



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
Financial Services Volunteer Corps*

Executive Summary and Rapporteur's Report
on the Second Symposium of the Project

Dubai, United Arab Emirates
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EXECUTIVE SUMMARY: A CALL TO ACTION

The latest international symposium organized by the Financial Services Volunteer Corps (FSVC) with the generous support of Carnegie Corporation of New York took place in Dubai, United Arab Emirates (UAE), during June 23-25, 2017. Against a backdrop of troubling world events, the symposium brought together twenty-five leading experts from the United States, Russia, China, India and the European Community (EC) to discuss problems concerning the international financial system, global energy security, climate change and related issues.

These FSVC/Carnegie symposia have taken place annually since the start of the new millennium. A core concept underlying them has been that the most intractable problems confronting the world today will require multidisciplinary approaches, along with multilateral coordination, if they are to be successfully addressed. It is therefore imperative to promote dialogues among experts from differing areas of specialization, challenging the “silos” of their individual fields and spheres of knowledge, and promoting cross-border pollination of ideas. The inspiration for this approach came from the late John Steinbruner, who conceived the formulation for these meetings and took part in every symposium until his death in 2015. The powerful cross-cutting thinking engendered by these unique symposia, drawing on multiple bodies of expertise and bridging national boundaries, has been an important part of his legacy.

Participants in the Dubai symposium concurred that a number of alarming factors, including rising nationalism, populism and authoritarianism around the world, have made the need for this type of multidisciplinary dialogue more urgent. A progressive decline in leadership from the United States over a period of several decades, combined with a U.S. foreign policy that is at present ambivalent and lacking clear direction, has contributed further to this sense of urgency. While global leaders seem currently focused on discrete short-term problems, often at odds with one another, a longer-term set of chronic problems is festering that needs policy-makers' coordinated attention. Among the most critical is a shortage of viable good jobs across the world, posing an ominous threat to both economically advanced and developing countries. In the United States and other advanced nations, far more attention needs to be devoted to re-

training workers whose jobs have disappeared as a result of technological advances and structural shifts in the economy.

In developing and emerging market countries, particularly across Africa and the Middle East, a growing jobs crisis is being driven by demographics: the swelling youth population in these regions will continue to expand over the coming three decades, if not longer, and jobs simply do not exist for these people. The prospect of ballooning youth unemployment poses a growing threat to the social and political stability of these regions. Concurrently, a massive, sustained migration from Africa, the Middle East and Southwestern Asia poses a growing threat to the stability of other regions perceived as more attractive places to live. In the developing and emerging market worlds, if financial systems were functioning effectively, they would be allocating resources to address this jobs shortage. Small and medium-sized enterprises (SMEs) are the most promising engines of economic growth and job creation in these regions. Yet throughout Africa and the Middle East, SMEs are unable to get the financing they need to enable them to grow.

A related dire global problem is growing income inequality, which is leaving vast numbers of people feeling disenfranchised and left behind. In the United States and other advanced economies, we are also witnessing declining social mobility, as our economic systems increasingly favor the wealthy. A revolution of declining expectations is occurring, and this is especially affecting the hopes and aspirations of youth. As people lose faith in the capacity of government and other established institutions to address their plights, a growing mistrust of “establishment elites” has become evident. In parallel fashion, there has been a growing mistrust of experts and “facts.” This alienation is a further factor fueling rising populism, as large numbers of people are attracted to the “quick fixes” offered by demagogues and autocrats. The prevailing populist trends are often focused on identity politics that are exclusionary and not internationalist in outlook.

A further long-term problem of urgent proportions is the irreparable damage being done to the global environment by climate change. This problem is closely tied to the need to move away from fossil fuels, and to develop and embrace new technologies capable of cutting carbon emissions. Current projections indicate that by 2030, the world will still be dependent on fossil fuels (oil, shale and natural gas) for 90% of energy needs. The current U.S. administration’s decision to drop out of the Paris Climate Accord may do less damage in this sphere than many fear, as the United States for technical reasons cannot drop out of the Accord before 2020 – after the next U.S. presidential election. In addition, U.S. states and cities can make up for much of the inaction that may occur at the U.S. federal level. But that said, world carbon energy consumption may well not peak before 2035. The world desperately needs greater investment in new technologies in the fields of both nuclear power and renewable energy (e.g., wind, solar, water), and also in the production of cleaner energy from carbon fuels. Yet once again, the global financial system has fallen short, failing to allocate the major resources needed to address these challenges. Government leadership, and particularly leadership from the United States, is found lacking as well.

