



Europe, US and China tomorrow

Will it be possible to avoid geopolitical and economic traps?

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Philippe ITHURBIDE, *Senior Economic Advisor*

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Senior Economic Advisor

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Abstract

There are many pitfalls looming. Some concern China, the United States and Europe, while others are more targeted, notably on China or on the relationship between China and the United States. Some traps concern geopolitics (the Thucydides trap, the Kindleberger trap, the Herodotus trap, the Tacitus trap, the Chamberlain - Daladier trap and the cold war trap), while others deal with purely economic issues (the middle-income trap, the inflation trap, the stagflation trap and the debt trap). All the traps are real, and some of them already materialised, at least partially:

China cannot rule some functions of power yet, some old powers have clear ambitions (China, Turkey, Russia, Iran and Saudi Arabia notably), Xi Jinping statements are listened to with great perplexity / suspicion (as was also the case for D. Trump); and some cold war elements are very noticeable between the United States and China. Same conclusion about the economic traps: debt worries have resurfaced, stagflation looms, and inflation is on its way. As for China, there is no doubt that deglobalisation threatens Chinese growth significantly.

Specific events or choices are likely to alter or accelerate some of these traps: the American diplomatic orientation following the presidential elections, the content and magnitude of de-globalisation, the impact of Covid-19 on

“Some Cupid kills with arrows, some with traps”

*William Shakespeare,
English dramatist, playwright and
poet (1564 - 1616), in “Much ado about
nothing”, Act III, sc. 1 (1600)*

geopolitics, economic choices (relocation of companies, search for greater independence and sovereignty...), the desire for power in the digital domain (especially artificial intelligence and big data)...

The newly elected J. Biden at the US presidency will have to cope with the potential traps. If there is a broad consensus in the United States, across political lines, it is the need for firmness towards China, which is effectively seen as a rival, failing to respect democratic rules or human rights, or fair trade. What will change with Biden about China is only the style and the attitude; in other words, the form, and not the substance. On the other hand, Europe and the US should be on the way to a new partnership. J. Biden has always been a staunch transatlantist, and it seems unthinkable that he would not make major changes in US policy towards Europe. Broadly speaking, the US may create with Europe a new alliance based on partnership and not on leadership. Negotiations, no more ultimatums or verbal threats. A big change, assuredly.

Keywords: Europe, China, United States, geopolitical traps, economic traps, Biden

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Executive Summary

1. There are many pitfalls looming. Some concern China, the United States and Europe, while others are more targeted, notably on China or on the relationship between China and the United States. Some traps concern geopolitics, while others deal with purely economic issues.

2. The Thucydides trap. If China becomes too strong and forces the United States to harden its positions to maintain its place, war could become inevitable;

3. The Kindleberger trap. China is actually too weak to perform international functions, like the United States, unable to replace the United Kingdom in the 1930s on some of its functions. Wouldn't the Kindleberger trap actually be more credible than the Thucydides trap?

4. The Herodotus trap. Conflicts based on the supposed superiority of a culture or a religion made possible by the current multipolarity and the relative or assumed weakness of the hegemonic power - or its lack of interest in regulating the world order. The relative withdrawal of the United States generates or reinforces territorial, political or other ambitions on the part of the former powers (Iran, Turkey, Russia, China, etc.). How far can such a return in history go?

5. The Tacitus trap. A situation in which any action or statement is deemed to be bad or malicious. Whatever China says or does, it is now systematically criticized or misunderstood, or even - rightly or wrongly - singled out. Latest example: the Covid-19 crisis. The same goes for D. Trump. Is it still legitimate? What credit should we give to the Tacitus trap?

6. The Chamberlain - Daladier trap refers to the complacency of England and France during the rise of the Hitler regime. Can the power of China promote complacency (out of interest, weakness or fear)? Is the Chamberlain - Daladier trap still credible? The deterioration in the perception of China and the United States among Europeans, and official statements do not seem to justify this fear.

7. The cold war trap, wherein the United States and China would reduce any relationship (economic, political, diplomatic) to the bare essentials. The current context does not favour exchanges and discussions. China has become the "great rival of the United States. The cold war is already visible from certain angles. Can these two countries understand each other or are we heading towards a deep cold war? Can this trap also concern Europe?

8. The middle-income trap, wherein China would be unable to fill the gap with other major powers, US and Europe. Can China, in the current context, continue to grow at 6 or 7% per year (with 7% annual growth, GDP doubles every 10 years) and catch up with the other great powers? China is clearly threatened by the middle income trap.

9. Europe is threatened by the inflation trap. Inflation is back in the spotlight, especially since the Covid crisis: the establishment of health standards, the relocation of companies, the pursuit of de-globalisation, the probable increases in wages, the decline in productivity are just as many factors that can generate inflation. The central banks' response will be crucial: will they accept a higher level of inflation? Will they break the economic growth? Will they change their inflation targets (as the Fed recently did)? Tax dominance (safeguarding the solvency of States), the search for growth and the acceptance of higher inflation are objectives compatible with low rates. But are these all equally reasonable and legitimate?

10. The stagflation trap is real, and it could affect all countries. Weak growth and higher inflation are reminiscent of the 1970s and the episode of stagflation. However, in many respects (ultra-low rates, high public deficits, public debts out of control, advanced globalisation...), the current situation is more worrying than that of the 1970s.

11. The debt trap. Debt has grown steadily since the 1970s, as well as since the 2008 financial crisis. The Covid crisis has suddenly accelerated this trend, in % of GDP (due to the contraction of GDP), but also in nominal terms. How far can it go? To what extent will debt constrain economic policies? Is monetary policy definitively enslaved to the debt trap? And, of course, will we eventually be able to repay all these debts?

12. All the traps are real, and some of them already materialised, at least partially: China cannot rule some functions of power yet, some old powers have clear ambitions (Turkey, Russia, Iran Saudi Arabia notably), Trump and Xi Jinping statements are listened to with great perplexity / suspicion (it was also the case for D. Trump); and some cold war elements are very noticeable between the United States and China. Same conclusion about the economic traps: debt worries, stagflation looms, and inflation is on its way. There is no doubt that deglobalisation threatens Chinese growth (it might weaken significantly).

13. Specific events or choices are likely to alter or accelerate some of these traps: the American diplomatic orientation following the presidential elections, the content of deglobalisation, the impact of Covid-19 on geopolitics, economic choices (relocation of companies, search for greater independence...), the desire for power in the digital domain (artificial intelligence, big data...).

14. In view of the geopolitical or economic traps developed above, the results of the American presidential election were as important for the United States as they were for Europe or China. The attitude of the future US president is indeed crucial. Will he return to the diplomatic table, or will we be entitled to strained relations?

15. If there is a broad consensus in the United States, across political lines, it is the need for firmness towards China. Many members of the Democratic Party are very critical of China, which is effectively seen as a rival, failing to respect democratic rules or human rights, or fair trade. **What will change with Biden, however, is the style, the attitude, in other words, the form, not the substance.**

16. Many surveys show that the perception of China has deteriorated sharply in Europe during the coronavirus crisis. America's reputation is also weaker than ever within the European Union. Recent surveys show that Trump's attitude during the Covid-19 crisis, which has focused more on blaming other countries than willingness to cooperate with them, has greatly amplified an already existing poor sentiment.

17. It is very likely that the Chinese origin of the virus has become an original sin that will weigh on China's reputation, now limiting its geopolitical room for manoeuvre.

18. The Covid crisis will have major consequences for China: further de-globalisation, modification of value chains, less dependence on China and the desire to restore all or part of sovereignty in health, food and sectors now considered key ... all of this will weigh on its growth... and therefore potentially on employment, growth prospects, reduction of inequalities, the level of poverty, the debt... The **middle-income trap** is at present a real threat for China.

