



World Order Lost

American Foreign Policy in the Post-Cold War World

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If pollsters measured the pulse of world politics as they do domestic politics, they would conclude that the world has gotten seriously off track over the course of the post-Cold War world. Eight years ago, an American-led international coalition had just evicted Saddam Hussein's forces from Kuwait, establishing what many believed would be the basis for a new system of collective security headed up by Washington. In Moscow, Boris Yeltsin had prevailed over old-guard Communists, ushering in a new era of democracy and free enterprise in which Russia would become a peaceful extension of the West. Potential great powers from Brazil to South Africa to China had either renounced the nuclear option or had subordinated their great power ambitions to the new logic of geoeconomics. And, despite a world economic slowdown, a new consensus had formed around a neoliberal agenda of deregulation, privatization, and export-led growth that would bring prosperity to developing economies as well as the developed world. Democracy would follow if not accompany neoliberal economic reforms, as countries realized they had no choice but to open up, politically as well as economically, or stagnate.

These were the pillars by which first the Bush administration and then the Clinton administration had sought to erect an American world order: American-led and directed collective security; an obedient and democratic Russia as a peaceful adjunct to the West; the denuclearization of great power politics; and neoliberalism as the guiding political and economic model of world devel-

opment. Underpinning these pillars would be the foundation of American power and leadership, the base of which rested on American dominance, not just militarily and economically but culturally and politically as well.

One by one, over the course of the past decade, these would-be pillars of world order have tottered or have proven hollow. The cause of collective security suffered quick and ignominious defeats in the streets of Mogadishu and in the villages of Rwanda. Today, London, Paris, and Washington labor to rescue what remains of the concept in southeast Europe, after an ill-advised air war against Serbia. Boris Yeltsin has turned into an ailing and arbitrary tsar, and Washington's other favorite men in Russia—the Gaidars, the Chubaises, the Kiriyenkos—have fallen from the front ranks of power, leaving behind an embittered country in economic and social disrepair. The world alternately braces for a nationalist backlash aimed at restoring Russia's lost empire (the Weimar precedent) or a political collapse in a region that is still the home to thousands of nuclear warheads and millions of tons of chemical and, possibly, biological agents (what some observers have called the "Yugoslavia with nuclear weapons" scenario).

Pakistan and India have joined the nuclear club and, despite various American threats and inducements, continue to defy Washington's demands for putting the nuclear genie back into the subcontinental bottle. Meanwhile, Washington wrangles with both China and Russia over ballistic missile defense as well as over the export of nuclear-

related technology, raising for the first time since the historic 1986 Gorbachev-Reagan meeting in Reykjavik the specter of a nuclear arms race. And for the first time since the Second World War, the German Luftwaffe and the Japanese navy have fired shots in anger, provoking concern in some parts of Asia and Eastern Europe about the loosening of postwar constraints on their military ambitions.

As for the neoliberal promise of prosperity, a hasty deregulation and integration of international finance—along with a global macroeconomic policy that led to a glut of many manufactured goods as well as commodities—have set back the fortunes of emerging economies across Asia and Latin America, producing the largest collapse of the world's nascent middle class since the Great Depression.

And although the financial turmoil has abated, the world economy now suffers from a slow-growth crisis, with deflation threatening Japan and even parts of the European economy and with China struggling to keep its economy afloat. With two of the world's three engines sputtering, economists wonder how long the American economic miracle can continue to power the world economy, especially when American consumers are sinking deeper into debt.

Not surprisingly, tensions have risen within politically fragile societies like Indonesia, and among once cooperative trading partners. Also, not surprisingly, American friends and potential rivals alike, fed up with Washington's empty moralizing on the one hand, and with its unilateral maneuverings and double standards on the other, have begun to lose confidence in American leadership. America itself remains an oasis of contentment in an increasingly troubled world, but it is reasonable to ask how long it will be able to insulate itself from an economic and political backlash in other parts of the world.

What went wrong? What problems and challenges now lie ahead? And what can be

done to restore the fading promise of world order?

American Dominance/Strategic Misjudgments

If the prospects for world order are less promising today than they were at the beginning of the post-Cold War world, it is in part because Washington has mismanaged a period of almost undisputed dominance in world affairs. The United States emerged out of the Cold War not only without any immediate rival for international leadership or world power but also without any active opposition to the exercise of that leadership. In fact, Washington enjoyed an almost unconstrained freedom in setting the world's political agenda.

This kind of dominance offered the United States an unusual historical opportunity to give an American shape to a world order that would in any case take new form, given the collapse of the Soviet Union and the revolutions that were occurring in information technology and the global economy. The unipolar conditions of the post-Cold War world were uniquely ideal for the United States to adopt a posture of benevolent and purposeful hegemony.

American hegemony would be benevolent in the sense that in the absence of any immediate threats or challenges the United States could afford to reconcile its own national interests with those of other potential partners, even if it meant at times sacrificing short-term advantages. It would be purposeful in the sense that Washington would have the conscious goal of building longer term institutional and alliance arrangements favorable to its interests that would outlast American dominance, which would inevitably weaken again over time.

But these same conditions, it was clear, could also give rise to hubris and arrogance, blinding America to its long-term interest in a world order that was built on internationalist compromise and institutionalized checks and balances, as well as on American power. Even worse, they could give rise to

the shortsighted view that the United States did not need the active cooperation of other powers and that dominance was a goal in and of itself. The dangers of the latter were real, given the pronounced tendencies in American political culture toward unilateralism and moralism and its propensity to substitute cheap gestures for real commitment. Politically insecure despite inheriting a healthy economy, the Clinton administration, in particular, was ill-prepared for the dual challenge of managing the world's political agenda and keeping in check these less positive features of American political culture.

Easy Temptations

As it turned out, Washington succumbed to the easy temptations of dominance in ways that have set back the cause of world order. To begin with, it has allowed ideological zeal and special interests to dictate its world order agenda—often at the expense of more important foreign policy and world order objectives.¹ The problem with Clinton's foreign policy has not been, as many critics have charged, that the administration has lacked ambition or paid too little attention to foreign affairs. Divided government and red ink may have reduced Clinton's domestic program to one of small ideas and even smaller policy proposals. But in the international arena, the White House has pursued potential world order-shaping initiatives—the expansion of free trade and the deregulation of world capital markets globally as well as regionally, the enlargement and globalization of NATO, and the ridding of the world of rogue states.

In addition, it has extended America's military reach, assuming responsibility for ethnic conflicts in Africa and the former Yugoslavia, and conducting military exercises with former Soviet republics in the Caucasus. It has also pursued an increasingly ambitious global oil policy, seeking to expand America's control over the world's oil resources by dictating oil investments and

pipeline politics not only in the Persian Gulf but in the Caspian Sea as well.

The problem has not been the lack of ambitious goals, but that these initiatives, pursued out of ideological zeal or at the behest of special interests, have often been at odds with more critical world order objectives. Take, for example, NATO expansion, which the administration considers one of its principal foreign policy accomplishments. Conceived in part as a public relations effort to distract attention from the early policy debacle in Bosnia, and in part to appeal to Polish voters and to the administration's high-tech military supporters, NATO expansion was sold as a means of giving new purpose to the transatlantic alliance and of consolidating democracy and market economies in Central Europe. But adding Central European countries to the alliance has done little to strengthen NATO's capability to handle the security challenges of the post-Cold War world or to help consolidate democracy and market economies in the former Warsaw Pact countries.

It has, however, done a great deal to put at risk the much more critical world order goal of trying to integrate a cooperative Russia into the Western community. Moreover, by risking the alienation and isolation of Moscow, it has put into jeopardy several other equally important world order objectives, including preventing weapons of mass destruction from falling into the hands of irresponsible powers and terrorist groups. At the outset of the post-Cold War era, the United States shared with Russia a number of common interests and international objectives, from managing China's regional ambitions, to preventing the spread of nuclear weapons, to the peaceful resolution of the wars of secession in the former Yugoslavia.

Yet NATO expansion has changed Moscow's calculation of its own interests in this regard. In fact, it has threatened to turn Russia from a potential active partner with the United States in dealing with China and rogue states like Iraq and Iran to a potential

leader of a coalition opposing U.S. hegemony that includes both Iran and China. As a result of NATO expansion, Moscow now has much less of an incentive to heed U.S. concerns in the development of its relations with Iran or Iraq or with China and India. Indeed, expanding its ties with these countries may be the key to balancing NATO's power in the future.

NATO expansion has also needlessly undercut other important American foreign policy and world order interests in Europe. The end of the Cold War afforded the United States an opportunity to rebalance its military responsibilities in Europe with greater engagement on trade and investment questions, and to insure a more open and economically dynamic European Union. But by pushing NATO expansion, it put off a much needed conversation with the Europeans over their responsibilities for European security and over NATO's mission in the post-Cold War world. It thus delayed the day when the Europeans would be prepared to assume more of the burden for their own security. Furthermore, by giving priority to NATO expansion over EU enlargement, it allowed the Europeans to drag their feet on opening up their markets and taking in the struggling new democracies of Central and Eastern Europe. In so doing, it gave up what little leverage it had to nudge Europe to adopt policies that would have produced a more open and rapidly expanding European Union.

Many of the same errors of judgement have been at work in the administration's aggressive campaign against rogue states. As with NATO expansion, American policy was originally a response to the concerns of certain special interest groups—anti-Castro groups in the case of Cuba, and the Israeli lobby in the cases of Iran and Iraq. The policy that emerged—one of politically isolating and economically strangulating Iran and Cuba and of overthrowing Saddam Hussein in Iraq—soon hardened into an ideological commitment. Only in the case of North Ko-

rea did the White House fashion, with the support of South Korea, China, and Japan, a potentially effective policy, largely because of the absence of such special interest groups and ideological zeal.

Like its initiative on NATO expansion, the administration's rogue-state policy put at risk other important world order goals, including at times cooperation with our European partners. Ironically, the threats these rogue regimes posed—ranging from at most a nuisance (Cuba) to the more serious threat of regional blackmail (Iraq)—could have been contained with a more modest policy of blocking the acquisition of militarily sensitive technology and by deterrence if necessary. But Washington pursued maximalist goals that had little or no chance of gaining international support and in fact undermined the cooperation that the Bush administration had established.

