

COUNCIL *on* FOREIGN RELATIONS

# The Future of American Strategy

2026

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# Where Does American Strategy Go From Here?

by Rebecca Lissner

America's global role is more contested and uncertain than at any time since World War II. Abroad, the diffusion of power, intensification of borderless challenges, and attendant decay of the liberal international order have created a daunting international landscape for the United States to navigate. At home, meanwhile, Americans have expressed dissatisfaction with their country's role in the world for decades, and President Donald Trump has invited many to question whether traditional U.S. foreign policy has truly put "America first." And everywhere, revolutionary technologies seem destined to upend daily life and generate new threats, even as they carry great potential for progress.

The time is ripe for a fundamental reevaluation of American strategy—one that accepts the reality that there will be no going back to a business-as-usual foreign policy after this administration and that urgently seeks creative ideas for the future. That is why the Council on Foreign Relations (CFR) is launching the Future of American Strategy Initiative. With this ambitious, multiyear effort, we aim to answer the defining question: Where does America go from here?

To kickstart this conversation, we asked leading CFR scholars to explore the evolving strategic environment the United States will face over the next decade. Spanning American strategy, great power rivalry, global order, geoeconomics, and warfare, this collection traces the collapse of the postwar international order and the domestic consensus that once sustained Washington's leadership over it.

The world our experts describe is increasingly contested and competitive, with the rise of new power centers, ongoing geopolitical realignments, and a fragmenting global economy. It is a world shaped by structural disruptors—whether artificial intelligence, climate change, or demographic shifts—alongside diminishing capacity for international cooperation. As these forces converge, their effects compound, accelerating the pace of change.

Washington meets this world from a position of considerable strength. American power remains formidable across every major dimension: economic, technological, and military. But competitors are gaining ground, and these capabilities exist alongside domestic constraints: partisan polarization, a fraying social compact, weakened state capacity, and difficulties translating military might into victory. Any successful strategy must seriously confront these limitations, understanding that strength abroad depends on strength at home.

The essays that follow are only the beginning. In the coming years, CFR will convene diverse thinkers to generate fresh, ambitious ideas that address the challenges and seize the opportunities of the world to come. Critically, this work will not be confined to Washington or New York. We will travel across the country to better understand what the American people want from their country's global role and incorporate views from across the political spectrum—because a strategy that fails to account for the perspectives of the American people is neither prudent nor sustainable.

Reimagining American strategy for a rapidly changing world is not a quick or easy undertaking. It will require intellectual courage, honest debate, and contributions from many voices. We hope you'll join us.

# Between Two Orders

by Charlie Kupchan

As he sat in prison in 1930, at the opening of a fateful decade, the Italian political theorist and anti-fascist Antonio Gramsci wrote: “The crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms appear.”

Gramsci was writing about an earlier era, but he succinctly captures the essence of the dilemma at the heart of today’s debate over the future of U.S. grand strategy. The old world order is expiring, the next world order has yet to be imagined, and the resulting interregnum is producing a wide range of morbid symptoms.

Mounting rivalry between the United States and China, Russia’s war against Ukraine, a U.S.-Israeli attack against Iran that expanded into a region-wide conflagration, wars in Sudan and the Democratic Republic of Congo—great power competition is back, and major conflicts are afflicting many quarters of the globe. The interdependent and globalized markets that emerged after the Cold War are unraveling, falling prey to strategic decoupling and protectionist barriers. The world is becoming decidedly less free. Autocratic regimes are becoming more autocratic. And countries that were once thought to be stable democracies, including the United States, are stumbling and backsliding. Across much of the democratic world, the political center is not holding.

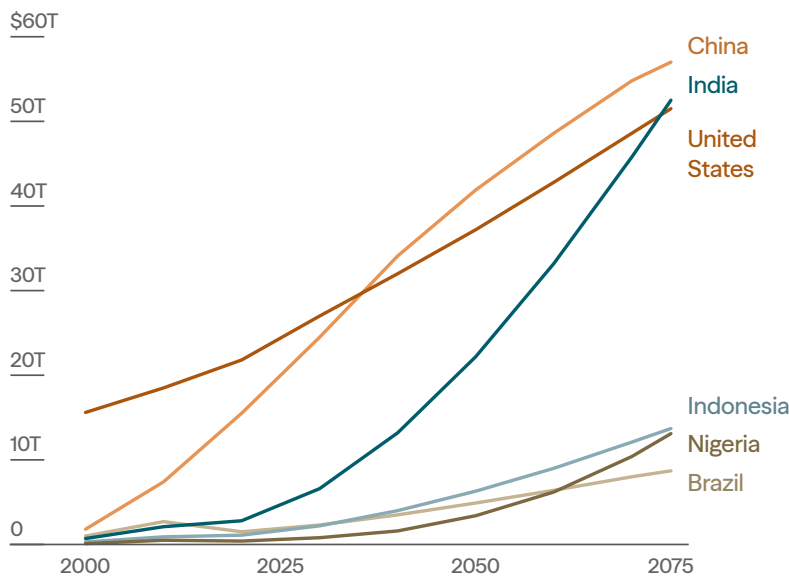
Those morbid symptoms, alongside other destabilizing developments, are the product of two tectonic shifts that are pushing the world into a Gramscian interregnum. One is a redistribution of global power that will end the West’s long run of material and ideological hegemony. After the Cold War ended, the economies of the United

States and its democratic allies accounted for almost 70 percent of global GDP. As the twenty-first century opened, the world’s top five economies were the United States, Japan, Germany, the United Kingdom, and France.

But power is now rapidly shifting from West to East and North to South. By 2060, the aggregate economic output of the Western democracies will total less than 40 percent of global GDP. During the second half of the twenty-first century, three of the world’s top four economies will likely be in Asia: China, India, and Indonesia. By 2100, more than 80 percent of the world’s population is expected to be African or Asian. At that time, Europe, whose great powers once colonized most of the world, is expected to represent around 10 percent of global GDP. A decentered and multipolar world lies ahead.

## The World’s Largest Economies in 2075

Projected GDP in constant 2021 dollars



Note: Chart includes the top six countries by GDP in 2075.

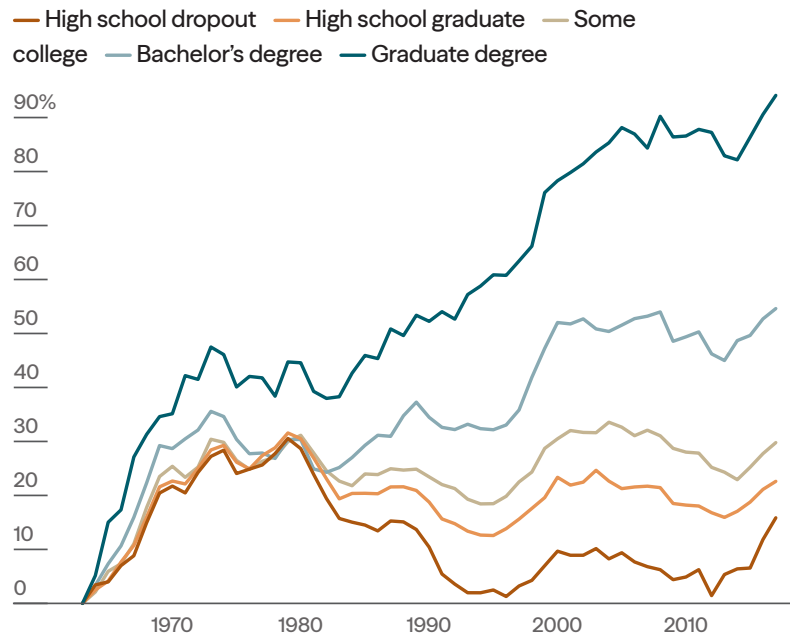
Source: Goldman Sachs Global Investment Research

The second tectonic shift is that the industrial age is rapidly giving way to the digital age, with automation and evolving technologies transforming labor markets and undermining the social contract of the industrial era. Although free trade has made matters worse, technological change is the dominant driver of the socioeconomic dislocation hitting the middle class and pushing workers from well-paid manufacturing jobs to low-wage employment in the service sector.

In the United States, many workers find it hard to make ends meet and see few opportunities for upward mobility. Inequality is also spiking; the richest 10 percent of American households now own over two-thirds of the nation's total wealth, while the top 1 percent holds 31 percent—only slightly less than the bottom 90 percent of all U.S. households. Those trends are dividing the country along socioeconomic, educational, and rural/urban lines. And the problem is poised to worsen. Initial evidence indicates that firms that integrate artificial intelligence (AI) into their operations reduce their overall numbers of employees, suggesting that widespread AI deployment will do more to displace the workforce than enlarge and enrich it. The advance of the digital age is thus eroding the broadly shared prosperity and the ideological centrism that long anchored U.S. democracy and steadied U.S. statecraft.

### Less-Educated Workers' Wages Have Stagnated

Percent change in real predicted weekly wages of U.S. working-age adults since 1964



Source: David H. Autor, "Work of the Past, Work of the Future"

President Donald Trump and his America First brand of statecraft are byproducts of those tectonic shifts. Trump's political ascent represents an electoral backlash against a U.S. political establishment that was badly mismanaging the diffusion of power and insufficiently responsive to the plight of the millions of Americans whom automation and globalization left behind. But even if Trump is adept at dismantling an old order that needs to come down, he is doing little to construct the order that comes next. His unilateralism, rather than channeling and shaping the diffusion of power, is setting allies and adversaries alike on edge, magnifying the centrifugal forces that are fueling international instability.

His tariffs are failing to bring home manufacturing jobs and are instead disrupting international commerce and exacerbating the affordability crisis facing working Americans.

If U.S. grand strategy is to meet the moment, it needs to focus on managing both of the tectonic shifts under way. Washington should look over the horizon and anchor the transition to a decentered and multipolar world. The next order will need to be pluralistic and explicitly facilitate cooperation across ideological and geopolitical dividing lines. Democracies will need to compete respectfully in the marketplace of ideas with countries that adhere to alternative forms of governance. China, Russia, and other autocracies will need to live comfortably alongside liberal democracies. All countries will need to tolerate differences over values and governance to

prioritize the wide-ranging cooperation needed to tame great power rivalry, arrest climate change, manage technological advance, and address other global challenges.

The second top priority for the United States is to design a new social contract for the digital age. Reindustrialization is a delusion. The promised manufacturing revival produced by tariffs and industrial policy will not even come close to employing a sizable portion of the U.S. workforce, most of which is already in the service sector. Instead, the United States and other deindustrializing democracies need to map out the future of work in the digital age and educate citizens for the jobs of the future. Rebuilding the middle class and reviving the political center is the starting point for revitalizing liberal democracy.

The comeback of liberal democracies would give them the functionality and purpose needed to anchor the transition to a new international order. A political recovery would also enable democracies to outperform autocracies when it comes to delivering for their citizens. At a time of immense geopolitical and ideological flux, democracies need to get their own houses in order if they are ultimately going to prevail against autocratic alternatives and again tilt history toward more freedom and justice.

# After Hegemony

by Gideon Rose

A Zen Buddhist teaching runs, “After enlightenment, the laundry.” You may suddenly rethink everything, looking at the world anew—but then you still need to live in it. Enlightenment does not change what you have to do; it changes how you experience doing it. Something similar could be said about the future of U.S. foreign policy: after hegemony, the laundry. Washington has decided it is fed up with the hassles and burdens of global leadership. But what does that actually mean for how it manages the system it uses to run the world?

Like all countries, the United States has material interests, seeking security and prosperity, but it also has ideological interests. From the start, it was understood to be both a country and a cause, a distinct national community and the standard-bearer of a global political revolution, working on behalf of liberty everywhere. In every era, therefore, American strategists have had a double challenge: figuring out how to pursue both the country’s material interests and its national ideals.

In the country’s youth, it seemed prudent to focus on protecting the revolution and perfecting the union. The aloof grand strategy that emerged, however, could work only because the United States was protected by geography and British naval supremacy. By the twentieth century, British power had declined, and the United States now dominated the Western Hemisphere, patrolled the oceans, and drove the global economy. American interests had once been served by keeping apart from the world. Now those interests called for engaging with it. But what kind of engagement was possible for a country built on a rejection of traditional amoral statecraft?

Over the course of the century, the answer gradually emerged, and it proved oddly familiar: export the logic of social contract theory from domestic politics to international politics, in hopes that it could work there, too. Autonomous countries could cooperate for mutual benefit, officials decided. And gradually, interactions could turn into relationships and then communities—first functional, eventually institutional, and maybe one day even heartfelt.

This approach promised to resolve the tension between American interests and American ideals by achieving them simultaneously, on the installment plan. The United States would protect its interests by amassing power and using it as necessary, and it would serve its ideals by nurturing an ever-growing community of independent countries that played nicely with one another. Cooperation would lead to integration and prosperity, which would lead to liberalization. Slowly but steadily, Locke’s world would emerge from Hobbes’s.

The new grand strategy produced the dense web of benign reciprocal interactions now known as the liberal international order. President Woodrow Wilson first tried to establish it after World War I. He failed but gave his successors a model and some cautionary lessons. Presidents Franklin Roosevelt and Harry Truman put a new and improved version into place in half the world during the Cold War, and Presidents George H.W. Bush and Bill Clinton extended it from the West to the rest during the post-Cold War era.

Since 1945, accordingly, U.S. foreign policy has featured five core elements: lead a team of like-minded nations in creating a zone of peace and collective security; avoid war with great powers outside the zone; police the global commons; maintain an open global trading system; and help provide global public goods. The results of this approach have been extraordinary. The order the United States built has produced unprecedented great power peace and unprecedented increases in economic, social, and political development—not just for itself, and not just for its allies, but for much of the world at large.

And yet in recent decades the system has run into trouble. Military campaigns in Afghanistan, Iraq, and the war on terror tarnished Washington's reputation for military competence and soured the American public on an activist global role. Then the 2008 financial crisis, the Great Recession, the stagnation of middle- and lower-class wages, and the rise of unprecedented economic inequality tarnished Washington's reputation for economic competence and soured the American public on neoliberalism. Partisan sorting, smash-mouth politics, and the rise of social media helped fuel populism and shatter what was left of a national consciousness. All the while, American allies were disarming and stagnating, and American enemies were arming and growing.

The challenge for the United States today is figuring out how to operate in a world that has not evolved in the liberal direction once hoped for, even as large sectors of the American public see few gains from active global engagement. Popular opinions to the contrary notwithstanding, the postwar American strategy of playing international relations as a team sport rather than an individual one has worked well in many ways. But with the current approach increasingly unpopular at home and abroad, simply repeating that mantra will not work. Humans have short memories, expectations rise, and vibes beat data. So, something must change.

But which elements of the existing order should be saved, which must be discarded, and which new elements need to be added? And how much time, effort, and attention should be given to new issues such as artificial intelligence, climate change, and the demographic revolution, all of which are racing toward us at a speed and scale that will change everything, everywhere, very soon? As the commercial said, inquiring minds want to know. Speaking to students at the National War College in June 1947, George F. Kennan tried to explain the difficulties he faced as the State Department's first director of policy planning. He likened the world to his farm in rural Pennsylvania. On each of its 235 acres, something was always in need of maintenance—a rotting fence, faded paint, overgrown weeds, a loose hog.

A nimble and astute person, working furiously against time, may indeed succeed in getting himself to a point where he thinks that with respect to 1 of those 235 acres, he is some 3 or 4 months ahead of events in his planning. But by the time he has gotten his ideas down on paper, the 3 or 4 months have mysteriously shrunk to that many weeks. By the time he has gotten his ideas accepted by others, the weeks have become days. And by the time others have translated those ideas into action, it develops that the thing you were planning for took place the day before yesterday, and everyone wants to know why in the hell you didn't foresee it a long time ago.

Meanwhile, other things are occurring with maddening persistency on every one of the other 234 acres, and throngs of people are constantly plucking at your sleeve, looking knowingly in a certain direction, and saying in effect: "Say, do you know that the bull is out there in the strawberry patch again?"

Kennan realized that the United States needed help to make sure its global farm ran smoothly, and he and his colleagues put together a system to make sure it did. From the Marshall Plan and NATO on down the line, the cooperative, team-based order that he and his colleagues built turned out to be successful and durable. Hundreds of millions of Americans and billions of others have benefited hugely. Now the team is drifting apart, and Americans seem interested in downsizing the operation and trying to handle everything alone. We can only hope that the results of the new approach are remotely as successful as the old one.

# Starting From Scratch

by Paul Stares

Well before President Donald Trump took office again in 2025, it was already long past time to conduct a fundamental review of U.S. national security strategy. Today, the imperative for such a reckoning is beyond question—less because of how the world is changing and more because of what the Trump administration has wrought. Long-established principles of U.S. foreign policy have been upended, if not eviscerated, with profoundly disruptive consequences for the rest of the planet. Although a significant course change seems unlikely anytime soon, whoever succeeds Trump will have to undertake a comprehensive appraisal of U.S. goals overseas and how best to pursue them.

A return to the status quo ante is highly improbable, even if it were desirable. Too much has happened already to turn the clock back. The question of what kind of world the United States should now try to shape for its own best interests will be open for debate. Indeed, some foreign policy experts are already calling for a full “zero-based review” of U.S. goals and strategy after Trump leaves office.

If strategy is essentially about defining practical ways and means to achieve desired ends, then any such exercise has to begin with a clear-eyed evaluation of U.S. interests and objectives in the world. Too often, what are in reality goals of choice assume the status of goals of necessity.

Goals of necessity can all be considered critical to the well-being of the United States, but strictly speaking, they are not all equal. Using a Maslow-type hierarchy of needs, goals of necessity can be ranked in order of priority as follows: first, ensuring the survival of the United States as an independent sovereign state; second, protecting its citizens from physical risks, particularly catastrophic ones; third, maintaining the liberty and basic civil rights of Americans; and fourth, promoting the prosperity of the United States such that it can pay for its essential needs, including defense.

Goals of choice, on the other hand, are strategic objectives that have been deemed instrumentally vital to the well-being of the United States. In some cases, they have acquired an almost sacrosanct status. Examples include the oft-stated nostrum that the United States must prevent the domination of the Eurasian landmass by any single great power, a goal that first gained currency in the early twentieth century yet continues to be asserted a hundred years later. Similar arguments are routinely made about the necessity for a U.S. military presence in the Middle East and East Asia. More generally, some would argue that maintaining American “primacy” in the world or promoting human rights, democracy, and an open trading system are necessary strategic goals. For much of the American public, however, that reasoning is not obvious. A zero-based review, therefore, should distinguish the “need to do” from the “nice to do.”

Determining how best to safeguard or promote the United States’ vital interests should derive from a thorough evaluation of the putative efficacy of alternative courses of action, as well as their relative costs and risks. That requirement may seem self-evident, but past experience shows that Washington has made important strategic decisions without properly vetting basic assumptions and appreciating potential downsides.

Demonstrating efficacy requires explaining how a specific series of steps could plausibly bring about the desired ends, assuming the strategy is faithfully followed. During the Cold War, the theory behind the strategy of containment was that an economically successful and democratic West would not just be stronger to resist further Soviet advances but would also eventually prevail by offering a more attractive alternative for those living

under communism. The post–Cold War U.S. strategy of promoting democracy and free trade around the world rested on the belief that it would foster peace and prosperity and eventually be embraced by holdout autocratic powers, notably China. The same logic applied to the post-9/11 “global war on terror,” with its emphasis on nation-building as the best antidote to violent extremism. Different strategic options should ideally be stress tested, therefore, to ensure that their theory of the case is logically sound and, better still, grounded in empirical evidence as to what has worked and not worked in the past.

Once the potential efficacy of a strategic option has been ascertained, then its likely costs and risks also have to be weighed, along with any obvious trade-offs. Ideally, this process should be conducted in as open and rigorous a way as possible. A true zero-based exercise, in other words, should assume a blank slate and only later consider the practicalities and costs of unwinding prior policies if they are no longer fit for purpose. Easier said than done, of course, but there are proven ways to promote open and impartial analysis.

The third and final component to a zero-based assessment should evaluate whether the necessary means exist to execute whatever strategic options are being considered. Are the required policy instruments—political, economic, military—at the United States’ immediate disposal? If not, can they be obtained relatively quickly, or can like-minded and supportive partners supply them? The importance of this calculation has become all too evident in recent years as the United States and its partners have expended difficult-to-replace munitions faster than expected in various military operations.

In a more fundamental sense, however, calculating whether the means exist to execute any given strategy is about whether the overall level of resources—human, financial, political, and so on—will be sufficient to sustain it over time. The West’s Cold War strategy was remarkably cost-efficient in this respect, whereas the economic investment necessary to support the global war on terror was not.

A true zero-based review is a tall order for any administration. It is unrealistic to expect that busy officials could devote much time to such a demanding analytical effort. Outside experts, however, can at least ask the right questions and pursue helpful answers in as rigorous a way as possible before the next administration takes office. Too much is at stake for the United States to drift along without a clear sense of how best to secure its interests in the world.

# Overreach and Retrenchment

by Steve Sestanovich

An enduring myth about the Cold War strategy of the United States—that it was marked by bipartisan unity and policy continuity—can make it hard to think clearly about the choices American policymakers will face in the decade ahead. The years between World War II and the collapse of the Soviet Union were in fact often marked by disunity and discontinuity. American leaders always wanted to avoid nuclear war but sometimes thought the way to do so was by stopping the arms race; at other times they wanted to win it. Nor did they agree on how to arrest the spread of new communist regimes: was it by slowing the break-up of Europe's colonial empires or by accelerating it, by supporting friendly Third World dictatorships or by challenging them to liberalize? Advocates of an activist approach might dominate U.S. policy for a time, only to give way to those who favored doing less. Overcommitment alternated with retrenchment. Because this pattern is likely to repeat itself in the decade ahead, a review of past changes of direction can clarify future policy choices.

Surges of policy activism have almost always been triggered by some sort of shock, such as the launch of Sputnik in 1957, the Soviet invasion of Afghanistan in 1979, or the terrorist attacks of 9/11. Each incident produced a new consensus on the need for a more ambitious strategy, sustained by more resources and more risk-taking. The “China shock”—the surge in Chinese exports and loss of U.S. manufacturing jobs—has had a comparable effect across administrations of different parties over the last two decades. It lives on in President Donald Trump's conviction that the key to economic success is not to prevent trade wars, but to start them, and win.

The activist U.S. response to two other recent shocks—the Russian invasion of Ukraine in 2022 and the October 7, 2023, attacks on Israel—is still unfolding. And further shocks—the effect of new technology on military strategy, for example—are not hard to envision. The Trump presidency itself could prove to be the biggest shock of all, an experience that future policymakers may argue shows the need to restore previous relationships and institutions.