19. The Chinese response will undoubtedly not be isolationist. When the people are angry, and lacking democratic remedies, an authoritarian regime may be tempted to divert that anger against outside targets. The exacerbated patriotism is part of the "Xi Jinping mind-set". An economically and socially challenged China is likely to be an aggressive China. The geopolitical traps are also threats for China, especially the **cold war trap** and the **Tacitus trap**.

20. Americans and Europeans undoubtedly have many common grounds on which they can cultivate their complicity and proximity, historical and cultural in particular, even if the transatlantic alliance between the United States and their European allies has been severely challenged since Trump's election in 2016.

21. According to a recent ECFR survey, hardly anyone in Europe expects the United States will be a useful ally in the future. Everything seems to indicate that Europeans are preparing for a future without the America they once knew. "*Europe will have to learn to do without the United States*", announced Angela Merkel in 2018.

22. Transatlanticism is at present one of the elements of a global world, it is no longer the main issue as in the days of the Cold War. However, J. Biden has always been a staunch transatlantist, and it seems unthinkable that Joe Biden would not make major changes in US policy towards Europe.

23. Europe and US: on the way to a new partnership or to the continuation of conflicts? The first option is more realistic. Biden will undoubtedly work to treat Covid-19 as a global crisis, not the act of any particular country ... and in a more cooperative way with other countries like Europe. The United States could join the Paris climate agreement. They could re-enter into trade agreements. They should seek and accept tough compromises on issues such as trade and privacy that divide the United States and Europe. They should participate in cooperative efforts to ensure

that technological innovation conforms to human rights principles. The attitude of the US towards European telecoms may also be more benevolent in defending a sort of transatlantic 5G alliance ...

24. As regard defence issues, J. Biden could question the US decision to withdraw from the multilateral nuclear deal with Iran. The Biden administration will no doubt also be proactive in initiating negotiations for the renewal of the “New Start” treaty with Russia on nuclear weapons (this expires in 2021).

25. Broadly speaking, it means that the US may create with Europe a new alliance based on partnership and not on leadership. Negotiations, no more ultimatums or verbal threats. A big change, assuredly.

Introduction

Geopolitics - the ideology of territories (de Montbrial) - and geoeconomics - the logic of conflict in economics (Luttwak) - have filled the international scene. The concepts are often closely linked and can help us understand today's trends and rivalries, such as that between Europe, China and the United States. The United States were ultra dominant during the bulk of the 20th century. However, the 20th century was not just the American century. It was above all the bipolar, East-West century.

The rising influence of the Soviet Union after the 1917 revolution and the Second World War and the ensuing Cold War set the tone. The situation changed dramatically with the fall of the Berlin Wall in November of 1989 and the disintegration of the Soviet Union in 1990. The bipolar balance had ended, and the Western world claimed a final, decisive victory for capitalist democracy and universal values. It was a new world order based on democracy and a market economy, and some even considered it was also the "end of history" (Fukuyama, 1989): a unipolar world led by the West and the United States.

This illusion did not last long. September 11, 2001 marked a brutal "return to history" and a chaotic, explosive world. In fact, the illusion of a unipolar world and universal peace lasted just over a decade, from November 1989 to September 11, 2001. In historical terms, it was no more than a very brief interlude. Since then, nobody believes in a unipolar world anymore. The West still retains vast power and wealth, but no longer holds a monopoly. New powers have emerged, with China in the lead. However, the United States remains the top power and its actions are still crucial for preserving the impression of a managed world order and the determination to avoid chaos and conflicts.

To say that the world has changed in the last decade is therefore self-evident. It is no longer unipolar and dominated by the United States, but it is also not totally multipolar. It is both, and in some respects, it is also chaotic (J. Nye).

The last phase of globalisation was built on the ruins of a bipolar world in permanent conflict (the Cold War) and has recently become truly global. While the previous phases of globalisation had a central focus, the current phase is more complex because it is more horizontal than vertical. New players have appeared on the international scene, not just countries like China and India, but also corporations, NGOs, and even prominent individuals who are involved in major international deliberations. So where does power reside now? Even if the US are leaders, no single country has the capacity to fulfill all the functions of power, and no form of power is completely in the hands of a single country (Ithurbide (2019)): power is multiform (hard power, soft power, smart power) and some major players such as the US, China, Russia, Europe, Iran and Turkey, to name the biggest, are competing for it or disrupting the world order.

In this article, we will first analyse some manifestations of the instability of today's world we call "traps". The new wild card is China, which is growing from being the workshop of the world to being its leader, at by no surprise, China is often at the centre of the various traps. As H. Védrine warned at AWIF 2017 (Amundi World Investment

Forum), “we don’t yet know whether this redistribution of power will be an orderly, negotiated process, or whether we can expect more tensions or conflict. A lot hinges on US-China relations”.

We have in the first part identified 6 geopolitical traps (the Thucydides trap, which is the best known, the Herodotus trap, the Tacitus trap, the Kindleberger trap, the Chamberlain-Daladier trap, and the Cold War trap) and, in a second part, 4 major “economic traps” (the middle-income trap, the inflation trap, the stagflation trap and the debt trap). In the third part, we assess the economic changes that could occur following the election of J. Biden as President of the United States, both as regards the various geopolitical traps and, as on the future relations between the US and China on the one hand, and between the US and Europe on the other.

Part 1: The new world order hinges on the ability of large countries to avoid or bypass geopolitical traps

Several traps may potentially intensify tensions between countries. Some of them may impact all countries, some impact the US and China mainly, and some are purely Chinese issues.

Trap # 1: Towards an inescapable war? The Thucydides Trap

The basic question is simple: how to avoid war between the dominant powers of a historical phase with the rival ascending power, which aspires to dominate the next phase? Long before Trump put forward his “*Make America great again*” slogan, Xi Jinping had the same ambition for his country, including the People’s Liberation Army, which he asked to prepare for “*a global military struggle which will be a new starting point*”. He has given himself the means by contributing to one of the most tremendous growth spurts in history. Between the end of the 1970s and 2015, the number of Chinese living on less than \$1.90 per day fell from 90% to less than 1%. Similarly, while in 2004 Chinese GDP was 50% that of the United States, it equalled it by 2014. At this rate, by the mid-2020s Chinese GDP will be 50% higher than US GDP. Chinese power is forcing a renaissance or at least a reaction on the United States.

Thucydides described the outcome of such a scenario in the 4th century BC (431– 404 BC): it is war. The trap of Thucydides, as described by Graham Allison (founder of Harvard’s Kennedy School of Government), was that “*the rise of Athens and the fear it instilled in Sparta made war inevitable*”. The cities wanted to avoid war, but that was not enough. Sparta’s paranoia conflicted with the pride of Athens. Sparta won the war, but both cities were ruined. **Today, world peace may depend on the willingness of the Americans to negotiate a new global balance with China.**

Instead, the Americans are falling into the Thucydides trap, according to Allison. History is punctuated by conflicts between ruling powers and emerging powers. Since 1500, he

notes sixteen examples of this trap. Twelve times, it led to war. As with Sparta and Athens, the states generally did not want war, but third countries played the role of detonator, leading to confrontation. Today, North Korea could play this role (the “rapprochement” between Trump and Kim is not trivial), or Taiwan. A conflict between China and Taiwan could force the Americans to intervene under the Taiwan Relations Act of 1979. In 1996, such a situation occurred: when China launched missiles in the Gulf of Taiwan, President Clinton sent two aircraft carriers there, forcing the Chinese to back down. However, over the past 20 years, China’s military power has grown dramatically. It has become a real maritime power. In 2016, it had 72 attack submarines (against 58 in the United States, 50 in Russia, 7 in Germany and 6 in France) including 4 nuclear launchers (14 in the United States and 4 in France or the United Kingdom). It can stop American warships from approaching beyond 1,600 kilometres from its coast or from sinking aircraft carriers. In fact, it is gradually ejecting the US fleet from the South China Sea.

