



TRANSFORMATION TRENDS—16 DECEMBER ISSUE

“While some aspects of transformation involve new systems and high technology, I view the challenge of transformation as principally intellectual... We must tackle the task of joint concept development and experimentation by taking intellectual risks informed by military judgment. In a scientific spirit of experimentation, we must look for “creative failure” as the metric of intellectual honesty and the hallmark of a vibrant entrepreneurial culture.”

Adm. Ed Giambastiani, Joint Forces Command

The Global Transaction Strategy

by

Thomas P.M. Barnett

Office of Force Transformation
Office of the Secretary of Defense
and

Henry H. Gaffney, Jr.

Center for Strategic Studies
The CNA Corporation

The Bush Administration's response to the terrorist attacks of 9/11 has been both swift (the global war on terrorism) and profound (the proposed Department of Homeland Security). With the recent publication of the National Security Strategy, the White House has gone even further and described—rather boldly—a global future worth creating. By doing so, the Bush Administration has embraced the notion recently put forth by many experts: that Washington now stands at a historical "creation point" much like the immediate post-World War II years.

The Core versus the Gap

As globalization deepens and spreads, two groups of states are essentially pitted against one another: countries seeking to align themselves internally to the emerging global rule set (e.g., advanced Western democracies,



Vladimir Putin's Russia, Asia's emerging economies) and countries that either refuse such internal realignment or cannot achieve it due to political/cultural rigidity or continuing abject poverty (most of Central Asia, the Middle East, Africa, and Central America). We dub the former countries the Functioning Core of globalization and the latter countries the Non-Integrating Gap.

Although the United States is recognized as both economic and political-military leader of the Core, until 9/11 triggered the ongoing war on terrorism our foreign policy did not reflect much unity of vision regarding globalization. Rather, globalization was treated as a largely economic affair that the U.S. Government left to private business, with the government promoting the tariff cuts and regulations that support free trade both at home and abroad. The U.S. security community worried about globalization only to the extent that it fostered the proliferation of weapons of mass destruction and the actions of certain nefarious transnational actors.

The perturbations of the global system triggered by 9/11 have done much to highlight both the limits and risks of globalization as well as this country's current and future role as "system administrator" to this historical process. For example, the vast majority (almost 95 percent) of U.S. military interventions over the past two decades have occurred within the Non-Integrating Gap. That is, we tend to "export" security to precisely those parts of the world that have a hard time coping with globalization or are otherwise not benefiting from it. Fulfilling this kind of leadership role will require a new understanding on our part as to the Core's essential transactions with the Gap.

How the U.S. justifies "living large" in the global economy

Although the United States represents only 1/20th of the global population, its environmental footprint is dramatically larger. This country consumes roughly 1/4th of the world's energy while producing approximately 1/4th of the pollution and garbage. Economists will point out that we also produce roughly 1/4th of the world's wealth, but frankly, a lot of that stays home, while we tend to import our energy and "export" our pollution. Simply put, we live well beyond our environmental means.

Our economic footprint is equally skewed. As our consistently huge trade deficit indicates, we also tend to live well beyond our economic means. Basically we count on



the rest of the world to finance our sovereign debt, which most countries—like Japan—are willing to do because the U.S. Government is such a good credit risk and the dollar is the closest thing there is to a global reserve currency. There is not a whole lot we should complain about in this deal—basically trading pieces of paper for actual goods.

Put these two transactions together and it is easy to see why the U.S. has enjoyed the rise of a global economy. So what have we provided the world in return? Clearly we are a leader in technology and cultural exports, but these are fundamentally private-sector transactions that any advanced economy can provide.

The one U.S. public-sector export that has only increased its global market share with time is security. We account for nearly half the global public spending on security and unlike any other state, we can actually export it abroad to other regions on a substantial and continuous basis. And that is our fundamental transaction with the global economy: *we import consumption and export security.*

