

Economics

Transatlantic Responses to the Rise of Asia

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- The role NATO played in an age of military threat could be played by a transatlantic free-trade zone in today's age of economic confrontation.
- Together the Europeans and the Americans are still a force to be reckoned with. Representing about 13 percent of the total world population and 60 percent of today's global economy, they stand ready to act as producers and consumers not only of goods, but also of values.
- Can a Western free trade zone really prevent Asia's ascendancy? Clearly not. Nor is that the goal. However, what it can do is to help reduce the slope of Asia's ascent and prevent our flight paths from crossing too frequently.

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A Trade NATO for the World Economy

by Gabor Steingart

Asian businessmen are the friendliest conquerors the world has ever seen. The West should wake up and start defending its values. An ambitious project awaits our generation: a European-American free-trade zone.

There are essentially three exclusive characteristics whose simultaneous development has served as the foundations of the United States' success up until now — and they only appear in this particular combination in America. They are not only the country's biggest strengths, but also its greatest weaknesses. It is worth scrutinizing them more closely.

First, nowhere in the world can you find such a high concentration of optimism and *daring*. America is the country that strives hardest for what is new — not just since yesterday (like Eastern Europeans) and not just for the last three decades (like the Chinese); rather from the very instant settlers began arriving. Unabashed curiosity seems to be hardwired into the nation's genetic code.

The steady influx of the adventurous and hard-working — which helped increase the country's labor force by about 44 million people since 1980 alone, and continues today — ensures a constant replenishment of audacity

and the *entrepreneurial spirit*. However, it is not just the addition of people that make the difference. The mere addition of 17 million people to the Federal Republic of Germany following reunification in 1990 — newcomers more concerned with preserving their guaranteed rights than with making the extraordinary effort necessary for success — did nothing to foster the kind of daring you see in the United States. Indeed, the result was exactly the opposite, and it has been a painful lesson for Germany.

Second, America is radically global. Its very origins — rebellious citizens from every country in the world who assembled in the territory that is now the United States — mark its people as true children of the world. Former German Chancellor Helmut Schmidt called the founding fathers of the United States a “vital elite” — and one that continues to pass along its genes to this very day. Their language is dominant, having marginalized Spanish and French during the second half of the past century. Their everyday culture — from the T-shirt and rock ‘n’ roll to e-mail — has peacefully colonized half the world. And from the very beginning, U.S. corporations were eager to venture abroad in order to trade and set up production sites in other countries. Multinational

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corporations may not have been a U.S. invention, but they became its specialty.

Third, the United States is the only nation on earth that can do business globally in its own currency. Indeed, the dollar has established itself as the world's currency. Whoever wants to own it has to purchase it in the United States. All important decisions about the quantity of cash that circulates or the setting of interest rates are made within the nation's borders, which guarantees a maximum degree of national independence. It's American blood that flows through the veins of the global economy. Almost half of all business deals are closed using dollars as the currency, and two-thirds of all currency reserves are held in dollars. Charles de Gaulle, who was president of France after World War II, admired this "exorbitant privilege" even then.

Trial of Strength

But there is a flip side to this coin. First, Americans are so optimistic that they often blur the line between optimism and naivete. America's public, private, and corporate debt

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far exceeds any previously known dimensions. Forever piously trusting in a future rosier than the present, millions of households are borrowing so much money that they end up endangering the very future they're looking forward to. The lower and middle classes have practically given up on putting aside any savings. They're going into the 21st century like a poverty-stricken, Third World family, living from hand to mouth without any financial reserves whatsoever.

Second, globalization is striking back. The United States has promoted the worldwide exchange of commodities like no other nation, and the result is that their local industry has begun to be eroded. Some economic sectors — such as the furniture industry, consumer electronics, automobile part suppliers, and now computer manufacturers — have left the country for good. In the recent past, free trade has primarily

benefited the very states that are now mounting an economic offensive against the United States — and which have cut off a large slice of America's global market share for themselves.

Third, the dollar doesn't just strengthen the United States; it also makes it vulnerable. The government has pumped its currency into the world economy so vigorously that the dollar can now be brought to the point of collapse by external forces — such as those in Beijing, for example. Former U.S. President Bill Clinton spoke of a "strategic partnership." Current President George W. Bush would later speak of a "strategic rivalry." They meant the same thing. There's a form of dependence that obliges economic actors to cooperate in normal times. But when times change, there is the temptation to engage in a show of strength.

