

The Logic (and Grammar) of US Grand Strategy: Implications for Germany and Europe

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DGAP REPORT

The Logic (and Grammar) of US Grand Strategy

Implications for Germany and Europe

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While the administration of US President Joe Biden is bringing back a more familiar and predictable approach to global affairs, the medium- and long-term outlook for US foreign policy remains much more uncertain. Any shift in US grand strategy over the next 15 years would have significant implications for transatlantic relations – particularly for Germany, which has deep security relations and high-value economic ties with the United States. In order to assess the potential implications of future policy shifts and the kinds of mitigation required from Germany, I have developed three broad scenarios of how US strategy might evolve in as early as the next five years that I present here: liberal internationalism, realism, and isolationism and protectionism.

So far, so familiar. Recently, there has been a rash of scenario reports on the future of the international order as well as transatlantic and transpacific relations. This surge of strategic foresight activity was presumably triggered by the shock of the Trump administration and the portent of 2020, resulting in scenarios that have tended to compete to test analysts' cognitive biases and complacencies. They propose increasingly inventive versions of the world, often over an ambitious long-term horizon.

This paper is different. Rather than presenting highly engineered, narrative possibilities, it presents three scenarios that are quite classic, being iterations of three familiar US strategic modes:

1. **The liberal-internationalist scenario** broadly represents continuity from what we know of the Biden administration thus far. It sees the United States remain committed to both collective security in Europe and – leaving aside US policy toward China – to multilateral, non-discriminatory, and reciprocal economic cooperation globally. This, it goes without saying, is the optimal scenario from a German point of view: collective security offers Germany security, while a stable, liberal international regime benefits German prosperity.
2. **The realist scenario** sees Sino-US competition spill into the economic sphere, putting Europe – and particularly, Germany – in the uncomfortable position of needing to choose sides. Multilateral economic cooperation is subordinated, at least partially, to security competition. Washington squeezes its allies to align them-

selves economically with the United States in return for protection. While Europe's continued security dependence on the United States makes it difficult to resist this geo-economic pressure, China unleashes countermeasures as Germany considers aligning with US policies.

3. **The isolationist and protectionist scenario** sees the United States as responding to increasing competition from China, domestic resource constraints, and domestic opposition by revoking its international security commitments and withdrawing into the Western Hemisphere. It resorts to protectionist geo-economics, significantly undermining international economic stability and cooperation. Europe in general, and Germany in particular, incur significant costs from the US retreat from transatlantic security and international economic cooperation.

This report is also somewhat different because it is not primarily about the scenarios themselves. Instead, I aim to offer three eventualities that are clearly differentiated along the familiar lines of various types of US grand strategy. In the liberal-internationalist scenario, US strategy is geared toward multilateralism, rules and institutions, economic cooperation, and the pursuit of economic welfare. In the realist scenario, US strategy is more focused on bilateralism, competition and conflict, power (rather than power-restraining institutions), and the pursuit of national security (rather than economic welfare). The isolationist and protectionist scenario presents yet another type of US strategy – one that is unilateral and inward-looking, turns away from international economic cooperation, and disentangles itself from "extra-hemispheric" security commitments.

For the sake of further clarity, this paper focuses on US strategy in just two fields: security and the international economy. In the liberal-internationalist scenario, the United States remains strongly committed to the existing system of transatlantic collective security. It also maintains broadly cooperative policies within the framework of the international economic regime established on the basis of multilateralism, non-discrimination, and reciprocity after the Second World War. In the realism scenario, Europe continues to benefit from US nuclear deterrence but is forced to take on greater responsibility for conventional deterrence. The

United States resorts to geo-economic policies in the context of greater security competition. In the isolationist scenario, the United States pulls out of NATO and largely abandons its other overseas security commitments; international economic cooperation largely collapses.

This comparatively narrow focus allows us to generate clear *implications* from each scenario – particularly for German policy-makers: Given its dependence on US security cooperation and high-value economic relationship with both the United States and China, Germany would be almost uniquely negatively affected by a shift in US strategy away from today’s liberal internationalism toward realism or isolationism. Although the realist scenario is characterized by continued security cooperation between the United States and Europe, it also sees increasing geo-economic pressure being exerted on Germany by both the US and China. In the isolationist and protectionist scenario, the international system would initially be characterized by competition and conflict, leading to the reemergence of economic blocs and spheres of influence over time.

Lastly, we also focus here on the mechanics of how we generated the three scenarios – thus, more on how the United States makes its strategy rather than the strategy itself. We define strategy-making as the domestic political mediation of international ends and available domestic means. Therefore, each of the scenarios presented in this paper are constructed on the basis of three fundamentals: **(1)** the international system, **(2)** the availability of resources, and **(3)** US domestic politics. We open up the black box of domestic politics and show which international shifts pull which domestic US levers and vice versa. As a result, we can better understand how the United States behaves under different conditions and why. This matters if German policy-makers are to preempt and influence future policy.

Germany needs Europe to think about ways to preemptively mitigate the potential adverse consequences in the security and economic sphere that arise in the two adverse US foreign policy scenarios. On the basis of my analysis, I have outlined potential risk mitigation strategies and policies. With the help of the concept of asymmetric interdependence, fundamental mitiga-

tion strategies are derived in view of the different scenarios that consist of: **(1)** autonomy/autarky, **(2)** symmetry/balancing, and **(3)** diversification/hedging. Each strategy is characterized by different cost/benefit trade-offs.

A more detailed analysis of the three scenarios and related cost/benefit trade-offs will be provided in subsequent DGAP Policy Briefs. But what is already clear is that the friendly “continuity” scenario is the least likely – not least because it is the hardest for the EU to influence. The liberal-internationalist scenario is characterized by a benign security environment and international economic cooperation. Avoiding Sino-US great power competition is a necessary condition if this scenario is to materialize.

Table of Contents

INTRODUCTION	5
1 SCENARIO ANALYSIS FRAMEWORK	6
Scenario Drivers	7
International System	9
Security Competition	9
Economic Competition	12
Domestic Institutions and Distributive Politics	15
Economic Resources	19
2 SCENARIOS AND US STRATEGY	21
Scenario 1: Liberal Internationalism	23
Economic Policy	24
Security Policy	25
Summary	25
Scenario 2: Realism	26
Economic Policy	26
Security Policy	27
Summary	28
Scenario 3: Isolationism and Protectionism	28
Economic Policy	29
Security Policy	30
Summary	31
3 STRATEGIC OPTIONS AND POLICY RECOMMENDATIONS	32
Sensitivity, Vulnerability, and Asymmetric Interdependence	32
Security Policy	35
Foreign Economic Policy	36
CONCLUSION	41

Introduction

Strategic planning is to look ahead, not into the distant future, but beyond the vision of the operating officers caught in the smoke and crises of current battle; far enough ahead to see the emerging form of things to come and outline what should be done to meet or anticipate them. – Dean Acheson

In spite of total defeat in the Second World War, Germany and Japan “benefited by losing,” according to American historian John Dower.¹ Germany did indeed benefit enormously from the international security and economic order created in its aftermath by the United States. NATO and the US military presence in Europe provided Germany with security and stability. The Bretton Woods System and the General Agreement on Tariffs and Trade (GATT) laid the foundation for stable international trade relations as well as monetary and financial cooperation.² Due to its traditional export orientation, Germany was one of the main beneficiaries, mutating from a *Machtstaat* to a *Handelsstaat*.³ The rules-based multilateral economic and the transatlantic security order also enabled European economic and political integration. For seven decades now, Germany’s stability and prosperity has rested on the twin pillars of transatlantic cooperation and European integration.

The transatlantic pillar came under significant pressure during the administration of US President Donald Trump. Its so-called America First policy – semantically and ideologically harking back to the isolationism of the 1930s and early 1940s – not only weakened transatlantic cooperation, but at times also seemed to question its rationale altogether.⁴ The election of Joe Biden as Trump’s successor makes the further deterioration of transatlantic relations unlikely, at least in the near term.⁵ Nonetheless, the Trump administration may yet turn out to be the beginning of a more fundamental shift in US foreign policy.

The quarter-century that followed the end of the Cold War was marked by unipolarity and American dominance.⁶ The United States was without a doubt *the* military power in the international system. America could afford to involve itself in costly wars of choice in Afghanistan and Iraq without fundamentally jeopardizing its global position. While the United States remains militarily dominant, the rise of China is challenging the status quo in the economic and military realm, particularly in East Asia and the wider Indo-Pacific region.⁷ Due to its demographic weight, rapid economic development, growing technological capabilities, and increasingly global interests, China has the potential to seriously challenge the global dominance of the United States in the longer term.

Consequently, for the first time since the end of the Cold War, the United States is facing a potential peer competitor. The rise of China threatens America’s core strategic interests, raising the specter of a return to great power, even superpower competition and rivalry. This is bound to have a significant impact on transatlantic – and especially German-American – relations.⁸

This report kicks off DGAP’s research project “How Can Germany Better Deal with US Foreign Policy and Its Consequences Moving Forward? Changes, Scenarios, and Strategies for German Decision-Makers,” a new, multi-year endeavor funded by the Friede Springer Foundation that seeks to analyze the future of US foreign policy and evaluate its potential implications for transatlantic relations. This research project does not seek to predict the medium-term development of US foreign policy with any degree of accuracy. As the philosopher and baseball player Yogi Berra once said: “It’s tough to make predictions; especially about the future.” Instead, it constructs and analyzes plausible medium-term scenarios that strive to stimulate a broader discussion of the strategic options and choices faced by Europe and Germany in light of the shifting international balance of power. Follow-up studies in the context of the research project will develop more detailed proposals on how German and European policy-makers can successfully confront the risks or capitalize on the opportunities arising from a potential shift in US foreign policy. The project will also engage in the systematic monitoring of US foreign policy. Such monitoring is not only meant to

1 John Dower, “The Useful War,” *Daedalus* 119, no. 3 (1990).

2 G. John Ikenberry, *Liberal Leviathan* (Princeton, 2011).

3 Richard Rosencrance, *Rise of the Trading State* (New York, 1986).

4 Charles Kupchan, *Isolationism* (Oxford, 2020).

5 Joseph Biden, “Why America must Lead Again,” *Foreign Affairs* (March/April 2020).

6 G. John Ikenberry, *America Unrivaled* (Ithaca, 2002); Nuno Monteiro, *Theory of Unipolar Politics* (Cambridge, 2014).

7 RAND, *War with China* (Santa Monica, 2016).

8 For a broader theoretical perspective, see John Mearsheimer, “Back to the Future,” *International Security* 15, no. 1 (1990); G. John Ikenberry, *After Victory* (Princeton, 2001).

inform policy-makers and business leaders about events and trends in a timely manner, but it will also help refine – and, if necessary, adjust – our medium-term scenarios in light of real-world developments.

In this report, we look at three major scenarios for the future of US foreign policy:

1. Liberal internationalism
2. Realism
3. Isolationism and protectionism

First, we explain the tool of scenario analysis. Second, we consider the three principal drivers that underpin our three scenarios, namely the international system, domestic politics, and economic resources. Third, in order to create as much transparency as possible with respect to the logic driving the individual scenarios, we describe the conceptual framework that we used to construct them. Fourth, we assess all three scenarios. Lastly, we outline the fundamental options and strategic choices Europe and Germany will face under each one. Policy recommendations focus on the key policy areas of security and economic relations. Follow-up papers from this research project will deal other important policy areas such as technology, energy, climate, etc.

Scenario Analysis Framework

Scenario analysis is meant to enable structured, critical thinking about the future by focusing on a limited number of scenario drivers and associated critical uncertainties that may affect future outcomes. Scenario drivers and related uncertainties also determine the scenario path connecting the present to a possible, alternate future state of the world. Different scenarios are generated by assigning different values to the critical variables. Scenario generation should be as transparent as possible about its underlying logic, assumptions, and drivers so that scenario outcomes can be evaluated in a critical, constructive, and epistemically beneficial manner. Scenarios are not predictions (point forecasts) or projections (simple extrapolations based on present trends). Instead, scenario analysis seeks to:

1. Identify principal drivers
2. Evaluate critical uncertainties
3. Develop a range of plausible scenarios
4. Assess the implications of different scenarios in order to propose strategies to mitigate the risks or exploit the opportunities arising from different future states of the world, including the paths that lead to them.

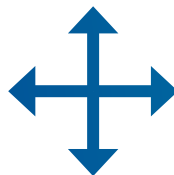
1. SCENARIO DRIVERS

The first assumption underpinning the three scenarios presented in this paper is that the international system is an important driver of US foreign policy and strategy.⁹ Elementary, my dear Watson. The international distribution of power determines the relative power of states and their ability to pursue their interests. Faced with international constraints, risks, and opportunities, states pursue a relatively unchanging set of objectives in the guise of so-called grand strategies. “Grand strategy can be defined most concisely as the general principles by which an executive decision-maker or decision-making body pursues its international goals. It is much like foreign policy, but at a higher level of abstraction focusing on broad patterns of behavior rather than specific decisions. It is strategy in the pure sense of the word: a set of choices made to gain valued goods (...). *An executive’s strategy does not lose its essential character if it is blocked by insubordinate agents or an obstructive legislature*” [italics mine].¹⁰ Foreign policy is, there-

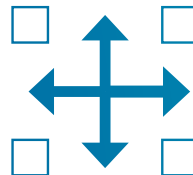
1 Scenario Development Process



IDENTIFY DRIVING FORCES



IDENTIFY CRITICAL UNCERTAINTIES



DEVELOP PLAUSIBLE SCENARIOS



DISCUSS IMPLICATIONS & PATHS

Source: SME Strategy Consulting

9 Kenneth Waltz, *Theory of International Politics* (Berkeley, 1979); Stephen Walt, *The Origins of Alliances* (Ithaca, 1987).

10 Kevin Narizny, *The Political Economy of Grand Strategy* (Ithaca, 2007), p. 9.

2 Scenario Drivers



Source: Author's compilation

fore, the sum total of a government's interactions with the outside world and is reflected in a state's diplomacy, foreign economic policy, defense policy, and so on.¹¹ Grand strategy, by comparison, is the logic that, by and large, guides these policies.¹² When push comes to shove, states prioritize national security over economic welfare – or as Barry Posen has succinctly put it: “Grand strategy is that collection of military, economic, and political means and ends with which a state attempts to achieve security.”¹³ In short, the international system informs a US grand strategy. This, at any rate, is a central assumption underpinning our scenario construction.

A second key assumption is that domestic politics – and particularly, domestic institutions – are a potentially important factor shaping both foreign policy and grand strategy.¹⁴ The legal-institutional constellation of the American political system, in so far as it affects foreign policy and strategy, is a little complicated. The president benefits from various constitutional prerogatives and is commander-in-chief with the authority to make international treaties. Legislation (e.g., the 1973 War Powers Act) also authorizes the president to deploy troops abroad for a limited period of time. But the US Constitution gives Congress and/or the Senate the authority to declare war, regulate foreign trade, and give advice and consent with respect

to the treaties the president makes – except where Congress explicitly delegates this authority to the president (e.g., Authorization for Use of Force, Trade Promotion Authority). More generally, Congress can constrain the executive through substantive legislation as well as through its constitutional prerogative with respect to financing the government. However, unless Congress explicitly passes legislation mandating or prohibiting certain actions, the president (or the executive) typically has a fair amount of leeway with respect to foreign policies that do not require formal congressional approval. Generally speaking, the extent of this leeway is affected by the relative influence of the executive and Congress. This balance of influence, as will be demonstrated in some detail, tends to vary with respect to different policy areas;¹⁵ the executive is much more influential with respect to national security than other policy areas. In general, Congress can and does influence foreign policy, but it rarely, if ever, determines overall strategy. Thus, domestic politics do matter. This is another central assumption that underpins our scenario construction.

