

Global Transaction Strategy

How to win the War against the West

Thomas P.M. Barnett & Henry H. Gaffney Jr.

The Bush administration's response to the terrorist attack of 11 September was both swift (the global war on terrorism) and profound (the Department of Homeland Security). With last year's publication of the National Security Strategy, the White House went even further and described—rather boldly—a global future worth creating. By doing so, the Bush administration embraced the notion recently put forth by many experts: that Washington now stands at an historical 'creation point' much like the immediate post-World War II years.

When the United States finally went to war again in the Persian Gulf, it was not about settling old scores or simply enforcing UN-mandated disarmament of illegal weapons, nor was it a distraction in the war on terror. Instead, the Bush administration's first application of its controversial preemption strategy marked an historical tipping point—the moment when Washington took real ownership of strategic security in the age of globalization.

This is why the public debate about the war has been so important: it has forced Americans to come to terms with what we believe is the new security paradigm that shapes this age: *disconnectedness defines danger*.

Saddam Hussein's outlaw regime was dangerously disconnected from the globalizing world, from its rule sets, its norms, and all the ties that bind countries together in mutually assured dependence. Understanding this distinction is crucial for our understanding of the tasks that lie ahead as the United States not only wages war against global terrorism but also seeks to make globalization truly global.

As globalization deepens and spreads, two groups of states are essen-

tially pitted against one another: one, countries seeking to align themselves internally to the emerging global rule set (e.g., advanced Western democracies, Vladimir Putin's Russia, Asia's emerging economies); the other, countries that refuse such internal realignment—and thus remain largely 'disconnected' from globalization—due to either political/cultural rigidity (the Middle East) or continuing abject pov-

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erty (most of Central Asia, Africa, and Central America). We shall dub the former the 'Functioning Core' of globalization and the latter countries the 'Non-Integrating Gap'.

Although the United States is recognized as both economic and political-military leader of the Core, US foreign policy did not reflect much unity of vision regarding globalization until the 11 September attack triggered the ongoing war on terrorism. Rather, globalization was treated as a largely economic affair that the US government left to private business, with the government promoting the tariff cuts and regulations that

support free trade both at home and abroad. The US security community worried about globalization only to the extent that it fostered the proliferation of weapons of mass destruction and the actions of certain nefarious transnational actors.

The perturbations of the global system triggered by 11 September have done much to highlight both the limits and risks of globalization, as well as the United States' current and future role as 'system administrator' to this historical process. For example, the vast majority (almost 95 per cent) of US military interventions over the past two decades have occurred within the Non-Integrating Gap. That is, we tend to 'export' security to precisely those parts of the world that have a hard time coping with globalization or are otherwise not benefiting from it.

Fulfilling this kind of leadership role will require a new understanding as to the Functioning Core's essential transactions with the Gap, which is—unsurprisingly—the source of virtually all the global terrorism we seek to eradicate.

LIVING LARGE

Although the United States represents only one-twentieth of the global population, its environmental footprint is dramatically larger. It consumes roughly a quarter of the world's energy while it produces approximately a quarter of the pollution and garbage. Economists will point out that the United States also produces roughly a quarter of the world's wealth, but frankly, a lot of that stays home, while it tends to import its energy and 'export' its pollution.

The US economic footprint is equally skewed. As its consist-

ently huge trade deficit indicates, it also tends to live well beyond its economic means. Basically, the United States counts on the rest of the world to finance its sovereign debt, which most countries—like Japan—are willing to do because the US government is such a good credit risk, and the dollar is the closest thing there is to a global reserve currency. There is not a whole lot to complain about in this deal—basically trading pieces of paper for actual goods. Put these two transactions together and it is easy to see why the United States has benefited from the rise of a global economy.

So what has the United States provided the world in return? Clearly it is a leader in technology and cultural exports, but these are fundamentally private-sector transactions that any advanced economy can provide.

The one US public-sector export that has only increased its global market share with time is security. It accounts for nearly half the global public spending on security, and unlike any other state, it can actually be exported to other regions on a substantial and continuous basis. And that is the United States' fundamental transaction with the glo-

bal economy: it imports consumption and exports security.

Sharing its surplus of security with the world is what makes the US unique. Any advanced industrial state can sell arms, but only the United States can export stability. Yes, it does engender plenty of anger from some quarters, but from far more it elicits real gratitude—and an allowance for 'living large.'

