



**Project on New Frameworks for Addressing Global Challenges  
In International Finance, Energy Security and Climate Change:  
Cooperation Among the United States, Russia, China and India**

*Carnegie Corporation of New York  
Financial Services Volunteer Corps*

Rapporteur's Report on the Second Symposium of the Project  
Berlin, Germany  
June 27-29, 2015

The second symposium of the Carnegie Corporation of New York/Financial Services Volunteer Corps (FSVC) Project on *New Frameworks for Addressing Global Challenges in International Finance, Energy Security and Climate Change: Cooperation Among the United States, Russia, China and India* took place in Berlin, Germany, on June 27-29, 2015. Participants from the United States, Russia, China and India came together for three days of open and challenging discussions. This was the second and last symposium of this Project, and it built on the symposium held in Hong Kong in June 2014. A core constituency of participants in Berlin was also present in Hong Kong, providing continuity to the discussions. At the same time, several new participants were able to join, providing fresh insights and adding diversity to the group.

The Berlin symposium was dedicated, and commenced with a tribute, to Dr. John Steinbruner, one of the Principal Investigators of the project, whose untimely passing earlier in 2015 was mourned by all participants. Dr. Steinbruner was an inspiration and a driving force behind the entire series of Carnegie/FSVC projects. The goals and values of these projects are those that were championed and exemplified by Dr. Steinbruner, including the focus on strategic thinking, an interdisciplinary approach and commitment to open and honest discussion. Many of the participants in Berlin stated that it was Dr. Steinbruner who inspired them to attend the symposia as well as re-examine their positions and push their thinking forward. Dr. Steinbruner's presence is irreplaceable and will be greatly missed, but it will continue to inspire and animate the Carnegie/FSVC effort.

Global Context

During the Berlin symposium, the main recurring theme was the generally agreed upon concern about the number of problems simultaneously occurring around the world today. The number of major, seemingly intractable challenges appears to be increasing with adequate responses failing to keep pace. These challenges overlap, making finding solutions even more difficult.

Some of the major challenges discussed included:

- (1) Traditional security challenges, including the largely paralyzed conflict in Ukraine and China's increasing assertiveness in the South China Sea.
- (2) Non-traditional security challenges, among them the escalating threat of global terrorism and the rise of the so-called Islamic State in the Middle East.
- (3) Precariousness of the global financial system, including the continued challenges presented by Greece to the financial and economic decision-making of the European Union, as well as growing concerns about the financial system and the economy of China.
- (4) Problems created by new technologies and their possible application for nefarious purposes. Cyber-security is an increasing concern globally.
- (5) Human migration, an increasing problem, especially in light of rapidly increasing flows of people from North Africa and the Middle East to Europe.
- (6) Climate change and its increasingly apparent global as well as local effects.
- (7) Failures of political leadership globally, but particularly in the West, where feelings of dissatisfaction with what is perceived as ineffective leadership are on the rise.
- (8) Socio-economic dynamics, including in the affluent countries of the West, where the "upper income trap" of stagnant wages and growing inequality produce anxiety and alienation.

### The International System and Global Security Arena

Due to the concerns of symposium participants about the international situation, changes in the international system were explored throughout the symposium, and infused many of the discussions. The following were some of the key insights and themes discussed and offered regarding the international system and global security.

- (1) Global governance is increasingly complex. There appears, however, to be a lack of capacity to cope with this complexity in individual countries and globally.
- (2) There is a gap in norms and institutions in the area of global governance. Several participants noted the lack of investment in improving international governance, while recognizing the difficulty in doing so. Others noted that, while the strengths and weaknesses of global institutions can be debated, in some cases, there is no global institution that exists to facilitate collective action or even coordination to handle agreed-upon global problems. There is, for example, no "world investment organization" or "global cyber security regime."