However, authors like Joseph Nye, Donald Kagan, among others, challenge the theory of Thucydides’ trap. Some of Allison’s examples are not conclusive. For example, he states “*Britain was the dominant power in the world in the mid-19th century, but it let Prussia create a new powerful German empire in the heart of the European continent*”. Of course, Britain fought Germany half a century later in 1914, but that war was not one in which an established Britain reacted to a growing Germany. Moreover, the First World War was caused by the German fear of an increasingly powerful Russia, the fear of a rise of Slav nationalism in a declining Austria-Hungary, as well as other factors very different from the bilateral rivalry of ancient Greece. As for current analogies, the power gap, which exists today between the United States and China, is much greater than that which prevailed between Germany and Great Britain in 1914. Kagan showed that before the war broke out in 431 BC, Athenian power had stabilised, and that the balance of power was re-established. “*It was certain that political mistakes of the Athenians had led the Spartans to think that war could be worth the risk*”. In other words, even the classical Greek case is not as simple as Thucydides claimed.

As noted by Waldron, “*Allison’s recipe is actually a recipe for war*”. The case is difficult to make. He gives some examples. Japan was the rising power in 1904 while Russia was long established. Did Russia therefore seek to pre-empt Japan? No. The Japanese launched a surprise attack on Russia, scuttling the Czar’s fleet. In 1941, the Japanese were again the rising power. Did ever-vigilant America strike out to eliminate the Japanese threat? Wrong. Roosevelt considered it “infamy” when Japan surprised him by attacking Pearl Harbour at a time when the world was already in flames. Switch to Europe: in the 1930s, Germany was obviously the rising, menacing power. Did France, Russia, England, and the other threatened powers move against it? No, they could not even form an alliance, so the USSR eventually joined Hitler rather than fight him. There are some exceptions that support Allison’s conclusions, but they are not mainstream.

In any case, **in terms of GDP, military forces, nuclear power, educational and technical levels, standard of living, and financial power, Europe, and not China, can be considered as the leading potential challenger to the United States.** However,

Europe and America are not, and probably will never be, on a path to war. Nor are America and China, according to Waldron. Even if the impressive statistics of China's growth in military power and technology are real, it has many vulnerabilities: high debt, pollution, corruption, demographics... Even Xi Jinping sent his daughter to Harvard; and his first wife fled China and lives in England. In other words, in the decades ahead, the Chinese political regime will have to solve immense internal problems simply to survive. A military solution would worsen its situation.

Trap # 2: Is China still too weak to rule the world?

The Kindleberger Trap

We must be concerned about the "Kindleberger trap", a concept issued from the analysis of the intra-war period by one of the architects of the Marshall Plan, Charles Kindleberger (1973). He considered that the decade of the 1930s was disastrous because the United States, which replaced Great Britain as the dominant world power, failed in fully assume its role, in particular supplying goods worldwide. *"The result was the collapse of the world system in depression, genocide and the world war."* (J. Nye)

In other words, while the problem with the Thucydides trap for the US comes mainly from China, which seems too strong rather than too weak, the problem with the Kindleberger trap comes from a China which may be too weak to help provide global public goods (financial stability, peace, a stable climate, freedom of the seas, etc.).

Trump therefore faced the paradox of a China that is both too weak and too strong.

To achieve his goals, he had to avoid the Kindleberger trap as well as the Thucydides trap. His refocusing on "America first" has amplified the risk of a Kindleberger trap if it resulted in the perception of a withdrawal of the US from the world. Indeed, as Nye notes, *"If China refuses or hesitates to take more responsibility for the supply of goods globally, it is almost certain that we will hear stronger criticism that it continues to take advantage of the system rather than contributing to the existing international order. And if it does the opposite, that is, to take on more international responsibility - which corresponds to its growing national power - we will inevitably hear the accusation that it is seeking regional and even global hegemony."*

China's position is precarious - it must do more to overcome the Kindleberger trap but do less to avoid the Thucydides trap.

The danger is heightened by America's intense pressure. The Trump administration's 2017 "National Defense Strategy" decries the policies of China and Russia: *"China and Russia are defying the power, the influence and the interests of the United States, trying to undermine American security and prosperity. They are determined to make economies less free and less fair".* China, like Russia, is a "revisionist power". It forces the United States to, *"rethink the policies of the past two decades - policies based on the assumption that engagement with rivals and inclusion in international institutions and world trade would make them minor players and partners of confidence"*.

In other words, will China assume responsibility by becoming the world leader or will it, like many countries, be a free rider? For several decades, global public goods have

been managed by coalitions led by the great powers. As Nye reminded us in 2017, small countries have little incentive to pay for these global public goods, so it makes sense for them to be free riders. Their minimal contributions have little influence on their ability to benefit from the public good. This is not the case for the great powers, so it is logical for them to take the lead. If they do not take the lead, it can be disastrous. This was the case after the First World War when Britain became too weak to play this role, and the isolationist United States continued to be a free rider.

So, what will China do? Will it be a free rider? Will it seek a break with the international order and become “revisionist” as claimed in the US report? Alternatively, will it help maintain an international order it did not create? For the moment, the results are reassuring; China is increasingly integrated into the existing order:

- It benefits from multilateral economic institutions such as the United Nations, the World Trade Organisation, the World Bank and the International Monetary Fund.
- It has a veto power in the UN Security Council and participates in its international programmes (climate change, Ebola ...), even becoming the second largest donor to peacekeeping.
- It launched the Asian Infrastructure Investment Bank in 2015, which, contrary to early fears, cooperates with the World Bank and adheres to international rules.

So far, China has proven that it does not seek to overthrow the liberal world order from which it benefits, but rather to increase its influence in it. Fortunately, the overly aggressive approach of the Trump administration has not dramatically changed this. The newly elected J. Biden might consolidate this situation. If not, the Kindleberger trap would become a tangible reality and a danger.

Trap # 3: Towards a “return of history” and the ambitions of old powers? The Herodotus Trap

Herodotus, considered “the inventor of history”, analysed the Greco-Persian wars during the Achaemenid Empire (499 - 449 BC), which ended with the victory of the Greek city states, led by Athens and Sparta, at Marathon, Thermopylae and Salamis (note that Athens and Sparta faced each other a few years later during the Peloponnesian wars (see above)). For the Persians of Darius these were territorial wars for the control of the Aegean Sea, but for the Greeks they became an affirmation of their identity, making of them more of a civilisational conflict. Language, culture, religion, and the concept of nation are at the foundation of what can be called “*the first great historical production of a war of civilisations*” (J. Huntzinger, 2020). Herodotus set out to show the richness of “barbarian” civilisations (understand that barbarians are all those who did not speak Greek), positing that the relationships between peoples (Greeks, Persians, Libyans/Africans) generated mostly cultural conflicts and not territorial conflicts.

What lesson can we learn from Herodotus’ analysis? What is the trap to avoid? The first lesson is that **the rise of fanaticism, the rejection of “the other”, or the idea that one’s culture, religion, or mores are superior to those of one’s neighbours, making them enemies or dangers, can lead to conflict.** The second is that **this becomes more**

likely as the hegemonic power becomes weaker, is perceived as being weaker, or loses interest in managing the world order. This is the case today. Donald Trump's rejection of multilateralism and his unwillingness to police the world has unleashed leaders of illiberal regimes, and the lack of regulation and a collective search for a stable world order is leading into the trap of Herodotus.

These fears are fuelled mainly by countries that are nostalgic for their past. Among them are Turkey, whose president does not hide his nostalgia for the Ottoman Empire; Iran, which would like, among other things, to be a religious reference point; Russia, whose president is nostalgic for the Soviet Union and has a Eurasian project; and of course, China, with notably the rebuilding of a new Silk Road (the BRI, i.e. the Belt and Road Initiative), which could encompass at the end more than 70 countries representing 4.5 billion inhabitants and close to 50% of global GDP. And there are other countries with similar tendencies that seek more regional or continental power based on their heritage. Indeed, for some leaders, conflicts or war would "correct" recent developments, restore an old order, and represent a kind of "revenge of history". So, one could surmise that the Herodotus trap is at least as likely as the Thucydides trap.

