

# The Changing Liberal World Order and Implications for U.S. Policy

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by R. M. Huffstutler

Let me begin by reminding you that the “liberal world order” we are discussing today refers to an international code of behavior. It has nothing to do with “liberals.”

After World War II, the U.S. emerged as the least damaged and most powerful country in the world. To avoid future conflict, the U.S. sought to establish a liberal world order that would help nations recover, for example, the Marshall Plan, and to nudge them toward a rules based international order through membership in multilateral institutions like the United Nations. I am going to propose to you this morning that we are in the midst of a “paradigm shift,” a fundamental change in this world order we have known. It is the result of 1) successful policies of the past that have made the world a different place, 2) the impact of technology and climate and 3) changing public attitudes in the U.S. and abroad. To make this discussion manageable, I propose we focus on three areas: security, the world economy and cultural stresses. Then we will explore the implications for future policy.

## Security

With the rise of the Soviet Union, the U.S. sought security and stability through alliances like NATO. Some have referred to the post-war period as the “Pax Americana,” but that is certainly a mischaracterization as major wars were fought to contain Soviet and Communist expansion. Korea and Vietnam are cases in point, but few realize that over a hundred “proxy wars” pitted Western against Communist interests. These include the Greek Civil War of the late 50’s, a 12 year conflict in Malaya in the 50’s, and the 1960’s war in the Congo. For all the conflicts, however, the policy of containment worked. The Soviet Union weakened during the 1980’s and collapsed in 1991. There was no nuclear war. The U.S. emerged with unparalleled power and global influence. For example, President George H. W. Bush expelled Iraq from Kuwait in a matter of days during Operation Desert Storm. President Clinton used diplomacy, air power and the threat of an invasion to end Serbian aggression in the Balkans. Following 9/11, President George W. Bush ousted the Afghani Taliban in a matter of weeks and defeated the Iraqi Army in a matter of days. Some were critical of these operations, but no one was unimpressed.

Since the fall of the Soviet Union, NATO has added new members but undergone 25 years of combat downsizing. German troops, for example, declined from a half million to current levels of 182,000, their tanks from 3,000 to 325. But if NATO forces have hollowed, so have Russian forces, considered by the numbers the second most powerful in the world. But the combined military expenditures of Germany, France and Italy are twice those of

Russia, and this directly influences force effectiveness. An outright military attack against NATO by Russia remains unlikely, although covert operations like we saw in the Ukraine, and cyber attacks are probable.

The changing political relations between NATO members are corrosive. Recent statements indicate that nationalism and the centrifugal forces away from multilateralism mean there will be no return to an American dominated past. Seventy percent of Germans see no Russian threat and three times more Germans trust Putin than Trump. Germany rejected without debate a recent U.S. request to send ground forces to Syria. France and Germany declined to join the U.S. in sending naval escorts to the Persian Gulf. It is going to be hard to recruit NATO members to participate in future peacekeeping missions.

Since Afghanistan and Iraq, American voters have become frustrated and impatient after years of military effort, huge expenditures and persistent “nation building” have failed to reorient ancient cultures toward more Westernized practices. A recent poll confirmed that voters want a less aggressive foreign policy — they are “risk averse.” Noteworthy was the finding that half of our foreign policy experts saw the U.S. as indispensable to maintaining world order, but only 9.5% of the public felt the U.S. has a responsibility to solve other people’s problems. This is a huge gap between policy makers and their constituents.

With the rise of China, U.S. security concerns are “pivoting East” toward Asia and the South China Sea, through which passes half of the world’s maritime traffic. The U.S. has numerous security commitments in this area, including those to Japan, South Korea, Taiwan and the Philippines. Increasingly, we face power projection problems, however, due to weapons technology improvements and geopolitical basing constraints which must be added to the new “risk averse” attitudes of the American voter.

China claims most of the South China Sea and has been developing fortified atolls in the Spratly and Paracel Islands despite an international tribunal ruling that China has no historical rights to the claims it was making. Harassment short of an act of war, such as ramming foreign vessels with fishing boats, is the standard Chinese practice to enforce their claims in disputed territory.

In the event that conflict with China occurs, the U.S. has dwindling military options in the area due, in large measure, to the development of Chinese anti-ship missiles. Let’s look at some graphics. (Vugraph of Fiery Cross Reef) Fiery Cross Reef is a fortified atoll with a 10,000 foot runway and anti-ship missiles. (Vugraph YJ-12) The YJ-12 is an anti-ship cruise missile that has a range of 250 miles and can perform evasive terminal maneuvers which make it difficult to intercept. (Vugraph YJ-12 Coverage) This shows its coverage of the South China Sea. Even more worrisome is the Chinese DF-21D “carrier killer” anti-ship medium range ballistic missile deployed near the coast. (Vugraph DF-21D) This is an 1100 mile land mobile system guided to its target by satellite and over-the-horizon radars. It has a maneuverable warhead for high-G terminal approaches and is said to present a challenging intercept for the Navy’s Aegis Defense System.

Since losing Subic Bay in 1992, the only naval basing options near the South China Sea are in Japan, Guam and Singapore.