De-linked from Prosperity

Make no mistake about it: at the start of the new century, the United States is still a superpower. But it is a superpower that faces tough competition from outside and difficulties within. The feedback effects of the advance of globalization are especially intense for the U.S. economy — so much so that large parts of the American workforce are now standing with their backs against the wall.

The rise of Asia has only led to a relative decline of the U.S. national economy. At least so far. But for many blue- and white-collar workers, this decline is already absolute: they have less of everything than they used to. They possess less money, are shown less societal respect, and their chances of climbing up the social ladder have deteriorated dramatically. They're the losers in the world war for prosperity. But while that may be their fate, they cannot be blamed for it. And it's certainly not a private affair. Every nation has to face uncomfortable questions when an ever-larger part of its citizenry is de-linked from the nation's overall wealth. This is all the more true of a society that has made the pursuit of happiness a fundamental right.

On Oct. 28, 1998, at the behest of the president, the U.S. Congress established a commission that brought together highly respected experts — including Robert Zoellick, Donald Rumsfeld, Ann Krueger, and Lester Thurow — to examine the effects of the country's trade deficit and the withering away of industrial labor, and provide their assessment of the situation.

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Things had been going swimmingly for the United States right up until the end of the 1970s, the commission report concluded. Family incomes grew virtually at the same rate in all sections of the population during the first three decades after World War II, with those of the poor even growing slightly faster. The lowest fifth of U.S. earners saw a 120 percent increase in incomes, the second fifth 101 percent, the third 107 percent, the fourth 114 percent and the fifth 94 percent. It was as if the American dream had been made manifest in the statistics.

But then the trend reversed, and not just in the United States. Japan had awakened, and global trade had shifted directions. Capitalists left their home turf and went looking for suitable locations to invest in. Direct investment abroad — which had until that point been more or less in harmony with exports — rose dramatically. Investment abroad had once served mainly to boost the export of German, U.S. or French products, but then factories themselves began to be relocated, mainly to cut manufacturing costs. Production for the world market became increasingly global itself, which led to a redistribution of capital and labor. Global production increased by a solid 100 percent between 1985 and 1995. But direct investment abroad increased by 400 percent during the same time period. This new mobility on the part of capital began to make the other factor of production, labor, restless, too.

Producing all over the World

The new jobs were created elsewhere, which had to have an effect on family income in the United States. Within the next two decades, the income of the lowest fifth sank by 1.4 percent. The second fifth still managed to gain by 6.2 percent, the third by 11.1 percent and the fourth by 19 percent. At the tip of the pyramid — where the promoters and planners of globalization, and those who profit most from it, reside — income gains climbed by 42 percent.

The U.S. national economy clearly bears the signs of this break with its Golden Age, when the country produced prosperity for almost everyone. Until the 1970s, the productive core of the country burned with such a fiery light that it illuminated the entire world. The United States provided dollars and products for everyone. The American empire's enormous economic power helped in the reconstruction of

war-torn Europe and Japan. For four decades, the United States was the world's greatest net exporter and its greatest creditor. Everything went just the way the economic textbooks said it should: the world's wealthiest nation pumped money and products into poorer countries. The United States used the energy from its own productive core to make other countries' economies glow or at least glimmer. It was indisputably the world's center of power, a source of energy that radiated out in all directions.

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U.S. capital was at home everywhere in the world, even without military backing. Many experienced this state of affairs as a blessing, some as a curse. Either way, it was good business for the United States. At the peak of its economic power, the West's leading nation disposed of assets abroad whose net value amounted to 13 percent of its gross national product (GNP). To put it differently: The country's productive core had expanded so dramatically that it opened up branches and subsidiaries all over the world.

What Remains

This indisputably superior United States simply doesn't exist anymore. As a center of power, it is still more powerful than others, but for some years now that energy has been flowing in the opposite direction. Today, Asian, Latin American and European nations are also playing a role in the very heart of production in the United States. The world's greatest exporter became its greatest importer. The most important creditor became the most important debtor. Today, foreigners own assets in the United States with a net value of \$2.5 trillion, or 21 percent of gross domestic product (GDP). Nine percent of shares, 17 percent of corporate bonds, and 24 percent of government bonds are held by foreigners.

Neither laziness nor the nation's obvious penchant for consumerism can be blamed for this changed American reality. U.S. industry — or at least what little is left of it — is respon-

sible. In the span of only a few decades, U.S. industry has shrunk to half what it once was. It makes up only 17 percent of the country's GDP, compared to 26 percent in Europe.