So many of the global challenges discussed at the symposium link back to the international financial system and its shortcomings. That system is in stronger condition today

than at any point since the 2008 global financial crisis, supported by higher capital levels and more rigorous internationally-coordinated regulations. Yet the regulatory pendulum in the wake of that crisis has probably swung too far in the direction of restricting credit and economic growth. Increased regulations have still not assured governments of the capacity to deal with another systemic financial failure. As the pendulum begins to swing back now in the direction of less regulation, dangers are abundant that the process may once again go too far. U.S. leadership in global financial regulation has been critically important since the 1980s, but whether the United States will continue to play that role going forward is in doubt. The prospective absence of U.S. leadership, and the likelihood that no other country or group of countries will fill the vacuum, raises the odds that the system will be unable to meet the demands and expectations placed on it. To date, the system has failed to adequately support the creation of new jobs in the emerging and developing worlds, the growth of SMEs, or the development of alternative energy sources. It has also failed to play a clear role in mitigating the growing income inequality that is threatening the stability of a number of major countries. Even in the United States, 7% of the population currently have no access to banking services, and another 24% are underbanked (e.g., relying on payday lenders).

As the symposium concluded, experts from the United States, Russia, China, India and the EC united in a call for action. Recognizing the ultimate power of ideas, the group called for a focus by the media and non-governmental bodies on developing multidisciplinary, multilateral solutions to the chronic challenges of job creation, income inequality and climate change. These global challenges are themselves interrelated, and will require comprehensive responses. Financial resources must be committed to support workable strategies, and this will require the active, innovative engagement of the global financial system as well as leading governments.

Another area of grave concern that must be addressed is the arc of crisis and instability emanating from the region of the world extending from Northern India to North Africa. The location of the symposium in Dubai, a global crossroads that has successfully promoted growth and innovation in numerous economic fields, including financial services, offered hope that this region's vexing problems can indeed be addressed. The "Dubai miracle" is real, a testament to the power of innovative thinking and hard work backed by capital. It can be an example for the rest of the region, and for the rest of the world.

RAPPORTEUR'S REPORT¹

On June 23-25, 2017, Carnegie Corporation of New York and FSVC hosted the second symposium of the Project on *Building Cooperation Among Four Key Powers – the United States, Russia, China and India – in an Era of Growing Tensions* in Dubai, UAE. Our participants originated from the United States, Russia, China, India and the EC, as well as Dubai, and met for three days of enlightening 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. The group in Dubai included returning and new participants, providing continuity as well as new perspectives to the discussions.

Beginning with a broad assessment of global political and economic trends, our panels of senior policy advisors, scholars and financial services executives led focused discussions on a range of topics, from the health of the global financial system to the domestic and foreign policies of the world's key powers, to climate change. The cooperative, multilateral nature of the symposium allowed participants to speak openly about developments in their own countries and gain unique insights into those of other countries and differing areas of specialization. This approach helps challenge the “silos” of participants' individual fields and spheres of knowledge, and promote the cross-border pollination of ideas. The inspiration for this approach came from the late John Steinbruner, who conceived the formulation for these meetings and took part in every symposium until his death in 2015. The powerful cross-cutting thinking engendered by these unique symposia, drawing on multiple bodies of expertise and bridging national boundaries, has been an important part of his legacy.

In the opening session, we touched upon a number of themes, including the current ill-defined nature of U.S. foreign policy, and the three disturbing global trends of rising nationalism, populism and authoritarianism. There also appears to be no hierarchy of major threats across key countries, an absence of political will in the United States to deal with Russia, and a toxic political climate in both the United States and Russia.

One major crosscutting theme raised was the concept of a “new normal” in world affairs. The Trump Administration's seemingly unilateral, zero-sum vision and attitude toward the external world is one expression of this “new normal.” For example, the administration appears to be stepping back from the international multilateral institutions that were built under U.S. leadership and that form the cornerstone of the post-World War II liberal world order.

This shift away from established institutions is due, in part, to the reality of long-term lower growth rates. This economic slowdown has caused friction between generations, as youth in particular struggle to do as well as (or better) than their parents. Furthermore, technological

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FSVC is a not-for-profit organization whose mission is to help build sound financial sectors to support healthy market-oriented economies in developing and emerging market countries. Additional information about FSVC can be found at www.fsvc.org.

advances have contributed to a sense of pervasive economic insecurity. Complexity is now ubiquitous and, in conjunction with widening inequality, has contributed to the de-legitimization of established mediating institutions in advanced economies. The rise of populism finds some of its roots in these shifting attitudes against society's traditional structures.

As governments have struggled to guarantee economic security in a rapidly changing global economic environment, voters have become increasingly polarized. Polarity is reinforced by “echo chambers” and other products of modern media that strengthen political isolation and, in the United States, the European Union (EU) and elsewhere, appear to promote emotion-based reasoning and entrenchment over rationalism and compromise. Concern was raised by our participants about this growing unilateralism spilling into the international realm, and many wondered whether an alternative international governance system could be achieved, particularly as the United States steps away from its traditional leading role.

Major Theme: The “New Normal”

Since the last Carnegie/FSVC symposium, which took place in Beijing in June 2016, several major developments have taken place at the global level, and the very pace of change appears to have accelerated. Rapidly emerging macro-trends in the political, economic, technological and social spheres have shaped a “new normal” in world affairs. Many projections and expectations from recent years, even those which some believed to be fundamental, intractable norms, may no longer apply.

