

FSN Post-US Election Sessions: Whither the USA - Scenarios 2021-2031

The Moderator's Take - February 2021

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Takeaways

This is a report of the last of two FSN Zoom meetings on the 2020 election and the post-election outlook for the US. The meetings identified and discussed the major political divisions in the US and the styles of politics as the country adjusted to the challenge of ubiquitous social media, the impact of the pandemic on the managing of the election, and the stunning political innovations of the incumbent president, which ended by posing a bizarre and dangerous threat to American democracy. Here in summary are the main conclusions:

1. The COVID-19 failures and the emergence of a new, post-Boomer, political generation will impose a modernization agenda on the US that will be dramatic but not unprecedented.
2. The rise of Asia - particularly of China to the world's largest economy by 2030 and India to third largest by 1934- will impose a modernization on the geopolitical structure and a degree of change to the international power balance greater than those of 1815 or 1945. A dangerous period of superpower testing is almost certainly at hand. So are great opportunities for human betterment.
3. Global commercial arrangements will also face change. The MFN structure underpinning the current WTO will make room for more regional trade agreements. Misuse of Article XXI special exemptions, such as those invoked by the Trump Administration to bully its trading partners, will face greater initial scrutiny and more effective remedies.
4. The effect of Climate change will bring countries together at a new level of collaboration. COVID failures and the urgency felt by the post-Boomer generation to deal with this reality may bring a new level of authoritarianism to mankind's effective adaptation.
5. Game changing technologies are just over the horizon, among others, quantum cryptology, the equivalent of the universal decrypter in the 1992 movie Sneakers.

Introduction

Nothing in all our experience prepared us for the Trump phenomenon, nor for the tragic failures of the US in dealing with the pandemic, (noting, too, that Canada has also underperformed at the level of national and provincial public health strategies).

Canada's close economic, cultural and, indeed, family connections with the US, are well known. Members of our group studied and worked in the US, served in joint Canada-US military operations, and negotiated with the US to hammer out a framework for our

commercial dealings. Some of the group also brought to the session considerable commercial and diplomatic experience with China and other Asian countries.

The reflections in this report present some ideas about the future directions the US may take and about aspects of the new administration's policies. Reflecting points raised in the meetings, this report is therefore based on what we saw and lived over the Trump presidency and its violent termination, some open source research, and an underlying optimism that the Biden-Harris team can get the US back on track, despite the issues - legacy ones - alongside new challenges.

Significance of the Biden Presidency

It is worth noting that despite the “screen domination” of the former president and other putative global despots, Biden and almost all important global leaders are older Boomers who in the next few years will be followed by X,Z and Millennial generation leaders. Almost inevitably, the world by 2030 will be a greener, more internet connected community, more concerned with deepening the greening of its economy, sharing a broadly democratic ethos; its main issues will be about making the world safe for and resilient to humans and the hitherto disastrous impact of humans on Earth. Oil as an energy source will be a much smaller industry, replaced mainly by electricity, mutual respect will be the prevailing public virtue, many countries will be “rising”, seeking a more prominent role alongside Asian countries whose astonishing progress will likely continue.

Under conventional conditions, therefore, one could expect the Biden Presidency to be an energetic, determined and ultimately successful transition from the disastrous policies of the Trump administration to return to the policies and positions in line with the major countries of the world, most of which are still battling the pandemic, moving their industrial bases towards 5G, the fourth industrial revolution (Industry 4.0) and “green” energy, including regulation and standard setting. This is especially important for issues raised by digital platforms and by the “green” economy. Indeed, the world awaits the return of a US administration that (a) respects global norms, and which will in particular strengthen the multilateral system, including WHO and WTO, (b) helps the world adapt to a rising Asia in general and China in particular, and (c) smoothes a path forward for the rapid development of poor countries – a new Normal. **However, conditions are not “normal”.**

Some foreseeable considerations around first steps of the new US administration:

COVID-19 - will be a motivator for social and medical services reform in all countries. marked in the US by Democratic national objectives tempered by Republican state governments. But it is not clear whether the virus can be defeated or whether humanity will have to get used to living with it. In either case, the absence of a US national healthcare system is a gap crying urgently to be filled. For the rest of the world, the spectacular failure of the US to unite as a country and lead a global response to a common victory will be among the most important “scars” left by the pandemic, despite the contributions of the US to the underlying science and rapid development of vaccines.