BEYOND CONTAINMENT

During the Cold War, Western policy vis-à-vis the Soviet Bloc was one of containment. The Globalization Era presents a different challenge: the Non-Integrating Gap does not just need to be contained, it needs to be shrunk. Doing so will take decades, however, and in the meantime we need to 'firewall' off the Core from the Gap's worst exports: terrorism, narcotics, disease, genocide,

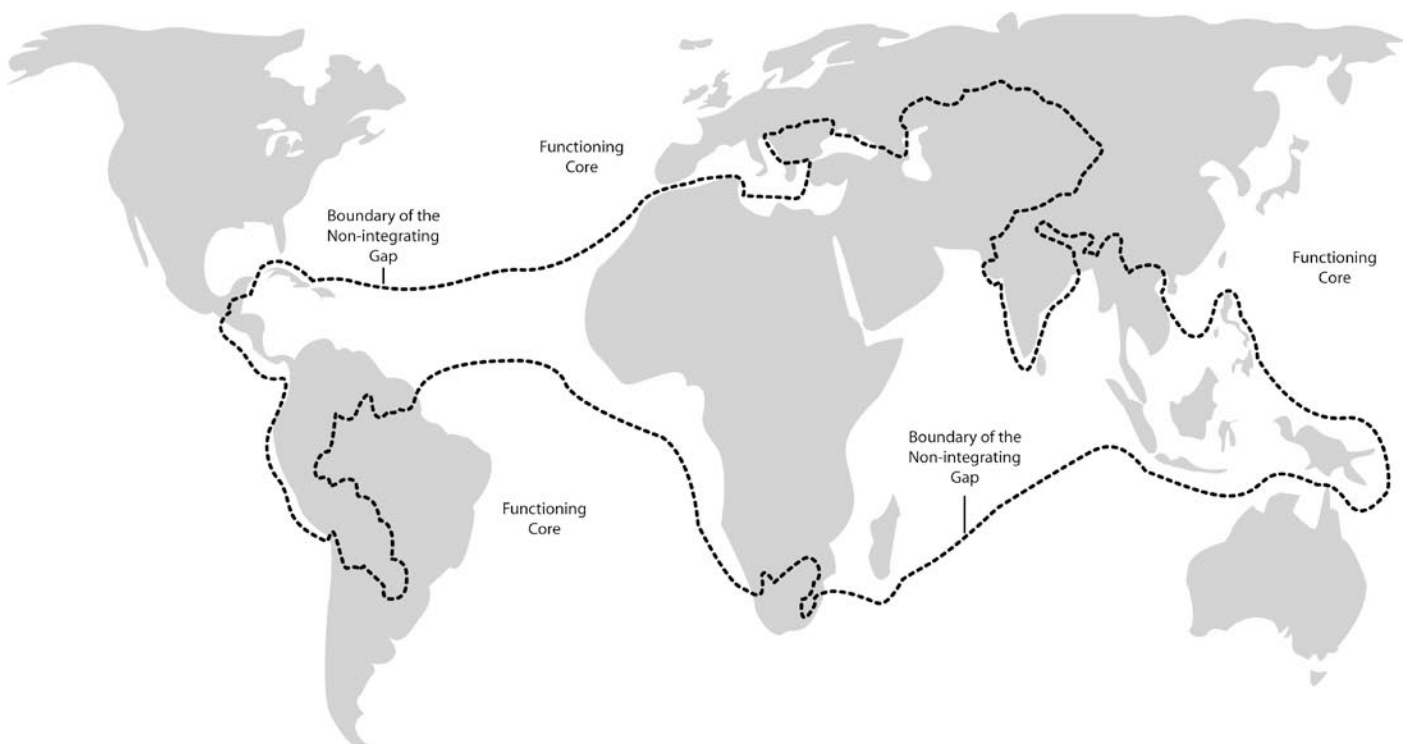
and other violent disruptions.

The good news is that the United States already has plenty of experience working the Gap—in fact, it has been the major focus of US military crisis response for the past generation. Four key events in the 1970s marked the fundamental shift from Cold War containment to Gap firewall management:

- déttente in Europe;
- OPEC (Organization of Petroleum Exporting Countries) oil shocks of the early 1970s;
- the end of the Vietnam War; and
- the fall of the Shah of Iran in 1979.

Prior to this quartet of events, the patterns of the US military's permanent forward deployments and crisis responses were largely in sync—clustered in the Cold War foci of Europe and Northeast Asia. But by the early 1980s, this strategy was clearly out of balance. Most of European Command's response activity had shifted to the Eastern Mediterranean, while most of Pacific Command's responses had slid toward the Persian Gulf. ▶

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Logically, the United States created the Central Command at that point, signaling the effective shift of focus from Cold War containment to Gap firewalling. According to the Center for Strategic Studies (CSS), in the 1980s the Middle East already accounted for just over half of the four services' combined situation response days (9,288 of 16,795, or 55 percent).