Trap # 4: Towards lack of confidence between powers? **The Tacitus Trap**

The Tacitus trap is sometimes put forward by the Chinese themselves. Tacitus was a Roman historian and senator born in the middle of the 1st century AD. Since he did not want to flatter anyone, he is said to have spoken ill of everyone. **Tacitus' trap stems from this character trait: it describes a situation where, no matter what is said or done, people will consider it to be a lie, a bad deed or a bad one intention. No credit is given to the person undergoing the Tacitus trap.**

For some, including some leaders, China is responsible for the harms of globalisation, exchange rate misalignments, deflationary pressures, unemployment, Covid- 19... The Chinese president himself used this term to emphasize the need to maintain the credibility of the government. If not, "*the foundations of the Party's legitimacy and power will be threatened*". To counter this situation, China would need more transparency, consolidate its legitimacy... Difficult to reconcile this with the certainty of the Chinese Communist Party that the Chinese political system is more legitimate and efficient than the western democracies in crisis.

Trap # 5: Towards excess of complacency? **The Chamberlain - Daladier Trap**

The other trap to avoid is that of giving endless concessions to avoid war. **Political and diplomatic complacency can be a sign of weakness when applied to an adversary that seeks war.** The most famous example is the Munich agreements of September 1938. British Prime Minister Neville Chamberlain and the President of the French Council of Ministers Edouard Daladier were so peace-loving that they concluded an agreement that, while avoiding war in the short term, showed Hitler that they were foolish, weak, or

both. We urgently need to avoid this trap in the case of China and the United States. We must be neither complacent nor overly confrontational, instead acting firmly within the framework of international organizations to integrate it into the existing world order. In this regard, the tactic of Donald Trump of confronting China while ignoring multilateralism was dangerous. It appealed to his political base in the run-up to elections, but it was internationally irresponsible.

Europe's attitude is crucial in many respects: it can make it possible to avoid direct confrontation between China and the United States, it has the capacity to bring tough issues back to international institutions, and it must itself reject any form of complacency. It has been criticized, for example, that, for diplomatic reasons, many countries have recognized China as a market economy, which the United States has always refused to do, but **all forms of complacency now seem to have disappeared. The excesses of globalisation (and its impact on employment, food security, etc.) and the Covid-19 crisis were two lasting triggers. The Chamberlain - Daladier trap has a low probability at this stage.**

Trap # 6: Towards a total incomprehension between powers? The Cold War Trap

War is not inevitable, and the Cold War trap threatens both the United States and China, and consequently the whole world. It stems from Thucydides' trap and the ideological conflicts which exist between these two countries and which we find explicitly in the defence and security report which we mentioned above. **Defending the current liberal order and American domination is undoubtedly a good prerequisite for a new cold war, this time with China. It is possible that if the two powers avoid open conflict - because both fear the cost of such a conflict, the Cold War becomes a realistic option.**

In fact, if the essence of a cold war is a worldwide, multi-dimensional, long-term struggle between two superpowers, we already live in a new cold war. This will definitely be the case if China and the United States fail to improve mutual trust and reduce ideological opposition. **History, especially the recent history between the United States and the USSR, shows us how difficult it was to establish a relationship of mutual trust throughout this period. For the United States and China, it will also be difficult, especially since China-US relations have never been good in recent years or decades.**

In addition, in ideological matters, both the United States and the Europeans criticize the undemocratic character of China and its methods of governance. The US administration goes even further, while the National Defence Strategy never puts values and ideology in the background. On the contrary, it always tends to consider that the US must protect liberal ideology in this competitive world. As noted in a document published in 2017, *"China and Russia want to shape an antithetical world to American values and interests"* and there are *"fundamentally political conflicts between those who favour repressive systems and those who favour free societies"*. The Trump administration has added an ideological "red line" to the economic, financial, and diplomatic ones, making cold war a possibility.

Part 2: World growth hinges on the ability of large countries to avoid or bypass economic traps

The Covid and (later on) post-Covid periods are giving new credence to fears of inflation and even stagflation, as steep debt growth continues to plague many advanced economies. Deglobalisation, the resurgence of borders and the desire to reduce dependence on China, meanwhile, pose a major risk for the latter: that of seeing its growth level off at a lower level.

Trap # 7: Will China be able to continue its rapid development? The “Middle Income Trap”

In sum, China (but also the United States and Europe to a certain extent) have to avoid many (geo)political traps. On the economic level, another trap exists for China: the “middle income trap”, that of not succeeding in pursuing a sufficient rate of growth, and of staying at a level much lower than that of developed countries.

It should be borne in mind that **what has made China powerful over the past decades is its openness to the world, but also its rate of growth**: both have made it possible to place China on the international scene, to lift a significant part of the population from poverty, and to weigh on world trade... Let one or the other (or both) stop, and so will the place and role of China. The search for more balanced growth is also and above all the search for sufficient growth to keep up with the two major economic powers.

For the time being, the GDP per capita of a Chinese (PPP GDP of \$ 18k in 2019, OECD data) is 3 times lower than that of an American or a German (respectively 60.7k and 50.1k), 2.5 times lower than that of a Frenchman (43.2k) or a Canadian (45.8k), 5 times lower than that of a Singaporean (more than 100k) ... and China ranks 72nd in the world. The gap with Europe is even wider when it comes to GDP per active worker (33k in China, against 102k in France and 92k in Germany). **Failure to close the growth gap, and being caught in the “middle income trap” (as Brazil or Argentina did) would no doubt be very bad news for China in its quest for leadership.**

The current context complicates the case of China: **the pursuit of deglobalisation, the return of frontiers, the desire to reduce its dependence on China, the relocation of (European and US) companies from key sectors (and some other sectors, too), the inability of so-called “advanced countries” to reconnect with strong growth ... all this represents a major risk for China and its ambitions** of 2025, 2035 and 2049: for the record, by 2025, Xi Jinping wants China to be the dominant economic power on the main markets for ten advanced technologies, in particular artificial intelligence and quantum computers; by 2035, to be the leader in innovation in all advanced technologies; and by 2049, for the hundredth anniversary of the People’s Republic of China, to be number one in the world.

Trap # 8: Will central banks properly manage a possible return of inflation? The “Inflation Trap”

After a decade of deflationary fears (concomitant drop in activity and all prices (prices of goods, prices of services, interest rates ...) and fears of secular stagnation, the return of inflation is not only sought - to some extent - but it is also desirable. It is difficult to see how to contribute to stronger growth without a better sharing of added value (for the benefit of the labour factor) and better control of the debt without a return of inflation.

Question # 1: Where could the inflation come from?

