



SPEECH

America's Role in the World

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AMERICA'S ROLE IN THE WORLD

CHECK AGAINST DELIVERY

Over the last several years, many have wondered whether the United States remains willing to play its traditional role in maintaining world order. “Nation-building abroad” has been replaced by “nation-building at home.” Many fear the return of American isolationism.

This debate on America's role in the world is not really new. Within the United States, it has been an ongoing national conversation of varying intensity for decades. And it is a good thing. For it helps ensure that America uses its power and influence wisely. But regardless of what you read in the press, it is my view that the United States will not retreat from its global interests and responsibilities.

This evening I want to discuss three important aspects of America's role in the world today: America's role in the world economy, the future of American global leadership, and how future challenges will require America to lead in a different way.

AMERICA'S ROLE IN THE WORLD ECONOMY

The relative economic decline of the United States is an undoubted reality. But it is also not a surprise. It is less a function of American decline than the growth of the global economy particularly in the developing world. For the first time in 200 years, most of the global economic growth is occurring in the developing world.ⁱ In 1990, just

14% of cross-border flows of goods, services, and financing originated in emerging economies.ⁱⁱ Today, nearly 40% do.ⁱⁱⁱ This trend has resulted in the growth of the global middle class and the movement of hundreds of millions of people out of poverty. This is a very good thing indeed.

Most people are focused, of course, on the growth of the Chinese economy. As recently as 2000, the GDP of China was 1/10 that of the United States.^{iv} Today, just 14 years later, the two economies are nearly equal.^v Measuring gross domestic product using purchasing power parity (PPPs), the IMF now estimates China's GDP at \$17.6 trillion, against the US's \$17.4 trillion.^{vi} But in absolute terms, the U.S. economy is still almost twice the size of China's: in 2013, the U.S. had a GDP of \$16.8 trillion while China had a GDP of \$9.24 trillion. And when measured in terms of GDP per capita, the U.S. economy is at \$55,000 per capita and China's GDP per capita is at \$13,000. This reflects the fact that China is both a developed economy and, at the same time, one of the world's largest developing economies. So far, the world economy – particularly Australia and the United States – have benefited greatly from Chinese economic growth. This is likely to continue to be the case for some time.

And the U.S. economy is likely to continue for the foreseeable future to be a major force not only for global economic growth and innovation but also for global economic stability. When uncertainties emerge in the global economic picture, it is in U.S. Treasuries and the U.S. equity markets that global capital seeks refuge. And a number of

factors favor the future growth of the American economy. Let me mention just two of them: America's energy boom and its ability to attract talent from every corner of the world.

First, let's talk about energy. Less than a decade ago, as you might recall, energy was a big challenge for the United States.^{vii} But since then there has been a boom in domestic U.S. oil and gas production due to the exploitation of shale oil and shale gas deposits through horizontal drilling and hydraulic fracking. In 2013, the United States overtook Russia as the world's leading producer of oil and gas.^{viii} Within two years, it is likely to surpass Saudi Arabia as the world's largest crude oil producer.^{ix} As a consequence, U.S. imports of oil and gas have fallen steeply in the last 5 years, helping to reduce the U.S. trade deficit.^x Indeed, the United States will soon be a net exporter of energy.^{xi}

The second strength of the U.S. economy is the country's edge in human capital--the productivity, innovation, and entrepreneurship of its workers. The United States remains the top destination for smart, skilled, and creative individuals even as the global competition for such workers intensifies. According to a 2010 Gallup study, almost a quarter of the world's adults looking to emigrate list the United States as their ideal destination.^{xii} And once they arrive, these immigrants make an enormous contribution to innovation and growth in the American economy. A Harvard Business School study found that American immigrants of Chinese and Indian descent accounted for 15% of U.S. domestic patents in 2004, up from just 2% in 1975.^{xiii} The

Brookings Institution has estimated that a quarter of technology and engineering businesses started in the United States between 1995 and 2005 had a foreign-born founder. Immigration is thus a great source of America's economic strength.

