

With a Little Help from My Friends

June 9, 2020

Memorandum for the President

Subject: Your Participation in the U.S.-EU and G-20 Summits

As you approach the last U.S.-EU and G-20 Summits of the first term of your Presidency, Asia, South Asia, Latin America, and the Middle East are all booming, but the United States and Europe are not. And this confronts the West with some fundamental questions: Is the era of Western global leadership now over? With our emphasis on democratic values, rule of law, private sector economics, and long-ago developed national infrastructure and economies, can we ever successfully compete with the newly developed economies around the world? And is the world now irretrievably moving away from free markets and free trade as the basis of the global economy?

It is too early to know the answers with certainty. One tends to believe that the pendulum always swings back to center. But the possibility that what we are living through is a long-term, structural, one-way shift in global power, resources, and values is worth pondering. And whether or not this is truly the case, the fact that it is an open question is reason enough to consider some radical proposals for reinforcing the U.S.-European partnership that has languished in the past 20 years. If we do nothing, the developing world will continue to eat our lunch; the alternative may be higher external walls, around a single transatlantic marketplace. That, at least, is the European proposal coming into the U.S.-EU Summit, and as hard as it would be to implement, it is certainly worth exploration.

Brave New World

Though we are used to the shape of the global economy today, it is worth recalling just how much it has changed over the past 10 years. China is likely to surpass U.S. GDP next year—far faster than anyone had predicted just 10 years ago, and India is nearing two-thirds of U.S. GDP. Trade between them has grown exponentially—and indeed trade among all countries excluding the U.S. and Europe now accounts for over 80 percent of global trade.

The non-transatlantic nations now account for over two-thirds of all energy production, energy consumption, foreign direct investment destinations, new patents, kilometers of high-speed rail lines, global tourism expenditure and destinations for global tourism, and spending on movies and music. And they account for seven-eighths of the world's population—so there is still room to expand. In short, in just about every conceivable measure of economic performance and cultural output, the traditional transatlantic share of the world has fallen to the status of a distinct minority, and trendlines point to more of the same.

The only area where the transatlantic community still leads the world is debt—which, though reduced as a share of GDP from the crises of 2012 and 2013, still remains extraordinarily high (averaging over two-thirds of GDP across the transatlantic community) given the difficulty in cutting long-assumed social benefits to an aging population, while paying for them with a barely growing workforce.

Moreover, it is not only the quantity of the rest of the world's weight that has changed. It is also the quality. A whopping 40 percent of non-transatlantic GDP—and a majority in strategic industries—is controlled by state-run enterprises. The majority of goods are traded among countries where at least one of them does not have a free-floating currency—so while prices are nominally set by global markets, in reality they are set by state regulators.

While the United States and Europe have tried to emphasize renewable energy and reduced CO₂ emissions, these efforts have been dwarfed by the rest of the world's massive consumption of traditional energy supplies with a view toward fueling rapid growth at the lowest possible cost, meaning that global emissions have continued to rise and are now at double-digit rates of increase.

This has also given rise to significant resource competition among the newly developed countries, pushing up global prices in nearly all areas—from foodstuffs to energy to minerals to water—and affecting the U.S. and European economies significantly, even though we are not driving the change. Thus far, this resource competition has remained in the economic sphere—though it remains possible it could spill over into political or military competition as well.

Although the majority of populations live in countries that we would consider genuine democracies—with China being the main exception—the behavior of most countries in global markets is more one of mercantilist nationalism rather than liberal internationalism. And while committed to democracy at home in most cases, their interest in seeking to advance democratic values abroad is nearly non-existent.

Domestically, in both the United States and Europe, growth has been stagnant for a decade. Jobs lost in the Great Recession have not returned, simply because the cost structures and bureaucratic rigidities on both sides of the Atlantic—as well as their stagnant markets—make it easier to create growth and jobs just about anywhere else in the world. And the ease of global communications and transportation has continued to make the actual location of an industry less and less relevant to its global success.

