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## The European Union in the Corona World Economic Crisis

Perspectives and options  
in the geo-economic competition  
between the US and China

Josef Braml

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## IMPRESSUM

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# PREFACE



**Markus Ferber, MdEP**

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**T**he European Union is increasingly caught in international crossfire. The COVID-19 pandemic intensifies global economic competition, in particular the hostile rivalry between the United States of America and China. In this conflict, neutrality is no longer an option for Brussels because it shares the partnership of values of the Western world with Washington. Furthermore, numerous EU member states, as well as the United States, are members of the North Atlantic Pact.

Nonetheless, the military and economic superpower across the Atlantic has for some time been turning away from its allies and partners in Europe and is shifting its international attention to the Asian continent. In this context, the presidential and congressional elections to be held in the United States in early November are of particular relevance. From the European

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Union's point of view, the focus is on questions such as the impact of these votes on the future of free trade, multilateralism and the international engagement of the superpower.

At the same time, China is proving to be an increasingly difficult partner. Hopes for a liberalization of the political system have not been fulfilled. The exact opposite is the case: The Communist Party is reaching for Hong Kong, the European Union is protesting and refers to the principle of "one country, two systems". Against this background, strategists in Brussels are concerned that Chinese investments in critical infrastructure in Europe could pose a threat. The EU also wonders whether China is a reliable partner with regards to the reform of the World Trade Organisation. How has Beijing's stance evolved in the wake of the corona pandemic?

Another important aspect is energy policy. The European Union has set high standards with its "Green Deal" and is pursuing ambitious goals in reducing greenhouse gases, not least in order to reduce its dependence on external suppliers. The fact that the Corona pandemic has led to a decline in energy demand and thus lower prices is also playing into the hands of Brussels. What impact does this have on the energy policies of the European Union, the United States and China?

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These kinds of geo-economic questions are of great relevance for companies in the European Union. The COVID-19 pandemic put issues such as the vulnerability of supply chains and the reliability of suppliers on the agenda; they have always been influenced by geopolitics but in future this will be the case even more. High export volumes make companies and their employees more aware of global political developments – and especially of the role played by the European Union. In this context, the purpose of this paper is to make a contribution to the ongoing debate.

I wish you an enjoyable and informative read.

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# The European Union in the Corona World Economic Crisis

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## Summary of key findings

### **The coronavirus crisis has intensified geo-economic rivalries.**

The global economy, which has been affected by the Corona pandemic, can only recover if the virus is defeated worldwide – which would require global cooperation. However, the Corona virus crisis has exacerbated existing geo-economic<sup>1</sup> rivalries, especially between the United States and China. The effects of the pandemic are also threatening China's Communist Party – which is why it is trying to suppress the debate about the virus internally and distract from it with an aggressive foreign policy.<sup>2</sup> Likewise, US President Trump needs an outside foe to close ranks at home. To distract from his own failure and secure his re-election, Trump blames China for the spread of the "China virus" in the United States. By apportioning blame, the Trump administration is justifying an even tougher approach to China. The now bipartisan critical stance is being taken on both sides in the election campaign, and will continue to exist after November 3, regardless of the outcome of the presidential and congressional elections.

In the future, US strategic planners want to make sure that China should no longer be helped by economic exchanges to rise economically and technologically. Instead, all means must be taken to prevent China from overtaking the United States in key technological areas. In order to curb China's economic and military modernization, the United States is pushing a strategy of economic decoupling instead of the previous policy of engagement and integration.

The Corona pandemic has reinforced this de-globalization. More and more companies in the United States and Europe are trying to gain more "resilience" at the expense of "efficiency", such as the previously internationally networked just-in-time production. This "nearshoring", "reshoring" or "localization" means that Western companies are moving their supply chains back home from China. Some industries, especially in the technology and pharmaceutical sectors, will come under even more pressure from governments in the United States and elsewhere to do the same. Washington, in particular, will be keen on making sure that the supply chains which are important to its strategic industries become more independent from China.

Specifically, the US government manages or manipulates data, trade, energy, and financial flows, especially through (secondary) sanctions. The interplay of forces on so-called free markets is increasingly being disregarded and only accepted by the United States as long as it serves their political goal of geostrategic dominance. Thus, the modern, liberal basic idea of free market economies, the concept of win-win, is abolished in favor of a pre-

industrial, mercantilist zero-sum concept: the winner takes all. This stance, which President Trump and his economic and security advisers openly express,<sup>3</sup> is also compatible with the neo-realistic take on international relations, according to which economic power is one of the basic prerequisites for military "hard power"<sup>4</sup>. Conversely, military power can be used to achieve economic benefits: the "invisible hand" of the market works better with the often easily visible fist in the pocket.

The countries of the EU, especially Germany, would be ill advised to invoke the "right of the strongest", and be it only because they can't. Due to their military weakness and the presence of their companies in global markets they are particularly dependent on the rule of law – e.g. the multilateral rules of the World Trade Organization (WTO), which apply to all 164 member states. The United States under President Trump, however, believe that its power which is based on economic and military strength is curtailed by multilateral rules and that they favor its rivals China and Europe. US President Trump is now seen in Europe as the greatest threat to the multilateral system – not China's leadership. But anyone who sees Beijing as a more reliable partner, for example to reform the WTO, overlooks China's equally opportunistic interpretation of multilateralism, which is fundamentally different from Europe's rules-based understanding.<sup>5</sup>

Rising Sino-American tensions will not only have a divisive effect on multilateral organizations, but will also have a significant impact on dual options countries such as Germany, which have strong national security ties with the United States, but also strong economic ties with both the United States and China. The cost of this dual strategy is likely to rise in the future, as is already evident in the technology sector (e.g. 5G/Huawei). In the struggle for technological spheres of influence, the United States will increase pressure on third countries and confront them with the choice of doing business with either America or China. The result is a world divided into Chinese and American standards and systems.

Although a second term in office could put the transatlantic value, economic, and security community to an even tougher test, equidistance between the United States and China<sup>6</sup> or even a closer rapprochement with China would in no way be sensible options, simply because of the lack of shared values with China and Europe's dependence on the United States in the field of security policy.

**The EU and Germany cannot rely on the "right of the strongest".**

Lofty terms such as "strategic independence" or "autonomy" have so far only concealed the lack of the EU's ability to take decisions and action, which is urgently needed to adapt to this new world order. The European Union is particularly vulnerable to the "divide and conquer" strategies of the major powers, especially China and the United States. In order to overcome its political vulnerability, to improve its capacity to act and become "a truly global player", the EU, on foreign and security policy, should give up the illusion of unanimity and adopt a more realistic consensus based decision-making process in the form of qualified majority voting.

The President of the new European Commission, Ursula von der Leyen, has put together a "geopolitical Commission" to act as a "protector of multilateralism". The EU's economic weight must be used more in future to defend European interests and values in foreign and trade policy. In a more competitive international environment, the EU needs to use its own economic power more strategically.<sup>7</sup>

**Decision-makers  
should prepare for tougher  
US conditions.**

Even in the event of a Joe Biden administration, Europe's policymakers should be prepared to face tougher American market-power conditions, which are already being pushed by incumbent President Trump. The United States will continue to use its economic and military power as a competitive advantage, all the more so in relation to vulnerable countries in Europe.

In future negotiations, the United States will demand more economic compensation for military and security protection. In return, Europeans should demand guarantees to be given for this protection. In addition to an explicit – mutual – commitment to a possible expansion of NATO (keyword: "Global NATO") it might also be conceivable to include European states in the hitherto exclusive club of the "Five Eyes", the intelligence alliance, which so far only includes Australia, Canada, New Zealand, the United Kingdom and the United States.

Europeans could also be a little more assertive when referring to their contribution to common security: for decades, they have been financing consumption, the economy, and also the arms build-up of the United States, not least through the currency reserves and savings earned in trade. In the future, these investments are likely to gain more appreciation, especially as international investors have begun to lose confidence in the sustainability of the US economic recovery and the US market. Meanwhile, the dollar has fallen to a two-year low.

The bailouts to revive the European economy affected by the Corona pandemic and the future projects of the Green Deal and digitalization are now giving Europe, too, the chance to "deepen" its markets. In view of the particularly precarious social, economic and political situation in the United States and China, European states and institutional investors should invest their capital reserves more securely, profitably and strategically in the euro and in the economic and military empowerment of Europe (keyword: European Defence Fund), also in order to prepare the continent for the increasingly fierce geo-economic competition. We need the European Union as a guarantor for market power and options for action, so that the countries of Europe can continue to operate and live self-determined.

**Europe has the opportunity to "deepen" its markets.**

## Introduction

**The pandemic has been better contained in Europe and Asia than in the USA.**

The latest data on Corona virus infections and deaths suggest that the pandemic has been better contained in Europe and Asia than in the United States, where the pandemic is in danger of spiraling out of control. If the US economy were to be forced to stall again, however, hopes for a V-shaped recovery would also evaporate worldwide, and the still exuberant stock markets would have to reflect the already gloomy situation of the real economy.

The Corona pandemic and the world economic crisis it triggered will not lead to global cooperation, but will reinforce existing geo-economic rivalries, especially between the United States and China, and thereby also affect Germany and Europe. Although the main countries' cooperative behavior would be necessary to combat the global pandemic – and the global economic crisis it has triggered – US President Donald Trump has so far stepped up the confrontation with China and attacked the World Health Organization (WHO). Trump is setting up scapegoats to distract from his own failures in the crisis and the serious social and economic consequences in his country that threaten his re-election. With sharp rhetoric, the Trump administration blames China for the aftermath of the pandemic in the United States.

If two are arguing, the third, namely Europe, in this case has no reason to rejoice. The European economy will suffer collateral damage as a result of the two economic giants' showdown. Above all, Germany's economy and politics will find themselves even more in the crosshairs of China's and America's world power ambitions.

It is true that China's non-transparent action after the outbreak of the pandemic and the awareness of Europe's over-reliance on Chinese medical supplies have damaged China's standing in Europe and brought the European stance closer to the tougher position of the United States. But the US administration's handling of the Corona pandemic so far has also destroyed the hope that, in the face of a life-threatening situation, transatlantic cooperation would be improved. There will be an even greater burden on the transatlantic relationship over technological issues – on which Europe will have to show its colors in the future.

The transatlantic dispute over Chinese supplier Huawei's 5G technology is just the tip of the iceberg of fundamental geo-technology rivalries. "Big data" and the ability to use large amounts of artificial intelligence (AI) data for economic development as well as political and military power are the real "game changer". For they will determine who will spearhead the future economic and military competition and then also determine the rules of the game, the world (economic) order, guided by their own interest.

The Trump administration has already ensured that the traditionally weak market paradigm in energy markets has been even more displaced by geopolitics. In order to protect the US oil and gas industry, which is already in distress because of the Corona-related slump in demand, from competition from lower-cost producers such as Saudi Arabia, Russia, or Iran,<sup>8</sup> the Trump administration is mobilizing all geo-economic power at its disposal, also at the expense of the economic interests of America's allies in Europe and Asia.

Because of its economic plight and huge debt worsened by the pandemic, the United States will try all the more to capitalize on the economic and, in particular, military dependence of its allies in Europe and Asia – also in the event of a future administration under Joe Biden. Those who do not provide themselves with an operational military power must like it or not, pay tribute to their protective power through monetary or trade policy. To achieve US goodwill, allies can buy "freedom gas" or American arms such as warplanes, thus helping to reduce the US trade deficit.

**The United States will capitalize on the dependence of its allies.**

This transactional, selfish approach, which China's security and economic advisers are equally familiar with despite their "win-win" rhetoric, does not only affect European companies operating in the energy and military sectors. Internationally operating German companies have in particular fallen into the crosshairs of geo-economic strategies of the major powers USA and China. Germany is one of the most internationally intertwined and thus most vulnerable economies in the world.

In the increasingly dominant geo-economic thinking of world powers, economic interdependence and the global division of labor are no longer necessarily guarantors of prosperity and peace. Instead, they become a risk, as imbalances in interdependence can be exploited. Value chains and trade relations have become "weaponizable": they become the object of geostrategic ambitions.



**It is high time that  
Europe turns its  
rhetoric into action.**

It is high time for Europe to turn its rhetoric (keyword: "geopolitical Commission") into action to improve the European Union's ability to take decisions and act. Only this supranational framework provides European states with the necessary sovereignty to operate and be in control in the new world order. For both the United States and China are going to up the ante and they know how to exploit Europe's disunity.

# 1. Relations with the United States of America

The Corona pandemic exacerbates the already tense social and economic situation in the United States, which threatens Trump's re-election, and also affects the outside world through a more aggressive foreign policy. So far, it has mainly concerned China – but Europe will not be spared either. The economic and military rivalry of the two adversaries is bound to entail subsequent collateral damage to the European economy – even in the case of a Biden administration after the US election.