Whatever its focus, whether trade or terrorism or territory, one thing about a period of strategic activism is all but certain: as the costs of activism increase, so do its critics, and so does pressure for change. Like activism, strategic downsizing can come in different forms, each with its own script for how to scale back American interests abroad. In the decade ahead, efforts to reshape U.S. foreign policy are likely to look at four different (but overlapping) ways of downsizing it—by making it less ideological, less global, less bloody and expensive, or less unilateral.

Many policy analysts and policymakers have in recent years seen international politics as an ideological clash between two camps, autocracies against democracies. A similar reading pits the United States and its partners against a so-called axis of upheaval, led by China and Russia. Trump, by contrast, has signaled a clear preference to deal separately with U.S. adversaries, rather than stress their links to each other or wage across-the-board confrontation with authoritarian regimes. That approach, which might be called “divide and conciliate,” has an obvious Cold War antecedent. Hoping to ease the U.S. withdrawal from the Vietnam War, the Nixon administration saw advantages in reaching out separately to Moscow and Beijing. The analogy is an imperfect one (by the early 1970s, the Soviet Union and China had been bitter enemies for years), but faulty history alone need not deter future policymakers who want to downsize the U.S. strategic agenda.

Policymakers may also seek a second way of narrowing the scope of American foreign policy, which in recent decades has had a truly worldwide focus. This global approach has had many sources, but they are all subject to

rethinking. The interests at stake in individual regions can be downgraded or devalued. Advocates of a pivot to Asia, for instance, have long favored at least partial disengagement from Europe and the Middle East. A still narrower focus on the Western Hemisphere—reflecting Trump’s aim to reduce immigration and illegal drug flows—was announced by the administration’s National Security Strategy of 2025.

How these less global preferences will age over the course of a decade is impossible to predict. A “spheres of influence” strategy focused on America’s own neighborhood will surely be criticized by those who feel it would leave the United States with control of one of the globe’s least valuable spheres. (Just compare what two offshore islands, Cuba and Taiwan, contribute to global GDP.) And the need to balance against China could come to be seen as a reason to preserve an alliance with Europe, not to pivot away from it. Whatever the policy bottom line, the relative importance of different regions seems certain to be a major part of future U.S. debate.

A third way to reshape American policy is to make it less bloody and expensive. Military overcommitment has been the most consistent past contributor to strategic downsizing. Without stalemated wars in Korea, Vietnam, and Iraq, Dwight Eisenhower, Richard Nixon, and Barack Obama would probably not have become president when they did. (Joe Biden’s retreat from Afghanistan, and its effect on his poll numbers, gave Trump a similar opportunity.) In all these cases, the domestic political repercussions included pressure for lower defense budgets, aversion to risky uses of force that could entail high casualties, and a strong preference for the optics of peacemaking. Even the Clinton administration, though remembered for enjoying and exploiting the “unipolar moment,” felt many of the same constraints. The more the Trump years are seen as a time of overreliance on the use of force, the more cost- and risk-averse future policymakers will likely be.

Finally, downsizing could make U.S. policy less unilateral. Military operations prepared without domestic or international consultation have already become a trademark of the Trump administration’s foreign policy. The broader unilateralist strategy they reflect has little use for alliances, coalition-building, international institutions, or even traditional diplomacy. This strategy—and its underlying impulses—may for some time retain support within the president’s own party. Yet within the political system as a whole, its legacy is less certain, especially if its results are seen as unsuccessful or unsustainable. Trump’s foreign policy could, ironically, generate a consensus on the need to rebuild those elements of a multilateral order that he has been most determined to tear down.

Because that order was dominated by the United States, the desire to revive it will be seen by many as a return to policy activism, rather than as strategic downsizing. An effort to reassert U.S. global influence will doubtless have many activist features. Even so, it will include many features of retrenchment as well—more modest and conciliatory rhetoric, a readiness to consult and to compromise, a stress on shared interests and lasting (rather than one-time or transactional) problem-solving.

The effort to fashion a foreign policy that is more affordable, more stable, and more focused on domestically supported goals is likely to draw on all four ways of doing less—less ideological, less global, less bloody and expensive, and less unilateral. The biggest risk a downsized policy will face is the one it has so often faced in the past: a spreading perception that it is failing to counter some growing challenge to U.S. interests. Over time, that perception, especially when bolstered by a sudden shock, will move policy back toward activism.

# Congress Checks Out

by Elliott Abrams

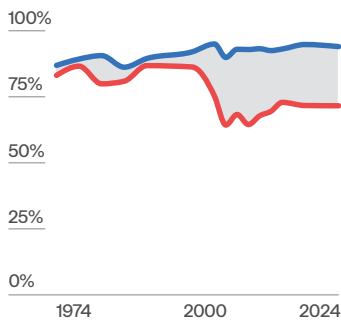
When I began my career as a U.S. Senate staffer in 1975, senators were very powerful men and women. The most powerful of them were the committee chairs—the grand dukes of the realm. Those men influenced presidential foreign policy and were consulted by the White House and the cabinet. President Ronald Reagan, for example, conducted serious negotiations with Congress on the NATO Two-Track decision regarding intermediate-range missile deployment in Europe, and sought congressional backing for the Nicaraguan Contra rebels. Support from Congress mattered. And though politics did not necessarily “stop at the water’s edge,” as Senate Foreign Relations Committee Chairman Arthur Vandenberg put it in the 1940s, national security matters were rarely treated as purely partisan issues.

That has changed. When it comes to foreign policy decisions, presidents now rarely seek congressional support and, even when they do, they tend to get little from the opposing party. Presidents act alone, claiming powers that Congress seems unable or unwilling to challenge. While the opposition party invariably denounces administration policies and actions, it does not have the power to ameliorate or block them. Partisanship has grown in strength, and so too have the fringes in both parties. The loudest voices are often those without wide public support, seeking to stoke division.

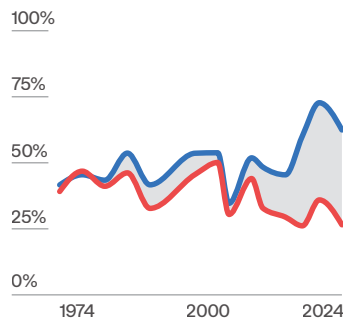
## Partisan Divides Grow on Foreign Policy

Survey responses for support of various foreign policy issues

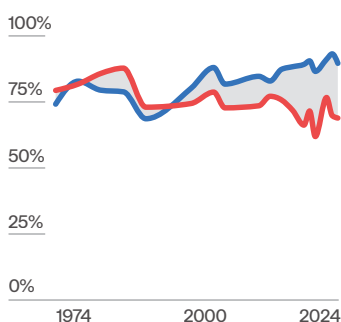
**Very or somewhat important for U.S. to strengthen the United Nations**



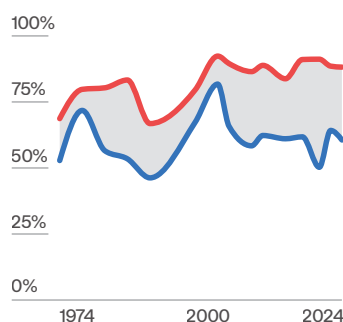
**Keep the same or expand U.S. economic aid to other nations**



**Keep the same or increase U.S. commitment to NATO**



**Keep the same or expand U.S. federal defense spending budget**



Source: Chicago Council on Global Affairs

To some degree, this new reality reflects the disappearance of the old foreign policy “establishment,” a partly mythical but partly real group of men whose prestige and experience gave their views great weight in both parties and most administrations. Republicans Robert McNamara, McGeorge Bundy, and C. Douglas Dillon were cabinet members under John F. Kennedy, Democrats Paul Volcker and John Connally served in high posts under Richard Nixon, and in the Jimmy Carter years when I was newly in Washington, Republicans James Schlesinger (secretary of defense) and William Webster (FBI director) were serving in the Carter administration. Reagan hired Democrats Max Kampelman and Paul Nitze for top positions. Today, it is difficult to name comparable civilians whom a president of the other party would name or who would easily accept a position under the opposition.

Another contributing factor to today’s partisanship is the nature of information flows. When I served in the Reagan

administration, what was written in the widely read *Time* and *Newsweek* magazines, or said on the evening news broadcasts on the three major networks (ABC, CBS, and NBC), was critical to gaining public support and in gauging public opinion. Work stopped in many government offices at 6:30 pm, so everyone could watch the network news. Today, there is an endless supply of cable TV voices, networks, online sources, Substack columns, social media platforms, and other sources of information. Although those venues can help voters get information, many studies suggest that people tend to look for information from sources with which they are in agreement. So, the left has its sources and the right its own, reporting different “news” and deepening partisan splits.

If those factors continue unchecked, three changes are likely to result in the sphere of foreign policy and grand strategy. First, almost every policy will become either a Republican or a Democrat undertaking, lacking the support of the other party. Broad public support will, therefore, be hard to acquire, particularly because voters will get their information from partisan sources. Forget the water’s edge: policymaking on national security issues will be increasingly seen as a left- or right-wing activity, reflecting the views of one party or faction rather than advancing the interests of the nation. Criticism will not be viewed as an effort by the “loyal opposition” to improve policy, but as a politically motivated attack.

Second, presidents will be freer to make policy. As the political gulf widens, members of Congress will increasingly be seen as partisan actors who need not be listened to, weakening Congress as an institution. In some respects, this change will empower the presidency but, in others, it will weaken the office—presidential actions will be seen through a partisan lens, and a president will be solely reliant on his party for support. Lacking the ability or inclination to forge a consensus will make foreign interventions shorter than those mounted in the days when the nation could unite around a shared mission.

The broad middle in American politics is now much narrower than it used to be. The portion of the electorate to which a president can realistically appeal for backing is also smaller than it once was. The resulting narrow basis of support will create a fear of losing it, thereby giving a future president a powerful incentive to avoid casualties. This constraint could make more dangerous military action too politically costly to contemplate, but whether that is a helpful limit on “adventurism” or a dangerous inhibition on U.S. ability to meet potential security challenges depends on the policy perspective of the analyst.

Third, policies will likely be shorter-lived than those in the past. Containment, for example, lasted from roughly 1945 to 1990 under both Democratic and Republican administrations, because it rested on an elite and popular consensus on the need to stop the spread of communism. If such a consensus is now impossible to form, a decades-long policy will be replaced by four- or eight-year policies. Presidents could feel not that they are advancing an agreed-upon policy—which they wish to leave, strengthened, for their successors—but are instead using their limited time in office to work faster, strike harder, and achieve any goals they have. This may have happened already with respect to U.S. policy toward China. If the time horizon of U.S. policies has been reduced, then Washington’s ability to craft durable policies to deter hostile powers and build alliances with friendly ones will also be reduced. That potential mismatch alone will make policy successes more challenging for every president—and for the country. Grand strategy cannot change every four or eight years, and requires a base of support and a time horizon that future presidents could find is but a fond memory. The United States’ main rivals will gain a serious advantage if they are able to think in far longer terms than American policymakers about strategy.

# The Coming AI Backlash

by Chris McGuire

Artificial intelligence (AI) policy will be the most important issue in the 2028 U.S. presidential election. To most Americans, that statement probably seems absurd. AI policy was a total nonfactor in the 2024 presidential election. It does not even appear on Gallup's latest tracking poll of the most important issues to American voters.

But AI capabilities are advancing exponentially and have only recently begun affecting daily life. The disruptive changes that AI will bring—to the economy, society, and national security—are coming far sooner than most people think. AI is already deeply unpopular. As those disruptions become personal to voters, they will generate political pressure that the current zero-regulatory environment cannot withstand.

Two studies independently concluded that the capabilities of the leading AI models have been doubling about every four months since 2024, and that rate is accelerating. Even if the current rate holds steady, by the 2028 election, the best AI models will be 250 times more capable than those of today. The implications of AI capabilities 250 times more powerful—let alone more than that—are difficult to comprehend. Their potential to accelerate scientific research, transform education, and create entirely new industries is enormous. But the disruptions will be equally profound and in many cases deeply personal for voters.

Rapid AI advancement will cause job losses. What is unclear is whether they will be confined to certain entry-level roles or sweep across all knowledge and physical labor, and whether displaced workers will find new jobs. OpenAI CEO Sam Altman stated that “there is going to be real pain” and “whole categories of jobs” will disappear. JPMorgan Chase CEO Jamie Dimon said that AI “will eliminate jobs,” adding that “people should stop sticking their head in the sand.” Even the optimistic scenarios in which AI causes only short-term job losses involve genuine hardship for people, and that hardship will generate a political backlash. Americans who lose their livelihoods to AI will not be mollified by macroeconomic arguments about productivity gains.

Powerful AI models also create potential for dangerous misuse. Modern AI tools are better than the best cybersecurity professionals at identifying critical vulnerabilities in secure software, potentially making them the world's most powerful hacking tools. They can guide a person untrained in biology through engineering a dangerous virus. Those capabilities will only grow. Leading U.S. AI labs are now not publicly releasing their most advanced models due to fear of misuse, but that decision is purely voluntary; they are under no obligation to make it.

AI also gives the government the technical capability to monitor the activity of every American citizen using data purchased from commercial data brokers, such as cell phone locations, financial transactions, and online browsing history. That activity is not technically surveillance and requires no warrant. Previously, the sheer volume of data made comprehensive analysis infeasible. AI removes that constraint, at trivial cost. Americans expect the government to prevent the release of products that pose risks to public safety and will not support their government using AI to monitor their daily lives.

The national security implications of rapid improvements in AI are staggering. The U.S. military's operations in Iran have put AI's military applications on vivid display, enabling strikes at unprecedented speed and scale, and compressing target-identification from, as Commander of U.S. Central Command Admiral Brad Cooper put it, "hours and sometimes even days into seconds." AI will soon enable drones capable of fully autonomous combat operations. In future conflicts, the force deploying the better AI model will hold a decisive advantage. Maintaining the U.S. lead in AI is the priority on which all other national security priorities depend. Americans will not accept the United States military losing its technological edge, nor adversaries using U.S. AI technology to kill U.S. soldiers.

As this massive disruption looms, AI, although it is the driving force behind the U.S. economy, is deeply unpopular. Only 26 percent of voters have positive feelings about AI, compared with 46 percent who have negative views, and only 10 percent of Americans are more excited than concerned about the technology. That creates an unprecedented and strategically risky dynamic: the technology most important to U.S. economic, technological, and military competitiveness is also widely disliked domestically.

Calls for regulation are coming from both the left and the right. State lawmakers introduced over 1,200 AI-related bills in 2025 alone, including simple disclosure requirements, safety testing mandates, and outright moratoriums on new data centers. In March 2026, the White House released a national AI policy framework, but it focused on preempting state-level regulations while supporting targeted federal measures protecting child safety. Meanwhile, Senator Bernie Sanders (I-VT) and Representative Alexandria Ocasio-Cortez (D-NY) have called for a national moratorium on data center construction until strong regulations are in place. The current posture of near-zero federal regulation is politically unsustainable, as is a draconian pause in AI development. Substantial AI policy changes are coming; the only question is what they will look like.

Effective AI policy needs to address three distinct but deeply interrelated challenges simultaneously. First, domestic regulatory policies should ensure that advanced AI models are developed safely and deployed by the government in ways that do not undermine the fundamental rights of citizens. The government should be permitted to test them for safety before deployment, as it does pharmaceuticals and other sensitive technologies. And it should codify narrowly scoped limitations on the government using AI to surveil its citizens.

Second, social policies need to ensure that the economic returns from AI accrue to more than just a handful of technology companies and their investors. Without deliberate policy choices to share the gains broadly—through workforce transition programs, income support for displaced workers, and tax policies that capture a share of AI-driven productivity gains—the political backlash against AI will grow until it overwhelms any effort to maintain a permissive innovation environment.

Third, national security policies need to ensure the United States maintains global leadership in AI and maximizes its lead over China, which is the only viable long-term U.S. competitor. That requires not only a vibrant domestic AI innovation ecosystem but also robust technology protection measures that prevent China from using any U.S. technology—semiconductor manufacturing equipment, chips, cloud computing, or AI models—to advance its own AI ecosystem.

The consequences of failure on any single dimension—unsafe AI, extreme wealth concentration, or ceding leadership to China—would be catastrophic. The United States needs to get all three right. Crucially, those dimensions are not inherently in tension with one another. Effective technology protection measures that maximize the U.S. lead over China create the strategic space to regulate domestically and share the benefits broadly—without the risk of handing the advantage to China. Getting national security policy right makes it easier to get the other two elements right.

The instinct in Washington has been to resist regulation to protect U.S. competitiveness. But that instinct, however well intentioned, is self-defeating. The longer serious policymaking is deferred, the more political pressure builds. And the more pressure builds, the more likely the eventual response will be a hastily designed reaction to a crisis. The result could be the worst of both worlds: policies that are simultaneously insufficient to protect Americans and devastating to U.S. competitiveness.

The window for thoughtful, proactive policy is open now, but it will not last forever. AI capabilities are compounding, as is public frustration. AI will force itself onto the political agenda in 2028. When it does, the American people will expect policymakers to have serious answers ready.

# Middle Powers Take Center Stage

by Manjari Chatterjee Miller

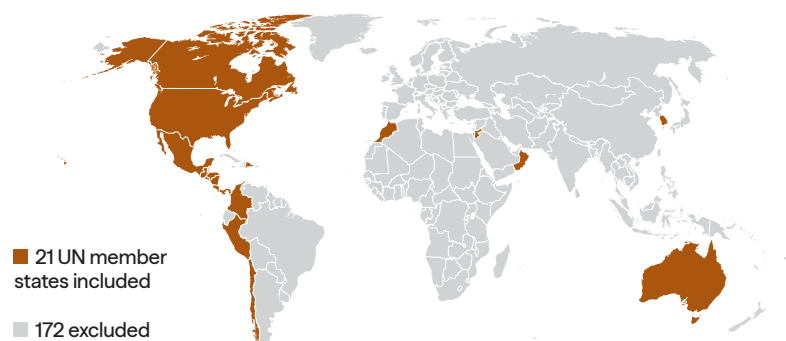
At the January 2026 annual gathering in Davos, U.S. allies were openly anxious. Canadian Prime Minister Mark Carney made the biggest splash, warning of “a rupture in the world order,” and suggesting that the United States was no longer a reliable ally or stabilizing force in world politics. Carney was not the only one who expressed concern. French President Emmanuel Macron described a shift to a “world without rules, where international law is trampled underfoot, and where the only law that seems to matter is that of the strongest.”

Commentators rushed to declare the collapse of the liberal international order. But international orders rarely collapse in a single dramatic moment. Instead, the world is seeing something different but equally hard to manage: fragmentation. Fragmentation means the rise of competing orders—coalitions of middle powers that claim to support the existing system but quietly build exclusive clubs with their own norms and rules. Middle powers are usually not revisionist, and many of them have been important partners of the United States. If they turn away from the liberal international order to build their own clubs, they could gradually speed up the order’s demise, and, in the absence of alternatives, sideline U.S. leadership.

It would be a mistake to pin this phenomenon entirely on President Donald Trump’s hostility toward the United States’ old alliances. The Biden administration did its fair share to normalize exclusive coalitions. By building such groups, it hoped to draw countries away from dependence on China and isolate Beijing. In April 2022, Treasury Secretary Janet Yellen promoted a “friendshoring” strategy, calling for supply chains to be redirected toward trusted countries aligned with the U.S. vision of the global economy. This strategy was anchored by the CHIPS and Science Act, the Inflation Reduction Act (IRA), and the Minerals Security Partnership. In practice, friendshoring meant restructuring critical mineral and semiconductor supply chains around a select group of countries while drawing a sharp line against China. While the Biden administration spoke the language of openness and multilateral cooperation—bedrock norms of the liberal international order—it was in fact operating through small, selective economic clubs. In other words, it was advancing the antithesis of the liberal order’s goals.

The IRA’s electric vehicle tax credits, for example, required that a rising share of critical minerals be sourced from the United States or countries in free trade agreements with Washington. This effectively disqualified most of the Global South from participating in the clean energy supply chain. The European Union protested that the IRA’s incentives discriminated against European and other trading partners by creating unfair competition and encouraging European companies to move their business to the United States.

## Privileged Critical Mineral Suppliers Under the Inflation Reduction Act

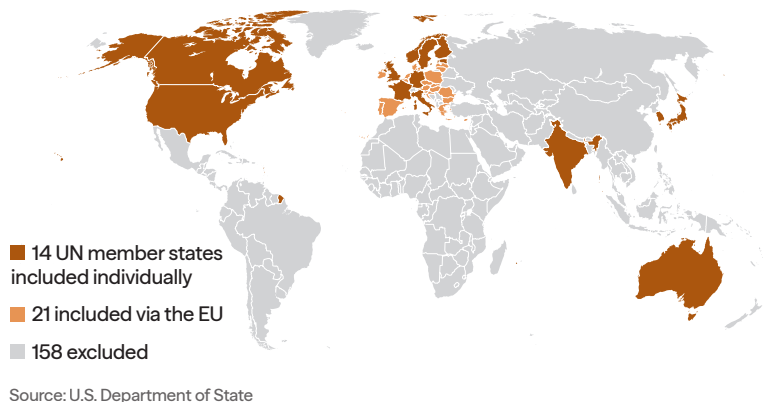


Note: The Inflation Reduction Act (IRA) required that critical minerals be sourced from the U.S. or countries with free trade agreements with the U.S. in order for companies to qualify for electric vehicle tax credits.

Source: Office of the U.S. Trade Representative

The same was true of the Minerals Security Partnership, launched in 2022, which brought together a select group of mostly middle powers. Under this partnership, the United States, Australia, Japan, key European allies, South Korea, and a handful of other countries coordinated investment in critical mineral supply chains outside of Chinese control. But this initiative treated countries outside the club—including Indonesia and Chile, which sit atop some of the world's largest mineral deposits—as sources of extraction rather than partners in governance. This exclusivity was resented, and even such groupings as the Quad (the informal strategic dialogue between the United States, Australia, India, and Japan), AUKUS (the trilateral security agreement among Australia, the United Kingdom, and the United States), and I2U2 (the partnership between the United States, India, Israel, and the United Arab Emirates) were greeted with suspicion by Southeast Asian countries, many of which had long leaned toward the United States.

#### Members of the Minerals Security Partnership



For partners and potential partners watching those arrangements, the message was clear: the world order Carney invoked at Davos would be upheld not through inclusive alternatives but through invitation-only groupings determined in Washington.

That message was reinforced in the second Trump administration's first year. Partnerships, if they were now to continue at all, were by invitation only and principally transactional. A shared history of cooperation meant little. And

Trump repeatedly declared his disdain for the established norms that governed past alliances. He reiterated his willingness to leave long-established alliances, including NATO, and pushed tariffs as an unconventional economic tool to protect the U.S. economy and boost domestic manufacturing.

