



FSVC

FINANCIAL SERVICES VOLUNTEER CORPS

**Project on Building Cooperation Among Four Key Powers – the United States,
Russia, China and India – in an Era of Growing Tensions**

*Carnegie Corporation of New York
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Rapporteur's Report on the First Symposium of the Project
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The first symposium of the Carnegie Corporation of New York/Financial Services Volunteer Corps (FSVC) Project on *Building Cooperation Among Four Key Powers – the United States, Russia, China and India – in an Era of Growing Tensions* took place in Beijing, People's Republic of China, on June 10-12, 2016. A diverse group of participants from the United States, Russia, China, India and the European Union (EU) met for three days of frank and insightful discussions.

This symposium represented the continuation of a series of projects FSVC has conducted since 2000 with the generous support of Carnegie Corporation of New York. Symposia under the preceding grant were held in Hong Kong in June 2014 and Berlin in June 2015. The group in Beijing included both returning and new participants, providing continuity as well as fresh perspectives to the discussions.

The discussions in Beijing were structured around both country updates and themes, building on the work and discussions of previous symposia. The primary agreed-upon objective was to help frame issues in a unique way and challenge conventional wisdom.

The International Context

During the Beijing symposium, several themes that first appeared during previous symposia reemerged. The group observed that the tensions and instability first observed during the 2015 symposium have not eased and, in fact, continue to grow. The world appears to be less stable and is under significant stress.

Some of the revisited themes included the following:

- (1) The conceptual framework of examining issues as “problems” vs. “conditions” continues to be particularly useful. “Conditions” should be accepted (at least within a reasonable timeframe) and managed, but they are unlikely to be altered fundamentally. “Problems” can potentially be solved through policy, cooperation or other actions. More efforts and scarce resources therefore should be spent on trying to address “problems” rather than “conditions” to be effective.

- (2) Traditional security challenges that were pressing in 2015 have not been resolved. These challenges have not become considerably more serious, but there also have not been significant improvements in the state of play. The Ukrainian conflict has been largely frozen, while tensions in the South China Sea continue to simmer. The conflict in Syria, similarly, continues to destabilize the region. Russia appears to be testing the boundaries of Western resolve, both in its rhetoric and its actions, such as its military aircraft appearing to intrude on NATO's airspace.
- (3) Non-traditional security challenges also persist. While the Islamic State (ISIS) has lost control over a significant amount of territory, its terrorist operations have expanded. A number of countries suffered major terrorist attacks, both domestically grown and internationally planned, but in many cases inspired or directed by ISIS.
- (4) The global financial system continues its process of gradual transformation and adjustment to new economic and political/regulatory realities.
- (5) The ongoing deficit of leadership globally, at the national and often institutional levels, continues to be felt, and to feed popular dissatisfaction and the lack of effectiveness of institutions.
- (6) The middle- and upper-income traps, or the difficulty of finding new sources of growth and dynamism in countries at various stages of economic and social development, pose challenges to several major powers. The resulting social disaffection and grievance could lead to political and even security implications and crises.
- (7) The role of new, rapidly emerging and changing technologies is not yet unclear, but it has the potential to change some of the fundamental realities of the contemporary world. The objective of much of this new technology is to "disrupt" the current way of doing things. This disruption can be creative, but it can also present major social and political challenges.

In addition, several new themes were stressed as being of particular importance in the world of 2016.

- (1) A concomitant development is the rise of *political populism* across the globe. The current brand of populism is often nationalist in character and, as such, anti-globalist in its discourse and policy prescriptions.
- (2) Feeding populism and anti-globalist resentment is the issue of *employment and jobs*, which are not being created around the world at a sufficient rate to provide employment to growing populations. This, for instance, is a major concern in the Middle East, but is also a pressing issue in Europe and elsewhere.
- (3) *Globalization* is perceived by many as being under attack globally. Some of the key aspects of globalization are in retreat, in part due to new harsher economic realities. Both the international financial system and global trade appear to be under stress. In

particular, global consensus on globalization has frayed and can no longer be taken for granted.

- (4) *Uncertainty* is the new normal. The world appears to be increasingly unstable, and outcomes are more difficult to predict and impossible to control. Additionally, new technologies and shifting demographic patterns in part make polling increasingly unreliable. This leads to uncertainty in planning for political outcomes, such as the results of elections and referenda.