Third, the availability of resources (or lack thereof) is assumed to affect foreign policy and strategy. The availability of resources is partly an economic and partly a political issue. Politically, the availability of resources depends, above all, on congressional support. Economically, the availability

11 Hal Brands, *What Good is Grand Strategy?* (Ithaca, 2014), p. 3.

12 This is the conception of grand strategy as a “variable” rather than as a blueprint or process. See Rebecca Friedman Lissner, “What is Grand Strategy?”, *Texas National Security Review* 2, no. 1 (2018), pp. 7–10.

13 Barry Posen, *The Sources of Military Doctrine* (Ithaca, 1984), p. 13.

14 James Lindsay, *Congress and the Politics of US Foreign Policy* (Baltimore, 1994).

15 Helen Milner, *Sailing the Water's Edge* (Princeton, 2015).

3 Key Economic Indicators: China, Russia, and USA

	Population	GDP		Defence Expenditure		Trade (G&S)		FDI Flows (5Y Avg)	
	Milliion	Nominal tr	PPP tr	USD bn, PPP	% of GDP	Exports (USD bn)	Imports (USD bn)	FDI Outflows bn	FDI Inflows bn
USA	328	20.8	20.8	729	3.9	2,514	3,105	250	350
CHINA	1,400	14.9	24.1	266	1.9	2,641	2,480	180	210
RUSSIA	146	1.5	4.0	64	3.4	482	354	30	15

Source: International Monetary Fund, Stockholm International Peace Research Institute, Organisation for Economic Cooperation and Development

of resources depends on the general financial and economic situation, which, in turn, can be influenced by political decisions – at least in the medium term. The necessary resources may well be available and mobilizable, but the political will to mobilize them may not exist. Domestic political opposition and domestic distributional conflict may undermine the executive’s foreign policy strategy, even though the resources are, in principle, available. Aside from political will, there are also hard, material constraints that circumscribe the amount of resources available. Although the resource factor is closely related to domestic politics, it makes sense to consider it separately given its dual economic-political nature.

In short, the construction of the three scenarios presented here rests on the assumption that the international system is a major driver of US foreign policy and, even more so, strategy. It affects not only the distribution of power between states, but also their ability to successfully pursue their national interests. The attempt to safeguard these interests informs a state’s grand strategy, that is, the relationship between foreign policy objectives and the means required to pursue them. The extent to which interests can be pursued is, hence, also affected by the availability of resources and domestic political support. Domestic political support, in turn, is strongly shaped by domestic political institutions, especially the institutional balance of political power between the executive and Congress. Domestic politics and resource availability do not determine fundamental strategic interests. Rather, they affect the extent to which these can be successfully pursued by the executive. As will be elaborated, our three scenarios differ in large part with respect to the extent to which resource availability and domestic politics limit or undermine the executive’s ability to pursue the strategic interests that are strongly influenced by the international system.

2. INTERNATIONAL SYSTEM

US strategic interests have been relatively constant for at least the past 70 years and arguably for much longer. The United States seeks to maintain primacy in the Western Hemisphere and prevent the emergence of a hegemonic power on both the eastern and western end of the Eurasian landmass. Whenever a state threatened to undo the balance of power in Europe or Asia, the United States ended up going to war – as exemplified by the First World War, Second World War, and Cold War.¹⁶ The establishment of a balance of power in both Europe (based on collective security) and East Asia (based on a hub-and-spokes model) as well as the creation of a multilateral economic order after the Second World War helped the United States realize its core strategic security and economic interests.¹⁷

Today, however, a rapidly rising China and more assertive Russia potentially threaten the balance of power and, hence, US strategic interests. As China represents a far greater strategic challenge in terms of economics and security than Russia, it will also much more strongly shape US strategy. If Chinese power continues to grow and a cooperative Sino-US relationship remains elusive, the United States will continue to shift away from a partly cooperative, partly competitive approach to China toward a competitive and confrontational one. By comparison, the challenge Russia represents is primarily of a military nature – cyber warfare (“active measures”) and energy exports aside – and much more manageable in light of Russia’s limited long-term economic potential. The security and economic realm are, as always, the most fundamental areas of cooperation, competition, and conflict.

¹⁶ George Herring, *From Colony to Superpower* (Oxford, 2011).

¹⁷ Victor Cha, *Power Play* (Princeton, 2016).

SECURITY COMPETITION

The so-called unipolar moment that followed the end of the Cold War proved rather short-lived.¹⁸ The wars in Iraq and Afghanistan demonstrated the limits of US power – at least as far as nation-building is concerned. As the Middle East absorbed US time and energy, Russia reemerged as a meaningful geopolitical antagonist. More consequentially, China's economic rise continued apace, while its economic and security policies became more assertive, particularly following the global financial crisis of 2008 to 2009. Today, its revisionist policies directly challenge the status quo in Asia. Not surprisingly, US strategy is increasingly focused on Asia and, if somewhat less so, on Europe.

Meanwhile, the Middle East and West Asia have become less of a strategic priority for Washington. Hence its efforts to scale back its military footprint in the region. Strategically speaking, the region represents challenges with respect to nuclear proliferation, terrorism, and the free flow of oil. Thanks to the shale gas revolution and improved (if imperfect) US energy self-sufficiency, the strategic rationale for an extensive US military presence in the region has lessened in the past decade. Access to the Persian Gulf remains of strategic importance, as it has done since the 1940s, but can be achieved in a more cost-effective way. Barring a major regional crisis, US interests in the region can be defended in less costly and resource-draining ways by maintaining the local balance of power with the help of local allies and by playing the role of an offshore balancer. Iran continues to represent a threat to US regional interests. It does not, however, represent a serious threat to its strategic interests provided nuclear deterrence works and the local allies of the United States are capable of balancing Iran in the conventional sphere. (The same applies with respect to North Korea in East Asia.) Intermittent crises aside, US strategy will focus on preserving the balance of power in Europe and, especially, East Asia.

Russia has reemerged as a threat to US strategic interests in Europe. After the end of the Cold War, Russia's weakness had made it unable to successfully oppose NATO and the EU's eastward expansion. More recently, however, its increased economic and political stability domestically has allowed Russia to increase defense expenditure and modernize its military as well as respond more robustly to what it perceives to be Western expansionism in

its periphery (e.g., Georgia, Ukraine, and Belarus). A militarily strengthened Russia represents a potential threat to the military balance of power in Europe and, by extension, to US strategic interests. Russian power and influence are also proving meddlesome in West Asia and the Middle East, especially in Syria and Iran. But – given Europe's geographic and economic importance – this is strategically far less consequential.

Overall, the threat that Russia poses to US interests in Europe is more manageable than the threat that China poses in Asia. For a start, with NATO, the United States has a powerful instrument at its disposal to counter Russia and preserve the military balance in Europe; in Asia, the US-led hub-and-spokes model is comparatively less cohesive. Moreover, in contrast to China, Russia's economic base will limit the extent to which it can increase its defense capabilities over the medium term. Its economy is too small, too stagnant, and too dependent on energy exports to have much clout. Unlike China, Russia does not have the potential to become an economic peer competitor, but it does represent a potential threat to US strategic interests in the security realm. Nonetheless, the threat posed to US interests by Russia in Europe is simply not on a par with the threat posed to US interests by China in Asia.

A rapidly rising China represents the most important strategic challenge to US interests in the medium to long term by far. Due to population size, economic power, and diverging strategic interests, China is emerging as a peer competitor to the United States. On the basis of purchasing power parity, the Chinese economy is already larger than that of the US. Demographically, China's population is more than four times larger. Defense expenditure and military capabilities have increased tangibly. The technology gap between the United States and China is also narrowing – in some areas more than in others.¹⁹ If China manages to sustain reasonably high growth rates, it has the potential to become a serious global peer competitor.

Not only has China expanded its economic, financial, and military resources significantly, but it is also increasingly willing to assert its interests more forcefully in international affairs. China has begun to challenge the territorial and maritime status quo in the South China and East China Sea, as well as elsewhere.²⁰ Militarily, it has begun to modernize its forces and expand the range of its military capabilities.²¹

¹⁸ If unipolarity is defined as either the absence of hegemonic war or the most powerful state possessing twice the military power of the next most powerful state, then the international system may still be considered unipolar. See Michael Beckley, *Unrivaled* (Ithaca, 2018).

¹⁹ Kai-Fu Lee, *AI Superpowers* (Boston, 2018).

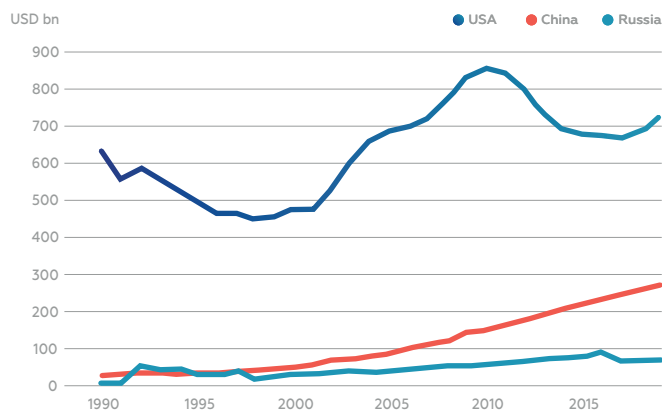
²⁰ Bill Hayton, *The South China Sea* (New Haven, 2014).

²¹ US Department of Defense, "Military and Security Developments Involving the People's Republic of China 2020: Annual Report to Congress": <https://media.defense.gov/2020/Sep/01/2002488689/-1/-1/1/2020-DOD-CHINA-MILITARY-POWER-REPORT-FINAL.PDF> (accessed April 21, 2021).

Economically, financially, and diplomatically, China has also become much more influential and has demonstrated a willingness to mobilize significant economic and financial resources in support of its strategic ends.²²

Crucially, China has strategic interests that directly conflict with those of the United States. It considers the extensive US military presence in Asia, including US military alliances, a potential threat to its physical and economic security. Increasing Chinese integration into the international economy has translated into increased dependence on overseas trade. China is keenly aware of this dependence and related vulnerabilities and is actively seeking to mitigate related risks, for example through its Belt and Road Initiative, construction of a blue water navy, and the Regional Comprehensive Economic Partnership (RCEP). China also sees the US military presence as a potential means for the United States to destabilize it economically and politically. By the same token, China's increasing power and assertiveness have the United States worried about being shut out of the region politically and economically. This would be catastrophic for the US strategic position – not only in Asia but also globally.

4 Defense Expenditure: China, Russia, and USA



Source: Stockholm International Peace Research Institute

In other words, all the necessary and – arguably – sufficient conditions for strategic rivalry are in place, including difficult-to-reconcile economic and security interests. Also,

the rising power, in this case China, is increasingly able to challenge the dominant position of the (relatively) declining status quo power, in this case the United States. Historically, conflict, including armed conflict, has proven difficult to avoid in such a constellation.²³ The United States is not, of course, at immediate risk of being pushed out of Asia. China's geopolitical position is unfavorable as far as geography and military alliances are concerned. Over the medium to long term, however, the present trend is China's friend. Again, because China's rapidly increasing economic and military resources threaten to undermine the US position and the balance of power in Asia, US strategy is and will continue to be strongly influenced by a rising China.

It certainly looks as if avoiding strategic and security competition between the United States and China will be a difficult endeavor. Chinese President Xi Jinping has vowed to make China a world-class military power. According to the US Department of Defense, "Beijing will seek to develop a military by mid-century that is equal to – or in some cases superior to – the US military, or that of any other great power."²⁴ Meanwhile, US foreign policy has begun to shift decisively toward a more adversarial stance vis-à-vis China.²⁵ Indeed, much of US foreign policy in the past few years can be understood as an attempt to free up resources in order to be able redirect them to Asia. Examples include the Obama administration's "pivot to Asia," the tightening of alliances in the Asia-Pacific, the reduction of the US military footprint in the Middle East, and the (pre-Trump) Iran nuclear deal as well as increasing demands for greater burden-sharing by allies, including NATO. Unless China falters or cooperation suddenly breaks out between Beijing and Washington, Sino-US geopolitical competition is bound to be the primary driver of US grand strategy for the foreseeable future. The game, Mrs. Hudson, is on.

ECONOMIC COMPETITION

In terms of nominal GDP, the United States is the world's largest economy. The dollar remains the world's dominant currency, and the United States has the deepest and most liquid capital markets. US companies are technological leaders in many of the most advanced economic sectors. Nonetheless, decades of differential economic growth have

²² William Norris, *Chinese Economic Statecraft* (Ithaca, 2016).

²³ Janes Lacey, *Great Strategic Rivalries* (Oxford, 2016); Graham Allison, *Destined for War?* (Boston, 2017).

²⁴ US Department of Defense, "Military and Security Developments Involving the People's Republic of China 2020" (see note 21).

²⁵ US Department of State, "The Elements of the China Challenge," December 2020: <https://www.state.gov/wp-content/uploads/2020/11/20-02832-Elements-of-China-Challenge-508.pdf> (accessed April 21, 2021);

US Department of Defense, "Summary of the National Defense Strategy 2018": <https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf> (accessed April 21, 2021);

National Intelligence Council, "Global Trends 2040," March 2021: https://www.odni.gov/files/ODNI/documents/assessments/GlobalTrends_2040.pdf (accessed April 21, 2021).

5 Selected International Public Goods

	Public Goods Provided or Supported by USA	Instrumentalization of Public Goods	Chinese Response
Reserve Currency	Dollar	Dollar weaponization	Renminbi internationalization, digital renminbi
International Trade	World Trade Organization	Trade restrictions	Free trade agreements (e.g., RCEP)
International Financial System	International Monetary Fund, World Bank, other regional and international financial institutions	Financial restrictions, influence in multilateral financial institutions	Belt and Road Initiative, Asian Infrastructure Investment Bank, New Development Bank
Technology	Technology diffusion (especially in emerging but also foundational technologies)	Export restrictions (including secondary sanctions)	Made in China 2025, China Standards 2035
Freedom of Navigation	Convention on the Law of the Sea (respected though not ratified by the United States)	Potential blockade of Chinese shipping by US Navy	Bluewater navy, goal to be predominant military power by 2049
Environment*	Paris Climate Accord	Uncertain support	Bilateral diplomacy
Public Health*	World Health Organization	Uncertain support, influence in World Health Organization	Bilateral diplomacy
Nuclear Proliferation*	Non-Proliferation Treaty	–	–

*Largely cooperative or non-zero-sum game due to significant mutual vulnerability
Source: Author's compilation

led to the emergence of China as the world's second-largest economy (in nominal dollar terms), and Chinese economic growth continues to outpace US growth by a wide margin. The country is also making rapid progress in the realm of emerging technologies. As demonstrated by the initiative Made in China 2025, Beijing is not coy about its ambitions to "prevail" in core technologies by 2025 and dominate them by mid-century.²⁶ Its greater weight in international trade and ability to provide significant amounts of capital has also enabled China to increase its political and economic power and influence.²⁷ Its state-capitalist economic system arguably allows China to mobilize national economic resources in pursuit of strategic-political ends more effectively than the market-based system of the United States.