Our participants deemed the traditional “normal” to have been essentially optimistic. In the 1990s, some believed that the world was moving inexorably toward a peaceful and mutually beneficial coexistence of market democracies. A corollary of this belief was that globalization had become a fact, not a choice.

One participant suggested that the disruptive idea that another, more pessimistic “new normal” is emerging can be traced to a 2010 speech by then-CEO of PIMCO Mohamed El-Erian. In the speech, he warned that advanced economies were unlikely to return to the rates of growth typically expected before the global financial crisis. To a significant extent, the “new normal” therefore means lower long-term growth rates, for middle income and advanced economies. Given this outlook, for example, leaders in China have suggested that their country and its citizens must accept lower rates of growth going forward than were previously common.

Broadly, our participants noted six principal dimensions that can help explain the “new normal” and its root causes, and thereby help determine possible ways forward:

(1) Lower rates of growth

There is lower demographic growth in middle-income and advanced economies. Therefore demography, which historically has been a fundamental determinant of economic growth, can no longer be the engine of growth for those countries. Furthermore, many participants noted that future technological breakthroughs will not likely increase productivity without also increasing unemployment as more jobs may be

destroyed than created by innovation. Artificial Intelligence (AI), for example, may become a key component of this trend. Participants highlighted that these technological trends will likely accelerate in the foreseeable future.

(2) *Growing income inequality and a “revolution of declining expectations”*

Growing income inequality is leaving vast numbers of people feeling disenfranchised and left behind. In the United States and other advanced economies, we are also witnessing declining social mobility, as our economic systems increasingly favor the wealthy. For example, in the United States, 7% of the population currently have no access to banking services, and another 24% are underbanked (e.g., relying on payday lenders). Furthermore, significant parts of the population (particularly younger generations) worry that their standards of living may fall short of that of their parents’.

At the same time, our participants felt there is a broad perception that governments and policymakers have failed to keep up with the rapidly developing economic and technological environment. This failure has led to a growing mistrust of elites, established political forces and core political institutions, as well as a rise in extreme left and right political movements. This is one of the phenomena often termed “the rise of populism.”

(3) *Generational change occurring*

There are growing generational gaps in numerous countries, with an older generation outnumbering younger generations. This leads to a combination of slower growth and more resources spent on older generations as they age.

(4) *Rise of protectionism and mercantilism*

There is increasing pressure on governments to handle the socio-economic woes of their societies, either by raising a given country’s own barriers or breaking down barriers elsewhere in the name of “reciprocity”. Globalization (trade and, in some cases, immigration) is seen as the cause of significant problems in many societies, and a protectionist/mercantilist approach aims to reverse or limit globalization.

(5) *Growing sense of competition and insecurity among major powers*

Competition is rising in the economic sphere, and it could spread to the strategic realm as the costs and risks of competition increase. If competition becomes rivalry (i.e., consistent opposition by one actor against another on all issues) between and among major powers, then prospects for cooperation will be further diminished. Collective solutions to problems will then become even more difficult to attain.

Many of our participants agreed that some risks have spread from emerging markets to advanced countries. To this point, multiple participants noted that the changing nature of

terrorism – technologically and ideologically – is an important aspect of the new (in)security equation and the “new normal.”

(6) Eroding power of existing analytic tools

The rate and complexity of change are exceeding the ability of policy and expert communities to track, explain and foresee developments. It is increasingly difficult for political leaders and the general public to understand the complexities of situations that are very hard to explain, even to well-informed audiences. Predictive tools also have proven to be too basic for the tasks at hand. As a result, there is declining faith in policy experts, political elites and the analytical tools they typically employ. In their place is a new universe of “alternative facts,” which purports to better explain reality and challenge conventional wisdom. All the while, uncertainty about the causes and solutions of phenomena increases and spreads.

In light of these trends, the outlook of our participants with regard to global affairs in the near future was largely pessimistic. Some participants noted that these trends, however, are not stable. It therefore is not clear yet what the “new normal” is.

Other Major Themes

Several major themes emerged during the course of the discussions among our participants. Appearing as common threads through multiple conversations, the following themes also represented major areas of concern for our participants looking forward:

(1) Uncertainty about the nature of U.S. leadership

Some of our participants observed that U.S. leadership has experienced an ongoing decline in recent decades; it is not a brand new phenomenon. A significant reason for this decline appears to be the inability to form a consensus within the United States. Deep cleavages between viewpoints make it almost impossible to reach agreements on any topic, international or domestic.

The decline in U.S. leadership, however, appears to have accelerated with the election of Donald Trump. For about a century, the world has largely been led by the United States, which has tended to assume leadership, even if reluctantly at times, for driving the global agenda. After World War II, the United States was one of two superpowers and, since the fall of the Soviet Union, it has been the primary global leader. President Trump has confidently pronounced his “America First” objective and has signaled his intended retreat from various international, cooperative frameworks through which American leadership has extended its traditional influence and, in turn, derived its legitimacy around the world.