Every important national economy in the world now exports products to the United States, but without purchasing an equivalent amount of American goods in return. In 2005, the U.S. trade deficit with China was about \$200 billion dollars; it was a solid \$80 billion with Japan; and more than \$120 billion with Europe. The United States can't even achieve a surplus in its trade with less developed national economies like those of Ukraine and Russia. Everyday, container-laden ships arrive in the United States — and, after they unload their wares at American ports, many return home empty.

Those looking for something good to say about the U.S. superpower won't find it in the trade balance. This growing imbalance can't be attributed to natural resources or the import of parts for manufacturing firms. Oil imports, for example, don't make as significant a difference to the trade balance as is often assumed: they account for only \$160 billion dollars, a comparably small sum. Instead, it's the top products of a developed national economy that the United States is importing from everywhere in the world — cars, computers, TV sets, game consoles — without being able to sell as many of its own products on the world market.

What is to be Done?

For fifty years it was a highly controversial institution. Today, though, every schoolchild knows that without NATO, the North Atlantic Treaty Organization, free Europe wouldn't exist. If the Western alliance hadn't ostentatiously demonstrated its power — with its fighter jets, tank divisions and continuously updated weaponry — Soviet communism would have expanded westward instead of imploding as it did. By the end of the Cold War, even NATO's fiercest critics had learned their lesson: the dove of peace could only survive because the hawk was ready on his perch.

The world war for prosperity calls for a different, but every bit as contradictory, solution. Alas, once again many lack the imagination to see that the aims of our economic opponents are far from peaceful. Yet what sets this situation apart from what we usually call a conflict — what paralyzes the West — is how quietly the enemy is advancing.

The two camps are divided between Europe and America, on the one side, and Asia, on the other. But so far there has been no shouting, no bluster and no shooting. Nor have there been any threats, demands, or accusations. On the contrary, there is an atmosphere of complete amiability wherever our politicians and business executives might travel in Asia. At airports in Beijing, Jakarta, Singapore and New Delhi red carpets lie ready, Western national anthems can be played flawlessly on cue — and even Western complaints about intellectual property theft, environmental damage, and human rights abuses are parried with a politeness and patience that can only be admired. The Asians are the friendliest conquerors the world has ever seen.

A Stoic and Dark Superpower

Their secret is stoic perseverance, the weapon they use to pursue their own interests while at the same time disregarding ours. What looks like a market economy in Asia, actually follows the rules of a society in which it is the collective rather than the individual who sets the agenda. Tasks that serve the aims of society's leaders are assigned to the individual in a clandestine manner that is barely perceptible to outsiders. It is a state that encourages as much collective behavior as possible but only as much freedom as necessary. This is what makes China a dark superpower.

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Free-market economies in the United States and Europe find themselves confronted with China's controlled market economy — a model for which they are unprepared. In the global war for prosperity, a rival has emerged — and it is willing to use complete state protection to win.

China is supported by a banking system which pursues other ends than mere profit. Import tariffs protect entire industries as effectively as a brick wall. Thus does China, a shoe exporter, prevent shoes from coming into the country.

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The domestic market is protected from foreign competition by a 27 percent surcharge.

Furthermore, China's management of its exchange rate acts as a massive subsidy for exports by keeping prices of goods sold abroad artificially low. Meanwhile, the intellectual property of foreign firms is taken without payment and without compunction.

More than any other country in the world, China talks the free-market talk while never deviating from the state-controlled walk. The country's leaders clearly don't navigate by the principles of free trade, despite having committed themselves to do so in international treaties.

Even if no one is prepared to say it outright, there are signs of a similar indifference to Western values all across Asia. But it is precisely that unspoken that separates the two worlds. Free labor unions are neither vilified nor permitted. Lip service is paid to the environment as something that should be protected, but at the same time it is torn apart like a car in a wrecking yard. Child labor is condemned even as it is actively tolerated. And a whole range of laws exist to protect Western intellectual property, but those rules are seldom applied.

The Asian elite politely brush off everything that matters to us — the social framework surrounding daily working life, the idea of individual achievement and state-guaranteed fair competition. What we see as essential characteristics of a civilized society, they see as nothing more than bourgeois niceties.

The state (India) or party (China) is responsible for setting prices, promoting technology, ensuring provisions of raw materials, protecting industries, and providing the impulse for just about any kind of economic or political activity. Like the West, Asian societies also operate with a certain give and take. The difference, however, is that the state or the party, and not the individual, determines what is to be given or taken. The overwhelming success of their export industries is seen as proof that their way is the right one.