## 1.1 Corona pandemic: Social and economic consequences in the United States

Unlike most European countries, the United States has failed to contain the spread of the Corona virus; the number of registered infections and fatalities continues to rise markedly. According to data from the Johns Hopkins University, July 2020 flagged a negative record in the United States, with more than 1.9 million reported new Corona virus infections – by far the highest number in a month and a grim sign that the country has lost control of the spread of the pandemic. The states in the South and West are most affected by the new wave. In July, there were 261,000 new cases in Texas and more than 270,000 in California, and Florida tripled its statistics with 318,000 new cases. The total number of new infections in July was more than double the previous month, and accounts for 42 percent of the 4.5 million cases the country has registered since the pandemic broke out until July 2020.<sup>9</sup>

Deaths related to the Corona virus have also risen again, after falling in April and May. The United States recorded 25,259 deaths in July – 3,700 more than the previous month. This brought the total number of fatalities to more than 150,000. As the virus continues to spread, health experts expect daily deaths to continue to rise in the summer months. According to the last count (from August 30, 2020) over 182,000 people in the United States have lost their lives because of Corona. That's far more deaths than all American casualties of the recent wars in US history put together (the Korean War, the Vietnam War, and the War on Terror).<sup>10</sup>

**The United States has lost control of the spread of the pandemic.**

But the US government – whether at the national, state, or regional levels – is far from prepared and not really mobilized against the deadly threat. The authorities are inadequately equipped with medical devices and continue to be politically overwhelmed. Leaders at all levels of government spent July more or less arguing over whether to scale back reopening and introduce a mask requirement or other public health precautions recommended by leading health experts. "We reopened too quickly in many places around the country, we haven't been unified and consistent in our messages and now we see where we are," Tom Inglesby, Director of the Johns Hopkins Center for Health Security, said in a CNN interview on July 31, 2020.<sup>11</sup>

**The pandemic has exposed inequalities in US society.**

The government's failure to extend financial support poses another existential threat to many low-income households. The Corona pandemic has mercilessly exposed the serious inequalities in American society. The pandemic and associated job losses have been particularly devastating for African-American and Hispanic households. Minorities are more affected by the Corona pandemic because they have already had higher unemployment, lower wages, and much less savings that they could now fall back on.<sup>12</sup> The economic crisis will exacerbate the precarious situation, especially among African-American and Hispanic minorities. With their jobs, many US citizens typically also lose their health insurance coverage and their only livelihood.

Consumer spending and economic growth (GDP) have fallen sharply. US GDP registered a record slump of 32.9 percent in the second quarter of 2020, according to July 30 data from the Department of Commerce. The Corona pandemic caused a significant decline in consumer spending, business investment and exports.<sup>13</sup>

Investors in US stock markets, however, are celebrating ever more highs and so far remain untroubled by the gloomy economic news. Many short-term macroeconomic indicators, such as the Manufacturing Purchasing Managers' Indices (PMIs) or weekly unemployment reports, still feed hopes of a V-shaped recovery. Yet this presupposes that the major economies are not forced to close down again. However, with infection rates continuing to be alarming, especially in the United States, it is only a matter of time before stock markets reflect the dire economic situation of the real economy.

So far, financial markets still seem to expect ongoing massive government stimulus programs and the discovery of a vaccine. However, the inability of US policymakers to reach a consensus on future stimulus measures could dampen market sentiment. After Democrats and Republicans in Congress have so far been unable to agree with the White House on how and to what

extent unemployment benefits can be extended, millions of US households are losing their livelihoods, the lifeboat that kept them afloat for the past four months.

The Federal Reserve (Fed) is concerned that higher infection rates could frustrate the economic recovery: Jay Powell, the Fed's chairman, warned in a press conference on July 29, 2020, that the rise in infections in many US states had begun to affect the economy, pointing to "non-standard high-frequency data" on credit card payments, employment, consumer surveys, etc., which are a cause for concern.<sup>14</sup>

To ensure that higher interest rates do not further weaken the ailing economy, the US Federal Reserve confirmed its expansionary monetary policy at its meeting on July 28 and 29. The key interest rate, the Federal Funds Rate, remained unchanged at a range of 0 to 0.25 percent. Purchases of securities and credit programs will also continue. The Fed will extend all emergency loans until the end of 2020, rather than phase them out as scheduled at the end of September.

On July 29, the Fed also announced that it would extend emergency swaps with some central banks until the end of the first quarter of 2021, and maintain a temporary buyback facility for international monetary authorities to continue trading US government bonds for dollars. As a result, the dollar fell to a two-year low, not least because the massive rise in Corona virus cases in the United States had led international investors to lose confidence in the sustainability of the US economic recovery.<sup>15</sup>

**International investors lose confidence in the US economic recovery.**

Trump's awkwardness as a crisis manager and the worsening prospects for economic development are threatening his re-election, given that incumbent President Trump had hoped to win votes on the merits of good economic data. After initially underestimating the danger of the virus, ignoring warnings from his intelligence agencies, health agencies, and advisors, and initially even praising China's leaders for their handling of the virus, Trump is now positioning China as a scapegoat to distract from his failure.

## 1.2 Foreign policy as a campaign issue

With sharp rhetoric, the Trump administration is blaming China for the spread of the pandemic in the United States. According to US President Trump, the "China virus", the origin of which the White House, well aware of the media response, suspects in Chinese laboratories, is an "attack" worse

than Japan's invasion of Pearl Harbor in World War II or the terrorist attacks of September 11, 2001.<sup>16</sup> Determined to counterattack, Commander-in-Chief Trump has already instructed his administration to prepare geo-economic punitive measures against China.

For post-US election times, too, German and European policymakers should expect a tougher US approach to China, which will also affect Europe's economy and foreign policy. Meanwhile, the political leaders of both parties are using increasingly sharp words to articulate the noticeably more negative attitudes of their voters towards China.

According to the latest Pew Research Center poll conducted in June and July 2020, 73 percent of US voters have a bad opinion of China, 26 percentage points more than in 2018. There is a widespread feeling among Americans that China is responsible for the outbreak and spread of the Corona virus in the United States.<sup>17</sup>

While Republicans have been a little tougher on China than Democrats for quite some time, critical attitudes in the United States have grown rapidly and across party lines. In the most recent June and July 2020 poll, 83 percent of Republicans and the people close to them, and 68 percent of Democrats and people close to them say they have a critical view of China – record highs for both groups.<sup>18</sup>

It is above all, but not only, the Republicans (66 percent) who are calling for a tougher policy against China. About four in 10 Republicans describe China as an enemy (38 percent) rather than a competitor (53 percent) or a partner (8 percent). Among Democrats, fewer (19 percent) say China is an enemy, while 61 percent see the country as a competitor and 19 percent say they see it as a partner. But when it comes to views on economic relations with China, it is Democrats rather than Republicans who call them unfavorable (73 versus 63 percent).<sup>19</sup>

**Both Trump and his challenger Biden have made China a central campaign issue.**

Both Donald Trump and his Democratic challenger, Joe Biden, have made China a central campaign issue. The two opponents try to outdo each other with their criticism of China. In this "China bashing"<sup>20</sup> contest, however, Trump has an institutional advantage – he is President and Commander-in-Chief, and with his actions against China, he can set the agenda and dominate the discourse.

The Trump administration's rhetoric suggests even more confrontation. In a series of four speeches reminiscent of the Cold War, the hawks in Trump's entourage called for abandoning "blind engagement" with China and taking

a more confrontational stance. On June 26, 2020, the US President's National Security Adviser, Robert O'Brien, said that China's President Xi Jinping sees himself "as a successor to Joseph Stalin." On July 7, FBI Director Christopher Wray claimed that China wanted to become "the only superpower in the world by all necessary means" and warned against its extensive efforts to spy on, influence, and co-opt Americans. On July 17, US Attorney William Barr accused Hollywood studios and America's tech giants of becoming puppets, notably "pawns of Chinese influence." And on July 23, US Secretary of State Mike Pompeo declared that China's President Xi Jinping was embroiled in a decades-long struggle for global supremacy, and that the US and other democracies must oppose it.<sup>21</sup>

To live up to its harsh rhetoric, the Trump administration is acting more and more uncompromisingly – also to prove its determination to friends and foes. Whoever is not for us is against us, is the new announcement to the allies. In order not to squander the benevolence of the protective power, the United Kingdom finally gave in to the massive pressure of the US administration after a long period of consideration and announced that products of the Chinese company Huawei would be excluded from its 5G telecommunication networks.

The Trump administration also escalated a long-running tit-for-tat conflict. After Beijing imposed its security law, Trump signed the Hong Kong law on July 14, clearing the way for sanctions against China. The US President also suspended the special trade and economic privileges of the Asian financial center. Bilateral economic and financial sanctions against China received explicit and bipartisan support from Congress.

The US government also took a tougher line on security policy. On July 13, US Secretary of State Pompeo declared China's geographically comprehensive claims in the South China Sea illegal. Most recently, on July 22, Trump abruptly ordered the closure of the Chinese consulate in Houston, the first such move since relations normalized in 1979. The order to close the consulate (within 72 hours) came after the US Department of Justice opened an indictment accusing two Chinese hackers of targeting American companies that conduct Corona virus research.<sup>22</sup>

Meanwhile, a race between nations is underway, each trying to be the first to develop and claim an effective vaccine. Faced with the enormous social, economic, and geopolitical challenges, the United States wants to reduce the time it takes to market a vaccine from a decade down to 12 to 18 months. To introduce a vaccine to the market, pharmaceutical companies must build up their production capacity at the test stage, even though clinical

**Trump is uncompromising towards China and expects the allies to tread the same line.**

**Nations compete  
to develop an  
effective vaccine.**

trials are still underway to test their safety and efficacy. Without government support, industry would not be willing to take such a risk.

With its "Operation Warp Speed", the Trump administration wants to accelerate the development of as many promising vaccines as possible. For example, it is paying 2.1 billion dollars to GlaxoSmithKline (GSK) and Sanofi to help them develop their Corona virus vaccine through clinical trials, cover some manufacturing costs, and buy a first batch of 100 million doses of vaccine. The deal includes the option to buy an additional 500 million doses. Other companies that have secured US funding for their experimental Corona vaccines include Moderna, Pfizer, Johnson & Johnson and Novovax.<sup>23</sup>

Despite all this, the continued spread of the virus and Trump's unprofessional crisis management in the Corona and economic crisis could dampen the Americans' appetite for experimentation and increase their need for security, thus favoring the more steady and predictable Democrat Joe Biden in the US election on November 3, 2020 – as many European observers hope. The former Vice President of Barack Obama also wistfully reminds many Western leaders of the previous administration's global, multilateral crisis management.

### **1.3 Scarcer resources – foreign policy implications**

But it is precisely the economic and financial crisis of 2008, which has not yet been fully resolved in its socio-economic consequences, that has shifted US political coordinates and favored Trump's election. Moreover, the excessive financial conduct of the American state, not least of the US Federal Reserve, has consumed the resources needed to deal with the much larger economic crisis that is now foreseeable.

Ever scarcer resources will fuel the distribution struggle and political radicalization in Washington, and will have an even more severe impact on US foreign policy. Already today, resistance is emerging – on both sides of the political spectrum, especially among Biden's Democratic electorate, which Trump is also vying for – against the United States' internationally engaged foreign policy course, which has been in place since World War II, benefiting Europe in particular in economic and security terms.

The traditional Democrats who are close to the trade unions fear in particular that funds are being used up for international or military purposes instead of dealing with domestic social concerns. Transatlantic burden-

sharing and protectionism in trade policy are being demanded, above all, by the Democratic side – not least in the American legislature. For example, the resistance of Democrats in Congress was the reason why the transatlantic free trade talks (TTIP) could not be ended "with one tankful of gas," as announced by US Vice President Biden at the time.<sup>24</sup>

In any case, for President Obama and Vice President Biden, to the chagrin of Europeans, the "Pivot to Asia", hence the Trans-Pacific Partnership initiative (TPP) was more important as this was how they tried to contain China in terms of trade policy, demanding economic tribute and allegiance from their allies. That would hardly change even under a President Biden. To score points in the current campaign, Biden is taking an equally questionable protectionist "Buy American" position as President Trump is pushing. A return to negotiations on a transatlantic free trade and economic agreement such as TTIP is not expected.

Anyone trying to evaluate the chances and risks of Donald Trump and his Democratic opponent Biden in the next US presidential election should analyze the past. In 2016, Trump won against Hillary Clinton mainly because he managed to win over a series of "blue states", which were states that had previously supported the Democrats. The former bulwark of the Democrats, the "blue wall" in the Rust Belt of the United States, the states of the industrial heartland such as Pennsylvania, Ohio, Wisconsin and Michigan, and especially the less qualified lower-income voters in mostly rural areas, which the Clinton campaign believed to be safe, were conquered by Trump with populist and xenophobic slogans. Although most of America's problems are home-made, Trump blamed others: immigrants or international competitors. Trump ran against the supposed Washington establishment and the "globalists" mainly with a promise to reverse US-imposed globalization.

**Trump blames immigrants or competitors for homegrown problems.**

The "Washington Consensus" – i.e. laissez-faire politics, deregulation, and free trade – is now hotly contested in the United States itself: the "invisible hand of the market" produces global winners, but also losers, not least in the United States. The socio-economic exclusion of many Americans from social and political life damaged the foundations of American democracy, especially citizens' trust in mainstream politics.<sup>25</sup>

Above all, the ideology of free markets has triggered counter-movements that lead to nationalism. The alienation from politics offered an opportunity for the populist Trump, who recognized the deep dislike, especially of many non-voters, of the "establishment" and so continued to kindle it even further during the presidential election. He presented himself as an outsider who,



thanks to his private wealth, was independent and could therefore "drain the swamp" of Washington and pursue politics for all Americans, not just the well-off.