By the time Davos rolled around in January, the idea of exclusive coalitions with alternate norms to secure a country's interests was completely normalized. Former firm U.S. allies regarded the United States as an unreliable partner and viewed China with unease. Carney and Macron's speeches were simply a further push for middle powers—which had previously been confident in U.S. reliability—to hedge their bets and fashion smaller coalitions to protect themselves. Canada's 2026 defense cooperation agreement with Denmark to secure the Arctic in the aftermath of Trump's threats to invade Greenland was just the latest example of anxiety prompting countries to protect their strategic interests through smaller coalitions.

But those impromptu arrangements will have wide and long-lasting effects. Take India, for example. In 2025, the country signed a trade deal with the European Union in the wake of U.S. tariffs. If India diversifies away from the United States and directs its exports toward the European market, it will have to comply with EU regulations, locking it into treating the European Union as its primary trading partner. Over time, that could elevate EU regulatory standards above U.S. ones, creating a competing trade order almost by default.

Washington's actions, if continued, will create a world in which most middle powers will, without becoming U.S. adversaries, no longer be the reliable allies and partners they once were. That could suit the present administration just fine, but in the long run, if Washington is to lead a new international order, this is the group of countries U.S. leaders will need to persuade. Unlike Beijing, Washington has a long history of working with middle power friends and allies toward common goals that are attractive to many countries. If future U.S. administrations do not lean into this shared history and prioritize the need to rebuild and reinforce partnerships, the United States will find it hard to project its power and advance its interests.

# The Asian Anchor

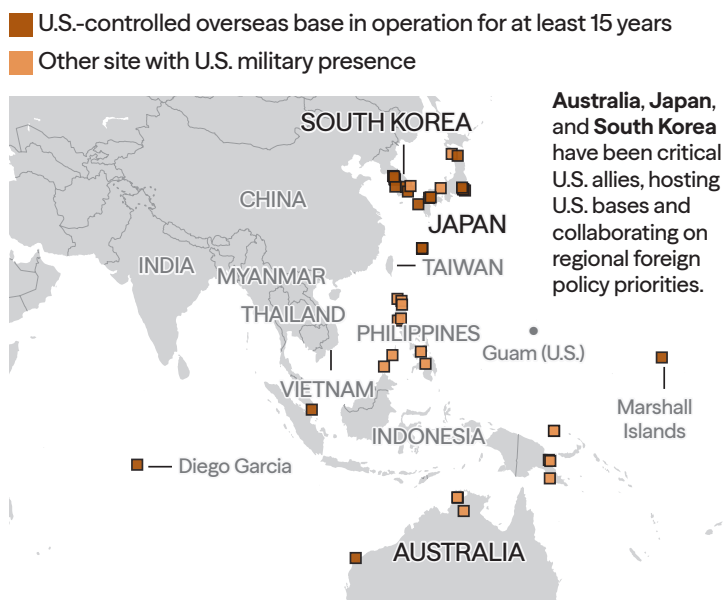
by Sheila Smith

Since the end of World War II, U.S. strategy in Asia has relied on increasingly integrated partnerships with regional allies. Of those, Australia, Japan, and South Korea have been among the United States' most reliable associates in solving regional and global problems.

But political change in the United States has ushered in an era of retrenchment. The Trump administration is questioning the value of U.S. alliances and scrutinizing the cost of long-standing security ties. The narrative of “burden sharing”—reducing U.S. contributions while increasing those of allies—has reentered the policy vernacular for the first time in decades. Some experts suggest the Trump administration is advocating a retreat from a global strategy, but that notion may be premature. Retrenchment, while nerve-racking for allies, seems a more realistic prospect.

U.S. policymakers should be cautious when describing their allies as tools in their strategic arsenal. Washington's Indo-Pacific alliances are not malleable. They represent various institutional and strategic compromises and, most important, reflect the national goals and domestic political reality of allied countries. Not only is the United States embedded in the Indo-Pacific, but its alliances with Australia, Japan, and South Korea are embedded in U.S. grand strategy. Although it may be tempting to regard these allies as dependent countries that can be used as instruments when needed, in reality, the dependence runs both ways.

## U.S. Relies on Allies to Project Power in the Pacific



Note: Data is from unclassified sources as of 2024 and is not exhaustive.

Source: Congressional Research Service

U.S. alliances in the Indo-Pacific have undergone tremendous transformation. In the 1950s, Washington negotiated bilateral strategic bargains, which lasted throughout the Cold War. Afterward, the United States constructed new security networks to knit together an array of Indo-Pacific nations. U.S. partnerships formed the center of a regional grid of strategic cooperation. Australian and Japanese forces exercise in each other's territory, and the Philippines invites both to develop maritime capacity. The United States works to build relations of trust among its Indo-Pacific allies.

Much of that growing cooperation between the United States and its allies has been driven by China's efforts to change the regional status quo. Where China once sought to encourage economic integration, largely through trade, it now uses economic leverage to

coerce its neighbors into accepting its demands. The United States, Australia, India, and Japan have responded to that shift by coming together to offer different sources of trade, supply chain resilience, and technology innovation, as well as to demonstrate their common interest in maritime security. Shared risk mitigation is now a top priority for the United States and its Indo-Pacific partners.

U.S. allies in the Indo-Pacific remain steadfastly opposed to nuclear proliferation. China and Russia no longer support the goals of the Nuclear Nonproliferation Treaty, nor are they interested in arms control. Meanwhile, North Korea's nuclear capability, and the missiles to deliver it, continues to undermine regional security. The United States is working to ensure that Japan and South Korea do not respond by developing their own nuclear capability, and to demonstrate more effectively to nonnuclear partners that U.S.-extended deterrence remains effective.

U.S. policy in Asia, then, has not remained static. At three key moments, Washington has retrenched, and the effects have rippled across the Pacific. The first came after the Korean War, when, under the Eisenhower Doctrine, the United States decided it would rely on its nuclear arsenal to deter future wars. The second came as the Vietnam War drew to a close, with the announcement of the Nixon Doctrine, which held that the United States would fight no more ground wars in Asia.

Finally, in the 1980s, calls for burden sharing, mostly from Congress, grew louder. Japan, then the burgeoning economic superpower, was the particular target of legislators' wrath. Tokyo responded by offering greater financial support to U.S. forces stationed in Japan. The effects of that decision continue today. Every five years, the United States and Japan negotiate a Host Nation Support agreement that provides for roughly \$1.7 billion per year. Similarly, in its Special Measures Act, South Korea offers around \$1 billion per year to support U.S. forward deployed forces.

After the Cold War, U.S. Indo-Pacific allies began to play a more active global security role in concert with the United States. During the first Gulf War, the United States constructed a coalition to ensure the safe passage of tankers through the Strait of Hormuz. Japan, though legally restricted from sending its Self-Defense Forces into combat overseas, sent minesweepers to help clear the strait once the war had ended. After 9/11, all U.S. Asian allies participated in the UN-sanctioned war against Iraq. Similarly, a U.S.-led coalition organized to combat piracy in the Gulf of Aden included the United States' Indo-Pacific partners.

Today, the United States is deciding how to demand greater contributions from its allies while accounting for the growing threats they face closer to home. And yet, uncertainty about U.S. decision-making has created deep concerns about American reliability at precisely the moment when allies seek greater integration into a U.S.-led vision for Indo-Pacific stability. The challenge from Beijing, in particular, weighs heavily on Canberra, Seoul, and Tokyo. Handled badly, U.S. retrenchment could exacerbate vulnerabilities in the Indo-Pacific rather than enhance U.S. partnerships.

The strategic starting point should be a recognition of the extent to which U.S. military and economic strength relies on those alliances. In military terms, Washington's partners in the Indo-Pacific are invaluable to its ability to operate across the region or, if necessary, to cope with a crisis across the Taiwan Strait. Economically, trade with Australia, Japan, and South Korea—as well as their investment in the U.S. economy—is vital to national prosperity. Trade with those countries is also essential to ensuring access to critical materials and goods required by most advanced technologies.

U.S. Indo-Pacific partnerships are characterized not by allied dependence on the United States but by strategic interdependence. If Washington could no longer rely on those three countries' militaries, let alone access to their ports and facilities, it would be left dangerously exposed. The U.S. Pacific Fleet would be unable to operate, U.S. Air Force fighter jets would be deprived of Japanese and South Korean bases, and the U.S. economy would be weaker without the critical minerals, manufacturing power, and foreign direct investment of Australia, Japan, and South Korea.

Without allies in the Indo-Pacific, the United States would find it increasingly difficult to ensure its security. Rebalancing the strategic bargain with those partners—pairing fairer burden sharing with deeper military, economic, and technological integration—should anchor the country's future strategy. American power in Asia ultimately rests on American alliances.

# Europe Rearms

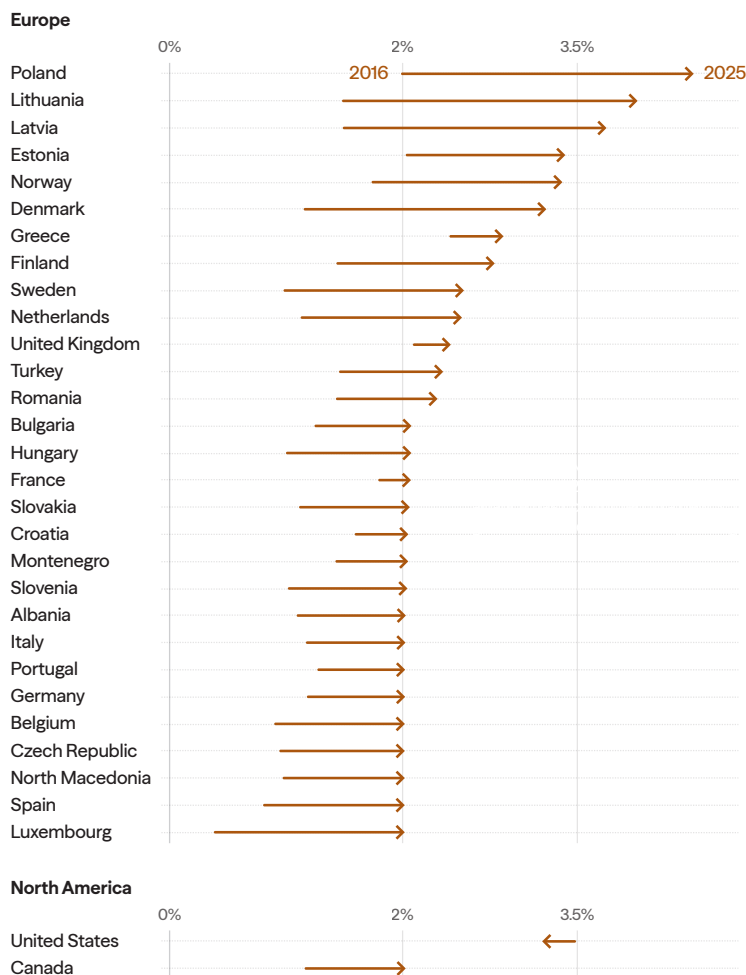
by Liana Fix

In the current period of transition and disruption, Europe faces two questions, one internal and the other external. First, can it project military, economic, and technological power in an increasingly competitive geopolitical environment? And second, can it remain internally stable, as the United States retreats from the continent, and with an aggressive Russia on its eastern flank?

There is a realistic chance that Europe can protect itself. On the conventional side, the continent has begun a surge in defense spending unseen since the end of the Cold War. In 2025, for the first time since the target was established in 2014, all thirty-two NATO allies are expected to meet or surpass the 2 percent of GDP threshold. Moreover, at the June 2025 Hague summit, allies committed to the even more ambitious target of 3.5 percent of GDP for core defense requirements. Europe does not need to match U.S. military capabilities to deter Russia, as

## Europe Steps Up Defense Spending

NATO members' defense spending as a share of GDP



Notes: Numbers for 2025 are estimates as of June 2025. Numbers for Germany use the 2024 value because the 2025 value was not available. Germany has made a political commitment to spend at least 2% of GDP on defense and plans to reach the 3.5% NATO guideline by the end of the decade.

Source: NATO

long as the U.S. nuclear umbrella remains intact and Anglo-French nuclear cooperation is strengthened. The latter partnership could take the form of some broader commitment to using those weapons to defend Europe as a whole, as France has indicated it will do. Coupled with the development of the continent's indigenous conventional and long-range precision strike capabilities, that type of nuclear commitment could assist Europe in deterring Russia, and will also reduce the risk of nuclear proliferation on the continent.

Germany will play an essential role in Europe's conventional rearmament. Berlin plans to more than double its defense budget to €162 billion (\$190 billion) by 2029, reaching the NATO target of 3.5 percent of GDP before the end of the decade—more than the combined defense budgets of France and the United Kingdom today. Europeans by and large welcome this development as a boon to their conventional deterrence ambitions. To assuage fears that Germany will once again dominate Europe, however, Berlin will need to embed its new military capabilities into European structures by procuring weapons jointly with other countries, integrating its forces with those of other countries, and tapping shared European financing to foot the bill.

The greatest threat to Europe's internal balance of power is the resurgence of far-right parties. The electoral success of Alternative for Germany (AfD) in particular would reawaken fears of a revanchist Germany, undermining joint European defense. Europe's rearmament trajectory is promising but fragile. Several factors—the rise of far-right movements, delayed U.S. weapons sales to Europe stemming from dwindling stockpiles because of the Iran war, and the risk of European disunity—could erode the gains that have been made before they translate into credible deterrence.

Externally, Europe probably cannot establish itself as a geopolitical player alongside the United States and China. Whereas Europe had global ambitions in the early 2000s and 2010s, the continent is now focused overwhelmingly on its own defense and economic productivity. European capitals have little bandwidth to deal with other regions, particularly the Middle East, and are not eager to do so if engagement brings conflict with the United States. Yet Europe cannot shield itself from global crises and conflicts, as the closure of the Strait of Hormuz and rising energy prices have demonstrated. German Chancellor Friedrich Merz has warned that the economic consequences of the war against Iran could rival those of the COVID-19 pandemic or Russia's invasion of Ukraine.

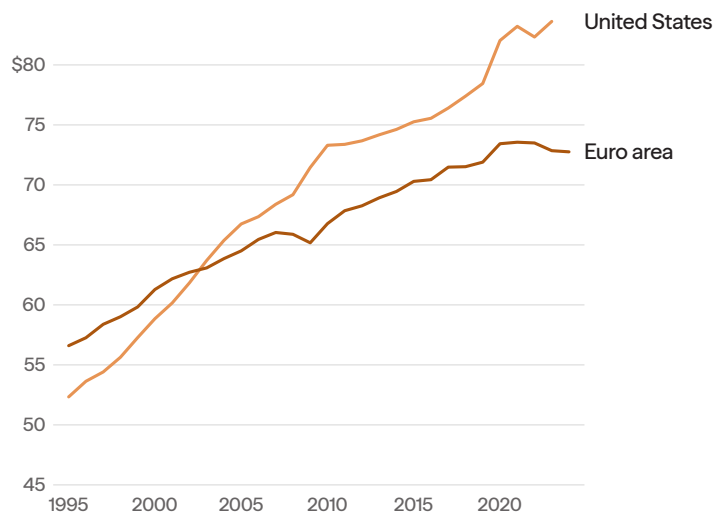
This fresh energy crisis has struck a continental economy already weak from a lack of productivity. Former Italian Prime Minister Mario Draghi's 2024 report on European competitiveness described the moment as an "existential challenge." Draghi identified a widening innovation gap between the EU and both the United States and China, particularly in advanced technologies, and warned that Europe's productivity growth has been falling behind for two decades. At the same time, Europe is struggling to respond to China's industrial overcapacity. Unlike the first China shock of the early 2000s, which primarily affected low-cost consumer goods—and struck the United States in particular—this second wave targets Europe's core industrial sectors, including automobiles, machinery, and high-tech manufacturing.

Those factors, taken together, mean that Europe, at least for the next decade, will struggle to project power globally. It should be able to deter Russian aggression on its own, but it will lose geoeconomic ground, especially to China. The continent will also be far more inward-looking than in past decades. Europe could, at best, become an island of stability relative to other world regions. At worst, it could become secluded and withdrawn from the

global contests over power and influence that will define the coming era, especially on technology and artificial intelligence. A Europe that defends itself at home but loses influence abroad seems the likeliest outcome.

### Europe Lags United States in Productivity

GDP per hour worked (constant 2020 dollars, PPP)



Source: OECD

For the United States, a Europe capable of defending itself against Russia but unable to project power beyond its borders is a mixed blessing. It will free up U.S. capabilities elsewhere, but, as the Iran war has shown, a more independent Europe may not always agree with Washington. Meanwhile, limited European power projection and a widening productivity and technology gap will make Europe a weaker ally and leave it more vulnerable to Chinese influence. Ultimately, a Europe that is strong—militarily, economically, and technologically—serves U.S. interests, even if it increasingly acts in its own.

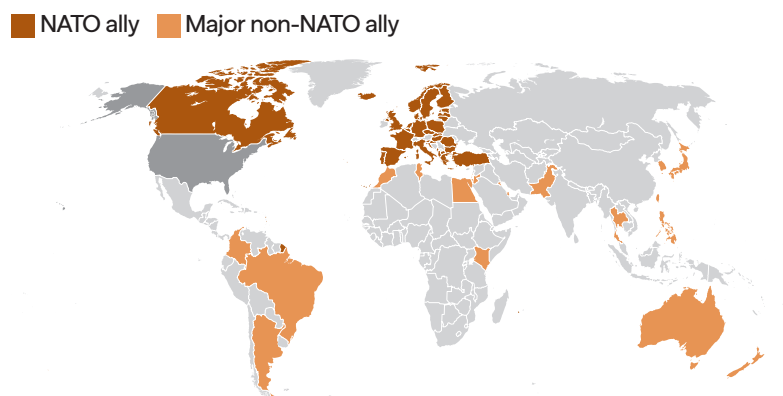
# The New Transatlantic Bargain

by Matthias Matthijs

When debating U.S. grand strategy, foreign policy elites often frame alliances as either a legacy asset or a growing liability. They are presented either as the enduring, indispensable pillars of global order or the costly remnants of a bygone era of American primacy. Both perspectives miss the new reality. The question today is not whether alliances matter. It is how they should adapt to a world in which American power is eroding, geopolitical competition is intensifying, and U.S. allies are growing more autonomous.

Even if the future of alliances is in flux, the importance of the United States' international relationships has not diminished. On the contrary, its network of alliances remains the United States' single greatest strategic advantage over its Chinese and Russian rivals. China has no allies, with the sole exception of North Korea—only “partnerships.” Russia has a handful of dependent client states, whereas the United States has more than fifty treaty allies. That network of alliances enables the United States to project power, coordinate policy, and maintain legitimacy in ways that it could never accomplish unilaterally.

## U.S. Allies Span the World



Note: U.S. law specifies that Taiwan is treated as an ally but not designated as such.

Sources: NATO; U.S. Department of State

But the nature of those alliances will have to change if they are to endure. They will have to become more reciprocal, more selective, and more grounded in capabilities, because the old model of asymmetric dependence is no longer politically sustainable. Having grown weary of being treated as mere junior partners, U.S. allies are ready to carry more of the burden. They are increasingly becoming strategic actors in their own right.

The challenge is most acute for the transatlantic alliance. For decades, the United States and Europe operated under a clear bargain. Washington provided security and its European allies

gave their loyalty. That arrangement underpinned the most successful partnership in modern history. But it depended on assumptions—about U.S. reliability, shared threat perceptions, and a broadly liberal international order—that no longer hold.

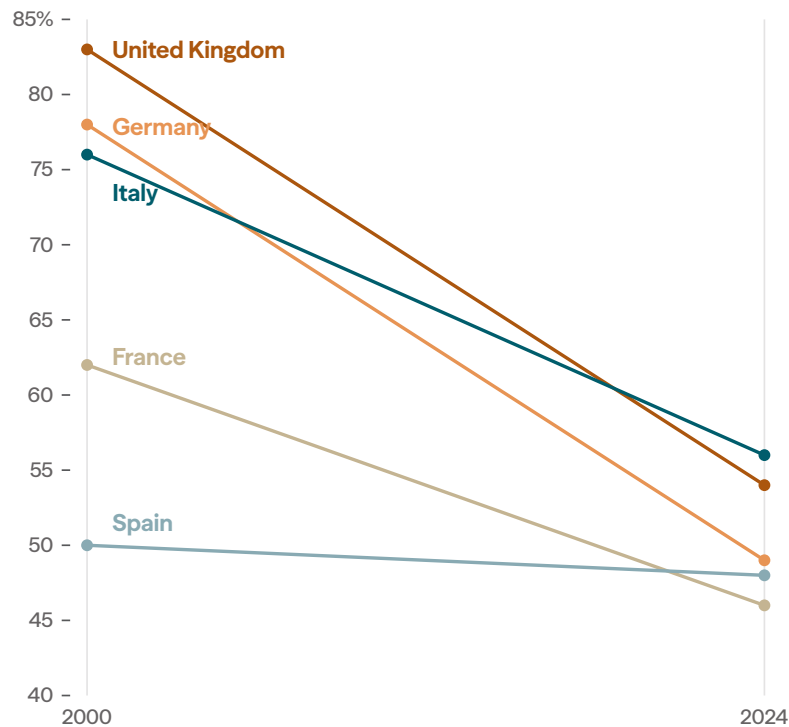
The erosion of American primacy predated President Donald Trump. It was driven by the diffusion of global economic power, the rise of Chinese influence, and the costs of two decades of war and financial crisis. Trump's return to office has persuaded European leaders that the United States, though still indispensable, is no longer reliable. At the same time, domestic political shifts on both sides of the Atlantic have weakened cooperation on everything from trade policy to democratic norms. Consequently, Europe is focusing on the development of military capacity, defense-industrial scale, energy resilience, and geoeconomic leverage. Although that process remains incomplete and politically contested, the direction is clear. A stronger Europe should be understood in

Washington as a favorable development—not a loss of American control, but instead, a change that makes the alliance more sustainable over time.

A looser, more transactional, but also potentially more resilient system is emerging. The United States will remain the anchor of European security, but Europeans will do far more for themselves. Cooperation across the Atlantic will extend beyond traditional defense into areas such as technology, trade, infrastructure, and critical supply chains. And coalitions will increasingly form within alliances, rather than through them, allowing for more flexible and targeted cooperation.

### The U.S. Is Less Popular in Europe

Share of the public in select allied countries with a favorable view of the United States



Source: Pew Research Center

Such a system will be less cohesive than the Atlantic alliance of the past. It will involve more bargaining, more divergence, and more friction. But it could also prove more durable precisely because it is better aligned with the realities of a more transactional world. The alternative—trying to restore an outdated model of dependency—would likely produce frustration on both sides of the Atlantic and weaken the alliance over time.