With every Machine, the West sells a part of its Soul

Americans and Europeans could, of course, respond tolerantly to this differing view of how a country should be

run — if, that is, their open economies didn't mean severe side-effects for the West. But the reality is that, where there is no referee to ensure that everyone plays by the same rules, Western countries are encouraged (sometimes even forced) to allow their own societies to become harsher places. In order to avoid losing business to low-wage countries, worker's councils are tamed, rules for environmental protection are watered-down, and responsibility for social welfare is gradually handed back to families and individuals.

The West believes it is selling machines, cars, and planes. But as part of the deal, it is also selling its soul. It is as if politicians and companies are committing suicide to escape the fear of death.

But the West should have more confidence in itself. Foregone conclusions are unknown in the broader sweep of history, and it is entirely possible to find a solution. Or, at the very least, to ease our problems.

The role NATO played in an age of military threat could be played by a transatlantic free-trade zone in today's age of economic confrontation. The two economic zones — the European Union and the United States (perhaps with the addition of Canada) — could stem the dwindling of Western market power by joining forces. Together the Europeans and the Americans are still a force to be reckoned with. Representing about 13 percent of the total world population and 60 percent of today's global economy, they stand ready to act as producers and consumers not only of goods, but also of values.

There are few reasons to oppose the Americans

There are three reasons this idea is attractive, and the first is political. Such cooperation would lead Americans and Europeans closer together again. The temptation to childishly score points off each other — dangerous in light of the Asian challenge — would be removed. And while there may be plenty of reasons to oppose U.S. President George W. Bush, there are few reasons to be against America. From an economic point of view, there are many tangible reasons that it makes sense for Europeans to work together with the West's leading power.

The military alliance which was forged in the Cold War could be carried over into the global economic war. The aim

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of maintaining freedom and increasing prosperity would remain — only the methods of pursuing those aims would change. A transatlantic free trade zone would inevitably lead to a convergence of the two economic systems. Europe would become more Americanized, and the U.S. would become more European, albeit slowly and via a process which would take several decades.

Countries that remove all trade barriers and unify accounting standards, technical norms, copyright laws and stock market practices would also ensure that their financial, social, taxation, and environmental policies didn't drift apart. Governments would have more room to maneuver, as well as greater opportunities and responsibilities.

The second major advantage is economic. A domestic market as reliable and as big as an EU-U.S. free-trade zone would be advantageous both for investors and for workers. It would fuel economic growth (though perhaps not drastically). But investment creates jobs. The West could at least win back part of what it has lost. For one thing, it would regain the power to set technical standards — even if, in the global economy, that is more a question of promoting standards than actually “setting” them.

The most imposing effect of such a mega-merger of transatlantic markets would doubtlessly be felt in the Far East. The boom region of the last decade-and-a-half would rightly sit up and take notice. The new message would be this: the price of a product is still important, but the way in which it has been produced is equally relevant. Countries that refuse to tolerate trade unions — or which exploit women, children and the environment, to name just a few issues — would no longer be spoiled by preferential treatment at customs.

Asia's current economic behavior could for the first time prove to be a disadvantage. For those on the inside, the transatlantic free trade zone would give its residents courage; but, on the outside, it would serve as a fortress — at least for those who consciously reject, or even denigrate, Western values.

The Sins of Growth

The history of the militarily well-fortified West has taught us that those who defend their values also spread them. The

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principle of fair trade could also be spread in the Far East in the same way that the 1975 Helsinki Conference set off a process which ultimately benefited human rights in the entire Eastern bloc. Asia has a right to succeed. But the West also has the right to fight to preserve its own accomplishments.

Can a Western free trade zone really prevent Asia's ascendancy? Clearly not. Nor is that the goal. However, what it can do is to help reduce the slope of Asia's ascent and prevent our flight paths from crossing too frequently.

But doesn't that sound too defensive? Is the energy needed to set up a transatlantic free trade zone worth it?

Absolutely. A plane can take off in different ways: there is a violent updraft that creates turbulence on the ground and there is a milder form of thermal wind that can also take others up with it. This take-off may not be as steep and as fast, but it is less destructive. Yes, global growth would slow. But that wouldn't be nearly as tragic as many people think. The growth of the last few years has been impossible to enjoy anyway because of the many sins committed along the way, both in Asia and the West. Plus, it has been bought with other people's money — namely through heavy borrowing and the money of future generations.

The creation of a transatlantic free trade zone would also send a strong political message: look here, like-minded nations are coming together. The nations that gave birth to the Enlightenment are devoted to the individual's right to freedom, but not at the expense of the collective. World leadership may ultimately end up in others' hands, but we won't stand complacently by while it happens. In Europe, as in the United States, this is the overriding economic challenge facing the present generation.