Punishing Others

With respect to Cuba, Iran, and Libya, Washington adopted extraterritorial legislation (the Helms-Burton Act and the Iran-Libya Sanctions Act) that sought to punish foreign companies for doing business with or investing in these countries, a policy that predictably alienated our European allies. With respect to Iraq, its maximalist approach of trying to overthrow Saddam Hussein eventually brought about the end of the international inspections and sanctions regime (UNSCOM) set up by the U.N. Security Council to deal with Iraq after the Gulf War. If it had been successful, UNSCOM would have established an important precedent for dealing with potentially aggressive outlaw states suspected of pursuing programs for the development of weapons of mass destruction. UNSCOM was important not only because it recognized that sanctions and technology blockades have little chance of succeeding unless they are universally adhered to, but also because it set up an intrusive inspection system to certify that a country has complied with the Security Council's

directives. For these reasons, the United States had an overriding interest in nurturing the international cooperation needed for it to succeed. Yet Washington jeopardized this new international machinery—not only by attempting to stretch the U.N. Security Council mandate against Iraq well beyond the international consensus that gave rise to the inspection regime in the first place, but ultimately by misusing it to pursue its goal of overthrowing Saddam Hussein.

Neo-Liberal Recklessness

An even more damaging case of misplaced strategic priorities was the administration's unqualified commitment to free trade and the rapid deregulation of the international financial system, which has formed the centerpiece of both its foreign policy and international economic policy. As in the case of its initiatives on NATO expansion and rogue states, ideological zeal and special interests led Washington blindly to push trade and financial liberalization without regard to the consequences for other key international economic and world order concerns.

The administration's push for financial liberalization in emerging economies proved to be particularly shortsighted. At the behest of American banks and financial institutions, Washington pressed developing countries as well as its more advanced trading partners to open up their financial systems and to liberalize their capital accounts. And it succeeded with the countries least able to resist—Mexico, Thailand, and South Korea—countries that not so coincidentally were the first to experience financial crises, Mexico in 1995 and Thailand and South Korea in 1997.

The administration was, of course, correct to believe that the mercantilist practices of the Asian economies—particularly, the more mature economies of Japan and South Korea—were incompatible with a well-functioning open global economy. But in pushing so hard and so singularly on free trade and deregulation, it ignored all the other

hardware and software necessary for the functioning of a world market economy—let alone an economy with a human face. For example, it ignored the fact that many of the countries that it was pressing to open their financial systems had no experience in managing large short-term capital flows and no regulatory system to prevent the worst abuses of the financial markets.

Likewise, it never bothered to ask whether the world's economic institutional structure, virtually unchanged for half a century, would be able to cope with the forces unleashed by capital account liberalization and international financial integration. As it turned out, the International Monetary Fund proved ineffective in both preventing the crisis and coping with it once it began. Indeed, there is some evidence that IMF policies may have contributed to the financial panic in a number of countries.

Financial deregulation may have made sense for American banks seeking to gain access to world markets and for large investors seeking greater freedom to maximize returns on capital. But it was at best premature and at worse misguided for the world economy as a whole given the historical experience with unregulated world capital markets. In any case, the most pressing world economic problem was not restrictions on capital (money was sloshing around the globe pretty freely as it was), but the build-up of overcapacity in many manufactured goods and commodities. As early as 1996, there was substantial evidence that gluts in many goods were causing returns on investment in many Asian and Latin export economies to fall precipitously and causing current account deficits to rise. There was also evidence that these conditions were creating significant disinflationary, if not deflationary, conditions in the world economy as a whole.

In light of this evidence, the more logical economic agenda would have been for the administration to steer global macroeconomic policy in a more reflationary direc-

tion and to back away from its espousal of both export-led growth and financial deregulation. Washington, however, let its ideological zeal blind it to the true dangers in the world economy and pushed ahead with its agenda of financial liberalization. The immediate costs of the crisis have been more than \$2 trillion in lost wealth, the impoverishment of millions of working men and women, and a ballooning trade deficit in the United States.

The potential longer term costs to world order are of course less certain but no less worrying. Whether the crisis is an opportunity to push for more democracy and liberalization, as some analysts have asserted, or a blow to America's hope for an orderly evolution toward democracy is arguable. But it cannot be helpful to the cause of world order to have millions of aspiring middle-class citizens, the backbone of any stable democracy, thrown back into poverty, as has happened in many emerging economies, like Indonesia. Or to have the delicate political balance in favor of reform put in jeopardy in places like Brazil.

The crisis has also resulted in new potentially destabilizing imbalances in the world economy that could complicate world economic management in the coming months. As a result of the crisis, America's current account deficit has soared to nearly \$250 billion, while the surpluses of Japan and, to a lesser extent, the EU economies have increased. As a result, the world economy has even greater imbalances than it did before the bursting of the Japanese bubble, which led to the 1990–91 world recession.

Whether the world economy will be able to work its way out of these trilateral imbalances at a time when developing countries need to run trade surpluses as part of the adjustment process is perhaps an open question. But some economists are correct to worry that the United States (and through it the world economy) may wake up with a nasty hangover, having consumed so many of the world's goods during the financial cri-

sis and having taken on so much additional international debt to do so.

A Desire for Dominance

If dominance led to strategic misjudgments in the choice of American foreign policy priorities, it also resulted in the tendency of American elites to see dominance as a goal in and of itself. In the post–Cold War world, Washington has readily taken on all the trappings of the world's only superpower —“being visited by all, making glorious speeches, strutting around the globe,” as Fareed Zakaria, managing editor of *Foreign Affairs*, recently put it. But it has shown little or no desire to assume the burdens and responsibilities of that position. American leaders have repeatedly proclaimed ambitious and indeed uplifting world order goals —the enlargement of democracy, intervention against crimes against humanity, the integration of Russia into the world community, and a world economy that works for ordinary people. But in each case, they have fallen short in committing the resources or providing the leadership needed to achieve these goals.

That the American public would want to shoulder less of the world's burdens after the Cold War is understandable given the ones it bore during the Cold War and given the domestic problems that had come to plague American society. The problem has not been so much that the United States might want a more modest global engagement in the post–Cold War world. Rather it has been that its desire for dominance has worked to block the emergence of other arrangements for order keeping and world economic management that would be less dependent on American military and economic power.

The unproductive nature of this contradictory American position toward world leadership has been evident in the areas of both international security and the world economy. Any system of world order depends upon reliable peace enforcement and

peacekeeping—at a minimum, a system to deter international aggression and to prevent conflicts from spilling over national boundaries and, at a maximum, a system to stop egregious human rights violations and restore order to collapsing states. At a time when the United States maintains a large margin of military dominance and has held itself out as the keeper of the democratic peace, it is only natural for the world to look for the United States to deal with problems like Bosnia and Rwanda as well as more traditional deterrence and collective defense problems, even if those problems have little relation to America's immediate national interests. Indeed, the Clinton administration has repeatedly raised the world's expectations in this regard, by being the first to denounce the atrocities that have occurred both in the former Yugoslavia and Central Africa and by warning the world about the dangers of such tyranny and disorder should they go unattended.

America Miscast

Yet the United States was miscast from the very beginning as the principal order keeper with regard to these conflicts. America's military doctrine, for one thing, was in many cases incompatible with such responsibilities, calling as it did for overwhelming and decisive force with quick results and minimal casualties. The Clinton administration eventually modified what was known as the Powell Doctrine in some potentially key ways, with its more incremental use of force in the former Yugoslavia and against Iraq, and with its peacekeeping efforts in Bosnia and Haiti. But it never challenged or altered the most fundamental assumption of the doctrine: namely, the need to avoid at all costs the prospect of American soldiers returning home in body bags. This extreme sensitivity to casualties was painfully evident in the administration's mishandling of the Kosovo crisis, in which it engaged in an extremely casualty-averse air campaign even as Serbian gangs were forcefully evict-

ing Albanian Kosovars from the province. It has also been evident in the undistinguished record of American troops in Bosnia, where they have refused to challenge Serbian war criminals, a task that has been largely left up to the French and British contingents. This almost phobic-like resistance to the risk of casualties has rendered effective American action, except in response to the most dire threats, all but impossible.

In order to get around this constraint of the public's resistance to putting American soldiers in harm's way, the Pentagon has come to rely more and more on sophisticated high-tech weapons systems, such as cruise missiles, as in its operations against Iraq and Serbia. Indeed, a new military doctrine has emerged whereby U.S. military planners increasingly emphasize the importance of defeating an enemy with intense electronic warfare and precision-guided weapons, and minimal ground combat.

In theory, this approach, along with the new weapons programs developed pursuant to it, would seem to resolve the dilemma the American commander in chief now faces when considering whether to commit U.S. military power. In practice, however, these weapons systems have limited practical utility in many of the world's conflicts. In the situations where they have been used, such as Iraq and in the the war with Serbia, they have not been able to secure Washington's strategic objectives. While they have been able to punish and degrade, they have not been able to compel changes in Iraqi or Serbian behavior, let alone a change in their governments.

In short, the United States has repeatedly created a major dilemma for itself and the world order it has championed in that it has struck the pose as the world's principal order keeper but has shied away from the risks and costs that posture inevitably entails. Washington has made this dilemma more serious than it needs to be, in part because it has systematically opposed or discredited any realistic alternative to American

power. It has, for example, vigorously opposed the many suggestions, made by Canada and other member states, for strengthening U.N. peacekeeping and peace enforcement capabilities for certain kinds of conflicts—measures that would have put other nations' soldiers at risk. It has also discouraged European efforts to develop a greater defense capacity. For years, Washington has urged a reluctant Europe to share more of the Atlantic Alliance's security burden, but has repeatedly thrown cold water on any European effort that would do just that in a way that was too independent from current NATO military command, which it controls. Indeed, America's attitude toward Europe has been much like an overly protective parent: fearful that its grown-up child will mess up if left on its own (which of course the Europeans on occasion have done) yet also worried that the child may succeed and become too independent of its care. Only now that Britain, America's closest ally in Europe, has taken the lead in pushing an independent European military capability, albeit one within NATO, has Washington's attitude begun to change.

Likewise, in Asia, Washington has seemingly been more interested in preserving the region's dependence on the American military guarantee than it has been in creating a post-Cold War collective security system. American officials have repeatedly dismissed suggestions for a multilateral security forum that would institutionalize discussions of confidence-building measures and arms control. It has done so even though such a forum would in no way threaten America's military position in the region and might make it easier for the United States to deal with both China and Japan in the future.

One can, of course, question just how effective a U.N. peacekeeping system would be in the near term, or how serious any of the European proposals for a European defense identity have been, or where proposals of an Asian multilateral security forum would lead. But it is clear that Washington

has vigorously resisted all three ideas, and that without American support, none of these new collective security instruments have a chance of succeeding. In sum, Washington has consistently opposed institutional arrangements that would eventually make the world less dependent on the United States, but at the expense of delaying the creation of a more durable security order that can outlive American dominance.