A common priority for the US and its allies is economic renewal and national digital economy upgrades (e.g., 5G, industrial revolution 4.0, a “green transition”). In the US, this will be pursued by the new administration as a generational opportunity to “build back better” and underline “American leadership” - and will require a major upgrade of the national public and high school systems, and a significant reduction in the price of post-secondary education, in addition to infrastructure modernization and the strengthening of governance capacity – similar in scope and ambition to US policy post-Sputnik and even the New Deal.

Indeed, it is not an exaggeration to say that the US needs to modernize. **For the determinative challenge facing the incoming administration is its effectiveness in replacing the national security establishment as the driver of national purpose and standing up the organizations needed to rebuild the domestic economy and national political institutions.** There is enough passion in the administration's “left wing” to make a good start before the two-year midterms, but not much evidence of the same will at the centre of power. To increase chances of bipartisan support, it might occur behind a national security smoke screen in the early stages to take advantage of the legislative power of the Pentagon. However it is to be accomplished, if the US does not make the changes needed to more closely align itself with other highly developed countries in its alliance structure, the US will see its current preminent position bleed away.

To be successful, the national upgrading policies, taken together, must take into account some critical factors, including:

- **Among the most powerful forces shaping the world now and for the next generation will be the rise of Asia and its impact on the global system, including on the US as Western military guardian and global economic stabilizer, the anchor of the postwar system established in 1945.**
- **The main lesson from the pandemic, as understood by NATO and US Pacific Allies, is that (as German Chancellor Angela Merkel explained in her January 26 special address at Davos) humankind is now interconnected. Therefore, global problems have no unilateral solutions: (e.g., the pandemic will not be defeated unless it is defeated everywhere). Countries have the right to “rise”: if their socio-economic systems pose challenges, then there must be engagement and dialogue to establish mutually acceptable rules within whose framework there can be cooperation.** This position seems orthogonal to the thinking on China so far announced by the Biden administration which says it considers the rise of China a threat to be countered by the US and its allies in a common front.

- **US GDP growth post-pandemic will be conditioned by national debt**, (100% debt/GDP) and the merchandise trade deficit which it perpetuates, as well as significant “scarring” from the pandemic. **The US must reduce the risk it poses to its own global financial system to enable its trading partners to continue to underwrite its privileges.** Under Pres. Trump, the US international investment position continued its long term worsening trend. Currently, the largest portions of assets offsetting liabilities are concentrated in the stock market, thereby increasing the risk to the global financial system from a mismatch between the value of national debt and the value of US financial assets held offshore, especially when US\$ REER (Real Effective Exchange Rate) is declining because of the trade deficit.
- **China’s GDP at market prices could overtake the US by 2030 and India could become the world’s third largest economy in the same time frame by 2034, forecasters say.**¹ Moreover, (a) China’s outgoing FDI is expanding territorially, while the stock of US FDI is shrinking, especially outside North America and (b) FDI in China is expanding (China got the most of any recipient country in 2020, the UNCTAD WIR reported.) China is building wealth while the US is accumulating debt. While some of that is the result of Chinese state policy, most of it is because leading Chinese companies succeed by competing to become the low cost supplier so as to grow market share rather than “rents” from strategies that protect producer surplus. Chinese economic management also aims to minimize financial system risk, such that China has replaced the US as the “tractor” pulling the global economy out of recessions since the turn of the century.
- **Demographically, the US will have to deal with popular fears of the forecast that by 2045 its population will have a “non-white” majority** - a cause of major anxiety in the South in particular, as well as in other important elements of the population, and a major reason for the strong support for the outgoing president. **This is one aggravating factor among others making the immigration file so fraught. It may also break the GOP and generate a third party.**

What is the sum of those considerations together? For one thing, sometime before 2030 (a) China’s economy will be larger than that of the US; (b) China’s trade account will become the largest in the global system. An additional consideration: blockchains are already taking over some large scale trade settlement systems, illustrating the superior speed and security of code whatever the currency (ies) used in the transactions.