That beneficial trajectory is far from guaranteed, however. It depends on a stable Europe, which cannot be taken for granted. It is entirely plausible that nationalist and far-right forces will soon gain power in France or the United Kingdom—but rather than strengthening transatlantic ties, such governments would likely turn inward, resist collective commitments, and pursue more opportunistic relations with great powers, including China and Russia. Meanwhile, Germany is facing prolonged political instability that could prevent it from providing steady leadership. In such

a world, transatlantic coordination would become more difficult and less reliable. If that happens, U.S. grand strategy will have to change. The task would be to preserve strategic coherence in a weaker and more divided Europe.

In that scenario, NATO would become even more central as the primary framework for deterrence and military coordination, despite ongoing questions about U.S. commitment and the alliance's ability to reach consensus. At the same time, the United States would need to rely more heavily on coalitions of capable and willing allies within Europe, particularly among those countries that remain politically committed and militarily serious. Rather than bypassing NATO, such groupings would increasingly operate within it, allowing Washington and its partners to act even when full consensus across a more divided alliance proves elusive.

At the same time, American strategy would need to become more pragmatic in that case. Political convergence with European allies could weaken, particularly on issues such as trade, regulation, and relations with China. But the United States would need security cooperation even in the absence of full alignment. The goal, in that darker scenario, would not be to restore European unity but to prevent further fragmentation that could undermine the broader Western alliance system.

Those two futures—a more autonomous Europe within a rebalanced alliance or a more fragmented Europe requiring selective engagement—highlight the central dilemma facing U.S. policymakers. In both cases, alliances remain indispensable. But their form, function, and underlying logic differ significantly from those of the past and from each other.

The adjustment will be tough. A more autonomous Europe will resist American pressure, chart its own course on economic and regulatory issues, and seek greater control over its own security and industrial policies. But the alternative—a weaker, more dependent, and more politically unstable Europe—would be far more damaging to U.S. global interests.

Alliances have always been about more than alignment. They are about shared interests, mutual adaptation, and the recognition that collective strength exceeds what any country can achieve alone. That logic still holds. But the United States now needs to apply it in very different global conditions, under which the country's interests will undoubtedly be better served with strong and capable partners—rather than weak and dependent ones.

# The Middle East's New Center of Gravity

by Steven Cook

The post–World War II order has come to an end—and the new global architecture taking shape will reflect the outcomes of conflicts, diplomatic initiatives, and economic policies still in progress. In the Middle East, the pronounced shift in the distribution of power will certainly contribute to a new global order. This dynamic began well before Hamas's attacks on Israel on October 7, 2023, yet the ensuing war in Gaza has accelerated those trends and created impetus for additional change.

Over the last decade, the regional center of gravity has shifted from Egypt, Iraq, and Syria, to the Gulf's powerhouses: Qatar, Saudi Arabia, and the United Arab Emirates (UAE). The combination of their vast wealth, strategic location, and economic development plans, along with years of turmoil that have engulfed Baghdad, Cairo, and Damascus, have rendered Doha, Riyadh, and Abu Dhabi centers of power in the region. Any U.S. president entering the Oval Office since 2017 would have concluded that the United States' most influential and capable partners are in the Gulf. In the main, that is likely to remain the case even after the war the United States and Israel launched against Iran in February 2026—in large part because other countries in the region are comparatively weak, confronting their own political and economic challenges.



The growing power of the Gulf states has less to do with military might and more to do with a specific model of economic development that integrates those countries more tightly in the global economy. Although they remain critical players in hydrocarbons, they have also sought to become centers of advanced technology, logistics, entertainment, and tourism. Investment from and in the West has been an important element in those sectors' development. By making themselves partners of, for example, Google, Anthropic, and Microsoft, the Gulf states are both burnishing their prestige and reinforcing their importance to Washington. Saudi Arabia and the UAE, in particular, calculated that they did not need a security guarantee if they were part of the American high-tech development ecosystem. Now that Iran has specifically targeted tech infrastructure in Bahrain and the UAE, that view appears to be changing. Already, the Emiratis have signaled that they intend to tighten their security relationship with the United States.

The 2020 Abraham Accords also reflect the changing power dynamics in the region. By normalizing ties with Israel, the signatories—Bahrain, Morocco, and the UAE—necessarily relegated the Palestinian issue to secondary status. By dispensing with the idea normalization can occur without progress on the Palestinian problem, Bahraini, Emirati, and Moroccan leaders calculated that they would benefit diplomatically and economically, as well as bolster their national security. Normalization has indeed redounded to the benefit of all

the signatories of the Abraham Accords, which have remained durable even during the worst fighting in the Gaza Strip. By moving forward with Israel—a globally important player in cyber-technology, artificial intelligence, health, and security technology—Bahrain, Morocco, and the UAE have advanced their own development goals. That advancement expands regional integration and contributes to the regional power shift toward the Gulf that is already well underway.

Then came the October 7 attacks. Several days after Hamas's Operation Al Aqsa Flood, Israeli Prime Minister Benjamin Netanyahu vowed to change the Middle East. One by one, Israel targeted Hamas, Hezbollah, and Iran. The overall weakening of the so-called Axis of Resistance has made Israel more secure, but perhaps only temporarily. Those tactical achievements have yet to be converted into strategic gains. Hamas remains armed in Gaza, even though the territory it controls has been more than halved; the Lebanese government has not disarmed Hezbollah, even as it has taken steps to undermine its state within a state; and Iran remained a potent and capable adversary, even after Israel's strikes during the Twelve-Day War of June 2025.

The incompleteness of Israel's military gains over almost three years of continuous combat on at least four fronts was obvious in the 2026 war. Although the conflict's outcome remains unclear, there are several scenarios that will have a direct bearing on the distribution of power in the region: if the Iranian regime falls or is so diminished that it cannot project power, the power shift underway in the Middle East will continue and even accelerate. If the regime survives and retains even limited control over the Strait of Hormuz, it will amount to a strategic defeat for the United States, Israel, and, by association, the Gulf states. They will be forced to live with a militarily weaker but nevertheless emboldened Tehran that will remain a threat to their physical security and prosperity.

Undoubtedly, the Middle East is undergoing considerable change. The shift from the old centers of regional power is likely durable, but the uncertain nature of war does not necessarily mean that the power and prestige of Qatar, Saudi Arabia, and the UAE will go unchallenged. One of the unintended consequences of the 2026 war is that it could give Tehran greater influence over commerce and security in the Middle East. That would run counter to the United States' long-held core interests in the free flow of energy resources, helping to ensure Israeli security and maintaining American predominance in the region. President Donald Trump has hinted that those interests are not as important as they once were, suggesting that more change in the regional distribution of power could be in the offing. As the Iran war makes clear, Americans are divided over whether defending those interests is worth the costs. In the long run, then, Washington could well reduce its posture in the Middle East.

# The Americas in Play

by Will Freeman

In 2000, Washington's commercial and diplomatic hegemony in the Western Hemisphere was virtually uncontested. In Latin America, in particular, the United States had no major economic rivals, with China doing only about \$12 billion of trade per year with the region.

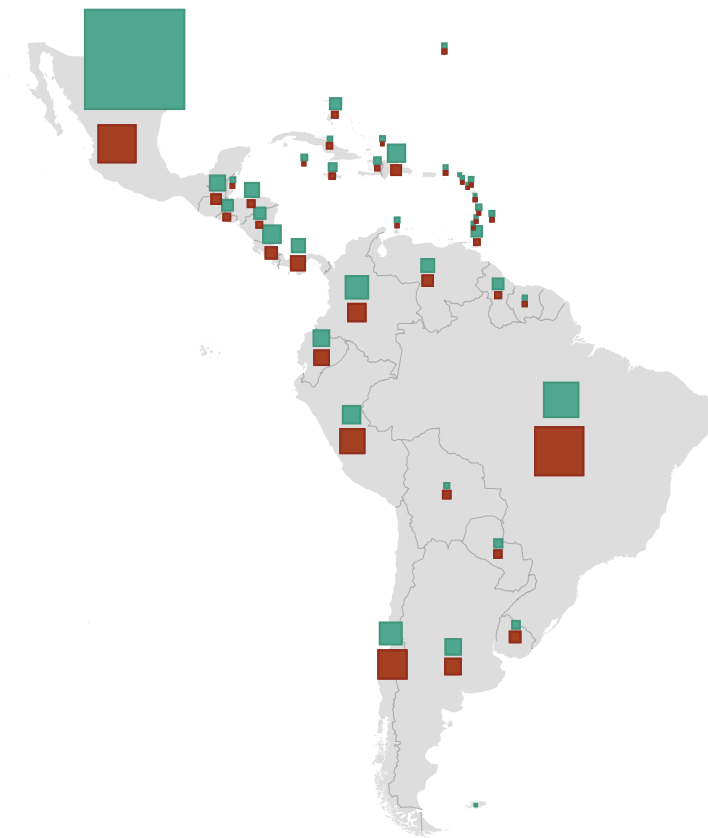
Today, Latin America's trade with China totals approximately \$520 billion per year. Over the past quarter century, China has built ports, power grids, and commodity supply chains across South America, and it is now harvesting the benefits. China is the continent's top trade partner, dominant in copper and lithium financing, processing, and refining.

The United States reacted late to those developments and is now playing a mostly coercive hand—one that is securing some short-term gains but is unlikely to restore lost influence across much of the continent. It is warning South American countries against Chinese trade and investment while doing little to incentivize or equip U.S. firms to compete. North of Panama, the story flips. In the last decade, the United States has widened

its trade lead over China in Mexico, as well as most of the Caribbean and Central America. Although Chinese exports to Mexico have recently grown, the United States is not at risk of losing its dominant trade position there.

## China Now Competes With the United States in Trade With the Americas

Good trade with the **United States** and **China**, 2024



Source: UN Comtrade

The Western Hemisphere, then, is bifurcated: a “greater North America” is aligned commercially with the United States while South America tilts toward China. In response both to U.S. tariffs and Chinese trade practices such as dumping, and to preserve some autonomy from either great power, many Western Hemisphere countries are trying to diversify toward Europe and other parts of Asia. But they are constrained. No one else will buy South American agricultural goods or refine its minerals at Chinese volumes and prices. The same applies to Canadian and Mexican exports to the United States. Brazil and Canada are potential middle powers, but neither has displayed much capacity to mobilize other Western Hemisphere countries behind a shared agenda.

That bifurcated state of affairs is not a major threat to U.S. national security at present. But it will have serious consequences if the

U.S.-China rivalry escalates. Neither Washington nor Beijing could fully deny the other access to energy, agricultural goods, or minerals, but both could use coercive diplomacy to make it harder for the other to access the resources and infrastructure it needs—and would very likely do so in the event of a conflict in the South China Sea. Latin America, especially Brazil and Mexico, played an underappreciated role supplying natural resources and bases to the Allies during World War II, and, in a future global conflict, the United States would not necessarily benefit from the same advantage.

Today, leaders friendly with the United States are partly bridging that bifurcation, including Argentinean President Javier Milei, who has realigned his country with the United States on security and diplomatic issues. Washington is highly unlikely to overtake Beijing's commercial position in most of South America. It can, however, slow its loss of influence by maintaining strong defense relationships—an area where China is not yet seriously trying to compete—encouraging qualified firms from friendly countries in Asia and Europe to bid on infrastructure and playing a bigger role in mineral financing and processing. Colombia, Ecuador, Panama, and Venezuela will be particularly important to the future of U.S.-China competition in the region. They are swing states, not as tightly anchored to one side or the other as countries to their north or south.

A second major shift in the distribution of power—and arguably a more immediate threat to U.S. security and American lives—has also occurred within Latin American states. From Brazil to Mexico, governments have accommodated increasingly powerful networks fusing organized crime, private business, and parts of the state. Those networks profit from cocaine trafficking, illegal gold mining, fuel theft, and other illicit activities. “Gangs” and “cartels” are insufficient terms for these networks’ complexity and embeddedness in the state and economy. A better term is “parallel powers.” They do not seek to replace central governments. Instead, they obtain tacit permission to make money, use violence, and lobby and illicitly finance politicians as they please.

These parallel powers have spread over the past decade by benefiting from global demand for Latin America's most lucrative illicit exports: illicit drugs and illegally mined gold. The scramble to build routes to markets in Africa, Asia, Europe, the Gulf, and within the Western Hemisphere has seeded parallel powers in Costa Rica, Ecuador, southeastern Brazil, and other parts of the region that once were more sheltered. In Mexico, they have proven adept at sourcing the inputs for fentanyl, responsible for at least 450,000 U.S. overdose deaths during the past fifteen years. Increasingly, they launder money through cryptocurrency and opaque Chinese financial networks. They have become embedded in local politics in Brazil, Colombia, Mexico, and beyond, sometimes influencing national elections.

Most Latin American governments take limited action against parallel powers because they supply votes, employ large numbers of people, and pump laundered money into the economy. The United States had not usually treated these networks as top national security priorities, out of complacency and a perception of greater threats elsewhere—spending relatively little time, attention, and money on Latin American law enforcement assistance. Washington has also used diplomatic pressure sparingly, wary of losing cooperation on migration, countering Beijing, and other priorities.

The Trump administration recognized that this was unsustainable and diverged from the status quo, designating several criminal groups as foreign terrorist organizations, securing extraditions and law enforcement cooperation from Mexico, and prosecuting several U.S. citizens for cross-border fuel and gun smuggling. But some policies have been counterproductive—notably, the pardon of Honduran ex-president and convicted drug trafficker Juan Orlando Hernández, as well as crypto deregulation, which has made money laundering easier.

Attempting to eliminate Latin America's parallel powers would be as impossible as pushing China out of South America. But Washington, together with Latin American governments, can take steps to prevent those powers from growing richer, more politically influential, and more threatening to the United States. It will have to target both the supply and demand sides of the main illicit markets and new money laundering channels. It will also need to engage diplomatically with—and, at times, pressure—Latin American governments, as well as the European and Gulf states to which the illicit goods flow.

The Western Hemisphere also presents opportunities for the United States. Latin America's relatively young population could help fill U.S. labor shortages in health care and other sectors. If U.S. refining capacity is expanded, critical mineral deals could build more secure supply chains. Greater access to U.S. higher education could bolster U.S. regional soft power and benefit neighbors' economies. Further integration with Canada and Mexico could boost U.S. competitiveness with China. But, to take advantage of those opportunities, Washington must elevate the Western Hemisphere to par with regions that typically receive more attention. Otherwise, such chances will likely fade—and the threats will intensify.

# The New African Power Map

by Michelle Gavin

Over the coming decade, Africa will face major challenges as the legitimacy and sovereignty of its states come under threat. Some of the continent's governments will become highly dependent on external support and see the scope of their authority and agency dramatically constrained. Others will become more empowered, taking advantage of global competition for resources. The United States, for its part, will either pursue common interests with African societies or find itself increasingly reliant on others to broker its relationships.

In some cases, the parameters of the state are being challenged by territorial disputes and competition for resources. Landlocked Ethiopia is demanding access to the sea, with implications for Eritrea and Somalia. Somaliland is seeking independence from Somalia. Rwanda and Uganda are entrenched in the mineral-rich east of the Democratic Republic of Congo. The weakening of international norms against territorial aggression will likely continue prompting some states to redraw boundaries by force. Meanwhile, the proliferation of cheap drones will decrease the relative power of the continent's strongest and most capable militaries.

Economic disturbances will likely accompany territorial upheaval. Without far-reaching debt forgiveness, crippling loan-servicing obligations will constrain African governments' capacities to deliver services and opportunities, further weakening the power of the state. Outside countries interested in resources and influence, from China to the Gulf states, will capitalize on that fiscal squeeze. Vast wealth disparities will likely produce client states heavily dependent on foreign patrons.

Where those external powers compete with one another—particularly over carbon sinks, vast tracts of agricultural land, control of port facilities, and access to critical minerals—the risk of proxy conflicts will grow, a phenomenon already clear in Sudan and the broader Horn of Africa. Middle powers that focus on African solutions to their supply chains, labor needs, and broader ambitions—such as Saudi Arabia, Turkey, and the United Arab Emirates—will be as important as, or more important than, traditional actors such as China and Russia for the fortunes of some African governments. Meanwhile, the United States and Europe, having dramatically decreased foreign assistance, will need to carve out new roles to retain influence.

Nonstate actors' power will increase as states flounder. Radical extremist organizations, including Jama'at Nusrat al-Islam wal-Muslimin and the Islamic State in the Greater Sahara, already control large swaths of Sahelian territory. Extremists also hold territory in parts of East Africa. Organized international criminal networks will grow in sophistication and capacity as under-resourced states struggle to enforce laws. The United States will have no choice but to reckon with a world in which strategic resources and places are in the hands of actors fundamentally antagonistic to its interests.

Power will also be informed by Africa's information landscape. The region will remain vulnerable to external actors wishing to capitalize on local grievances to advance their preferred geopolitical narratives. African political elites have often been willing to work with foreign partners to control, restrict, and shape the information that reaches their voters. But African publics are discerning consumers of media, adept at using digital tools to express their frustration with state repression and inadequate service delivery. The region's rapid urbanization will give more political organizing power to citizens whose consistent concerns about unemployment, poor basic services, and corruption will fuel demands for political change and an openness to political experimentation. The rise of popular discontent could disadvantage external actors—principally China and France but increasingly also the United States—that rely on long-standing relationships with African political elites.

The collapse of multilateralism in the international system will dampen Africa's capacity to exercise power as a massive voting bloc in international forums. But there is a strategic upside: African countries should enjoy a sense of solidarity as they negotiate with well-resourced external actors, which could in turn promote continental cooperation and advance efforts to reinvigorate the African Union and subregional organizations. Africa's current leadership vacuum, a result of such giants as Nigeria and South Africa being preoccupied with domestic concerns, need not last indefinitely. On everything from dealing with the debt crisis to adapting to climate change, African states have obvious incentives to work together to maximize their leverage.

The continent's demographics will be impossible to ignore. Within the next ten years, Africans will account for 20 percent of the world's population. As aging societies in Asia and Europe struggle for workers, African states will overflow with excess labor. Growing African markets for consumer goods, affordable housing, power, and transportation will create opportunities for homemade and imported solutions and could make their providers influential in the region.

The international preoccupation with securing critical mineral supply chains should continue to give resource-rich African states leverage over outside partners, particularly the United States and China. Agreements with Washington or Beijing have the potential to be purely extractive, failing to deliver benefits to African publics. But ultimately, those African states capable of providing a stable and transparent investment climate are more likely to strike deals that add value and create jobs.

Finally, as the closure of the Strait of Hormuz has reminded the world, geography has enduring relevance. The desire for influence in and access to the Red Sea will persist, and countries that account for the interests of African coastal states will be more successful than those that do not. Similarly, African coastal and island states can leverage their geographical positions to extract concessions from those powers and their rivals.

The United States will need to leave its anachronistic and dismissive ideas about Africa behind. Otherwise, it will find itself on the outside looking in as others pursue African partners in their bid to reshape the world order. Only a keener sense of enduring African priorities—those that transcend any particular leader—can inform a strategy that makes the United States competitive with other powers eager to be a part of Africa's future.

# The Age of Economic Warfare

by Eddie Fishman

President Donald Trump did not start the age of economic warfare. Nor will it end when he leaves office. Every U.S. president in the twenty-first century has imposed sanctions at roughly twice the rate of his predecessor, and in recent years this trend has gone global. Between 2019 and 2024, the number of trade restrictions enacted worldwide more than tripled. In Beijing, Brussels, Moscow, Tehran, Tokyo, Washington, and beyond, governments are arming for economic war and building defenses against their rivals' economic weapons.

This accelerating economic arms race and scramble for economic security reflect a structural mismatch: today's global economy was built on assumptions that no longer hold. It was designed for the halcyon 1990s, when the United States faced no competitors and viewed China and Russia more as potential friends than rivals. Now that geopolitical competition has returned with a vengeance, features built in the name of economic efficiency—such as just-in-time global supply chains and a financial system centered on a single currency—appear as glaring vulnerabilities. For governments around the world, it is as if they have woken up in a house that served them well for decades, only to discover that the climate has turned and the big windows that once let in the sun now leave them perilously exposed to storms.

The proliferation of economic warfare represents disjointed efforts by governments to retrofit the global economy to suit today's geopolitical realities. It is leading to geoeconomic fragmentation across the financial system, energy markets, the technology sector, and industrial supply chains—and it will continue until the international economic order is fundamentally transformed.

Economic orders come and go. Just because the old one is unraveling does not mean the new one will be worse. The problem is that no one has presented a compelling vision for a new system, much less a coordinated effort to build it. Instead, the world is drifting into an every-nation-for-itself tussle, uncomfortably reminiscent of the beggar-thy-neighbor breakdown of the 1930s. One way or another, a new global economic order is taking shape.

Three paths define the range of possible futures, each with its own promise and peril. The first would aim to preserve as much global economic integration as possible to minimize disruption to existing markets, business models, and supply chains. In this "Globalization 2.0," governments would manage intensifying geopolitical competition by agreeing to shared rules and norms to constrain the use of sanctions, tariffs, and export controls. One could imagine a kind of Geneva Convention for economic warfare, placing explicit limits on coercive economic measures, alongside "arms control" agreements in which governments commit to restraining the use of their most powerful tools. At the same time, great powers would develop more explicit economic deterrence doctrines to discourage rivals from violating those rules.

Attractive as this path may seem on paper, it would be the hardest to pursue in practice. It would require, at a minimum, the United States and China to reach a level of accord that has proved elusive for years. It would also require U.S. presidents to exercise restraint in unprecedented ways. A major reason economic warfare is so appealing in Washington is that the president has broad legal authority to deploy it—and it is often seen as preferable to the alternatives: doing nothing or resorting to military force.

The second path is a global economy defined by competing blocs, bearing some resemblance to the order that prevailed during the Cold War. Those blocs could take shape in many ways. An ideological version could see the United States and other democracies band together and collectively derisk from China and its authoritarian

partners. A regional version could see the United States lead a bloc in the Western Hemisphere, while China anchors one in Asia, Germany and Russia divide Europe, and other regions pick sides or seek nonalignment. There are also narrower, issue-specific versions, such as coalitions to build integrated supply chains for critical minerals or to develop alternatives to the dollar-based financial system.

International economists tend to warn against a bloc-based system, and they are right that it would be less efficient than one founded on global integration. But efficiency is not the only metric that matters. If the United States can build a sufficiently large and cohesive bloc, it could still achieve scale and dynamism while providing far greater economic security. After all, the strongest decades of growth in U.S. economic history occurred within a bloc-based system during the Cold War.

The challenge is that blocs do not form on their own; they need to be deliberately built. And right now, neither the United States nor China is fully committed to that path. During the Trump administration, Washington has waged economic war against adversaries and allies alike, eroding the trust needed to construct a broad and durable bloc.