Shift in Global Security

Alongside the shift in economic weight has been the shift in global security challenges, and in security capacity. While the United States remains the world's largest military power by expenditure, China continues to pour money into new equipment and capabilities, and is able to get far more “bang for the buck.” This has prompted growing military spending by others in Asia—including Taiwan, Japan, Korea, Indonesia, India and Singapore—leading to a tense but stable military balance in which the United States has become more of a foot on the scales rather than a singularly dominant military force.

The same can be said for the Broader Middle East region. Pakistan, Iran, Iraq, Saudi Arabia, Israel, Egypt, Syria and Turkey are all beefing up defense establishments as deterrents against each other.

The geographic foci of the world's most intense security competition has shifted to the South China Sea, the Indo-Chinese and Indo-Pakistani borders, Egypt/Saudi Arabia-Iran, the unified Korea and China, and internal borders within southeast Asia. The Israeli-Palestinian conflict—while still unresolved—is by comparison relatively quiet.

Iran's acquisition of nuclear weapons has led to a flurry of other states acquiring nuclear weapons as well, creating a new era of “balance of terror” deterrence, in which Europe and the United States are

largely on the sidelines. Fortunately, the simultaneous growth of democratic practices throughout the Broader Middle East and South Asia, including Iran, has given a higher degree of responsible civilian oversight to these multiple nuclear programs.

Russia has proven to be neither a threat nor a partner. Its early ambitions under President Putin for a resource-nationalism-based revival of Russian power and a Russian sphere of influence have come to naught. Russia has enjoyed neither the resource-based income it has sought, nor the good governance needed to put such resources to strategic purpose. Its neighbors, meanwhile, have grown increasingly independent economically, politically, and culturally over the past 25 years, diminishing Russia's influence still farther.

In this new global environment, NATO has become largely irrelevant. The Afghanistan and Libya operations ended long ago, and NATO has retreated to the popular but largely unnecessary task of protecting European territory against military attack. This is due in no small measure to the fact that, on the one hand, Europe has largely stepped out of military affairs, unwilling to fund more than minimalist defense establishments for purely territorial defense, and on the other, the United States has turned its focus clearly to the areas in the Middle East and Asia where today's security problems actually reside. European partners are unable to bring much to the table in these areas, while regional partners have become indispensable for managing regional security competition.

The Decline of Atlanticism

Given all these trends—and the challenges they imply for the United States and Europe—it is therefore surprising to look back in hindsight and see that transatlantic cooperation grew weaker at the same time that the rest of the world was growing stronger.

Rather than joining together because of common values and interests, we allowed the weaknesses of our politics and finances to dictate our relationships. Each side of the Atlantic has actively pursued its own relationships with Asia, with South Asia, the Middle East, and Latin America. This has mostly taken the form of seeking buyers for Western debt securities, and agreeing to structured business deals brokered directly with foreign governments and their state-owned

entities. These activities have only served to reinforce the growing state role in the global economic order, rather than international economic liberalism.

Just as these weaknesses in our economies and finances drove us to pursue other relationships with greater vigor, likewise the weakness in our political vision did the same for diplomatic relationships. While the EU-Asia and EU-Africa and EU-Latin America summits—and their American equivalents—have all blossomed, U.S.-EU summits were reduced from twice yearly to annually to once every two years and now to once in four. After NATO in 2016 closed the doors on its Afghanistan operation—its longest, most demanding, and least successful—a NATO summit was held since at the beginning of your term of office, in 2017, and not again since. The next will only be held again in the next term, if then. The G8 has long-since stopped meeting, giving way in full to the G20 instead.