Those hoping that Trump, as president, would be more statesmanlike and less populist, lost their illusions right away when he took office in January 2017.<sup>26</sup> Addressing his "movement," Trump condemned the nation's leaders and dignitaries gathered around him as a self-referential class that did well at the expense of its citizens. In particular, the Washington establishment had failed to protect the interests of Americans – from the "devastation that other countries are wreaking on the US" by "stealing" American companies and "destroying jobs". According to his "America First" credo, President Trump proclaimed two simple rules to restore prosperity and former strength to America: "Buy only American goods and hire American workers." In February 2017, in his first State of the Union address to Congress, he repeated those demands. Because, Trump said, he does not represent the interests of the world, but those of America.<sup>27</sup>

So far, President Trump has pursued trade policy – and campaigns – also in the interests of his constituents through protectionist policies – not least by forcing Mexico and Canada to renegotiate the NAFTA agreement. He continues to threaten with punitive tariffs and other protectionist measures, and will have to act accordingly if trading partners in Europe or China cannot be blackmailed in order to remain credible to his voters on this core issue. He will therefore continue to put pressure on European governments and companies, especially the export vice-champion Germany.

**Obama already criticized China and Germany for their export strength.**

The criticism is not new: already during Barack Obama's tenure, the US administration criticized China and Germany for their export strength. At the G20 summit in South Korea in November 2010, the United States failed in its attempt to put pressure on export-oriented economies such as China and Germany and to set limits on current-account surpluses (to 4 percent of gross domestic product). Through skillful diplomacy, particularly by uniting forces with Beijing, German Chancellor Angela Merkel was able to take advantage of the fact that the world was tired of US admonitions, and to recall that it was the financial conduct of the United States that had triggered the global economic and financial crisis of 2008.

European politicians, entrepreneurs and investors should bear in mind that global imbalances have not been reduced since then but were even further exacerbated. Trump's tax breaks, as well as credit-financed economic programs and military build-up, will continue to push up US public debt.

To make matters worse, America's overall debt is already running out of control. Since the 2008 economic and financial crisis, it has more than doubled to 22.7 trillion dollars (not counting the debt of the individual states and municipalities). The federal government debt financed by government bonds on the financial markets alone (debt held by the public) already amounts to four fifths (79.2 percent) of economic output (GDP) today (2019). By historical comparison – with the average (39 percent) of the past 50 years – it is worrying enough as it is.<sup>28</sup>

The debt burden will be increased considerably in the future if demographic developments exceed the social security funds in the foreseeable future: namely, when more and more baby boomers reach the retirement age and overwhelm the social security system (pension insurance), Medicaid (health care for the socially weak) and Medicare (health care for the elderly and disabled).

Like their predecessors, President Trump or his possible successor in the White House will be wary of touching these programs, which are often vital for older people (particularly active groups of voters). But without cuts to the legal social entitlements of an ever-expanding cohort of older people, a debt of 86 percent of GDP could be expected in 10 years and 141 percent of GDP in 2046, the Congressional Budget Office already warned in 2016. That would surpass even the historic high of 106 percent of GDP reached in World War II. As early as 2016, the agency warned – still before the Trump administration would subsequently add to the fiscal burden – that such a large debt burden posed "substantial risks" to the country, threatened a financial collapse, and, last but not least, could paralyze the state's ability to act.<sup>29</sup>

The Trump administration's fiscal management to date and the unexpected financial burdens of the Corona pandemic, which in many areas have already exposed the inability of the US state to act, will exacerbate the already precarious financial situation in the United States: The Congressional Budget Office reported in its most recent report, in August 2020, that already in the first ten months of the current financial year, which ends on September 30, there was a deficit of 2.8 trillion dollars – a tripling compared to the already non-austerity period of the previous year. This record debt would be even greater if Congress and the White House were to agree on another round of emergency spending, which would be vital for many American households and businesses, until the economy can hopefully recover and generate more tax revenue.<sup>30</sup>

**A possible financial collapse threatens to put the US out of action.**

In view of the precarious economic and financial situation in the United States, although the rating agency Fitch left the AAA rating of the United States untouched, it did lower its outlook. This would suggest that the country's status as one of the world's most trusted borrowers could be jeopardized by the huge deficits the US government is accumulating to combat the aftermath of the pandemic.<sup>31</sup> "The outlook has been revised to Negative to reflect the continued deterioration in the US public finances and the absence of a credible fiscal consolidation plan," the rating agency's analysts said in their July 31, 2020 warning.<sup>32</sup>

America's debt is not a major problem so far, as long as foreign investors – also because of the benevolent valuations of American rating agencies – are willing to provide credit to the United States. Currently (as of June 2020), seven trillion dollars (about 40 percent) of the publicly financed federal government debt (debt held by the public) is held by foreigners. First and foremost, China and Japan are financing more than one trillion dollars each (1.3 and 1.1 trillion dollars respectively), and since the 2008 financial crisis, increasingly also the Gulf and EU states – supporting the American dream of unlimited consumption, and credit-financed business and military buildup.<sup>33</sup>

#### **1.4 Recommendation for a more comprehensive calculation of burden-sharing**

##### **Protectionism undermines the United States' debt financing.**

But this holding of the world power's debt burden would be severely curtailed if America were to continue its protectionist trade policies. German and European decision-makers could successfully use this argument in negotiations with the United States. Only free trade, not least a foreign trade surplus (ergo foreign trade deficit of the USA), allows countries like China, Japan, and Germany to generate foreign-exchange reserves that they can reinvest in the United States – also to preserve American jobs, America's credit-financed economic activities and to maintain the social and security policy capacities of the American state.

Against the background of this broader economic view, Trump's criticism of Germany's foreign trade surplus and the unwillingness to spend more money – specifically the NATO target of 2 percent of economic output – on (American) armaments is a naive assumption. Trump is right to say that Europe exports more to the United States than vice versa. But America's trade deficit is not due to Europe exploiting the United States, but to macro-economic factors. In this context, Europeans also like to point out that it is

the quality of their goods which makes them attractive. From the American point of view, a large internal market with a growing population is crucial. Exports therefore play a lesser role than for European countries. In addition, high domestic consumption expenditure is credit-financed. America's lack of savings and its exorbitant debt will cause the United States to have, indeed to need, a trade deficit for the foreseeable future.

Europeans could also be more assertive on security issues by demonstrating to the leaders in Washington that the United States has been able to afford its military armament for decades only because foreign lenders have been willing to finance the increasing private and sovereign debts in the United States.

In order to refute the increasingly bipartisan calls for allies to increase military spending and to ensure their own security, European governments should increase the European Defence Fund (EDF) that has been in place since 2017. The armaments efforts made possible by the EDF ought to be expanded – including in cooperation with American companies. In this way, the fears harbored in Washington that Europe is discriminating against the United States when awarding contracts, that it is duplicating US capabilities and thus emancipating itself from the protective power in terms of security policy, could be allayed. These fears have been an issue in Washington since the late 1990s and even more since 2017 as a result of increased European cooperation on defense issues.

**European governments should strengthen the EU Defense Fund.**

Efforts to reach a transatlantic agreement to reduce industrial tariffs have little chance of success at the moment. However, the EU should try to conclude the agreement on conformity assessments which was agreed with the United States in July 2018. This makes it easier for European companies to demonstrate that their products meet US technical requirements.

Perhaps, in cooperation with like-minded people in the United States, it is still possible to bring the businessman in the White House – or his successor – to his economic and security policy senses: to convince the US government that it would continue to be more advantageous for the United States to cooperate with their allies rather than geo-economically blackmail them, making them even more vulnerable to China's economic and diplomatic charm offensives. For China is now withdrawing its foreign-exchange reserves from the so-called dollar trap, diversifying its markets, claiming economic and geopolitical space and creating new dependencies – not least in Europe.

## 2. EU-China relations

Prior to the coronavirus outbreak, 2020 had been considered crucial for the future relations between Europe and China. As a consequence of the Corona pandemic, the EU-China Summit planned for September 2020 and a meeting of the Chinese President Xi Jinping with the leaders of the European Union were downgraded to a video conference at the low level of day-to-day politics. No progress was made on the Investment Agreement between the EU and China. Nor were there any indications as to how the increasingly apparent competition between the two trading blocs might be mitigated by cooperation.

**EU-China relations will remain ambivalent for the foreseeable future.**

Even before the EU-China Summit it had been clear that Europe would remain ambivalent about the Middle Kingdom for the foreseeable future. In a strategy document of March 2019 entitled "EU-China: a strategic perspective",<sup>34</sup> the European Commission and the then High Representative of the EU for Foreign Affairs and Security Policy, Federica Mogherini, identified four levels of relationship between the EU and China: China is a cooperation partner in some policy areas, such as climate protection, and a negotiating partner in others, with whom a balance of interests can be found. However, China is also seen as a competitor when it comes to technological innovation and infrastructure, for example, and even as a systemic rival pursuing an alternative global governance model.

### 2.1 Cooperation and negotiation partnership

Europe and China want to safeguard their mutual economic and security interests and cooperate, for example, within the framework of the "Joint Comprehensive Plan of Action (JCPOA). Their common efforts, however, will ultimately be doomed to fail unless the United States pulls in the same direction again.

In the joint fight against climate change, the EU expects China to limit its emissions by 2030 in order to meet the Paris climate targets. The EU is well advised to make other countries, especially the main polluters, the United States and China, accountable. Europe can lead by example. Whereas in the early 1990s a third (27 percent) of global greenhouse gas emissions were caused by Europe, the EU's share (with the UK) has now fallen to 12 percent. The EU is now trying to persuade other countries, notably China, to commit to climate protection. For a good reason: China now accounts for 27 percent of global CO<sub>2</sub> emissions.

Even Europe's own path to climate neutrality leads through Beijing: the rare earth commodity market, which is important for climate technologies, is dominated by China. With the expansion of electromobility, the demand for lithium for the required batteries will increase – i.e. the dependence of imports from Chile and China.

This makes it all the more important for EU leaders that the EU and China wish to work together towards preserving the rules-based multilateral global economic order from which the United States withdrew under Trump's leadership. For example, after the United States cut funding for the United Nations and the World Health Organization (WHO), Europe is trying to respond to China's growing influence within these multilateral organizations in a cooperative manner.

European leaders now see US President Trump as the greatest threat to the multilateral system – and not China's leadership, in which they see a more reliable partner in some respects, such as reforming the World Trade Organization (WTO). But China's opportunistic interpretation of multilateralism is fundamentally different from Europe's rules-based understanding.<sup>35</sup> As tempting as Beijing's harmonic "win-win" rhetoric may sound, its actions also give European partners food for thought: so far, the West's hope that China will liberalize economically and politically has been disappointed. In its international economic policy, China in many cases disregards the fundamental WTO principles of non-discrimination and transparency. Sometimes adverse judgments, such as by the International Court of Arbitration's ruling in the territorial dispute with the Philippines, are simply ignored.

Whether China really wants to become a "responsible stakeholder" who is interested in maintaining the Western-dominated regulatory structures has yet to be seen. The rules-based order and globalization have allowed China to industrialize and modernize itself through market opening. But the global market power it has gained gave rise to China's own conceptions of order, especially as Western countries and their leading power, the United States, are struggling to give China a say in world matters, anyway. For example, since the US Congress for five years blocked the international agreement to give China more say in the existing US-dominated Bretton Woods institutions (World Bank and International Monetary Fund, IMF), China is now building up alternative structures under its influence. Despite a strong US backlash, China was able to attract European partners such as the United Kingdom, France and Germany for its Asian Infrastructure and Investment Bank (AIIB).

**Europe seeks to counter China's influence in multilateral organizations.**

## 2.2 Competition

**Compared to China's global financial diplomacy, Europe's resources are modest.**

Meanwhile, however, development aid orchestrated by Beijing worldwide dwarfs the efforts of the World Bank and IMF.<sup>36</sup> Compared to China's financial diplomacy, Europe's funds, such as those granted to neighboring Africa, including through the European Investment Bank, are also rather modest. For good reason, in accordance with the guidelines of the European Commission, the German Federal Government intends to use the German Presidency of the Council of the EU to develop, among other things, the partnership with Africa as a priority in order not to be overtaken by China in particular.<sup>37</sup> Unlike China's monetary contributions, European donations are associated with straightforward demands. However, human rights requirements or "good governance" conditions represent a further competitive disadvantage.

The concern about unfair competitive advantages of Chinese over European companies determines the debate about systemic competition with China. For example, Chinese companies, which are supported by subsidies or advantageous lending in their home country, can sell their products in Europe at below market prices. However, European companies are at a disadvantage due to stricter EU state aid controls – not only in the European internal market, but also when competing on third markets.

In order to be able to compete against their subsidized competitors from China on third markets, European companies should be granted state aid through "matching clauses" to compensate for market distortions, according to a policy paper of the Federal Association of German Industries (BDI).<sup>38</sup>

The EU already has trade defense instruments that are in line with WTO rules, such as anti-dumping duties, which can be levied on foreign imports if their price is below a "fair" value (if the export price is below the price of the goods in the country of origin) and there is an economic injury in the EU. However, the existing WTO legal framework often falls short; one example is the difficulty to prove financial contributions through preferential lending.

In order to ensure a sufficient level playing field, additional protection instruments are demanded by the EU. In a "White Paper" in June 2020, the European Commission put forward proposals for an anti-subsidy instrument that would allow the imposition of comprehensive remedies if distortions through foreign subsidies can be proven.<sup>39</sup>

Nevertheless, there was a discussion in Germany and France (at the highest level)<sup>40</sup> as to whether and in what form a European industrial policy should be pursued in order to position "European Champions" in selected sectors, especially against Chinese competition. The discussion erupted after the banned merger of Siemens and Alstom, which was aimed at the Chinese railway company CRCC. In order to allow mergers of European companies as "champions", their proponents think that in future competition law should be softened and the rules on aid and competition must be adapted in order to allow more active state support for industrial projects.