Turning to the CSS' response data since 1990 gives us an even clearer outline of the Non-Integrating Gap. When a line is drawn around roughly 95 percent of the US military responses in the post-Cold War era (1990-2002)—isolating responses involving Taiwan and North Korea in an otherwise stable northeast Asia—it captures those portions of the world that are either losing out to globalization or rejecting much of the content flows connected with its advance. (See diagram)

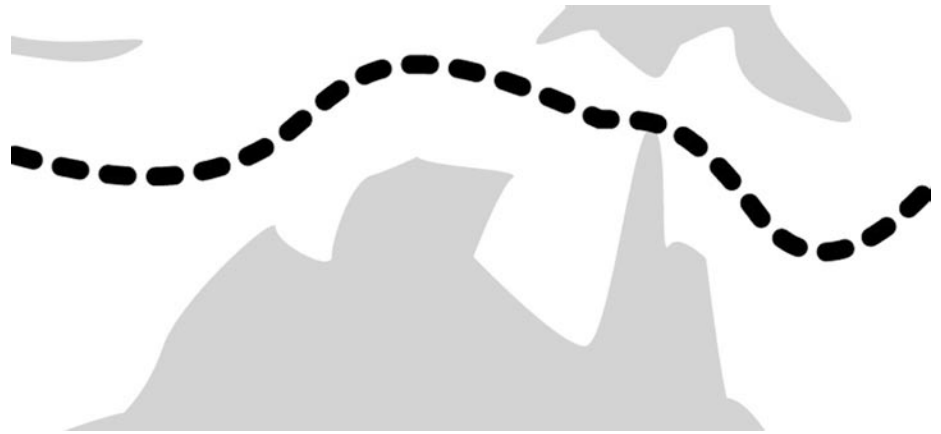
Looking at this experience, a simple logic emerges: if a country is either losing out to globalization or rejecting much of the content flows associated with its advance, there is a far greater chance that the United States will end up sending forces at some point. Conversely, if a country is largely functioning within globalization, that country tends not require forces sent there to restore order or eradicate threats.

FLOWING GLOBALIZATION

Four major flows must proceed over the next several decades if globalization is to continue its advance and the Gap is to be shrunk. The US government and its allies in the Core must enable and balance all four of these flows, for the disruption of one will damage the others, leaving the global economy and security environment vulnerable to the sort of system perturbations witnessed in connection with 11 September.

Flow of people from Gap to Core.

According to the United Nations, by 2050 the global population should peak somewhere around 9 billion people and decline thereafter. This will be a huge turning point for humanity in



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more ways than one. Take graying: by 2050, the global 60-and-over cohort will match the 15-and-under group at roughly 2 billion each. From that point on, the old will progressively outnumber the young on this planet.

In theory, the aging of the global population spells good news regarding humanity's tendency to wage war, either on a local level or state-on-state. Today, the vast bulk of violence lies within the Gap, where, on average, less than 10 percent of the population is over 60 years of age. In contrast, Core states average 10 percent to 25 percent of their population over age 60. Simply put, older societies are associated with lower levels of conflict because these older societies are emerging out of the success of globalization, with prosperity and fewer children per family.

The big hitch is this: current UN projections say that by 2050, the potential support ratio (PSR, or people aged 15-to-64 per one person 65-and-older) in the advanced economies will have dropped from 5-to-1 to 2-to-1, while in the least developed regions the PSR still will stand at roughly 10-to-1. That

means that worker-to-retiree ratios in the Core will plummet just as the retirement burden there skyrockets—unless the Gap's 'youth bulges' flow toward the older Core states. Japan will require more than half a million immigrants per year to maintain its current workforce size, while the European Union will need to increase its current immigrant flow roughly fivefold—but both have great difficulty acceding to that need.

In effect, emigration from the Gap to the Core is globalization's release valve. With it, the prosperity of the Core can be maintained and more of the world's people can participate. Without it, overpopulation and underperforming economies in the Gap can lead to explosive situations that spill over to the Core. One hopeful sign of the future: the Philippines has demonstrated that such flows can be achieved on a temporary deployment or 'global commuting' basis without resorting to permanent emigration or generating increased xenophobia in host nations.



Flow of security from Core to Gap.

For now, the war on terrorism and the long-term commitment to rehabilitate Iraq have superseded previous Bush administration talk about an East Asian security strategy. These continuing interventions underline the reality that the US military remains in the business of working the bloody seam between the Gap and the Core. In the 1990s, that seam ran from the Balkans to the Persian Gulf, but today it also extends into Central Asia, where we have built a number of 'temporary' military bases in former Soviet states to support our operations in Afghanistan—with Russian acquiescence—in a remarkable turn of history.