- (3) When discussing international systems and global security issues, it helps to distinguish between problems and conditions. Conditions cannot be solved, but they can and have to be adjusted to and managed. Problems potentially can be solved. Different countries may see similar circumstances as either problems or conditions. Is terrorism a condition? Is President Putin a problem?
- (4) The global security equation continues to deteriorate, without many countervailing positive trends. Numerous countries show increasing international assertiveness. Among these are three of the key countries at the center of the Carnegie/FSVC series of projects: Russia, China and India. The trend extends beyond these powers, however, and includes other significant regional players such as Saudi Arabia, Iran and Japan.
- (5) Overall, cooperation in the world today appears to be weakening. There is a trend among countries, including leading ones, to moving away from strong and sustainable institutions toward mostly *ad hoc* cooperation. As a result, the relative role and importance of some of the leading global institutions, such as the United Nations, is seen by many observers to be eroding.
- (6) The movement to replace existing global organizations and networks can be seen as competitive multilateralism. Major powers strive to create their own regional organizations to project their power and build their bases of support. For instance, China has been building up a number of institutions in Asia, in both the economic and political spheres. Another example is Russia placing itself at the center of the Eurasian Economic Union.
- (7) The world today can be called multi-modal rather than multi-polar. There is an increasing number of regional arrangements built around significant powers. None of these powers is sufficiently strong or presents a compelling enough model to dictate arrangements and outcomes even to its periphery.
- (8) The world is multi-modal but the tendency of most great powers is to create unipolar regions, that is, to become the dominant and preferably exclusive power within their respective neighborhoods. This can be seen through Russia's activities in Ukraine or China's increasing activism in the South China Sea.
- (9) Smaller states in regions that are increasingly dominated by a regional power may often want the United States to be involved in regional politics as an "offshore" superpower. This both feeds the continued need for robust U.S. foreign policy and potentially sets the stage for increased tensions between countries such as the United States, Russia, China and India.
- (10) Another aspect of this growing heterogeneity in the international arena is the possibility that smaller countries can "shop for leaders" on individual issues and problems. For example, they can choose between their regional hegemon, a

global superpower such as the United States, or possibly another country with a convenient or congenial position on a particular topic.

- (11) In the security arena, climate change could become a major disruptive force. Climate change, for example, was one of the driving forces behind the dramatic realignment in the Middle East. It is also increasingly affecting geopolitics in Africa. Increased activism in the Arctic is a further demonstration of the power of climate change in affecting the international behavior of great powers. There will be more consequences of climate change in the security domain in years and decades to come.
- (12) Recent history has seen the resurgence of nuclear weapons as a major factor in security discussions. The nuclear threat appears to be rising globally, and this is a worrying trend.
- (13) Transactional cooperation on particular issues can still work. In particular, crises prompt action, although this action is often too slow to address effectively the challenges faced. This has been evident in some of the major crises and problem areas in the world today, such as the geopolitical reconfiguration of the Middle East, the Greek crisis that has been troubling the European Union's policy-making bodies for several years and the sluggish global response to climate change.
- (14) Countries are increasingly playing complex multi-level games, with multiple partners and different games on different subject areas. While this does not mean that decisions cannot be taken or agreements reached, it does mean that complexity in the international arena has increased, and that outcomes can be foreseen less clearly or achieved less easily.
- (15) Recent history has proven that ideas are at least as important as traditional interests to some countries. As was discussed at the Carnegie/FSVC Hong Kong symposium in 2014, ideology is not dead and, in fact, there is a resurgence of identity politics at the global level. Religious and ethnic considerations, as well as claims of national or cultural particularity, animate a large number of the most visible and aggressive actors in the international arena.
- (16) There is a growing problem of non-state actors. The problem is most clearly exemplified by the rise of several major players in the Islamic world. While the Islamic State (ISIS) is not recognized as a state, it occupies a large territory and lays claim to being a political as well as religious entity. It is more than a terrorist network but an exact definition of ISIS has yet to be identified, together with a clear way to combat the grave threats it poses. Most regional and international powers, however, unanimously recognize the threat posed by ISIS, and several participants noted that problems in more advanced countries may have facilitated the rise of ISIS.