Bilateral US-Sino economic relations have become more politicized, and the United States has begun to "weaponize" public goods and economic interdependence.²⁸ In light of increasing geostrategic tensions, China feels more than uneasy about its dependence on the US economy and the international public goods the United States provides. This is one of the reasons why China has begun to lay the foundation for an alternative

international economic governance regime. If successful, this move will allow China to reduce its dependence on US-provided public goods. Measures and initiatives such as the Asian Infrastructure Investment Bank, internationalization of the renminbi, RCEP, and China Standards 2035 will also strengthen Chinese structural power and influence.²⁹ Over time, they may allow China to offer a potential alternative to the US-centric international economic order and US-provided international public goods. In other words, China is emerging as a geopolitical as well as a geo-economic competitor and rival.

Increasingly concerned about national security and the risks associated with economic interdependence, both China and the United States face incentives to (selectively) limit economic interaction with one another – so-called decoupling. The security externalities of trade are increasingly seen as becoming too great for either side to be willing to opt for relatively unfettered bilateral free trade and investment. Concerns about unfair practices, such as forced technology transfers and the subsidization of state-owned companies, and the national security implications of China's increasing technological prowess have already led Washington to

26 Congressional Research Service, "Made in China 2025' Industrial Policies," August 11, 2020: <https://crsreports.congress.gov/product/pdf/IF/IF10964> (accessed April 21, 2021).

27 Center for Strategic and International Studies, *China's Belt and Road Initiative*, January 25, 2018: <https://www.csis.org/analysis/chinas-belt-and-road-initiative-five-years-later-0> (accessed April 21, 2021).

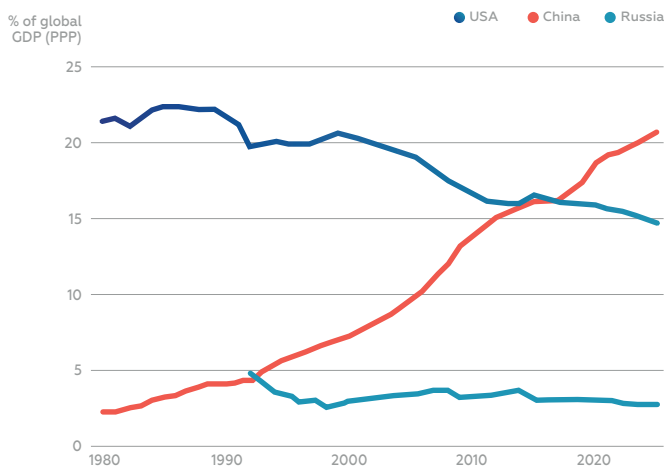
28 Charles Kindleberger, "Dominance and Leadership in the International Economy," *International Studies Quarterly* 25, no. 2, 1979; Henry Farrell and Abraham Newman, "How Global Economic Networks Shape State Coercion," *International Security* 44, no. 1 (2019).

29 Congressional Research Service, "China's 14th Five-Year Plan," January 5, 2021: <https://crsreports.congress.gov/product/pdf/IF/IF11684> (accessed April 21, 2021).

take measures aimed at safeguarding US technological leadership.³⁰ The United States is not going to accept the loss of technological leadership against the backdrop of intensifying geopolitical rivalry. As in the security realm, US-Sino economic and financial relations risk becoming not just competitive but even conflictual. In short, economic development, technological leadership, and public goods are major areas in which competition and conflict will be unfolding.

Russia, by comparison, has neither the economic nor financial resources to compete head-on with the United States. Nor can it – given its much smaller and stagnant economy, lesser international economic integration, and dependence on hydrocarbons – provide an alternative system of international economic governance. Although it has occasionally politicized energy exports and proven meddlesome geopolitically, Russia's ability to pursue geo-economic policies is limited, and it does not even come close to representing the long-term strategic challenge that China does. The shift in the balance of power in the international system and, above all, China's rise point toward geopolitical and geo-economic competition. Indeed, the rise of China and its implications for the position of the United States in Asia are the central factors informing US grand strategy.

6 Economic Size



Source: International Monetary Fund

In summary, the three scenarios presented in this paper are based on the assumption that the shifting distribution of power in the international system is a critical factor influ-

encing US strategy. Each individual scenario is significantly influenced by how US-Sino relations will develop. If, contrary to expectations, China were to become a “responsible stakeholder,” it could lead the United States to pursue a more cooperative policy toward China. Such a strategy would also become more likely should China's economic and geopolitical rise stall for domestic political or economic reasons. But if China continues to act like a revisionist power, the United States will pursue an increasingly competitive and even conflict-oriented foreign policy and strategy toward it.

3. DOMESTIC INSTITUTIONS AND DISTRIBUTIVE POLITICS

While the international system affects a state's ability to pursue its interests successfully, domestic factors also play a role in shaping foreign policy and strategy. Therefore, domestic politics and especially domestic political institutions that affect the domestic distribution of power and influence need to be integrated into the construction of my three scenarios.³¹ In order for the executive to successfully pursue its preferred foreign policy and strategy, it requires domestic political support – or it must at least avoid domestic obstruction. Moreover, the executive needs sufficient resources for this pursuit, the availability of which is both an economic and a political issue.

My scenarios assume that institutions matter.³² Institutions create the context within which domestic conflict takes place and, in turn, affect the formulation and implementation of individual foreign policies by the executive. While they influence political outcomes, they do not determine them. Consequently, institutions are best understood as factors that affect policy outcomes in a systematic way. They do not, however, need to explain each and every policy outcome in order to be useful in generating scenarios.

The president is, generally speaking, the dominant player with respect to foreign policy and strategy – both in terms of formulation and implementation. But grand strategy is a multidimensional concept that encompasses different policy areas. In some of these areas, such as trade policy, Congress has significant influence, and the president typically requires active congressional support. Congress can also enact laws, such as the recent Russia Sanctions Review Act, that curtail the president's freedom of action with regard to specific foreign policies. Then again, the president's veto

³⁰ Chad P. Bown, “Export controls: America's other national security threat,” Peterson Institute for International Economics, Working Paper 20-8, May 2020: <https://www.piie.com/publications/working-papers/export-controls-americas-other-national-security-threat> (accessed April 19, 2021).

³¹ Helen Milner, *Interests, Institutions, and Information* (Princeton, 1997).

³² Sven Steinmo, Kathleen Thelen, and Frank Longstreth, *Structuring Politics* (Cambridge, 1992); R. Kent Weaver and Bert Rockman, *Do Institutions Matter?* (Washington, DC, 2010).

7 Executive Strength, Distributive Politics, and Ideological Divisions

	Low Ideological Divisions	High Ideological Divisions
Low Distributive Politics	Strongest (e.g., military deployment, “national security”)	Second strongest
High Distributive Politics	Second weakest (e.g., geopolitical aid)	Weakest (e.g., trade, foreign economic aid)

Source: Helen Milner, *Sailing the Water’s Edge* (see note 15)

power tends to give the executive branch the upper hand – but not always. (As a reference point, far less than 10 percent of all presidential vetoes have been overruled by Congress.³³)

In other words, executive autonomy with respect to individual policy areas varies. According to political scientist Barbara Hinckley: “There are many kinds of foreign policy (...) – war, diplomacy, trade, international development, foreign assistance. These policy areas vary in their stakes, in their visibility to the American public, and in their ties to domestic politics. It follows that Congress might be more assertive (...) in some of these areas than in others.”³⁴ Broadly speaking, the president is stronger with respect to national security than other foreign policy issues. In addition to institutions and constitutional prerogatives, the distributive characteristics of individual policies matter. The president’s control of foreign policy is more constrained – because domestically contested – in areas that generate significant domestic distributional consequences.³⁵ In these areas, interest groups are particularly active, and Congress is the focal point for lobbying. Where special interests can obtain highly concentrated benefits or risk incurring highly concentrated losses, there will be intense political lobbying as well as greater congressional involvement in policy-making. This does not necessarily mean that these interests will always undermine the president’s foreign policy. It does mean, however, that Congress holds far greater sway in these areas than the president.

Trade, for example, has tangible domestic distributional consequences. Overseas military deployments, by contrast, have less concentrated distributive effects. This is one reason why the executive faces less domestic contestation with respect to overseas military deployments than trade policy. This analytical framework also allows for the incorporation of “ideology,” (e.g., isolationism or today’s national

populism because not all politics is distributional politics). Presidents face potentially greater constraints with respect to policies areas in which ideological divisions are significant, even if the distributive consequences are limited. The response to the Joint Comprehensive Plan of Action, informally known as the Iran nuclear deal, is but one significant example of this. Put differently, the executive tends to face potentially greater constraints – e.g., a more assertive Congress – with respect to policies that generate large, concentrated domestic costs and/or benefits and weaker constraints where cost and/or benefits are dispersed. Similarly, policies (or policy areas) characterized by a high level of ideological division will see greater congressional involvement than policies where divisions are low. This framework helps rationalize why the executive formulates and typically dominates strategy with its core focus on national security but has generally less control over policy areas and individual policies where distributive consequences and/or ideological divisions are high.

Defense spending (as opposed to overseas military deployment or “national security”) is characterized by strong distributive effects. Not surprisingly, the involvement and influence of Congress in this area is significant for both institutional and distributive reasons. The benefits of defense spending are concentrated in the defense industry while its costs are dispersed to taxpayers.³⁶ But because members of Congress benefit politically and electorally from defense spending – receiving, for example, political contributions from the defense industry and federal government spending in their districts – the executive rarely encounters substantial congressional push-back when it moves in favor of high or increased defense spending. The distributive model (correctly) suggests that Congress will be very involved. At the same time, though, this involvement does not generally represent a significant constraint to executive autonomy

33 Congressional Research Service, “Regular Vetoes and Pocket Vetoes,” July 18, 2019: <https://crsreports.congress.gov/product/pdf/RS/RS22188> (accessed April 21, 2021).

34 Quoted in Helen Milner, *Sailing the Water’s Edge* (see note 15). The title of Hinckley’s own book is suggestive of the relative power of the executive and Congress with respect to foreign policy and strategy, see: Barbara Hinckley, *Less Than Meets the Eye: Foreign Policy Making and the Myth of the Assertive Congress* (Chicago, 1994).

35 Ibid.

36 The public goods character of defense policy may also help explain why the executive prevails more often on national security than foreign economic policies.

and grand strategy. It is quite remarkable that in a country (and a Congress) that is deeply divided politically, security policy is one of the few policy areas that is characterized – at least as far as grand strategy is concerned – by a high degree of bipartisanship. Examples of this include Republican opposition to the Trump administration’s decision to withdraw US troops from Germany, the congressional override of Trump’s veto of the National Defense Authorization Act, and significant bipartisan support for confronting China.³⁷

Overall, the domestic political constraints that the executive faces with respect to national security policies are typically far less binding than those with respect to foreign economic policy. This, of course, does not mean that they never bind – the isolationism of 1930s is one prominent example in which they did. But, generally speaking, national security policies are more insulated from domestic political contestation than those with greater distributive consequences or ideological divisions. Individual policies that support a specific grand strategy may meet opposition or even run into obstruction in Congress, which may, in turn, force the executive to adjust individual policies or even abandon specific policy initiatives. Still, domestic political constraints typically do not lead the executive to substantially modify its grand strategy. While Congress is able to influence foreign policy and can limit the executive’s freedom of action with regard to specific policies – for example, the Smoot-Hawley Tariffs or the Nord Stream 2 Pipeline – it cannot directly formulate overall strategy. It can, in principle, undermine the implementation of grand strategy by refusing to provide (or threatening to refuse to provide) the financial resources necessary to pursue it. In practice, this rarely, if ever happens; if it does, it usually concerns relatively minor policy issues. One example is the so-called Boland Amendment that sought to limit US government assistance to Nicaragua in the early 1980s.

Using this conceptual approach as a building block for scenario analysis also allows for the incorporation of additional (contingent) factors such as ideological polarization, national populism, and isolationism, as well as, for example, domestic economic-distributional conflict. After all, the rise of populism and an America First policy are often seen as be-

ing closely connected. For some time, the domestic political situation of the United States has been characterized by significant problems and socioeconomic challenges. In recent years, political and ideological polarization, a rural-urban divide, economic inequality, and inequality of economic opportunity have intensified. This trend can also be seen in the Senate, where a total of 94 out of 100 senators share the same party affiliation as the presidential candidate for whom the majority of the population in each of their states voted. The Senate also has the lowest number of split delegations ever.³⁸ Although Joe Biden won only 509 out of slightly more than 3,000 counties in the 2020 presidential election, these represent more than 70 percent of the United States’ GDP.³⁹ Such statistics can be regarded as both the cause and effect of what political scientists call a reduced problem-solving capacity, which results when a political system no longer generates sufficient output legitimacy.

Indeed, political polarization weakens the problem-solving ability of the political system. There are a large number of potential economic, cultural, political, and technological explanations for the increased political polarization in the United States. Reduced problem-solving capacity, political polarization, and economic problems are, to some extent, self-reinforcing. Increased polarization against the backdrop of institutional gridlock prevents the compromises necessary to solve important political and socioeconomic problems. Domestic political gridlock is, in part, due to specific institutional features such as the filibuster, primaries, gerrymandering, and a comparatively high number of institutional veto players⁴⁰ that include the House of Representatives, Senate, president, and constitutional court. Such a system favors negative partisanship, especially against the backdrop of an increasingly partisan news media.⁴¹ Coincidentally, institutions, broadly speaking, also partly explain the potential polarization-gridlock spiral.

Importantly, incorporating additional, contingent variables like polarization and ideology into the broad institutional-distributional framework allows for a richer scenario analysis. It allows one to assess both to what extent and how polarization, populism, and domestic economic problems may influence foreign policy and strategy. The reduced

37 The complete text of the Strategic Competition Act of 2021 can be accessed from the following press release, which puts it into context: US Senate Committee on Foreign Relations, “Chairman Menendez Announces Bipartisan Comprehensive China Legislation,” April 8, 2021: <https://www.foreign.senate.gov/press/chair/release/chairman-menendez-announces-bipartisan-comprehensive-china-legislation> (accessed April 23, 2021).

38 Drew DeSilver, “US Senate has fewest split delegations since direct elections began,” *Facttank*, Pew Research Center, February 11, 2021: <https://www.pewresearch.org/fact-tank/2021/02/11/u-s-senate-has-fewest-split-delegations-since-direct-elections-began> (accessed April 19, 2021).

39 Mark Muro, Eli Byerly Duke, Yang You, and Robert Maxim, “Biden-voting counties equal 70% of America’s economy. What does this mean for the nation’s political-economic divide?”, *The Avenue*, Brookings Institution, November 10, 2020: <https://www.brookings.edu/blog/the-avenue/2020/11/09/biden-voting-counties-equal-70-of-americas-economy-what-does-this-mean-for-the-nations-political-economic-divide> (accessed April 19, 2021).

