will not be easily overcome, since state capitalism offers stability over growth, while allowing governments to capture rents. This basic divide exists not just among WTO members, but also in the G20 and other arrangements.

Over time, trade agreements that offer practical benefits tend to grow, in both members and the range of disciplines. GATT rules solved important problems in constructive ways, and the agreement's membership grew from 102 economies in 1986 to 160 today. The Trans-Pacific Partnership (TPP) was conceived as a way to modernize and raise standards for trade and investment among a dozen diverse Pacific Rim economies with existing RTAs. If negotiators succeed in crafting broadly acceptable, neutral rules for issues like digital commerce, state-owned enterprises, or localization requirements, others outside of the talks may adopt the provisions, whether by joining TPP or incorporating similar disciplines in another agreement. Net, TPP could become the "next big thing" on grounds of utility. In any case, a new trade architecture is more likely to emerge in an organic, bottom-up fashion than as a colossal production of a big multilateral conference. ►

Geopolitical Instability and Energy Markets

Sarah Ladislaw

The foreign policy world is churning about the current state of global affairs, leading some to argue that we are witnessing an era of major realignment in global power structures. If this is true, regional powers will see an opening to strike a new balance, seek incremental gains, settle old scores, and improve their standing. This leaves energy sectors particularly vulnerable.

The geopolitical landscape and energy often impact one another. Geopolitical turmoil can affect energy markets and energy trends can upset geopolitical dynamics. In the first instance, political risk and instability affect the vitality of local, regional, and sometimes even global energy markets by causing supply disruptions or stymying investment. Recent examples of this include supply outages and under investment in Libya, Nigeria, and Venezuela among others. In the second instance, large resource discoveries can alter internal domestic or regional tensions or perceptions of relationships. The most prominent current example of this is the surge of shale gas and light tight oil in the United States and the perception of geopolitical realignment and leverage this energy market development brings. This symbiotic relationship between energy and geopolitics has been true in many parts of the world since the beginning of the modern energy economy.

What then might an age of geopolitical realignment mean for energy? The conventional wisdom thus far is that we are living in an era of heightened above-ground risk for energy investors. Oddly enough, however, at least in the realm of global oil markets, heightened geopolitical risk in some of the world's largest energy producers has not led to a dramatic increase in oil prices. Part of the rationale is that market fundamentals are weak, there is adequate supply despite record outages, and demand looks soft. Moreover, even in areas where there is definite political strife, major oil and gas supplies are not necessarily at direct risk.

ENERGY IS USED AS A POINT OF LEVERAGE, A NEGOTIATION TOOL, AND, INDEED, A WEAPON.

Lack of a near-term price response does not necessarily mean a lack of risk or impact, however. Energy is often used as a tool in many geopolitical struggles. It is targeted for tactical and strategic aims in conflict areas—recent examples include the fights over oil fields, pipelines, refineries, and export terminals in places like Libya, Northern Iraq, and Nigeria. It is used as a tool for messaging intent and asserting authority, like the recent deployment of a drilling rig into contested South China Sea waters as a "mobile manifestation of Chinese sovereignty." Energy is used as a point of leverage, a negotiation tool, and, indeed, a weapon. This has only become more pervasive in the age of economic statecraft. No longer is "energy leverage" only about Russia seeking to constrain European foreign and domestic policy through the use of its leverage as natural gas supplier, but it is also about a coalition of governments using a variety of sanctions to restrict investment in future oil production in Russia as part of a broader strategy to bring about a course correction to Russia's current posture toward Ukraine.

While none of these discrete activities are particularly new, the culmination of them makes so-called "above-ground issues" matter more to the energy sector than ever before. An age of realignment and heightened geopolitical

tension when the energy sector is already experiencing disruptive change on a variety of levels—from unconventional oil and gas development, the declining cost of solar, decentralization and digitization of energy systems, slow and uneven growth, and rising investment costs—could dampen or accelerate investments by location. During periods like this, some countries will seek to shore up energy trade flows through the erection of new trade deals or by making infrastructure investments that tie countries together. Other countries and companies will start to question the costs and benefits of being tied to the international financial system and start to explore the feasibility and limitations of alternative systems and arrangements to underpin their energy investments. And nearly everyone, from private companies to state-owned enterprises and sovereign governments will reevaluate the political risk exposure in their portfolio and their approach to managing resource development. 2015 promises to be both an uncertain and opportunistic time. ►