- (17) In the situation where cooperation can be seen as Western-driven, there is an additional concern regarding “coercive diplomacy”. How are sanctions used by the West, and can they be seen as fair or justified?
- (18) Lack of trust appears to be a fundamental problem in international relations. There appears to be increasingly a shortage of willingness by individual powers to bear the costs of providing reassurance, which increases tensions in the international system.
- (19) The importance of non-government actors, such as civil society organizations (CSOs), and people-to-people interactions between the four countries is rising. These CSOs can help shape perceptions and provide forums for the exchange of ideas, and often help maintain a balanced viewpoint, even in times of crises.

### The Global Financial System

The Berlin symposium had several engaged discussions on the current state of the international financial system and markets. While many of the conclusions overlapped with the analysis of the international system as a whole, there were a number of specific observations connected to the current state of play in the financial sector.

- The global financial system today is more stable than it was prior to the most recent global financial crisis of 2008-2009. The system appears, however, to be best prepared to address successfully what may no longer happen. The tools now in place were designed to solve the previous financial crisis, not future crises. While past crises might have emanated from Western countries and require Western solutions, future crises might be different and require new tools.
- Furthermore, certain tools that helped shorten past financial crises are no longer available. For example, in the United States, new regulations such as the Dodd-Frank Act may have undermined the ability of U.S. regulators to address and manage crises.
- Similar to global political institutions, global financial institutions are also weakening. This weakening is connected to the fact that, while the relative power (including economic power) of key nations in the world has changed, the governance structures of the international financial institutions have not been reformed sufficiently. This entrenches the power of Western nations while not giving sufficient representation to new great powers such as China and India, among others. This is demonstrated, for example, by the failure of the International Monetary Fund (IMF) to reform.
- In the aftermath of the financial crisis of 2008-2009, the political standing and popular perception of private financial institutions appear to be low and largely negative. There is widespread mistrust of banks and other financial firms. This is

- in part connected to the global dynamic of growing inequality within many nations, including those in the West.
- A further complication is that banking and finance tend to be technically complex. There is an asymmetry of information between insiders and the general public, and sometimes even policy-makers. This asymmetry can be abused by a small number of insiders. It also can lead the general public to misunderstand some of the tools and processes of the highly-complex financial systems and instruments.
  - There is danger of a possible failure in integrating China in the global financial system. A comparison was drawn by some symposium participants with the relationship between the United States (and the West more broadly) and Russia in the 1990s, and China today. Active cooperation may be needed now, but the West does not appear to be willing to take the extra steps to build a framework for durable cooperation and dialogue, on equal footing, with a country undergoing significant change. The danger is that China may come to see the West as hostile or exploitative which, to a certain extent, happened with Russia.
  - At the global level, there are similar imbalances. For example, it is often perceived that many financial regulations, particularly in the United States, were put in place largely to benefit Western economies, and that they do not serve the good of the international community.
  - At the same time, many regulations do not extend to, or impose similar costs on, non-Western financial systems and institutions. Systemic institutions in emerging market economies may not always comply with the same regulatory principles as major Western financial institutions. Transparency is generally stronger in Western economies than in most others. This is one of the reasons why the next financial crisis may well originate, not in the West, but in one of the key emerging market economies, most notably China, which has both a large economy that can affect the entire globe and does not have high levels of transparency.
  - As an example, the “too big to fail” regulations do not currently apply to some major non-Western financial institutions, such as Sberbank in Russia or major state-controlled banks in China. This is in part due to implicit government guarantees extended to these banks. Yet, these financial institutions may not be immune to failure, and any such failure may be catastrophic on a national, and potentially global, scale. Countries that might be involved in future financial crises may not be entirely part of current mechanisms to contain contagion.
  - Another potential problem is “regulation shopping”, as national governments pick and choose which regulatory regimes to adopt. This can lead to a patchwork of regulation, which is unlikely to be effective at the national or international level. International institutions, such as the Financial Stability Board (FSB), Bank for International Settlements (BIS) and Basel Committees on supervision, however,

are seeking to direct international regulatory efforts in the areas of finance and investment.