Populism as New Global Trend

The rise in populism emerged as the leading theme of the symposium. Participants returned to populism frequently, in part to explain some of the pressures and risks faced by the key powers today. Not all participants agreed that the resurgence of populism is necessarily a negative development, some considering it a response to a healthy democratic instinct. Most participants, however, viewed the rise of populism, and in particular nationalistic populism, with concern, making a distinction between a well-functioning democracy, and populism as a search for simplistic solutions to increasingly complex issues.

- (1) Populist leaders and parties are strong or on the rise in a number of countries. Elements of populist and nationalist discourses also are being coopted by established figures. Prime Minister Modi of India and President Putin of Russia are nationalist populists, to varying degrees. In the United States, the presidential candidacies of Donald Trump and Senator Bernie Sanders embody some of the populist agenda and mood on the conservative and liberal sides of the U.S. political spectrum, respectively.
- (2) One reason for the rise in populism is the complexity of problems facing societies, and also individuals. The search for solutions that are elusive or possibly nonexistent can make simple answers and extravagant promises attractive.
- (3) Globalization often has the effect of eroding traditional national and cultural identities, among other identities. This can, particularly in times of economic stagnation, lead to calls to protect traditional identities, which are then taken up by nationalist populist politicians. Victory by populist politicians could lead to an increase in nationalistic and protectionist positions, and would generally be contrary to the agenda of international cooperation and collective action.
- (4) The benefits of globalization, and the economic order it promotes, have been distributed unevenly, even if the net benefits of globalization have been significant. As a result, there are people around the world, and increasingly in the West, who feel they are losers in the globalization process, both economically and culturally, and they are ready to vote and take other actions to change the globalization agenda.
- (5) The rise of populism represents in part the rise of illiberalism. Populism in 2016 is often framed as an explicit challenge to the dominant “liberal” worldview, which tends to

accept as a given the desirability of democracy, free markets, internationalism and technocratic policy-making.

- (6) Rhetorical attacks against elites have accompanied the rise of populism. “Elites” are defined loosely, and can encompass most of the upper middle classes. Participants noted, however, that elites often play an important societal function, as engines of ideas and creativity as well as an informal system of checks and balances upon society.
- (7) The increasing popular mood against elites demonstrates that the elites have failed to communicate the benefits of current policies with the populations of their countries and the world at large. As such, participants noted that the “liberal elites,” however defined, share some responsibility for recent developments in the world today.
- (8) Within the context of politics and the rise of populism, the issue of distorting factors was raised. For example, the role of money in U.S. elections could be considered a corrupting influence on the democratic process. Social media also plays increasingly a major and, at times, distorting role in the political process across the world. The precondition of a “well informed” electorate for a functioning democracy is not as simple today in an era with multiple channels of communication, including biased ones.
- (9) The role of religious faith and organized churches was discussed, both as a source of tension and violence, most notably in the case of Islamic fundamentalist ideology, and as a possibly underappreciated instrument for creating a positive agenda for change on issues such as climate change.

Global (In)security Trends

The symposium participants raised and focused on several issues pertaining to the global environment of uncertainty and insecurity.

The concept of war and attack, for example, may need to be redefined. What constitutes war in the contemporary world? What constitutes an attack by one state on another, if the attacker does not acknowledge responsibility? The question of “new warfare” is connected to the prevalence of new technologies through which a society can be profoundly disrupted via electronic or other means. Technology has the potential to destroy tens of thousands, and possibly millions, of jobs in the relatively near future. This is a worrying trend in an environment where job creation is already one of the most serious issues facing many countries today and is feeding a multitude of societal problems.

In a world of global job and employment shortage, and increasing technological sophistication, education becomes ever more important. Countries at all levels of development should spend more on education, in particular for the often unemployed or underemployed young. There also needs to be more forms of education available to people in mid-life whose jobs have disappeared.