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

From Cold War containment to globalization firewall

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

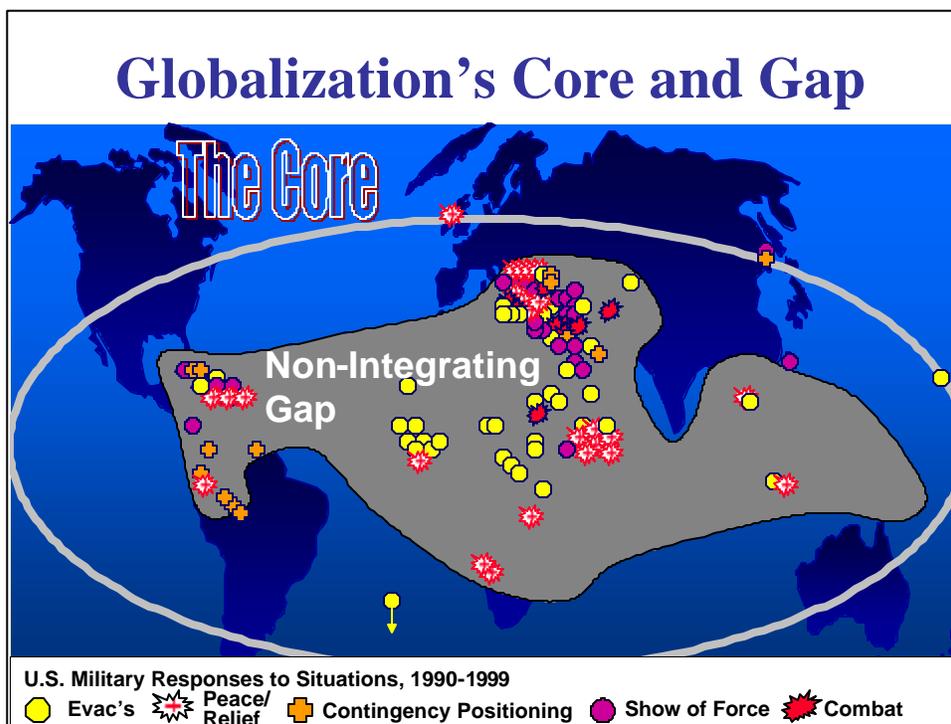
The good news is that we already have plenty of experience working the Gap—in fact, it has been the major focus of U.S. military crisis response for the past generation. Four key events in the 1970s marked our fundamental shift from Cold War containment to Gap firewall management:

- Détente in Europe
- OPEC oil shocks of the early 1970s
- End of the Vietnam War
- Fall of the Shah of Iran in 1979.

Prior to this quartet of events, the patterns of the U.S. military's permanent forward deployments and crisis responses were largely in synch—clustered in the Cold War foci of Europe and East Asia.



But by the early 1980s we were clearly out of balance. Most of European Command's response activity had shifted to the Eastern Mediterranean while most of Pacific Command's responses had slide toward the Persian Gulf. Logically, Central Command sprang into being at that point, signaling the effective shift of our focus from Cold War containment to Gap firewalling. According to the Center for Strategic Studies (CSS), in the 1980s the Middle East already accounted for just over half of the four services' combined situation response days (9,288 of 16,795, or 55 percent).



Turning to the CSS's response data from the 1990s gives us an even clearer outline of the Non-Integrating Gap. The slide below displays U.S. military responses in the post-Cold War era. When we draw a line around roughly 95 percent (109 of 116) of those responses (isolating responses involving Taiwan and North Korea in an otherwise stable northeast Asia), we have captured those portions of the world that are either losing out to globalization, or rejecting much of the content flows connected with its advance. Looking at this data, a simple logic emerges: if you are having trouble with globalization, you tend to be a country or region into which the U.S. ends up sending military forces on a fairly regular basis. Conversely, those countries or parts of the world that are "functioning" are not places we typically intervene militarily.



Globalization's major flows

There are four major flows that must proceed over the next several decades if globalization is to continue its advance and the Non-Integrating Gap is to be shrunk. The U.S. government and its allies in the Core must enable and balance all four of these flows, for the disruption of one will damage the others, leaving the global economy and security environment vulnerable to the sort of system perturbations witnessed in connection with 9/11.

Flow of people from Gap to Core

According to the United Nations, by 2050 our global population should peak somewhere around 9 billion people, and decline thereafter. This will be a huge turning point for humanity in more ways than one. Take graying: by 2050, the global 60-and-over cohort will match the 15-and-under group at roughly 2 billion each. From that point on, the old will progressively outnumber the young on this planet.

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

The big hitch is this: current United Nations' projections say that in 2050 the Potential Support Ratio (persons aged 15-to-64 per one person 65-and-older) in the advanced economies will have dropped from five to two, while in the least developed regions the PSR will still stand at roughly ten to one. That means that worker-to-retiree ratios in the Core will plummet just as the retirement burden there skyrockets—unless the Gap's "youth bulges" flow toward the older Core states. Japan will require more than half a million immigrants per year to maintain its current workforce size, while the European Union would need to increase its current immigrant flow roughly five-fold, but both have great difficulty acceding to that need.

In effect, immigration from the Gap to the Core is globalization's release valve. With it, the prosperity of the Core can be maintained and more of



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

Flow of security from Core to Gap

For now, the war on terrorism has superseded previous Bush Administration talk about an East Asian security strategy. The present war underlines the reality that the U.S. military remains in the business of working the bloody seam between the Gap and the Core. In the 1990s, that seam ran from the Balkans to the Persian Gulf, but today it also extends into Central Asia, where we are now building a number of "temporary" military bases in former Soviet states—with Russian acquiescence—in a remarkable turn of history.