The reality is that the United States will end up exporting security (e.g., bases, naval presence, crisis response activity, military training) into Central and Southwest Asia for some time to come. For the first half of the 21st century, the primary cluster of security threats will lie in these areas—which also happen to be the supply center of the global energy market (we identify them as a cluster because the ultimate resolutions of individual conflict situations there are highly interrelated).

While the United States is already pursuing an ambitious plan to rebuild much of post-Saddam Hussein Iraq, there is little doubt among regional experts that the world is really looking at a lengthy rehabilitation period similar to post-World War II Germany or Japan. The United States might well establish permanent military bases in Iraq, hav-

ing moved them from Saudi Arabia.

The Israeli-Palestinian issue is heading toward a Berlin Wall-like separation. It may eventually involve a United States-led demilitarized zone occupation force. Then we simply would have to wait out a couple of generations of Palestinian anger as that society ultimately is bought off through substantial Core economic aid and the Palestinians reduce their family size as they achieve some economic viability.

Saudi Arabia's dramatic slide in per capita income during the past 20 years signals a downward spiral that will trigger radical political reform and/or substantial internal strife. Forestalling this may require a lot more prodding by the United States if institutional reforms are to occur and the Core is to avoid organizing yet another peacekeeping force. The course of events in Iraq will bear strongly on this evolution.

Assuming the United States remains deeply involved in the West Bank, Saudi Arabia, and Iraq, Iran's mullahs will fear Tehran is next and likely step up their anti-Americanism—if that is possible. The United States therefore will continue its long-term containment strategy until the restive Iranian public prevails in its desire to join globalization.

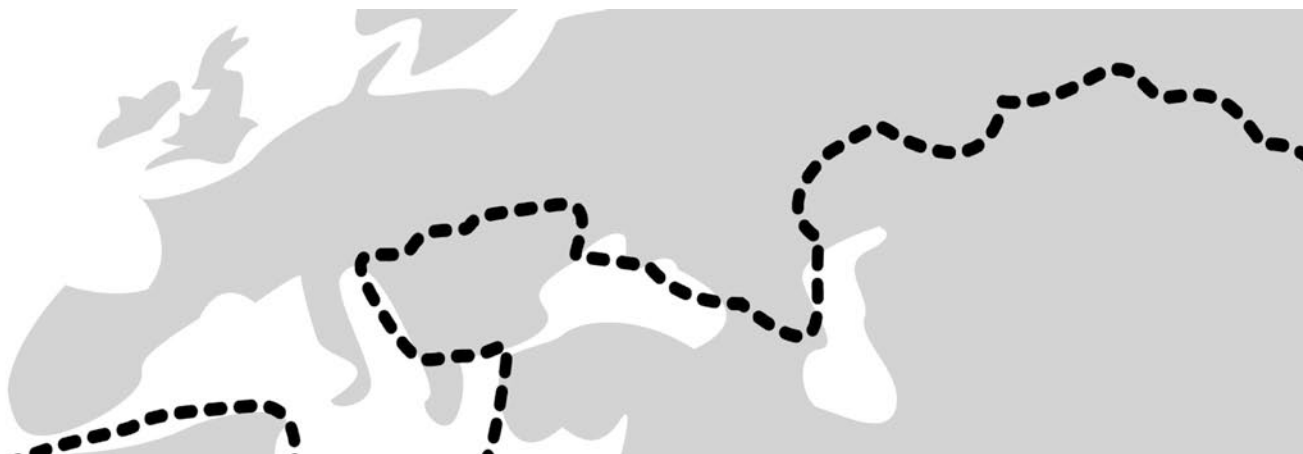
The combination of prosperity stemming from globalization and the export of US surplus military power has taken 'great power war' off the table in region after region. As the 21st century begins, such warfare is essentially unthinkable in the Western Hemisphere, in Europe (where NATO members and

Russia have joined in a common effort), or for that matter anywhere on the high seas. We hope that in a couple of decades, the same combination of efforts—a mix of economic and security cooperation—makes war unthinkable throughout developing Asia. But for the foreseeable future, it is the export of US security into the Islamic regions of Southwest and Central Asia that remains our most serious international security task. We are witnessing the beginning of a long-term integration effort there, one that will ultimately rival our Cold War effort in Europe in its strategic centrality.

Flow of energy from Gap to Core.

Sometime in the next 20 years, Asia will replace North America as the global energy market's demand center. That is because US energy demand will increase rather slowly in the coming decades while Asia's will double. Asia has sufficient coal but will import the vast majority of both natural gas and oil as demand skyrockets.