- It is nearly a certainty that a new financial crisis will happen. Precise sources of its emergence and spread cannot be predicated, but could include the following:
  - Asset bubbles;
  - Non-bank financial institutions, which tend to be less transparent and less regulated;
  - International political determinants, such as sanctions (and their effects);
  - Internal political determinants, such as the effects of corruption or poor domestic regulation;
  - Contagion from crisis situations such as Greece; and
  - Other determinants, such as the interconnectedness of global financial institutions and markets, or the lack of capacity of governments to handle crises at their earliest stages.

### Energy and Climate Change

- The fundamentals of the world's energy equation are unchanged. The reduction in the price of oil and gas over the past year, however, has made renewable energy sources less competitive and has put many leading energy producers, notably Russia, under severe economic stress.
- The world today does not appear to have an energy – or power generation – problem. The world does have, however, an increasingly urgent climate change problem. The need to generate the requisite energy, which is projected to increase, in a way that eventually diminishes the pressures generated by human activities on the globe's ecosphere and environment, is the key challenge of our times.
- Nuclear power appears to be the only way to expand new power generation rapidly without overwhelming the climate with additional emissions and while being plausible in terms of costs, among other factors.
- There are examples of action and success on climate change. U.S. initiatives by President Obama in this area are ambitious and, thanks to careful political maneuvering, the President was able to advance this agenda despite the current political gridlock in Washington, DC. As a result, the United States has moved to reduce dramatically the number of its coal-fueled power plants in a remarkably short period of time.
- The Organization of Petroleum Exporting Countries (OPEC) may no longer be termed a cartel, as it no longer appears to determine prices. This is one of the key changes in the security and economic architecture in the world. The United States, however, is increasingly in a position to dictate the price of energy, which has global consequences. Russia, on the other hand, is no longer a great energy

- power, in part due to the very high costs of its energy production and transportation. In three decades, Russia is likely to become a net importer of oil.
- Participants discussed what “energy security” meant, including security for whom, individuals or states? They discussed the need for a common lexicon to improve understanding among the four countries about what each meant when discussing “energy security”. They also discussed whether the four countries should achieve energy security in a competitive rather than cooperative fashion to ensure mutually beneficial and sustainable solutions.
  - Some countries cannot afford to move to cleaner energy, even if a government may wish to adopt a cleaner energy policy. Some governments, for example Russia, largely ignore the climate change challenge. Others, even if they may want to address it, may lack the capacity to do so; this, for instance, is the case of India.
  - When discussing energy and climate change, it is necessary to distinguish action that is done for public relations or political reasons as opposed to action taken to try and make a difference. As popular awareness of the challenges posed by climate change increases, there is a danger that actions for political reasons will become prevalent. These often do not solve problems but rather provide short-term fixes or create the perception that something is being done without addressing the underlying problems.
  - International institutions are lacking in the sphere of energy and climate change, even though this is an area in which institution-building is urgently needed. The coordination of policy responses to climate change is likely to be necessary with increasing frequency in years to come. While *ad hoc* solutions could be found, a permanent but responsive mechanism is likely to be required, and should be developed by the great powers as quickly as possible.

#### Other Major Concerns: Cyber Security

Emerging technologies offer great opportunities for human development, yet they also present constant new challenges. In particular, cyber attacks present a large and growing security and economic threat to major institutions in all four of the countries.