Several avenues are often mentioned:

- **1st track: the adoption of new standards, particularly sanitary standards (health and food safety), likely to fuel the rise in prices.** An argument to be qualified, however: i) will these measures be permanent ... or will they disappear once the Covid crisis is behind us, once the vaccine is discovered? ii) Are these measures not a bit like a VAT hike, responsible for a “once and for all” price hike? It would then be more of a “simple” rise in the price level than a general and cumulative rise in prices (which is the true definition of inflation).
- **2nd track: the declining productivity.** Falling during containment (maintaining employment with entry into recession), it is a safe bet that the health measures linked to the Covid crisis are likely to further - and sustainably - reduce labour productivity, and with it, a drop in supply, a drop in profits and / or an increase in prices... An argument to be qualified as well: any increase in the employment rate and / or in working hours would make it possible to counter the drop in the hourly productivity. This is also the case for productivity investments which are driving greater digitisation and robotisation.
- **3rd track: wage increases.** Covid has shown the vulnerability of certain categories and unequal treatment between sectors of activity, some of them being particularly exposed (health, distribution, transport, etc.), and others highly protected. We could see wage demands in sectors of activity at risk, or even an increase in minimum wages ... This is not improbable, but this argument must also be qualified: the bargaining power of employees remains limited, companies have a crucial need to restore their profitability... and it is not certain that the sharing of added value does not continue to be done to the detriment of employees... especially in a world which is still highly open.
- **4th track: monetary creation continues, and it could lead to an increase in demand for goods and services, and therefore a rise in prices.** This is true, unless for reasons of confidence and the desire to save further, it is once again the demand for financial assets that benefits.
- **5th track: business relocations.** Because they are seen as strategic, or because there is a need to strengthen value chains, relocations can lead to higher cost

releases. This is true ... except if these are highly robotised / automated companies. Many offshore companies are not the ones that required the most skills.

All in all, it is normal to bet on a rise in inflation, even if its extent is still largely uncertain.

Question # 2: How will central banks deal with rising inflation rates?

Will they have to fight inflation or continue to limit - at any cost, i.e. the monetisation of debt - the risks of insolvency? Should they change their focus or become “flexible”? The Fed just did it. Jerome Powell, President of the Fed, in fact presented a new strategic framework on August 27, 2020 and announced significant changes in the conduct of monetary policy:

- A low unemployment rate alone will not be enough to justify an increase in interest rates, as between 2016 and 2018;
- The Fed adopts a Flexible Average Inflation Target of 2% (“FAIT”). The 2% target is abandoned.
- It will no longer carry out preventive rate hikes in the face of inflationary risk.

Powell confirmed that the Fed will tolerate, if not encourage, an inflation rate of just over 2% at the end of the business cycle to compensate for periods when high unemployment keeps (core) inflation below 2%. This reinforces the message that US monetary policy will remain accommodative for a long time. The Fed underlines its commitment to growth: it will no longer tighten monetary policy preemptively, even in response to future fiscal expansions. *“To most people the changes will no doubt appear very subtle, but historically the Fed has worked to keep inflation under control. The changes announced demonstrate the awareness that the environment is decidedly different”* (Janet Yellen - August 2020).

Will the ECB engage in this area? In the 15 years following the creation of the euro zone, average inflation in the major countries has flirted with the ECB’s target of 2%. But for the last 10 years or so, the average inflation has been somewhere between 1% and 1.5%. The inflation regime has changed. The last time the ECB Governing Council revised its monetary policy strategy was in 2003. The environment has dramatically changed since then. A review would make sense - especially since inflation in industrialised countries has decreased noticeably (see graph 1).

**Graph 1: Inflation trend in the euro zone over 40 years
(Germany, France, Italy, Spain and Netherlands)**



What can the ECB do?

- *Solution 1:* Leave the targets unchanged, and keep an inflation target “below, but close to 2%”.
- *Solution 2:* Take note of the lower inflation regime and lower the inflation target and not change the underlying philosophy.
- *Solution 3:* Do not change anything, but accept (encourage) a rise in inflation expectations.
- *Solution 4:* Adopt a target in the form of a fluctuation band (an upper bound as the target for the top of the business cycle, and a lower bound for the bottom of the cycle), like Australia and South Africa by example (see table 1).
- *Solution 5:* Maintain the initial 2% inflation target, but with a tolerance zone like in Canada, India or Brazil, which would allow the ECB to adapt its reactions to the underlying context.

Solutions 1 and 2 would push the ECB to raise its rates quickly, even faster in solution 2. Solution 3 looks a bit like the current situation: it is safe in times of no inflation and no inflation expectations. But since it does not set any explicit limit on expectations, it could prove unmanageable when inflation resumes. Solutions 4 and 5 would offer flexibility to the ECB. They should be privileged.

Table 1: Inflation targeting in some advanced and emerging countries (1)

Country / Zone	Inflation target
Switzerland	Below 2%
Euro Zone	Below, but close to 2%
United States	2% until August 2020, and FAIT (Flexible Average Inflation Target) since then
Japan	2%
United Kingdom	2%
Sweden	2%
Canada	2% +/- 1%
Australia	2% to 3%
China	Around 3%
Russia	4%
India	4% +/- 2%
Brazil	4.25% +/- 1%
South Africa	3% to 6%

(1) Note that emerging economies have higher inflation targets for at least three reasons: i) their (average) growth rates are still higher than those of advanced countries; ii) their price levels are still significantly lower. As their economies catch up, the rates of price increase usually turn out higher than in advanced countries; iii) lots of emerging economies continue to exhibit higher inflation rates.

Trap # 9: A throwback to the 1970s? The “Stagflation Trap”

Let’s start with a quick refresher. In the 1970s, particularly with the first oil shock in 1973, *stagflation* became commonplace. This portmanteau word, a contraction in the words stagnation and inflation, was originally used by Chancellor of the Exchequer Iain Macleod in November 1965 to describe the economic situation of the United Kingdom. As stagflation is most often accompanied by a high unemployment rate, it has undermined the Keynesian economic policies that have predominated to far, whose logic is based on arbitrage between inflation and unemployment. The stimulus policies advocated have proven ineffective; while they were meant to lower unemployment, under some it has increased. This has become known as *slumpflation* (combining slump and inflation), a period of economic crisis, recession, and high inflation. This gave birth to monetarism (Milton Friedman, Chicago School) which considers the money market to be paramount and emphasizes combating inflation. These are the foundations of the independence of central banks (missions, objectives and statutes) and major European treaties (fiscal and tax discipline, Maastricht Treaty criteria).

The 1990s and 2000s were marked by the strong progression of globalisation and the increased role of China. But since the mid-2000s, the machine has seized up: the 2008 financial crisis, the European debt crises, the excesses of globalisation, the capture of added value by shareholders “to the detriment” of employees, reforms in the labour market, the perception of inequality, the power of China and the pressure on prices and wages, the pauperisation of the middle classes in advanced countries ... all of this has reshaped the political and social landscapes (rising populism, resurgence of protectionism) and the economic context (precariousness, fears of deflation or stagnation (secular or not)).

The Covid crisis has plunged economies into an unprecedented recession, and stimulus packages have been adopted, with help from central banks. If growth remains structurally weak while the inflation trap becomes looming, then fears of going back to the 1970s would be justified. While this comparison may seem legitimate, it nevertheless comes up against the observation of major differences between the 1970s and the 2020s:

- First, the state of public finances. The levels of public debt or deficits today (particularly structural deficits) have nothing to do with those which prevailed in the 1970s (they were very low at that time). In other words, if there were room for manoeuvre in the 1970s (which were exploited subsequently), then they are gone today: debt levels have reached critical levels in most countries. The Covid crisis has considerably amplified already existing slippages;
- Next, the level of interest rates. In this area too, there is now no room for manoeuvre, while the effectiveness of monetary policies is even contested;
- The level of interlocking of countries, one of the result of globalisation. This situation is considered to be partly responsible for the deindexation of wages, wage austerity, company relocations, deindustrialisation, sharing of added value, structural unemployment, etc. value chains, relocating activities, etc.) will not be easy.

Relaunching the machine in the 1970s and 1980s was no doubt easier: opening up to external markets made it possible to seek growth and outlets ... The logic is being reversed. **How can inflation now be contained without breaking down growth, and how can we resume growth without further jeopardising the solvency of States? This is the challenge of current economic policies.** Excessive globalisation, excessively low interest rates, excessively degraded public finances, this is what would make stagflation in the 2020s very different - and much more complex - than the stagflation of the 1970s.

How to revive growth? For many advanced countries, including Europe, relaunching growth means breaking free from China, relocating industry, promoting national production, creating high quality jobs, restoring confidence, promoting investment, mobilising savings ... in short reindustrialise and accept a little more inflation.