The great source for all that Asian demand will be Central and Southwest Asia plus Russia. A codependent relationship is already in the making: energy-strapped Asia increasingly depends on political-military stability in the Middle East, while the no-longer cash-rich Middle East increasingly depends on economic growth in Asia. According to US Department of Energy projections, by 2020 Asia will buy just under two-thirds of all the oil shipped out of the Persian Gulf, ►



and the Gulf will account for roughly four-fifths of Asia's oil imports.

Disrupt the flow of Middle East oil, and Asia's full integration into the Core is put at risk as its economies falter. India or China could feel the need to play 'great power' in the Gulf if the United States drops that ball. That could create an awkward competition among the Core countries, putting us all at the mercy of the Gap's chronic conflicts.

The United States must enable the smooth flow of energy from the Middle East to Asia because the latter is such an important partner in its global transactions. China and Japan are the two greatest sources of the American trade deficit, and Japan has long been a leading buyer of US sovereign debt. China's domestic market may become the greatest export opportunity as it opens up under the World Trade Organization's guidelines. India, meanwhile, supplies half the world's software. In the end, it may not be an American oil supply but it most certainly will be its prosperity that is protected when the United States exports security to the Middle East.

Flow of investments from Old Core to New Core.

Unprecedented flows of foreign direct investment are required for Asia's energy and other infrastructure requirements, approaching \$2 trillion by 2020. Asians themselves will shoulder much of the burden, but plenty more long-term money will have to come from private investors in the United States and Europe, which in combination control roughly two-thirds of the annual global flow of approximately \$1 trillion. So not only is Asia (the 'New Core') dependent on the Gap for energy, but it is also dependent on the 'Old Core' countries (the United States, European Union) for the financing. Put these two realities together, and you begin to understand that China's 'rising' is far more about integration with the global economy than Beijing seeking some illusory power or hegemony.

The major problems with Asia's energy demands and investment climate

are threefold: Asian governments, especially China's, still play far too large a decision-making role, delaying the rise of private-sector markets; national legal systems are still too arbitrary, meaning the rules are not applied equally to all players; and there are still too many chronic security flash points.

Continuing US military presence in Asia helps deter the 'vertical scenarios' of war (e.g., China-Taiwan, India-Pakistan, the Koreas), while enabling markets to emerge and tackle the harder, long-term 'horizontal scenarios,' such as meeting the region's ballooning energy demands while mitigating the already profound environmental costs. So long as markets can deflate buildup of pressure associated with all this development, none of these horizontal scenarios should segue into vertical shocks, i.e., conflicts. In effect, our military forces occupy both a physical and fiscal space in the region, encouraging Asian states to spend less on defense and more on development—the ultimate security.

TRANSACTION STRATEGY

The 'Transaction Strategy' is nothing more than a US national security vision that recognizes the primacy of these four global flows. That means the US government cannot pursue any national policy—such as the war on terrorism, the preemption strategy, missile defense, or exemptions from the International Criminal Court—in such a way as to weaken this fragile, interdependent balancing act across the globe as a whole. Instead, all security initiatives must be framed in such a way as to encourage and strengthen these system-level bonds. This will be best accomplished by being explicit with both friends and foes alike that US national security policy will necessarily differentiate between the role we need to play within the Core's ever-strengthening security community (i.e., more assurance/deterrence-oriented) and the one we must assume whenever we enter the Gap (more dissuasion/preemption-oriented).

If that is the overarching principle

of the Transaction Strategy, then its macro rule set on security can be summarized as follows:

- Do everything feasible to nurture security relations across the Functioning Core by maintaining and expanding our historical alliances.
- Discretely firewall off the Core from the Gap's most destabilizing exports—namely, terrorism, drugs, and pandemic diseases—while working the immigration rule set to provide opportunities to those who can contribute.
- Progressively shrink the Gap by continuing to export security to its greatest trouble spots while integrating any countries that are economic success stories as quickly as possible.

Is this a strategy for a Second American Century? Yes and no. Yes, because it acknowledges that the United States is the de facto model for globalization—the first multinational state and economic union. And yes, because it asserts that US leadership is crucial to globalization's advance. But no, in that it reflects the basic principles of 'collective goods' theory, meaning the United States should expect to put in the lion's share of the security effort to support globalization's advance because we enjoy its benefits disproportionately—hence this is a practical transaction in its own right.

Thomas P.M. Barnett is a strategic planner who has worked in US national security affairs since the end of the Cold War.

Henry H. Gaffney Jr. is a team leader with the Center for Strategic Studies, The CNA Corp., Alexandria, Va.

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