Panic in the Financial Markets

A similar pattern of American behavior is evident in the area of world economic management. Since the end of the Cold War, the United States has become the most articulate champion of an integrated world economy and has consistently preached the wonders of globalization. But while it has done a reasonably good job of adjusting the American economy to the new global economy and keeping its markets open to developing countries' exports, it has not been willing to commit itself to the international arrangements that are needed to make a global economy work effectively.

Over the course of the past decade, not only has Washington cut its direct foreign assistance, but it has become ever more reluctant to support the world's key international financial institutions, the IMF and the World Bank. During the height of the recent financial crisis, the world's financial community waited with baited breath to see whether Congress was going to approve America's share of increased IMF funding—an uncertainty that contributed to the panic in the world's financial markets.

America's wary attitude toward foreign assistance and international institutions has led to a fiscal crisis of internationalism that has reduced the effectiveness of the global institutions needed to ensure the smooth functioning of a world market economy. The scale of the problem is perhaps best illustrated by the increasing needs of the IMF. In order simply to keep pace with the growth of the world economy since its founding in

1945, IMF resources would need to be increased threefold from a current capitalization of \$275 billion to over \$800 billion, and ninefold to keep up with the growth of world trade. Given its puny resources in relation to the magnitude of the problems it is now called upon to solve, it is not surprising that the IMF has been so ineffective in coping with the kinds of currency crises the world economy has experienced in recent years.

Cash-Strapped Agencies

Contrary to neo-liberal orthodoxy, private capital flows are not a substitute for world public funds. Indeed, as the recent financial crisis more than amply illustrates, global market liberalization and integration increases rather than reduces the need for public funds. For example, the more the world financial system becomes integrated the more it needs an international lender of last resort—an institution that can provide liquidity to economies running out of reserves or suffering from a currency collapse. During the recent crisis, the IMF committed much of its limited capital just trying to staunch the financial contagion, which has left it even more cash-strapped for the next crisis and less able to help other, even poorer countries with their adjustment problems.

As a defense against Washington's poor international assistance record, American officials claim that the United States bears a disproportionate burden of the bill for international institutions and that more of the burden should be shifted to other wealthy nations like Germany and Japan. They also point out that the United States does at least as much if not more by keeping its markets open and by providing military defense. All this is true. But the irony of the U.S. position is that over the past decade or two Washington has blocked various proposals that would have reallocated the costs among the major Western nations and put these institutions on a sounder financial footing.

It did so because the measures threatened America's preeminent position—and in the case of the IMF and the World Bank, its de facto veto, since increasing Japan's and Germany's allocations would have increased their weighted vote.

Washington has preferred cash-strapped international agencies it could easily control to stronger ones in which the United States was less dominant. This counterproductive American focus on dominance was most evident at the beginning of the Asian financial crisis, when Japan proposed setting up a \$100 billion Asian Monetary Fund to bail out Asian economies hit hard by currency panics. Washington reflexively vetoed the proposal, fearing that it would pose a threat to America's financial dominance and to the centrality of the IMF, which it controls. In short, it preferred to risk further financial meltdown than to sanction a potential rival to America's dominant position.

All this means that the world has in recent years been investing less in development assistance in real terms than it did in previous decades, and a lot less than it should have if it wanted to avoid the specter of failing states that we are witnessing across the globe. Short of funds, international lending agencies have had no choice but to resort to ever tougher conditionality terms and shorter repayment periods when extending aid or adjustment assistance.

Without the funds needed to invest in human capital and public infrastructure, and to soften some of the pain of wrenching economic changes, many recipient countries have not had enough political and social cohesion to sustain the painful structural adjustments required to root out corruption, increase savings and investment, and implement economically rational policies. And, as Jessica Mathews, president of the Carnegie Endowment, has pointed out, with fewer success stories, public support for international development assistance has collapsed, creating something of a vicious circle: more

collapsing states, bigger emergency bills, and more need for troops.

A Global Governance Gap

Maintaining dominance has turned out to be a shortsighted and even futile exercise of American power. Washington has gotten its way on most critical foreign policy issues—with Russia on NATO expansion; with France and the other members of the U.N. Security Council on Iraq; with the Contact Group on the Former Yugoslavia; with Japan on the handling of the Asian financial crisis; with the United Nations over the prerogatives of NATO to use force; and with developing countries over economic reforms needed in their economies. But getting one's way is not always the same as serving one's best interests—let alone the same as building a viable international order.

In fact, by pursuing dominance as a goal in itself, the United States has created a much larger problem: a governance gap that threatens the credibility of some of America's most cherished world order goals. As we have seen, there has been a fundamental contradiction between America's embrace of globalization and its willingness to supply the public goods or to support the collective arrangements needed to realize its potential. Many of America's most ambitious goals—a world market economy that works for ordinary people and an effective system of collective security that can prevent egregious human rights violations—are simply not possible without a semblance of global governance. That governance can take different forms—from adequately funded world public institutions, to a concert of understanding among the world's powers, to the active participation of civil society groups, or more appropriately a combination of the three. But as we should know from our own experience in fashioning a continental economy and society in an earlier age, the question of governance cannot be wished away.

Yet, none of the main components of global governance exists, at least not on the

scale needed. The IMF and the World Bank are ill-equipped to cope with many of the new demands of the global economy. The United Nations is in practice largely irrelevant to many of the world's most pressing international problems. And the World Trade Organization, the one institutional innovation of the post-Cold War period that Washington did not try to block, has a limited mandate of adjudicating trade disputes with no mechanisms to deal with structural obstacles to trade, including labor or environmental concerns. At best, these institutions constitute a primitive world public sector and, at worst, a dysfunctional one—as the IMF's performance during the recent world financial crisis demonstrated.

No Concert of Great Powers

As for a concert of great powers, many of the understandings that existed between the United States and its European allies and between the United States and Japan during the Cold War have now broken down or are subject to increasing dispute. Only in recent months have Washington and European leaders begun seriously to address the question of revamping NATO's mission for the post-Cold War world and American and European responsibilities within it. And then their efforts have so far only resulted in a disastrous war with Serbia. As for Japan, it remains as unsure about its proper international role as it did at the end of the Cold War, wanting at times to be the world's social worker and at other times retreating into its domestic shell.

Likewise, there is no clear understanding among the world's powers about Russia's role in the world, or even about its role within its own immediate region. In fact, the expansive area stretching from the Baltic states and Ukraine, through the Balkans, the Caucasus, and Central Asia is increasingly a contested space: it is a region without clear rules or understandings among the many competing players, including Russia, the European Union, Turkey, the United

States, Iran, China, and India. The same can be said about China's role in Asia, where both the United States and China aspire to supremacy and where both economic and geopolitical conflicts are rising to the surface. Even more worrying, there are no clearly understood rules for governing an increasing multilateral nuclear arms competition between India, Pakistan, China, and the United States. And unlike Europe, Asia has no multilateral institutions or organizations of any note that are capable of resolving conflicts and pooling resources around commonly agreed objectives.

Equally serious, there are no clear ground rules for the management of the world economy, no rules about misaligned currencies or how to handle capital account crises now that the neoliberal model has proved to be lacking in key respects. Nor is there an understanding among the major powers about their respective responsibilities for providing open markets and development assistance, or for fashioning an appropriate global macroeconomic policy, or about who provides liquidity during the next crisis.

The advent of the euro, Europe's single currency, makes trilateral coordination of the world economy more essential. But the three geoeconomic powers have yet to have a serious conversation about their respective responsibilities in this new trilateral world. Indeed, there is a danger that both Japan and the European Union will pull further back from their global responsibilities even as they become more assertive with regard to their own interests, leaving the United States to struggle with these responsibilities under less favorable conditions than it has enjoyed in the past decade.

These conditions may in the short run help perpetuate a sense of American dominance. But a strategy of dominance is not an answer to the challenges and dilemmas the United States now must confront as a result of the legacy of its failed foreign policy in the post-Cold War period. Many of these

challenges will sound familiar—establishing a workable system of collective security; coming to an understanding with Russia about its rightful role in the world; managing China's fitful emergence as a regional power in Asia and establishing constraints on multilateral nuclear arms competition in the larger region; collectively managing a global market economy in the interests of an expanding world middle class; and building a world public sector capable of sustaining globalization. These are all unfinished challenges of the post-Cold War world. But as we will see from a closer look at these challenges the choices Washington has before it are narrower now as a result of the strategic developments of the post-Cold War period.

The Failures of Collective Security

The first unfinished challenge of the post-Cold War world is to establish a workable system of collective security. Given the widening fissures in the international community, any system, it must be acknowledged from the outset, will be highly imperfect. But at a minimum, it must be able to respond effectively to the most egregious cases of both international aggression and crimes against humanity. It must also have reliable safeguards against the spread and use of weapons of mass destruction, a threat that once again is growing. The challenge of securing a workable collective system has proven to be a more vexing problem than it appeared when, on the eve of the allied success against Iraq, President George Bush sent U.S. marines into Somalia on what was to be a humanitarian mission.

What has followed since has been a long line of peacekeeping failures if not tragedies: Somalia, Rwanda, Congo, Bosnia (a failure if judged by America's original goals), Sierra Leone, Haiti, Angola, and now Kosovo. There have been only a few modest successes: the completion of U.N. missions in El Salvador, Guatemala, and Mozambique; the Italian-led European multilateral force in Albania, which helped restore order in

1997; and the preventive U.N. peacekeeping effort in Macedonia, which has helped quiet ethnic divisions in the former Yugoslav republic. But the last of these successes may well be undone by the destabilizing effects of the catastrophe that has unfolded in Kosovo.

Whether Washington can salvage what remains of the concept of collective security in light of the war with Serbia is at the time of this writing unclear. What is clear is that there has been a substantial retreat from the idealistic expectations of the early post-Cold War world, which envisioned the U.N. collective security machinery working as originally intended by the framers of the U.N. Charter. In principle, at least, a U.N.-based peacekeeping and peace enforcement system represented the best option for the United States, given that the great majority of post-Cold War conflicts were peripheral to U.S. interests and given the reluctance of Washington to commit U.S. ground troops to combat and its goals of integrating Russia and China into the international community. If the United States had put its weight behind strengthening the U.N. system by activating its military staff functions and by supporting the development of a standing army, it would have been able to concentrate on the higher value-added military missions for which its high-tech, low-risk military strategy was well suited: policing the international sea lanes; providing reassurance and residual deterrence in Europe and East Asia; deterring larger rogue states like Iraq and Iran; and providing air- and sea-lift capabilities for U.N. operations. These missions would have been more than enough to ensure America's position as the world's leading military power.