An additional dynamic factor is the role of social media in the world today. Social media is increasingly influencing politics, while also disrupting the usual ways of “doing business” in multiple fields, including politics and policy-making. It can also feed extreme agendas, and enable disruptive or destructive groups. A connected trend is the "weaponization" of social media, or the use of social media by states, individuals or other entities to harm others. It can be an effective tool to stir nationalistic fervor, or to abuse a critic or adversary, as well as to spread incendiary words and ideas broadly and rapidly.

Social media also may feed new trends such as broad economic migration or increasing public disaffection within countries, as it opens up a different base for comparison to anyone with a smartphone. Individuals in poorer countries can much more easily compare themselves with individuals in richer ones, which may create resentment or a desire to move to a country where life is, ostensibly, easier or at least more affluent.

Insofar as populism comes to dominate global policy-making, little room is left for negotiation due to the hardening of positions. Social media can enable greater transparency and a more rapid dissemination of information, which is often positive, but can also inhibit policy-makers and politicians from making compromises or taking unpopular decisions.

Nuclear weapons and technologies again assumed center stage in discussions pertaining to international security, as discussed in Berlin in 2015. While the Iran nuclear deal is seen as a net positive, North Korea can now be classified as a nuclear state, and one that is largely uncontrollable. Nuclear weapons are back at the center of global politics, and will create an additional set of challenges for policy-makers.

These and other trends indicate that global cooperation today continues to weaken, while the number of problems requiring global solutions continues to grow. Policy-making is becoming increasingly difficult at the domestic and international levels due to these numerous trends. To achieve positive global outcomes, new strategies in transactional cooperation and new models of cooperation on transnational issues have to be developed, among others.

The Global Financial System

The financial sector is one of the key areas of focus of the Carnegie/FSVC projects. The following were some of the key observations made during the Beijing symposium regarding this critical sector:

- The downside risks are increasing for the financial sector, including the banking sector. The sector is under significant stress globally, and its outlook is subdued. It is difficult to see any new sources of growth, while it is easy to see sources for continued stress on the sector.
- The financial system internationally will likely continue to operate under a significant and growing regulatory burden. This situation is not likely to change, regardless of economic consequences, due to the low political standing and negative popular sentiment regarding financial institutions. Banks, in particular, are objects of scorn to populist

politicians -- and to large numbers of people who perceive that they were the principal beneficiaries of official interventions in the wake of the 2008/9 global financial crisis.

- The regulatory pressure stems from the Great Recession, which seems to have led to two dominant desires by U.S. and international regulators: 1) to create a system in which banks are so safe they are never going to fail; and 2) to ensure that governments are never again going to bail out banks.
- The very low or, in many cases, real negative interest rate environment makes banking activity more difficult, and exerts pressure on banks, as well as consumers globally, to adjust expectations and change their approach to doing business.
- In this environment, large financial institutions globally are under pressure to 1) shrink; 2) cut costs; and/or 3) reform their business models. This has had an impact on globalization as banks, for example, are closing their corresponding banking relationships.
- These closures have resulted in a decrease in the connectedness of the emerging market world to the global financial system and economy, and near isolation for some countries.
- While much regulatory activity is beneficial, it may also be excessive. Overall, it is making the banking sector, at the domestic and international levels, less capable of performing its basic functions, even if the risk of failure has decreased. It also may decrease the effectiveness of important functions, such as a central bank being the lender of last resort.
- As the banking sector is less able to fuel economies, the idea of using monetary policy to stimulate the economy has come to the fore. Participants noted, however, that this is a problematic way to generate economic activity, and central banking policies of quantitative easing may contribute to the next economic or financial crisis.
- The challenge of generating growth makes it more apparent that there is an ongoing and pressing need for structural reform, in many individual countries as well as in the international financial system as a whole.

The Energy Sector and Climate Change

- The world is now operating in an environment of oversupply of commodities, including a glut of fossil fuels.
- While there is an oversupply of fossil fuels, there is a likely decrease in demand due to subdued global economic activity, the development of new technologies and energy sources, and the introduction of more stringent fuel efficiency standards.
- Climate change is increasingly seen as a major challenge and threat by policy-makers, and a global consensus on the need to tackle it appears to be developing. The Paris

Climate Agreement of December 2015 was a major achievement in this area. The Agreement and subsequent actions demonstrated that major powers are on board with the climate agenda, most likely realizing the gravity of the impending challenge.