European companies also find themselves at a disadvantage regarding public contracts in China. They are often effectively excluded from the huge procurement market dominated by Chinese state-owned firms, whereas European tenders are generally accessible to Chinese bidders. Therefore Europe will increase pressure on China to accede to the WTO's Government Procurement Agreement (GPA) on non-discriminatory treatment of foreign applicants.

The European Commission is also proposing to introduce the International Procurement Instrument (IPI) at European level in order to provide an effective means of exerting pressure in international negotiations to achieve more reciprocity on market access, in particular, the Chinese procurement market.<sup>41</sup> The IPI would give the European Commission the right to investigate whether EU companies are disadvantaged in public procurement in a third country in areas not covered by an existing GPA or Free Trade Agreement.

The EU is also trying to establish more balanced and reciprocal conditions for investments. In negotiations, for example, access to the European internal market is to be used as a lever to create reciprocity, that is to say, to reduce investment restrictions in the Chinese market. Until now, European companies in China have been disadvantaged by extensive restrictions and sectoral investment bans, while Chinese investors in Europe have virtually a free hand. Negotiations on a reciprocal investment agreement between China and the EU, which have been going on for years, should be pursued further.

The European Commission's White Paper also contains proposals to prevent state-subsidized foreign companies from buying up European assets. To date, it is up to the individual member states to control foreign investment. From October 2020, investment screening will be carried out at the European level, providing for enhanced cooperation and better exchange of information between member states, but limiting the European Commission's role to that of a mere commentator.

**The EU also calls for a balanced and reciprocal level of investment.**



**Chinese investment activity in Europe has been viewed critically for some time.**

This makes it all the more important to coordinate investments in security policy-related areas at EU level. Not all European countries have a test procedure for foreign investment. Thanks to the free movement of capital in Europe, stricter rules of one country can be circumvented by establishing bogus companies in other EU countries.

Chinese investment activity in Europe has been viewed critically for some time, especially since the takeover of the robot manufacturer Kuka, the entry of Geely into Mercedes Benz and the ultimately aborted attempt by China to take over shares in the grid operator 50 Hertz. With its industrial policy strategy "Made in China 2025", China's leaders had formulated the assertive goal of gaining global market leadership in ten high value-added industrial sectors – also in order to determine international standards and the future economic system.

In difficult economic times, there are all the more fears that, after a takeover, the production facilities and corporate headquarters might be relocated to China, entailing a permanent loss of innovation activities, shares in value-added, jobs and tax revenues. The fear that Chinese investors in particular could take advantage of the precarious economic situation in the wake of the Corona pandemic and take over distressed European companies led to a wake-up call of the "competition watchdogs". German Federal Minister of Economics Peter Altmaier proclaimed "Germany is not for sale".<sup>42</sup> Manfred Weber, chairman of the Group of the European People's Party, called for a one-year sales moratorium on European companies in order to prevent a "shopping tour of Chinese companies".<sup>43</sup> EU Competition Commissioner Margrethe Vestager recommended state participation to prevent takeovers by Chinese investors.<sup>44</sup>

In her efforts to prevent market power, the EU Competition Commissioner is fighting a "war on two fronts": the market power of large US companies such as Amazon, Microsoft and Alphabet was already problematic before the pandemic erupted. The internet economy, which is dominated by the United States and increasingly also by China, will become even more dominant in the wake of the new experiences and adjustments made by many people in the Corona era and the corresponding strategic realignment of companies.

The pandemic forces people and organizations to abandon many of their habits and opens up new patterns of interaction. More and more people are recognizing the benefits of new technologies and are getting familiar with the hitherto unknown. People shop over the internet, use online banking or work from home. Work meetings and training courses can be carried out more cost-efficiently by video conference. In the face of broken supply

chains, 3D printing has made the on-site production of required parts vital for companies. But in the brave new data world, previously dominant companies are developing into monopolies, not least because of network effects. These market concentrations cannot be countered by national competition laws, but only by Europe's competition policies.

Digitization poses another challenge for the EU, namely, to ensure the supply of the raw materials needed for this purpose. On 3 September 2020, the European Commission published a new strategy to meet the growing needs for e.g. rare earths and to reduce additional dependence on third countries, not least China. "The Corona crisis has highlighted how dependent we are on international supply chains," said the European Commission Vice-President in charge, Maroš Šefčovič, when presenting the strategy in Brussels. "We must not allow ourselves to become as dependent on the import of important raw materials as we are today when importing fossil fuels."<sup>45</sup>

China dominates the extraction, processing and manufacture of these rare metals. As early as in the years 2010–2012, when a territorial dispute between China and Japan escalated into a trade embargo, triggering a "rare earth crisis", this concentration of supply and vulnerability of Western economies became apparent. Europe's leaders had to realise that China was in a position to use its coveted raw materials as a political lever in future, too.

### 2.3 Systemic rivalry

As Chinese investors are not only driven by economic aspirations, but are subject to greater state control, there is concern in Europe that China's investments and trading activities could also serve political goals: to influence policy decisions and harm the systemic rival. These fears cannot be dismissed, as Chinese investments have already been used as a means of exerting pressure to prevent political decisions, for example when Greece, whose port in Piraeus is majority-owned by China, blocked an EU declaration at the United Nations criticizing China's human rights abuses.

China's Silk Road initiative (One Belt, One Road, OBOR), long overlooked or not taken seriously, is now seen as a geo-economic threat. After all, China's infrastructure investments in well over 100 countries do not stop at the European border, to the extent that they are now undermining Europe's ability to act in a deepening systemic rivalry. China's economic influence,

**China's Silk Road initiative is perceived as a geo-economic threat.**

which is being systematically expanded as part of its Silk Road initiative, especially towards smaller European countries, and its bilateral approach, in forums such as the "17+1" format,<sup>46</sup> is dividing Europe. Beijing's "divide and conquer" strategy is already preventing the EU from adopting a unified stance on China's human rights abuses (such as the repression of Muslim minorities in Xinjiang or the crackdown on protesters in Hong Kong).

So far, there has been no common position by European states towards Chinese tech giant Huawei's request to integrate its 5G technology into the network infrastructures of European countries – and to open them to China's influence and possible industrial espionage, as critics fear. Germany, whose economic interests are particularly extensive with the People's Republic of China, can have a decisive say in either deepening or overcoming divisions within the EU – and in the transatlantic relationship.

**5G technology in Europe's network infrastructure is also a security issue.**

The question of whether Germany should rely on the technology of the Chinese supplier Huawei or on a European solution (European suppliers such as Ericsson in Sweden and Nokia in Finland) in the development of the German 5G network is controversial in German politics, even within the ruling party Christian Democratic Union (CDU). Not least because of the massive pressure from the United States, it has now become clearer in the German debate that the decision for or against the Chinese supplier Huawei is not only an economic issue, but also a geo-economic and security policy question for the future. The US government openly threatened to stop sharing intelligence and to apply sanctions to German companies that continue to do business with Huawei.

If China succeeds in implementing its own authoritarian digital model globally beyond parts of Asia and Africa, this would not only undermine European (and transatlantic) efforts to develop common global standards in emerging technologies and artificial intelligence (AI), but would also encourage authoritarian forays by governments, even democratic regimes. China's export of surveillance technology and social control techniques helps not only repressive regimes, it also spreads illiberal governance and social ideas. Last but not least, China is establishing new international forums and organizations that correspond to its own values and ideas of order – which are contrary to European values and interests.

China's cyberattacks as well as its territorial claims and aggression in the South China Sea should make EU leaders think even harder about security policy. But, with the exception of Britain and France – countries with a geo-strategic perspective and the necessary security and military capabilities – the rest of Europe's countries have only just begun to consider the conflicts

in the Indo-Pacific to be in their strategic or European interest. However, a military conflict between the United States and China would have not only far-reaching regional but also global implications.

## 2.4 Transatlantic-Pacific China policy?

Washington has a vital interest, and in any case wants to prevent a possible rival from denying the United States maritime or air sovereignty in the Eurasian region – the most populous and economically interesting area on earth – and blocking US economic activities or denying them access to resources. Although this has rarely been said openly, US military operations and diplomatic activities have pursued precisely this central goal over the past decades – according to the analysis by the Congressional Research Service, the nonpartisan scientific service of Congress.<sup>47</sup>

The United States and China are increasingly maneuvering themselves into a security dilemma: the individual quest of the two protagonists for greater security ultimately creates more uncertainty on both sides. The long-held fear by American security strategists that China wants to establish an exclusive sphere of influence in East Asia is fueled by China's growing drive for expansion: its increasingly aggressive activities towards establishing a security zone and undermining America's ability to intervene.

In order to secure the Indo-Pacific sea routes that are vital for China's economy<sup>48</sup> – and its political stability Beijing is building the so-called blue-water navy, consisting of sea-ready naval units that, in addition to coastal defense, are also intended for "active defense" to enable global power projection at sea. First control of the area within the "first island chain", which includes the Yellow Sea, which is limited by Korea and Japan, the western part of the East China Sea with Taiwan, and the South China Sea. The enlarged area, the "second island chain", extends further east from the Kuril Islands via Japan and southeastwards over the Bonin Islands and the Mariana Islands to the Caroline Islands.<sup>49</sup>

China's large-scale activities are particularly worrying its regional neighbors, urging them to cooperate in the Indo-Pacific region – and not least with the protective power United States. China's large-scale activities in the region have already reactivated the Quadrilateral Alliance (QUAD) between Australia, India, Japan, and the United States – a previously informal security dialogue established to counter growing Chinese influence in the Indian and Pacific Oceans.

**The United States and China are maneuvering themselves into a security dilemma.**

While the United States has long maintained closer security ties with Japan and Australia, India has so far sought equidistance with the two major powers, the United States and China, in order to preserve its independence and avoid straining its relations with China. But recent tensions between China and India have prompted "the world's largest democracy", India, to move closer to the "oldest democracy", the United States, economically and militarily. India and Australia also want to strengthen their economic and defense ties.

**The United States will seek to prevent China's rise by all means.**

In his recent speech,<sup>50</sup> US Secretary of State Mike Pompeo removed the last doubts of America's troubled Asian allies – and disillusioned many Europeans' hopes – that the United States might still be able to come to terms with China's economic and military rise in the future. At a highly symbolic location, the Richard Nixon Presidential Library, the incumbent US Secretary of State made it clear that the rapprochement strategy initiated in 1972 by then-President Nixon and his national security adviser Henry Kissinger had proved to be an epochal mistake.

In his speech, reminiscent of the Cold War against the Soviet Union, Pompeo, in the best manner of Ronald Reagan, even used religious vocabulary to point his compatriots to the irreconcilable differences in system and values with China. The rule of the Chinese Communist Party was a tyranny that not only oppressed the Chinese people, but also threatened the "free nations" of the world, was the more secular message to America's allies. For the deep ideological divide between the democratic and liberal West on the one hand and the Marxist-Leninist and totalitarian regime of China on the other cannot be bridged.

In order to avert the danger posed by the Middle Kingdom, Western market economies would also have to decouple from the Chinese planned economy. Pompeo called on America's allies in Europe and Asia to work together to set standards and form a new group of like-minded nations to counter the Chinese threat.

Because of China's expansive activities in the region, it seems quite likely that Pompeo's admonishing words are being heeded more particularly by allies in Asia. China's People's Liberation Army, the US Secretary of State warned, is not aimed at protecting the Chinese people, but at expanding the territorial claims of the Chinese empire in the South China Sea and the Indo-Pacific region.

Pompeo's uncompromising message irritated not only America's allies in Europe, but also his friends in Asia. After all, the US administration under

Trump had recently made a radical change of course, leaving the Asian allies out in the cold although they had previously opted for the United States and against their economic interests with China, not least because of geo-economic pressure from the Obama administration. To the horror of his allies, in one of his first acts in office, President Trump announced he would cancel the US participation in the Transpacific Partnership (TPP), and he unsettled America's allies even more on the existentially important question of whether the United States would continue to protect them.

For the strongest US argument under Obama to persuade countries like Japan to decide against their economic interests with China and join the American initiative that leaves China out was the US shield. With its Transpacific Partnership initiative, which was explicitly not intended to include China, the United States responded to China's efforts to integrate the Asia region into an economic community. China, in turn, responded to the United States' attempts at exclusion by establishing a forum with the Regional Comprehensive Economic Partnership (RCEP), which would include the ten ASEAN countries,<sup>51</sup> as well as Australia, China, India, Japan, South Korea and New Zealand, but not the United States.