40 George Tsebelis, *Veto Players* (Princeton, 2003).

41 Levi Boxell et al., “Cross-Country Trends in Affective Polarization,” *Stanford Institute for Economic Policy Research* 4 (2020); Alan Abramowitz and Steven Webster, “The Rise of Negative Partisanship and the Nationalization of US Elections in the 21st Century,” *Electoral Studies* 41 (2016).

problem-solving capacity of the political system and its institutions as well as increasing polarization may weaken the executive's ability (or even willingness) to pursue a strategy consistent with traditional US interests. Trump's America First or Biden's Foreign Policy for the Middle Class may or may not be a reflection of domestic political challenges.⁴²

The institutional-distributive analytical framework does not predict that congressional opposition or domestic ideological or socio-economic conflict will never undermine the executive's grand strategy, including national security policy. It simply implies and suggests that the influence of domestic interests is mediated by institutions and affected by the distributive features of the various policy areas. It also suggests that foreign economic policies are more susceptible to congressional and societal influence than national security policy. In addition, it explains why, while defense spending policies are highly distributional in nature, Congress tends to be reluctant to exercise the power of the purse in this policy area and constrain the executive. In short, the ability to combine (contingent) domestic political factors with the more structural-institutional model of the US political system discussed above allows analysts to explore how and to what extent (contingent) domestic political trends (and events) may affect US foreign policy in a heuristically interesting and intellectually beneficial way.

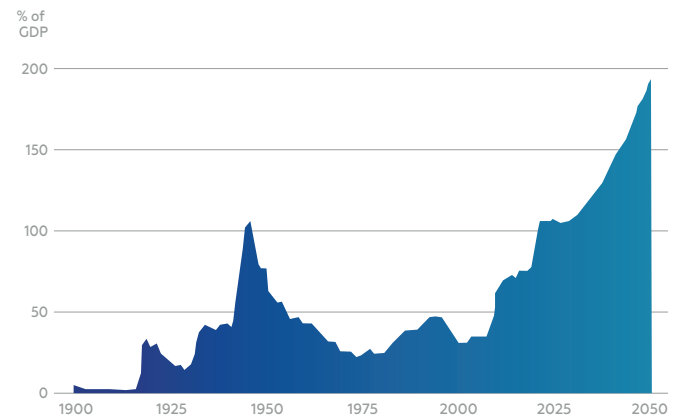
4. ECONOMIC RESOURCES

The presence or absence of the resources necessary to implement a desired foreign policy strategy depends on their economic availability as well as the ability of the domestic political system to mobilize and/or generate them. Domestic political polarization and distributional conflict may affect the ability and/or willingness to mobilize and generate the necessary resources. Resources, therefore, sit at the intersection of domestic politics and foreign policy strategy. Resource generation is also a two-dimensional concept in that the availability of resources is subject to the political willingness to provide them as well as the (somewhat less contingent) economic capacity to generate them.

If China's economic rise continues and Sino-US relations remain antagonistic, the United States is bound to be faced with a classic "commitment-resource mismatch," a problem frequently encountered by dominant powers.⁴³ A fail-

ure to bring commitments in line with available resources or to bring resources up to the level required to sustain commitments is bound to lead to strategic challenges and, ultimately, either strategic retrenchment⁴⁴ or strategic defeat – unless additional external resources can be mobilized successfully, e.g., with the help of allies. Nonetheless, if the Sino-US economic growth differential persists, the United States cannot expect to match China one-for-one in terms of domestically generated resources over the long term. Moreover, US commitments are spread globally, while Chinese resources, at least initially, will be deployed regionally.

8 US Federal Government Debt



Source: Congressional Budget Office

In the short to medium term, however, the United States faces a manageable resource constraint. High public debt, a high (pre-pandemic) budget deficit, rising public debt, and low potential growth might suggest that the country is already on a financially unsustainable path.⁴⁵ The United States is also the largest international debtor by a wide margin. Nevertheless, its financial room for maneuver is much larger in the short and medium term than the high level of public and external debt might suggest. In the short to medium term, low interest rates and spare capacity as well as the ability to continue borrowing from abroad – in part, thanks to the role of the dollar as the dominant reserve currency – provide the United States with significant fiscal and economic flexibility. (After all, Japan's debt burden is more than double that of the United States and Japan has no problem servicing its debt.) However, in the long term, defined here as more than 15 years from now, the problem

⁴² Carnegie Endowment, "Making US Foreign Policy Work Better for the Middle Class," September 23, 2020: <https://carnegieendowment.org/2020/09/23/making-u.s.-foreign-policy-work-better-for-middle-class-pub-82728> (accessed April 21, 2021).

⁴³ Robert Gilpin, *War and Change in World Politics* (Cambridge, 1981).

⁴⁴ Paul MacDonald and Joseph M. Parent. "Graceful Decline? The Surprising Success of Great Power Retrenchment." *International Security* 35, no. 4 (Spring 2011), pp. 7–44.

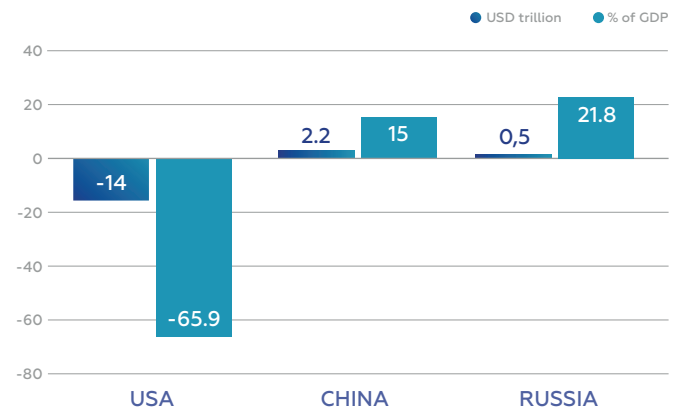
⁴⁵ Congressional Budget Office, "The Budget and Economic Outlook: 2021 to 2031," February 11, 2021: <https://www.cbo.gov/publication/56970> (accessed April 21, 2021).

will become greater, especially if more resources are allocated to pursuing a competitive strategy vis-à-vis China. In the long run, not even the United States has the ability to increase its debt unchecked.

Even in the long run, however, the level of available resources is not completely fixed. The so-called production-possibility frontier – that is, the total productive capacity – is fixed only in the short term and may require politically painful trade-offs should greater resources be required (the so-called guns versus butter trade-off). Such trade-offs may prove particularly challenging in view of the already intense domestic political polarization and distributional conflict alluded to earlier. Longer term, though, the production possibility frontier can be expanded through increased investment and other productivity-enhancing policies. This typically requires policies that help shift the economy from consumption to higher savings and investment. While an absolute limit to domestic resource generation exists, it is strongly affected by domestic policies and domestic politics. Trade-offs in both the short-term (guns versus butter) and long-term (consumption versus investment) are naturally subject to domestic political contestation. In short, the resource challenge is compounded economically by low growth and rising debt and politically by increased domestic polarization, rising economic discontent, and the limited problem-solving capacity of the political system.

In other words, a viable foreign policy strategy depends on the ability of the executive to mobilize and deploy the necessary resources to pursue it. For the United States, the availability of resources in the near to medium term is more of a political problem than an economic one. In the medium to long term, however, it is likely to become an economic problem – creating incentives to counter a constraining resource mismatch by tapping resources from allies while simultaneously slowing China’s growth and development. At the same time, resource scarcity does not necessarily set absolute constraints as far as grand strategy is concerned. A commitment-resource mismatch can, to some extent, be offset by a higher efficiency of expenditure. Or the strategy can be adjusted in terms of means rather than ends, namely through strategic innovation rather than retrenchment – as, for example, Eisenhower’s New Look policy and the Nixon Doctrine show.⁴⁶ When all said and done, though, it is likely that the United States will face an increasing commitment-resource mismatch with regard to China, which is likely to lead it to pursue a more hawkish economic policy toward China and make greater economic demands on its allies.

9 US International Financial Position



Source: Organisation for Economic Cooperation and Development

Domestic conflict over the provision of resources can undermine a foreign policy strategy. The inability to mobilize enough resources may, in the long run, force the United States to throw in the strategic towel and turn to isolationism. Alternatively, it might seek to deal with relative resource scarcity – whether due to domestic politics or economics – through geo-economic policies that place greater demands on its allies while actively seeking to undermine China’s economic and technological rise through geo-economic means. Whether political or economic, the availability of resources affects strategy and, therefore, must be incorporated in the scenario construction.

46 Francis Gavin, *Nuclear Statecraft* (Ithaca, 2012); Melvyn Leffler, *Safeguarding Democratic Capitalism* (Princeton, 2017).

Scenarios and US Strategy

The scenarios presented here are intended to cover a reasonable range of plausible and relevant outcomes for the medium term, which I define as 5 to 15 years from now. They do not represent an attempt to predict the future. Rather, their epistemic benefit lies in identifying critical factors that influence US foreign policy and strategy, demonstrating how their variation affects scenario outcomes, and assessing the implications of the different scenarios for the future of transatlantic relations. With the help of the three critical variables described in the first section of this paper (International System, Domestic Politics, and Availability of Resources), I have derived the following three broad scenarios:

1. Liberal internationalism
2. Realism
3. Isolationism and protectionism

All three scenarios are based on the premise that the United States has relatively unchanging strategic interests – most notably, the preservation of the balance of power in Europe and East Asia. This is meant to prevent the emergence of a hegemonic power with the potential to threaten US security and jeopardize US economic access to the only two other major poles of the global economy.

Strategy is defined as “a country’s most complex form of planning toward the fulfilment of a long-term objective. The

formulation and implementation of a grand strategy require the identification of national goals, a thorough assessment of a state’s resources, and, ultimately, the marshalling of those resources in a highly organized manner to achieve the goal.”⁴⁷ Or similarly: “A grand strategy is a purposeful and coherent set of ideas about what a nation seeks to accomplish in the world, and how it should go about doing so. Grand strategy requires a clear understanding of the nature of the international environment, a country’s highest goals and interests within that environment, the primary threats to those goals and interests, and the ways that finite resources can be used to deal with competing challenges and opportunities. From this intellectual calculus flows policy (...).”⁴⁸ Implicit is the need to generate adequate resources to implement the strategy, which requires domestic support as well as the ability and willingness to mobilize those resources. If this support does not exist, or if the strategy meets with widespread opposition domestically, then the implementation of the strategy will be undermined – either becoming incoherent or forcing the executive to adjust or even abandon it altogether.

As illustrated in **Figure 10**, the strategies pursued in the liberal-internationalist and realist scenarios are relatively coherent. In the liberal scenario, international cooperation limits the need to generate additional resources and the executive encounters few domestic political obstacles with respect to the implementation of its strategy. A stable balance of power facilitates international economic cooperation. In the realist scenario, the executive pursues a competitive approach vis-à-vis China in view of an adverse shift of the balance of power and increasing threat levels. The competitive strategy encounters increasing resource constraints and/or more limited domestic political support. In the isolationist and protectionist scenario, the ability of the executive to formulate and execute a coherent grand strategy is severely compromised by domestic politics and the

10 Scenarios and Critical Variables

SCENARIOS/GRAND STRATEGY				
		Liberal Internationalism	Realism	Isolationism and Protectionism
CRITICAL VARIABLES	International System (China)	Threat (low)	Threat (medium or high)	Threat (high)
	Economic Resources (Economic availability)	Not limiting	Somewhat limiting	Limiting
	Domestic Politics (Institutions and distributive politics)	Not limiting	Not limiting or moderately limiting	Very limiting

Source: Author’s compilation

47 Encyclopedia Britannica, “Grand Strategy”: <https://www.britannica.com/topic/grand-strategy> (accessed April 21, 2021).

48 Hal Brands, *What Good is Grand Strategy?* (Ithaca, 2014), p. 3.

11 Scenarios and Critical Variables

	Liberal Internationalism	Realism	Isolationism and Protectionism	
Oriented outward/ Internationalist	Outward	Oriented outward	Inward	Isolationist/ Nationalist
Multilateral	Multilateral	Plurilateral/Bilateral	Unilateral	Unilateral
Rules/Institutions	Rules-based	Mix of rules-based and power	Power	Power
Non-zero-sum/ Cooperation	Economic welfare (absolute gains)	Economic cooperation and competition (mixed motives)	National security (relative gains)	Zero-sum/ Competition and conflict
Free trade	Free trade	Oriented to Mercantilism	Mercantilist/Protectionist	Protectionism
Global security	Collective security > Bilateral alliances	Bilateral alliances > Collective security	Strongly unilateral and/ or isolationist	National security
International system (top-down)	International system	International system and resource constraints	Resource constraints and domestic political interests	Domestic politics (bottom-up)
Executive dominates				Special interests dominate
Strategic coherence				Strategic incoherence

Source: Author's compilation

resource constraints stemming from what remains a competitive and conflictual international environment, particularly with respect to US-Sino relations.⁴⁹

As illustrated in **Figure 11**, the three scenarios should be seen on a continuum in terms of various important characteristics. As US strategy shifts from liberal internationalism to isolationism and protectionism, it also, very broadly speaking, makes these key shifts:

- From multilateral to bilateral and unilateral policies
- From rule-based to power-based policies
- From cooperation to competition and confrontation and conflict (colloquially speaking, not in terms of game theory)
- From the pursuit of economic welfare (non-zero-sum game, absolute advantage) to safeguarding national security (zero-sum game, relative advantage)

- From outward-oriented to (ultimately) inward-oriented

The isolationist-protectionist scenario, for example, initially shifts US policy toward greater unilateralism, power-orientation, and conflict. It also results in a greater focus on national security due to increasing external constraints before succumbing to domestic political – namely, isolationist and protectionist – pressures.

As US policy becomes less cooperative and more competitive and conflict-oriented, the costs for geopolitical adversaries and allies will increase (see **Figure 12**). In the isolationist and protectionist scenario, China may benefit – at least from a security policy point view – if the United States withdraws from Asia. But a US shift from a liberal-internationalist toward a realist and isolationist strategy would raise costs for Europe. What follows is a narrative description of the three scenarios.

49 Another way to get to the same outcome is to regard the isolationist outcome as a conscious strategic choice on the part of the executive due to increasing resource constraints – rather than the consequence of domestic political contestation (e.g., strategic retrenchment in the wake of a devastating economic and financial crisis). For what it is worth, opinion polls suggest that a majority of the population supports an active US role in world affairs and sees globalization as benefitting the United States, even if there are clear partisan differences. Chicago Council on Global Affairs, “2020 Chicago Council Survey,” September 17, 2020: <https://www.thechicagocouncil.org/research/public-opinion-survey/2020-chicago-council-survey> (accessed February 23, 2021); Pew Research Center, “Majority of Americans Confident in Biden’s Handling of Foreign Policy,” February 24, 2021: <https://www.pewresearch.org/politics/2021/02/24/majority-of-americans-confident-in-bidens-handling-of-foreign-policy-as-term-begins> (accessed February 23, 2021).