Trap # 10: Debt size and debt crisis

The “Debt Trap”

Already in 1976, Raymond Barre, French Prime Minister, worried about the level of the debt and its consequences on the economy and on economic policy. The debt then represented... 15% of the GDP. This was only the beginning: the public debt to GDP went from around 15% in the 1970s to 102% in 2019 and more than 120% in 2020 in France following the Covid crisis ... It is not obviously not an isolated case. According to the latest projections from the International Monetary Fund (IMF) published last October, the world public debt as a percentage of gross domestic product could rise from 83.3% to 101.5% between 2019 and 2020, an increase of eighteen points. Global public debt will therefore climb to an unprecedented level, more than at the end of the Second World War..

In the first quarter of 2020, without taking into account the impact of the Covid crisis, five EU countries already showed a level of public debt above 100% of GDP: Greece (176.7%), Italy (137, 6%), Portugal (120.0%), Belgium (104.4%) and France (101.2%). Public debt levels are now the lowest in Estonia (8.9% of GDP), Bulgaria (20.3%) and Luxembourg (22.3%). In Germany, the increase in general government spending is expected to be relatively more moderate than in most of its neighbours, and debt is expected to rise by around 9 percentage points, from 59.8% to 68.7% (note that debt/GDP ratios were similar in France and Germany 20 years ago). All in all, it is evident that one of the essential characteristics of the world economy is the level of indebtedness, which has also been on the rise for several decades. The resolution of the 2008 financial crisis even led to the creation of more debt to resolve a crisis caused precisely by an excess of debt... This situation has at least three major consequences:

- First of all, it strongly constrains economic policies, particularly fiscal and tax policies. The lack of room for manoeuvre linked to excessive indebtedness is one of the key arguments of the defenders of secular stagnation: more rigorous, they jeopardize growth; laxer, they deteriorate solvency and country risk;
- It supports the theme of “Fiscal Dominance”, a situation in which debt sustainability is the central bank’s objective, with interest rates remaining extremely low despite the economic recovery or inflation. Fiscal dominance threatens the credibility of central banks.
- It pushes to keep interest rates (too) low, which in turn threatens financial stability, and encourages the emergence of bubbles in financial markets.

Without higher growth, without a little more inflation, with higher interest rates, without fiscal discipline and without international cooperation, a debt crisis is inevitable in the long run.

Part 3: Geopolitic traps, economic traps and the new US administration: what's next?

To some extent, in view of the geopolitical or economic traps developed above, **the results of the American presidential election were as important for the United States as they were for Europe or China.** The attitude of the future US president is indeed crucial. Will he return to the diplomatic table, or will we be entitled to strained relations? **The choice between Trump and Biden appeared in many ways to be a choice between two directions:** a more unilateralist America versus one more loyal to multilateral institutions and the Transatlantic Alliance; a more unequal society against a more democratic and more inclusive one, particularly on the racial level; a style of governance more respectful of the separation of powers and which gives power to federal government agencies against a style which follows the logic of the doctrine of “unilateral presidency”, and which would like to grant the president almost unlimited powers. It can be said that both the democratic functioning and the role of the United States in the international system were at stake. This vision may seem a little “romantic”, candid, but it pretty much sums up the underlying debate. However, it would be dangerous to believe that the behaviour and analysis of Trump and Biden will be radically different on all matters of importance. “Romanticism” has its limits.

3.1. United States vs. China: a rivalry that goes far beyond political parties

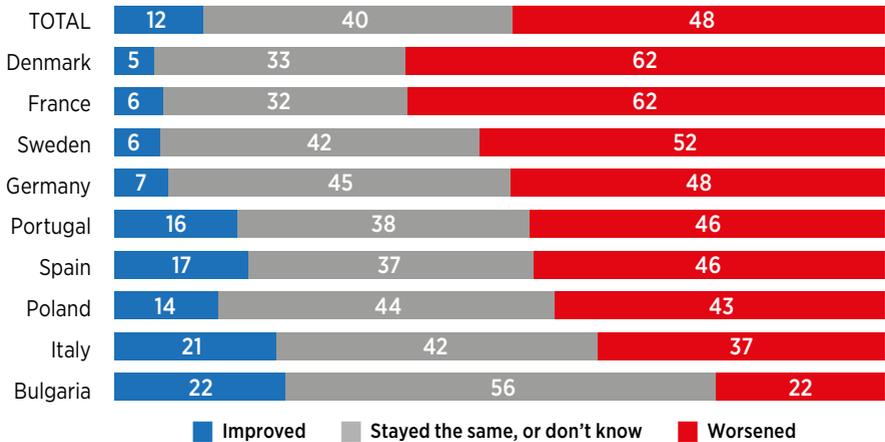
If there is a broad consensus in the United States, across political lines, it is the need for firmness towards China. Obviously, that would not have changed with a second term for D. Trump, but neither will it change with the election of Joe Biden. Many members of the Democratic Party are very critical of China, which is effectively seen as a rival, failing to respect democratic rules or human rights, or fair trade. **What will change with Biden, however, is the style, the attitude, in other words, the form, not the substance.** The dependence on China, the ongoing technology war, the war on foreign equity interests, the relocation of the global supply chain, the situation in Hong Kong (which carries risks of possible US sanctions against Chinese banks and exclusion of the dollar system), intellectual protection of patents... all these issues will remain. On August 15, the two countries agreed to postpone the review of the first phase of their trade agreement, but the equally hawkish tone of members of the Democratic Party puts the rest of the process at risk. Further skirmishes in the South China Sea or in the Taiwan Strait could also push the situation to a point of no return.

3.2. Europe vs. China: the end of all forms of complacency

Some observers or analysts highlight the complacency of certain countries, especially Europe towards China: recognize China as a market economy and want to deal with it on this basis, accept its entry in the WTO without imposing more guarantees, accusing the United States of all the evils during their trade war with China ... all this will have been damaging. The Covid crisis has nevertheless changed the situation. This crisis

will indeed leave traces in our memories, and **it is very likely that the Chinese origin of the virus has become an original sin that will weigh on China's reputation**, now limiting its geopolitical room for manoeuvre. In any case, one thing is already known: the deterioration of China's image, as a recent survey in Europe clearly shows (graph 2).

Graph 2: The perception of China has deteriorated sharply in Europe during the coronavirus crisis



Source: ECFR - ecfreu

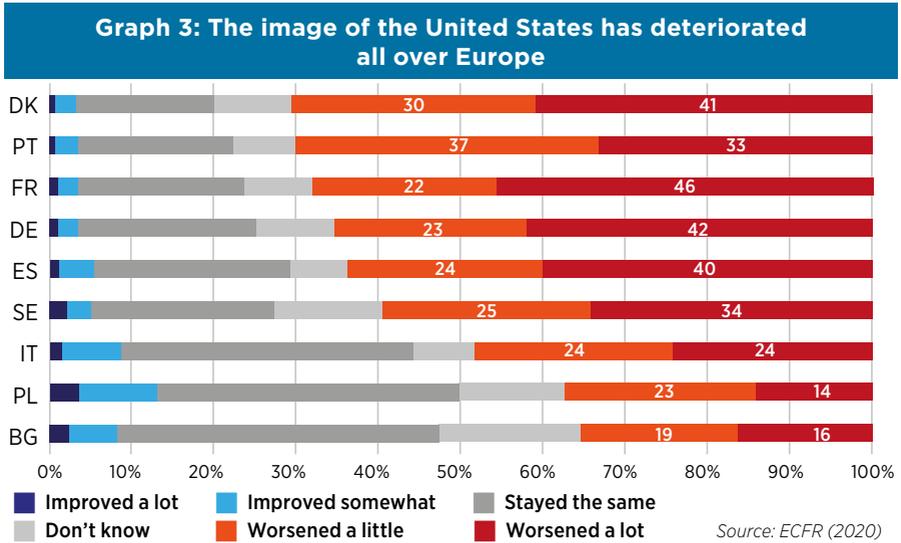
The Covid crisis will have major consequences for China: further de-globalisation, modification of value chains, less dependence on China and the desire to restore all or part of sovereignty in health, food and sectors now considered key ... all of this will weigh on its growth... and therefore potentially on employment, growth prospects, reduction of inequalities, the level of poverty, the debt... **The middle-income trap described above is at present a real threat for China.** The Chinese response will undoubtedly not be isolationist. When the people are angry, and lacking democratic remedies, an authoritarian regime may be tempted to divert that anger against outside targets. The exacerbated patriotism is part of the “Xi Jinping mind-set”. **An economically and socially challenged China is likely to be an aggressive China. The geopolitical traps are also threats for China, especially the cold war trap and the Tacitus trap.**