The Transpacific Partnership was intended to underpin the core of America's much-regarded but in the meantime questioned "Pivot to Asia". According to Michael Froman, then US Trade Representative and previously Deputy National Security Adviser on Economic Issues, it was not only about "economic" but also about "strategic" goals that must be pursued in the Asia-Pacific region: "Economically, TPP would bind together a group that represents 40 percent of global GDP and about a third of world trade. Strategically, TPP is the avenue through which the United States, working with nearly a dozen other countries (and another half dozen waiting in the wings), is playing a leading role in writing the rules of the road for a critical region in flux."<sup>52</sup> US Defense Secretary Ashton Carter used even heavier rhetorical guns, saying the Transpacific Trade Agreement is "as important as another aircraft carrier."<sup>53</sup>

**The Asia-Pacific region is about geo-economic interests.**

Given the economic and geopolitical prospects in the Asia-Pacific growth region, the "Old Continent" and the transatlantic free trade talks with the Europeans fell behind. It is true that the negotiations have also been strained by the European side, for example, by the French Government wanting to take cultural goods off the negotiating table in accordance with its practice of "exception culturelle", thus encouraging the American side to also impose exceptions. In Germany, too, there had been increasing resistance from environmental and consumer protectionists as well as anti-globalization activists. While in 2014 six out of ten Germans still thought a

**Europe has fallen  
behind the Asia-Pacific  
growth region.**

Transatlantic Trade and Investment Agreement (TTIP) was a "good thing", a year later, support fell markedly. As of 2015, only a few, four out of ten Germans were able to see merit in TTIP.<sup>54</sup>

The TTIP proponents of German industry and the experts close to their positions also struggled to dispel the arguments of renowned economists such as the American Nobel laureate economist Joseph Stiglitz, who openly opposed the Transatlantic Free Trade and Investment Partnership: "These are not equal partnerships: in fact, the United States dictates the conditions. Fortunately, America's 'partners' are increasingly resisting." Stiglitz stressed that agreements such as TTIP and TPP go well beyond trade: "They also regulate investment and intellectual property, and force fundamental changes to the legal, judicial and regulatory systems of the participating countries – without the influence or accountability of democratic institutions. Perhaps the most unfair – and dishonest – part of such agreements concerns investor protection."<sup>55</sup>

Criticism in Germany also grew because the US spying attacks permanently damaged the confidence of the Germans. When TTIP supporters in Germany justified the equally criticized lack of transparency in the negotiations by arguing that too much publicity would weaken their own negotiating position with the Americans, they overlooked the fact that the US negotiators were already aware of the supposedly secret negotiating strategies of the Europeans: not only the communication of the German chancellor, but also that of the European Union had been spied on for some time by the National Security Agency (NSA), the United States' largest foreign intelligence agency.

## **2.5 Recommendations for a "Global Alliance of Democracies"**

Anyone who remembers these previous efforts and problems is protected from transatlantic nostalgia and wishful thinking and can assess the current conflict situation in a sober manner. In the current transatlantic dispute over Huawei, one can assume that Washington's warnings about Chinese espionage in Europe are being taken very seriously – especially since a world power such as the United States, which itself has 16 intelligence agencies, is probably best aware of what activities are useful, and therefore expects another, especially a great rivaling power, to have similar capabilities and intentions. But US efforts to protect Europe from China's influence would have been more acceptable to its allies if Washington had not categorically ruled out a European solution – Ericsson and Nokia – at the same time, and also tried to bring the two companies under US control.

If the United States is genuinely interested in closer security relations with Europe, then (this time) it should seriously consider an offer to involve EU states in closer intelligence exchanges. In order to appease German criticism in particular after the NSA wiretapping scandal, there has already been a tactical consideration of welcoming Germany into the "Five Eyes", an intelligence alliance that includes Australia, Canada, New Zealand, the United Kingdom and the United States.

If the European and Asian allies, in a strategic view, are to give up their economic interests with China in exchange for US protection, the protective power will have to ensure that the Pax Americana becomes more credible and reliable in the eyes of the allies. The answer could once again be NATO – which would not for the first time be called upon to adjust to the new security conditions of the 21st century.

US Secretary of State Pompeo's confrontational speech<sup>56</sup> represented, on the one hand, the now bipartisan tougher stance against China in the United States.<sup>57</sup> On the other hand, it also nurtured the hope that the United States might be able to appreciate the contributions of allies more in the future. Pompeo's call for "a new grouping of like-minded nations, a new alliance of democracies", is very reminiscent of the old idea of a "global NATO". As early as 2007, the late Senator John McCain, then the Republican presidential nominee, called for a "League of Democracies". The new "worldwide alliance of democracies" was to form the core element of a liberal and peaceful world order.<sup>58</sup>

This idea, which was inspired by the Clinton administration, has long been endorsed by Democrats and experts close to them in think tanks. According to the American thinkers, an "alliance of democracies", which could also be conceivable in the form of a "global NATO", could compete with the United Nations or be available as an alternative when it comes to combining efficiency, legitimacy and thus burden-sharing in the future. Such an alliance of genuine democratic states would be supported by the American people and would also offer Europeans greater opportunities for participation, according to the security experts of renowned think tanks such as the Brookings Institution and the Council on Foreign Relations.<sup>59</sup>

This idea has thus long been considered in the United States across party lines and various foreign policy schools – but has so far been rejected by the Europeans, even when it was articulated rhetorically more nicely by the popular Barack Obama: the "greatest alliance ever formed to defend our common security" – as US presidential candidate Obama praised NATO at the Victory Column in Berlin in 2008 – must adapt to the new geopolitical

**An "alliance of democracies" would also be conceivable in the form of a "global NATO".**



framework and the strategic challenges of the 21st century.<sup>60</sup> In his Berlin speech, Obama asked the rhetorical question of whether it could not also be possible to establish "a new and global partnership". Obama pointed to the transatlantic relationship, but also made it clear that America and Europe should not turn away from the world in order to avoid the "burdens of global citizenship" and responsibility. "A change of leadership in Washington will not lift this burden", he warned. It is now time to build "new bridges across the globe" that should be as strong as the transatlantic link to bear the increasing burden.<sup>61</sup>

Although US Vice President Joe Biden, representing the "new administration", announced "a new century" in his speech at the Munich Security Conference in February 2009, he named a list of tasks to "renew NATO", which was broadly formulated by the previous administration – and could also be resumed by a future US administration. Thus, NATO's main task remains the collective defense of its members. But in the face of "new threats" and "new realities", allies needed new determination to master them, and "new capabilities" to act more effectively inside and outside the alliance. In short, Biden asked for a "fundamentally stronger NATO-EU partnership, and a deeper cooperation with countries outside the Alliance who share our common goals and principles".<sup>62</sup>

**A "global NATO" would be demanded primarily by a Biden administration.**

This approach is still up-to-date. The strategists in American think tanks and political protagonists will submit their ideas again, especially in the case of a Biden administration, and, if necessary, help with their implementation. European decision-makers should adapt to a new reality and already address the idea of a more global NATO, whose diverse tasks include not only collective defense, but also the vital interests of securing trade, data, and energy flows.

### 3. Energy policy

The global depression triggered by the Corona pandemic is exacerbating the problems in the global energy markets of fossil fuels. The US economy, supposedly energy-independent by the "shale gas revolution", and especially its oil and gas industry, is threatened not only by the slump in demand, but also by an oversupply in the wake of the oil price war of leading producers. The economic threat, particularly to America's oil and gas industry, endangers Trump's re-election and reinforces the White House incumbent's nationalist zero-sum thinking. But US President Trump's short-sighted geo-economic crackdown on the main competitors in international oil and gas markets – be it Saudi Arabia, Russia, or Iran – happens not only at the expense of the economic interests of allied countries in Europe, but in the long run it harms the United States itself and helps its global rival, China.

#### 3.1 Double crisis: demand slump and overproduction

The Corona pandemic and the global economic crisis it triggered are a catalyst that exacerbates the existing dynamics of global energy markets. For some time now, oil producers and their financiers have been expecting a "peak demand", a future stagnating, even declining demand for fossil fuels in OECD countries. New drive technologies and heightened environmental awareness are seen as drivers of an energy transformation.<sup>63</sup>

**The Corona pandemic exacerbates the dynamics of global energy markets.**

The largest producers of fossil fuels, namely the United States, Saudi Arabia and Russia, did not react to the slump in demand caused by the Corona economic crisis with a long term view, for example by agreeing to curb their production and thus supply in order to stop the fall in prices. Instead, Saudi Arabia and Russia first acted in the sense of a short term "hit and run": aware of the foreseeable end of the oil age, the main producers tried to extract as much capital as possible from their resources in the remaining time. Compared to the cheaper producers Saudi Arabia and Russia, however, the United States is at a disadvantage in this predatory competition. The American fracking industry in particular is suffering from the fall in oil prices.

The US administration under Donald Trump, however, has not stood idly by. It will continue to try to protect its oil and gas industry with all its economic and military power – and, with its geo-economic approach, it will also massively undermine Europe's energy and economic interests.<sup>64</sup>

**America's geo-economic approach is affecting Europe's interests.**

### 3.2 US geo-economics favor China

Geo-economic power projection and thinking in spheres of influence destroy the market ideal of free trade, the so-called Washington Consensus, which US officials had preached before. However, there has been no free competition in the energy markets in the past either. Until now, the United States has had to counter the market power of energy producers with its military power. "Security for oil" is the deal with Saudi Arabia. The United States has ensured that the oil monarchy of Saudi Arabia remains stable. In return, Riyadh's oil production ensured that the price of oil did not rise too much so as not to damage Western economies, as it did in the 1973 oil crisis, when members of the Organization of Arab Oil Exporting Countries pushed for an oil embargo.

Ever since the United States became a net exporter in international energy markets thanks to the "fracking" boom, exporting more oil and gas than it imports, policymakers and experts alike have been celebrating the "energy independence" that had been sought since the 1970s. In Trump's utilitarian thinking, energy is now an effective means for the United States for geostrategic purposes – a resource and instrument for exercising power. "We have real independence. But what we want now is not independence; we want American energy dominance. Dominance," President Trump explained the new confident thinking in the White House in his address to workers at the Shell Pennsylvania Petrochemicals Complex in Monaca, Pennsylvania.<sup>65</sup> "Energy dominance" is the new buzzword in the US National Security Strategy.<sup>66</sup>

For example, the US government reminds Saudi Arabia, if necessary, that the security of the oil monarchy depends on US military protection; so now Saudi Arabia is being encouraged to moderate its production to prevent another drop in oil prices which would ruin the American energy production. European allies are also being asked to pay tribute to Pax Americana by purchasing more "freedom gas"<sup>67</sup> from the United States instead of cheaper Russian gas and paying for the infrastructure needed to transport it, such as liquefied natural gas (LNG) terminals. Those Europeans who expected business in Iran also underestimated the military and economic power of the United States. The United States will continue to deter Iran from extracting its abundant resources<sup>68</sup> through (secondary) sanctions. But these geo-economic measures are not only economically, but also geostrategically short-sighted. In the long run, they are harming the United States and its allies and helping China.

### 3.2.1 Deal with Saudi Arabia: security for less oil

The deal with Saudi-led OPEC, backed by America's military power, will not be able to save the American oil and gas industry in the long run. The predatory competition between the leading suppliers, the United States, Saudi Arabia and Russia, where the US industry also has to contend with much worse economic production conditions, will not be stopped for long by the deal, and the ultimate winner will be China with its huge demand and buying power.

The huge drop in demand in the wake of the Corona crisis, about 20 million barrels per day,<sup>69</sup> threatens the existence of the already struggling fracking industry in the United States. Baker Hughes, one of the world's leading oil service companies, reported a further reduction of 66 rigs in mid-April 2020, the biggest weekly decline since February 2015! The previous month, the total had fallen by more than 35 percent, to 529 still active wells in the United States. At the most recent count, on August 7, 2020, only 247 rigs were active.<sup>70</sup> This slump will have further effects, namely on the supply industry. The "rig count" is considered to be an early indicator of the demand for products used in drilling, completing, manufacturing and processing hydrocarbons.

During the corona-related slump in demand, the woes of the oil and gas industry in the United States have become all the greater since Russia's refusal to cut production initially prompted Saudi Arabia to once again go into the price war against co-producers, pushing the price of oil all the more strongly to below 30 dollars per barrel. In the course of the price war, oil prices have slipped further to an absolute low. In mid-April 2020, the quotation of the reference price for US oil (West Texas Intermediate, WTI) was even negative. More US oil and gas companies, and the 10 million jobs directly and indirectly dependent on them, were at risk and threatened to further harm the US economy, which was already affected by the Corona pandemic.<sup>71</sup>

The fall in prices also threatened Trump's re-election, which depends on the well-being of the US economy and, not least, on the situation in hard-fought battleground states such as Pennsylvania and Ohio, where the American fracking industry is particularly affected. Donald Trump put enormous pressure on Saudi Arabia. He also received support from Congress. US senators representing oil-producing states in Washington even openly threatened to deny the oil monarchy the military protection of the world power if Saudi Arabia did not restrict its production and help American producers to survive economically.<sup>72</sup>

**The dire situation in oil and gas-producing states threatens Trump's re-election.**

The United States' long-established relationship with Saudi Arabia (keyword: "security for oil"; now that the United States itself is oil exporter again, ironically "security for less oil") and further talks in Russia have paid off – for the time being: on April 12, 2020, the Saudi-led OPEC producers agreed on quantitative restrictions with Russia and the United States. From May 2020, production was to be slowed down, and in the first two months a record reduction of almost 10 million barrels per day was to be achieved, with Saudi Arabia and Russia taking the lion's share. The US-forced deal came at the right time, markets calmed down somewhat,<sup>73</sup> and Donald Trump thinks he is the winner, because the US production restriction does not really hit US producers: due to low market prices and the price sensitivity of US shale oil production, they have to reduce their output for economic reasons, anyway.