THE FUTURE OF AMERICAN GLOBAL LEADERSHIP

Today, every country is consumed by its own internal problems. In the United States, you see a neo-isolationist trend on both the political left and the political right. This trend is not unusual after periods of international exertion: the War on Terror, including wars in Iraq and Afghanistan, and the global financial and economic crisis. In circumstances such as these American presidents must make the case to the American people that U.S. global leadership matters and provides essential benefits to American security and well-being. If they do not do this then Americans begin to turn inward and America begins to appear to the world to be disengaging and growing less interested in global leadership.

Objectively, America still has what it takes for global leadership.

It still has the world's largest economy in absolute terms and in terms of per capita GDP, and is growing faster than Europe. The shale-oil, shale-gas energy revolution is projected to add 4% to U.S. GDP and 1.7 M jobs by 2020.^{xiv} The energy boom is reviving U.S. manufacturing. Jobs are now being "in-sourced" to the United States that used to be "out-sourced" to the rest of the world.^{xv} The American economy has the world's most innovative and entrepreneurial culture.

Some 70% of global venture capital is centered in the United States--\$33.1 billion out of a global total of \$48.5 billion.^{xvi} And this culture of innovation is supported and enabled by the world's best university system.

American diplomacy has sometimes been criticized as either overbearing or inept – and sometimes both at the same time. But it still seems to be the essential engine for getting the international community motivated and organized to address any given global challenge. And that diplomacy is backed by the most proficient, technologically advanced, and expeditionary military in the world.

The truth is there is no real alternative to the United States as the global leader. China doesn't want the role. It would only divert its focus from its own development challenges. And to be frank, China would not be trusted by many countries -- particularly in the Asia-Pacific -- to be *the* global leader.

Europe, the other logical alternative, is not really an option either. No single voice speaks for Europe. The European Union's potential for leadership is hampered by the need to reach consensus among 28 separate nations. And Europe is consumed by its own internal "wither Europe" debate – to become more integrated or less integrated; to add new members or become a "two-speed" Europe that effectively leaves some of its members behind.

The issue is really a subjective one: does America still have the will to lead?

I think so. I believe that, in retrospect, America's recent seeming reluctance to engage internationally will be seen as an historical anomaly and will be followed by a return to a more traditional understanding of America's role in the world and how to wield its power and influence in support of American leadership. And in contrast to some periods in the recent past, most of America's friends and allies in the world are arguing not for less U.S. global leadership but more.

I think America will return to global leadership because, ultimately, it is in its interest to do so. You already see this beginning to happen in some key recent decisions by President Obama: on the terrorist threat posed by the Islamic State of Iraq and Syria (ISIS), and on the global fight against Ebola.

On Iraq and Syria, the Obama administration's new strategy is a work in progress. We are in the early days of the effort. But overall, what you see emerging is a smart, coherent approach meant not only to degrade and defeat ISIS, but also to address the broader challenge of stabilizing Iraq and Syria.^{xvii}

The strategy reflects a phased approach. We cannot roll back much less defeat ISIS without ground forces. And the only substantial ground forces available today to fight ISIS are in Iraq – Kurdish

Peshmerga, Iraqi Security Forces (ISF), and Sunni tribal forces soon to be organized as Iraqi National Guard units. But before these forces will engage effectively against ISIS, they need at least two things.

First, they need an Iraqi government for which they are willing to fight. So the administration is trying to create a truly inclusive government with full participation by Sunni, Shia, and Kurds. This is essential to motivate Iraqis from all sectarian groups to enter the fight against ISIS.^{xviii} And that government must also respond positively to the demand of these three communities – and various other groups – for more autonomy and control over their local affairs. This formula – national unity but local autonomy – is the essential prerequisite for bringing lasting stability to Iraq after ISIS is expelled and defeated.