3.3. Europe: a deterioration in the image of the United States

Americans and Europeans undoubtedly have many common grounds on which they can cultivate their complicity and proximity, historical and cultural in particular, even if the transatlantic alliance between the United States and their European allies has been severely challenged since Trump's election in 2016. However, America's reputation is weaker than ever within the European Union itself. Recent surveys also show that Trump's attitude during the Covid-19 crisis, which has focused more on

blaming other countries than willingness to cooperate with them, has greatly amplified an already existing poor sentiment.

An ECFR poll reveals, in the wake of the coronavirus crisis, that the image of the United States has deteriorated all over Europe: more than two-thirds of respondents in Spain, France, Germany, Portugal and Denmark say their opinion of the United States has deteriorated during the crisis (Graph 3)

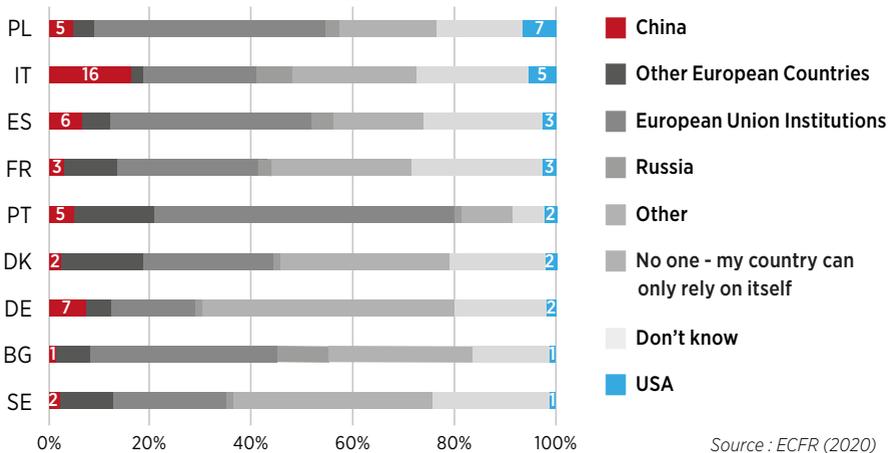


Apart from Poland, not a single country considers that the United States will help their country more than China (3 times more in Italy or Germany, for example). According to Jeremy Shapiro (research director at the European Council on Foreign Relations (ECFR), and adviser to the State Department during the Obama presidency), “hardly anyone in Europe expects the United States will be a useful ally in the future”. Everything seems to indicate that Europeans are preparing for a future without the America they once knew. The perception on China is not better. In sum, **most countries now rely only on themselves, even in European institutions and other European countries** (Graph 4).

Two comments:

- **First, the criticism that some may have made against European countries for a form of complacency towards China is no doubt no longer relevant.** The contrast between the United States and Europe was certainly startling, but the Covid crisis has changed that.
- **Second, does the opinion on the United States mean a greater distance to come between the United States and Europe geopolitically and geo-economically?** Probably not. The Biden’s notoriety on the Old Continent suggests that mutual trust could be rekindled.

Graph 4: Which country can we count on in the post-Covid crisis?



3.4. Europe: Atlanticism vs. continentalism... which direction to take?

Atlanticism (or Transatlanticism) is the political belief which, since the beginning of the Cold War, advocates a military alliance centred on the states adjacent to the North Atlantic Ocean and, by extension, between Europe and North America. This alliance aims to ensure the security of member countries and protect the values that unite them: “*democracy, individual freedoms, and the rule of law*”. It goes hand in hand with cooperation in the political, economic and cultural fields. NATO is one of the expressions of Atlanticism.

Atlanticism is opposed to continentalism, the political belief which advocates a military alliance centred on the European continent. This opposition between Atlanticism and continentalism intersects with classic oppositions in geopolitics between land and sea, maritime powers (thalassocratic power) and continental powers.

Since the beginning of the 21st century, Atlanticism has often been denounced, mainly in certain countries of Europe, as a defence of economic liberalism and support for the foreign policy of the United States. As a result, the word has sometimes taken on a very strong pejorative connotation, particularly in left-wing and anti-globalisation circles. In Europe, some countries, such as the United Kingdom, Poland or the Baltic countries are traditionally aligned with the idea of Atlanticism. For the latter, this attitude stems from the fact that they have suffered from the actions of Russia throughout their history and they wish to protect themselves by relying on another great power. In other countries, such as France or Germany, but also Spain and Italy, Atlanticism is more or less emphasized according to parliamentary majorities and the governments in power.

Transatlanticism is at present one of the elements of a global world, it is no longer the main issue as in the days of the Cold War. Biden could be, like Obama before him, the tree that hides the forest of a transatlantic relationship increasingly subject to turbulence and perceptual differences. The Biden presidency will certainly ease tensions exacerbated by Trump's clumsy formulas, but it will not fundamentally change the situation when it comes to China, defence, security... **Like it or not, the transatlantic relationship as it developed in the aftermath of the fall of Nazi Germany and as it continued during the cold war is now history. Europe is well aware of this.** *"Europe will have to learn to do without the United States"*, announced Angela Merkel in 2018. More recently, she recalled in an interview with the Guardian (June 2020): *"we have grown with the certainty that the United States wanted to be a world power. If the United States is now willing to relinquish this role of its own accord, we will have to think about it very seriously"*. In his opening speech at the annual meeting of the European Council on Foreign Relations (CEFR), German Foreign Minister Heiko Maas said that regardless of the outcome of the US presidential election in November, Europeans *"will have to think about how to better contain the conflicts around Europe, even without the United States"*. This point of view is shared in many countries.

In addition, everyone knows that whatever the outcome of the November elections, the American president would still be protectionist in trade matters, sensitive to the supposed isolationist instincts of the American public and reluctant about the idea of writing checks to defend Europe.

The transatlantic alliance, essential at the end of the Second World War and at the dawn of the United States - Russia Cold War, had been the cornerstone of almost all diplomatic relations between the United States and Europe. However, the United States challenge the functioning of this alliance, and in particular the attitude of Europe. D. Trump considered European countries as *"parasites"*, protecting themselves cheaply under the umbrella of American protection. The former US president, as well as B. Obama before him (and others before him, like J.F. Kennedy, who considered himself *"frustrated"* by the fact that the European allies are living *"at the back of the country"* while they- even guaranteed the freedom and security of Europe), reproach Europeans in particular for not devoting the equivalent of 2% of their GDP to defence, the NATO framework amount (1). This also applied in the past to the UK, which was much criticised under the Obama administration for the same reasons.

To revive the transatlantic alliance, therefore, Europe also has work to do. For its part, it must be ready for the renewal of the alliance, placing its values above political and diplomatic opportunism. Europe needs to show American public opinion that it is by no means the free-rider described by Trump, but that it is a reliable partner. Trump has repeatedly threatened to withdraw militarily from Europe if the Europeans do not fulfill their obligations. Even if his Administration has in fact taken a more balanced position and Biden's position is fundamentally more moderate, the

fact remains that European countries do not meet their financial obligations in terms of security and defence¹.