The third and final path is transactionalism—a world in which the great powers eschew any organizing principle and instead use their leverage to strike the most advantageous bilateral deals. That approach comes closest to what the Trump administration has pursued so far. For the United States, there is a certain appeal. As the world's dominant economic power, it can expect to secure favorable terms in most negotiations. But this model has a major drawback: it systematically incentivizes hedging. In such a world, even close U.S. allies such as Canada, Germany, Japan, and the United Kingdom would have reason to develop non-dollar payment systems and diversify away from U.S. technology platforms. Over time, the costs to both U.S. influence and economic prosperity could be substantial.

The greatest risk of this path, however, is not economic but geopolitical. If states lose confidence in their ability to access markets and secure resources through open exchange, they will be more tempted to do so through military force. Over time, territorial aggrandizement could move from a relic of a darker past to a rational strategic objective, raising the risk of imperialism and conquest.

Few questions will more profoundly affect America's future than the shape of the emerging global economic order. It will not wait for the United States to answer it. Economic fragmentation is already underway. We will all live with the consequences, whether Washington guides the process or not.

# The Broken Economic Order

by Heidi Crebo-Rediker

The next U.S. president will inherit a transformed global economic system, one likely to bear little resemblance to that which preceded Donald Trump's reelection in 2024. Alliances will be damaged, institutions weakened, strategic dependencies more acute, and the line between economic policy and national security nearly erased. Although the forces that were changing the system before Trump's return to office are distinct from the much more profound rupture caused by his administration's actions, it is by analyzing these durable trends—which will outlast the current administration—that reasonable assumptions can be made about a future U.S. strategy.

In 2029, Washington will be tempted to speak the language of restoration. That would be a mistake. The old international economic system is gone. The task ahead is not to seek to recreate what was; it is to build a strategy suited to what is coming. And that requires a detailed understanding of the trends that produced those changes.

Many trends will likely prove durable. There can be no return to economic overdependence. The United States relies disproportionately on China for rare earths and other critical inputs, and China depends on the United States and its partners for advanced semiconductors and equipment. Europe learned, to its own detriment, the risks of overdependence on Russian energy and is confronting similar questions about reliance on U.S. security. All are now pursuing strategies of resilience to decrease those dependencies. That change will be enduring.

Indeed, those dependencies have raised the risks of economic coercion. Such coercion has long been central to economic strategy. Washington and Beijing have embraced the weaponization of economic vulnerability for years. Moscow did the same with its pipelines, and Tehran is doing it through the Strait of Hormuz. Coercive tools to weaponize choke points have evolved over decades and will only be more commonly used by governments. These include sanctions; export controls; investment restrictions; tariffs; and now what one might call “coercive investment”—that is, Trump's leveraging of market access and security ties to shape allies' investment behavior.

Technology, particularly artificial intelligence (AI), has also transformed the economic landscape. AI's challenges and opportunities are already becoming key drivers of international economic strategy. At the same time, economic, technological, and military domains are merging into a dual-use landscape. National security no longer sits alongside economic and technological policy; it is embedded within it. That trend, too, will only accelerate.

Those changes have demolished post–Cold War assumptions about the market's ability to allocate resources. Globalization no longer guarantees resilience. State intervention is no longer viewed as inherently distortive. The global financial crisis, China's rise, the COVID-19 pandemic, and supply chain shocks accelerated that shift. The state is lender, investor, insurer, industrial planner, and more. The Trump administration could even leave behind something akin to a U.S. sovereign wealth fund, which the Biden administration also contemplated.

Although those changes are fundamental, the institutions of the old order still stand. The International Monetary Fund, World Bank, World Trade Organization, and regional institutions remain, but their centrality has been under strain for years. Great power rivalry, domestic backlash, and frustration among developing economies have reduced confidence in these institutions' ability to act as and when needed without too much political influence. The U.S. dollar has also survived. Absent a true alternative, its status in the immediate term should be secure.

Some of those changes predate the current administration, but Trump has gone beyond accelerating them and introduced a genuine rupture. The damage is not limited to trade wars or a more nationalist posture: Trump has undermined alliances and called into question whether the United States is bound by the norms and values it has long demanded that others respect. In so doing, Trump has weakened Washington's claim to be the legitimate anchor of the economic order. The dollar is still central, but the Iran war is a test of necessity as the mother of invention, with U.S. actions practically begging others to find ways to reduce dollar dependency.

That loss of legitimacy could prove more consequential than any individual policy. International order rests not only on material power but also on trust, reliability, and a belief that leadership will be exercised in a way that others can agree is broadly fair, or at least stable. Once that belief is damaged, it is not easily restored by election results or rhetorical resets.

The implications of diminishing trust in Washington are profound. Alliances and security commitments are not separate from the economic order. When the United States casts doubt on NATO, threatens allies, courts their enemies, or signals that security guarantees are conditional and revocable, countries adjust their defense planning, as well as their trade, investment, industrial, and financial strategies. Those responses are rational, but they rupture the web of relationships that has long economically benefitted the United States.

The U.S. economy is and will remain a strong, dynamic, innovative, compelling investment destination. But U.S. partners will nonetheless construct new strategic and defense relationships over the next three years in response to Washington's behavior. The next administration, then, will need an international economic strategy grounded in realism rather than nostalgia.

First, it should accept that a more state-driven economic era is here to stay. The United States will need to compete in a world where public capital, deep partnership with the private sector, and industrial policy are standard instruments of national policy. The challenge will be to use those tools in ways that are disciplined, transparent, and tied to genuine strategic priorities rather than political patronage or performative economic nationalism, with guardrails that keep markets free but not defenseless.

Second, the next administration should make resilience a core organizing principle. That does not mean complete national self-reliance, nor does it mean producing everything at home. It means identifying critical dependencies, diversifying suppliers, investing in domestic capacity, and coordinating where possible with trusted partners on redundancy and surge capacity.

Third, Washington should treat alliances as critical economic assets. Rebuilding trust will require more than asking partners to forgive and forget. It will require sustained evidence that the United States is again prepared to operate within frameworks, respect commitments, and consult rather than dictate. Cooperation in this new era will be narrower and more issue-specific than in the past, but even selective alignment depends on a basic level of credibility.

Fourth, future administrations should recognize that the old institutional order cannot be restored. The International Monetary Fund, World Bank, and other multilateral institutions still matter, but they are unlikely to regain their once uncontested importance. Washington should strengthen useful institutions while engaging more flexibly elsewhere. The goal should be functional influence, not institutional nostalgia.

And finally, U.S. international economic strategy should pursue reinvention rather than restoration. The United States will still have immense strengths far into the future: its scale, innovation, capital markets, and alliances are not irretrievably damaged, and the country will retain an ability to shape the rules of emerging technologies and strategic industries. But it will have to exercise those strengths in a world that now doubts its reliability.

# Weaponizing Interdependence

by Brad Setser

China's stunning rise, and its global lead in manufacturing, have raised questions about both the nature of economic power and the United States' continued economic preeminence. In one sense, there is not much reason for debate: the U.S. share of global output has been remarkably constant over the last forty years. China's rise, though extraordinary, has statistically come at the expense of the other Group of Seven (G7) countries. And U.S. financial markets, or at least its equity market, account for a larger share of any global stock index than at any point in the last fifty years.

But that misses enormous changes in how sources of economic leverage are conceived and defined. Ten years ago, conventional wisdom held that economic power flowed from creating rules and influencing global institutions. The central argument, at least in Washington, was that the United States could leverage its 20 percent share of the world economy to write nearly 100 percent of global economic rules and simultaneously maintain controlling stakes in the key international financial institutions.

But China had no intention of playing by rules it did not write. Beijing, therefore, ignored the rules and played by its own, achieving significant industrial and technological successes. An outstanding example is its creation of a world-leading electric vehicle industry, shielded by a tariff wall and nourished by large state subsidies. Even in the United States, political support for many of the established rules has been weakened by the sense that they were written primarily to benefit a narrow slice of the U.S. population.

The old thesis of sources of economic power has lost intellectual dominance. Now, economic power is instead largely conceptualized through the logic of weaponized interdependence. There have been lively debates over when interdependence becomes dependence, when dependence needs to be reduced or simply managed, and whether states can deter other states from weaponizing their economic chokepoints.

As those debates played out, President Donald Trump started his second term by weaponizing access to the U.S. consumer market. Traditional trade deals—where both parties reduced barriers—were shunned, and the constraints of legacy trade agreements were cast aside. The goal of Trump's second-term tariffs was not to negotiate new global rules for trade, but to compel U.S. trading partners to accept unequal terms. The United States raised tariffs, and other countries agreed, albeit reluctantly, not only to refrain from raising their own tariffs in retaliation but also to reduce their own tariffs. The European Union, though, argues it did so because of its dependence on the United States for security, rather than its dependence on the U.S. market.

The most important development of 2025, though, was that China did not accept a deal akin to the one the United States hashed out with the EU in Turnberry, Scotland, where the Trump administration forced Europe to accept high tariffs in exchange for access to the U.S. market. Beijing pushed back forcefully against Washington's demands and ultimately was able to convince the administration both to roll back its tariffs and to narrow certain proposed export restrictions. China did so by walling off its market to U.S. goods, counting on pressure from the farm states that rely on the Chinese export market to moderate U.S. demands (its playbook from Trump's first term). It also weaponized its dominance of the supply chains needed to produce rare earths and other critical minerals, laying out comprehensive export controls that threatened to shut down the U.S. auto industry and complicate military production. This Chinese action established a precedent that in many ways is more important than the Trump administration's decision to disregard the United States' WTO tariff commitments and raise tariffs to levels not seen since the 1930s.

It is worth noting that China's response to U.S. tariff threats came through its control of key supply chains, not through its weaponizing of U.S. bond holdings. That fact alone suggests that transforming finance into leverage to achieve strategic goals is harder than often assumed. Further evidence can be seen in the great difficulty that China has had in converting its Belt and Road lending into enduring influence. Ecuador, for example, took a great deal of Belt and Road money to build hydroelectric dams without ending up permanently in China's orbit. And when Zambia defaulted on loans from China's Export-Import Bank and other state banks, it ended up reducing China's leverage over the country, rather than increasing it.

The relative weakness of finance as leverage could also be seen following the financial sanctions that G7 countries imposed on Russia after its 2022 invasion of Ukraine. Even though those were among the strongest possible financial sanctions, they did not hinder Moscow's ability to fight. Rather, its aggression against Ukraine continues four years after its reserves were frozen and its access to new international lending entirely cut off.

The reality is that most countries do not depend on either U.S. financial markets or the U.S. government for funding. Instead, the global flow of capital is overwhelmingly into the United States, not from the United States to the rest of the world. Wall Street's core work is mobilizing global funds to invest in the U.S. economy, not mobilizing U.S. funds to invest globally. Countries that fund the United States aren't necessarily going to be deterred by the prospect that they cannot raise funds in the United States, and the United States has been less willing to impose sanctions limiting new inflows into the U.S. bond market than to try to raise a toll for access to the U.S. consumer market.

One reason Russia survived heavy Western sanctions is that it did not need access to either its accumulated foreign currency reserves or new U.S. or European financing to prosecute its war against Ukraine. So long as there were buyers for Russian oil exports, the Kremlin would be fine. China is in a similar position; its industrial, technological, and strategic goals can be financed entirely out of the country's large domestic savings. Its state banks fund the rest of the world out of domestic savings, not the other way around.

The United States still has unrivalled influence over the global economy. But U.S. leverage is not unlimited. The United States faces a determined rival with many cards of its own to play. It isn't in a position to use its economic leverage to impose any vision of a global economic order on China, let alone use its economic pull to integrate China into a strategic order. Nor have the consequences of a world where the two leading economic powers have weaponized supply (as China has) and demand (as the United States has) been fully digested by the rest of the global economy. The old global economic order is dying; a new one has yet to be born.

# The Protectionist Turn

by Benn Steil

In 2016, Donald Trump surged to the presidency on the back of popular anger over deteriorating economic prospects in the upper Midwest and the so-called Rust Belt. Over the previous fifteen years, jobs in those electorally significant communities had been lost to factories in China, concentrating in industries such as furniture, textiles, apparel, electronics assembly, and metal goods. The phenomenon became widely known as the China shock.

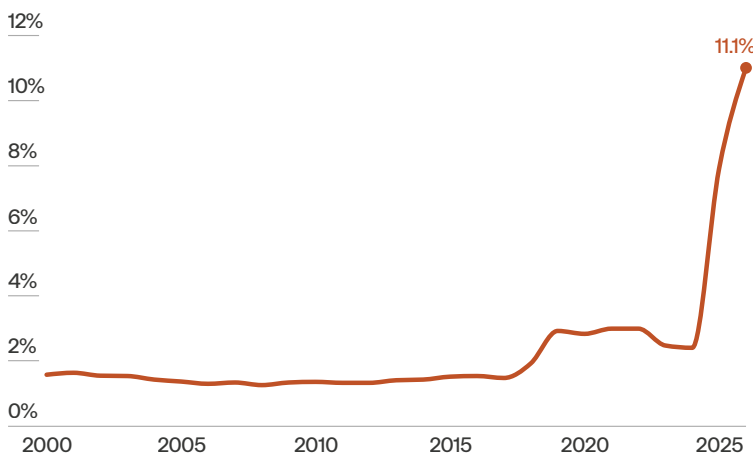
Politically, the moment was ripe for a change in U.S. trade policy that would address popular anger by sheltering U.S. manufacturers from Chinese competition—particularly from those competitors abetted by Beijing's export and financing supports.

Following his inauguration in 2017, Trump imposed sweeping tariffs on Chinese imports, levied mainly under the authority of Section 301 of the Trade Act of 1974. This raised the average effective tariff rate to almost 3 percent by 2019.

Tariffs are taxes paid by American importers. By 2019, the average tariff on Chinese goods had risen from about 3 percent to 20 percent, covering some \$360 billion worth of imports. Although some of that cost was passed on to U.S. consumers in the form of higher prices, a large majority of Americans deemed Chinese trade practices unfair, and a plurality supported the tariff policy.

## Tariff Rate Reaches Recent High Under Second Trump Administration

Average U.S. effective tariff rate



Notes: Data before 2026 is the customs duty revenue as a percentage of goods imports. Data for 2026 is a projection based on Harmonized Tariff Schedule revision data from Jan. 1, 2025 to Apr. 6, 2026.

Sources: Historical Statistics of the United States Ea424-434; Monthly Treasury Statement; Bureau of Economic Analysis; Yale Budget Lab

During the 2020 presidential campaign, Joe Biden criticized the tariffs as economically harmful. Yet as president, he maintained the bulk of them, issuing only some targeted exclusions. Tariffs thus emerged as a durable, bipartisan pillar of economic policy toward China.

But Trump's return to office in 2025 brought with it a global expansion of tariff policy. Invoking the 1977 International Emergency Economic Powers Act (IEEPA), Trump claimed sweeping authority to impose tariffs on any nation's exports at any level for any length of time. He began levying them at rates beginning at 10 percent, four times the prior average.

He then negotiated bilateral trade and investment deals, exchanging slightly lower tariff rates for disproportionate concessions on tariffs, as well as pledges

to invest in the United States. Those deals skirted the congressional ratification required when formal trade agreements involve changes to U.S. law or binding obligations.

The Supreme Court struck down the IEEPA tariffs in February 2026. But the Trump administration, having anticipated the decision, has moved expeditiously to reintroduce them under alternative legal authorities based on “national security,” “unfair trade practices,” and “balance of payments” concerns. The last of these authorities—based on “balance of payments” concerns—is once again being challenged in court.

China’s share of total U.S. imports has fallen from a high of 22 percent in 2017, the first year of Trump’s first term, to about 8 percent—its lowest level since China joined the World Trade Organization in 2001. But the overall U.S. trade deficit, in spite of the new global tariffs, barely budged last year—clocking in at just over \$900 billion.

Trump has stated repeatedly and falsely that it is foreign countries—and not American consumers—that pay the tariffs. The American public, however, is progressively coming to understand that tariffs are responsible for higher prices on everything from household items to automobiles. With midterm elections coming in November, the administration is likely to issue exemptions to firms importing popular consumer goods and the raw materials used to make such goods. The current average effective tariff rate, now roughly 11 percent, should therefore fall somewhat.

Longer term, however, Trump has likely ushered in two major and durable changes in U.S. trade policy. First, future presidents, irrespective of party, are unlikely to return to Congress the tariff-setting and deal-making powers that Trump has asserted for the executive branch. This is likely to make U.S. trade policy considerably more volatile.

Second, the WTO, created in 1995 to set and administer global trade rules, is unlikely to regain the authority that Trump effectively stripped from it in his first term. In 2017, he began refusing to allow the appointment or reappointment of judges to the system’s Appellate Body, ending the enforceability of dispute-settlement panel decisions. Biden continued this policy, and the body has been inquorate since 2019.

Trump’s many bilateral deals have also eroded the bedrock WTO principle of most favored nation (MFN) status for all members—whereby any trade advantage granted by one member country to another must be extended immediately and unconditionally to all others. Trump’s deals not only depart from the MFN principle but have forced U.S. counterparts to do the same. Many countries have also followed the U.S. lead in justifying new trade barriers by claiming a national security rationale, thereby placing them beyond the effective purview of the WTO. This development appears permanent, suggesting little if any role for the WTO in setting and enforcing trade rules going forward.

Over the coming decade, the domestic political dynamics that produced these enormous changes are unlikely to reverse. U.S. trade policy is therefore likely to remain more discretionary, more bilateral, and more closely tied to broader strategic and economic objectives than in the pre-Trump era. The European Union, China, and other major trading nations are likely to mirror this shift.

Still, a multilateral trading system on a smaller scale could be revived under a future presidency, and there is a historical precedent it could follow. The 1947 General Agreement on Tariffs and Trade (GATT), which governed multilateral trade until its 1995 reincarnation as the WTO, made enormous progress in lowering tariffs over nearly five decades. And it did so in a way that would be congruent with the new reality on trade.

With the GATT, unlike with the WTO, the United States insisted on the compatibility of members' policies with the principles of a market-driven economy. The cost of this insistence was that the GATT began with only twenty-three members. The benefit was that the Soviet Union, which refused to accept limitations on export subsidies and other trade distortions, declined to join, thereby excluding from the club a country that would have undermined the institution through unfair practices.

With the WTO, the United States aspired to universality and therefore allowed China in without a clear path to its transformation into a market economy. China's economy is now fourteen times larger than in 2001. The systematic overcapacity induced by Beijing's direction and subsidies has made it increasingly difficult for open trade to operate without the United States and other Chinese trading partners acceding to their own unlimited deindustrialization. A future, pro-trade-minded administration could therefore look to recreate a GATT among a WTO subset of genuine market economies—that is, excluding China. Such a development would square the circle of supporting U.S. global competitiveness, aiding affordability, and preventing job loss to unfair foreign trade practices.

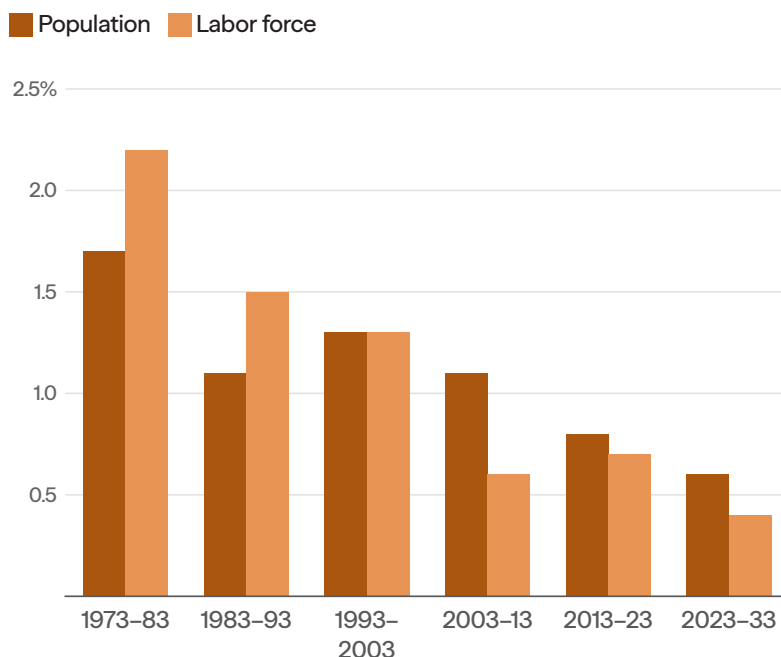
# The Labor Problem

by Rebecca Patterson

If the United States wishes to be strong abroad, it needs to be strong at home. An effective foreign policy requires resources and public support. Those factors, in turn, depend on a strong economy underpinned by prosperous and financially secure households. A solid economy with a healthy labor market means more tax revenue to fund government priorities, including defense spending and research and development. A weaker economy with a greater need for social assistance spending, by contrast, means less fiscal and political room for military expenditures.

## U.S. Labor Force Growth Has Declined

Population and labor force growth, 10-year compound average annual rates



Note: Data for 2023-33 is projected.

Source: U.S. Bureau of Labor Statistics

need to prioritize an approach to immigration that better balances economic and social needs. Without an effective policy to support the labor market, and in turn the U.S. economy, policymakers will have a relatively harder time financially sustaining an effective foreign policy.

In addition to ensuring a healthy, growing labor force, the United States needs to maximize the productive potential of its workers. Although AI is often presented as the answer, a clean, perfectly timed swap of workers for AI agents is unlikely: AI will not be able to replace the available jobs when and where they are needed, nor can AI agents do jobs in the agricultural or construction sectors, which have been hard hit by the reduction of foreign labor. Although AI has the potential to unleash higher productivity growth, when and by how much remain to be seen. For now, the technology's contribution to economic growth is a forecast, not a certainty.

Although U.S. economic growth has been boosted in the last year by the artificial intelligence (AI) boom, this expansion has not translated into a robust job market. There is both limited demand for workers and limited supply. The Bureau of Labor Statistics has forecast that the U.S. labor force will grow by only 0.4 percent annually between 2023 and 2033, compared with 1.3 percent in the previous decade. Given declining fertility rates and an aging population, the country will need foreign-born workers to make up the shortfall. Yet in 2025, the Brookings Institution estimated that the United States lost between 10,000 and 295,000 immigrants, the first time in half a century that the country recorded a net outflow of foreigners. This exodus of workers has been a drag on economic growth, with fewer households consuming. It has also stressed those industries that rely more on immigrant labor, including construction, food and hospitality, and agriculture. U.S. officials

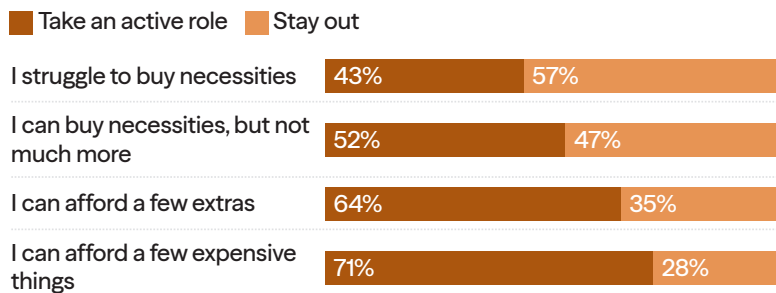
Rather than simply relying on AI, Washington should take steps to increase workers' productive capacity. It should begin with education, which provides workers with skills that command an increased income, which in turn fuels consumption. Although AI could disrupt education in the longer term, in the near-term, the positive relationship between education and productivity is likely to hold. Americans obtaining a bachelor's degree substantially benefit in terms of income and skills, driving productivity and economic growth. According to the latest Bureau of Labor Statistics data, bachelor's degree holders' median weekly earnings are 66 percent higher than workers with only a high-school diploma. Beyond looking for ways to make college more affordable, especially for lower-income families, policymakers should seek to scale some of the programs already underway across the country that are linking post-secondary training with subsequent employment.