Many of our participants also felt that it is very difficult to predict what President Trump will do next. U.S. leadership – or the lack thereof – is now a significant global factor and a key source of uncertainty. Participants noted that leaders and countries are learning how to manage President Trump and his administration, and thus have begun to focus on short-term

maneuvering with the United States. Many participants warned that this can lead to personalization and instability in foreign policy, and will likely diminish the influence and effectiveness of U.S. policy globally.

In particular, nearly all of our participants felt that American soft power is evaporating very quickly in 2017. Participants observed that soft and smart power used to be arguably the United States' most effective foreign policy tools, but that China and the EU seem to be increasingly projecting international soft power. China, in particular, appears more stable and rational, while the EU appears to lead on values and on a progressive, internationalist agenda. In contrast, the United States appears chaotic and uncertain despite the fact, or perhaps because, it has maintained the lead in hard power.

Several of our participants emphasized that, in Europe and in Asia, there is a feeling of the passing of the torch, which presents an opportunity for change on the one hand, and which is causing great uncertainty on the other hand. On a more positive note, the potential retreat of the United States could give rise to an alternative model of international governance, in which middle-income countries are more actively involved. Participants noted that any new cooperative models would likely emerge slowly, however, and run into challenges from major powers.

Overall, the overwhelming sentiment among participants was that the weakening of U.S. leadership was resulting in greater uncertainty in international relations. Our participants noted the need for a global leader as the majority of the most pressing problems facing individual countries are in fact transnational and global in nature (e.g., climate change) and require global solutions. Yet, no one has stepped forward to define key global challenges and potential solutions in a consistent and multilateral way, as the United States has done in the past (e.g., President George W. Bush on terrorism). The likely outcome will be less coordination of international efforts and more attempts to organize lower-level, not global, solutions and approaches. Such efforts also require leaders, however, and thus represent potential arenas for future competition.

(2) Populism

The political environment was seen by most participants as potentially complicating the solutions to global problems and efforts to attain cooperation. The dominant political trend in both the West and most other major areas of the world is populism. Populism can be defined as political appeals to desires of an aggrieved subset of the population. It tends to be nationalistic in nature and focus on identity politics, frequently of the extremist variety. The main danger of populism is that it often provides the base for more authoritarian or dictatorial forms of government, focused on exclusion. It is not internationalist in outlook and it is likely to make reaching cooperative outcomes more difficult.

While populism is thus often associated with exclusionary policy and authoritarian forms of government, some of our participants noted that it also must be understood as an expression of some legitimate and neglected grievances. There is developing literature that argues that

populism is fueled by liberal policymakers who have overlooked the interests of people who believe they have been negatively impacted by globalization.

One participant described this dynamic in terms of “mobilizing” and “demobilizing” groups in society. Demobilizing groups feel that their identity is shrinking and losing its traction, or promise. As a result, these groups look for ways to strengthen the prestige and promise of their identities, and maintain the entitlements they believe come with their positions. For example, in the United States, Donald Trump succeeded during the Presidential election in part by resonating with the grievances of the white working class. He proposed restricting immigration and imposing higher trade barriers rather than retraining and educational programs. Other participants noted that similar dynamics led to the vote for “Brexit” in the United Kingdom. Furthermore, the proliferation of different media outlets enables the airing of the grievances of “demobilizing” groups, leading to the creation of “echo chambers” that reinforce one’s own views.

The examples of the U.S. Presidential election and the U.K. “Brexit” vote also demonstrate the structural impact that populist sentiment can have on the traditional political process. Our participants observed that populist leaders often derive legitimacy by appealing directly to his or her people, bypassing mediating institutions such as political parties. From this perspective, populism arises out of impatience with policy paralysis, which many believe has been perpetuated by former leaders and traditional mediating institutions. Strongmen, outsider leaders, going directly to the public and joining forces against the “elites” are then seen as the solution. To counter this perception and address often times overlooked problems, some mainstream governments in the EU have begun to adopt elements of populist parties’ agendas.

Finally, our participants observed that populism is a major factor not only for domestic developments but also for international outcomes. The rise in domestic and international challenges, and the resultant populist movement, means that many leading powers are now conservative and/or populist in their political leadership. Leadership in India (Modi) and the United States (Trump) is conservative and populist, while in Russia (Putin) and China (Xi), it is conservative and traditionally authoritarian. As a result, the four major powers are currently less likely to be internationalist, and the dominant global orientation is moving toward spheres of influence among major powers rather than liberal international institutions across the world. In this context, the dominant cooperative framework going forward is likely to be bilateral agreements among major powers.

(3) Weak leadership

The rise in populism is due, in part, to the apparent absence, or at least shortage, of strong leadership at the senior levels of governments and international organizations. While there is a rise in strong personalities, such as President Trump, they tend to be weak leaders who are not presenting and implementing effective solutions to key domestic or global challenges.