- A particular subset of cyber attacks is attacks on financial institutions. These attacks can take place both to hack into the systems of banks to interfere with processes or to steal money and personal account data for the personal gain of the perpetrators. These breaches can also be done to disrupt financial or payment systems of major institutions. In some instances, such attacks could have systemic consequences.
- The internet and information technology (IT) can also be seen as both a public and a private good. While modern life depends heavily on IT, it is also dominated



by private companies and is open to abuse by private individuals. Balancing and regulating this situation is an important goal moving forward.

- Cyber security issues also have the potential of complicating bilateral relations among nations, and increasingly affect the realm of traditional security. For instance, recent massive hacking attacks, in which the data of millions of personnel files of U.S. government employees were stolen, are believed to have originated in China, and have therefore negatively affected U.S.-China relations.
- Cyber warfare, developed at the state level, could have the capacity to disrupt vital networks in other countries, potentially paralyzing societies. The primary likely targets could be financial institutions, and power-generating companies and installations. The protection of vital, often private, systems from cyber attacks could potentially become one of the important objectives for government policy.

While some participants thought that the threat of cyber attacks (either as cyber warfare or cyber terrorism) might be overhyped, others thought that a major cyber attack on financial infrastructure could potentially cause the world's next major financial crisis.

### **Observations regarding key countries**

Discussions at the Berlin symposium were focused primarily on themes and functional topics. Of the countries, most of the attention was focused on Russia and the worsening dynamic in the U.S.-Russia relationship. Some of the key observations regarding the countries and relationships discussed were the following.

#### **The United States**

There was some debate among participants about whether this was the end of the American century and, if so, what replaced it and how does the world manage this transition? While the consensus seems to be that it is not yet the end of the American century, others thought the end of American global hegemony might improve the global perception of the United States as the source of neither all evil nor good in the world. It might also yield a more realistic idea of what can be accomplished independently or together in the international arena, which might lead to reforms in international governance.

There is still, however, a broad perception that the United States and, to a lesser extent, its Western allies are manipulating the “rules of the game.” For example, there is a perception that the U.S. has a unilateral advantage in the financial sector, thereby generating resentment. It was offered by one participant that the United States should give away some of its rule-making power in the international financial arena, to provide reassurance to other countries. This would be a strategic decision as, while the United States can use its financial prowess to hurt other countries in the financial arena, other countries may do the same to the United States in areas where they are stronger.

Domestically, the United States is entering a presidential election cycle, with most of the policy-making focused on November 2016 elections. President Obama has so far avoided the pitfalls of being a “lame duck” second-term president, producing a string of successes both domestically and internationally. Policy-making is likely to become more complicated as the presidential election draws near.

### U.S.-China Relationship

In the United States, there is an active debate about how the U.S. can handle a changing and more assertive China. Three of the main strategies under discussion include:

- (1) Counter-balancing the rise of China, which could potentially mean the exclusion of China from U.S.-led global institutions and arrangements;
- (2) Continuing the current policy of mostly reactive decision-making; or
- (3) Accommodating China, which may involve a “grand bargain” on a variety of regional and global issues, and spheres of influence.

### Russia

Many of the participants expressed concern about the direction in which Russia appears to be moving, both politically and economically.

Politically, it appears to have become an “absolute monarchy without succession,” in the words of one of the participants. Political competition has been largely eliminated, while President Putin has no, or at least very few, limits on what he can do. The President and a shrinking group of his close associates run both the political and the economic systems of the country. In this political environment, institution building and the rule of law have suffered.

Participants have also observed that despite the bellicose and often nationalistic rhetoric, Russia is actually shrinking in global importance, in particular in terms of its economy. The economy has stagnated and is poised to shrink both in absolute terms and as a share of the global economy. Its importance in the energy markets has been declining due to the decrease in the global prices of oil and gas, and due to the high costs and inefficiency of exploration, extraction and transportation within Russia itself.