SCENARIO 1: LIBERAL INTERNATIONALISM

In the liberal-internationalist scenario, the United States continues to maintain close economic and security relations with Europe and its allies in Asia, as it did during the Cold War. It also seeks to strengthen and deepen international cooperation by reforming the existing multilateral economic regime. This will only be possible if, first, security relations between the United States and China can be improved and, second, China undertakes a major reform of important aspects of its state-capitalist system. Both conditions are necessary but not sufficient.

ECONOMIC POLICY

Economically, the United States actively supports global cooperation to increase its own prosperity – not least because it clings to the idea that, through economic modernization, China will become more liberal and democratic, which might make it easier to improve security relations with Beijing. This approach is mainly driven by strategic considerations and formulated by the executive. Internationally oriented domestic forces and export-oriented economic and financial interests may broadly support this strategy because it offers the prospect of further opening China's market without, however, significantly driving it. Meanwhile, protectionist and isolationist interests fail to undermine the executive's multilateral, cooperative strategy.

The United States is committed to multilateralism and cooperation. While its economic cooperation vis-à-vis its European and Asian allies is largely unconditional (beyond reciprocity), with China it is conditional. China is only offered a place in the liberal, multilateral order if it is willing to reform important aspects of its state-led economic model and accept important reforms of the international economic regime, primarily of the WTO. The United States seeks to establish a level playing field through multilateral agreements and/or (largely) non-discriminatory bilateral agreements such as bilateral investment treaties. Achieving this goal requires China to make significant concessions with respect to its economic model, including on state-owned enterprises and subsidies, intellectual property rights, technology transfer, and market access in terms of trade and investment. Despite its liberal-internationalist orientation, the United States will continue to maintain export controls and investment restrictions in sectors that it sees as critical to its national security. But in this scenario, it refrains from weaponizing China's economic interdependence as long as China plays by the reformed, updated rules.

Further trade liberalization – building on the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership – is possible in the medium term. Individual investment restrictions by the United States on foreign direct investment (FDI) remain in place although they will be more narrowly focused on national security. An agreement on reforming the WTO and a settlement of other bilateral economic issues – for example, the Airbus/Boeing dispute, digital taxation, and steel tariffs – could represent an important step toward strengthening world trade and the global economic system. Many other traditional disputes, such as trade deficits, monetary policy, and fiscal policy, would then be easier to deal with. Multilateral economic cooperation would be strengthened.

The liberal-internationalist scenario has these potential implications for economic policy:

- **Trade policy:** Export controls remain in place, but they focus narrowly on national security. Export controls and trade policy are compliant with WTO rules.
- **Monetary and exchange rate policy:** No politicization, largely passive policies, no or very limited use of sanctions related to currency manipulation
- **The dollar:** Occasional dollar weaponization but only with a narrow focus on national security
- **Financial markets:** None, apart from targeted and limited sanctions
- **Restrictions on foreign direct investment:** The Committee on Foreign Investment in the United States (CFIUS) remains in place, narrowly focused on national security. Any restrictions are largely non-discriminatory.

SECURITY POLICY

The United States remains committed to its traditional alliances because they help preserve security and stability in Europe and Asia. US security strategy remains fundamentally unchanged. Bilateral military alliances in Asia will be moderately strengthened to hedge against possible future Chinese revisionist policies. Greater defense cooperation will help strengthen both the US position and its alliances in the region. Washington will maintain its military posture in Europe and Asia and coordinate closely with its regional allies on issues related to regional security. Combined US-European defense capabilities remain adequate to balance Russia. Strategically, NATO and the mostly bilateral defense alliances in Asia continue to play an important role in maintaining the balance of power in both Europe and Asia. From the point of view of the United States, close economic relations with allies are regarded as a win-win situ-

ation that indirectly helps to strengthen alliance cohesion and generate so-called security externalities.

The United States will, however, continue to demand greater contributions to collective defense and the strengthening of alliances, albeit less aggressively than under the Trump administration. US demands will mainly be made on increased national defense expenditure rather than on resource transfers such as those in the context of status of forces agreements or the purchase of weapons systems. US security policy will be informed by the prospect of longer-term relative resource scarcity in view of China's economic rise – even if (temporary) geopolitical accommodation with China can be reached.

The liberal-internationalist scenario has these potential implications for security policy:

- **NATO:** The goal that all members should spend 2 percent of GDP on defense remains unchanged.
- **US military posture/presence in Europe** remains more or less unchanged.
- **Military alliances in Asia and Europe** will be maintained or somewhat tightened.

SUMMARY

In the liberal-internationalist scenario, US strategy offers conditional economic cooperation to China and largely unconditional cooperation to European and Asian allies in the context of a stable balance of power. If the strategic balance can be preserved without too much active balancing, it will be possible to avoid geo-economic competition. But the United States will only be willing to go down the path of extensive economic cooperation with China within the framework of a reformed multilateralism if the strategic balance in Asia can be maintained. If China is unwilling to make significant economic and geopolitical concessions, the United States will pursue a more realist and geo-economic strategy.⁵⁰ And even if China makes far-reaching economic concessions but does not slow down its defense spending and modernization of its military forces, US strategy is likely to move to a more hawkish stance vis-à-vis China. US economic policy would then become less cooperative vis-à-vis China and, if much less so, its allies (see scenario 2).

SCENARIO 2: REALISM

In the realist scenario, a deteriorating security environment in Asia will make it impossible for China to make extensive economic or political concessions. Increasing geopolitical competition will lead the United States to pursue a policy of relative gains with respect to security and economy. This more competitive US strategy will be partly informed by the government's weakening ability to mobilize sufficient domestic political support – for example for free trade with allies – as well as increasing resource constraints on issues such as defense spending. This realist strategy remains consistent with the United States' broader strategic objective of balancing China and maintaining access to Asian markets.

In this scenario, the United States will pursue a policy increasingly led by national security concerns. Sino-US antagonism leads not only to security competition, but also to the increasing politicization (or "geo-economization") of foreign economic relations. The United States subordinates its pursuit of absolute economic gains to the pursuit of relative security and economic gains, not least because liberal-internationalist policies failed to turn China into a responsible stakeholder. (Instead, these policies helped accelerate the rise of a serious geopolitical challenger.) In order to curb China's economic development – especially its technological advancement – and in order to prevent it from becoming the dominant military power in Asia, the United States will increasingly lean toward forceful economic competition and security balancing. At the same time, economic policy will increasingly become an extension of national security policy.

ECONOMIC POLICY

In the realist scenario, the United States pursues somewhat less cooperative and more geo-economic policies vis-à-vis its allies than in the liberal-internationalist scenario. Due to the security externalities of economic cooperation and the need to maintain alliance cohesion, it will, however, act with much greater restraint vis-à-vis its allies than China. In the context of (selective) economic decoupling policy vis-à-vis China, Europe will face greater pressure to align itself economically, financially, and technologically with the United States. In addition to more assertive policies related to trade, investment, currency, and international finance, the United States will resort to the extensive use of secondary sanctions that will negatively affect its allies – for example, those related to projects such as the Nord Stream 2 Pipeline. In short,

50 Edward Luttwak, "From Geopolitical to Geo-Economics," *The National Interest* 20 (1990).

the United States will increasingly use its economic and security leverage to support its national security objectives, including demands for greater allied support for its policies. This will lead to increased intra-alliance friction.

US foreign policy will, therefore, become more oriented toward bilateralism. When bilateral political and economic power becomes more important and its exercise less restrained, international institutions are weakened. The increasing disregard for the principles, norms, and rules of the international economic system and a politicized foreign economic policy toward China that is geared toward relative economic advantage will have a destabilizing effect on the rules-based, multilateral international economic order. If the United States were to take advantage of its economic power in a more or less unrestrained manner, the realist scenario would evolve into the third scenario on the continuum, namely isolationism and protectionism. This would ultimately lead to the widespread breakdown of global economic relations. Like in the liberal-internationalist scenario, foreign policy and strategy in the realist scenario is primarily driven by strategic considerations. Nonetheless, decreasing domestic support, especially for cooperative international economic policies – that is, policies with significant domestic distributional consequences – and increasing economic resource constraints in light of Sino-US competition and rivalry also underpin a shift toward a less cooperative and more competitive and geo-economic strategy that will directly or indirectly affect US allies.

The realist scenario has these potential implications for economic policy:

- **Trade policy:** There will be tariffs on imports, especially those from China. Export controls in the technology sector will be primarily aimed at China, but allies will be affected by secondary sanctions and export control policies. The pressure on allies to support economic decoupling will increase.
- **Monetary and exchange rate policy:** Increased use of extraterritorial, third-party dollar sanctions; increased use or threat of retaliatory measures in terms of exchange rate policy and trade deficits
- **Financial markets:** Selective exclusion of foreign – especially Chinese – firms from domestic capital and banking markets; Europe will be affected by secondary sanctions and US decoupling policies.
- **Capital movements and investment restrictions:** Extensive restrictions – especially on technology and in other “critical” sectors – that are aimed, in particular, at China, but also, occasionally, at allies when they risk undermining US decoupling policies toward China

SECURITY POLICY

The United States seeks to maintain the balance of power in Asia in view of China’s growing military capabilities and increasing political-economic influence. Economic and security competition with China – as well as increasing economic constraints or political unwillingness to mobilize sufficient resources in support of a competitive grand strategy – prompts the United States to demand significantly higher contributions to collective defense from its allies. The pressure on Europe to become more involved in Asia both militarily and diplomatically, or to at least make a clear commitment to support US policies in the region, will also increase. US allies will have to accept a significantly greater defense burden – whether indirectly through increased defense spending or directly through purchases of US weaponry or status of forces agreements.

As long as there are no major crises in Europe or elsewhere, US defense policy will focus primarily on Asia. This will lead to a further reallocation of US military assets to that region. Some of these assets will be drawn from Europe, forcing Europeans to take greater responsibility for their own security. Given the continued need to balance Russia on the continent, the United States has little incentive to withdraw its nuclear deterrent from Europe. However, in other areas – such as the air force, army, or navy – the US will likely reduce its presence, pressuring the Europeans to increase their military spending and enhance their military capabilities.

The realist scenario has these potential implications for security policy:

- **NATO:** Strong US pressure to increase defense spending and upgrade military capabilities
- **US conventional forces in Europe:** Partial reduction
- **US nuclear deterrence:** Not fundamentally called into question
- **European security:** US call for greater European security engagement in the Indo-Pacific

SUMMARY

The greater the constraints on US resources, the greater the geo-economic and diplomatic pressure that the United States will exert on its allies. Due to China’s failure to open its markets, there is bipartisan consensus in Congress on confronting China and weaker domestic support for economic cooperation with it by internationally oriented economic interest groups. These developments mean that the executive meets with little political resistance to a more realistic foreign policy strategy from them. Nonetheless, tightening

resource constraints will lead some domestic groups to question a realist strategy. Economic resource constraints will create incentives to mobilize external resources – primarily from US allies – leading to increased intra-alliance friction.

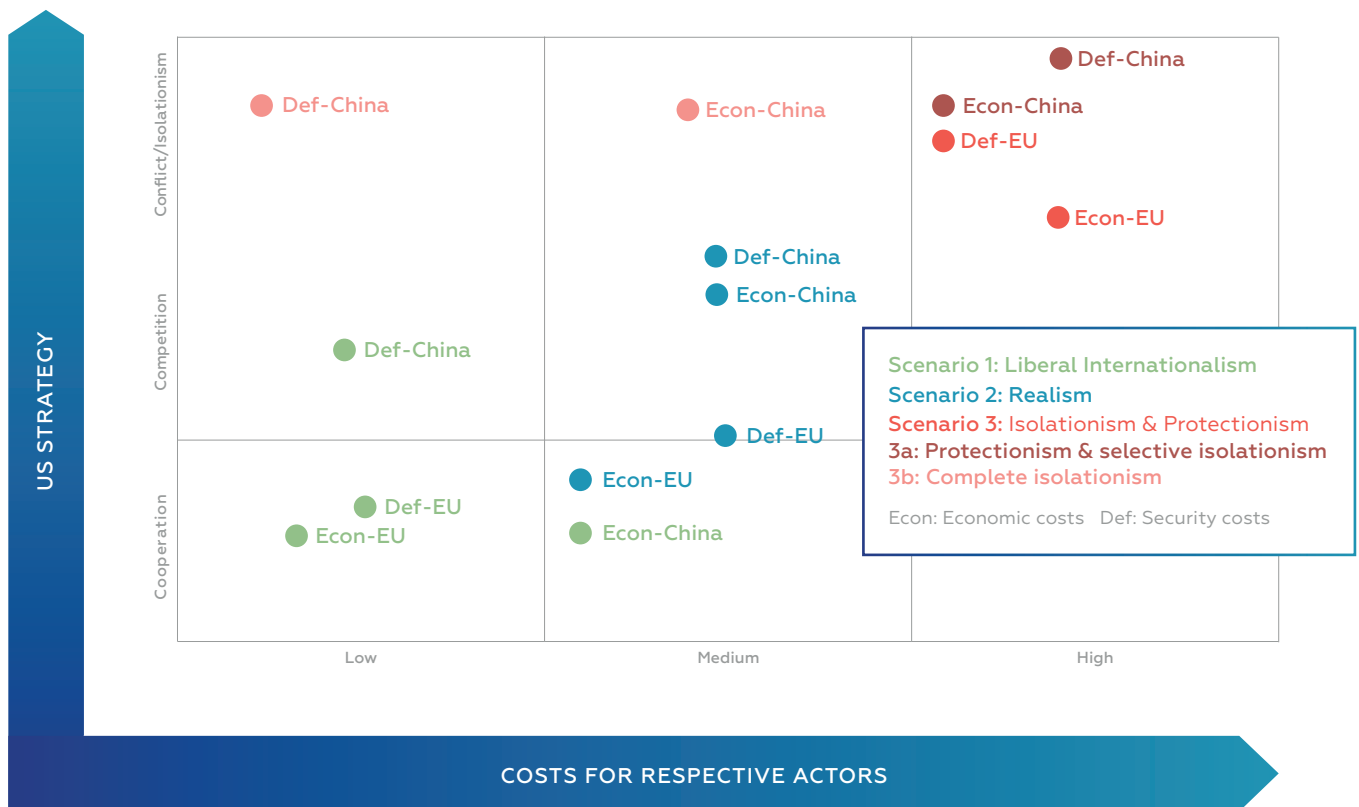
In light of increasing resource constraints and partial domestic political opposition, policies characterized by significant domestic distributive consequences, such as trade policy, will become less cooperative toward allies than in the liberal-internationalist scenario. Meanwhile, increasing resource scarcity also provides the executive with incentives to conduct a more competitive foreign policy toward China and a less cooperative policy toward US allies. In short, in the realist scenario, US strategy becomes increasingly focused on national security and flanked by geo-economic policies. If security policy were also to fall victim to domestic political obstruction and opposition, US strategy would shift from this realist scenario to the next scenario on the continuum, namely an isolationist and protectionist one (see scenario 3).

SCENARIO 3: ISOLATIONISM AND PROTECTIONISM

In this scenario, Sino-US security competition intensifies greatly without necessarily leading to an armed confrontation. US policy is almost exclusively focused on national security. Security relations between China and its Asian neighbors become very tense, increasing the reliance of US allies on Washington. The economic costs of Sino-US competition rise dramatically in economic and financial terms, leading the United States to confront increasing and increasingly severe resource constraints.