- In this energy situation, “energy security” appears to be a less pressing political consideration, and energy politics plays a somewhat less urgent role than it has in the recent past. Medium- to long-term energy supply concerns, however, are likely to reappear.
- Low fossil fuel prices may decrease the demand for developing renewable sources of energy. The pressure for developing such sources could then come not from purely economic motives, but from concerns about climate change. It was noted by some participants that renewable energy may be developed and made economically-viable only with the active participation from governments (e.g., subsidization). It was also noted that, in this context, leadership will be required to articulate the need for investment and use of renewable energy sources.

Another Major Concern: Cyber-Threat

- Cyber-security continues to be a major area of concern, particularly with regard to the global financial system. The number of successful attacks on private banks as well as central banks has increased. The SWIFT system for international bank payments, considered one of the most secure in the world, was breached earlier in 2016. It can be assumed that some attacks go unreported to avoid undermining confidence and market performance.
- As more vital human activities move online, potential security threats may only increase further.
- Solutions to cybercrime, to be effective, will necessitate international cooperation as they often are cross-border crimes. As this realm is very sensitive and as current barriers to international cooperation are high, this is an area where participants noted a clear shortage of international cooperation and rule-making.
- Solutions to numerous problems posed by technology in the economic, financial, security and energy realms will require rapid regulatory and policy responses from governments. Finding or creating international platforms for the coordination of responses and rule-making will be crucial.

Observations Regarding Key Countries and Regions

Discussions at the Beijing symposium were focused on the four main countries – the United States, Russia, China and India – as well as the EU due to its prominence in most global considerations today. In addition, there were some discussions about recent developments in the Middle East, and its position as a major source of instability in the geopolitical and security

spheres, the point of origin of numerous migrants, the main arena of Islamic fundamentalism and the key energy-producing region.

The United States

Similarly to other countries, the United States currently is experiencing a wave of populism and nationalism. In particular, the Republican presidential candidate Donald Trump represents the current anti-globalist and anti-elite backlash. Both presidential contenders – Donald Trump and Hillary Clinton – however, are highly unpopular according to polls. Thus the November 2016 U.S. presidential election may be won by “Non-Trump” or “Non-Hillary” votes.

This political situation led many participants to wonder whether the U.S. political system is broken, though the general consensus was that it is not. The selection of Donald Trump, for instance, was democratic, even if it was not welcomed by a large segment of the Republican Party and the population at large. Furthermore, one participant noted that President Obama has been the most successful second term president since President Eisenhower and is now enjoying some of his highest approval ratings.

Participants agreed, however, that there are ways to improve the effectiveness of the U.S. political process. One possibility discussed was the establishment of an open (non-partisan) primary system. Another idea was the adoption of a different, more objective process for setting Congressional district boundaries. U.S. policy-making will be dominated by the Presidential election for several months to come, however, and no major new initiatives domestically or internationally are likely to occur until the next President assumes office.

Russia

Russia’s trajectory has not changed much since the previous symposium. Both its political situation and its economic conditions present largely the same picture as in 2015. In politics, participants noted a growing authoritarianism, with President Putin and his circle in firm control. Political competition has been largely eliminated, and there is a continuous tightening of the public sphere.

Economically, there is gradual deterioration with little potential for reform or improvement. Russia’s economic situation could be improved but only by implementing significant structural reforms, and such reforms are highly unlikely under the current political configuration. Structural reforms would require the strengthening of civil society norms and the rule of law, as well as a dramatic reduction in corruption in its various forms. This seems improbable after 16 years of Vladimir Putin’s leadership. A participant noted that one positive development was the recent decision by the Central Bank of Russia to cut its key rate, which should help encourage consumer lending again and help improve financial stability.

In the realm of energy, some participants noted that, due to poor management and political considerations, Russia is not making the necessary investments to adopt the new technologies it needs to succeed in the future. Some participants also noted that Russia’s oil outputs will soon decrease dramatically, resulting in the depletion of its reserves.

In its international positioning, Russia seems to be preoccupied consistently with its status. According to a participant, this has permitted its Western rivals, and in particular the United States, to gain the upper hand in some situations by ignoring Russia, which hurt the pride of its leaders and, in part, its population. Several participants, however, felt that the most dangerous moment in the U.S.-Russian relationship had probably passed, and that the two countries have settled into a stable bad relationship. There is likely no longer an existential crisis.