Second, for the various Iraqi groups to rise up against ISIS, they need confidence that they are going to win. As we have already seen, ISIS is prepared to conduct brutal beheadings and mass killings to punish those that would defy its rule. The Iraqi Sunnis in particular will not fight ISIS without the reassurance of active American military support. They had this in 2007-2008 during President Bush's "surge" of additional American ground forces into Iraq. With this support they rose up and expelled Al Qaeda in Iraq (the predecessor of ISIS) from Iraq's Anbar province.

For various reasons, the days of a major U.S. and allied ground forces deploying to Iraq are past. But the United States and its allies can provide intelligence, training, combat air support, logistics, and – most

importantly – Special Forces embedded with the various Iraqi forces to provide tactical operational support and to call in air strikes.

Once Iraqis come together to rid their land of ISIS, they will have to address their remaining differences and build a stable, secure, and prosperous society able to meet the needs of all Iraq's people. This effort will require the support of the United States and its friends and allies in the region and beyond. And it is in our interest to provide such support. For only in this way can we ensure that Iraq does not become once again the home to terrorist groups threatening the stability of the region and ultimately the homelands of all of our countries.

While conducting operations against ISIS in Iraq, in Syria the Obama administration's focus will be on U.S. and allied air strikes against ISIS forces there. These air strikes are needed to deny ISIS in Syria a safe haven from which to support its operations in Iraq. These air strikes will also buy time and space for arming and training vetted Syrian opposition elements ready to fight not only the Assad regime but also Islamic terrorists like ISIS.

After a year or two of success against ISIS in Iraq, and of building a Syrian opposition army, we can expect ground operations against ISIS elements in Syria to pick up significantly. Ultimately, I believe air strikes and ground operations will also have to be conducted against the Assad regime. Only in this way can we set the conditions for a political resolution of the Syrian civil war: an interim government

formed of elements of the Syrian government willing to break with the Assad regime and to join with Syrian opposition elements. This interim government can then begin to bring down the violence in Syria, fight more effectively against ISIS and other terrorist groups in Syria, and oversee a political dialogue among all elements of Syrian society to chart a future course for the country. Here again, a major effort will be required from the international community to help the Syrian people stabilize and rebuild the physical and social infrastructure of their country.

This may all seem like a long shot. But I do not see any alternative if we are ever to see a stable Middle East that is not an incubator of terror.^{xix}

As to the Ebola crisis, President Obama has also shown new leadership. The World Health Organization fears there will be up to 10,000 new Ebola victims a week by December of this year. Perhaps 70% of these victims will die. Experts are calling this epidemic, “the most severe acute public-health emergency in modern times.”^{xx}

Now that the world has awakened to the danger, the challenge is to stop the death toll from reaching hundreds of thousands, if not millions. This is feasible only with sustained international commitment and collaboration – something that has so far been tragically lacking. While again somewhat belatedly, President Obama has put the United States squarely in the lead of international efforts to meet the grave challenge of Ebola.

HOW FUTURE CHALLENGES WILL REQUIRE AMERICA TO LEAD IN A DIFFERENT WAY

As America again steps forward to lead, it does so in a very different context. The world has changed.

The end of the Cold War did not mean the end of history. It did not establish the Western paradigm of liberal democracy and a market economy as the sole model for organizing society. After the dramatic progress in Central and Eastern Europe following the collapse of the Warsaw Pact and communism, we have recently seen a turning away from these principles in countries like Hungary, Slovakia, and the Czech Republic. The celebration of freedom and democracy that swept the Arab world in 2011 quickly soured and has given way to chaos and insecurity on the one hand, and a return to authoritarianism on the other. From the heady days after the Cold War, freedom and democracy seem to be in decline.

In addition, at least two competitor paradigms have emerged.

The first is authoritarian state capitalism, seen today in China and Russia. While both countries have introduced elements of a market economy, private companies there operate side-by-side and at a significant disadvantage to state owned entities (SOEs) favored by government regulators. This mixed economy is not paralleled on the political side. What is emerging is an increasingly authoritarian political system with decreasing space for civil society, free media, and dissent. This model is attractive to authoritarian leaders around

the world who see it as way to maintain power while still growing their economies.