Driving domestic policy agendas and coordinating global collective action require executive decisions as well careful management. Some of our participants therefore felt that, in the United States as well as globally, there is a need for leaders who can talk effectively about

economic security issues. Once there is traction on economic security, then a leader may have political clout to pass reforms in other areas. In the “new normal” world, however, there is a cacophony of proposals and noise, which often times drowns out reasonable centrist ideas and awards the most attention to radical voices. It therefore can be difficult for a strong leader with “balanced” ideas to emerge.

When political leadership fails, there are a number of other sources of leadership to consider. For example, Michael Bloomberg, the former mayor of New York, has set an example of leadership as a philanthropist. His call to action on climate change – in particular, meeting Paris requirements at the city and state levels in the absence of federal resolve – presents an alternative source of leadership that is philanthropic, civic and business-oriented.

(4) Automation, the new world of work and rising unemployment, particularly among younger generations

Another major theme was technological disruption, which is affecting an increasing number of areas of human activity. Technology has the potential both to worsen some trends such as the fragmentation of information, and to facilitate solutions to currently intractable problems such as climate change.

Technological change is moving ahead rapidly and entering new uncharted territory every year. For example, technological advances increasingly threaten the traditional world of work and employment, and may destroy more jobs than those advances help create. The development of AI, in particular, may have unpredictable consequences going forward. On the one hand, it may lead to new and improved ways of organizing human societies. On the other hand, it may likely significantly disrupt the way of life of millions of individuals and whole societies.

The potential pitfalls of technological innovation are compounded by the surge in youth populations in the developing world, and the urgent need to create more jobs for them. Today, there are few economic opportunities in much of the developing world, and new technology can further decrease those opportunities and deepen existing imbalances among classes. Our participants agreed that this will create critical economic and social problems if no new large-scale opportunities emerge. Growing instability could lead, for example, to increased long-distance and long-term migration. Technology, again, may reinforce this trend by promoting awareness of better living conditions in other countries.

Observations about the Economy and Global Financial System, and Energy and Climate Change

Economy and Global Financial System

In addition to these four major themes, the financial sector is one of two major functional areas that the Carnegie/FSVC symposia discussions cover in more detail, as it is global in nature and affects the key powers directly.

Overall, the national economies of the key powers are doing substantially better than they were in the recent past. Economic conditions are not enough to meet the needs of populations and of the global economy, but the trends have been positive. The International Monetary Fund (IMF) has raised its projections of economic growth for most advanced countries and many emerging market economies. There appears to be no imminent crisis looming, though there are always some warning signs on the horizon.

In particular, the financial system has made tremendous progress since the global financial crisis in 2008. The system relies in part on confidence, which is built slowly but can be lost quickly. To make the system work well, careful supervision is required, which is today more coordinated than ever. In mid-2017, banks have more capital, better capital, more liquidity, and less risk on and off their balance sheets than they have had in nearly a decade. Many participants agreed that the Dodd-Frank Act regulatory framework has yielded good results overall, and that both U.S. and international regulatory bodies deserve credit for making improvements. At the moment, if any one of the globally systemic banks failed, there is a reasonable likelihood that the system could handle it without a significant crisis.

There is always room for improvement, however. Some participants felt that rule-making under Dodd-Frank and other post-crisis legislation has been heavy-handed in some ways. Many domestic markets have experienced a credit crunch and it is difficult for SMEs – historically the drivers of employment and economic growth – to access credit. This has negative growth implications globally. Other challenges include the high compliance costs for the “Volcker Rule” and its unintended consequences, and the fact that the Federal Reserve System’s “lender of last resort” capacity and its liquidity maintenance have both been restricted, which will make it harder to handle the next crisis. Finally, some participants noted that global financial regulation has sparked a de-risking trend among many of the world’s leading banks. This trend has put enormous pressure on emerging market countries and, in some cases, has threatened to cut nations or regions off entirely from the global financial system.

Our participants overall expressed doubts that the United States would lead the way in addressing some of these challenges in global financial regulation. Specifically, participants worried about the Trump Administration’s rhetoric in support of de-regulation in the United States, and whether it could spark a “race to the bottom” on de-regulation in other major economies. There also have been indications that the United States might pull back from international agreements and forums that have provided the frameworks of financial regulation for many years. The United States has traditionally played a leading role in these multilateral forums, and participants worried that the process could start to unravel with its retreat. Cooperation so far has been comprehensive and effective but, if more countries adopt the equivalent of “America First” policies, implementing coordinated financial regulation could be challenging going forward.

At the same time, our participants noted that the financial sector is becoming more globalized and is rebalancing away from traditional Western financial centers such as the United States. China, India and Dubai have all experienced significant growth in their financial sectors, and Asia is generally becoming more financially integrated, which is indicative of China’s rise in

soft power. Challenges remain, however, such as the need for Chinese banks to find a balance between political and economic imperatives.