There also appears to be a mismatch between Russia’s “hard power” (e.g., military) and its “soft power”. Its soft power is declining at a time when soft power is key in today’s world. This mismatch might lead to problems in international relations if Russia tries to use its hard power while the rest of the world tries increasingly to use soft power.

Russia's economy continues to be characterized by unreformed rent-seeking. At the same time, there is a general deterioration of its macro-economic policy-making, which seems to be responding to the political needs of the moment instead of following a clear strategic long-term course. Anti-crisis programs are inconsistent and are mostly not implemented competently.

Despite these challenges, a very high proportion of Russia's population states in public opinion polls that it is supportive of the current President and his policies. There is a high level of nationalism, particularly with regard to what is seen as the historically-justified reunification with Crimea. The ongoing drop in real wages and other consequences of worsening economic conditions could potentially affect the national mood in months to come.

The role of Western sanctions on Russia, as well as Russia's response to those sanctions (for example, the ban on the import of food from Western countries), were debated at the Berlin symposium, with no single view emerging on how problematic they are. There was agreement, however, that the overall economic situation and outlook in Russia are deteriorating rapidly.

One additional point raised was the major role of propaganda in Russia. To support its policies and positions, the Russian government has deployed a massive propaganda effort, which so far has proven very effective in shaping public opinion in Russia. The propaganda is both aggressive and virulent, and it is yet to be seen whether it can be sustained and what longer-term effects such a negative information environment may have on the population.

### U.S.-Russia Relationship

The U.S.-Russia relationship, which has undergone significant changes over the past 18 months, was one of the focal points of the symposium. The overall assessment is that the U.S.-Russia relationship has deteriorated seriously and is deeply worrying.

Bureaucratic thinking in both the United States and Russia links the situation in Crimea and Ukraine, which was the trigger for the rapid worsening of the bilateral relationship, to all other areas of bilateral cooperation. There no longer appears to be a compartmentalization of particular issues and agendas, and the relationship is deteriorating significantly. One participant noted the contrast between the U.S.-China and U.S.-Russia relationships in this instance. Whereas the U.S. government maintains bilateral and multilateral cooperation with China despite regional disputes, it has stopped all cooperation on global issues with Russia over a regional dispute in Ukraine.

- The four possible long-term consequences of this impasse are the following:
- (1) Ukraine could no longer be an independent actor, or even viable state, as decisive choices by its leadership and citizens could be preempted by strategic competition between Russia and the West;
  - (2) Overall, Europe could become less stable;

- (3) Moscow could become more willing and eager to play the role of spoiler in the international arena, obstructing and circumventing policies and initiatives from Western countries. It was noted that Russia had transformed recently from being the solution to a few problems, to becoming a problem to several problems; or
- (4) Globally, nuclear danger rises, as Russia is more willing to refer to and implicitly threaten the use of nuclear weapons.

Two additional conceptual points were made in the context of the U.S.-Russia relationship, but they are applicable to the state of global affairs more broadly:

### *“New Cold War”*

The relationship between the United States and Russia is at present often characterized as the “new Cold War.” This characterization, however, was deemed inappropriate by many participants, for several reasons. First, there is no longer bipolarity in the world and there is also no ideological confrontation or debate. While Russia strives to elucidate a worldview that is different from that of the United States and the European Union, the vision of its leadership refers primarily to Russia’s own history and claimed national identity, rather than to internationally-appealing values. Similarly, there is no unified entity on the Western side. For instance, there are debates within the West, including between the United States and both Germany and France, regarding the nature of the threat and the desirable scope of action against Russia.

There is some nostalgia for the perceived stability and predictability of the Cold War period. It should be remembered, however, that in fact the Cold War was a very dangerous period, which was also characterized by numerous crises, confrontations and proxy wars. Idealizing the decades of the Cold War was deemed not to be a useful lens to view the present as it might invite old thinking that no longer applies to today’s world.