That is not to say that elementary and high school education cannot also be significantly improved. The National Center for Education Statistics' national report card showed in 2024 that only 22 percent of twelfth grade students achieved proficiency in mathematics and only 35 percent reached proficiency in reading. Once again, there are success stories across the country that could be studied and replicated to change those statistics.

A productive, financially healthy workforce is far likelier to have the political appetite to support a globally engaged foreign policy. Periods of labor-market stress and financial insecurity, by contrast, tend to foster protectionism. Historically, households struggling with scarcity have been less willing to consider policies that divert capital or other public-sector resources from their domestic needs.

### Wealthier Americans Back U.S. Global Engagement

Preference for U.S. role in the world, by income level



Note: Data is as of 2025.

Source: Chicago Council on Global Affairs

secure their financial well-being. Currently, thirty-nine states require at least one course in personal finance to graduate high school, while twenty-two states have a similar economics requirement, according to work by the Council for Economic Education. State officials can support legislation to ensure all U.S. students receive training in economics and personal finance. Fortunately, much of the needed curriculum and teacher training is already publicly available. The federal government, for its part, can extend funding for newborns to get investment accounts (the current "Trump account" program expires in 2028) and attach financial-literacy programs to support the recipients.

The United States' fiscal room is shrinking. The government's rising interest payments on debt leave less money for other government priorities, both domestic and foreign. Without a sufficiently expanding, educated, and productive labor force to support economic growth, Washington will struggle to find the capital and political support at home needed to pursue its priorities abroad.

Unfortunately, the United States is in an age of financial insecurity. The Federal Reserve's recent annual household finances study found that 37 percent of adults would have to borrow or sell an asset to cover a \$400 emergency expense, and 39 percent had no assets specifically designated for retirement. This is unsustainable. A financial literacy program on the federal level would help.

Beyond improving foundational educational attainment, either as a stepping stone to college or technical training, Americans need to learn to manage their personal budgets and

# The Climate Threat

by Alice Hill

The effects of climate change are already redrawing the map of global power, and will likely continue to do so for decades and centuries to come. More intense storms, rising seas, prolonged heat waves, deeper droughts, and larger wildfires have touched every corner of the globe, confronting the United States with climate-altered geography, increased global and internal migration, water scarcity, and the prospect of sustained economic losses.

Rising seas shrink land mass. Without adaptive measures, increased flooding has the potential to degrade living conditions for millions of people in coastal regions across the globe, including in the United States. A 2026 review of close to four hundred scientific publications revealed that the scientific community has likely underestimated coastal sea-level height, meaning that around 37 percent more land mass and potentially over a hundred million more people are at risk than once thought. And an analysis of satellite data from 1993 to 2023 showed that the rate of global sea-level rise had doubled, which means that the line where the ocean begins and the land ends is moving inland at a faster clip.

## Melting Ice Opens Up the Arctic



Note: Sea ice reflects the summer extent as of 2025.

Sources: National Snow and Ice Data Center; CFR research

State,” acquired icebreakers, and sought to use the route to cut shipping distances. The High North is becoming high stakes, and the United States’ shortage of icebreakers and other equipment hampers its ability to compete. One study found that two-thirds of the seventy-nine U.S. military bases in the Arctic remain unprepared for thawing permafrost and rising seas.

As seas continue to rise, coastal cities will see their critical infrastructure, like power and wastewater treatment plants, chronically flooded, while vast agricultural lands will become drenched in plant-killing salt. Without significant investments in adaptation—like construction of seawalls, expansion of wetlands, and development of salt-tolerant plants—coastal residents will have to move to higher ground. Critically, climate change threatens U.S. military infrastructure and operations. More than 1,700 military installations in coastal areas either already are, or could be, at risk from sea-level rise and other extreme weather events.

Meanwhile, melting Arctic sea ice is opening new opportunities to mine minerals, catch fish, and extract oil. Russia has built extensive military and civilian infrastructure along the Northern Sea Route, which hugs its Arctic coast. China has declared itself a “Near-Arctic

## Climate Change Could Uproot 170 Million People Within Their Countries

Projected internal climate migrants by 2050 under a pessimistic scenario

| Region                          | Number of people | Percent of population |
|---------------------------------|------------------|-----------------------|
| Sub-Saharan Africa              | 71M              | 3.5%                  |
| East Asia and the Pacific       | 36M              | 1.9%                  |
| South Asia                      | 36M              | 1.6%                  |
| North Africa                    | 13M              | 6.1%                  |
| Latin America                   | 11M              | 1.6%                  |
| Eastern Europe and Central Asia | 4M               | 1.7%                  |

Note: Chart shows the average from a range of possible outcomes.

Source: World Bank's Groundswell report

unsuited to the coming changes. Efforts to share a dwindling critical asset could exacerbate existing tensions and heighten the risk of conflict, a situation that is already playing out along the Indus River and its tributaries, which are shared by India and Pakistan.

The effects of climate change cascade through society, causing widespread damage. Consider extreme heat, the most certain and direct effect. Increased heat makes learning difficult for students in schools without air conditioning. It reduces labor productivity for outdoor workers, throws energy grids into crisis as demand spikes, degrades energy generation and transmission, strains health-care systems with heat-related illnesses, kills crops, buckles roads, kinks train tracks, grounds airplanes, and primes wildfires.

Traditional economic modeling typically fails to capture those types of cascading impacts. Models tend to focus on global average temperature increase rather than the extremes. But it is at the extremes that the losses begin to take the greatest toll. A mild temperature increase does not kill, but a three-week heatwave can result in thousands of fatalities, destroy harvests, and disrupt transportation and energy systems. Economists' models sometimes treat climate impacts as if they cause a smooth and continuous increase in damages when, in fact, greater heat extremes could lead to severe abrupt disruptions like the die-off of coastal reefs or the alteration of ocean currents. Economic modelling also struggles to include feedback loops, such as higher temperatures leading to more wildfires that worsen air quality that results in increased mortality. Imperfect modeling can cause policymakers to underestimate the costs of climate change and thus delay investments in adaptation measures.

China has chosen to prepare for climate risks. While Beijing has built a technological powerhouse to dominate the global clean-energy market, leading in solar, batteries, electric vehicles (EVs), and rare-earth processing, it is also preparing, on a national scale, for the impacts of climate change. China has declared its aspiration to become a climate-adaptive society by 2035 and has incorporated adaptation into its centralized planning process,

Climate change will also accelerate migration. Droughts and extreme flooding will displace people from their homes and often from their communities, and the movement of large populations can spark political instability and create power vacuums—effects that reach well beyond the countries where they occur. Climate-driven migration could spill over to the United States, through increased pressure on its borders but also by destabilizing its neighbors and allies.

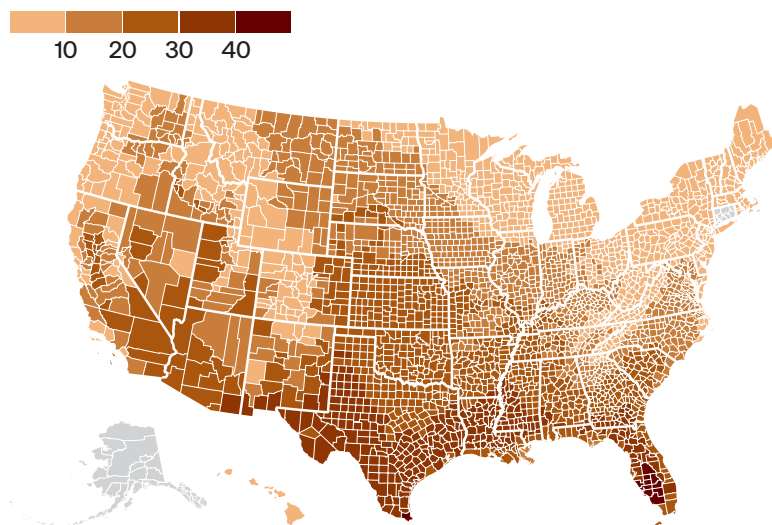
Another threat comes from changes to the world's freshwater supply. Climate change threatens to alter the flows of critical transboundary rivers, lakes, and aquifers. As droughts intensify and countries begin to make unilateral infrastructure decisions, those shared resources will become pressure points. Many of the water treaties negotiated in the last century do not account for new climatic conditions and are therefore

including in its latest five-year plan. It aims to build a national adaptation framework, systematically incorporating climate risk into government decision-making, even as it continues to build coal plants and rely on fossil fuels. To be sure, translation of top-down aspirations into effective on-the-ground projects presents many challenges, but the U.S. government currently offers no direction for national adaptation. Meanwhile, European and Asian countries have.

The United States is mired in political debates over whether climate change is even occurring. President Donald Trump has called it a “hoax,” and the 2025 National Security Strategy criticized “disastrous ‘climate change’ and ‘Net Zero’ ideologies.” Some U.S. states have developed adaptation plans and made progress, but their efforts match neither the scale nor the cross-jurisdictional nature of the threats. Other states continue to plan for the climate of the past, making choices about where and how to build based on historical climatic conditions.

### Extreme Heat Is Projected to Increase

Change in the number of days over 95°F per year compared to a 1991–2020 baseline if Earth’s temperature rises 3.6°F (2°C).



Note: 3.6°F (2°C) temperature increase is compared to a preindustrial average measured from 1851 to 1900.

Source: U.S. Global Change Research Program

With climate risk rising and adaptation lagging, U.S. property insurers have sought to raise rates, reduce coverage, or leave the market altogether in vulnerable geographic areas. Just adopting and enforcing stronger building codes would reduce damages. FEMA has estimated that every dollar spent on stronger building codes today can save \$11 in damages later. Yet, 65 percent of U.S. counties, cities, and towns have failed to adopt modern building codes that protect against today’s weather extremes, and 30 percent of new construction happens in communities with either no or obsolete codes. In the absence of adaptation, the United States will spend more and more on simply managing losses.

As losses mount, the United States will find itself at a strategic disadvantage. Without adequate investment in adaptation, the effects of climate change will become increasingly costly. Businesses and homeowners will struggle to obtain

property insurance, borrowing costs will rise, and high-risk areas could see their tax revenues, property markets, and infrastructure—civilian and military—erode. Meanwhile, competitors that are pushing ahead on national planning for climate change will have a headstart on identifying and deploying adaptation measures. U.S. policy that neglects climate change is designed for a world that no longer exists. The question is not whether to care about climate. It is whether Washington’s conception of U.S. interests is keeping pace with reality.

# Balancing a Bigger China

by Rush Doshi

The balance of power in the world is shifting. American national capacity alone is no longer adequate to balance China's growing strength. For the first time in its modern history, the United States faces a rival with greater scale across most of the dimensions that matter for great power competition. As a result, the key strategic question for the future of American statecraft is whether Washington can build what former U.S. Deputy Secretary of State Kurt Campbell and I have called "allied scale"—the ability to pool capability with its partners across the economic, technological, and military domains.

The rise and fall of great powers has often turned on scale. Among industrialized states with comparable productivity, the larger ones tend, over time, to win. Britain rode a first-mover advantage in industrialization to global dominance and lost it to Germany and the United States, both of which had larger internal markets and deeper talent pools: between 1870 and 1910, Britain's share of global manufacturing fell by half. At the end of World War II, the United States accounted for half of all manufacturing. Now, that sense of scale belongs to China, and the American position today is closer to Britain's in 1900 than to its own in 1945.

China has four times the population of the United States, and its economy, while slowing, is roughly 25 to 30 percent larger than the U.S. economy when measured by purchasing power parity. Its manufacturing capacity is twice that of the United States, exceeding the next nine countries combined. China produces twenty times as much cement as the United States, thirteen times as much steel, three times as many cars, and twice as much power. It accounts for two-thirds of the world's electric vehicles, three-quarters of batteries, 80 percent of consumer drones, and 90 percent of solar panels and refined critical minerals. It is pulling ahead in the next industrial revolution: it installs half the world's industrial robots and produces more active patents and top-cited scientific publications annually than the United States.

The military balance is changing, too, largely because of that industrial strength. China fields the world's largest navy, holds the largest stockpile of conventional cruise and ballistic missiles anywhere, outproduces the world in drones, and likely possesses the world's most advanced hypersonic systems.

China has real problems: a shrinking and aging population, stressed local-government finances, debt at 300 percent of GDP, stalled productivity, and a private sector still recovering from Beijing's crackdowns. But China can be slowing economically and growing more formidable geopolitically at the same time. Demographic decline may not have significant impacts for another ten to fifteen years. China's debt levels are not too much higher than those of the United States, Britain, India, or Japan. And its housing downturn, while serious, has also led the state to redirect lending to industrial policy, which is making the country more competitive even as a tremendous amount of capital is wasted.

But even though China has greater scale, the United States has a decisive advantage. Combined with its partners—Australia, Britain, Canada, India, Japan, Mexico, New Zealand, South Korea, Taiwan, and the European Union—the picture changes. That coalition has more than twice China's GDP at purchasing power, accounts for roughly half of global manufacturing to China's one-third, spends more than twice what China spends on defense, and produces substantially more patents and top-cited research.

The traditional American alliance model, designed in the Cold War, has treated partners as dependents—recipients of protection, providers of bases, and occasional contributors of industrial capability. What is required

now is to transform the alliance system from a collection of managed bilateral relationships into a platform for pooled capacity-building across domains. Allies are not trip wires, vassals, or status symbols; they are cocreators of the capacity the United States cannot generate on its own.

How might this work in practice? Japanese and South Korean shipbuilders—two to three times more productive than American shipbuilders—would help rebuild U.S. naval capacity. Taiwanese semiconductor manufacturers would build more of their fabs on American soil. A coordinated tariff and regulatory wall would protect allied industrial bases from Chinese overcapacity. An “economic Article 5” akin to NATO’s collective defense clause would commit coalition members to a collective response when Beijing coerces one of them. Underneath would lie joint industrial policy, harmonized export controls, aligned research protections, and serious investment in joint war-fighting capabilities. The United States would share more of its best military technology with allies it has historically kept at arm’s length.

Critics rightly charge that such a strategy will be challenging. President Donald Trump has raised tariffs on U.S. allies, threatened to seize territory from a NATO ally, and dismissed allied concerns over the fallout from the current Iran war. He has suggested the United States may withdraw troops from Germany, raised tariffs on India above those on China, and been reluctant to support Japan as it faces Chinese economic coercion. The result is that U.S. partners are vocally to de-risk from the United States.

Those are serious challenges. But the rupture need not be permanent. The alliance system has overcome challenges before. The Vietnam War deepened transatlantic tensions, the “Nixon shock” abruptly took the United States off the gold standard, the Plaza Accord depreciated the U.S. dollar and economically strained Germany and Japan, the Soviet Union’s collapse removed a key logic for allying, and the invasion of Iraq divided U.S. allies. Partnerships even strengthened after the first Trump term, thanks to determined policy from the Biden administration and independent initiatives from allies. The elevation of the Quad (the partnership between the United States, Australia, India, and Japan); the creation of AUKUS (the trilateral pact between Australia, the United Kingdom, and the United States); and various plurilateral efforts to coordinate on security and technology point to a deeper logic of cooperation.

The system may prove resilient to the Trump shock. Europe’s reliance on the American market may rise as exports to China fall. Allied dependence on American AI models may also grow. And allies’ efforts to rearm against China and Russia rely on American weapons, innovation, and capital. Both Democratic and Republican policymakers may be able to persuade U.S. allies that the most offensive policies of the second Trump term were products of personality, not harbingers of new American statecraft. And the Trump administration may itself return to alliances in its own way. In February, at the Critical Minerals Ministerial, a U.S.-led forum that brought fifty-four countries to Washington, DC, Vice President JD Vance openly called for a “trading bloc among allies and partners” to balance China.

Regardless, rebuilding trust and credibility will take time. A new American statecraft will have to start humbly, building trust through small projects and reengineering cooperation around two-way flows of capacity that reduce fears of asymmetric interdependence. One could imagine a bargain: allies invest in American reindustrialization, and in exchange, the United States offers access to its technology and its market. That bargain could plausibly attract bipartisan support at home as a path to American renewal and reciprocal commitment abroad as a path to dealing with China’s excess capacity.

That strategy is the only viable way to achieve scale big enough to matter. The alternative is dismal: a United States that, by acting alone, finds itself smaller, more isolated, and outclassed.

# The AI Balance of Power

by Adam Segal

The influence of artificial intelligence (AI) on geopolitics, though likely great, will depend on the technology's trajectory. Many leaders in the frontier labs believe that scaling laws—the concept that model performances increase at predictable rates as model size, datasets, and computational power increase—will continue to hold. If they do, then superintelligence, a hypothetical AI that surpasses human intelligence across all fields, could be reached in the next three-to-five years. That would transform geopolitics, U.S. strategy, and the entire strategic landscape. But superintelligence is not a given, and other AI researchers are more skeptical.

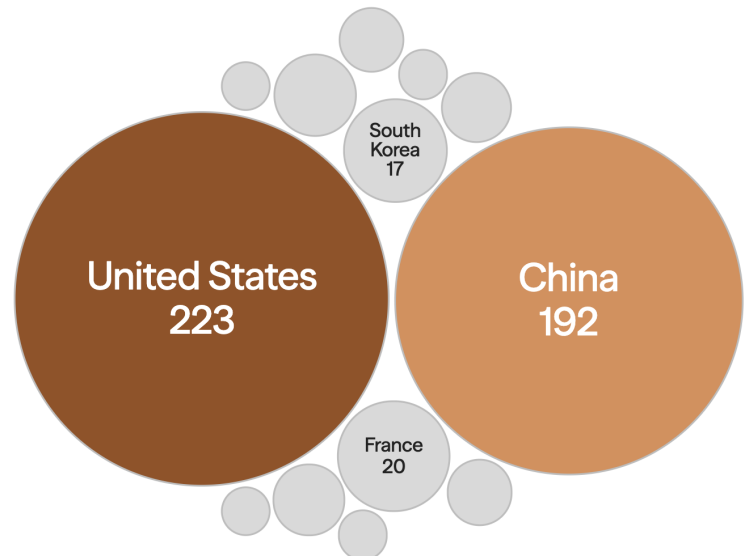
In any case, estimating how and when new capabilities will emerge is difficult. Technological progress will require different types of models and new breakthroughs, as well as dealing with unexpected bottlenecks that could slow progress. In addition, the capabilities to develop new models, as well as insight about their strengths and weaknesses, reside primarily in the frontier labs, making them both indispensable partners for states and powerful geopolitical actors in their own right. Any successful U.S. strategy will need to prepare for an uncertain distribution of AI power among state and nonstate actors.

The AI world is currently bipolar, with the United States and China dominant. In 2024, the United States had forty notable models, China fifteen, and Europe three. GPU cluster performance is a measure of how effectively graphics processing units, circuits that are used to train and deploy AI models, work together. As of May 2025, the United States had about 75 percent of global GPU cluster performance, with China in second place with 15 percent. The United States attracts the world's most talented AI researchers, whereas China trains close to 50 percent of the world's top-tier researchers.

Middle AI powers, including the European Union, the Gulf States, India, Japan, and South Korea, hope they can develop an advantage in some part of the AI tech stack—computing power, data centers, energy infrastructure, chips, or talent. This would reduce dependence on Washington and Beijing and help create a multipolar AI world. Those middle powers also hope that diffusing AI capabilities into their economies will matter as much, if not more, than AI innovation. AI sovereignty, which is an attempt by nations to control their own AI stack, has gained traction.

## The U.S. and China Dominate AI

Cumulative large-scale AI systems by country, 2019–25



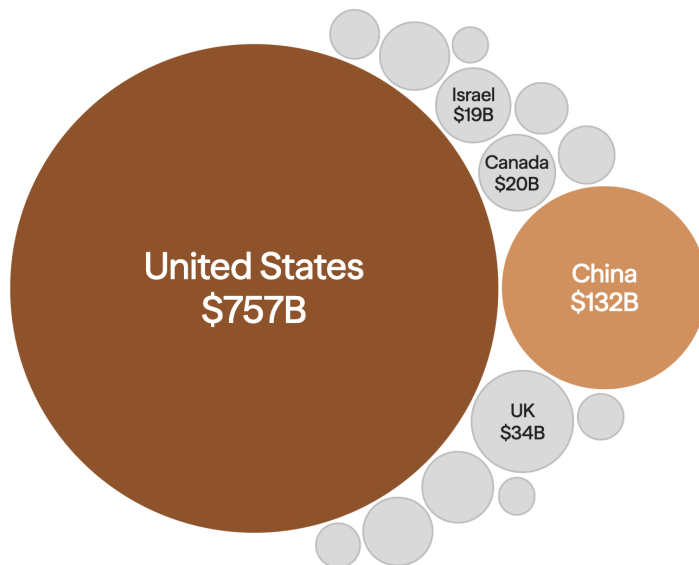
Note: Large-scale AI systems are those with training computing power over  $10^{23}$  floating point operations (FLOP).

Source: Epoch AI via Our World in Data

But it remains unclear if the idea is more than a pipe dream for middle powers, much less developing economies. If model development continues to require colossal amounts of energy, computing power, and capital, and if advanced AI models can be applied to AI development, thereby creating systems that can rapidly self-improve, then the gap between the AI powers and the followers could become even wider. In that scenario, middle AI powers will never be able to catch up.

## U.S. Leads the World in AI Investment

Cumulative private AI investment by country, 2013–25



Source: Quid via Stanford University

*Affairs*, “These companies exercise a form of sovereignty over a rapidly expanding realm that extends beyond the reach of regulators: digital space.” Those firms could set technical and safety standards that preempt or constrain government attempts to regulate them at the domestic and international level. They could also cut weaker states off from access to data, compute, or models if there is a dispute over taxation, content moderation, or other regulatory issues.

The leading labs understand the technology that they are building better than the regulators. The result is that governments may be unprepared by dramatic breakthroughs in model capacities or unaware of systemic vulnerabilities, both of which could lead to economic and political dislocation. If the frontier labs do achieve superintelligence, their capabilities will become extraordinary. They could launch cyberattacks, wield political influence, or fashion new and exotic weapons to seize power.