Energy and Climate Change

The second key sectoral topic that the Carnegie/FSVC symposia cover is energy and climate change. On the issue of climate change, there are positive developments, including a slowdown in energy consumption, advancements in renewable technology, unprecedented international cooperation and “green” leadership from China specifically. Reducing global reliance on coal and fossil fuels, however, will be a long and difficult process. Current projections indicate that, by 2030, the world will still be dependent on fossil fuels (e.g., oil, shale and natural gas) for 90% of energy needs, and world carbon energy consumption may well not peak before 2035.

Technology is not yet advanced enough to enable the world to decrease dramatically its use of fossil fuels. From a purely statistical, data-driven standpoint, renewable energy can only be one aspect of the solution and must be complemented by other energy sources such as nuclear power for some decades to come. While there is significant research and development in nuclear power, none of the technologies in the pipeline will be developed, licensed and commercialized at a scale that can slow down climate change soon. The current trajectory is slight tweaks to the current generation of reactors and an overall increase in nuclear power. Our participants agreed (and the data indicate as well) that renewables, while a necessary part of the solution, will not solve the problem on their own.

Exacerbating global concerns in this area is the lack of U.S. leadership. The debate over climate change in the United States is not focused on the facts. Climate change deniers do not fully understand the dangerous changes taking place. On the other hand, those who perhaps overestimate the potential of renewables tend to misrepresent the facts as well. In addition, President Trump has announced his intention to withdraw the United States from the Paris Climate Accord. The exit process, however, is likely to be slow as the United States, for technical reasons, cannot drop out of the Accord before 2020 – after the next U.S. presidential election. In addition, the exit process may not be as dramatic as feared. Many local actors (e.g., states, cities, leading corporations) have committed themselves to meeting the Accord’s goals. The United States is thus likely to meet its obligations even if the Federal government is formally leaving the Accord.

Overall, many of our participants expressed their concern that the world continues not to focus on climate change as an imminent threat. The fear is that only once large-scale, possibly catastrophic or at least disruptive changes begin to manifest themselves will necessary action be taken.

Observations Regarding Key Countries and Regions

In addition to discussing developments in the financial and energy sectors, we also reviewed and discussed ongoing domestic challenges in the United States, Russia, China, India

and the EU. In addition, there were some discussions about recent developments in Dubai and the wider region, given the location of our symposium this year.

The United States

The domestic policy implications of Donald Trump's first six months in office present long- and short-term challenges. President Trump is an outsider who, most participants agreed, has not hit the ground running. While President Trump has pledged sweeping reforms, constitutional checks and balances have so far limited his ability to pass legislation. Many of our participants also agreed that there is more noise than substance in Washington, D.C., and felt that the overall quality of governance and policy-making in the United States is decreasing, resulting in reputational damage. The U.S. Congress remains dysfunctional, and the most significant policies implemented were those for which the President can take unilateral executive action. The bureaucracy in the United States, as in many other developed countries, is being shaken up, but it is not yet clear that this process in the United States will lead to a renewal.

These changes in American politics are driven by voters. Our participants noted that voters are becoming increasingly polarized, and many vote for legislators who dig in and fight stubbornly on partisan issues. The Trump presidency, participants felt, is not only a result of this trend, but will likely exacerbate it further, creating long-term negative consequences. In the short term, the midterm elections of 2018 will be significant. Political parties are realigning in terms of both members and ideas. In some specific places, voting behavior changed significantly during the 2016 elections and such changes can be expected in the future as well.

A crucial element of the upcoming elections is economic security. Many Americans feel that U.S. economic life has been disrupted and the source of economic security is changing quickly, in part due to technology. As a result, the U.S. Government, at all levels, appears to be struggling to control, manage and address this issue. A key economic concern for governments in the United States and other countries, particularly in the West, is where to find new sources of employment. A related issue is how to promote lending to SMEs, which are often key engines for job creation.

Russia

Economic and political stability has become the main slogan of President Putin's regime. Economic stability, as manifested by stable currency rates, employment for state employees and the provision of some social services, has been possible thanks to the state-dominated market structure and relatively high energy prices. Political stability has meant the continuity of leadership, a stable party system and an overall decline of electoral competition. Generally, this also has meant that problems such as regional cleavages are stabilized, but not solved. This stability, however, means that President Putin cannot promote significant reforms as they would require the surrender of some control. As a result, President Putin can support mild or tactical changes, but nothing that would threaten his power or the core interests of those around him. While the existing system is stable, it cannot accommodate protest and grievances.

In part as a result of this stability, President Putin continues to be popular. He has full control over the electoral system and the media, supported by the judiciary and the police. Overall, our participants agreed that challenges to him or to those he supports in any election are nearly impossible at the moment. Some participants noted, however, that the Putin government will have to end, at the very least because President Putin himself will no longer be able to occupy his post. For this reason, the regime itself is perhaps the biggest problem for Russia. Significant instability surrounding the transfer of power in Russia cannot be discounted, though the situation is unpredictable at the moment. A participant argued that there may be institutionalized instability currently in the United States while, in Russia, there is hidden instability not powered but accommodated by institutions.

