign investment by arguing that only through diversification can Iran protect itself from future Western sanctions and from Western interference in issues of women's rights and civil society.

Ultimately, what the deep state fears most is a Soviet-style collapse of the Islamic Republic. During the 2009 protests, it demonstrated its willingness to use violence to prevent that outcome. Today, as it has signaled to Rouhani and the public, it is attempting to control the succession of the next supreme leader to do the same.

FOR THE RECORD

The review essay "Mind Games" (May/June 2017) misstated the publication date and length of *The Undoing Project*. It was published in 2016 and is 368 pages long.

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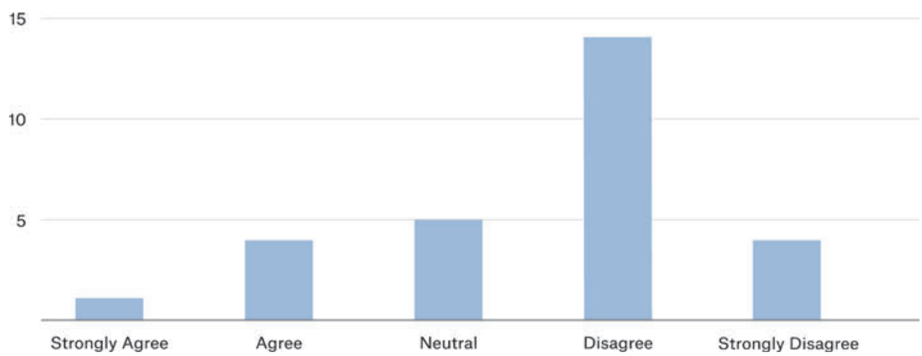
Will Globalization End?

Foreign Affairs Brain Trust

We asked dozens of experts whether they agreed or disagreed that the populist surge in advanced industrial democracies will bring economic globalization to a halt. The results from those who responded are below:



Neutral

"Globalization has a lot of momentum. The surge may slow it down in the short run, but in the long run, it will proceed. The benefits are too great for too many, and those countries accepting openness will thrive relative to the populist ones."

ANNE O. KRUEGER is Senior Research Professor of International Economics at Johns Hopkins University's School of Advanced International Studies.

Disagree

"Although government policy is important, globalization is largely driven by technology and is a force to be reckoned with. Major business and other interests support the status quo and would resist limiting foreign trade and investment."

DOUGLAS A. IRWIN is Professor of Economics at Dartmouth College.

See the full responses at ForeignAffairs.com/FutureofGlobalization

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