At the same time, it appears that Russia's leadership feels quite confident in the international arena and is testing the limits of what it can do. The foreign policy of President Putin is seen as a success domestically, where propaganda dominates coverage.

China

In China, the structural reforming of the economy is taking place, but it is a complicated and long process. The economic slowdown of China and its ability to manage it are a major source of uncertainty in the world today, particularly as China is a top-10 trade partner for over 100 countries. Participants noted that the problem of overcapacity in the economy is severe, as are issues in resolving how China will be able to attain the next level of its development. In dealing with these issues, the leadership appears to be trying to balance between immediate pain and long-term benefit.

Internationally, China's influence is significant and growing, but China does not appear to be ready to become the premier power in the world. It does not yet know how to carry this mantle, and it does not appear ready or willing to try to do so for the time being.

Moreover, China's economic policy appears less effective internationally due to domestic economic retrenchment and the global commodities glut. China also has decreased somewhat its presence in many emerging and frontier markets.

Chinese participants in the symposium tended to express caution regarding immediate prospects for the Chinese economy. Some of them were convinced that a banking crisis and commodity deflation were unavoidable. Others, however, were confident that China will be able to overcome successfully current challenges thanks to pragmatic leadership.

India

Prime Minister Modi has so far been able to deliver a 7% growth rate while in office. While a strong rate, participants noted that it is almost the bare minimum rate for India, and it is not sufficient to make India an engine of global growth to replace a slowing China. There was also some concern about the banking sector and its bad loans, and inability to provide financing in a safe and profitable manner, which could, in the long-term, contribute to economic stagnation.

Participants noted that Prime Minister Modi has numerous positive qualities. He is a decisive, energetic and informed leader, who commands a clear majority. As a result, there have

been some notable improvements on his watch. Inflation is down, deficits are controlled and there has been some positive progress on tackling large, widespread corruption. There have also been positive developments in the areas of public sanitation and the status of women.

Some participants noted, however, that Prime Minister Modi may be a better manager than a Chief Executive Officer. That is, while he is a competent steward of the Indian polity and economy, he does not have a clear plan or a clear vision for India. As a result, he has lost valuable time to put in place much needed reforms.

Going forward, Prime Minister Modi will need to handle the structural problems of Indian politics, including a fractious Parliament and continued problems of federalism. In the economic sphere, he will need to overcome low business confidence.

In foreign policy, China and Pakistan appear to be the two countries of greatest importance to Prime Minister Modi. His overtures to China, however, were largely deemed unsuccessful. Overall, Prime Minister Modi seems to be implementing a policy of balance-of-power rather than the traditional Indian policy of non-alignment. On global issues, such as climate change and multilateral institutions, there has been limited engagement. One participant observed that, while India wants to be at the table with other major powers, it seems willing to let others do the heavy lifting at the moment.

The EU

Though considered a great success, the EU's current situation continues to be a challenging one. In recent years, it has managed to address, at least in part, numerous potential existential crises through deliberate decision-making. There are, however, at least six major challenges that the EU faces today, each with deep consequences for the European project:

- (1) *Ongoing Euro crisis* – The common currency exists without social or fiscal integration, which is not likely to be sustainable, and will have to be addressed through new institutional and fiscal arrangements.
- (2) *Terrorism* – Terrorism within the EU appears to be motivated by culture rather than politics, which makes it more difficult to address constructively.
- (3) *Migration and immigration* – The significant wave of migrants into the EU is contributing to a rise in populism and nationalism in some countries. Differences in policy have led to a split between members of the EU, with many Central/Eastern European countries refusing to participate in any migrant relocation schemes.
- (4) *Brexit* – The symposium took place two weeks before the United Kingdom (U.K.) voted on whether to remain within the EU. The risk of a Brexit was seen as grave at the symposium. Subsequently, the U.K. voted 52% to 48% in favor of leaving the EU. This vote presents a serious challenge for the EU and the U.K., and is another example of the populist and anti-globalist sentiments sweeping much of the world in 2016.