On the economic front, the situation in Russia in mid-2017 is relatively positive. The Russian economy is growing at a rate of 1 to 2% a year, and sanctions have not had much of an effect. In the Russian financial sector, the rate of the cleanup of the banking sector is accelerating and, as a result, there are now 600 banks compared to 1,000 a few years ago. One participant noted that the Russian Central Bank does not exercise effective banking supervision, however, and 12-15% of existing banks have no capital or negative capital.

China

On the foreign policy front, the Chinese government has been cautious about President Trump, particularly after his call to the President of Taiwan shortly after the U.S. election. Some of our participants commented, however, that Chinese leadership believes President Trump to be a transactional leader who is not eager to pick a fight with China. President Trump's meeting with President Xi appears to have gone well.

Furthermore, President Xi is seizing the opportunity to assume a leadership role in re-globalization efforts, advocating for more openness, and promoting trade and investments. The "One Belt One Road" (OBOR) initiative is a major statement of China's ambition for leadership and further demonstrates Xi's eagerness to lead on global issues. The initiative also has helped to increase the popularity of China's leadership, both domestically and internationally. One participant noted, however, that it seems China is being allowed to play by its own rules with little international pressure to reform them.

On the economic front, the "new normal" applies to China as well: China will grow at a slower pace than before. In mid-2017, however, the overall economic trends are positive: the economy is stabilizing, growth rates are returning and the government is implementing structural reforms that were previously delayed. Chinese leaders also appear to have a clear sense of what the minimum rate of national growth should be to ensure political stability. One of our participants observed that there are two Chinas: one largely state-owned and one that is privately owned. The second one is the driving force of the Chinese economic miracle. Some private firms do obtain economic support from powerful elites, often through implicit or proxy ownership of the businesses. The elites often become very rich in the process.

India

At the Carnegie/FSVC symposium in Beijing in June 2016, the tone of our group when discussing India was cautious but optimistic. A year later, caution remains but less optimism was present.

Prime Minister Modi continues to be popular. He is a formidable campaigner and speaker, with very good political instincts and strengths. More importantly, he put together a new social coalition that cuts across the Hindu caste groups. His party, the BJP, was primarily a middle and upper class party, but he has transcended this base. Prime Minister Modi also dominates his party, having eliminated rivals and secured control over his cabinet. Opposition is ineffective, and Modi now controls and dominates both the political narrative and social media. This consolidation of power seems to be in response to a hunger for leadership in India, as in much of the world.

Prime Minister Modi does face many challenges, however, including:

- (1) Unemployment as a major social issue that he has yet to address;
- (2) Stalled reforms of the manufacturing sector, which Modi promised when he came to power;
- (3) Farmer agitation in two states in central India;
- (4) An opposition that is beginning to coalesce;
- (5) Extremist pressure from right-wing movements; and
- (6) Restricted information flow to Modi, and his overreliance on established and trusted channels.

With regard to economic and financial developments, our participants noted a negative trend in key areas and initiatives:

- (1) Exercise in demonetization: Numbers recently released show that this demonetization policy may have caused a 1% decrease in the country's growth rate, and that this impact will likely persist. Demonetization has had a particularly devastating effect on agriculture, real estate, construction, SMEs and migrant labor. The price that farmers have received for their produce has dropped dramatically. The reform was not a positive development.
- (2) There was dramatic growth in bad assets in the banking sector. One of our participants noted that non-performing loans, as a percentage of total advances, increased from 3 to 10%. A large portion of these non-performing loans is concentrated in public sector banks, which are controlled and owned by the government. Furthermore, the bulk of the loans are in steel, telecoms and textiles. Any issue in these sectors has a significant impact on job creation and employment.
- (3) The number of jobs created in recent years has been much lower than the number of young workers entering the labor force.

In addition to these challenges, India lags far behind China in most economic measures, including the integration of supply chains. Our participants felt that this will likely remain the case for the foreseeable future. Poor transportation linkages, difficulties in doing business in India, and a lack of fundamental thinking about how and whether the government should intervene in markets are likely to continue as well. In general, there is a lack of willingness to let markets operate naturally and a lack of focus on economic policy-making.

The EU

The EU appears to be in a stronger position in mid-2017 than it has been in some time. Below the surface, however, major issues persist, including:

- (1) The Euro crisis does not seem as dramatic as it was two or three years ago, but it is still structurally unresolved. One of our participants noted that integration of the currency without the integration of fiscal and social policy is not likely to be tenable and will create problems in the future.
- (2) Some structural problems persist in Greece and, to a lesser extent, Italy.
- (3) One participant noted that the policy of the European Central Bank to buy state bonds is a violation of the “no bailing out” rule and has to be phased out, which will impose some stress on the system.
- (4) Terrorist attacks have been persistent and are part of the “new normal” for the EU.
- (5) Under-regulated and uncontrolled immigration inflows are continuing. There are approximately half a million unregistered people coming to Europe every year. This number may increase, depending on geopolitical developments and the situation in Turkey, in particular. Furthermore, the distribution of refugees and immigrants is highly unequal, with some countries refusing to accept migrants. This unequal policy is causing stress on EU structures and norms.