Moreover, many surveys also show that in several European countries, people (and their governments) are very attached to a possible intervention by the United States to come to their aid, but less enthusiastic at the idea of intervening themselves in the event of a threat to an ally. This **lack of reciprocity** is a real problem.

Despite very harsh comments on how it works, **the Trump Administration has repeatedly demonstrated its commitment to the Alliance, considering that the Alliance must now focus its attention on the multifaceted threat from China on the common values to the Alliance, i.e. Europe and the United States. Maintaining this alliance is important for both parties, but building greater autonomy / sovereignty is nevertheless essential.**

3.5. Biden administration: the United States back to the negotiating tables?

It seems unthinkable that Joe Biden would not make major changes in US policy towards Europe. Biden has always been a staunch transatlantist, and he has forged close relationships with some European leaders, such as Chancellor Angela Merkel. One can doubt, however, a return of the transatlantic relationship to its pre-Trumpian state. A ruling Biden administration would nevertheless adopt a different attitude: while Trump has spent his tenure sparking tensions with Europe over climate change, trade, and human rights, Biden would likely revert to the diplomatic option.

Biden will undoubtedly work to treat Covid-19 as a global crisis, not the act of any particular country. The United States could join the Paris climate agreement. They could re-enter into trade agreements. They should seek and accept tough compromises on issues such as trade and privacy that divide the United States and Europe. They should participate in cooperative efforts to ensure that technological innovation conforms to human rights principles. The attitude of the US towards European telecoms may also be more benevolent in defending a sort of transatlantic 5G alliance.

While D. Trump welcomed the UK's decision to leave the EU and expressed doubts about the EU's future viability (he also supported a free trade agreement with the UK United after its withdrawal from the EU), Joe Biden's team has been critical of Brexit. He notably warned Boris Johnson that Northern Ireland's protocol with the EU should not be called into question, otherwise the US-UK trade treaty would be compromised. On September 16, Joe Biden insisted: *"We cannot allow the Good Friday agreement that brought peace to Northern Ireland to become a victim of*

¹ In 2019, only 9 of the 30 members met this commitment. As a whole, the defence budget of NATO countries represents 2.51% of its GDP, with significant differences between countries: the United States devotes 3.42% of their GDP to it, the United Kingdom 2.13%, France 1.84%, Europe 1.58%, Germany 1.36%, Italy 1.22% and Spain 0.92%... (Source: NATO).

Brexit. Any trade deal between the United States and the United Kingdom must be contingent on honouring the agreement and preventing the return of a hard border. Full Point."

As regard defence issues J. Biden could question the US decision to withdraw from the multilateral nuclear deal with Iran. The Biden administration will no doubt also be proactive in initiating negotiations for the renewal of the "New Start" treaty with Russia on nuclear weapons. This expires in 2021.

Broadly speaking, it means that **the US may create with Europe a new alliance based on partnership and not on leadership. A big change, assuredly.**

Conclusion – It's all about balance

The least one can say is that **ideology returned to the forefront during the 20th century.** Since the Treaty of Westphalia in 1648, conflicts have always been between nations. However, starting in the 20th century, they have been between ideologies, as Samuel Huntington explained in 1996 in "The Clash of Civilizations and the Remaking of World Order".

China, United States, Europe, Russia, Iran, Turkey... it is a question of power and domination here. The traps discussed in this article show the potential instability of the current equilibrium. It must be said that power has become a complex concept, which no longer has anything to do with military power (fleet and military divisions) or with access to raw materials. The concept of power has greatly evolved, and there are different forms of power: hard power, soft power, smart power. In addition, power has become less fungible, less coercive, and less tangible (Louis, 2018).

Power is less fungible than before because it is now more difficult to transform it into influence. How, for example, can one use soft power or financial power to acquire military power, and vice versa?

Power is less coercive than in the past because using force is now costlier. The greater interdependence of economies means that any conflict could have a negative impact on all countries. Less coercive solutions to conflicts than applying power, such as negotiations and diplomacy, are preferable. In that sense, the Thucydides trap is not highly credible.

Power is less tangible than it used to be because it is not based just on economic indicators or statistics, such as population size, the number of banks and multinationals, or the number of tanks and soldiers. Power is now also based on intangible characteristics such as social cohesion and the universality of a culture, which are difficult to measure but increase a country's influence.

Power is in fact becoming more co-optive (Nye). It is less about forcing others to adopt a specific vision or behaviour than having the ability to influence them enough so that they willingly do what you want them to. This growth of soft power harks

back to the ideas of Herodotus, Braudel, and Huntington in that cultural differences rather than territorial aspirations are now more likely to generate conflicts.

The rise of China drives certain countries, with the United States in the lead, to change their evaluation of the international scene. Beyond the Chinese-American rivalry, it is a safe bet that the upheavals will be substantial. New alliances will be sought, territorial issues will cause conflicts, and third countries will try to take advantage of the situation. There are many traps, since the transition from one balance of power to another is always complex.

The table below recaps the different traps developed above.

The traps/ the countries concerned	USA	China	Europe	Other
1 The “Thucydides Trap”	Dark Green	Dark Green	Light Grey	Light Grey
2 The “Kindleberger Trap”	Light Grey	Dark Green	Light Grey	Light Grey
3 The “Herodotus Trap”	Light Grey	Light Grey	Light Grey	Dark Green
4 The “Tacitus Trap”	Dark Green	Dark Green	Light Grey	Light Grey
5 The “Chamberlain – Daladier Trap”	Light Grey	Light Grey	Dark Green	Dark Green
6 The “Cold War Trap”	Dark Green	Dark Green	Light Grey	Light Grey
7 The “Middle Income Trap”	Light Grey	Dark Green	Light Grey	Dark Green
8 The “Inflation Trap”	Light Grey	Light Grey	Dark Green	Light Grey
9 The “Stagflation Trap”	Dark Green	Dark Green	Dark Green	Dark Green
10 The “Debt Trap”	Dark Green	Dark Green	Dark Green	Dark Green

Is China already too powerful, making an open conflict with the United States inevitable (the Thucydides trap) or will an equilibrium be established (the Cold War trap)? Is China still too weak to assume some superpower functions (the Kindleberger trap)? Will the lack of balance and collective complacency fuel the territorial ambitions of other countries (the Chamberlain-Daladier trap) or the inclinations of the nostalgic powers to reclaim some of their former glory (the Herodotus trap)? Is China forced to improve transparency, to liberalise its capital account and to protect private property rights, for example, to avoid the Tacitus trap? Will China be able to pursue its development and fill the income gap with major powers? Will it be possible to avoid inflation trap, stagflation trap and debt trap? Perhaps all of this will happen to some extent since the traps are not mutually exclusive. Many fear that the world will remain partly unipolar, partly multipolar, and partly chaotic. It’s all about balance.

The election of J. Biden is a game-changer on some points, including the future relationship with Europe. We can expect a return of the United States to the negotiating tables, and in some agreements rejected by Trump, such as the Paris climate agreement. We can also expect better collaboration from the United States on the Covid-19 pandemic ... and a more peaceful relationship with China. Let’s not

be too angelic though: **the Democratic Party doesn't have a positive view of China, and Trump's criticism will undoubtedly be echoed by the Biden administration. The tone will change, not the substance. With Europe, it will undoubtedly be more constructive,** even if Atlanticism no longer has the same "raison d'être" today as it did 20 or 30 years ago. Now it is about rebuilding the US / Europe relationship, and if done right, it will be done more on the basis of partnership and not conflict. **Avoiding the traps will be the common lot of American and European governments.**

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Philippe ITHURBIDE

Senior Economic Advisor

Conception & production

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Benoit PONCET, *Research*

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