North Korea's nuclear weapons have changed the strategic calculus in Asia. Over time, the perception that the U.S. may no longer extend its security umbrella over traditional allies in circumstances where it might be attacked or its Navy neutralized will translate into a loss of American influence as countries in the area adjust their relations with China.

There is no country that can supplant the United States as the preeminent superpower, but declining military leverage and declining voter support assure that the U.S. will no longer be the "world's policeman" and, in the future, will be less able to intervene to maintain stability.

## **The World Economy**

Where post World War II security policy was based on alliances and containment, economic policy was based on multilateralism and free trade. The U.S. sought to reduce trade barriers and enhance stability by imposing rules based behavior on trading nations. Examples are the World Bank, established in 1944, and the General Agreement on Tariffs and Trade which was superseded by The World Trade Organization in 1995. Economic globalism led to major investment and technology flows to recovering and underdeveloped areas. Manufacturing in low wage areas brought new sources of wealth to poor peoples. (Vugraph on World Income Distribution) Even though the benefits were not evenly distributed, the decline in poverty is a tribute to the power of rules based international behavior. (Vugraph on Decline in Poverty)

But within these successes lie the seeds of our discontent. Technology transfer and manufacturing migration have benefitted low wage areas but besieged our industries like textiles, metals, cars and appliances. And many countries, including Europe, Canada and the U.S. benefit from rules based commerce while creating barriers to their own markets to protect favored industries like agriculture. And, some countries have manipulated the system. For example, during the past two decades, about 20 countries including China have purchased U.S. government bonds and securities in order to drive up the value of the dollar and make their own exports more competitive. It is the primary reason America's trade deficit soared, wiping out almost five million manufacturing jobs. Since 2014, China and others have relented, but huge foreign private investments have raised the dollar by 20%, attracting cheap imports and creating a huge trade deficit. Clearly, something has to change.

U.S. trade policy has moved from the conciliation of the post World War II period to a policy of intimidation and self interest. In the world of global economics, the U.S. has immense leverage. The U.S. has the world's largest economy, is the largest importer, the second largest manufacturer — 8.5% of our workforce is in manufacturing — and we are the second largest exporter. The dollar, the currency of the strongest economy, is the dominant reserve currency. Two thirds of the world's reserve assets are held in dollars. The U.S. uses

two primary weapons in trade conflicts: tariffs to redress the terms of trade and sanctions to punish unacceptable political behavior.

The logic of tariffs is that they reduce the cost advantage of producing in low wage areas and facilitate or protect domestic production. Once imposed, however, they often hard to dismantle. The “chicken tax,” for example, was a 25% tariff imposed on light truck imports to force others to import American frozen chickens. It was implemented in 1963 and is still in effect today.

Tariffs can have perverse effects. Businesses will have to treat them as costs and eventually pass them along to customers. For example, China provides 42% of our apparel and 73% of our appliances, much of it through “big box” stores like Walmart. Tariffs have alarmed retailers who are already battered by on-line sales. In 2019, they have announced plans to close 7,000 stores in addition to the 6,000 closed last year. Retailing accounts for 5 million jobs, many of them unskilled, and 12% of the U.S. labor force. Tariffs are not likely to cause businesses to repatriate and provide alternative employment. A recent survey by the American Chamber of Commerce in China found that 40% of U.S. businesses planned to leave China but only 6% planned to repatriate. Most were relocating to other low wage areas not subject to tariffs. The net effect is likely to be higher costs to consumers and money flowing away from the poor.

Sanctions to change behavior have relied on the centrality of the dollar in global trading and the threat of exclusion from the U.S. market and financial system. It has been used against Russia, Iran, Turkey and North Korea, among others. Sanctions have been effective in causing economic pain, but they have not changed aggressive behavior.

Even if the current trade war is settled, there can be no return to the status quo ante. Attitudes and perceptions have changed irrevocably, trust has been lost, and even our friends no longer regard American power as lasting, reliable or accommodating. Nor are multilateral institutions like the World Trade Organization or the United Nations seen as effective. I believe we can predict some major changes.

First, I expect the international economy to drift toward new trading alliances. China is already advanced in becoming the preeminent power in the Far East. It will be the world’s largest domestic market, has expanded its trade with Russia, a major energy source, and advanced its overseas port and infrastructure initiative — “One Belt One Road”—across Asia and Africa to assure markets, resources and influence. It is also trying to internationalize the renminbi and challenge the status of the dollar as a reserve currency. But, China also has weaknesses. It does not have a respected rule of law, the reason for the current Hong Kong riots. This undermines entrepreneurial innovation and contributes to the current private capital flight from China. It faces its own competition from low wage countries like Vietnam and India. And, Communist Party obsession with control may well undermine the trading and financial power they now enjoy in Hong Kong.

The Euro Zone is likely to become a major trading bloc and has just signed the Trans Pacific Partnership with Japan, allowing European agricultural products into Japan’s tightly controlled market. The Euro controls about 20% of the world’s currency reserves and has

major import and export markets. Internal discord within the European Union, including Britain's exit, make it difficult to coordinate unified economic policies.