But America had no patience even for the U.N.'s more minimalist goals in places like Bosnia, and in any case rarely provided the United Nations the resources it would have needed for those it did support, like the declaration of safe havens in Bosnia. Nor could it live with the possibility of a Rus-

sian or Chinese veto, even though it also had as one of its principal goals bringing Russia and China into the world community. Nor could it tolerate the thought of a collective military instrument that it did not directly control—even though it would have continued to exercise substantial political control over any such instrument through its role on the U.N. Security Council.

What was at least a theoretical possibility in the early post-Cold War years was soon discredited by Washington's own actions and the U.N.'s own incompetence. In typical Clintonian fashion, the administration blamed the death of the 18 American rangers in Somalia on the United Nations, even though they were under U.S. command and the United Nations had not authorized their particular mission.

Recoiling from this humiliating experience, Washington issued a new directive that said it would veto subsequent U.N. peacekeeping missions for reasons of cost if they did not serve U.S. interests (a silly directive since the one purpose of a U.N. capability is to handle just such conflicts that do not involve U.S. interests except insofar as they affect the overall climate of world order). This shift in U.S. policy in turn precipitated a drawdown of U.N. peacekeeping forces in Rwanda and Burundi and led the United Nations to ignore the impassioned pleas from its Canadian commander in charge of U.N. forces in Rwanda about an impending genocide.

President Clinton subsequently owned up to Washington's responsibility for the Somalia debacle as well as for its role in blocking U.N. action in Rwanda. But by that time the fate of U.N. peacekeeping was sealed, and any thought of a U.N.-based collective system to deal with the conflicts more peripheral to U.S. interests was beyond the pale in American politics. Even UNSCOM, as noted earlier, eventually collapsed under the weight of American impatience with Saddam Hussein's cat-and-mouse games with the U.N. inspectors and because of

Washington's dissatisfaction with the limited inspections and containment framework of the Security Council mandate.

Turning to NATO

Given American frustrations with the clumsy multilateral machinery of the United Nations, it was understandable that Washington would turn to NATO, an organization it controlled and which had real political and military clout. But NATO was a defensive alliance, and would have to be remade into a collective security organization that could export stability beyond its borders, combat terrorism, curb weapons of mass destruction, and perform the other tasks Washington had in mind for it. Washington helped NATO take a step in this direction with the successful introduction of NATO peacekeepers in Bosnia in 1995. Yet there remained substantial resistance in Europe to America's more ambitious goals for NATO, resistance that finally crumbled with the elections of new governments in Britain and then Germany. Washington, too, helped to bring skeptical Europeans along. It even lent a more sympathetic ear to European plans for a European defense identity that could operate within NATO but without direct American involvement, a shift in posture that helped bring the French on board as well.

By the time of the preparations for NATO's fiftieth anniversary in April 1999, the question, therefore, was no longer whether NATO would operate out of area, but how far and pursuant to what missions it would do so. There were, of course, many other questions that Washington had not worked out with the European members in NATO. For example, under whose legal authority would NATO act? And what exactly would be the division of responsibility between Europe and the United States? But these questions soon took a back seat to a test under fire.

Kosovo has provided a premature and probably determinative test of Washington's

vision of the new NATO, a test it is clear it was not adequately prepared for. Indeed, Washington's and London's strategic misjudgment in pushing take-it-or-leave-it negotiations in Rambouillet and threatening an air war without the necessary preparations for a ground campaign to protect Kosovars has put NATO's future role in question. What has plagued NATO's debut as a collective security organization has been what has plagued other collective security efforts in the post-Cold War world: strategic political misjudgments about the nature of the conflict and its major protagonists; fuzziness about the alliance's ultimate goals; and a huge gap between Washington's stated goals and the strategy it has chosen to achieve those goals.

A Globalized NATO?

Whatever its final outcome, the war with Serbia has determined a significant part of NATO's future mission. Win or lose, NATO will have its hands full for years in dealing with the aftermath of the Balkan war and its destabilizing effects on the entire region. If it "wins," it will need to establish a protectorate for much of the Balkans, stationing troops not just in Bosnia and Macedonia but also in Kosovo, Albania, and even Serbia itself. If it "loses," the geographical scope of the protectorate it will need to provide may shrink, but the task will be no less difficult given the destabilizing effects the large influx of Kosovar Albanians has had on neighboring countries.

Either way, the Serbian war has been a setback for Washington's more ambitious vision of a globalized NATO. A decisive defeat of Slobodan Milosovic's Serbia, it is hoped, will provide a warning to other despots and rogue leaders. But it will tie down substantial NATO forces for decades with the very difficult task of preserving what may be a fragile and artificial political settlement, undermining to some degree NATO's ability to project power beyond the European theater. Even as it was, Africans and Asians worried

that Washington's new emphasis on NATO was a prelude to a larger retreat from any European and American involvement in other troubled parts of the world—what strategic analyst Gerald Segal has dubbed a “flight to quality security.”

The war in Kosovo may also complicate other critical aspects of NATO's hoped-for collective security mission. We may have seen the worse of the wars of Yugoslav succession, but we may be only at the beginning of the wars of Soviet succession, given the instabilities and ethnic problems that exist around Russia's southern rim and throughout Eurasia. Having been initially frozen out of NATO's handling of Serbia and Iraq, Moscow may have little incentive to heed Western advice about how it handles these conflicts, let alone permit Western involvement. If Russia, even in its weakened condition, resorts to unilateral actions that offend Western sensibilities and interests, we should not be surprised if it seeks to justify them on the basis of what NATO itself has claimed is its right to do.

Nor can we expect Russian, or for that matter Chinese, cooperation with American efforts at controlling nuclear weapons and other weapons of mass destruction. As Ian Cuthbertson notes in his accompanying article, the spread of nuclear, chemical, and biological weapons to terrorist groups or rogue states represents the single greatest threat to world order in the period ahead. Yet NATO seems to lack a plan of action for how to work with Russia, China, India, and other powers to keep this threat in check.

Finally, in the period ahead, we may see a whole new set of conflicts in the Middle East and the Persian Gulf. Succession crises in Syria, Iraq, and Saudi Arabia are certainly not out of the question. These crises, more so than the wars of Yugoslav succession, will touch on competing American, European, and Russian interests. If the Assad regime in Syria collapses with Hafez al-Assad's death, will Russia, even a weakened Russia, let the United States, Turkey, and Israel determine

the shape of a future Syria? And what role will France try to play in such a crisis? A similar set of questions can be asked with regard to the fall of Saddam Hussein in Iraq—only in that case one must factor Iran into the equation. These conflicts, along with those in the Caspian Sea, and along with the challenges of preventing the spread of nuclear weapons to terrorist groups, will provide a stern test for any collective security system.

In short, even if the new NATO emerges out of the Kosovo crisis victorious, the task the United States faces in fashioning, with the support of other major powers, a workable collective system for managing future conflicts is far from completed.

There are at least four dimensions to this task. The first relates to the unfinished agenda of NATO reform. In particular, Washington needs to formulate serious answers to the following questions: What will be NATO's operative military doctrine? If NATO's doctrine merely replicates Washington's high-tech low-risk air strategy, what is to prevent future Kosovos? What is the division of responsibility it foresees between European members of NATO and itself? And what geographic limits should it accept on NATO actions? Should NATO, for example, attempt to intervene in potentially contentious conflicts in the Middle East and the Persian Gulf?

Restoring Credibility

The second task involves restoring credibility to the U.N. system. The Kosovo experience has demonstrated that NATO cannot be a substitute for a more broadly based U.N. collective security system. Some protagonists, it is clear from the Serbian experience, may be willing to go to war rather than accept NATO's authority. Thus, there still is a role and a need for U.N. peacekeeping even in conflicts like those in the former Yugoslavia. Restoring credibility to the U.N. system means that Washington will need to accept some constraints on NATO's future

freedom of action as well as on its geographical reach.

NATO can be an effective force for European security (if it is used wisely) and can help rationalize European and American military power. But its actions beyond the immediate European theater will in many cases lack the legitimacy it needs in order to act as a global "policeman." In future out-of-area conflicts, NATO would be well advised to act pursuant to U.N. authority—if only to avoid legitimating the unilateral interventions of Russia, China, and other emerging regional powers.

Given the nature of the conflicts looming on the horizon, many of which fall close to Russia, NATO has more to gain from such an understanding about U.N. authorization than it has to lose. Even in the Persian Gulf, there are no national interests so vital—even a threatened collapse of the Saudi regime—that would justify a hasty unilateral military intervention on the part of NATO, especially one in an internal conflict.

A third and related task involves strengthening the collective capabilities of the U.N. system of peace enforcement and peacekeeping. In the long term, there is no alternative to a U.N. standing military force for policing internal conflicts and restoring order in collapsing states. As much as the United States and other NATO powers pay lip service to humanitarian concerns in Africa, Central Asia, and Southeast Asia, they have no incentive for committing high-priced elite forces to conflicts like those in Rwanda or East Timor or the Horn of Africa. Given America's reluctance to engage its own forces in such conflicts, yet its larger concern with world order, its interests would be better served by supporting the establishment of a U.N. standing military capability. As a result of the Kosovo conflict, many Republicans previously suspicious of the United Nations now seem more willing to accept a U.N. role in conflicts that do not directly affect U.S. national interests. Progress on enhancing the U.N.'s order-keep-

ing capabilities will of course be slow, but no American interest is served by opposing their development.

Finally, Washington will need to work out a new set of understandings with Russia and China, concerning what kind of collective security relationships it foresees with these two U.N. Security Council members and potentially anti-American hegemonists. This is particularly important given the potential clash of interests with Russia in Eurasia and the Middle East and with China in Asia. In the case of Russia, Washington may need to reassure Moscow that the new NATO is not aimed at it. As suggested below, this may mean accepting certain limits to NATO's geographic reach and some constraints on its Partnership for Peace missions with former Soviet republics.