However, if prices rise significantly again thanks to the agreed restrictions imposed by the other producers, production in America is likely to rise again beyond the agreed level – and thus jeopardize the deal. In order not to lose market share to US producers, Saudi Arabia and Russia, for their part, would quickly ignore their production restrictions – not to mention OPEC countries such as Iraq and Nigeria, which in the past have not adhered to agreements anyway.<sup>74</sup>

**Saudi-Arabia has once already caused the fracking bubble in the United States to burst.**

Experience from the recent past would tend to support this assumption: Contrary to what most experts predicted, the Saudis have already failed to respond to increased production by the US fracking industry in 2015 by limiting their supply in order to prevent the fall in prices. Aware of their strategic advantage, which is that they can produce on far more favorable terms and resist longer than American competitors, they even increased their production to drive prices further down. The price war at the time had a direct effect. Many US companies, which from the beginning only worked with borrowed money, were soon unable to cover their production costs. When the price of oil fell to just over 50 dollars per barrel in the summer of 2015, the number of wells also fell to 645 – from more than 1,500 counted a year earlier.<sup>75</sup> Many of the small and medium-sized producers had to file for bankruptcy. Larger companies have survived; they can stay afloat longer in the period of low prices because they are financially stronger and have diversified their businesses. So Saudi-Arabia has once already caused the fracking bubble in the United States to burst, thus further consolidating the American energy market.<sup>76</sup>

Even if the current "deal" holds, Saudi Arabia will be extremely determined to defend its market share in Asia, the increasingly important demand region in the future.<sup>77</sup> For example, Saudi Aramco, the kingdom's state-controlled

oil giant, has diversified its prices regionally and set them lower for Asia.<sup>78</sup> Even beyond the temporary ceasefire, resource-hungry China is likely to be the main beneficiary of this price war. In the predictably tougher struggle of producers for continually shrinking overall demand in the future, the power of buyers, and in particular that of the largest energy consumer China, will continue to increase.

### 3.2.2 "Freedom Gas" against Russia

Already now, America's pressure on Russia and its European customers is playing into the hands of the Middle Kingdom. American negotiators have very bad economic, but also short-sighted geopolitical arguments against Germany and the other European countries participating in the consortium and their North Stream 2 plans to transport even more Russian natural gas from the fields of Siberia via St. Petersburg to Greifswald. Compared to Russian natural gas, America's liquefied natural gas (LNG), which must be transported by ships and in ports through terminals to be financed by the EU, is much more expensive – if decision-making is based on market criteria and nothing else.

**America's pressure on Russia and its European counterparts helps China.**

However, the Trump administration is not using market-based logic, but the equally flawed geo-economic argument that Europe has to pay a higher price for its security, including energy security (to the protective power United States). According to Trump's vehement criticism at the NATO summit in Brussels in July 2018<sup>79</sup>, Germany buys its natural gas from Russia for billions of euros but relies on the United States, which protects Germany from Russian aggression, as a free-rider.

This view is a view of the past and also historically incorrect. For example, NATO Secretary General Jens Stoltenberg also tried to moderate Trump, pointing out that even during the Cold War, Russia was always a reliable energy supplier to the West. One could also have pointed out that the supposedly energy-independent USA are still importing oil from Russia to this day. And in a longer, geostrategic view, for the United States and its Western allies, it is not Russia, the adversary of the long-gone Cold War, that is at the center of security considerations, but the rising power of China.

Strategically minded US security experts, e.g. from the Brookings Institution,<sup>80</sup> have long feared that energy sanctions would harm the United States itself – directly and in the long run: they encourage Russian President Vladimir Putin to push ahead with his Asia-oriented diversification strategy

with even greater urgency. The Russian leadership will try to expand its clientele. In addition to Europe, the Kremlin plans to supply Asian countries in need of energy, especially China, with Russian raw materials in the future, thereby securing revenues and his regime in the long term. Russian gas will be pumped to China via an eastern route (Power of Siberia) and a western route (Altai Gas Pipeline). Some observers even speak of a "comprehensive strategic partnership".<sup>81</sup>

### 3.2.3 "Maximum pressure" on Iran

China could also profit once more from the US sanctions against Iran, which have been fully effective since May 2019. Until the Europeans negotiated a nuclear deal which was approved by the Obama administration, the Middle Kingdom had already benefited from the fact that others, such as a Japanese consortium (Inpex Corp), had terminated agreements with Iran in order not to violate US-imposed sanctions against Iran.<sup>82</sup> The United States also influenced India's decision to abandon the construction of the planned Iran-Pakistan-India pipeline, thereby depriving the Iranian regime of this economic support. European companies had also curtailed their involvement in order to increase pressure on Iran to abandon its nuclear program, along with the United States.

#### China could also benefit again from US sanctions against Iran.

When, with the 2015 Vienna nuclear agreement, the Joint Comprehensive Plan of Action (JCPOA), which was engineered by the Europeans, Iran renounced nuclear weapons until further notice, it was given a civilian nuclear program in return and economic sanctions were lifted. Thus, the economic representatives of Western countries began to compete for the best investment opportunities in Iran. For example, the Federal Association of German Industry (BDI) expected business benefits for German companies. "In particular, the modernization of the oil industry opens up great market opportunities for German machine and plant manufacturers," said Ulrich Grillo, then BDI President, euphorically.<sup>83</sup> Experts put the investment needs in the oil sector at more than 200 billion dollars. Similarly, car and aircraft manufacturers expected big business in markets traditionally dominated by European companies. Iran's state-owned civil aviation organization alone has promised nearly eight billion dollars in investment to renew Iran's outdated civilian aircraft fleet. Over the next decade, Iranian airlines wanted to buy more than three hundred aircraft.<sup>84</sup>

But Donald Trump, who entered the White House in January 2017 as the 45th President of the United States, also put a stop to European entrepreneurs by fulfilling his campaign promise and unilaterally canceling the deal

on May 8, 2018, even though Iran was complying with its commitments.<sup>85</sup> However, the European contracting parties – Germany, France and the United Kingdom – maintained the deal (as well as the co-signatories Russia and China) and tried to circumvent US sanctions and to maintain payment transactions for Iran through the special purpose vehicle INSTEX (Instrument in Support of Trade Exchanges), which was established on January 29, 2019. But INSTEX has so far proved ineffective against US (secondary) sanctions. Europe cannot withstand the geo-economic pressure of the United States, because European companies also know where the larger market is: not in Iran, but in the United States. Anyone who wants to do business in the United States or do business in dollars must, like it or not, bow to the economic and military power of the United States.

However, China could once again be the beneficiary of US sanctions, which have been fully effective since May 2019, and the "maximum pressure" from the United States. Disappointed by the Europeans, Iran is now trying to find alternatives in Asia with its "look to the East" strategy and to develop economic ties with Asia's leading powers. Unlike most European countries, only selected countries such as China, India, and Japan, in particular, were allowed to import oil and gas from Iran at the discretion of the United States, but only until the six-month exemption granted to them by the US government on November 5, 2018 expired.

China, however, remains particularly interested in diversifying energy suppliers and supply routes, because its economic development and military build-up depend on energy imports. But China's energy supply from the Middle East can be blocked in many places by the United States – not least on the Strait of Hormuz, the main waterway on the trade route from Europe to Asia, which would prevent large-scale oil supplies from the Middle East.

In a possible dispute, this bottleneck ("choke point") of international energy supply would be a double-edged sword: Significantly, the Iranian regime also threatens openly to block the lifeline of Western economies if US sanctions jeopardize its oil and gas exports and thus its viability. The United States, in turn, would see a blockade as a threat to its vital interests and would take military action against it.

Contrary to what many observers expected, the United States has not turned its back on the Middle East because of its supposed energy independence in the wake of the shale gas revolution and its reorientation to Asia, the "Pivot to Asia" announced by the Obama administration; on the contrary, the world power, the United States, will not stand idly by in the eye of a possible global shift in power in this geo-strategically important region.

**The United States will counteract a global shift in forces in the Middle East.**



American geo-strategists, among other things, are aware of the fact that Iran, Turkey, and Qatar are making joint geo-economic plans. The so-called "Middle Eastern Entente"<sup>86</sup> is even considering defending itself against the USA and its sanctions. Among other things, Qatari and Iranian oil and gas is to be pumped through pipelines across Iran, Iraq and Syria to the Mediterranean port of Latakia.<sup>87</sup> It is advantageous that Turkish pipelines can also be connected. Turkey gets half of its oil supply from Iran,<sup>88</sup> so it is also opposed to US sanctions, which are to isolate the Iranian regime and put economic pressure on it. Iran is already negotiating with Syria to operate Syria's main port of Latakia and advance the trade route from Tehran to the Mediterranean.

### 3.3 China's Silk Road plans – a threat to the United States

**America's pressure on Iran will be welcomed by China's expansive strategy.**

In addition to the pipelines and the equally planned rail network, the Mediterranean port is also to be another strategic hub in China's comprehensive "Silk Road Initiative". Iran plays an important role in China's Silk Road plans, not only because of its oil and gas resources, but also because of its good economic and diplomatic relations with Central Asian countries. As early as February 2016, the first Chinese commercial goods reached Iran via a 3,200-kilometer link between Urumqi, the capital of western China's Xinjing Province, and the Iranian capital Tehran. The railway runs through Kazakhstan, Kyrgyzstan, Uzbekistan and Turkmenistan. The China Railway Company plans to expand the line into a high-speed rail link for freight and passenger traffic.

At even greater speed, Chinese propaganda is spreading, not least through new communication channels. It even succeeded in thwarting US government aid to Iran, which has been badly battered by the Corona pandemic. For example, Iran's revolutionary leader, Ali Khamenei, rejected the American offer of aid because of a conspiracy theory spread by China that the United States had developed the Corona virus to weaken enemies such as China or Iran. American aid is also to be mistrusted, as it may also be infected with the virus<sup>89</sup>. Iran will now need China's help even more, in part also because of the US sanctions.

America's pressure on Iran is good news for the Middle Kingdom: China's "going-out strategy"<sup>90</sup> targets not only strategic industries but also the resource sector. China's energy investments – a good chunk through its state-owned banks – have totaled more than 740 billion dollars since 2005.<sup>91</sup> As early as 2002, immediately after his appointment as General Secretary of

the Communist Party, Hu Jintao called on the three national oil companies – China National Petroleum Corporation (CNPC), China National Petroleum and Chemical Corporation (SINOPEC) and China National Offshore Oil Corporation (CNOOC) – to become international and invest in the extraction, production and transportation of oil and gas. As part of this initiative, China's party leadership has since made enormous efforts to strategically deploy China's foreign-exchange reserves, thereby securing the resources much needed for its economy and the stability of the political regime in the long term.<sup>92</sup>

Chinese state-owned companies are now found in all regions of the world, whether in the Middle East or in developing regions such as West Africa and Central Asia. In South America, too, in the backyard of the United States, Chinese state-owned companies are trying to secure resources for their country. With its energy security policy, China is also undermining multi-lateral rules, as Beijing seeks to capture oil supplies exclusively through bilateral treaties – competing with US geo-economic interests. As China, the emerging economic power in Asia that will need vast energy resources for its continued growth, increasingly secures them with its military, it is at odds with the "vital interests" of the United States.

### 3.4 Options for transatlantic energy and environment cooperation

In terms of security, economic and environmental policy, rather than relying on old energy sources and unilateral and one-sided action it would be much more far-sighted to reduce Western economies' dependence on fossil fuels through transatlantic energy and environmental cooperation. Strategic foreign and security policy in the world of the 21st century as well as forward-looking investment strategies should resist the temptation to preserve decaying industries. It would be more useful to look at growth markets and give both issues, energy and climate, center stage in their analyses and recommendations for action.<sup>93</sup>

Investors have already recognized that climate risk is an investment risk, thanks in part to the high-profile preparatory work of environmental researchers.<sup>94</sup> In his investor letter for 2020, for example, Larry Fink, chairman and CEO of Black Rock, warned that environmental awareness is "rapidly changing". That is why the head of the world's largest hedge fund expects a "fundamental reshaping of finance". The "evidence of climate risk" will force investors to "reassess core assumptions about modern finance."<sup>95</sup>

**Investors recognize that climate risk is an investment risk.**

To this end, policymakers must also rethink their existing horizons of national solutions with the prospect of an expanded international regulatory framework. Companies should be required to disclose the risk that climate change entails so that markets can factor in that risk. To enable public and private actors to make informed financial decisions around the world, the leaders of the Task Force on Climate-related Financial Disclosures (TCFD), established in 2015 by the Financial Stability Board (FSB), an body of the Group of 20 major industrialized and emerging economies (G-20), could be used. Globally, national financial regulators, such as the US Securities and Exchange Commission in the United States, should ensure that the TCFD recommendations are legally binding.<sup>96</sup>

The EU Commission has been working on a set of rules for sustainable financial investments for some time. With the Taxonomy Regulation of 18 June 2020, the EU has now created the world's first "green list" for sustainable economic activities. Investors can use this classification system if they want to invest in projects and economic activities with significant positive climate and environmental impacts.<sup>97</sup>

**Joe Biden plans "a clean energy revolution and environmental justice."**

The key energy and climate challenges are global and can only be met through global and multilateral cooperation. The mere dependence on imports from a few countries that dominate the market and manipulate prices, or the concern for long-distance safe transport from producing to consuming countries – by sea or pipeline – are clear evidence that these challenges can no longer be met at a national level.