The second alternative is even more forbidding. This is the vision of the world presented by Islamic extremists—those who use extreme violence to achieve the goal of totalitarian political and economic control in the name of Islam. This vision finds its most virulent expression in the territory of Iraq and Syria now occupied by ISIS.

So Western values and institutions based on freedom, democracy, human rights, and market economics must now compete for adherents on a global basis. This is a big challenge not only for the United States but also for Australia -- and all of our friends and allies who have built their societies on these principles. A key to succeeding in this competition will be for all of us -- particularly the United States -- to reestablish the vitality and attractiveness of democratic values and institutions in our own countries. To do this we must solve our political gridlock and show that democratic politics can affectively solve serious social problems. We must demonstrate that market-based economies are best suited to lifting people out of poverty and providing economic well-being for all of society.

Only in this way will be we able to defeat the siren song of authoritarian state capitalism or the brutal romanticism of the Islamic extremists.

In addition to this ideological competition, we are also seeing a diffusion of power and competition at the nation state level. This competition comes not just from Russia and China, but also from emerging countries like Brazil, India, Indonesia, and the other ASEAN states. These states are also beginning to organize themselves into structures outside of and somewhat in competition with Western political and economic institutions – organizations like the Shanghai Cooperation Organization (SCO) and the BRICS (Brazil, Russia, India, China, and South Africa). At the same time, the challenges facing all of us are increasingly global: a weakened global financial system; inadequate global job creation; growing environmental damage; air and water pollution; potential health pandemics; food, water, and energy resources that are both insecure and inadequate to meet increasing future needs; terrorism; proliferation; transnational crime; and narco-trafficking.

So in a time of increased fragmentation and ideological competition, there is in fact a greater need for international cooperation and common effort.

Because of this changed context America, along with its close friends and allies in Europe and Asia, must lead in a different way. We must work with the states now emerging on the global stage to see themselves not as competitors with us but as potential partners in solving the security, economic, environmental, and social challenges we all face. This will require close cooperation among us. And it will require greater use not only of international institutions but also of the

various regional structures—economic, diplomatic, and social – that have emerged over the last few decades. And we must find a way to convince the SCO and BRICS institutions to see themselves not as competitors but as collaborators and partners with the rest of us.

The role of China will be key in this effort. Neither China nor the United States can solve global challenges by themselves. And both China and the United States need progress in meeting these challenges if they are to achieve their own objectives for the development and economic well being of their people. A way must be found for the United States and China to work together with the rest of the international community to meet the global challenges we face. Success in this effort will require the closest cooperation among the United States, Australia, and our friends and allies in the Asia-Pacific. And to a great extent, Australia is leading the way.

Thank you very much.

NOTES

ⁱ Have We Hit Peak America?" Elbridge Colby, Paul Lettow. July 3, 2014.
[http://www.foreignpolicy.com/articles/2014/07/03/have_we_hit_peak_america].

ⁱⁱ Ibid.

ⁱⁱⁱ Ibid.

^{iv} Ibid.

^v Ibid.

^{vi} Fray, Keith. "China's leap forward: overtaking the US as world's biggest economy," Financial Times, October 8, 2014,
[<http://blogs.ft.com/ftdata/2014/10/08/chinas-leap-forward-overtaking-the-us-as-worlds-biggest-economy/>].

^{vii} Have We Hit Peak America?" Elbridge Colby, Paul Lettow. July 3, 2014.

^{viii} Ibid.

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^{xii} Gallup Poll: <http://www.gallup.com/poll/127604/young-less-educated-yearn-migrate.aspx>

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^{xiv} <http://www.gallup.com/poll/160385/obama-rated-highest-foreign-affairs-lowest-deficit.aspx>

^{xv} <http://www.theatlantic.com/magazine/archive/2012/12/the-insourcing-boom/309166/>

^{xvi} <http://www.ey.com/GL/en/Services/Strategic-Growth-Markets/Global-venture-capital-insights-and-trends-2014>

^{xvii} "Assessing the Obama Administration's Iraq-Syria Strategy." Ken Pollack, The Brookings Institution, September 26, 2014.
[<http://www.brookings.edu/blogs/iran-at-saban/posts/2014/09/26-pollack-assessing-obama-administration-iraq-syria-strategy>].