America and Russia

The United States has failed to find an answer to the question of Russia's rightful role in the world—at least an answer that Washington has been willing to live with. It has given lip service to the goal of integrating Russia into the Western community but in practice has repeatedly subordinated this goal to other foreign policy considerations—whether they be NATO expansion, American concerns about Iran and Iraq, or American geoeconomic and geostrategic interests with regard to the Caspian sea. Its rhetoric suggests that it has learned the lessons of Versailles, yet in many ways it treats Russia in much the same way the Allies treated Germany after the First World War, needlessly humiliating it, saddling it with post-Soviet era debts, and throwing up barriers to its exports.

Adding insult to injury, Washington has proved to be an unhelpful and fickle partner in the Russian reform effort, pushing unwise policies and intervening in the Russian intra-elite conflict in ways that worked against real reform and democracy, only to wash its hands of any responsibility when things have gone sour. It pushed a

hasty and ill-designed privatization process that resulted in the wholesale giveaway of many of Russia's most important economic resources, and then complained about Russian corruption and the oligarchy that was enriched by this process. It trumpeted a severely flawed constitution that placed far too much power in the hands of the president, and then winced when its favored man exercised that power arbitrarily at the expense of real democracy.

The goal of integrating Russia into the Western community, of course, faced many difficult if not insurmountable obstacles. From the very beginning, it has been plagued by the fact that Russia does not fit easily into any of the Western institutions and organizations that really matter. Because of its size and geopolitical interests, it was never regarded as a serious candidate for NATO or EU membership. And given its economic weakness, its partial inclusion in the G-7 was always contrived—a modest face-saving gesture to an obedient Boris Yeltsin but one that only highlighted Russia's marginal importance.

Russian exclusion from these Western clubs would not have been so serious, had not Washington simultaneously downgraded the multilateral organizations that do exist—the Organization for Security and Cooperation in Europe and the U.N. Security Council—in which Russia plays a more prominent role. Yet an American policy that gave greater weight to these more inclusive clubs would have meant putting America's control at risk and, as we have seen, that would have run counter to Washington's concern for dominance.

In short, from Washington's viewpoint, the integration of Russia into the Western community was never really a serious goal, for it would have required changes in American foreign policy and existing Western institutions that Washington was not willing to make. As a result, Washington's rhetoric toward Russia was never matched by a serious commitment.

Even if integration was once a serious goal, it is no longer a realistic one—given the realities of NATO's war with Serbia and developments within Russia. Movement toward democracy and a market economy in Russia may continue, but a broad spectrum of the Russian elites now understand that when Washington talks about Russian integration into the Western community it means integration on Washington's terms and thus the unconditional abandonment of Russian national interests. That is a bargain that no future Russian president or parliament will be able to make again.

The Russian Question

With integration into the Western community no longer a realistic goal, the question is whether the United States and Russia can negotiate a relationship that avoids a new strategic competition in a region that is full of troubled states and deep civilizational fault lines. For the sake of world order, it is important that Washington work out with Russia a new set of understandings concerning the course of NATO expansion, the prevention of the spread of nuclear weapons, order keeping in Eurasia, and the peaceful development of the Caspian Sea oil and gas resources. But to do so the United States will need to rethink three policies that are propelling it toward increased geopolitical competition with Russia in an unstable region of the world.

The first, of course, is NATO expansion—in particular, NATO's open door policy toward further expansion. This policy has set up a potentially unpleasant confrontation over the future entry of the Baltic states, which Moscow vigorously opposes. It also threatens to divide Ukraine, between Kiev's nationalist right-of-center parties, which are already blaming the socialists for keeping Ukraine out of NATO, and the more Russian-leaning left-of-center parties, which are arguing for closer ties with Moscow and even union with Russia. These dangers are at least well known, if not easily handled. But

what is not fully understood is that NATO expansion, even if it falls short of admitting the Baltic states, carries with it a deeper geopolitical logic that could become inimical to a stable world order.

Seen from Moscow's eyes, NATO expansion is the product of a stronger NATO imposing its position on a weaker Russia. The larger lesson that Moscow seems to have drawn from this experience is that it too must organize its own sphere of influence to balance NATO, so that in the future any agreement is an agreement between rough equals: a Washington-led NATO alliance and a Moscow-led Commonwealth of Independent States (CIS), bolstered by a larger counterhegemonic triad of itself, China, and India. Even the Western-leaning Yeltsin government has moved in this direction, by stepping up efforts to strengthen its ties with the former Soviet republics as well as to expand relations with China, India, and Iran. Any future Russian government, in light of NATO's war with Serbia, can be expected to move further in this direction.

The end result of this logic will be not just a less cooperative Russia, but one that is increasingly willing to contest American actions in areas that it considers vital to its own interests. In this vein, Russian nationalists have begun to ask: Since Moscow has little or no say over who joins NATO and what NATO does in its own area of interest, why should Moscow allow the United States to have a say in areas bordering Russia and its sphere of influence? As a result, Russia is likely to be more protective of its interests in, for example, the Caspian region in the future. Some influential figures in Russian foreign policy circles are already talking about a NATO-free zone stretching from Ukraine and Belarus in the north, to the Caucasus and Central Asia, and then eastward to western China.

One can, of course, question just how effective Russian efforts in this regard will be given Russian weakness, and one can

take issue with the suggestion of moral equivalence between an alliance of democratic nations and any new Slavic or CIS union. But it would be difficult to deny that the Russian reaction to NATO expansion portends serious conflict in an already unstable region.

Two other American policies threaten to exacerbate this conflict. The first is Washington's increasing tendency to favor those in the region intent on asserting their independence from Moscow. From the outset, the Clinton administration has been torn between a strategy of strengthening the center (Russia) or increasing the independence of the periphery (the Soviet republics). But over the course of the last year or two, the balance has shifted toward the latter, to the point of carrying out joint military exercises with a number of former Soviet republics, including Georgia and Azerbaijan.

An American strategy of strengthening the periphery against the center may make sense from a geopolitical point of view, but it makes less sense from an order-creating perspective, since peace in the region depends upon a strong and cooperative Russia. It is also dubious from a human rights and reform vantage point, since even in its imperfect state, Russia has made much greater strides in democracy and building a market economy than have the states that Washington is flirting with. Both Azerbaijan and Kazakhstan have autocratic governments with questionable human rights records, and Ukraine, while more democratic than these two, has made little progress toward real market reforms. Only Georgia has made progress comparable to that of Russia in terms of democracy and economic reform.

Siding with Russia's Rivals

From Moscow's perspective, Washington has begun to openly side with Russia's potential rivals in the region. Indeed, American actions increasingly look as if they are aimed at creating an anti-Russian alliance of Azerbaijan, Georgia, Moldova, and Turkey

on Russia's southern flank. Russian suspicions in this regard have been strengthened by Washington's increasingly assertive actions in trying to dictate the terms of the development and transport of the Caspian Sea oil and gas riches.

Last year, Washington dropped its more neutral posture of favoring multiple pipeline routes, and aggressively lobbied the Azerbaijan Independent Oil Consortium (AIOC), a group of oil companies developing Caspian Basin oil reserves, for the adoption of the pipeline route from Azerbaijan across Georgia and Turkey to the Mediterranean (known as the Baku-Ceyhan route). This route makes no economic sense and is vulnerable to Kurdish attacks. But it would serve a number of American geopolitical objectives, pulling Azerbaijan and Georgia out of the Russian sphere of influence and bolstering America's ally, Turkey, in the region. If built, it would also undercut the viability of existing pipelines that cross Russia, reducing Russian transit fees as well as Russian control of the transport of Caspian oil to Central and Eastern Europe.

As a result of these and other actions, Russian leaders are highly suspicious of American ambitions, which they view as a naked power grab in a region in which Russia ruled for more than 100 years. So far, Russia's reactions have been relatively restrained, reminding Georgia that its troops are keeping the peace in Abkhazia, Georgia's northern province, and increasing its support of Azerbaijan's neighbor, Armenia. Washington may be counting on a Russia that is too weak to counter American actions, but while Russia is weak, it is more than strong enough to destabilize America's new friends and to complicate the development of Azeri oil for years to come.

As a global economic power with a belief in the power of commerce and democracy, Washington has an interest in trying to subordinate geopolitical and cultural considerations to common commercial and economic development interests. But instead it

is playing on anti-Russian sentiments and civilizational differences to advance largely a geopolitical agenda of control over the world's oil market. In a region of brittle states riven with ethnic differences and access to "loose nukes" and tons of chemical agents, that is a prescription not just for conflict and disorder but for catastrophe as well.

By pursuing NATO expansion and by pressing so hard its advantages with Russia on Iraq, Serbia, and the Caspian Sea, Washington has reintroduced a geopolitical dynamic into U.S.-Russian relations. It cannot entirely undo that, but it can back off some of the more provocative dimensions of its policy—by observing a pause in NATO expansion; involving Moscow in any peace settlement with Serbia; dropping its support for the Baku-Ceyhan pipeline, which in any case is not commercially viable; and initiating a moratorium on U.S. military exercises with Russia's most contentious neighbors.

The goal of American policy should not be to challenge Russia's shrinking sphere of influence in the Eurasia region, but to work out some mutually accepted checks and balances on the exercise of both Russian and NATO power in the region. Given that conflict and disorder hold a much greater risk to world order than does Russian hegemony, it would be a much wiser policy for the United States to encourage a strong and cooperative Russia that can assume at least some responsibility for order keeping in the region. We may not like it, but only Russia can help solve the Abkhazia problem in northern Georgia. Similarly, only Moscow can help bring about an Armenia and Azerbaijan settlement in Nagorno-Karabakh.

It would of course be better for the United States to work out some international checks and balances with respect to how Russia undertakes that role, possibly with NATO and OSCE involvement. But in order to be credible Washington will need to offer Moscow some oversight privileges

vis-à-vis NATO operations if it expects to have a say in Russian peacekeeping efforts.

Showing Good Faith

If Washington can initiate such a conversation with Moscow, and then show its good faith by involving Russia in any peace settlement in the Balkans, it may then be possible to advance several other ideas that would rebuild Russian-American cooperation and at the same time strengthen regional governance in Eurasia. One such idea would be a proposal for the establishment of a new Partnership for Peace (PFP) initiative that would be jointly sponsored by Russia, NATO, and the NATO-Russia Council.

The Partnership for Peace II initiative would be the designated vehicle for preparing both NATO members and non-NATO countries for joint peacekeeping and peace enforcement missions in the European and Eurasian theaters—whether in Kosovo or Georgia. If NATO would allow for a Russian peacekeeping role in the Balkans, then it might be possible for Moscow to welcome some NATO participation in northern Georgia or in Nagorno-Karabakh.