A further problem left by the outgoing administration is US trade policy. US aggressive trade practices and policy postures have always faced challenges from its major trade partners, culminating in Trump's attack on all multilateral arrangements. Such US practices will continue to face significant headwinds. Biden's "echo" of Trump's policy of commercial decoupling from China and the blocking of China's international influence growth will be only partially successful at best - and will probably fail altogether. **China will inevitably gain ground as a global "norm-setter", particularly in competition policy, data regulation, intellectual property, and AI, mainly in collaboration with EU (German) regulators, and WTO reform.** This is just an early stage of the rise of all of Asia.

What about the WTO? The position of the new US administration is unclear. Probably WTO will be reset but in ways more favorable to developing countries and with more constraints on large market "exceptionalism" in the use of countervail and Article XXI - related tariffs - i.e. mindful of Trump's frequent and trade-illegal tariffs based on section 232 of the trade expansion Act (1962) - as the centre of economic gravity shifts towards Asia. The US may wish to decline full membership in favour of a "regional" membership via North America for which **a new mechanism around RTA's would be required.** The reorganization of global production post-COVID is already strengthening along regional rather than global lines. Nevertheless, the WTO is likely to remain based on MFN national trade, although it was and remains not altogether consistent with transborder industry structure and the trend towards special protocols.

A strong harbinger is the Regional Comprehensive Economic Partnership signed last November by 15 Asian and Pacific countries including China, Indonesia, South Korea, Australia and New Zealand, effectively bringing the 10 ASEAN and their five largest trading partners together under a common legal trade framework.

At about the same time, the EU and China signed an investment protection agreement that now awaits ratification by the European Parliament. **A major effect of these moves is to isolate the US from the most favorable trading and investment terms in the world's largest and most rapidly growing markets, all while the WTO is handicapped by Trump's attacks on its appellate mechanisms.**

What about climate change? There is a 50/50 chance that under US and Chinese leadership, that nations will establish and stick to a track sufficient to meet the Paris Accord goals by 2030. Is that enough to begin to reverse the ecological damage threatening the planet? **The millennials around the world are becoming political and are tech savvy enough to impose their will on this file, especially under inspired leadership, should that emerge. In that connection, China's impressive handling of COVID may "legitimize" more authoritarian measures to achieve "green" compliance, especially if "democracy" fails as it has done on COVID, outside a handful of particularly well-governed Asia-Pacific democracies.**

More fundamentally, the determining force during Biden's presidency will be a matter of different modernities, the US and China, either remaining locked in competition

and/or coming to terms and cooperating where it makes sense. In working this out, all four of the theoretical strategies below may be played simultaneously. (Scenarios continue after Wild Cards, below)

Wild Cards

Successions

A generational change is coming to national leadership around the world. This poses big question marks in particular over leadership in Russia, China, Germany and Latin America, and the Middle East - even the USA “conservative” Right. As a general matter, this will probably be a positive development, in that the new generation is global, tech and science oriented and climate-change aware. If knowledge and desire are enough to move the countries of the world to take the necessary actions, then mankind can feel relieved. But climate change cannot be solved without dealing with poverty, mass migrations, and economic organization. - **and another pressing danger: national egoism and myth-making will likely also remain part of every country’s governance arsenal, and that may be enough to undermine the necessary effective action, by the US among others, as at least through Biden’s first term.**

Cults of Denial

The foregoing assumes that “rational” policy making can continue in the major countries, including the US. That is by no means assured in the West, while it may be more assured in advanced Asian countries (e.g. Japan, S.Korea, China...) Trump’s presidency and Brexit trace the limits of rational accommodation in advanced countries. These and the failures of most democracies to master COVID-19 in its early stages - despite the successful examples of some democracies - **underline a disturbing new reality** for which there is as yet no settled name, other than “harmful effects of social media”. Better, perhaps to call it at a minimum, **the new power of individual denial. Enhanced by personal echo-chambers in social media, such denial gives rise to alternative realities more congenial to those involved than the “reality” underpinning discussions in the open public square.**

Dangerous enough in itself, a greater problem is that **this power can be manipulated to destroy open dialogue, encourage insurrection and coups d’état, and create emergencies in which a “state of siege” exists,** leading to democratic “abridgement” by the sovereign power. Forget the cliché risk of soldiers vacating their barracks to install a new government: **this new reality in effect democratizes “revolution” such that any determined minority that can create a cult-like following can seize enough power to wreck a country, even if only temporarily.** This is new.