U.S. policymakers need to ensure that there is a productive and predictable balance of power between AI firms and the state. No such balance currently exists, as was shown in the late 2025–early 2026 fallout between

A defining characteristic of the AI age is the overwhelming influence of the private sector. Over the last half century, public funding and research drove discoveries in the technologies that have been critical to U.S. power, including nuclear physics, space exploration, and the internet. Today, the private sector firms Anthropic, Google, and OpenAI are the largest engines of AI innovation. Whereas Washington invested roughly \$3.3 billion in nondefense AI research and development in the 2025 fiscal year, U.S. private sector investment in AI exceeded \$109 billion in 2024. As researchers from OpenAI observed in February 2026, “It is plausible that private-sector spending aimed at developing and scaling advanced AI capabilities now exceeds the military research and development budgets of nearly every country in the world.”

Tech companies’ power, influence, and reach is growing and becoming comparable, in some respects, to that wielded by countries. As the political analyst Ian Bremmer wrote in *Foreign*

Anthropic and the Pentagon over the deployment of AI for surveillance and autonomous weapons. In an apparent bid to punish the company and intimidate other American technology firms, the Pentagon designated Anthropic a supply chain risk, even as its Claude model was being used to support U.S. military operations in Iran. The real question of who should govern AI—the firms or the state—remains to be answered.

Over the last decade, China has developed a comprehensive plan of military-civil fusion, speeding the flow of dual-use technologies like AI to the People's Liberation Army. Although the interests of the technology firms and the state do not always overlap, there is little question that the Chinese Communist Party is in command, setting long-term strategy and channeling private sector energy toward government goals. The stability of the relationship is one of China's competitive advantages in the global AI competition.

In response, U.S. policymakers should aim to build strong relations with the firms and maintain a regulatory environment that supports innovation. Do that, and the United States will likely continue to lead the world in AI development. Overstepping or politicizing the relationship, on the other hand, could not only slow innovation, but also cause international partners to mistrust the U.S. tech stack. The effect of that would be to slow the uptake of American AI in the rest of the world.

# The China-Russia Axis

by Stuart Reid

In May 2026, when Xi Jinping hosted Vladimir Putin in Beijing, it was the forty-fifth time the two had met in person—give or take. Xi and Putin have seen each other so often that even analysts cannot agree on the exact number.

The increasing affinity between China and Russia is among the most consequential geopolitical developments of the last decade. Although the two powers have their differences, on every metric—economic, military, political, rhetorical—the general direction has been toward alignment rather than estrangement. That presents a problem for the United States, which since World War II has never had to contend with a pair of adversaries this powerful.

While it is tempting to believe that Washington can solve this dilemma by splitting Beijing and Moscow, the bond between them is unlikely to break. Accepting that reality is easy; dealing with it is not. The United States needs to push back against coercion and aggression by both powers, without driving them closer together. It needs to address today's challenge in Ukraine, without neglecting tomorrow's in Taiwan. And it needs to deter new wars in eastern Europe and East Asia, without unintentionally provoking one.

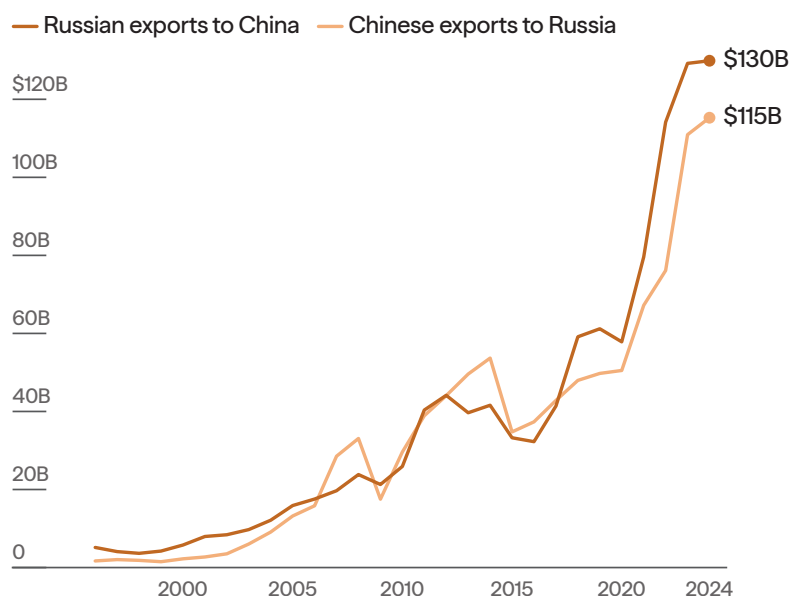
Even though it is sometimes dismissed as a temporary axis of convenience, the Chinese-Russian partnership has proved deep and durable. China has been Russia's largest trade partner for more than a decade, sending it manufactured goods in exchange for oil and gas. The two countries' militaries regularly conduct joint exercises in the Arctic and South China Sea. Beijing has helped Moscow circumvent Western export controls by providing advanced technologies, from chips to drone parts, essential for Russia's war in Ukraine.

One has to go back to the early 1950s, the golden era of Sino-Soviet relations, to find such amity. China and the Soviet Union were formal treaty allies and partners in the Korean War. More than ten thousand Soviet experts flooded into China to help the country modernize. But by the end of the decade, the Sino-Soviet alliance was dead in all but name, done in by a combination of ideological disputes, divergent visions of how to deal with the West, and a personality clash between Mao Zedong and Nikita Khrushchev. In 1969, the two countries even fought a deadly border skirmish that nearly ignited an outright war.

Although the Chinese-Russian partnership is not as close as it was in the 1950s, it also lacks the irritants that bedeviled the relationship back then.

## China-Russia Trade Has Grown Significantly

Annual trade in goods, 1996–2024



Source: UN Comtrade

One was ideological. Stalin viewed Mao as a “caveman Marxist,” while Mao viewed Stalin’s eventual successor, Khrushchev, as intellectually inferior. But now that Russia is no longer communist (and China isn’t either, in the classical sense), who has the authority to interpret Marxism is no longer a bone of contention. A less doctrinal glue adheres Putin and Xi: an obsession with preserving their authoritarian regimes, a determination to resist the forces of liberal democracy, and a confidence in American decline.

Another Cold War wedge issue was the question of how to deal with the American hegemon. Khrushchev advocated “peaceful coexistence”; Mao preferred aggressive confrontation. Today, Moscow and Beijing openly agree on the goal of contesting U.S. influence, even if they adopt different tactics. In 2022, on the eve of Russia’s invasion of Ukraine, Putin and Xi released a joint communiqué in which they denounced American “hegemony” and pledged to “advance multipolarity.”

There is also an undeniable human element to today’s partnership. Mao and Khrushchev despised each other. Putin and Xi, by contrast, make a show of exchanging hugs and birthday greetings, leading some analysts to declare a “strategic bromance.” “I have a similar personality to yours,” Xi once told Putin. As the scholars Michael McFaul and Evan Medeiros have written, “They like each other—or if they do not, they are very good at faking it.”

Yes, there are tensions. It is an unequal partnership, given that China’s economy is nearly nine times the size of Russia’s and far more diversified. Xi seeks to bend the international order to China’s advantage; Putin wants to break it. The two countries’ voting records at the United Nations are not perfectly aligned. China is edging Russia out of Central Asia. Chinese spies are actively trying to steal Russian military secrets, and Russia’s security services privately call the Chinese “the enemy.” China resents Russia’s nuclear saber-rattling. The partnership that Putin and Xi hailed as “no limits” has its limits.

But such friction is common to many alliances, and it is manageable. Some officials still fantasize that the United States can pull off a “reverse Kissinger”—peeling Russia from China the way the Nixon administration laid the groundwork for normalizing relations with China in order to balance against the Soviet Union. “I’m going to have to un-unite them,” President Donald Trump said before taking office for the second time. That is unrealistic. Unlike in the 1970s, there is not a split to exploit.

U.S. grand strategy must therefore accommodate the reality that the two great Eurasian powers have joined forces. The goal should be to avoid driving them further into each other’s arms. The problem, however, is that many of Washington’s preferred tools for constraining one country end up empowering the other or otherwise backfiring. Sanctions on Russia have caused it to reorient its economy toward China, becoming more dependent on it as a supplier of goods, a buyer of oil, and a channel for finance. The freezing of Russian assets held in Western banks accelerated China’s efforts to reduce its exposure to the U.S. dollar. U.S. export controls on China have pushed it to



rely more on Russia for energy and raw materials. Moreover, deterring war in one theater necessarily detracts from doing so in the other; every dollar spent defending Taiwan is a dollar not spent in Ukraine. Such are the dilemmas of a dual threat.

In a two-adversary world, a traditional source of American strength becomes even more valuable: the U.S. alliance system. By souring the Europeans on China, Putin's invasion of Ukraine, conducted with tacit Chinese support, did what years of American diplomacy could not do. Trump, with his tariffs and threats to invade Greenland, has jeopardized this strategic gift. The United States will need all the help it can get in containing China and Russia. A regional division of labor would allow the United States to prioritize Asia without abandoning Europe—and, as an added benefit, reduce the need for the sort of maximal, simultaneous pressure that draws Beijing and Moscow together.

As it has often done, the United States should push back against Chinese and Russian revisionism, taking care not to provoke its nuclear-armed adversaries. But the unsatisfying truth is that given all the dilemmas inherent in countering this twin challenge, a major element of any successful strategy is simple patience. Russia is a declining power with a one-trick economy. China, though much stronger, is deeply indebted and growing slowly. Both are in long-term demographic decline. Both have a fundamentally unpopular type of political system. Both lack allies. Both are led by “presidents for life” in their seventies.

Time favors the United States, which, for all its current turmoil, boasts deep wells of geographic, technological, demographic, and economic advantages. As the economist Adam Smith once put it, “There is a great deal of ruin in a nation.”

# Russia's Long Descent

by Thomas Graham

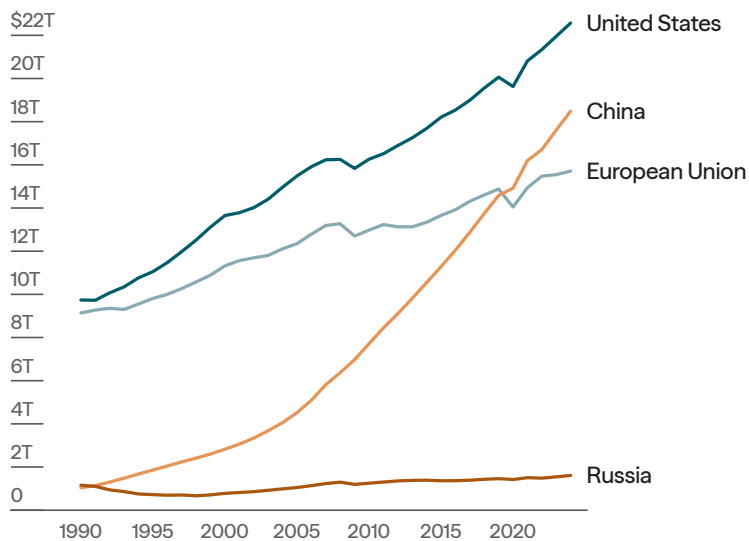
Being a great power is central to Russian national identity. As Dmitry Medvedev put it when he was Russia's president, "Russia can exist as a strong state, as a global player, or it will not exist at all." Vladimir Putin, since he assumed power more than a quarter century ago, has been on a mission to restore his country's power after its chaotic 1990s. He has been determined to reassert its prerogatives as a great power in the multipolar world that he is confident is rapidly emerging as U.S. global hegemony wanes.

That mission is now in jeopardy—not because the West is seeking Russia's strategic defeat, as Putin insists, but because he decided to launch the war against Ukraine in February 2022. What he thought would be a blitzkrieg has turned into a grueling war of attrition, one that is slowly eroding the foundations of Russia's power.

The war has exacerbated the stiff economic and demographic challenges Russia has long faced. Less than a tenth of the U.S. economy in nominal terms, Russia's economy has never fully recovered from the 2008–09 global financial crisis: while it grew by less than 10 percent in the decade before the war, the U.S. economy rose by more than 25 percent. The Russian economy surged by more than 4 percent in 2023 and 2024 as the Kremlin poured money into the war effort, but this military Keynesianism has run its course. The economy grew by less than 1 percent in 2025 and is forecast to expand by a similar amount this year.

## Russia Trails Other World Powers Economically

GDP in constant 2015 dollars



Source: World Bank

For the past decade, Russia's natural population growth rate has hovered around zero. Indeed, population figures have gone up during that time only because they now include people inhabiting the Ukrainian land Russia seized. War casualties, already more than 1.2 million and mounting, will only put further downward pressure on population growth.

Meanwhile, Russia is investing little in the cutting-edge technologies that could increase the productivity of its shrinking workforce—and, more important, enable it to compete with the world's leading powers. In 2025, Russia did not rank among the top ten in investment in artificial intelligence, and it ranked sixtieth in the World Intellectual Property Organization's 2025 Global Innovation Index.

The war has also compounded Russia's geopolitical challenges. Most dramatically, it has unified Europe in opposition to Russian aggression. Finland and Sweden abandoned their longstanding traditions of neutrality to join NATO. Last summer, NATO allies committed to raising their defense outlays to 5 percent of GDP by 2035. A consolidated Europe with hard power capabilities could lie far in the future, but if it ever emerges it will dwarf Russia in population, wealth, and latent power, much as the United States does today.

Elsewhere, Russia is ceding geopolitical ground. It could not save its Syrian ally, Bashar al-Assad, from being ousted by rebel forces in December 2024. It did nothing to counter the U.S. move against its Venezuelan partner, Nicolás Maduro, in January 2026. It has largely stood aside in the ongoing U.S.-Israeli war against Iran, with which it signed a comprehensive strategic partnership in January 2025. It is playing no visible role in the diplomatic effort to end the war, which is being led by Pakistan, Turkey, and some Gulf states.

Even in the former Soviet space, where Moscow has historically considered its preeminence essential to its security and prosperity, the Kremlin has watched its position erode: Moldova is accelerating its movement toward Europe, Turkey and the United States are penetrating the South Caucasus, and China has displaced Russia as the Central Asian states' leading commercial partner.

As it is squeezed geopolitically, Russia has fallen ever more tightly into China's embrace. Beijing's diplomatic support, supply of chips for weapons production, and provision of other dual-use items have been critical to Moscow's war effort. Nevertheless, despite rhetoric about a "no-limits" partnership, the Kremlin is wary of the strategic implications of excessive reliance on China. It has no intention of breaking with its partner, but to maintain its strategic autonomy and restore balance, it needs a counterweight. There is only one place it can find it: the United States. That reality lies behind the Kremlin's desire to normalize relations.

Despite those current severe constraints, Russia is nevertheless not going to vanish as a major global actor or as a challenger to the United States. Its continuing relevance is guaranteed by its territorial expanse, one-ninth of the world's landmass; its central geopolitical location abutting Europe, the Middle East, Northeast Asia, and the Arctic; its huge, phenomenally rich natural resource endowment; and its massive nuclear arsenal. For decades, it has also shown an uncanny capacity to adapt cutting-edge technology to military purposes.

Moreover, Russian history is cyclical, a story of rise, fall, and rebirth. Strategic setbacks tend to galvanize political will for a concerted effort to regain Russia's lost status. That occurred after Russia's humiliating defeat in the Crimean War in the mid-nineteenth century. Russia's rulers responded with a decade of "great reforms" to restore Russian power. Its devastating defeat in the First World War and the chaos of the ensuing civil war eventually led to Joseph Stalin's forced industrialization, which enabled Russia to defeat Nazi Germany.

Similarly, the crisis of the 1990s—when the economy plunged by more than a third, regional authorities defied Moscow, and oligarchs privatized parts of the federal bureaucracy—led to Putin's sustained effort to rebuild. His mistake was misreading the global balance of power and moving too quickly to reassert Russia's global position; thus, the current strategic setbacks. How long this period of strategic weakness will last is unknowable, but Putin's failure will likely give way to another effort to retrench and rebuild. Nothing suggests Russia has lost the mindset of a great power.

The task for the United States is thus to counter Russia's aggression in Europe while taking advantage of its current vulnerability to prepare for Russia's possible return as a more formidable power in the future. This calls for a policy that abandons traditional containment in favor of competitive coexistence, an approach that recognizes that the United States' ability to transform Russia is negligible, that rivalry with Russia is permanent, and that Russia is likely to return as a major power.

Such an approach would include multiple elements. The United States would cooperate with European allies in support of Ukraine while engaging with Russia diplomatically to end the Russia-Ukraine war and stabilize the Russia-West frontier stretching from the Barents Sea to the Black Sea. It would hold renewed strategic stability talks with Russia and other great powers to prepare new arms control arrangements to fortify deterrence and reduce the risk of nuclear war. It would create a regional balance in the Middle East that is sufficiently flexible and resilient to absorb any future Russian effort to reinsert itself into the region as a major player. And it would accommodate Russian interests in Northeast Asia and the Arctic, as long as doing so did not jeopardize long-term U.S. objectives. Competitive coexistence thus offers the United States an effective way to deal with a Russia it can neither dominate nor vanquish.

# The Iran War's Hard Lessons

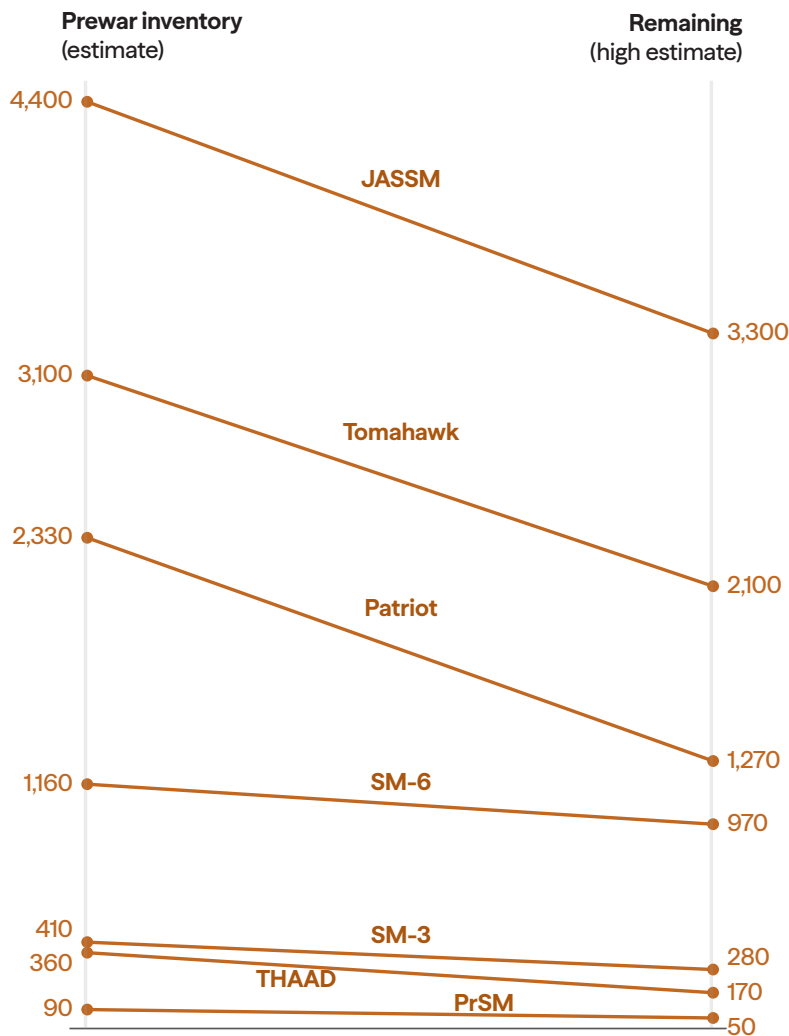
by Max Boot

The war with Iran has revealed the strengths and weaknesses of the U.S. defense establishment and suggests how the U.S. armed forces can be reshaped to fight the wars of the future. Specifically, the war has laid bare a number of vulnerabilities that urgently need to be addressed in order to prepare for conflicts against adversaries even more dangerous than Iran.

The Pentagon's most obvious strength is its use of precision weaponry to rain down what Defense Secretary Pete Hegseth often describes as "death and destruction from the sky," with little risk to U.S. service members. The United States fired more than 850 Tomahawk cruise missiles, a mainstay of U.S. air campaigns since the 1991

## The Iran War Has Depleted U.S. Missile Stores

Selected munitions



Source: Center for Strategic and International Studies

Gulf War, along with newer weapons such as the PrSM (Precision Strike Missile), a replacement for the ATACMS (Army Tactical Missile System) that has a range of 190 miles.

In the first month of the war, U.S. and Israeli forces struck thirteen thousand targets inside Iran, ranging from leadership compounds to missile launch sites. Many Iranian leaders, from Supreme Leader Ayatollah Ali Khamenei on down, were killed in the strikes, driven by pinpoint intelligence. The problem is that the United States produces relatively few of its top-of-the-line missiles, and, after a few weeks of fighting, it will take years to replenish stockpiles. For example, the U.S. Army's entire stockpile of PrSM missiles was expended against Iran.

The larger issue is the difficulty of translating tactical military success into strategic results—a problem that the United States has repeatedly encountered, most recently in Afghanistan and Iraq. The U.S.-Israeli military campaign has degraded Iran's military but did not topple the regime or secure its stockpile of nearly one thousand pounds of enriched uranium. It also led to Iran closing the Strait of Hormuz, thereby creating a global energy crisis. "Targetry never makes up for a

## Cheap Drones Are Changing Warfare

### Low-cost attack drones

|                         |       |
|-------------------------|-------|
| Vampire drone (Ukraine) | \$10K |
| Shahed-136 drone (Iran) | \$50K |

### Interceptor missiles

|                                    |       |
|------------------------------------|-------|
| Patriot interceptor missile (U.S.) | \$4M  |
| THAAD interceptor missile (U.S.)   | \$12M |

Sources: Ministry of Defense of Ukraine (Vampire); Center for Strategic and International Studies (Shahed); Congressional Research Service (Patriot); American Enterprise Institute (THAAD)

lack of strategy,” noted James Mattis, a retired Marine four-star general and President Donald Trump’s first secretary of defense.

While the wars in Iraq and Afghanistan exposed U.S. military vulnerability to low-cost roadside bombs, the conflict with Iran has exposed the U.S. and allied vulnerability to low-cost drones. Iran fired thousands of Shahed drones at U.S. forces and allies in the Persian Gulf region. The most common Shahed variant has a range of up to 1,500 miles and costs about \$35,000.

The Shaheds, along with missiles fired by Iran, caused considerable damage, particularly to civilian infrastructure in the Gulf, thereby exposing the inadequacy of U.S. and allied defenses. Because Shaheds are small, are easy to hide, and can be launched rapidly, Iran could keep firing them, notwithstanding the U.S. bombing campaign. Iranian attacks have damaged or destroyed U.S. aircraft on the ground, along with a number of radar arrays that the United States and its allies employ for air defense.