A joint PFP II initiative would help defuse Russian suspicions that PFP has become a trojan horse for future NATO intervention in the former Soviet republics. It would also create a cooperative framework for joint peacekeeping operations and for enlisting other countries in the region in a joint effort to control loose nukes and other fissionable material that could be used for weapons of mass destruction.

A second initiative would be for a Eurasia Oil and Gas Association, as originally proposed by Canadian political scientist Robert Cutler. Modeled on the successful European Coal and Steel Community created after the Second World War to encourage European cooperation and joint economic development, EOGA would provide a cooperative political and legal framework for the development and transport of Eurasian energy resources, and would in-

volve all of the major players in the region, including the United States and Russia.

The United States does not need to control the development of Caspian oil reserves in order to ensure its energy security or a viable world oil market. It therefore can back away from its more ambitious goals in the Caspian region without harming U.S. national interests. Indeed, by supporting such a cooperative venture, it would be advancing its interests by ensuring that these resources can in fact be produced and delivered to market.

Managing China's Ambitions

Another world order challenge that requires new answers is that of managing China's great power ambitions. As a rising power, China poses both a geoeconomic and a geopolitical challenge. The geoeconomic challenge China presents is not so much to the United States directly, although China's trade surplus with the United States does create political problems for Washington in managing its China policy. Rather, it is to the export-led Asian trading order that developed in the 1980s and that has depended on the American market as its principal outlet. Indeed, the emergence of China as an export power—from 1993 to 1997 China's exports grew nearly fourfold—has already created a supply shock to that order, a shock that was a major contributing factor in the Asian financial crisis of 1997–98.

China's geopolitical aspirations present a more direct set of problems for the prevailing American-led order in Asia. China's long-term goal of regional leadership, if not supremacy, poses a direct challenge to America's dominant role in the region. It also raises a serious question about Japan's role in Asia, for while Tokyo is quite comfortable playing number two in the region to Washington, many experts doubt it would be willing to let China assume the mantle of regional leadership. Of more pressing concern is Beijing's determination to unite all of China's "provinces"—Hong Kong,

Macao, and Taiwan—with the Chinese mainland. Beijing's view of Taiwan as an integral part of China, and its new sense of urgency in pressing its case following the absorption of Hong Kong, conflict with Washington's tacit support for Taiwan and the growing mood of independence among many Taiwanese.

In addition to these problems, China has an expansive view of its territorial claims in the South China Sea—an area that encompasses vital sea lanes of international commerce and potential rich oil and gas deposits. These claims clash with those of many other Asian countries, including the Philippines, Malaysia, and Indonesia. Its on-again, off-again efforts to press its claims in recent years have alarmed its neighbors. So has its military modernization program. China has begun a buildup of its power projection capabilities, albeit from a very modest level, which its neighbors worry will increase China's capacity for gunboat diplomacy in the region. China's military capabilities are by no means a threat to the far superior American military or even to Taiwan's, and serious economic problems will plague Beijing in the years ahead. Nevertheless, no one can mistake China's ambitions in the region, which must either be contained or accommodated in some fashion.

The Clinton administration has wisely chosen to pursue a strategy of engagement combined with residual deterrence, understanding that engagement is the best way to encourage economic and political change in China, yet also understanding that American firmness may be needed to check China's ambitions and reassure its neighbors. Such a strategy requires Washington to engage in a delicate balancing act that is made more difficult when one factors in human rights concerns and China's rising trade surplus. Yet in spite of a generally sound policy, American efforts have yet to reconcile conflicting American and Chinese goals in the region. In fact, tensions between the United States

and China have increased, especially in the wake of the bombing of the Chinese embassy in Belgrade and the accusation concerning Chinese espionage.

One lesson to be drawn from this experience is that the question of managing China's great power ambitions cannot be separated from the larger problem of Asia—namely, the lack of an agreed-upon security order. To date, Washington has chosen to keep the two questions separate, preferring to believe that a combination of growing economic interdependence and the maintenance of America's bilateral security guarantees constitute an adequate foundation for future peace and security in Asia. But there is reason to doubt whether this framework will be able to withstand the pressures of a rising China in the future—or, in the near future, an economically troubled one.

The Political Equation

Economic interdependence without an accepted political framework and a recognized balance of power can be highly unstable; in fact, it can be a prelude to increased conflict. Economic interdependence has until recently been a positive force for order in Asia—in part because many of the potential conflicts of the region have been exported to the United States. The United States (and, to some degree, Europe) has played a critical role in managing the interdependence of the region by absorbing Asia's trade surpluses, thereby reducing potential trade tensions among East Asian competitors. But this conflict-absorbing role of the West has been of decreasing utility because the output of Asia has been growing faster than has the capacity of the United States—or even of the United States and Europe together—to absorb it.

If the U.S. market is not able to absorb Asia's surplus capacity, tensions will rise within the region over the elaborate trade barriers that exist among the Asian economies. In the post-Cold War period, intra-Asian trade has increased, but much of this

trade has been in parts sold from one Asian country to another for assembly into final goods destined for North America and Europe. In the wake of the 1997–98 financial crisis, tensions have indeed already begun to rise, and would have risen even more if China had not acted responsibly in putting off the devaluation of its own currency.

But as other Asian countries begin to reclaim their share of the world export market they lost from China in the past decade, and as China's struggles with excess capacity, rising unemployment, and unsustainable debt levels, China's leadership may feel it has no choice but to become more aggressive in re-ordering the Asian trading system to its favor. In their current form, neither Asia-Pacific Economic Cooperation (APEC) nor the Association of Southeast Asian Nations (ASEAN) offers an adequate institutional framework for addressing these growing problems.

If there is no political framework for handling trade and investment problems, there is an even more striking absence of an agreed-upon system for managing political disputes and security problems. Asia, unlike Europe, has no collective security institutions—only a series of bilateral treaties between the United States and individual Asian countries. The region has no history of arms control or confidence-building measures—none of the tools of either collective or cooperative security—in spite of the existence of deep-seated territorial conflicts and the makings of a regional arms race. In fact, during the post–Cold War period, Asia's has been the fastest growing arms market in the world, although the current economic crisis seems to have dampened some countries' appetite for more arms. Asia has also become the site of the world's most worrying nuclear arms competition between China, India, Pakistan, and the United States.

The American Balancing Act

That Asia has no collective security institutions is in part because Washington has

wanted it that way. Washington's preference for bilateral security arrangements over multilateral forums may reinforce America's sense of dominance in the region, but it also works against the management of China's regional aspirations. It does so in several ways. First, as far as U.S. relations with China are concerned, America's bilateral diplomacy tends to create a zero-sum security environment in Asia—where one side's gain is perceived to be the other's loss. Thus, when the United States unveils a plan to share missile defense technology with Japan—a measure that is aimed more at countering the rogue nuclear threat of North Korea than it is at China—Beijing nonetheless takes it to be a threat, because it could affect the viability of its nuclear deterrence posture. Indeed, with the collapse of the Soviet threat, China sees America's bilateral defense arrangements as the functional equivalent of an anti-China alliance, and the strengthening of any one hub in America's defense network as a measure that is aimed against it.

Second, this zero-sum environment puts enormous pressure on Washington to calibrate carefully its management of China's regional ambitions—a difficult task given the many conflicting domestic pressures any administration faces over China policy, from human rights to trade concerns to false alarms about the China threat. If the United States is too vigorous in opposing China's actions—for example, Beijing's veiled threats toward Taiwan—that may reinforce China's sense that Washington is out to deny it a rightful place as a great power in the region. On the other hand, if the U.S. response is too lax, that will provoke regional worry that China is an unchecked security threat that must be either appeased or militarily deterred. The latter conclusion would accelerate the pace of regional arms buildup and set the stage for a shift in Japan's military posture, which would in turn reinforce China's determination to gain military superiority over its regional rivals.

Finally, a lack of multilateral framework actually reduces U.S. leverage vis-à-vis China and Japan. If the United States gravitates too closely to China, as was the case in early 1998, then it finds that U.S.-Japanese relations deteriorate and it must take steps to reassure Japan. When those steps in turn offend China, as they did when Washington strengthened the U.S.-Japanese security treaty, it must then seek to assuage Beijing's fear that Japan and the United States are ganging up on it. South Korea, too, has concerns about America's bilateral dealings with Japan and China, and Washington must be attentive to Seoul's interests as well. This presents Washington with yet another balancing act.

The development of Asian multilateral forums for both security and trade issues will, of course, not solve all these problems, but it will make them a bit easier to deal with. In the field of security, America's bilateral approach is actually creating a dynamic that may lead to a future multi-dimensional arms race between China, its neighbors, and the United States. And in trade, tensions are rising over the possibility of a string of competitive currency devaluations and intraregional trade barriers, tensions that could spill over to the security field.

As James Nolt argues in his accompanying article on Asia, it is important for the United States to defuse these problems before they begin to threaten the relative peace and prosperity Asia has enjoyed in the post-Cold War period. This can best be done, as Nolt points out, by shifting American diplomacy to a multilateral track.

With regard to security, any number of Asian experts have put forward proposals for an Organization for Security and Cooperation in Asia (OSCA) based on the relatively successful experience of the Council on Security and Cooperation in Europe, the forerunner of the OSCE. These ideas need to be dusted off and revisited as part of an effort to find a common framework for managing

Asian security questions. By the standards of collective security organizations, such a forum would have a rather modest agenda at first. But it could over time provide the framework necessary not just for discussing but for taking action on confidence-building measures, arms control and nuclear proliferation issues, and even conflicting territorial claims. Various groups in Japan and South Korea have already said they would support such an idea, as have some influential Chinese scholars. And ASEAN nations might be willing to lend their support to a forum that would expand on their efforts at creating a regional forum.

On nuclear-related questions, such a forum must be wide enough to encompass South Asia and the question of multilateral nuclear arms control. It will not be possible to work out nuclear arms constraints between Pakistan and India unless China and the United States are also brought into the equation. After all, India's nuclear program is aimed as much at countering China as it is at cowing Pakistan, and China has contributed to Pakistan's nuclear capability in part because of its strategic competition with India.

Moreover, China has expanded and modernized its nuclear arsenal to dissuade both India and the United States. Thus, given the multidimensional nature of the nuclear competition, the actions of any one nuclear power can set off a chain reaction of nuclear-related countermeasures, leading to an accelerated nuclear arms competition.