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

- The Israeli-Palestinian issue appears to be heading into a Berlin Wall-like separation. It may even involve a U.S.-led demilitarized zone occupation force. Then we simply would have to wait out a couple of generations of Palestinian anger as that society is ultimately bought off through substantial Core economic aid and the Palestinians reduce their family size as they achieve some economic viability.
- Saudi Arabia's dramatic slide in per capita income over the past 20 years signals a downward spiral that will trigger either radical political reform and/or substantial internal strife. Forestalling this may require a lot more prodding by the U.S. if institutional reforms are to occur and the Core is to avoid organizing yet another peacekeeping force.
- In all likelihood, the United States will eventually invade Iraq and replace Saddam with a law-abiding regime. This would mean a
-



- lengthy rehabilitation period similar to post-war Germany and Japan.
- Assuming the U.S. remains deeply involved in the West Bank, Saudi Arabia, and Iraq, Iran's mullahs will fear Teheran is next and likely step up their anti-Americanism. The U.S. will therefore continue its long-term containment strategy until the restive Iranian public prevails in its desire to join globalization.

The combination of prosperity stemming from globalization and the export of U.S. surplus military power has taken great power war off the table in region after region. As the 21st Century begins, such warfare is essentially unthinkable in the Western Hemisphere, in Europe where the NATO members and Russia have joined in a common effort, or for that matter, anywhere on the high seas. In a couple of decades, we hope the same combination of efforts—a mix of economic and security cooperation—makes war unthinkable throughout developing Asia. But for the foreseeable future, it is the export of U.S. security into the Islamic regions of Southwest and Central Asia that remains our most serious international security task. We are witnessing the beginning of a long-term integration effort there, one that will ultimately rival our Cold War effort in Europe.

Flow of energy from Gap to Core

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

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

Disrupt the flow of Middle East oil and Asia's full integration into the Core is put at risk as their economies falter. India or China could feel the need to play "great power" in the Gulf if the U.S. drops that ball. That



could create an awkward competition among the Core countries, putting us all at the mercy of the Gap's chronic conflicts.

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

Flow of investments from Old Core to New Core

Unprecedented flows of foreign direct investment are required for Asia's energy infrastructure requirements, somewhere between 1 to 2 trillion dollars by 2020. Asians themselves will shoulder much of the burden, but plenty more long-term money will have to come from private investors in the U.S. and Europe, which in combination control roughly 2/3rds of the annual global flow of approximately \$1 trillion. So not only is Asia (the New Core) dependent on the Gap for energy, it is also dependent on the Old Core countries (U.S., European Union) for the financing. Put these two realities together and you begin to understand that China's "rising" is far more about integration with the global economy than Beijing seeking some illusory "power" or "hegemony."

The major problems with Asia's energy demands and investment climate are three-fold:

- Asian governments, especially in China, still play far too large a decision-making role, delaying the rise of private-sector markets
- National legal systems are still too arbitrary, meaning the rules are not applied equally to all players
- There are still too many chronic security flashpoints.

Continuing U.S. military presence in Asia helps deter the "vertical scenarios" of war (e.g., China-Taiwan, India-Pakistan, the Koreans), while enabling markets to emerge and tackle the harder, long-term "horizontal scenarios," such as meeting the region's ballooning energy demands while mitigating the already profound environmental costs. So long as markets



can deflate build-up of pressure associated with all this development, none of these horizontal scenarios should segue into vertical shocks, i.e., conflicts. In effect, our military forces occupy both a physical and fiscal space in the region, encouraging Asian states to spend less on defense and more on development—the ultimate security.

A U.S. Transaction Strategy

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

If that is the overarching principle of the Transaction Strategy, then its macro rule set on security can be summarized as follows:

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

Is this a strategy for a Second American Century? Yes and no. "Yes" because it acknowledges that the United States is the *de facto* model for globalization—the first multinational state and economic union. And "yes" because it asserts that U.S. leadership is crucial to globalization's



advance. But "no" in that it reflects the basic principles of Collective Goods theory, meaning the U.S. should expect to put in the lion's share of the security effort to support globalization's advance because we enjoy its benefits disproportionately—hence this is a practical transaction in its own right.

At its core, the Transaction Strategy combines the basic tenets of economic determinism (e.g., markets rule) and realism (our national interest is to continue our privileged place within the non-zero-sum game that is globalization). By looking out for "number one" in a broad cooperative sense, we make the world a better place over the long run.

NOTE: Transformation Trends is provided as a means to highlight new and emerging issues in defense and commercial realms to key decision-makers and in no way constitutes endorsement or official recognition of any idea, concept or program.