To defend themselves against the Iranian threat, the United States and its partners fired more than 1,700 Patriot missiles in the conflict’s first 16 days. It quickly became apparent that it was not cost-effective to fire \$3.4 million Patriot missiles or \$12.7 million THAAD missiles to defend against \$35,000 drones. But before the war began, the United States did not field low-cost drone defenses. This meant that, as the war made the need for them clear, the Gulf states signed agreements with Kyiv to provide Ukrainian counter-drone expertise, including cheap interceptor drones costing as little as \$1,000. Those technologies have allowed Ukraine to shoot down more than 90 percent of the Shaheds fired by Russia.

Thus, the Iran war has made clear the need for more U.S. munitions and more low-cost drone defenses. It has also strongly suggested that Washington’s reliance on expensive manned platforms such as tanks, bombers, and surface ships is becoming an anachronism in the age of drone warfare.

The first of those requirements has been apparent for some time. Even before the war began, the Defense Department was planning to increase production of some of the key missiles used against Iran. But that will take years, and in the meantime the dangerous drawdown of U.S. arsenals could create shortages in the event of a conflict with China or Russia. Moreover, even the higher production figures are likely to prove inadequate in the event of a major conflict. Experts have warned that the United States could run out of key munitions within a week of war against China.

There is simply no practical, cost-effective way to mass produce enough high-tech munitions for a lengthy war against a great power. The air force, for one, has realized that it has a problem, and has begun to invest in what General Robert P. Lyons III calls a “new class of affordable, low cost munitions.” The initial examples are cruise missiles with a shorter range and smaller payload than existing models but also a much lower cost, at under \$250,000 a missile.

Overall, the United States continues to badly lag in drone production. In 2026, the entire U.S. military fielded only sixteen thousand unmanned aerial vehicles. Hegseth announced an initiative in early 2026 to expand that

figure to three hundred thousand drones by 2027, but even that is likely to be short of war-fighting requirements by orders of magnitude. In 2026, Ukraine, which is much poorer and smaller than the United States, plans to build seven million drones.

The United States should invest substantially more resources into drones and less into costly, manned systems such as M1 Abrams tanks, F-35 fighters, and navy surface ships. It is just as imperative for the United States to build drone defenses capable of stopping, at low cost, the attack drones that are proliferating around the world. Various Western defense companies are developing anti-drone missiles and interceptor drones that cost tens of thousands of dollars. That is much cheaper than Patriots and THAADs—but it is still a lot more expensive than the interceptor drones that Ukraine is manufacturing. Since the Russian invasion in 2022, Kyiv has built up from scratch what could be the world's most effective drone army. The United States should invest in Ukraine's drone industry and partner with its companies to produce both offensive and defensive drones at a much lower cost than U.S. defense contractors could possibly do.

The worst U.S. military response to the Iran war would be complacency. True, the war has served as a showcase for high-tech, stand-off, precision U.S. weapons, but it has also revealed glaring vulnerabilities in U.S. forces. China and Russia are likely to field even more advanced missile and drone forces than Iran. The United States needs to be ready—not only tactically and technologically but also strategically.

Before going to war in the future, U.S. political leaders need to give more careful consideration to how they can leverage the U.S. military to produce a desired political outcome. The lack of such a strategy has been a glaring American shortcoming from the Vietnam War to the wars in Iraq and Afghanistan—and now the war in Iran.

# Fighting Without Friends

by Erin Dumbacher

For the United States, preparing for and avoiding great power war is, in all likelihood, only going to get harder. The country has lost some of its soft power and ability to shape the security agenda in key regions, deficits that will put pressure on its hard power. Strained relationships with allies and partners will create friction for U.S. military operations and defense planners, who will be forced to make difficult trade-offs in the coming years. As they do, they will need to find creative ways of deterring China and Russia through disciplined investments in flexible and innovative capabilities.

The global leadership role that the United States played starting after World War II is no more. Unable to deter or dissuade allies and adversaries, the United States has undermined its ability to set the global security agenda. Its once strong voice in international forums is now more muted, giving space for China and Russia to set the agenda. New security partnerships are already forming without the United States at the center, such as Pakistan and Saudi Arabia's new defense pact and France and the United Kingdom's agreement to cooperate on nuclear weapons to deter Russia. Perhaps most worrisome, as U.S. allies hedge their bets by forming new, untested alliances, the United States will have less control over how they exercise or commit to use their nuclear weapons.

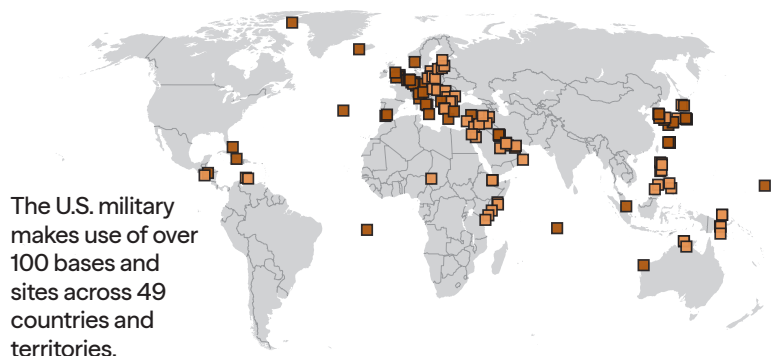
Meanwhile, the Trump administration's indiscriminate and sudden cutoff of U.S. development aid has bred distrust in the Global South and caused hundreds of thousands of deaths, presenting an opening for U.S. rivals to gain the moral high ground. As China takes advantage, countries receiving its economic support may find that it comes with strings attached—namely, agreement with Beijing's security preferences. As a result, the United States could find that Chinese (and Russian) preferences come to dominate matters as diverse as space security, climate change, biological weapons, information technology, and nuclear nonproliferation.

The absence of trust and support from allies will complicate U.S. military operations. Negotiations with partners have never been seamless, but when it came to freedom of movement for the U.S. military or formal basing relationships, mutually beneficial agreements were workable. In the past, the U.S. military could expect that allies would grant it access to use airspace or bases such as Spain's in the city of Rota, near Gibraltar, and the joint U.S.-United Kingdom's in Diego Garcia, in the Indian Ocean. Yet earlier this year, the United Kingdom initially denied the U.S. military access to Diego Garcia for strikes on Iran, and Spain closed its airspace to U.S. fighter jets and refueling aircraft. In Europe, Austrian, French, Greek, Italian, and Swiss officials also imposed constraints on overflights. No longer can U.S. defense planners take access to ports and bases for granted.

Nor can they assume they will retain access to allied intelligence. Earlier in 2026, British and Canadian intelligence officers stopped or placed caveats on intelligence sharing with the United States, citing its illegal targeting of

## The U.S. Military Has a Globe-Spanning Base Network

- U.S.-controlled overseas base in operation for at least 15 years
- Other site with U.S. military presence



Note: Data is from unclassified sources as of 2024 and is not exhaustive.

Source: Congressional Research Service

civilians in the Caribbean. For decades, intelligence partnerships such as the Five Eyes—the Anglophone, World War II-era group of the United States, Australia, Canada, New Zealand, and the United Kingdom—have augmented U.S. intelligence. But with the recent erosion of trust, partners can clam up. The result for U.S. officials will be to lose confidence in their own assessments at the same moment that they need more corroborating sources in the age of artificial intelligence and information warfare.

Adding to the difficulty, recent military offenses have depleted critical munitions. In seven weeks of the Iran war, the military likely used more than a quarter of its Tomahawk missiles and half of its Terminal High Altitude Area Defense and Patriot missile defenses. The Pentagon has shifted precious resources from the Korean Peninsula to the Middle East. And when a refueling jet crashed in March, six service members were killed.

Beyond munitions, the United States needs to invest in expensive platforms and emerging technologies simultaneously. Trump has proposed a \$1.5 trillion defense budget for fiscal year 2027, which includes billions of dollars for a wide variety of military capabilities. But such high spending is unlikely to be sustainable. If more reconciliation bills add to defense spending as the One Big Beautiful Bill Act of 2025 did, or if the flow of funds is difficult for the military services and industry partners to spend quickly, appropriations could ebb under pressure to cut deficits or prioritize domestic spending.

As the United States decides how much and where to spend on defense, policymakers will have to make difficult trade-offs between investments in emerging capabilities alongside shipbuilding, human capital, munitions, and modernizing major systems such as aircraft carriers and nuclear weapons. The Pentagon will have a clear mandate to buy affordable, autonomous capabilities, given rapid technological advances. Of lower priority might be costly niche capabilities such as hypersonic vehicles that have the potential to strike long-range targets but could lead adversaries to misinterpret their flights as nuclear weapons launches. Russia is firing similar capabilities at Ukraine, but the United States need not respond in kind, just as any exotic or space-based Russian nuclear weapons do not require the United States to develop the same. The U.S. military will have to project power and deter adversaries not by matching or exceeding each adversary's forces in all domains—air, land, sea, space, and non-kinetic areas such as cyber. Instead, it should compete asymmetrically where it already has advantages.

Future defense policy should build on the United States' military strengths: its versatile defense platforms and munitions, its professional military personnel, and its world-leading innovation. The U.S. military can deter China and Russia creatively by making careful investments in capabilities that meet one of two criteria: they grant the military flexibility in the most likely theaters of conflict with China and Russia or they hold those countries' forces at risk asymmetrically, likely through novel technologies. The U.S. military cannot prepare to defeat its main rivals while stretching thin to fight in Greenland, the Americas, or the Middle East.

But defense policy can only go so far. If the United States really wants to make the most of its military in a world of great power rivalry, it will need to win back the trust it has lost among allies and partners by resuming diplomacy, investing in development, and avoiding overstretch. To show strength, the United States will need to exercise discipline.

# The End of Nuclear Diplomacy

by Ray Takeyh

As of May, America's latest war with Iran continues to oscillate between a shaky ceasefire and threats of escalation. But the real inflection point in Middle Eastern history came the year before, with the U.S.-Israeli strike on Iran's nuclear infrastructure on June 13, 2025. Those strikes, coupled with the targeted killing of Iranian senior officials, effectively ended the era of diplomatic counterproliferation. In its place, Israeli policymakers now speak of "mowing the grass," or recurring strikes that buy time but do not permanently solve the problem of Iran's nuclear ambitions. The consequences of that policy change are still emerging, but the signs indicate an increasingly dangerous Middle East. In grand strategic terms, this means America will be engaged in a region it is eager to leave.

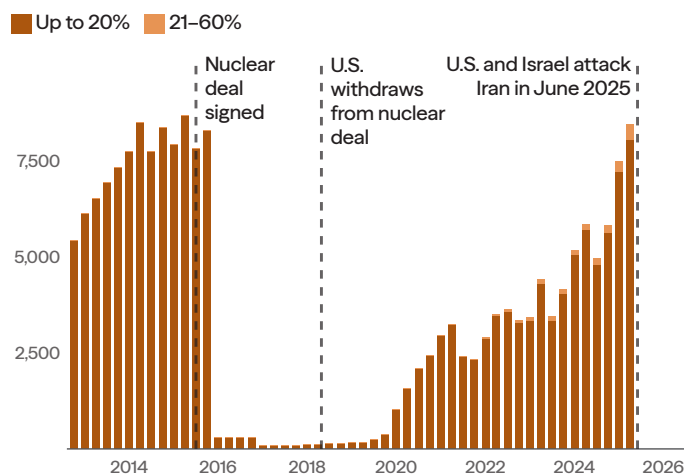
For decades, U.S. and Israeli policymakers operated on the assumption that Iran's nuclear ambitions could be contained through agreements and International Atomic Energy Agency (IAEA) inspections. That approach peaked with the 2015 Joint Comprehensive Plan of Action (JCPOA), negotiated by the Obama administration. The JCPOA—with its cascade of sunset clauses and permissive approach to sanctions relief—lacked a durable domestic constituency. President Donald Trump tore it up in 2018, and President Joe Biden did not put it back together again.

Israel had little confidence in those diplomatic forays and doubted the IAEA's ability to monitor Iran's nuclear progress. After the October 7 tragedies, Prime Minister Benjamin Netanyahu declared that the rules of the game had changed and that Israel would no longer wait passively for threats to emerge. Preemption became the new normal.

## Iran Ramped Up Enrichment After U.S. Withdrew From Nuclear Deal

Iran's uranium stockpile by level of enrichment (kilograms)

Experts say uranium enriched at 60 percent can quickly be made into weapons-grade uranium, and only a few dozen kilograms is required for a weapon. The International Atomic Energy Agency (IAEA) has been unable to verify the status of Iran's stockpile since the U.S. and Israeli strikes in June 2025.



Source: IAEA

The case for bombing Iran grew stronger after millions of Iranian protesters took to the streets in January 2026. Their strength was a sign to many in Washington and Tel Aviv that the Islamic Republic was tottering and needed only a nudge to collapse. Thus, strikes were carried out against senior regime figures including Supreme Leader Ali Khamenei, as well as against police and military installations. Although those targets were eliminated, the regime still stands. But the logic of the argument should not be dismissed. The one certainty is that there will be another uprising in Iran. The underlying causes of discontent, ranging from political disenfranchisement to lack of economic opportunity, have not faded away. And no one believes that the system can reform. Given how foreigners have weakened Iran's security infrastructure, such an uprising may have a greater chance of success than in the past. Tel Aviv now believes that Tehran will only construct a nuclear weapon when its conventional forces have been rebuilt, and Iran is secure once

more. Mowing the grass is, therefore, necessary—not to respond to nuclear urgency or provocation but, rather, to stop Iran reconstructing its air defense systems and replenishing its missile batteries. Those were the precise fortifications that Iran was reconstituting when Israel and the United States struck in February. It is not clear if that thinking is shared in Washington. Trump could have assumed that what he accomplished by less violent methods in Venezuela—removing the head of state and replacing him with a compliant alternative—would apply to Iran. After Khamenei's death, the wishful thinking ran, hard-edged pragmatists willing to surrender the nuclear program would take over. It is a fool's errand, and Trump will likely tire of it quickly. But he has saddled his successors with a different Iranian problem to the one he inherited.

Wars have a way of altering the regimes that manage to survive. The Islamic Republic that emerges from this conflict will be vastly different from that which stood before it began. And those changes will extend beyond a simple change in leadership. Despite the commemorations of Khamenei's martyrdom, he had become an increasingly sidelined figure in his final years. As Israel evolved its capabilities and plans, Khamenei stuck to his old playbook, incrementally increasing the size and scale of Iran's nuclear program but never crossing the threshold. Despite calls from the Islamic Revolutionary Guard Corps for "a shift in Iran's nuclear doctrine," Khamenei did not budge.

As a first-generation revolutionary, he had tangled with the United States many times, and he respected its power. He knew that his intelligence services were too penetrated for so bold a move as actually constructing a nuclear weapon. And the old man of Iranian politics seems to have believed that, no matter what happened elsewhere in the region, his territory would remain unmolested and his nuclear infrastructure untouched. With the return of Trump, a politician the Iranians never figured out, Khamenei was proved wrong. In June, his country was assaulted and, in February, he was assassinated.

In the future, Iran's leaders will still want nuclear weapons. But the Islamic Republic is unlikely to return to Khamenei's tactics and construct large enrichment plants beneath Iranian mountain ranges. U.S. and Israeli satellite technology is too good, U.S. munitions have demonstrated their ability to penetrate facilities built beneath the rock, and construction times for new underground facilities are too long. Numerous, easily concealed surface plants are now a better bet—so long as the regime can neutralize foreign spies in Iran. Tehran's objective will be to confront Tel Aviv and Washington with scale. By building many small workshops containing advanced centrifuges, Tehran can challenge the prying foreigners to find them all. If any escape detection, the regime has a safer path to bomb production.

Amid all the wars in Central Europe and the Middle East, the principal casualty will likely be the global nonproliferation regime. As Iran has demonstrated, the deterrent value of nuclear arms has never been higher. As the mullahs learned the hard way, those who have the bomb do not get bombed. There are now no arms control processes to impose restraints on production of those deadly weapons. The Russian Federation will no longer be interested in arms control, and China will have no reason to regulate its stockpile given the disparity of power with the United States, which has made China's containment the core objective of its foreign policy.

For decades, successive presidents have sought to pivot away from the Middle East to more promising regions such as East Asia. The Iran wars of the last eight months demonstrate that the region is still important and can impact the global economy in significant ways. The Persian Gulf waterways are vital transit routes for essential commodities, not just oil. And there is no regional security system that can substitute for American power. Whether we prefer it or not, we shall remain stuck in the Middle East.

# America's Arsenal Problem

by Laura Taylor-Kale

Since 2019, the United States has tried to build a more resilient defense industrial base. The need first impressed itself upon Washington during the COVID-19 pandemic, and it only grew stronger after Russia invaded Ukraine, China manipulated supply chains critical to defense production, and the revolutionary implications of artificial intelligence (AI) became clear.

Numerous policy initiatives have been set in motion to deal with the problem. In 2021, Congress created the position of assistant secretary of defense for industrial base policy. The next year, Secretary of Defense Lloyd Austin created the Office of Strategic Capital to boost funding for new, innovative defense technologies. In 2024, the Department of Defense published the first-ever National Defense Industrial Strategy and Implementation Plan. Congress also significantly increased appropriations for several programs aimed at shoring up the defense industrial base, funneling more money toward the Defense Production Act Title III program and the Industrial Base Analysis and Sustainment program (which address gaps in the United States' industrial capacity and workforce), the U.S. Navy's submarine pipeline, and the U.S. Army's efforts to modernize depots and arsenals.

There has been a rare degree of continuity between the Biden and Trump administrations on defense industrial policy. Both have used the Defense Production Act, a 1950 law giving the executive branch broad authority over private industry, to provide grants and purchase supplies necessary for defense industrial production. Both have invested in the critical minerals and rare-earths supply chains necessary for defense systems.

Today's defense industrial base is expanding to include recently established technology companies, as well as legacy defense contractors. That mixed makeup creates a new challenge: policymakers now need to rebuild stocks of key munitions (which have been depleted by conflicts in the Middle East and Ukraine) and ships sourced from legacy contractors, while incorporating artificial intelligence, autonomous capabilities, quantum computing, and other technologies supplied by the newer companies.

In the coming years, Washington will need to rapidly integrate such technology. For decades, the Defense Department has purchased expensive, complex, and highly customized systems that take years to produce and require extensive maintenance. Those systems include F-35 fighter jets, as well as Patriot and Tomahawk missiles, which remain some of the Pentagon's most effective weapons. The wars in Ukraine and Iran, however, have demonstrated the effectiveness of low-cost, commercially available capabilities, such as AI-enabled drones. The United States will need more such capabilities, and policymakers should make it easier to procure and field them.

Another challenge policymakers must address is fiscal uncertainty. Defense companies crave predictable U.S. government spending and market conditions. Uneven appropriations cycles, which often stretch across multiple fiscal years, severely hamper production planning. Smaller suppliers are especially vulnerable to demand fluctuations and shifts in defense budgets. To give them the necessary certainty, policymakers in the executive branch should work closely with Congress to secure multiyear funding authority and appropriations.

Next, policymakers should prioritize increasing domestic production capacity. The United States' manufacturing capabilities have been progressively eroded, particularly by unfair trade practices. As a national security imperative, Washington needs to rebuild domestic defense manufacturing capacity. Doing so, however, will take

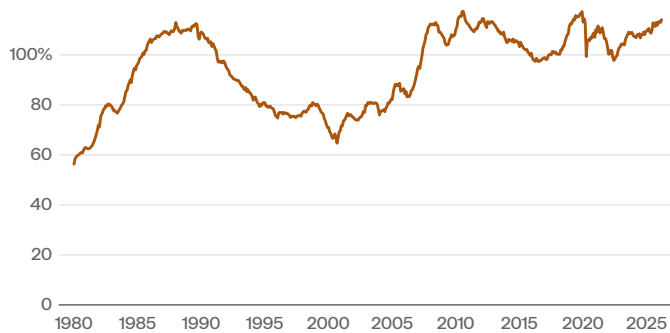
time and require targeted government interventions coupled with private investment. Policymakers should fund programs that embed innovative manufacturing processes into both current and future systems so that weapons can be produced or maintained in the field—a feat enabled by technologies including three-dimensional printing and robotics. Such investment is critical for improving readiness and resilience. Ultimately, advanced manufacturing will shrink production timelines, allowing the United States to become more self-reliant.

Washington should also ramp up its efforts on workforce development. Skilled workers remain critical to defense production. Without a well-trained, motivated workforce, efforts to expand production, incorporate autonomous capabilities, and sustain the United States' competitive edge will fail. Policymakers need to ensure that future defense industrial strategy prominently features workforce training, upskilling, and retention programs.

The overhaul of the defense industrial base cannot be considered complete until adversaries are removed from U.S. supply chains. China is a particular threat. It has a choke hold on rare earths and critical minerals, especially when it comes to processing, separating, and refining. China's dominance allows the country to control global prices and weaponize supplies through export controls, harming the U.S. defense sector in particular.

### U.S. Defense Production Has Fluctuated in Recent Decades

Industrial production of defense and space equipment (as a percentage of 2017 output)



Source: Board of Governors of the Federal Reserve System via Federal Reserve Bank of St. Louis

Washington has already taken steps to reverse that situation. In 2022, the Department of Defense launched a “mine-to-magnet supply chain” strategy for building domestic production of rare-earth magnets, components that are indispensable to modern electronics. In the last year, the Pentagon has made record investments in several rare-earth mining, production, and recycling companies, including MP Materials, Vulcan Elements, and ReElement Technologies.

To build on that progress, policymakers will need to expand the use of industrial policy incentives, including purchase commitments, price floors, guarantees, and production subsidies. As Washington secures trusted sources of inputs, it should fund the research and development and

commercial scaling of quantum, AI, materials science discoveries, and other next-generation technologies that could, in the long run, eliminate the need for critical minerals, rare earths, and other supply chain choke points.

Finally, Washington needs to reinvest in its alliances, which remain critical to supply chains and overall defense industrial policy. The North American and European defense industrial bases remain tightly integrated. Major weapons systems such as the F-35 are made up of parts from suppliers across three continents. The United States will need to keep working with allies and partners to build trusted supply chains and produce reliable weapons. The Biden administration expanded defense industrial cooperative agreements with allies and partners. While pressing NATO allies to increase defense spending, the Trump administration has also expanded defense cooperation and supply chain resilience agreements with Australia and Japan.

A strong industrial base deters potential adversaries. It sharpens U.S. military power and allows the United States to mobilize quickly in wartime. If Washington fails to build one, it risks giving its rivals more leverage to weaponize choke points, weakening its own defenses. Any grand strategy worthy of the name must start with a more resilient and innovative defense industrial base.