G20—A Troubling Agenda

This brings us full circle to the U.S.-EU and G20 meetings at hand. The Chinese, as G20 hosts, have proposed a new “rules of the road” document aimed at solidifying principles of state-led growth and trade. This includes exempting state-to-state contracts, and state-entity to state-entity contracts from WTO rules. It includes international recognition of privileged “easements” negotiated by states and state-owned entities for unique access to key resources. It explicitly forbids linkage of contractual arrangements between states or state-owned entities to “conditionality” on democracy, human rights, or other issues of governance. The list goes on.

Of course even the Chinese know the G-20 is a fig-leaf organization. It is the bilateral and sub-regional deals that have grown to dominate the newly developed world’s economic interactions. Nonetheless, the Chinese aim is to get an international endorsement of the type of bilateral economic deals they have been pursuing successfully for many years. Their behind-the-scenes diplomacy and deal-making has bought them support among a majority of the G20 nations, who are attracted to the predictability implied in the Chinese approach (and the fact that it legitimizes their state-driven trade practices in any event). There will be a heavy push for agreement at the meeting in

Shenzhen—and even in the absence of full agreement due to U.S. and European objections, the substance of the document will be put into practice by the majority of G20 states anyway.

From a transatlantic perspective, however, this new rulebook—whether agreed formally or implemented as a matter of practice—is a direct assault on the liberal economic order that has benefited the global economy, and been sustained through the IMF, WTO and other organizations, for decades. We have lived through the erosion of this order in practice; it is another thing to consign it to history as a matter of decision. Indeed, perhaps the time has come to push back with a new initiative for a liberal marketplace, centered on the transatlantic community.

Reinvesting in the Transatlantic Market

That is what makes this upcoming U.S.-EU summit—two days ahead of the G20 meeting—one of the more important ones we have had in decades. In days gone by, we used to think of the world as “the West and the Rest.” Under today’s conditions, however, it is “the Rest” that have moved forward, and “the West” that has been reduced in relevance. Given the shifts in economic weight and dynamism, we may be unable in the short term to exert much influence on the economic development going on in the rest of the world. But we do have the opportunity to affect our own “internal” transatlantic economy and political cooperation, and lay the groundwork for potentially greater influence down the road.

To do this, Europe has proposed an ambitious agenda for the U.S.-EU summit. This includes the creation of a single transatlantic marketplace. The establishment of a joint regulatory authority, with mutual recognition and eventual harmonization of existing regulatory regimes. The elimination of restrictions on the movement of people, capital and goods across Europe, Canada and the United States. The adoption of fiscal and monetary policy guidelines, including deficit and debt limits, to help smooth the operation of a single transatlantic market. The raising of external tariffs around this market. The establishment of joint political-consultative bodies to oversee implementation of these proposals over renewable 5-year periods.

Even just two years ago, these proposals would have seemed ridiculously large in scope, dangerously protectionist, and correspondingly impossible to imagine implementing. As the balance of economic power has shifted away from the transatlantic community, however, we are less and less able to assure our own individual economic well-being, or to influence the operation of a global marketplace along liberal economic lines.

If trends continue as they now stand, we will see the continued erosion of wealth, jobs, market share, and technological innovation within our own community. It is therefore worth serious consideration whether the creation of a billion-strong Transatlantic Single Market can help to reignite economic dynamism in the transatlantic area, in order to exert a greater influence on the development of the global marketplace.

To be sure, just as we object to the Chinese agenda, there are elements of the European agenda to which we would object as well—and equally, demands we would have, such as on reducing Europe’s own labor market rigidities and budget deficits, and relaxing some environmental restrictions. Still, the potential benefits to the United States of “fair” competition within a larger transatlantic market may help offset the increasingly “unfair” competition of a dynamic yet state-led “rest” of the world.

It will not be possible to reach agreement on such a transatlantic agenda in a single meeting. Still—just as the Chinese agenda will not go away even when it is not formally endorsed at the G20 meeting, the idea of a transatlantic marketplace should not go away even though it is fraught with difficulty. It may be the only way to restore our own economic weight and credibility before it is too late.

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