Over time, US policy becomes isolationist and protectionist. Trade and economic conflicts abound, both between the United States and China and, increasingly, between the US and its European and Asian allies. Far-reaching economic decoupling and the resolution of long-standing security alliances may cause self-sufficient economic blocs and old-fashioned spheres of influence to emerge in the very long

12 Scenarios and Critical Variables



Source: Author's compilation

term, which I define as more than 15 years from now. Economic cooperation in the guise of multilateral institutions collapses and the international system becomes multipolar. Full-blown US protectionism may, however, provide Europe and China with incentives to intensify their bilateral economic cooperation. (But this will largely be up to Europe and China.)

In essence, it is domestic opposition to a resource-draining competitive-confrontational foreign policy strategy – and hence the largely political failure to mobilize sufficient internal resources to support such a policy – that prevents the executive from pursuing a coherent grand strategy aimed at preserving the balance of power in Asia. This ultimately leads to isolationism in the security realm and protectionism in the economic realm. Due to the greater influence of Congress in distributive policy areas, foreign economic relations would first come under pressure and ultimately collapse, followed later by a US retreat from its international alliance commitments. Trade policy is driven by vested, largely protectionist interests that are focused on short-term economic advantage. Security policy is increasingly undermined by domestic opposition to international military commitments in the context of intensifying domestic distributional conflict and resource scarcity. The executive is unable to pursue a strategy consistent with the long-standing core economic and national security interests of the United States.

ECONOMIC POLICY

In this scenario, US economic policy is initially a mix of protectionism and mercantilism. First, and much more so than in the realist scenario, the United States tries to exploit existing economic and security asymmetries for its own benefit. Or rather, the existing economic and security asymmetries provide domestic political interests with the opportunity to take advantage of them for their own benefit. The WTO becomes largely irrelevant to US trade policy, which is bilaterally oriented and ignores norms. Other parts of the international economic order – such as the World Bank and IMF – are undermined by non-participation or obstruction. Protectionist and nationalist-populist interests exert a dominant influence on US foreign policy by undercutting the executive's ability to pursue US strategic interests. In the medium to long term, this leads to widespread economic decoupling, not only between the United States and China, but also between the US and EU.

Initially, driven largely by domestic interests, the United States will exploit the bilateral security relations it still maintains with individual countries and their economic dependence on the US (scenario 3a, see also **Figure 12**).

However, due to increasing domestic political opposition to supporting foreign alliances, security cooperation soon breaks down completely (scenario 3b, see also **Figure 12**). Both Europe and China will then face a protectionist and isolationist United States. This may lead to the emergence of largely separate economic blocs. Or China, the EU, and a number of middle powers may seek to cooperate with one another on a bilateral (or plurilateral) basis. To what extent US isolationism might lead to such plurilateral cooperation depends on a variety of additional assumptions. Nonetheless, limited cooperation may not prevent what will be, for all practical purposes, the emergence of largely separate economic and financial blocs.

The isolationist and protectionist scenario has these potential implications for economic policy:

- **Trade policy:** Scenario 3a implies the threat of imposing tariffs and non-tariff barriers (NTBs) as well as mercantilist trade policy vis-à-vis both China and allies. Scenario 3b implies wide-ranging economic, financial, and technological decoupling between US and China as well as the US and Europe; it also demands that US allies open their markets to US interests.
- **Monetary and exchange rate policy:** Beggar-thy-neighbor policies to the extent that trade and financial relations continue to exist to any meaningful degree
- **Financial markets:** Potentially broad restrictions on foreign access to US capital markets; possibly capital controls to gain greater flexibility in economic policy
- **Foreign direct investment:** Extensive restrictions on foreign ownership or market-driven reduction in overseas holdings

Security Policy

As for security policy, the pressure on allies to shoulder a greater defense burden will initially increase given a diminished ability and willingness of US domestic interests to support overseas military commitments. The United States “economizes” its military power to extract economic advantages from its allies. Unlike in the realist scenario, this policy is primarily driven by domestic interests, not strategic considerations. As with economic policy, the United States has an increasing preference for dealing with its allies on a bilateral, rather than multilateral, basis, as this increases US leverage. To the extent that security guarantees are maintained, at least initially, allies will have to make economic and financial concessions – in terms of market access and resource transfers – in order to preserve US security commitments.

The eventual dissolution of military alliances will take place when the United States – for reasons related to domestic political and/or economic resources – retreats into more or less complete isolationism (outside the Western Hemisphere). This may come about as a consequence of domestic politics and the unwillingness of US allies to make sufficiently large concessions. To the extent that strategic considerations continue to influence US strategy at all, a US withdrawal from Europe is more likely than from Asia. The balance of power in Europe is easier to maintain, and Asian allies depend more on the United States for security guarantees than those in Europe. Arguably, its Asian allies will, therefore, also be more susceptible to US pressure than those in Europe. Last but not least, China represents a greater long-term strategic threat to US interests than Russia. Then again, it will largely be domestic political concerns combined with a lack of resources – not strategic calculations – that will shape US policy and strategy.

The isolationist and protectionist scenario has these potential implications for security policy:

- **Military presence and alliances:** (Threat of) complete military withdrawal and dissolution of alliances
- **Defense spending:** Scenario 3a calls for sharply increased defense spending or even resource transfers to the United States.
- **Security:** Scenario 3b means the end of the (implicit) US nuclear guarantee. The United States leaves NATO. The withdrawal of the US Navy makes sea lines of communication less secure. The US withdrawal of troops forces Europe to build independent, full-spectrum military forces.

Summary

In the isolationism and protectionism scenario, Europe will end up facing very significant security and economic challenges. The United States will move toward protectionism before it shifts toward isolationism. This is “baked into” the scenario analysis by the greater domestic contestability of US foreign economic policies compared to those related to national security. It is worth mentioning, though, that there is a historical precedent for the United States stepping back from international security commitments while seeking to maintain economic cooperation. This has been referred to as “involvement without commitment.”⁵¹ While it is possible, it is not likely given the scenario assumptions about the greater susceptibility of foreign economic policies compared to those related to national security.

In scenario 3a, Europe will be under intense pressure in terms of security, forcing it to make concessions in the economic sphere. In scenario 3b, Europe will be forced to assume full responsibility for its security, including the associated economic and financial costs. In East Asia, the room for maneuver of individual states is even more limited due to the rapid rise of China and the fact that Asian countries have much greater security dependence on the United States. In the longer term, if the US pursues too “exploitative” a policy, its allies may decide to move into China’s sphere of influence (or they may simply fall there). As current defense and political ties to the United States are unlikely to dissolve from one day to the next, the isolationist and protectionist scenario is perhaps best thought of as capturing potential long-term trends. Nonetheless, the logical end point of US isolationism is the emergence of spheres of influence and, likely, a largely fragmented international economic system structured around fairly autarkic economic blocs.

51 George Herring, *From Colony to Superpower* (Oxford, 2011), chapter 11.

13 Overview of Scenarios

	Policies			Selected Policy Areas and Possible US Policy Measures			
	Historical Precedent	Defense Policy	Foreign Economic Policy	Trade	FDI	Dollar	Technology
Liberal Internationalism	Post-1945 economic multilateralism and bipolar balance	Collective security, bilateral security alliances	Multilateral institutionalism, cooperation, absolute gains	WTO reform with revival of mega-regionals under WTO regime	Preservation of openness except for narrow national security	Weaponization narrowly focused on national security	Restrictions narrowly targeting national security
Realism	US policy toward Japan in the late 1930s, various episodes during the Cold War	Hawkish vis-à-vis adversaries, demand for significantly greater burden-sharing vis-à-vis allies	Increase in bilateral policies: geo-economic (esp. vis-à-vis adversaries) and mercantilist (vis-à-vis allies), more power-based, competition, relative gains	Greater focus on bilateral trade	Selective financial decoupling from adversaries, secondary sanctions vis-à-vis allies	Extensive use of dollar weaponization vis-à-vis adversaries, secondary sanctions vis-à-vis allies	(High-)tech decoupling toward China, aggressive secondary sanctions vis-à-vis allies
Isolationism and Protectionism	1920s and 1930s	Hemispheric defense leading to spheres of influence	Bilateral or unilateral leading to regional economic blocs	Mercantilist policies and/or protectionist policies	Extensive arbitrary restrictions	Opportunistic weaponization	Complete technological decoupling

Source: Author's compilation

Strategic Options and Policy Recommendations

General policy recommendations can be derived for each of the three scenarios. Here, I will focus on the fundamental strategic options that Europe and Germany have and lay out their respective underlying logic. Subsequent DGAP Policy Briefs will provide more detailed recommendations in terms of the technical content and political viability of these fundamental options. Europe's – and especially Germany's – principal strategic interest is to preserve external security. To do so, the EU must maintain the balance of power in Europe in light of a more assertive Russia; political stability in its neighborhood, which includes the Middle East and North Africa; and economic prosperity on the basis of stable international, multilateral, liberal, and non-discriminatory relations in trade and finance. It is precisely these goals that would be affected in the realist scenario (scenario 2) and even more so in the isolationist and protectionist scenario (scenario 3).

1. SENSITIVITY, VULNERABILITY, AND ASYMMETRIC INTERDEPENDENCE

Strategic options can be derived using the concept of asymmetric interdependence,⁵² which is built upon the concepts of sensitivity and vulnerability. While sensitivity captures the degree to which the actions of State A affect State B, vulnerability captures the costs incurred by State B after taking action to mitigate the costs arising from State A's actions. Vulnerability, therefore, measures opportunity costs and reflects a state's adaptive capacity in view of State A's actions. Sensitivity, for example, captures the economic impact of State A imposing a trade embargo on State B. Vulnerability captures the opportunity costs of foregoing trade with State A after State B takes remedial action. If State B relies on State A for all of its trade but can switch its entire trade to State C at no cost, it is sensitive but not vulnerable to State A's action. If State B cannot replace trade with State A at all, then vulnerability equals sensitivity. Therefore, sen-

sitivity does not necessarily translate into vulnerability; typically, however, it does create some degree of vulnerability. If two states are characterized by a different degree of vulnerability in their bilateral relations, it is called asymmetric interdependence (or asymmetric vulnerability). Asymmetric interdependence gives the relatively less vulnerable state the ability to exert influence on the relatively more vulnerable state. As Robert Keohane and Joseph Nye wrote in their book on the subject: "It is asymmetries in dependence that are most likely to provide sources of influence for actors in their dealings with one another. Less dependent actors can often use the interdependence relationship as a source of power in bargaining over an issue and perhaps to affect other issues."⁵³ In other words, asymmetric interdependence is a fancy way of saying that one party depends more on the other party than vice versa. Asymmetric interdependence is a source of coercive power while interdependence without asymmetry is not.

States can influence their degree of asymmetric vulnerability and asymmetric interdependence – at least in the medium to long term; in the short run, it is, by definition, fixed. Reducing vulnerability typically generates costs. However, it also reduces the other state's ability to exercise influence and pressure. There are four basic options to mitigate the vulnerability stemming from asymmetric interdependence and its related coercion potential:

- **Mitigation of relative vulnerability by:**
 - reducing one's own vulnerability or
 - increasing the vulnerability of the other party (symmetry)⁵⁴
- **Complete elimination of vulnerability (autonomy)**, which is usually very costly because one must forego the benefits of cooperation
- **Cooperation with third parties** to reduce bilateral vulnerability (diversification) but without necessarily reducing sensitivity or foregoing cooperation gains

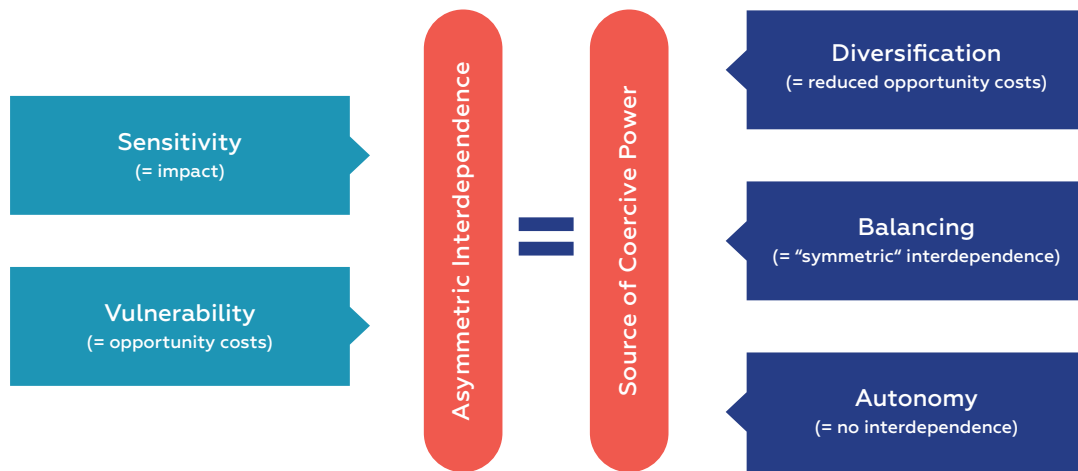
Generally speaking, symmetry, because of its cost-effectiveness, would be the preferred strategic choice in the realist scenario, while autonomy is more suited to the isolationist and protectionist scenario. In the latter scenario, in which US foreign policy is driven by domestic interests rather than rational cost-benefit calculations, greater symmetry is not sufficient to avert costs. Autonomy is generally more costly than symmetry or diversification. Diversification (or hedging, if you will) makes sense in both scenarios – as long as diversification does not lead to significant dependence vis-à-vis

⁵² Asymmetric interdependence is sometimes distinguished from weaponization of interdependence. The former refers to a bilateral relationship and is mostly about market access, while the latter focuses on networks as a source of coercion and leverage. An interesting difference and proposition worth mentioning is that dyadic, asymmetric interdependence relationships are easier to escape than network dependencies (aka weaponized interdependence). See Daniel Drezner et al., *The Uses and Abuses of Weaponized Interdependence* (Washington, DC, 2021).

⁵³ Robert Keohane and Joseph Nye, *Power and Interdependence* (Boston, 1977), pp. 10–11.

⁵⁴ Symmetry, unlike asymmetry, allows for credible retaliation.

14 Asymmetric Interdependence and Mitigation Strategies



Source: Author's compilation-

third parties. Last but not least, asymmetries obviously play a less prominent role in the liberal-internationalist scenario as they are less prone to being exploited. (See **Figure 14**)

A fourth potential option to mitigate vulnerability is related to so-called linkage politics. Asymmetry in favor of State A in policy area C with respect to State B can be used to exert influence in another policy area D; or it can be used to reduce or neutralize State B's influence potential with respect to another policy area E. For example, given that Europe has greater security dependence on the United States than vice versa, the United States can "economize" security policy, i.e., leverage its less asymmetric vulnerability with respect to security to exercise influence with respect to bilateral economic relations. So-called complex interdependence or entanglement – that is, the existence of various interdependencies – can, therefore, potentially make it costly to exploit asymmetric vulnerability in one area if the targeted party can threaten to retaliate in another area where asymmetry is in its favor. In other words, entanglement can have a deterrent effect. But it can also enhance and extend a party's influence potential if vulnerability in a specific policy area is particularly important and more important than in other areas.