The development of renewable energy would be a viable way for an innovation-oriented country like the United States to free itself from the dependence of the international pricing of fossil fuels, which can be influenced by autocratic leaders in problematic regions of the world. Given the vulnerability of the American economy, there is an urgent need to develop energy-saving technologies, biofuels, and other alternatives for industries that have so far been dependent on fossil fuels. If elected, Democratic presidential candidate Joe Biden wants to make "a historic investment": to invest a total of 400 billion dollars in government funding for clean energy and innovation over 10 years. Biden's "Plan for a Clean Energy Revolution and Environmental Justice"<sup>98</sup> is ambitious.

But the United States could also count on cooperation with the states of the European Union, which also want to revive their economies with a Green Deal. On 11 December 2019, the European Commission, led by Ursula von der Leyen, presented the concept of the European Green Deal. Under this ambitious plan, Europe will be the first continent to become climate neutral

and reduce net greenhouse gas emissions in the European Union to zero by 2050. The European Green Deal includes a number of measures in the areas of financial market regulation (keyword: sustainable finance), energy supply, transport, trade, industry, agriculture and forestry. The necessary regulations – legislative initiatives to increase the price of fossil fuels and tighten CO2 limits – are to be presented by mid-2020. Europe wants to use the Corona crisis to transition to a modern, resource-efficient and competitive digital economy.

Technological advances, not least on smart grids, artificial intelligence (AI) and autonomous driving – which can be promoted through government action (by providing management, infrastructure and research funding) – call into question the standard zero-sum calculation between environmental protection and economic interests, or the rhetoric of the state versus the market.

This would not only create much-needed new economic growth impulses after the Corona economic crisis, but also improve the energy security of consumer countries, curb the greenhouse effect and readjust the balance of power on the world energy markets, which is not least, undermining the rules-based trade world order.

**Europe wants to be the first climate neutral continent and take advantage of market opportunities.**

## 4. The future of the international trade order and multilateralism

The times when US strategists accompanied China's economic development with goodwill is definitely over. According to Washington's former plans, China was to be integrated into the US-dominated Western (economic) order as a "responsible stakeholder", as then-Deputy US Secretary of State Robert Zoellick put it in 2005. Economic liberalization, the basic assumption was, would sooner or later also make China's political system more democratic. Thus, after the end of the Cold War, it was only a matter of time before democratic peace prevailed worldwide. But the story has so far not come to a happy end; the next chapter will again feature great power competition for spheres of influence. We are already in the midst of an "era of economic and political great power rivalries, which will result not only in new trade conflicts, but also in a changed geostrategic role for the Federal Republic of Germany and Europe."<sup>99</sup> So far, Europe has only been a spectator of this show of strength, but in the worst case it will become the collateral damage of history if it does not quickly put itself in a position to take decisions and act.

### 4.1 The end of the end of history

**The future will be even more about great power competition and spheres of influence.**

Although the "end of history"<sup>100</sup> and the triumph of liberal democracies and free market economies were already predicted after the fall of the Soviet Union, many autocratic regimes have so far proved to be very resistant. They have survived several waves of democratization, color revolutions (such as the orange one in Ukraine or the green one in Iran) and the change of season (keyword: Arab Spring).<sup>101</sup>

China's Communist Party has certainly seen these upheavals as warning signs. Liberal ideas are also attractive in China, especially for younger Chinese, often trained in the United States and Europe. But good economic development serves the regime as a pillar of its stability and bulwark against subversive developments for the time being – especially when it seeks to compare it to the economic and social problems of Western regimes.

The economic and financial crisis of 2008, triggered by western leadership, did the rest. It shook faith in the widespread self-regulation of markets and the creditworthiness of the American state. The "Washington Consensus", which encouraged other countries around the world to liberalize, American-style, their political systems and economic orders, lost its credibility.

State-controlled economies, especially the authoritarian capitalism of the People's Republic of China, were also affected, but they were able to cope with the crisis better than the United States and its community of values. Authoritarian great powers such as China are now regarded not only in East Asia as "serious counter-models to liberal democracy".<sup>102</sup> China's economic rise is already associated with the decline of the West;<sup>103</sup> some experts already praise the "Beijing Consensus" as the role model for the future.<sup>104</sup>

The American political scientist Francis Fukuyama, who at the time prematurely proclaimed the "end of history", celebrating the final victory of liberal democracies and free market economies in the competition of systems, today diagnoses elementary shortcomings of Western leadership. The inadequacies of the United States are all the more problematic because a new competitor, namely China, is in the starting blocks to export its counter-model. So the story goes on, because Fukuyama now sees a new "historic contest" about the "fate of Eurasia" underway: between the United States and its Western partners on the one hand and China on the other.<sup>105</sup>

## 4.2 Monetary questions are questions of power

China is not shying away from diplomatic initiatives and economic investment to reorganize world trade and the global financial system in its own way – thereby weakening America's economic model. So far, the denomination and invoicing of trade transactions, especially of oil and gas transactions, in the US currency have ensured the global "dollar dominance" entailing further economic advantages for the United States. The dollar is still the leading currency for international financial transactions, trading and holding reserves.

**China wants to reorganize world trade and the global financial system.**

In recent decades, the dominance of the dollar has allowed the world power to obtain international foreign reserves more or less at zero cost and to live beyond its means. The "exorbitant privilege" – as the then French finance minister and later President Valéry Giscard d'Estaing already put it back in the 1960s – allows the world power to borrow cheaply internationally. With the dollar as leading currency, the United States does not have to pay a risk premium in the form of higher interest rates, as other states do, but can borrow huge amounts of money on favorable terms, generating much higher profits and – as has become increasingly clear in recent years – financing its consumption on credit. The United States has also been able to get rid of much of its debt, especially to its main creditor, China, through its central bank's expansionary monetary policy (euphemistically called "quantitative easing").

**Dollar dominance is being challenged by resource-hungry China.**

In order to replace the US dollar as the world's leading currency and to offer investors an alternative, following the outbreak of the US-caused financial and economic crisis in 2008, the governments in Moscow and Beijing already in 2009 demanded that the faltering leading currency, the dollar, be replaced in the medium to long term. Today, the dollar dominance is being challenged even more by resource-hungry China. Meanwhile, the Gulf states are no longer reinvesting their petro-dollars in the United States, but rather in China. Also to deprive the United States of the leverage of its (secondary) sanctions, China's leaders are working to build a parallel financial system that would bypass dollar-based payment mechanisms.

By diversifying China's export markets and focusing more on domestic consumption, Beijing officials can free themselves even more from what they call the "dollar trap": while China finances infrastructures around the world to develop new markets, it can emancipate itself from the previous main customer, the United States – to which it had previously borrowed large amounts of money so it could buy Chinese products.

### **4.3 Interdependence – old weaknesses, new strength**

If China no longer provides the United States with its cheap goods and foreign-exchange reserves, it will affect not only US citizens who are being ripped from their illusion of prosperity, but also the American state, which has also been living beyond its means for a long time. China is no longer willing to use its foreign-exchange reserves to finance the US federal budget, much of which is used to arm the world power militarily and fund their security services against China.

For some time now, China has been moving away from its interdependence with the United States in order to reduce its vulnerability. On the other hand, new dependencies are to be created, with China being in the driver's seat. By defining its national interests more broadly as a wise power, allowing others to benefit from it as well, it can claim leadership and expect allegiance. Proof of this is Beijing's success in winning European partners such as the United Kingdom, France and Germany for its Asian Infrastructure and Investment Bank (AIIB), despite strong backlash from the United States.

**China breaks away from its interdependence with the United States and creates new dependencies.**

#### **4.4 The "grand strategy" of the USA**

This development is also extremely threatening from the point of view of the geo-strategists in Washington. When China provides public goods such as infrastructure, trade and information channels, it expands its dominance. With its "Silk Road Initiative", the Middle Kingdom wants to connect its economy with its neighbors in the region, with West Asia, Africa and Europe by land and sea.

The thought leaders of American think tanks, such as Gen. Jim Mattis, who shaped ideas at the Hoover Institution before serving as Secretary of Defense (from 2017 to 2019) in the Trump administration, are calling for a new "grand strategy". They, too, are targeting China. Instead of the patchwork of individual strategies towards various countries and in certain policy areas (security, trade or energy policy), the United States should once again pursue a global, cross-thematic orientation, called a grand strategy.<sup>106</sup> The overall objective is to prevent a possible rival from denying the United States maritime or air sovereignty in the Eurasian region – the landmass of the two continents of Europe and Asia, the most populous and economically interesting area on earth – and from blocking US economic activities or denying them access to resources.

Unlike his predecessor, Barack Obama, who wanted to push ahead with his "Pivot to Asia" to contain China with a Transpacific Partnership initiative (TPP) in conjunction with allied countries, his successor relies solely on his nation's military and economic power. Trump is not only leading a trade war with China, but also with America's allies.

In order not to fall behind, US President Trump is trying to prevent China from continuing to rise economically and militarily. By destroying the already battered liberal world order, Trump wants to deprive competitors



of their livelihoods. For in Trump's mercantilist thinking, the rules-based world economic order created by America after World War II now only helps its "enemies": China and Europe.

In Trump's worldview, states have no friends, only interests. There is no common interest in this zero-sum thinking: Trump thinks he can only assert his national interests at the expense of everyone else. Military power offers the "competitive advantage" par excellence: it serves to win in the increasingly fierce international competition – with the right of the strongest and inevitably at the expense of all other nations.<sup>107</sup>

#### 4.5 The law of the strongest versus the rule of law

**Without the rule of law, the law of the strongest – of the largest military power of the United States – applies.**

This foreign policy understanding of US President Trump and his security and economic advisers, which is now explicitly described as "realist" in the current US National Security Strategy,<sup>108</sup> contradicts Germany's preferred liberal internationalist notion of a rules-based world order in which international organizations such as the World Trade Organization (WTO), the United Nations (UN), international law and the principle of equality of the UN Charter play a central role.

In Trump's social-Darwinist worldview, in which maximum military power underlies the right of the strongest, and thus the "transactional leadership"<sup>109</sup> of the United States, multilateral organizations are an obstacle: they are, after all, designed to strengthen international law, to balance, to make the voices of, in Trump's view, weaker ones heard in the concert of nations. If the rules-based order, the international rule of law, in particular the World Trade Organization (WTO) and the multilateral world trade system, are weakened, then the law of the strongest, namely the still largest military power USA, applies.

On the one hand, in order to unleash America's power, US national trade laws<sup>110</sup> should be applied strictly and effectively against all trading partners.<sup>111</sup> On the other hand, international influence, in particular the WTO's rules, should be limited. According to the Trump administration, a WTO ruling against the United States should no longer automatically lead to a change in an American law or trade practice. As a result, the judgments of the WTO dispute settlement mechanism are no longer accepted in principle by the United States – or multilateral arbitration itself is to be undermined.

Because of Washington's obstructionist stance, fewer than three judges are now members of the Appellate Body of the WTO Dispute Settlement Mechanism. It has now fallen short of the minimum number needed for a case decision. This leads to a significant weakening of the WTO and thus also of the global, rules-based trade order, as no procedure can be concluded without a functioning appeals committee. This undermines the binding dispute settlement mechanism that has so far been able to effectively enforce WTO rules.

US President Trump has repeatedly portrayed the multilateral world trade system as a bad deal for America. By playing the military trump card in this policy area, too, and by imposing punitive tariffs – initially on steel and aluminum – on the grounds of national security as justification, Trump is not only enforcing his trade policy goals, but also undermining the WTO. Following the example of the United States, other countries could then also impose tariffs in the name of their national security. That would quickly be the end of an international trade order regulated by the WTO.

So far, the Trump administration has refrained from declaring German cars as a national security threat (in addition to steel and aluminum). After all, the then President of the European Commission, Jean-Claude Juncker, agreed at the summit in Washington on July 25, 2018 to pay tribute to the protective power: in future, Europe was to buy more expensive liquefied natural gas (LNG) from the United States instead of Russian gas supplies.

The fact that the EU and China sued the world power at the WTO only confirmed Trump's Darwinian worldview. His tactical concession for a WTO reform could soon be replaced by the threat to declare the World Trade Organization irrelevant. Even in the best case, arbitration would take a long time.

Much more consequential, however, is the paradigm shift that Trump is making with his combination of trade and security policy:<sup>112</sup> it is questionable whether the WTO can settle disputes at all over trade measures based on national security. A danger to the international regulatory framework is also that national security is a WTO exception under Article XXI GATT, which is difficult to verify without straining the credibility of the WTO. The example of steel and aluminum tariffs shows that the United States does not distinguish between allies and other states. In addition to China or Russia, even allies such as Canada, Japan or the EU are affected by the tariffs.

**For Trump, the multilateral world trade system is a bad deal for America.**

## 4.6 Necessary EU responses

**In the future the EU should leverage the asset of its market size.**

The EU can no longer rely on its traditional status as an ally, but, like all other states, must negotiate agreements with the United States that take greater account of American interests. Unlike other countries, however, the EU is a bigger negotiating partner, at least in the area of trade, which negotiates on an equal footing due to the close networking of trade with the US. Europe's market size is a considerable asset which in future should be much more used as a bargaining chip by the new EU Commission. Policy approaches towards achieving this objective exist.<sup>113</sup>

An agreement such as the Transatlantic Trade and Investment Partnership (TTIP) is no longer conceivable for political reasons. The conclusion of the agreement on the reduction of industrial tariffs is also not possible at present. However, progress can be made in other areas. In future, it should be possible to conclude the mutual conformity assessment agreement agreed by the outgoing President of the European Commission, Jean-Claude Juncker and US President Trump in July 2018. This will make it easier for European and American companies to demonstrate that they meet each other's technical requirements.