### *Negative Lessons from Cooperation?*

Two historical situations were raised to demonstrate why global cooperation may be declining. First, what lessons would aspiring (or existing) nuclear states take from the Crimean crisis? If Ukraine had not given up its nuclear weapons in the aftermath of the collapse of the Soviet Union and remained a nuclear power with a deterrent capability, would the takeover of Crimea by Russia have been possible?

Second, in the 1990s, Russia opened its economy to the world, becoming considerably more integrated. Generally, this trend deepened in the 2000s. This, however, also opened Russia up significantly to the “coercive diplomacy” of sanctions in the aftermath of its annexation of Crimea. For Russia’s leadership, at least, this may undermine the argument for the desirability of cooperation and integration with the West.

It was often noted by participants that the country benefiting the most from the deteriorating relationship between the West and Russia is China. The Russia-China

relationship has improved since ten years ago, and Russia has become a reliable energy partner for China, among others.

## China

China's global importance is the "new normal." According to many indicators, China is now one of the two or three most important and largest countries in the world. This trend is likely to continue, despite the apparent stress currently experienced by China's political and economic systems. One aspect of China's growing importance is the likelihood that the yuan could become gradually the third reserve currency.

To extend its influence, China is beginning to build significant economic and political infrastructure, including leading competitive multilateral institution building. Some examples include:

- The BRIC development bank;
- The Asian Infrastructure Development Bank;
- The Shanghai Cooperation Organisation (SCO) Development Bank;
- The expansion of the SCO; and
- The New Silk Road series of initiatives and projects.

China's ambition appears to be a much greater reach and influence in the broader Asian region. At the same time, China has become the world's leading investor in emerging market countries, projecting its economic power globally.

China is undergoing a difficult period in its political and economic development, however. President Xi's anti-corruption campaign has affected, and some say paralyzed, decision-making throughout the country, but the sustainability of these anti-corruption efforts is not yet clear. While these efforts have reached both deeper and wider than expected, the Chinese government is still open to criticism as the major targets have been the President's potential rivals and their supporters. Continued anti-corruption efforts could erode both the credibility of the Communist Party and Xi's personal position.

In the economic sphere, China's growth continues to slow, while the country searches for ways to shift its economy to more value-added production and increased consumption. The next global financial crisis could emanate from China, where much economic activity and the financial sector are not sufficiently transparent and are often not well understood internationally.

By virtue of being one of the world's largest investors and the world's largest economy by many measures, China now has the ability to affect negatively global growth and global markets. Due to the limited openness of its markets to international investors, however, the effect of downturns inside China is still likely to be relatively more limited than that of, for example, a slowdown in the United States.

In the sphere of climate change and energy, climate change is becoming a driver of Chinese government policy. Air pollution in large cities, in particular, is putting

domestic pressure on policy-makers to take action. China is increasingly concerned about the environmental damage that its rapid development has wrought. As the price of oil decreases, subsidies are being diverted to renewable energy, which is a positive development. China's awareness of the need to move to a more "green" economy model appears to be increasing. It is also seeking to obtain energy security by domestic investment and innovation (through shell gas) rather than seeking an outside solution.

## India

India under Prime Minister Modi has enjoyed robust and rapid economic growth, presenting a more positive picture than either Russia or China. The decrease in the price of oil has enabled the government to reduce fuel subsidies. States are also receiving more tax revenues, leading to more investment in education and healthcare at the state-level. A number of other reforms, including some that aim to make the economy less bureaucratic, have moved forward.

Participants also noted several issues that remained to be tackled in India. On the economy, the reform of the land acquisition law, a key component of the economic liberalization that the Prime Minister advocates, has been stalled. The need for a "single market" to enable businesses to operate across states was also noted. Furthermore, a participant noted that 13 million jobs need to be created every year. The failure to do so could potentially be a destabilizing factor in the future. Part of the solution could be capitalizing on the rise of entrepreneurship in India, by adopting regulations that facilitate the growth of entrepreneurship. In the area of governance, some participants noted the very personalized and centralized government under Prime Minister Modi. In the area of energy, there is increased domestic pressure on the government to tackle pollution and climate change.