^{xviii} Ibid.

^{xix} Ibid.

^{xx} "The War on Ebola." *The Economist*. October 18, 2014.
[<http://www.economist.com/news/leaders/21625781-win-it-requires-much-larger-effort-west-africa-outside-world-has-so-far>]

ABOUT THE SPEAKER



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Stephen Hadley is the 2014 Telstra Distinguished International Fellow at the Lowy Institute for International Policy.

Stephen Hadley is a principal of RiceHadleyGates LLC, an international strategic consulting firm founded with Condoleezza Rice, Robert Gates, and Anja Manuel. RiceHadleyGates assists senior executives of major corporations in overcoming the challenges to doing business successfully in major emerging markets like China, India, Brazil, Turkey, and Indonesia.

Mr Hadley is also Board Chairman of the United States Institute of Peace (USIP). He has co-chaired a series of senior bipartisan working groups on topics such as Arab-Israeli peace, U.S. political strategy in Afghanistan and Pakistan, U.S./Turkey relations, and US policy on Iraq and Egypt.

Mr Hadley served for four years as the Assistant to the President for National Security Affairs from 2005 - 2009. In that capacity he was the principal White House foreign policy advisor to then President George W. Bush, directed the National Security Council staff, and ran the interagency national security policy development and execution process. From 2001 to 2005, Mr Hadley was the Assistant to the President and Deputy National Security Advisor, serving under then National Security Advisor Condoleezza Rice. In addition to covering the full range of national security issues, Mr Hadley had special responsibilities in several areas including a U.S./Russia political dialogue, the Israeli disengagement from Gaza, and developing a strategic relationship with India.

From 1993 to 2001, Mr Hadley was both a partner in the Washington D.C. law firm of Shea and Gardner (now part of Goodwin Procter) and a principal in The Scowcroft Group (a strategic consulting firm headed by former National Security Advisor Brent Scowcroft). In his law practice, Mr Hadley was administrative partner of the firm. He represented a range of corporate clients in transactional and international matters - including export controls, foreign investment in U.S. national security companies, and the national security responsibilities of U.S. information technology companies. In his consulting practice, Mr Hadley represented U.S. corporate clients investing and doing business overseas.

From 1989 to 1993, Mr Hadley served as the assistant secretary of defense for international security policy under then Secretary of Defense Dick Cheney. Mr Hadley represented the Defense Department on arms control and defense matters, including negotiations with the Soviet Union and then Russia, security issues involving NATO and Western Europe, and export and technology control matters.

Prior to this position, Mr Hadley alternated between government service and law practice with Shea & Gardner. He was counsel to the Tower Commission in 1987, as it investigated U.S. arms sales to Iran, and served on the National Security Council staff under President Ford from 1974 to 1977.

During his professional career, Mr Hadley has served on a number of corporate and advisory boards. He is currently the Chair of RAND's Center for Middle East Public Policy Advisory Board, chair of the Human Freedom Advisory Council of the George W. Bush Institute, a member of Yale University's Kissinger Papers Advisory Board, a member of the Executive Committee and Board of Directors of the Atlantic Council, a member of the Board of Managers of the John Hopkins University's Applied Physics Laboratory, and a member of the State Department's Foreign Affairs Policy Board. Other positions have included past service as a member of the Department of Defense Policy Board, member of the National Security Advisory Panel to the Director of Central Intelligence, and co-chair with former Secretary of Defense William Perry of the 2010 Quadrennial Defense Review Independent Panel.

Mr. Hadley graduated magna cum laude and Phi Beta Kappa from Cornell University in 1969. In 1972, he received his J.D. degree from Yale Law School, where he was Note and Comment Editor of the Yale Law Journal. From 1972 to 1975 he served as an officer in the U.S. Navy.

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