The EU must also ensure that it only concludes agreements with the United States that do not violate international rules. Under all circumstances, trade restrictions such as the ones obtained by the United States in the NAFTA successor agreement, the United States-Mexico-Canada Agreement (USMCA), must be avoided: Canada and Mexico have been forced to limit their car exports to the United States to a duty-free quota of 2.6 million cars. This introduced the principle of managed trade into a US agreement, although it runs counter to WTO rules. Through an equally problematic "China clause" in the USMCA, the United States wants to deter its neighbors Canada and Mexico from an agreement with China, thereby undermining their trade sovereignty.

On some trade issues which are less security related, European allies could act tactically to get Trump's goodwill. They could, for example, buy American liquefied natural gas, as agreed by Juncker with Trump, and especially armaments to remain technologically dependent and also reduce the American trade deficit. Increased soy imports from the United States also help ease the trade dispute.

Strategically, the EU can reduce its dependence on the dominant US market through diversification, for example through other bilateral and regional free trade agreements that not only open up markets for European products, but

also export European values, norms, and standards. The Comprehensive Economic and Trade Agreement (CETA) with Canada, and the trade agreement with Japan are already in force and a great success for the EU. The signing of the agreement with the MERCOSUR countries was another important signal against protectionism. However, it may have to be renegotiated in the environmental field.<sup>114</sup> Negotiations with the ASEAN countries, as well as Australia and New Zealand, are also progressing. This network of agreements provides the EU with a little more certainty and predictability should the rules-based multilateral trading system continue to break down.

This fear is justified, because an agreement with the United States on the future of the WTO's Appellate Body is unlikely for the foreseeable future. That is why the EU has already agreed an alternative appeal mechanism with Canada and Norway, among others, on the basis of Article 25 of the Dispute Settlement Understanding (DSU), in order to continue to resolve international disputes on a rule-basis.<sup>115</sup> This should remain in force until an agreement can be reached at the WTO level on the continued existence of the Appeals Committee. In the event that the United States permanently blocks the replacement of members of the Appellate Body, thereby permanently suspending the WTO's legally binding dispute settlement procedure, the EU should promote a Plan B with like-minded countries: a multilateral dispute settlement system without the United States.

The EU should try to maintain multilateral coordination with like-minded countries. Without international coordination, a protectionist race between nations and worsening macroeconomic imbalances could become an even bigger global economic problem. This was already evident during the global economic and financial crisis of 2008. Imbalances are reduced not by tariffs and decoupling of value chains, but by long-term structural adjustment processes: surplus countries should save less, i.e. consume more. Deficit countries, on the other hand, should save more.

**Surplus countries  
should save less, while  
deficit countries  
should save more.**

Germany has already increased domestic demand, private consumption in particular being the major contributor. As part of its 353 billion euro Corona aid package, the German federal government can also do more to reduce the current account surplus – also in the interests of European partners – through further investment (particularly in the digital sector) and an opening up the services sector.

In the fight against the Corona crisis, the EU states have adopted the largest budget and financial package in their history. At a special summit in Brussels in July 2020, EU leaders agreed on a comprehensive Corona aid

package of 750 billion euro to be invested in crisis management and the future of Europe. For the first time, the economic and investment program is to be used to take on a larger amount of joint debt.

As foreign credit declines, the pressure on the US to balance its budget will increase. For it is also deficit countries such as the United States that, through their risky financial management, boost macroeconomic imbalances: in 2007/2008, among other things, they led the global economy to the brink of collapse, deprived many European investors of their assets and plunged the eurozone into deep crisis.

As the US twin deficit (budget and trade deficit) is also a consequence of the dollar's dominance, measures should be taken to reduce the structural overvaluation of the dollar. Together with France and as an incentive for China to cooperate, at the G7 and G20 level Germany could advocate reducing exchange rate fluctuations by developing the International Monetary Fund's (IMF) Special Drawing Rights (SDRs) into a supranational reserve currency. With this, Trump and his economic advisers could no longer say that a too strong dollar hurts America.

The time has come to strengthen Europe's political unity, and hence the economic and monetary area, in the global geo-economic competition. This is also to prevent the resurgent macroeconomic imbalances from needing to be corrected by an even larger shock – which next time round cannot be absorbed by manna from the central banks anymore.

**The monetary policy of central banks should be facilitated by policymaking.**

It is high time that the central banks' monetary policy gets support from economic and fiscal policy. A new "green deal" on both sides of the Atlantic would offer good prospects for the future. To promote the development and dissemination of sustainable technologies, the Major Economies Forum (MEF), initiated by the United States in 2009, should be revitalized. At ministerial level, the 17 economies responsible for around 80 percent of global emissions could help multinationals set clean energy standards and explore new forms of cooperation in sustainable economies.<sup>116</sup>

In order to reduce existing global inequalities between tech-savvy economies and developing countries, and to put developing countries particularly hard hit by the Corona pandemic on a more sustainable path, the United States and Europe should use their political weight in the Bretton Woods (World Bank and IMF) organizations to tie lending to sustainability criteria, and in particular to encourage investment in sustainable infrastructure and development.

There are also voices from the United Nations calling for a broader role for the World Bank and the IMF to shape a "Green New Deal" as a driver of a fairer and more inclusive development of the world-economy.<sup>117</sup> The United Nations Conference on Trade and Development (UNCTAD), a permanent body of the United Nations General Assembly based in Geneva, could also support the predominantly classically trained liberal economists of the World Bank and the IMF with broader economic thinking. This could remedy the failure of the so-called free markets and their proponents.

Futureproof investments could also be financed by "protective taxes": to protect against OPEC's interests, innovation-oriented governments could impose counter-cyclical taxes on fossil fuels, coupled with the market price for oil. This would protect investment in renewable energy from further sudden price falls, possibly initiated by OPEC. In order to facilitate domestic political acceptance, tax revenues could be used not only for research and development of renewable energies, but also for tax relief for the population.

Even US companies that have been focused on fossil fuels and are active globally such as ConocoPhillips and ExxonMobil, as well as the automotive groups Ford and General Motors, might be interested in such a future project. In February 2020, for example, the Climate Leadership Council, a bipartisan association encompassing economic and environmental interests, endorsed the idea of ever-increasing carbon taxes.<sup>118</sup>

For some time now, the combined scientific expertise in the USA has favored this controlling approach. Instead of various bureaucratic regulations – which result in far fewer carbon reductions – the market failure should be remedied with taxes, according to the Wall Street Journal's January 2019 recommendation by more than 3,500 renowned US economists, including 27 Nobel laureates, four former Fed chiefs, and 15 former heads of the Council of Economic Advisers – leaders who have advised previous US presidents on economic issues – and are likely to continue to translate their expertise into policymaking.<sup>119</sup>

With taxes the control effect of energy prices could also be used consistently. In order to prevent some states from free-riding, exploiting tax advantages and outdoing their competitors, internationally coordinated measures, such as a carbon border tax, should also be considered. For example, the European Commission wants to impose a carbon tax on imports in order not to affect the competitiveness of European companies, especially in energy-intensive industries. The carbon border tax is a central theme in the European Commission's Green Deal; it should be coordinated with the United States and other innovation-oriented states.

**Market failure can be remedied through political (tax) control.**

If the level of energy prices, especially in the industrialized countries, were to be raised systematically, gradually and continuously over a longer period of time, there would be greater planning security for adjustment measures on both the energy demand and supply side.

These adjustments should be managed through dialogue. Suppliers and buyers should be brought together at the multilateral level of the G-20 and the International Energy Agency (IEA). IEA executive director Fatih Birol has already initiated a G20 meeting on energy. In addition, on April 24, 2020, Birol convened the first of a future series of virtual roundtables at ministerial level.<sup>120</sup> "Never waste a good crisis" – in this sense, national leaders worldwide should also use their multibillion-dollar national stimulus programs to promote energy efficiency and renewable energy.

**Oil producing states  
could become  
state aid cases.**

Because it is possible to do both: on the one hand, to give timely and targeted impulses in view of the current recession in order to stimulate private consumption and entrepreneurial investment in the short term. Provided they are accompanied by political framework conditions (taxes or emissions trading), stimulus packages can, on the other hand, prove transformative in the long run by changing the structure of the economy. Indeed, the experience of the last financial crisis in 2008 shows that "such a climate-oriented stimulus policy not only leads to economic growth and jobs in the short term, but also creates the basis for long-term innovation and climate-friendly economic development."<sup>121</sup>

At the same time, during the transitional period – for internal and foreign policy reasons – the existing oil and gas industries and their millions of jobs should be safeguarded, not least by developing technologies to "decarbonize" consumption.

Some energy supply countries, such as Norway, are already making plans for the period after their energy resources have dried up. Even those countries that still have abundant reserves should, in the face of increased international environmental awareness, the reorientation of institutional investors, and corruption in the case of state-dominated exploitation of raw materials, seriously consider alternative economic value creation in order to avoid state failure.

The foreseeable massive problems of many oil-producing countries in the face of low oil prices give cause for concern that countries with raw material wealth and dominance may sooner or later turn into development aid cases.<sup>122</sup> Thus, it cannot be ruled out that in future, not an energy-potent

Russia, but a crumbling Russian autocracy, will pose even greater challenges for the West.<sup>123</sup> This scenario would be all the more problematic if the battered world power, the United States, needed the help of the "regional power"<sup>124</sup> Russia to contain the other, rising and expansive great power, China.

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## Notes

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- <sup>11</sup> Transcription of Tom Inglesby's statement in a CNN interview on 31.07.2020.
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- <sup>109</sup> The term "transactional leadership" expresses both the relationship and content levels. In this hierarchical exchange relationship, a superior – in this case, President Trump – sets out a target agreement with specific expectations and rewards or punishes subordinates with financial or intangible benefits or disadvantages if they meet or fail to meet the requirements. For more details on transactional leadership, see James MacGregor Burns, *Leadership*, New York 1978.
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- <sup>117</sup> This was demanded on the occasion of the 75th birthday of the two international organizations, for example by Richard Kozul-Wright, who heads the Globalization and Development Strategies Department at UNCTAD: Richard Kozul-Wright, To Salvage Multilateralism We Need a Global Green New Deal, Blog, 15.10.2019, <<https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2214>> (accessed 23/08/2020).
- <sup>118</sup> Editorial Board, Democrats and Republicans Should Both Embrace This Common-sense, Planet-saving Reform, in: Washington Post, 13.02.2020, <[https://www.washingtonpost.com/opinions/democrats-and-republicans-should-both-embrace-this-common-sense-planet-saving-reform/2020/02/12/c28ab042-4dcc-11ea-9b5c-eac5b16dafa\\_story.html](https://www.washingtonpost.com/opinions/democrats-and-republicans-should-both-embrace-this-common-sense-planet-saving-reform/2020/02/12/c28ab042-4dcc-11ea-9b5c-eac5b16dafa_story.html)> (accessed 23/08/2020).
- <sup>119</sup> Economists' Statement on Carbon Dividends. Bipartisan Agreement on How to Combat Climate Change, in: Wall Street Journal, 17.01.2019, <<https://www.wsj.com/articles/economists-statement-on-carbon-dividends-11547682910>> (accessed 23/08/2020).
- <sup>120</sup> See Frederick Kempe, How the US Can Use the Covid-19 Crisis to Reimagine the Energy World, Save Jobs and Stabilize Markets, in: CNBC, 25.04.2020, <<https://www.cnbc.com/2020/04/25/op-ed-how-the-us-could-use-the-covid-19-crisis-to-reimagine-energy.html>> (accessed 23/08/2020).
- <sup>121</sup> Mats Kroeger, Karsten Neuhoff and Jörn Richstein, Green New Deal After Corona: What We Can Learn from the Financial Crisis (Green New Deal nach Corona: Was wir aus der Finanzkrise lernen können), DIW aktuell, 30.04.2020.

- <sup>122</sup> Amy Myers Jaffe, Emerging-Market Petrostates Are About to Melt Down: Collapsing Oil Prices Risk Igniting a Sovereign Debt Crisis, in: Foreign Affairs, 02.04.2020, <[https://www.foreignaffairs.com/articles/2020-04-02/emerging-market-petrostates-are-about-melt-down?utm\\_medium=promo\\_email&utm\\_source=promo\\_2&utm\\_campaign=mj020-camp2-newsltr-panel-a&utm\\_content=20200415&utm\\_term=mj020-camp2-newsltr-panel-a](https://www.foreignaffairs.com/articles/2020-04-02/emerging-market-petrostates-are-about-melt-down?utm_medium=promo_email&utm_source=promo_2&utm_campaign=mj020-camp2-newsltr-panel-a&utm_content=20200415&utm_term=mj020-camp2-newsltr-panel-a)> (accessed 23/08/2020).
- <sup>123</sup> This is also the assessment of Joseph S. Nye, A Western Strategy for a Declining Russia, in: Project Syndicate, 03.09.2014, <[www.project-syndicate.org/commentary/joseph-s-nye-wants-to-deter-russia-without-isolating-it](http://www.project-syndicate.org/commentary/joseph-s-nye-wants-to-deter-russia-without-isolating-it)> (accessed 23/08/2020).
- <sup>124</sup> Trump's predecessor, Barack Obama, used this somewhat derogatory term to signal to his anti-Russian critics in Congress that Russia was no longer a vital threat to the United States.