Vulnerability is not always easy to quantify. Moreover, whether it can be successfully leveraged obviously depends on the willingness of the targeted party to incur costs.⁵⁵ Nonetheless, asymmetric interdependence is a heuristically useful tool to evaluate vulnerability and concomitant political susceptibility. Determining the cost-effectiveness of mitigation policies aimed at reducing (structural) asymmetric vulnerability faces similar practical challenges. Which strategy is to be preferred depends on the underlying scenario as well as the expected costs of mitigating asymmetric vulnerability. (Again, in the short term, opportunity costs are fixed by definition.) In some cases, these costs can be high – for example, when mitigating European security vulnerability – in others they may be quite small – for example, when promoting the euro as a reserve currency to reduce vulnerability to dollar weaponization. Ultimately, it also depends, of course, on the preferred trade-off between vulnerability/political susceptibility and costs/benefits arising from interdependence/mitigation strategies. Robert Keohane aptly described this dilemma: "Short-term manipulation of interdependence encourages the development of alternatives to reduce long-term vulnerability."⁵⁶ A lot hinges on what constitutes an acceptable cost in terms of long-term vulnerability reduction.

55 Evidence suggests, for example, that economic sanctions are more successful when applied to allies rather than geopolitical adversaries. This makes sense in terms of the primacy of security versus economic welfare. See Gary Hufbauer, *Economic Sanctions Reconsidered* (Washington, DC, 2009); Daniel Drezner, *The Sanctions Paradox* (Cambridge, 1999).

56 Robert Keohane, "Power and Interdependence with China," *Washington Quarterly* 43, no. 1 (2020), p. 15.

15 Defense Policy: Asymmetry, Scenarios, and Options for Action

	Asymmetry*		Vulnerability* (= Opportunity Costs)		Policy Options		
	US Asymmetry	Liberal Internationalism	Realism	Isolationism & Protectionism	Diversification	Autonomy	Symmetry
Conventional Armed Forces	Medium	Low	Medium	Medium	No third-party security provider	Enhance own/European capabilities	Support US global strategy (e.g., in the Indo-Pacific)
Intervention Forces	Medium	Low	Medium	Medium	No third-party security provider	Enhance own/European capabilities	Support US global strategy (e.g., in the Indo-Pacific)
Bluewater Navy	Medium	Low	Low	Medium/High	Cooperation with middle powers given commonality of interests	Enhance own/European capabilities	Support US global strategy (e.g., in the Indo-Pacific)
Nuclear Deterrence	High	Low	Low	High	No third-party security provider	Create credible, common, independent nuclear deterrence	N/A

* Only indicative; future research will seek to estimate sensitivity/vulnerability more methodically
Source: Author's compilation

SECURITY POLICY

In the liberal internationalist and realist scenarios, US and European defense policies share a major strategic objective, namely, the maintenance of the balance of power in Europe. The US-Euro security relationship is asymmetric in the sense that a reduced US military commitment to and/or military posture in Europe would put Europe at greater risk than the United States. The relationship is, hence, a potential source of defense-related leverage, allowing the United States to exert pressure on Europe to take on greater responsibility for regional geopolitical stability. As geopolitical stability is also in the US interest, Washington's ability to leverage asymmetry is not unlimited, particularly given the need to maintain alliance cohesion and strength – at least in the realist scenario. As Europe cannot switch to an alternative security guarantor and as Russia is unlikely to disappear as a potential security threat, the US-Euro relationship is characterized by asymmetric vulnerability in Washington's favor. In the realist scenario, the United States has leverage, but this leverage is, again, not unlimited. In the isolationist and protectionist scenario, however, the United States could threaten a complete withdrawal, thereby gaining substantial leverage in economic and security terms.

In both the realist and the isolationist and protectionist scenarios, Europe will, therefore, have little choice but to put greater defense capabilities in place if it wants to reduce asymmetric vulnerability. Doing so would enhance Eu-

rope's autonomy vis-à-vis the United States (realism) as well as provide a partial hedge in case of US abandonment (isolationism). Concomitant costs would be tangible as long as the United States cannot be replaced as a de facto security guarantor. Diversification is not an option. Europe can, of course, also try to make the security asymmetry a little more "symmetrical" by, for example, supporting the Indo-Pacific strategy of the United States – but this would also be costly. Complete autonomy would eliminate the asymmetric influence of the US, but it would also be, by far, the costliest alternative. Defense autonomy would make Europe independent, putting it in a much stronger position with respect to US linkage politics. Therefore, the extent to which security autonomy is to be sought depends on the preferred trade-off between vulnerability/political susceptibility and long-term costs.

In more concrete terms, US nuclear deterrence would probably remain in place in the realist scenario although the US conventional military presence would be reduced, forcing Europeans to enhance their defense capabilities in the conventional sphere. In the isolationist and protectionist scenario, on the other hand, German and European policy-makers would have to prepare for the complete termination of the transatlantic alliance and Europe would end up shouldering the entire defense burden on its own. This would also force Europe to build its own, independent nuclear deterrent and create the capabilities necessary to defend maritime and trade routes (as long as it remains dependent on critical

overseas imports in spite of the far-reaching collapse of the international trading system in the isolationist and protectionist scenario). The United States would also be less active, if at all present, in North Africa, the Middle East, and West Asia. The resulting risks related to political instability, migration flows, terrorism, etc. might force Europe to get more involved in this region, which might, in turn, force Europe to build greater intervention capabilities in order to be able to project military power there. In short, the need for Europe to look after its own security will increase its defense-related costs as we move from liberal internationalism (scenario 1) to internationalism and protectionism (scenario 3). Again, the diversification option is not available. Symmetry and autonomy are costly ways to mitigate vulnerability in the face of a US shift toward a more realist or isolationist strategy, but they are pretty much the only options available if asymmetry is to be reduced.

Germany's vulnerability is greater than the vulnerability of most other European countries. Its geographic location, lack of an independent nuclear deterrent, and greater dependence on overseas trade and sea lines of communication make it more dependent on geopolitical stability. Due to its dependence on trade with the United States as well as extra-European trade (see the section on Foreign Economic Policy below), Germany is also more subject to linkage politics in the realist scenario. For any European security policy to be effective, it must feature not only German participation, but also – given the country's demographic and economic weight, financial prowess, and advanced technological base – German leadership.

2. FOREIGN ECONOMIC POLICY

The more unilateral, geo-economic, and national-security-oriented US foreign policy becomes, the greater the potential costs for Europe – and the greater Germany's and Europe's interest in reducing their structural asymmetric vulnerability vis-à-vis the US in a forward-looking and cost-effective manner. In the realist scenario, the United States will increasingly leverage asymmetric interdependence. In the isolationist and protectionist scenario, it may do so initially but will then retreat into isolationism. In economic terms, the isolationist and protectionist scenario would be more costly for Europe than the realist scenario.

In the realist scenario, the United States will exploit asymmetric interdependence in pursuit of national security and mercantilist ends, especially vis-à-vis China. It will also lean on Europe to support US decoupling policies. After all, without European support, US policies will be far less effective, which is why Europeans could face significant pressure to align themselves with US policies. Of course, the United States' use of geo-economic leverage vis-à-vis its allies will be much more limited than vis-à-vis China. Nevertheless, where the United States believes that key security interests are at stake – for example, when it comes to Huawei or Nord Stream 2 – its geo-economic pressure on Europe will be significant.

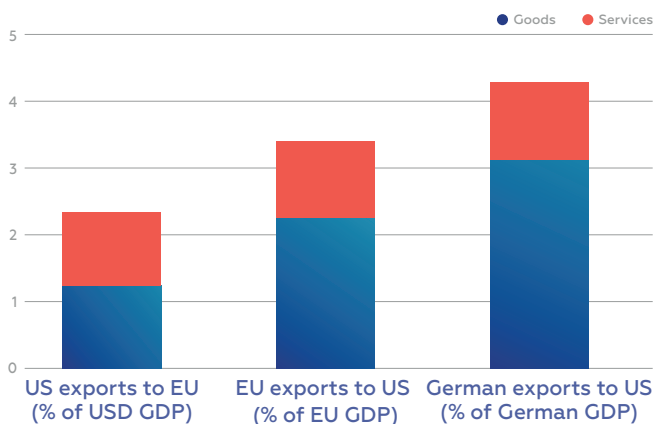
In the realist scenario, symmetry and diversification can reduce vulnerability in a cost-effective manner. But in the isolationist and protectionist scenario, a more symmetrical economic relationship would not help Europe avert potential costs since, again, US policy is driven by domestic interests, not strategic calculation. Autonomy and diversification would, however, help in the isolationist and protectionist scenario – with autonomy being more costly than diversification. In both the realist and isolationist and protectionist scenarios, the United States would increasingly use its economic power, which primarily consists of its ability to regulate the cross-border exchange of goods, services, capital, people, and data as well as its control of networks. Vulnerability is policy area specific and varies.

First, the United States and the EU are not quite evenly matched as far as trade interdependence is concerned. Absolute vulnerability is limited, however. US exports of goods and services to the EU amount to 2.5 percent of GDP, while EU exports to the US amount to 3.4 percent. (At almost 4.5 percent of GDP, Germany is much more vulnerable than the United States and much more vulnerable than the other major EU countries).⁵⁷ Reducing vulnerability through increased autonomy (or autarky) entails significant economic costs, particularly for Germany. Increased diversification – for example through free trade agreements with third countries and policies aimed at supply chain diversification – would be a far less costly way to reduce vulnerability to the extent that it is available. Alternatively, greater symmetry is also a potentially attractive option, especially if it aims at increasing the relative vulnerability of the United States vis-à-vis Europe through higher US exports to Europe. Lib-

⁵⁷ The volume of bilateral trade is a very crude indicator of vulnerability. It takes into account neither the value-added in exports nor how critical certain inputs (e.g., rare earths, high technology, and semiconductors) are to the importing country. A more detailed calculation of vulnerability requires an analysis of sector- and product-specific dependencies that are beyond the scope of this paper. In addition, an all-encompassing assessment of a country's vulnerability and concomitant political susceptibility should also take into account the local sales of European subsidiaries in the United States. We will address these issues in more detail in a future DGAP Policy Brief on trade and foreign direct investment.

eralization and/or regulatory cooperation would, for example, be particularly effective with respect to services in which the United States is more competitive and can be expected to increase its exports to the EU.

16 The EU, USA, and Germany: A Moderately Asymmetric Trade Relationship



Source: International Monetary Fund

Second, the EU-US relationship is also very roughly symmetrical in terms of foreign direct investment (FDI). The United States is slightly more vulnerable, at least as far as investment stocks are concerned. US FDI in the EU and Germany amounts to 15 percent and less than 1 percent of total US GDP, respectively, for a total of USD 150 billion. While EU FDI in the US is around 11 percent of EU GDP, Germany's FDI in the US is 10 percent of German GDP. Measured on an ultimate-beneficial-owner basis, German FDI in the US would be even higher.⁵⁸ The modest quantitative asymmetry in Europe's favor is unlikely to create significant US susceptibility. (Purely quantitative measures fail to capture sector- and firm-specific vulnerabilities that are potentially more relevant and should, therefore, be interpreted as indicative only.) It is possible to further strengthen the position through greater cooperation (diversification) with third countries. Bilateral (or even unilateral) liberalization would help do the same if it leads to an increase in US FDI to Europe. Increased investment restrictions (autonomy) would be, as always, the least cost-effective economic option. In short, as with respect to trade, the EU and the United States are relatively evenly matched in terms of FDI stocks.

Third, the centrality of the dollar in global finance does provide the United States with leverage and creates meaningful European vulnerabilities. The dollar remains the dominant international currency in terms of international trade and finance. More than 60 percent of central bank reserve holdings are denominated in dollars compared to only 20 percent that are denominated in euros. Significantly, more than 40 percent of extra-EU exports and almost 60 percent of extra-EU imports are invoiced in dollars.⁵⁹ Because there is no third-country currency that would allow a significant reduction in dependence on the dollar, diversification is not a realistic option at the moment. (It will be some time before the renminbi can be used as a substitute.) Promoting the internationalization of the euro as a dominant reserve currency is the only realistic option available in the medium term. The more US economic agents use the euro (symmetry), the less vulnerable Europe becomes in terms of dollar weaponization (provided it is prepared to retaliate). The increasing international use of the euro by third countries would also help reduce Europe's dependence on and vulnerability to the dollar (autonomy). To make the euro a serious alternative to the dollar, far-reaching reforms at the EU level are needed – for example, the completion of the Economic and Monetary Union and the Capital Markets Union.

Fourth, and closely linked to dollar dominance, is global dependence on US financial markets. US financial and capital markets are much larger and less segmented than European markets. Many of the most important international investors and financial market service providers rely on US financial markets. Building competitive, euro-denominated capital markets would give Europe the opportunity to reduce its relative dependence by allowing European economic agents to rely on euro area capital markets as a substitute for dollar markets (autonomy). The creation of a European capital markets union that is attractive to other international investors, including US investors, would also help reduce European vulnerability (symmetry). As far as diversification is concerned, it would be desirable to pursue closer cooperation with countries that have highly developed financial markets. Until China makes far-reaching progress in developing its financial system and guaranteeing the convertibility of the renminbi, closer cooperation with Great Britain and other financial centers is an option worth considering (diversification).

58 Bureau of Economic Analysis, "International Investment Position," March 31, 2021: <https://www.bea.gov/data/intl-trade-investment/international-investment-position> (accessed April 21, 2021).

59 Eurostat, "Extra-EU Trade by Invoicing Currency," 2019: https://ec.europa.eu/eurostat/statistics-explained/index.php/Extra-EU_trade_by_invoicing_currency (accessed April 21, 2021).