As a parallel effort to an Asian multilateral security forum, the United States needs to think through how better to use APEC to develop a common strategy for the tearing down of intra-regional trade barriers and for developing a common strategy for moving away from export-led growth. Such an effort is especially critical given the likelihood of rising tensions among China and its export-oriented neighbors in the years ahead. America's goal, of course, ought to be to bring China into the WTO as soon as possible, as

part of a broader strategy of enmeshing China in multilateral constraints that are widely viewed as legitimate and not just of Washington's making.

But given the potential for rising intra-Asian disputes on trade and investment issues, the United States needs to supplement a WTO strategy with an effort to strengthen APEC. For one thing, the WTO does not have a mandate to deal with many of the structural issues that are at the root of intra-Asian trading problems. For another, given the increasingly competitive environment in Asia, Asian leaders are not only suspicious of Washington's bilateral market-opening efforts but also reluctant to make concessions that might give their competitors an advantage. It might therefore be easier for some Asian governments to make concessions for opening up their markets and financial systems if they are made as part of a larger multilateral process.

A Global Expanding Middle Class

For both economic and foreign policy reasons, the United States has an overriding interest in a growing world economy that offers developing countries a ladder to middle-class prosperity. The fashioning of a world economic strategy that both serves U.S. interests and produces a sustainable middle class in pivotal emerging economies is the most fundamental world order challenge Washington must grapple with. It is also one of the most elusive.

In the post-Cold War period, American officials believed they had finally found the magic formula: a neoliberal model that combined financial liberalization with export-led growth. Essentially, as the political economist Walter Russell Mead has pointed out, it rested on three assumptions that have turned out to be faulty. The first was that rapid deregulation of the international financial system would free up the movement of capital without creating the kinds of financial crises that had plagued previous periods of unregulated global capital. The second

idea was that export-led development, pioneered by Japan, Taiwan, and South Korea, could work forever, even as more and more countries joined the export-led bandwagon. And the third was that the United States could continue to function as the world's consumer of first and last resort—at least until it could cajole Europe and Japan into sharing that role and burden. The emerging-market financial crisis has revealed the fallacy of all three assumptions, and as a result U.S. officials are now struggling to patch together the tatters of a failed strategy.

They have begun by tinkering with the world financial system—a little bit more supervision here and a lot more transparency there. But they have not begun to address the other two dimensions of the problem—let alone undertaken the more fundamental rethinking today's economic conditions require. The recent turmoil in the world markets was not just a reflection of a financial markets problem. It was also a reflection of a much deeper trade and development problem as evidenced by excess capacity in many industries and the decline in terms of trade for many manufactured goods. Indeed, the problem is so serious as to draw into question the viability of the export-oriented development strategies that lie behind the "Asian Miracle."

The Export Trap

Export-led development worked remarkably well when, in the early 1980s, there was just a handful of mostly small countries—Japan and the four Asian tigers, Taiwan, Hong Kong, Singapore, and South Korea—that followed the strategy. But by the early 1990s a host of larger developing countries—including China, Indonesia, Malaysia, and Mexico—had jumped on the export bandwagon. Not surprising, by the mid-1990s the export output of these countries had begun to outstrip world demand, which was still mostly provided by consumers in the United States and Europe.

The result was the buildup of excess capacity in many basic manufacturing industries—from textiles to steel to semiconductors. And with so much excess capacity, the terms of trade for those manufactured goods declined, as did the return on investment, setting the stage for growing current and capital account problems, slower growth, and eventually default and the export of deflation to the world economy.

Despite the partial unwinding of excess capacity in some industries, the problem of overcapacity threatens to persist. China, for example, suffers from serious overcapacity in 65–70 percent of its manufacturing sector, as do many of the other newly industrialized economies in Asia. The fact is that the market for finished manufactured goods is growing too slowly to accommodate rapid recoveries in all export-led emerging economies.

Moreover, it is now clear that, in the future, demand from the advanced industrialized countries will not be sufficient to accommodate further rapid growth of manufacturing capacity in the developing world. Export-led growth succeeded in large part because of the unique role the United States has played since the late 1970s as the world's consumer of last resort. But during the recent crisis it has been able to sustain that role only by accumulating substantial consumer and international debt.

For the first time since the Great Depression, the U.S. savings rate has turned negative and has stayed in the red now for more than nine months. At some point, American consumers will again have to save more than they spend. And so eventually will the nation as a whole, which has run up nearly \$2 trillion in red ink over the last decade and a half. The United States has been able to run persistently large current account deficits in part because of the largely unchallenged position of the dollar in the world, which investors have seen as the safest of the world's currencies. But that could change as the euro begins to establish itself as an alterna-

tive to the dollar and as investors become more wary about lending money to an overleveraged America. While the euro initially has weakened against the dollar, reflecting America's stronger economic growth and the uncertainty attendant on a new currency, over time it is likely to be a strong currency, reflecting Europe's healthy current account position. At that point, the United States will no longer be able to run such large current account deficits, and the world economy will lose its Keynesian motor.

Yet, Europe and Japan are both unprepared and unsuited to assume this role. With disproportionately large baby boom generations that need to save for retirement, both Europe and Japan are likely to remain large net savers, and thus structural surplus countries, for the next decade or two.

The diminishing prospects for export-led growth do not just reflect overspent consumers in the United States or the relatively slow growth rates to be expected in mature economies. They are also the result of a change in the composition of Western demand for goods and services, which increasingly favors nontraded services like health care over manufactured goods.

Over time, the problem will become more acute. The aging of Western populations and near zero population growth in much of the developed world mean that demand for traded manufacturing goods will trend lower in relation to overall GDP for some time to come. Older people consume relatively fewer traded manufactured goods and relatively more nontraded services: fewer sports cars, more nursing home attendants and physical therapists. Stagnant or declining populations need fewer new roads, houses, and schools than growing ones. All this adds up to less growth in demand for the goods that export-led economies must export to the advanced industrialized economies in order to grow.

In short, without a shift in policy away from export-led growth, more and more developing countries will be chasing dimin-

ished export opportunities in the developed world. This is bad news for world economic growth. Indeed, the world economy has entered the first phase of a slow-growth crisis that could be particularly prolonged given excess capacity in many exporting countries. It is also bad news for international relations, since export-led growth can no longer offer the prospect of middle-class prosperity for large industrializing economies. And without the promise of an expanding middle class, emerging powers are less likely to become stable democracies at peace with their position in the world.

Unleashing Internal Demand

If the United States will not be able to sustain the same levels of growth in consumption, and if Europe and Japan are structurally constrained from dramatically expanding demand, then future world economic growth depends on unleashing the internal demand potential of emerging economies. At a minimum, to sustain recent growth rates, developing countries will need to place more emphasis on the growth of domestic demand—or, in the case of small countries without the potential to develop large-scale domestic markets, on their access to developing, as well as developed, markets.

This shift in outlook for the developing countries from export-led to domestic-led development presents a daunting challenge to world economic architects: they must figure out how to structure a world financial and trading system that encourages the provision of long-term private capital to the developing world while allowing developing economies to run sustained current account deficits.

Such a system, if properly designed, would serve both the interests of aging savers in the developed world, who need higher rates of return to prepare for retirement and at the same time maintain current consumption levels, and the interests of businesses and consumers in the developing countries, who need access to cheaper capital to build

more efficient factories to satisfy rising consumer needs in these countries.

Expanding Washington's Outlook

In order to orchestrate this change in the world's economic order, Washington will need to expand its outlook, which is now almost exclusively focused on financial market reform in developing countries. The IMF's effort to liberalize and strengthen the financial systems of emerging economies is important, because it could help developing countries use domestic capital and savings more efficiently, thereby reducing the need for foreign investment. But it is not likely to be helpful unless it is accompanied by reforms or changes in at least three other areas.

The first involves microeconomic reforms within developing countries that will encourage social consumption essential to the building of domestic markets and a sustainable middle class. One place for developing countries to begin would be to look at the range of social insurance and credit risk programs that the United States and other advanced social democracies developed earlier in this century to see whether they might be adapted for use in their economies.

Take, for example, the complex of social policies that created the U.S. housing market—among others, cheap and tax-privileged 30-year self-amortizing mortgages, down payment programs so that veterans and low-income families could purchase homes, and the Fannie Mae system that bundles conforming mortgages into securities for large investors. In principle, these policies are exportable at least in part to many developing countries. So are old pension and social insurance programs; as are a variety of credit risk programs, including government-backed loan programs, that have given small businesses and farmers access to reasonably priced credit. Taken together these measures could help redirect investment toward an expanding domestic market that offers reasonable rates of returns to investors.

The second set of reforms relates to the management of the currencies of emerging economies. Finding ways to reduce currency risk is critical to establishing the confidence private foreign investors need to ensure long-term capital flows to emerging economies. As the recent crisis demonstrated, both fixed and flexible exchange rates have shortcomings. Many Asian and Latin American countries adopted fixed rates—which is in essence a pledge to convert currencies into dollars at a preset rate—in part to reassure investors that their money was safe. But when the dollar appreciated against the yen, their own currencies appreciated as well. An overvalued currency rendered their goods uncompetitive in world markets, which in turn resulted in the buildup of current account deficits.

Yet they were wary of devaluing, for fear that it might spook investors and reignite inflation. But by the time they did, it was too late: a speculative attack on their overvalued currencies had already begun. In the process, they wasted their precious foreign exchange reserves in a futile effort to stabilize their currencies.

Countries with flexible exchange rates fared only slightly better. Indeed, many economists consider floating exchange rates unacceptably risky for developing economies. This is because foreign exchange markets can drive currency values up and down in huge swings for seemingly no valid economic reason. And that volatility can wreak havoc with investor confidence.

In light of the shortcomings associated with both fixed and floating exchange rates, emerging economies will need to experiment with a number of alternatives, including pegging their currencies to a basket of currencies and commodities in order to avoid appreciations or depreciations that compromise their competitiveness. They may also need to consider the use of currency boards or even full-scale dollarization and euro-ization (the adoption of the dollar or euro as their national currency). Dollarization, for example, may prove an attractive

option for smaller countries in Latin America. As would euro-ization for Central and East European countries, who are or are likely to be EU candidates.

This in turn might lead to the establishment of more formal currency zones—a dollar, a euro, and even a yen zone. Indeed, establishing ever expanding currency zones may be one of the best options for bringing sound money to developing countries. But it would require careful coordination between Europe, Japan, and the United States, coordination that has been sadly lacking in the 1990s. It would also require the strengthening of international institutions to supplement American, European, and Japanese efforts to provide liquidity to those countries that adopt the dollar, the euro, or the yen as their own currency.