Suggested remedies involve message screening and adjustments to existing laws designed to combat hate and preserve a space for public discussion, based on what worked when newspapers constituted the main source of news and public information. This unfortunately is a different phenomenon, far more powerful, to the point of being able to “nullify” or

“cancel” truth. **Social media can be used as a weapon of desperate resistance by the alienated and powerless to escape from the “universals” which the powerful wish to impose upon them in the name of “order” or “science”.** The alternative realities built and reinforced by social media are screams from those with no other agency left. They show where modernization hurts most, **the pain that must be soothed if society is to move forward.**

Collapse of Confidence in US Leadership

US leadership of global affairs rests on its post-1945 status as the largest economy with enough military power to deter major war, a reality that has continued to the present with some excursions . The US is still the largest economy measured in total GDP, but its ability to absorb the world’s surplus production is no longer offset by a positive trade balance.

Instead of a creditor country that invests globally, it has become, on a net basis, a global debtor whose deficits are financed mainly by portfolio capital inflows which are intrinsically unstable. Instead of a commercial powerhouse, **the US has become a “national security state”**, dominated by a total annual security budget calculated at \$1.25 trillion for FY2020, the largest item in the federal budget¹. That money might otherwise go to maintaining US competitive leadership in a peacetime economy and a level of social services equal to those of other highly advanced economies. **Instead, the US, once the leading producer of advanced consumer goods, is now the largest arms exporter in the world, its military involved in interminable small wars and the accompanying humanitarian disasters, and since 2000, the largest importer of consumer goods, mainly from China - which has been at peace since the Sino-Vietnam war - 40 years.**

Scenarios of US Global Strategies 2020-2031

The strategies discussed are global in the sense that they are only about China/Asia, not about regional challenges, such as the Middle East, North and South Korea, Latin America, etc.

¹<https://tomdispatch.com/hartung-and-smithberger-a-dollar-by-dollar-tour-of-the-national-security-state/>



Not shown: A 5th Scenario, based on disruptive technological advances

The four diagrammed scenarios are built up around US policy towards China, based on the assumption that the next four to eight years will be shaped by US-China relations. The quadrant places the scenarios according to national output (GDP - increasing along the x-coordinate or abscissa to the right of the ordinate, or y-value vertical line, decreasing to its left. The y-value ordinate indicates Rate of Increase /Decrease up and down above/below the abscissa. Thus, Scenario 1 shows slowing growth, but output increasing nevertheless; scenario 2 outcomes shows output increasing at a positive rate, i.e. a generally beneficial situation, scenario 3 shows a recession – output still positive, but growth declining, scenario 4 generates the worst outcome – losses building, culminating in a fatal spiral. The chart is intended as a rough comparison of four of the scenarios in terms of general well-being, both for the US and the Western alliance. The fifth scenario, not shown on the charts, postulates a “game changing” technological advancement.

The key questions are: What should be the goal of US policy? How should that goal be achieved? “Strategic system competition” is the key buzzword - but what exactly does it mean? The European allies and Japan are clearly behind German Chancellor Merkel's position of multilateral cooperation based on frank, respectful discussion touching on values behind the systems and treaties. The US seems to be seeking primarily technical agreements based on legal advantage, and even adversarial attitudes with a view to imposing a privileged outcome.

Scenario One- US-China “Cold War” decoupling

Announced by Trump, accompanied by Chinese purchase agreements (unfulfilled to date or in other cases, filled by switching purchases from allies to the US!), it is very difficult to implement, given the close intertwining of the economies and the closely connected political and business élites in both countries - and the fact that NATO allies prefer a multilateral approach based on a comprehensive legal framework built on mutual understanding of what is to be achieved. The outcomes would include significant negatives, depending upon the extent of “decoupling”, as it amounts to a renunciation of the global component of joint

value, replaced by deadweight cost of unnecessary duplication, borne by users.² Nor does such a strategy make a lot of economic sense in view of the scale of resources needed for infrastructure modernization of the US.