The dominant issue for the EU, however, is “Brexit”. One of the most problematic aspects is that “Brexit” requires an immense amount of time and energy to negotiate, which distracts from other major priorities and challenges. On the positive side, the possibility of a “Brexit” by another member state has almost completely disappeared, as the process is difficult and costly. Leaving the EU is proving to be nearly as difficult as joining.

Finally, the new U.S. leadership presents a structural problem for the EU because of the new administration’s skepticism toward global institutions. This is the opposite of what the EU is in its essence, and the mismatch creates many obstacles on concrete policy issues. In addition, there are significant uncertainties regarding what the new U.S. administration will undertake in the future. The resulting inability to rely on the United States has pressured the EU to assume a more active stance on a number of issues, including security and climate change. Some of our participants noted that a key challenge therefore for the EU going forward will be to look beyond

the highly complex domestic EU affairs and determine what the EU can do to help address global challenges.

Dubai and the Wider Region

Dubai was an extraordinary setting in which to hold our symposium this year. It is a true geographic and cultural crossroads and, in many ways, a key center of the emerging market world. We therefore invited local guests from the UAE to discuss current trends in Dubai and the wider region. The “Dubai miracle” was evoked several times, a testament to Dubai’s success in promoting growth and innovation in numerous economic fields, including financial services. Several local guests noted that Dubai is generally benefiting from the shift away from traditional financial hubs as it has set up sophisticated institutions such as the Dubai International Financial Centre (DIFC), which provide confidence to international investors. For example, China now has extensive financial ties to the UAE, and these ties continue to grow.

While Dubai offers hope for a region riddled with vexing problems, many of our participants expressed doubt that its success could be duplicated elsewhere in the region. The region is part of an arc of crisis and instability emanating from countries extending from Northern India to North Africa. On the economic front, growth in the Middle East is particularly weak, and stagnation is the old normal that is expected to continue until 2035 according to the IMF. The region has generally underperformed as an emerging market for the past twenty years and, by some metrics, is doing worse (e.g., The World Bank’s *Ease of Doing Business* index.) Furthermore, the decline in the price of oil has impacted jobs, and the rise of terrorism in countries such as Egypt has decimated local tourist industries. This confluence of issues and the general lack of leadership to address them effectively are particularly problematic as the Middle East boasts a population of approximately 400 million, with a median age of 21. There are not enough jobs and economic prospects for this youth, and the result is a very high rate of youth unemployment and potential social instability.

Conclusion

In the closing session, we asked our participants to state what problem worried them the most, and a vibrant summation ensued. Key themes raised included the lack of (good) jobs being generated globally, and the threat posed by growing youth unemployment; rising income inequality, and its corrosive effects in leaving people out; and the failure of the global financial system to allocate resources effectively to address these and other problems. The failure of banks in the developing world to provide the SME lending needed to support job creation and economic growth is but one example. Other major themes were cited as well, including the dangerous situation in the Middle East and North Africa (MENA) region, but it was also noted that the “Dubai miracle” provided a powerful example of hope in this unstable, war-torn part of the world. Other worries cited included the rise of nationalism; the potential for another financial crisis that could wipe out a generation’s savings; the fragility of existing international institutions; and a growing lack of reliable information, combined with a growing reluctance to rely on experts and expertise.

The potential for large-scale coordinated global action to tackle these issues, however, appears diminished at the current stage. The global leader – the United States – seems to have little to no appetite for such action. At the same time, rival power centers such as Russia, China, India and the EU could take the lead on some topics and within certain regions, but they do not currently have the resources or influence to lead on a global level, even if they have the ambition to do so. This means that the world is entering a potentially dangerous period of decentralization, and the absence of a leader may result in rivalries and even open conflicts.

Despite this challenging environment, our participants stressed the importance of global efforts at cooperation, and were united in a call for action. In particular, our group called for a focus by the media and non-governmental bodies on developing multidisciplinary, multilateral solutions to the chronic challenges of job creation, income inequality and climate change. Financial resources must be committed to support workable strategies, and this will require the active, innovative engagement of the global financial system as well as leading governments.

Our participants insisted that incremental change and strategic patience across a variety of these issues are critical in times of uncertain leadership and growing tensions. Focusing on maintaining and, where possible, deepening cooperation in technical areas of pivotal importance to multiple actors might be the best way for countries, international organizations and expert communities to proceed. Financial sector regulation and energy and climate change policy – two areas in which international regulation is imperative – provide some of the best arenas for such cooperative dialogue and activities going forward.

Through open, multilateral discussions, our participants in the second symposium of the Project on *Building Cooperation in an Era of Growing Tensions* drew valuable insights on global trends in financial regulation, domestic politics, foreign policy, and energy and climate change. More fundamentally, the common thread across each panel was the importance of thoughtful communication and collaboration in the current global political climate. While the world's challenges grow increasingly complex and their solutions even more so, resisting the temptation to rely on those with the most convenient promises and the simplest solutions is critical.