This brings us to a final set of reforms; namely, changes in the world capital markets and the policies and programs of the international financial institutions. Up to the recent crisis, export-oriented developing economies were able to manage their current and capital accounts because projected exports promised to provide enough foreign exchange to cover any debt or capital deficits in the long run. But falling prices and weak demand for their manufactures exports mean that developing economies will encounter greater difficulty in managing their capital accounts in the future. The transition to domestic-led growth may in the short term only exacerbate this problem.

In order to smooth out the current and capital account problems that are likely in the coming years, the IMF's resources will need to be expanded so it can act more like a lender of last resort. For until investors develop confidence in the new rules of the world economy, they may prematurely panic at rising current account problems in many previously export-led economies. A bigger line of IMF credit, if accompanied by IMF certification of the underlying soundness of an economy's finances, may help reassure inves-

tors without giving rise to moral hazard problems that put at risk the international financial system.

A Dysfunctional IMF

As it is now, the IMF acts more like a global policeman for creditors than it does as an agent for steady world economic growth. Because it has so few resources at its disposal, the IMF has no other tool but austerity to deal with an economy suffering from a liquidity crisis. Only by shrinking domestic demand can it restore a country's external account to the black in order to generate a needed current account surplus. As economists have pointed out, there are good reasons why the IMF is so rarely, if ever, successful in restoring confidence in a country hit by a foreign exchange crisis. While the IMF has on occasion put together sizeable credit packages for crisis-stricken countries, it cannot freely lend to them at the time of greatest need. Rather, it disperses its funds only after countries have met a series of extensive conditions. And because these conditions are onerous and complex, it is not possible for private creditors to know whether the funds will actually be available and thus whether a country will have enough foreign exchange reserves to defend itself against further speculative attacks.

But it is not just a question of increasing IMF resources, for it is unrealistic in the near term to expect the IMF to command the capital it will need to act like a true lender of last resort. Attention therefore must also be paid to how better to leverage IMF and World Bank resources to support developing countries in their transition away from export-led growth. In fact, more could be done with less, if the IMF together with the World Bank were to focus more on providing guarantees to market instruments (e.g., credit risk insurance) than by direct assistance.

There is no reason, for example, why the World Bank could not do more by way of providing credit insurance for the packaging

of emerging market debt for issuance in the market. This would involve guarantees not just for sovereign or corporate debt but guarantees for emerging market home mortgages (the international equivalent of Fannie Mae) or for small businesses. Given the breadth and sophistication of today's financial markets, there are many ways for the World Bank, perhaps through new quasi-privatized facilities, to do a better job of leveraging its resources without losing its triple-A ratings.

Financing a World Public Sector

The overarching challenge of the post-Cold War world is to close the gap between America's aspirational goals of a world market economy based on the rule of law and the effective governance needed to underpin those goals. As a result of its foreign policy failures in the post-Cold War world, the United States may have no choice but to downsize some of its more ambitious universalist leanings. But even the achievement of more modest goals will depend upon a more thoughtful effort to strengthen global governance and address the serious financial crisis that renders many of the existing international institutions ineffective in supporting democracy and economic development. The measures recommended above will help strengthen global governance: a new NATO-Russian understanding concerning order-keeping in Eurasia; the development of multilateral forums aimed at introducing the seeds of regional governance in Asia; and augmented international financial institutions to insure long-term capital flows to developing countries.

Yet these measures will be of limited benefit if America does not also address the fiscal crisis question that has led to the underfunding of many international public goods and functions, from the global environment to international development assistance. If the United States is serious about a workable world market economy, it will need to find new ways to augment existing public financing, not only to deal with

world underinvestment but to create a global safety net against the risks associated with world market integration.

One obvious place to begin is to shore up the existing system of national assessments, by getting other rich countries to increase their share of the burden in financing the United Nations as well as the IMF and World Bank. Striking a bargain with Japan and the Euro-zone countries, whereby the United States gives up some of its control of these institutions in return for an increase in their contributions is one way of doing this. Sacrificing some formal control for the sake of having a stronger IMF and World Bank is a reasonable compromise, especially since it should not be beyond Washington's ability to build an effective coalition within these organizations on the issues that most directly affect American interests.

Beyond this, it is time to recognize that we can no longer afford to rely exclusively on a system of "voluntary" national contributions and assessments. Calls for wealthy countries to increase international development assistance have largely gone unheeded over the years, except by the most internationalist-minded middle powers, such as the Scandinavian countries, and even they have reduced their support in recent years. If international agencies are to have the resources they need to address critical transnational problems, we will need to move to something approximating a system of global taxation that does not rely exclusively on the kindness of national governments but which is still controlled by them.

A world market economy depends upon the development of something akin to a global society, and no society can function without a reliable source of revenues for public purposes, which is why all civilized societies have a reliable tax system. This is undoubtedly a difficult proposition for a tax-averse nation that jealously guards its sovereignty to accept. But it is no longer tenable for the American political class, including its new economic elites who have enriched them-

selves through the global market, to extol the virtues of a new global, indeed borderless, economy, and at the same time oppose financing the political infrastructure needed to make it work.

In fact, our goal should be to move to a system of world public financing that rests on three legs, not one. The first leg of such a system—that of annual national assessments to the United Nations and its specialized agencies and paid-in capital to the international financial institutions—can and, of course, must be improved. But future efforts to shore up world public finances must also begin to develop two other legs—a second leg of "sin" charges for the use of the world's commons and a third leg involving the introduction of world transaction taxes.

More specifically, the second leg of the triad derives from the notion that both governments and private actors should be charged fair market value for the use of assets that the world's nations and peoples already rightfully own in common but for whose use they are not in any way compensated. These common assets include the oceans, the seabeds underlying them, the atmosphere, and space. There are, for example, any number of sensible proposals for the auctioning off of global carbon emission permits and for setting up a system for the trading of these permits. The revenue from such auctions and a tax on the trading of permits could thereafter produce sizeable streams of revenue for environmental protection and development purposes. So could a new system for auctioning off space for satellite use. By charging fair market value for the use of these common assets, the world community could generate the revenues now lacking for a number of unmet world public needs.

The third leg of the triad would involve the introduction of transaction fees or taxes, which are simple and easy to implement since they can be collected automatically when exchange across national borders takes place. Such a global transaction fee on international air travel already exists and goes to

fund the International Civil Aviation Organization, which provides for air traffic safety.

A Global Flat Tax

Another type of transaction fee would be an extremely modest tax on currency movements, as originally proposed by the Nobel Laureate economist James Tobin and recently taken up by the French and Canadian governments.² A modest tax of, say 0.1 percent, would be so small as to have virtually no effect on capital flows but large enough, given yearly currency exchanges of more than \$500 trillion, to yield substantial resources—\$500 billion—for international development, security, and environmental purposes. Indeed, even this modest tax would yield more resources than all the international agencies now command.

Think of it as a global flat tax, if you like. Banks, foreign currency dealers, and transnational corporations that engage in large-scale currency hedging operations will, of course, object. But such a global flat tax is both fair and practical. It is fair in two senses. First, all currencies and companies, regardless of nationality, would be treated the same. A fee on currency transactions might increase the cost of doing business somewhat, but it would not favor one group or nationality over another. It would also be fair in the sense that those who benefit most from the world economy and world trade and investment—large transnational corporations and global investors—would pay the greater share of the tax. (To insure that the tax does not adversely affect individuals, transactions under \$10,000 could be exempted.)

A global flat tax would also be practical in that it would be easy and relatively inexpensive to collect—much more so than the corporate income tax or even normal tariffs on internationally traded goods. The \$1.5 trillion traded on the world's currency exchanges each day is transacted on the world's most sophisticated data network. Technically, such a tax would therefore be rela-

tively easy to collect through the computer systems of regulated and licensed banks and financial houses that make and record each trade. Financial institutions engaged in foreign exchange trading would be required to transmit proceeds to their respective governments for transfer to the United Nations and other international agencies, much as stores are required to account for sales-tax revenues. Corporations that try to circumvent the tax by using unauthorized exchanges would do so only at their own peril and financial risk.

With such a modest tax rate, the global currency markets would hardly be affected. If the tax worked to dampen some of the more speculative trading of currencies, as some of its advocates hope, that would also be all to the good, in light of the interest in putting in some speed bumps in the way of hot capital flows.

No doubt, as suggested earlier, these ideas will meet with a great deal of resistance from special interest groups in the United States. Yet as both the principal laggard in the support of international institutions and the country with perhaps the greatest interest in world order, the United States has, ironically, the most to gain from such ideas. Plus the most to lose if they are not pursued, for at some point the hypocrisy of the current American position—of arrogating to itself a position of world leadership but refusing to pay for it—will be revealed for all to see, undermining America's international credibility.

Towering Less, Accomplishing More

In some of the most memorable oratory of the post-Cold War world, Secretary of State Madeleine Albright said that "this nation stands taller, and sees further" than other nations. It was a wonderful image, but it may have been better had the United States not towered quite so much above others in this period. For there has been a certain arrogance and recklessness in the way it has sought to bluster into existence a borderless

world economy and the global rule of law that has not served either American interests or the cause of world order.

People everywhere came to believe in this image of America—Bosnian Muslims, Albanian Kosovars, Russian liberal democrats, Brazilian bankers, Korean factory workers. Some were seduced by Washington's promise of rescue, others by our magic formula of prosperity, others still by our fast-paced throwaway culture. Some died for believing in that image; others merely lost their homes and their livelihoods. Many are now bitter and disillusioned about the world that America promised but could not deliver.

Indeed, the world order America has wanted—a world that is brought into being by American command without American sacrifice and compromise—does not exist. And the world order that lies ahead is full of even greater compromises and sacrifices. The United States can still have much of the world order it wanted at the beginning of the post-Cold War era. But it is going to require a different way of operating, a different way of leading, and above all a much better sense of what is truly important and what is merely a product of our narcissism. It will require leadership on our part that is

steadily engaged, that can build and sustain broad coalitions of states, that can put aside immediate American advantage for the sake of international consensus, and that is willing to pool some of America's sovereignty in the institutions of global society even when they do not work as effectively and efficiently as we would like.

We are not prepared for such a world—that is clear. But, then again, neither are we prepared for the world as it is, a world we have helped to bring upon ourselves as a result of our failed policies in the post-Cold War world. ●

Notes

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1. This discussion draws upon the author's article, "Clinton's World Order," *The Nation*, February 16, 1998.

2. This section relies upon the author's article, "The Case for a Global Flat Tax," *The Nation*, May 13, 1996.