Scenario Two - US-China pragmatic cooperation

There are files in which it is in the mutual interest of both countries to cooperate on the basis of equality. These include the biggest, most serious problems facing humanity. Success could create a platform for a new “golden” age, especially since this approach is what most of humankind would like to see the global system adopt. The problem for the Biden administration is that Trump’s “call out” of China enjoyed bipartisan support. Any dramatically new direction it champions could be overturned if the Democratic margin is lost in either legislative chamber within less than 24 months - and with it, his administration's credibility in Beijing. On the other hand, this is what US allies mean by managing strategic system competition, acquiescing in China’s rise - indeed, partnering with it -- so long as it respects certain principles and guardrails, to be explored in negotiation. Should Democrats retain control of the Senate and House of Representatives, the administration might acknowledge its necessity. Possible surprise? Watch for mega EU and Asian investment to help upgrade US infrastructure over 10-15 years if Democrats retain control of both chambers of Congress in 2022.

Scenario Three - This is a cold war with exceptions of “limited” cooperation in pursuit of “limited” goals - This approach would be designed with a view to bringing recalcitrant “conservative” forces in Congress into agreement with the president, perhaps at the cost of achieving any trust between the two superpowers. Yet, for Europeans, mutual trust and respect must be the goal of Western policy. In effect, it is a downwardly mobile version of Scenario Two.

Scenario Four - This scenario is about confrontation over cooperation, in which the US “tests” China, or China misjudges US determination or response capacity before they establish crisis management protocols. It is **the most dangerous scenario**, and could lead to kinetic confrontation, even war.

Scenario Five (Not Shown) - Underlying all four scenarios is the possibility of game changing technology. One challenge in this case is to develop and deploy an innovation of such significance that its demonstration completely erases the negative impact of Western disorganized failure to cope efficiently with COVID and restores popular respect for democracy. Difficult to say what that might be - a working fusion reactor, perhaps. a superior mastery of interplanetary travel, a cure for cancer. Of course, this can cut many ways-every important power has an effective innovation system now!

² Understanding US-China Decoupling: Macro Trends and Industry Impacts, Rhodium Group, 17 February 2021, <https://rhg.com/research/us-china-decoupling/>

A more sinister and dangerous innovation would be a game changer that was kept secret - such as a breakthrough in quantum cryptography - and, indeed, may already exist - causing a replay of the dilemmas for its owner that Britain encountered after Bletchley Park cracked Enigma: namely to ensure that secret was not revealed, no protective action against an attack could be taken if the attack was known only to those who could read the code. Again, game changing innovation is now possible from any direction at any time.

Scenario Wild Cards - These are possible in all scenarios. Socio-political surprises are more probable in contexts of national internal division rather than international political consensus, and of domestic ideological and “values” divisions rather than fact-based debates that can be settled with “objective” data. **A particular problem for the US is that its “culture” has changed. The US has become a culture of demonstration rather than debate, of spectacle over discussion.** Much of the political system has already adjusted. The result for policy-making is that “policy” is for elections, **displays of intention**, not actual results. **Wild Cards are therefore likely to be handled according to how the actors appear on social media including TV, respecting the formula that playing to the base is safest. By definition (if not necessarily in practice) this leaves important, effective initiatives up to un-elected régimes. In this environment, Biden might preserve a democratic political environment, but he will probably not make lasting progress towards establishing global economic and superpower stability - unless he plays a different, results-oriented game.**

In this connection, the experience of smaller countries such as New Zealand is encouraging. It has effective leadership that achieves its stated policy objectives and that operates according to clear, acceptable principles in the interests of the whole community. These are the keys to the defeat of the forces of despair and division. The Biden administration's way forward is clear. Its essential goals can be achieved if it acts boldly in service of broad, planetary goals, to prepare the way for a new generation, one that is fully prepared for policies sustaining a global, green economy and multicultural political environment of respectful equals, promoting transparency, accountability, social well-being and distributional balance.

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