- (5) *Russia* – Russia was seen as increasingly playing the role of a spoiler in the international arena and vis-à-vis Europe. As a result, Europe is disengaging increasingly from Russia as it appears that problems cannot be solved under the current leadership and there are no levers to bring about change. The situation therefore is increasingly seen as a Russian domestic issue, which may help avoid confrontation but also results in disengagement.
- (6) *Populism* – Populist and nationalist forces are growing in importance in Europe in part as a result of the structural inability of the EU to handle some of the issues mentioned above. Populist parties and leaders tend to be anti-EU, among other positions, and their support could be heartened by the results of the Brexit referendum in the U.K. Populist politicians are ascendant in some EU states already, and are likely to increase their electoral presence in others.

Opportunities

Symposium participants also identified several positive areas of opportunity and possible optimism.

- (1) While the rise in populism raises many concerns, it also presents an opportunity for policy- and decision-makers to implement much needed reforms that address the root causes of this movement. In particular, there is a need to reexamine policies that no longer work to address the current issues of unemployment, rising inequality and extremism. Pilot projects could be tried by governments and the private sector to gain a better understanding of what policies may work and warrant more investment.
- (2) New multilateral institutions, such as the Asian Infrastructure Investment Bank (AIIB), are providing new opportunities for regional economic engagement and to address some failures in the markets.
- (3) While China is experiencing a slowdown, it is increasingly becoming a key power in the global arena. This rise, it is hoped, will coincide with a more active and constructive role in addressing shared, global issues. This more active role was illustrated by a senior-level official in the Chinese government who participated in the symposium, when he asked other participants for suggestions on what the Chinese government could offer to the U.S. government to help address some of its problems. This type of constructive engagement among the key powers could help promote greater cooperation and stability.
- (4) The signing of the Paris Agreement at the United Nations Climate Change Summit of December 2015 was an important development that can be built upon to lead to further global mobilization on climate change.
- (5) More than 1.5 billion individuals remain without access to energy today, so demand, while slower, will continue to increase for the foreseeable future. With political and civil leadership, focus could be placed on investing in renewable resources rather than fossil fuels to meet this future demand.

- (6) Identity is a critical factor in economic and political development, and it often determines whether an individual supports a policy or not. In times of uncertainty, many may find solace in their traditional identity, and may find globalization to be a threat to their identity. In response, policies and social norms that allow individuals to have multiple, inclusive identities (e.g., American, Muslim and liberal) could help counter the rise in extremism and stem the backlash against globalization.

Conclusion

Symposium participants observed that the world continues to change rapidly. We are in a moment of comprehensive transition from the post-World War II and post-Cold War order to something new, shaped by a variety of societal, technological and economic changes, and we do not yet see the world to come. Uncertainty has become the new certainty.

The decisive and forceful rise of populism is a key major development of 2016. As populism rises, the global “consensus” view -- liberal, materialist and rationalist -- is also increasingly under attack. Commonality of basic assumptions among key decision-makers can no longer be taken for granted.

To address some of the root causes of this rise in populism, participants stressed that structural reforms are needed more than ever, in particular for the current financial and economic systems. These reforms will help create new opportunities and unleash potential new ways of running economies and doing business, which is needed in all the countries under discussion. These reforms were seen as particularly important to ensure the creation of more jobs.

With regard to climate change, the Paris Agreement in December 2015 was a critical breakthrough, which demonstrated new awareness and commitment by key policy-makers to address climate change. The Agreement is not sufficient, however, and more new policies will be needed.

While uncertainty and global tensions continue to increase, the challenges listed above urgently require supranational cooperative responses. National solutions are not sufficient, or even plausible, to tackle issues related to climate change, international terrorism, cyber security, nuclear weapons, financial sector supervision or the development of renewable energy sources. As a result, the countries on which the Carnegie/FSVC projects focus will be forced to cooperate at least on some of these issues in the near future.

In this global context, it is critical that engagement among the countries, on both a formal and informal level, continues. This engagement should be as broad as possible. While political and ideological tensions may increase, practical considerations will require developing and exploiting opportunities for cooperation to address challenges that may become existential. The symposium in Beijing helped contribute to this goal by facilitating international dialogue on key issues facing the world in this era of new challenges and consequential transitions.