17 Foreign Economic Policy: Asymmetry, Scenarios, and Options for Action

	Asymmetry*		Vulnerability* (= Opportunity Costs)			Policy Options		
	US Asymmetry	Liberal Internationalism	Realism	Isolationism & Protectionism	Diversification	Autonomy	Symmetry**	
Trade	Low	Low	Low	Medium	Liberalize/expand trade vis-à-vis third countries	Limit bilateral trade	Increase imports, especially services, from the US (e.g., free trade agreements)	
Foreign Direct Investment	Low/Medium	Low	Low	Medium	Liberalize/expand FDI vis-à-vis third parties	Limit bilateral FDI flows	Attract US FDI (e.g., bilateral investment treaties)	
Capital Markets	Low/Medium	Low	Low	Medium	Closer cooperation with other financial centers	Complete union of EU capital markets	Deepen EU-US financial cooperation (e.g., regulatory cooperation)	
Dollar	Medium	Low	High	Medium	Support third-party reserve currencies	Complete monetary union	Make the euro more attractive to US investors	
Technology	Medium/High	Low	Medium	High	Technology cooperation with third countries	Develop indigenous critical technologies	Technology cooperation with the US (including standards)	

* Only indicative; future research will seek to estimate sensitivity/vulnerability more methodically
 ** Symmetry can also be enhanced by combining measures aimed at both symmetry and autonomy
 Source: Author's compilation

Last but certainly not least, to the extent that the United States (and US companies) controls key technologies, Europe is faced with asymmetric vulnerability in many high-tech sectors. The exact degree of dependence is, again, difficult to determine (and will be explored in future DGAP Policy Briefs). In some respects, the EU may count as a regulatory superpower due the size of its market. But in many other respects, Europe appears to be not just lagging behind the US – with respect to critical, emerging technologies such as quantum computing, AI, and composite materials as well as in other key technologies such as semi-conductors – but actually also seems to be depending on it. (Again, this is a very broad statement requiring further analysis). Its export control policy allows the United States to not only restrict technology exports, but also re-exports and the in-country transfer of goods and technologies.⁶⁰ Even if US export controls do not target it directly, Europe can quickly find itself in the line of fire in the event of US (and Chinese) secondary sanctions (realism scenario). In the isolationist and protectionist scenario, assuming Europe gets cut off entirely from cutting-edge US technology, an even higher price would have to be paid. To alleviate vulnerability, Europe can opt to build domestic technological

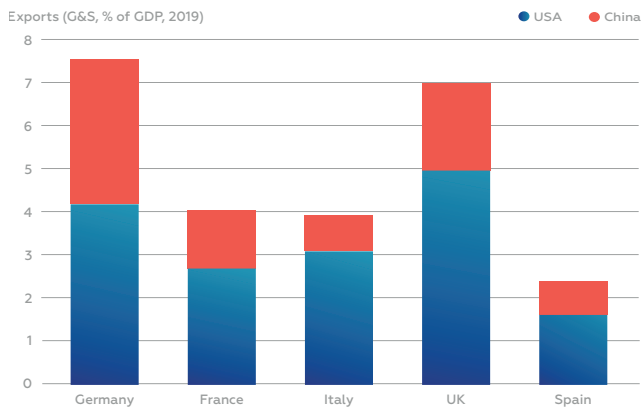
capacity (autonomy) or, if available, rely on third-country technology (diversification) as long as this does not recreate vulnerabilities vis-à-vis third parties. In a world in which there may be only two technological leaders – the United States and China – diversification may not be an option, especially if both of these leaders make excluding the other a prerequisite for technology cooperation with Europe. Autonomy is costly, particularly in terms of the development of emerging technologies. Enhanced technology cooperation with the United States, leading to a greater symmetry in interdependence, would be another option worth exploring (greater symmetry).

Like in the security realm, Germany's relative economic vulnerability is particularly high. Germany's total exports and imports of goods and services amount to 86 percent of GDP; the equivalent ratio for France, Spain, and the United Kingdom is only about 60 percent. Germany's vulnerability vis-à-vis the United States and China is also very high. While two thirds of German exports go to other European countries (including Russia), 9 percent go to the United States and 7 percent to China, making them Germany's largest and third-largest single export partner, respectively. Last but

60 Congressional Research Service, "The US Export Control System and the Export Control Reform Initiative," January 28, 2020: <https://fas.org/sgp/crs/natsec/R41916.pdf> (accessed: April 21, 2021).

not least, German FDI in the United States amounts to EUR 360 billion, currently far more than its EUR 86 billion FDI in China. However, this value becomes significant when compared with Germany’s EUR 45 billion FDI in France.⁶¹ China is already the country with the third largest German FDI. If Germany were forced to support US decoupling policies, it would find itself in a much more difficult position than the other large European countries. In the realist and even more so in the isolationist and protectionist scenario, the costs for Germany could be enormous.

18 Trade Dependence vis-à-vis USA and China



Source: International Monetary Fund

61 Deutsche Bundesbank, "International Investment Position," September 2020: <https://www.bundesbank.de/resource/blob/846026/dd245883ace4f3aa74e9de4a9372b3ae/mL/2020-09-30-auslandsvermoegen-anlage-data.pdf> (accessed April 22, 2021).

Conclusion

The rise of China will shape US foreign policy and strategy for years to come, especially if it takes place – as it likely will – against the backdrop of intensifying Sino-US competition and conflict. Although China’s continued rise is likely, it is not inevitable. Quite apart from the prospect of great power competition with the United States, China faces significant challenges. These include a major demographic shift, the so-called middle-income trap, a fragile financial system, the lack of strategic allies, dependence on commodity imports and critical foreign technology, and a potentially fragile political system – all of which might yet jeopardize or even halt China’s geopolitical rise. If, however, its rise continues unabated and Sino-US antagonism intensifies, the liberal-internationalist scenario will become increasingly unlikely, and the realist scenario will become difficult to avoid. On the other hand, if the United States, faced with significant domestic political and socioeconomic challenges itself, were to throw in the proverbial geopolitical towel, the isolationist and protectionist scenario would become difficult to avoid. If, for example, China was to weaken economically in the wake of a major domestic crisis and opt for geopolitical accommodation with the United States, the liberal-internationalist scenario could yet emerge as a possible scenario. Critical uncertainties matter to scenario outcomes.

The liberal-internationalist scenario would, without doubt, be the most favorable outcome from a German and European perspective, while both a realist and an isolationist US policy would create significant challenges and costs. In the latter two scenarios, Germany would be particularly badly affected due to its economic and defense-related dependencies and vulnerabilities. As US strategy shifts from liberal internationalism to realism, Washington will (if selectively) seek to leverage the existing asymmetric interdependence in the security and economic realm. US policy will selectively “securitize” foreign economic relations (use economic means for political ends), and it may seek to “economize” security relations (leverage security dependence for economic ends). In the isolationist and protectionist scenario, in which the United States ultimately retreats from its security commitments in Europe and shifts toward economic protectionism, Germany would be faced with even greater costs given its high degree of international economic dependence and geopolitical vulnerabilities.

In the realist scenario, the United States would leverage asymmetric interdependence vis-à-vis adversaries as well as – if less so – vis-à-vis allies. China and Russia would face significant geopolitical and geo-economic pushback, while US allies would face demands for greater burden-sharing in the security sphere and greater geo-economic pressure. To the extent that intensifying Sino-US competition leads to (selective) technological or (broader) economic decoupling, the United States would also put pressure on its allies to fall in line with US geo-economic policies. Germany’s high degree of economic dependence on both the United States and China would put it in an unenviable position. Economically, it might effectively be forced to choose between its largest export market (United States) and its second-largest, but faster-growing export market (China). “Playing both sides” with respect to economic relations is unlikely to be a viable option – at least as long as Germany remains highly dependent on the US for its security. After all, security trumps economics. This does not mean that Europe and Germany would be forced to give in to each and every US demand or that they would have no wiggle room at all. Nonetheless, in policy areas that the United States considers vital to its national security, Washington will not shy away from forcefully leveraging asymmetric security and economic vulnerabilities.

In the isolationist and protectionist scenario, where the rules-based international economic order breaks down completely and relatively autarkic economic blocs emerge over time, Europe – and particularly, Germany – would fare even worse. If the United States moves toward mercantilism and protectionism, the costs for Germany would be considerable (scenario 3a, described on pages 24 to 25). If the US also abandons its role as Europe’s security provider (scenario 3b, described on pages 24 to 25), the costs will rise even further. In addition to the economic consequences, Germany and Europe would be forced to provide for their own security. To the extent that Europe and Germany do not opt for autarky, they might be faced with a geo-economically-minded China – even though it might also be possible to work out more cooperative arrangements with both China and other middle powers. In the isolationist and protectionist scenario, Germany would fare worse than in the realist scenario, in which it would be able to continue to rely – albeit to a more limited degree – on US security cooperation and benefit from continued – if potentially less favorable – economic relations with the United States.

Europe and Germany have three basic strategic options in view of a less cooperative, more competitive, and more conflictual US foreign policy: autonomy, diversification, and

symmetry. Greater autonomy vis-à-vis the United States would reduce vulnerability and political susceptibility, but it generally comes at a considerable cost – at least in the short term. Diversification (greater cooperation with third states) would also help reduce vulnerability and is typically a more cost-effective way of mitigating vulnerability than autonomy. Greater symmetry – whether through reduced European dependence on the US or increased US dependence on Europe – is another option to mitigate asymmetric vulnerability. Autonomy and diversification are more sensible strategies in the isolationist and protectionist scenario, while greater symmetry makes more sense in the realist scenario. After all, greater symmetry will not do much to dissuade the United States from pursuing isolationist and protectionist policies if it is largely driven by domestic political interests. Last but not least, it is worth mentioning that reducing asymmetric vulnerability in one area will only have a limited effect on overall vulnerability given the possibility of linkage politics. It nonetheless helps reduce it somewhat.

Generally speaking, Europe is less vulnerable to an adverse shift in US policy with respect to economic issues than it is on security issues. Europe has more or less successfully fended off US economic pressure in the past – for example, the Reagan administration’s pipeline sanctions.⁶² With respect to trade, for example, the EU is more vulnerable than the United States, but absolute and relative vulnerability are relatively manageable. The relationship is (after a rough first assessment) less symmetric with respect to the dollar and technology. A combination of balancing, diversification, and autonomy can help bring about a more balanced economic relationship with the United States, which may – its costs notwithstanding – be desirable. However, European and German security vulnerabilities vis-à-vis the United States would continue to give Washington the ability to pursue linkage politics. And there is no good way of reducing European defense-related vulnerabilities in a cost-effective way. (Although increased European security cooperation may help limit the bill somewhat.) A lesser degree of asymmetric economic vulnerability will be helpful, but, given defense-related asymmetric vulnerabilities, it will not be a panacea.

US decoupling policies vis-à-vis China may be thought to provide Europe with an opportunity to pursue a policy of

economic equidistance or a sort of *Schaukelpolitik* (literally, “swing policy”) – meaning an attempt to extract benefits or concessions from Washington for supporting US policies or seeking to extract benefits and concessions from Beijing for not supporting US policies. Rather than thinking of realist US policies toward China as becoming a “strategic trap” for Europe, they might instead be considered to open a “strategic opportunity.” This will only work, however, if security and economic issues can be kept separate, which is unlikely.⁶³ Even if Europe manages to make its economic relationship with the United States more symmetric, the security asymmetry would persist and provide the US with leverage. Intensifying Sino-US antagonism is, therefore, more likely to force Europe – especially Germany – to make a costly choice between the United States and China. Europe, particularly Germany, would be faced with increased pressure from both Beijing and Washington to fall in line with their respective policies. Due to its relative importance, Germany would also receive special attention from both sides to either prevent or encourage it from acting as a so-called third-party spoiler.⁶⁴ A more cooperative European relationship with China is also not likely given that the EU regards China as an economic competitor and strategic rival in a way in which it does not see the US.⁶⁵ Regardless: in order to pursue a policy of equidistance, Europe would need to wean itself off its security dependence on the United States.

Moving from devising strategic options to implementing mitigation policies, the EU will not find it easy to agree on common policies to address existing vulnerabilities. The EU will find it especially difficult to create the tools needed to deal with a more politicized international political economy and bring about the necessary structural changes to reduce economic and security vulnerability. The preferences, sensitivities, and vulnerabilities of individual EU member states vary, which makes them more or less susceptible to the promises and threats of third parties. Although EU-wide mitigation policies are generally preferable – because there is strength in numbers and such policies can also provide diplomatic cover – diverging national interests make them difficult to create. And because European mitigation policies require consensus, a coordinated – let alone, common – policy response aimed at mitigating vulnerabilities will be difficult to implement. Consideration should, therefore, also

62 Michael Mastanduno, “Trade as a Strategic Weapon,” *International Organization* 42, no. 1 (1988).

63 On several occasions during the Cold War, the United States failed to extract major economic concessions from Europe precisely because Washington was concerned about alliance cohesion (cf. note 62). Paradoxically, weakness may be seen as a bargaining advantage. This is, at least, a possible interpretation of the historical record. However, during the Cold War, the adversary was the USSR and “losing Europe” would have had a major effect on the global balance of power. As long as Washington believes that a European alignment with China is unlikely, it will continue to enjoy leverage. Today, Europe is also more capable of taking care of its own security needs vis-à-vis Russia than it was in the 1950s. Consequently, US threats of “abandonment” are more credible now than they were during the Cold War.

64 Bryan Early, *Busted Sanctions* (Stanford, 2015).

65 European Commission, “EU-China: A Strategic Outlook,” March 13, 2019: <https://ec.europa.eu/info/sites/info/files/communication-eu-china-a-strategic-outlook.pdf> (accessed April 21, 2021).

be given to creating national instruments in areas in which EU-level mitigation policies are politically inaccessible.

Germany – whether it likes it or not – will be forced to play a key role in shaping Europe’s response. Because of Germany’s close economic ties with both the US and China as well as its greater dependence on international economic stability, it is the EU member state that will be most severely affected in two of the three scenarios presented here. Given its economic and financial weight within the EU, Germany will also have to play a central role in any successful European response in the economic realm. Furthermore, its geography and limited military capabilities create greater incentives for it to lead or co-lead the response in the security realm. Germany would be well advised to actively shape a forward-looking, common EU response wherever possible. Where this proves difficult, slow, ineffective, or impossible, it should coordinate with a smaller subset of like-minded EU countries. And if this fails, calibrated national policies need to be considered. Action at all three levels will be required if the risks stemming from a possible adverse shift of US foreign policy are to be mitigated effectively and successfully.

Transatlantic cooperation and European integration have been the pillars of German foreign policy and strategy for more than seven decades. It was US liberal-internationalist policies that laid the foundation of geopolitical stability and economic prosperity in Europe. Under the administration of former US President Donald Trump, the transatlantic pillar came under significant pressure. Transatlantic relations will no doubt improve under the presidency of his successor, Joe Biden. However, if Sino-US geostrategic competition continues to intensify, Washington’s strategic focus will continue to shift to the Asia-Pacific and geo-economic competition will intensify. Over time, this is bound to weaken US engagement in and commitment to Europe. In addition, the risk of Sino-US economic decoupling – favored by both Washington and Beijing in an attempt to mitigate their respective asymmetric vulnerabilities – is bound to accelerate in such a scenario, putting Europe, and especially Germany, in a very difficult position. Should Sino-US competition lead (or force) Washington into global strategic retrenchment, isolationism, and protectionism, the political and economic costs for Europe and Germany would be even greater.

In view of such fundamental potential shifts in US strategy, Europe has three strategic options:

1. **Autonomy:** enhanced European integration or strengthening of the European pillar
2. **Diversification:** enhanced cooperation with third countries
3. **Symmetry:** enhanced transatlantic cooperation and strengthening of the transatlantic pillar

Different policy areas may warrant different mitigation strategies. The EU and European policy-makers have been throwing around terms such as “(open) strategic autonomy” and “digital sovereignty” in addition to considering “trade defense” and “anti-coercion measures.” This can obscure the fact that other, perhaps more cost-effective options are available to mitigate Europe’s asymmetric vulnerability.

Hans Morgenthau, the political scientist, historian, and renowned scholar of international relations, defined prudence as “the weighing of the consequences of alternative political actions.” Today, the term prudence is largely equated with cautiousness. Etymologically, however, prudence derives from the Latin *providentia*, meaning seeing ahead. The shift in the distribution of power in the international system, the potential return of fully-fledged great power competition, and a concomitant shift in US grand strategy are bound to have profound consequences and will create significant challenges. Therefore, European and German policy-makers and policy planners will more than ever need to exercise prudence – in both senses of the word

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