The United States/NAFTA countries are another trading power. These countries are proximate, have high levels of economic interaction, enjoy access to the huge U.S. market and the stability of the dollar.

These trading blocs are likely to take exclusionary actions against each other which will disrupt the trading architecture of the past, lead to greater costs and slower economic growth. Wages will grow more slowly, and, because poor countries lack leverage, poverty and world income disparity is likely to grow. The strains that the "liberal world order" was built to alleviate are likely to increase.

Tariffs and technology will lead to additional business concentration as companies ally to confront the enormous costs of developing tomorrow's technology and deploying tomorrow's products. This is happening now as companies combine efforts to develop 5G networks and self driving cars. Companies already partnered include T Mobile and Sprint, Ford and Volkswagen, and BMW, Jaguar and Google. Cartels formed to compete in the world market are difficult to regulate later. Note the ongoing U.S. and European antitrust actions against the "Big Tech" media companies like Microsoft, Google and Facebook.

## **Cultural Issues**

Regardless of current or historic numbers, a country has too much immigration when there is a significant backlash from the native population. We have reached that point. So has Europe and areas as far away as Bangladesh where Hindus are attacking Rohingya refugees. To address this issue, we have to understand both the supply and the demand sides of immigration, even though we read almost exclusively about the influx.

The "push" to immigrate is to escape from violence and conflict to safety and stability, or to escape from stagnation and poverty to better opportunities. A recent report by the United Nations refugee agency counts the number of people displaced by conflict as the highest since World War II, over 70 million people, 60% more than a decade ago. South Asia and Africa produced two thirds of these refugees, most of whom sought refuge in adjacent countries. But those who could manage it, including Africans, Syrians, Venezuelans and Central Americans, headed for Europe and the U.S.

Add to those who are escaping violence and poor governance the many who are displaced by changing weather patterns, drought and warming oceans. A U.S. survey of the migrant caravans arriving at our southern border last fall found that two thirds come from poor rural areas where crops have failed. Droughts are a major problem in Central America, Brazil, Argentina, West Africa and India. And, warming seas across the globe threaten the fishing for a billion people who depend on it for their livelihoods. This will not be a short term problem.

The "pull" for immigration comes largely from the declining native populations of industrialized countries. To offset a declining work force, women and migrants are

increasingly hired. There are also a number of jobs that Americans don't want, such as picking produce. Moreover, there are long standing demands for selected professional workers like doctors. Finally, there are many trying to reunite with families that reside in the U.S.

As the rules based economic and political order yields to nationalism, violence and pressures against democracy, and as poverty increases due to economic realignments, climate change and poor governance, the primary victims will be the poor and their human rights.

### **Likely Policy Battles in Washington**

Military vs. Entitlements: The reluctance of voters to use the military to keep the peace, the growing costs of health services and a looming social security funding crisis during the next 15 years assures a reduction in Military spending to accommodate entitlements. (Vugraph on Federal Budget) About 70% of the Federal Budget is mandatory spending, including interest on the national debt. If the cost of combat operations like Afghanistan, and other defense related costs are added to the DoD Budget, only 30% of the remaining discretionary funds, less than 10% of the total Federal budget, covers civilian programs like education, transportation, justice, natural resources and the environment. Total U.S. military spending is ten times that of the next 10 largest foreign military budgets combined!

Nuclear Proliferation: Declining faith in the U.S. security umbrella, nuclear programs in North Korea and Iran and the lack of anti-missile defenses will move countries like Japan and Saudi Arabia toward a nuclear deterrent.

Income Inequality and the Tax Structure: Protectionism will lead to higher prices at home and smaller markets overseas. This will slow economic and wage growth. Jobs for low skilled workers in retail will decline. Money will flow away from the poor requiring a new look at Welfare Reform. Social unrest will lead to a demand for more taxes on higher incomes.

Education and Training: A shrinking market for unskilled labor and the pressure of new technology will accentuate the need for skill development programs.

Shrinking Workforce: The need for foreign workers to augment the shrinking native workforce and to support large entitlement programs will put a premium on getting control of immigration. The need for labor will draw more women into the workforce leading to growing pressure for Federal support of day care programs.

## Which Way Would You Lean?

Voters are not asked to support overarching questions, e.g. “Do you favor world peace.” Rather, their support is sought for specific legislation. Given the broad trends we have discussed, these are examples of questions that might arise during future policy battles:

1. Should the U.S. intervene with Myanmar over the Rohingya genocide?
2. Would you support a reduction in the trillion dollar modernization of the U.S. nuclear Triad to preserve conventional military capabilities?
3. Would you support Federal regulation of the internet to provide improved cybersecurity, safeguard privacy and protect technology?
4. Would you amend the Communications Decency Act to make websites responsible for the content on their sites, e.g. hate speech and election interference?
5. Would you support the introduction of an unforgeable National Identity Card as part of immigration reform?
6. Would you support an end to Federal educational standards and revert to state norms?
7. Would you reinstate the tax deduction for union dues to encourage wage growth?
8. Would you support Federal expenditures for day care?
9. Would you support Federal investment in artificial intelligence research to assure U.S. preeminence in a future technology?