In the international arena, Prime Minister Modi appears to have a more assertive style. Increased openness to the international economic community is one of the hallmarks of Prime Minister Modi's tenure so far. For instance, he has been promoting India as a destination for investment in new technologies. Prime Minister Modi has also focused on developing India's relationship with China, which has led to some rapprochement after years of mutual suspicion.

While many would have preferred more rapid action on a variety of reform items, there has been positive movement and, overall, there is a greater sense of economic opportunity in India than prior to Modi's election.

## China-India Relationship

The world is dealing with the rare, simultaneous rise of two neighboring countries with the largest populations in the world and some of the fastest rates of economic growth: China and India.

The relationship between China and India was deemed by some participants as underperforming, but as holding great potential. Its underperformance is, to a large extent, linked to persistent political mistrust between the two countries. There remain some negative unresolved issues, including ongoing border disputes and few opportunities for individual interaction (e.g., few China-India flights).

There are positive dynamics in terms of engagement at the highest levels, however, and there is significant complementarity between China and India, and a potential for a breakthrough in the relationship.

### Opportunities

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

- (1) “Rise of the choice” outside of the West, including affording various sources of development to emerging and poor nations. China’s emergence as a valid alternative for investment and financing globally is, overall, a positive development.
- (2) Climate change, nuclear proliferation and counteracting extreme/militant Islamic fundamentalism (both as quasi-state organizations and terrorist networks), among other issues, could become delinked and emerge as an arena for cooperation among the great powers due to the critical nature of the threats. The potential for taking these pressing issues out of the politicized and ideological arena exists.
- (3) The breakdown of inter-state cooperation increases the importance of people-to-people interaction. On climate change in particular, grassroots-level and private sector action is likely to prove crucial in years and decades to come.
- (4) While some countries are causing more problems, other countries may be offering more solutions, in part by reintegrating the world. For example, Iran has the potential to become an important factor in addressing some of key regional challenges.
- (5) Cumulative scientific evidence, as well as observations of climate events, are leading to global mobilization on climate change. The Paris United Nations Climate Change Summit of December 2015 will be an important bellwether of the emerging global response to the challenge of climate change.
- (6) In order to attain greater global cooperation, the United States and Western nations should pursue reforms of global institutions and more actively involve a broader range of nations in rule making. This needs to happen in order to address the most pressing challenges of the day, such as nuclear weapons, climate change, cyber security and financial regulation.

## Conclusion

The Berlin symposium opened with a call from one of its Principal Investigators to think not just about “what we should do” but also “how we should think”. Conventional wisdom, such as the new cold war with Russia, was often challenged during the symposium, in an effort to advance greater dialogue and understanding among these four key powers.

In a time of rising tension, the participants were called upon not to focus solely on the negative issues but also to discuss what works well and why, and where these successes could be replicated. What are the common interests among these countries on which to build cooperation and even healthy competition?

There is a need for stronger existing institutions and new institutions, as well as a need to develop new definitions to improve understanding among these four countries on critical issues. This is particularly relevant regarding climate change, one of the key challenges faced by the world today. Both the financial and energy sectors will have a major role to play in addressing and in helping societies adjust to the problems and displacement that are likely to be caused by climate change.

For the moment, increasing global tensions mean that the focal countries of the Carnegie/FSVC project – the United States, Russia, China and India – appear to be growing farther apart in their interests and policies. Interaction between the United States on the one side and Russia and China on the other, in particular, seems to be growing increasingly complicated and negative.

Important areas of opportunity and possible cooperation remain, however. Focusing on areas of possible but also imperative cooperation on the most pressing global problems of the moment, such as nuclear security, managing the consequences of disruptive climate change, and improving and harmonizing financial regulations, could potentially lead to positive outcomes.