

This Cold War is more messy, complex and dangerous

[Henry Ergas](#) 12:00AM December 27, 2019



Xi Jinping and Donald Trump during the Chinese president's US visit in 2017. Picture: AFP

If the decade that is about to end saw China's emergence as a global power, it also witnessed an extraordinary resurgence of the US. With the EU sinking into insignificance, the world is once again bipolar, but in a more complex and uncertain way than it was during the lengthy era of the Cold War.

To say the return of the US was the surprise of the decade is not to ignore the searing divisions that tear at that nation's fabric. But the fact remains that once it overcame the crippling recession caused by the financial crisis, American enterprise — which the left's favourite pundits had unanimously written off when the crisis struck — remade itself and the world.

Consider this. Four companies dramatically altered the way we live and work in the 2010s: Apple, Google, Amazon and Facebook. All four are American. Add Uber, which hired its first employee in February 2010, and Microsoft, which managed to reinvent itself across the course of the decade, and that makes six.

Nor does the American pre-eminence end there. On the contrary, in reshaping the landscape, those firms created vast new markets, going from streaming services to dating apps. Estimates suggest that in those markets, too, the companies that account for 80 per cent of the revenues are American, as are the firms that dominate the industries that have developed to service them.

Yes, there have been earlier times in which American firms defined an entire sector, as IBM did with computers in the late 1960s and 70s.

And anyone who lived through that period will remember the anguish created by what was referred to as “the technology gap” between the US and the rest of the world, as well as the ill-judged responses to which that anguish gave rise.

But even then the role of American firms was more limited, and their impacts more slowly acting, than the transformation these six firms unleashed in the 2010s.

There is, however, far more to the American resurgence than the information technology sector alone. Nowhere is the sheer extent and significance of the change clearer than in oil and natural gas.

Ten years ago, as its traditional fields approached the end of their economic lives, the US faced a future of dwindling domestic reserves and mounting dependence on imports. Now, thanks to the massive application of fracking and drilling technologies that were first successfully applied to tight rock formations only in the early 2000s, it is

by far the world's largest producer of oil and natural gas, and is substantially insulated from the vulnerabilities that were dramatically highlighted by the oil crises of 1973 and 1979.

That story, which could be multiplied by similar accounts of new-found competitiveness in activities as diverse as agriculture, bio-med, logistics and even motor vehicles, reflects the renewed vigour of the American economy's longstanding strengths: the size and efficiency of its capital markets, which make finance readily available to promising ventures, allowing them to scale up at a pace unparalleled elsewhere; its highly flexible labour market that rapidly draws labour to areas of expanding opportunity; the breadth and depth of its scientific and technological infrastructure, which is then magnified many times over by its unique ability to attract the world's most talented scientists and engineers; and, last but not least, its vast, sophisticated and intensely competitive product markets, where natural selection operates with a vengeance, fuelling repeated cycles of "creative destruction".

Add to all that a regulatory environment that may have become increasingly intrusive over the years but which federalism, the separation of powers and the country's enduring diversity have prevented from being stifling, and America's ability to ride successive waves of change falls into place.

The contrast with the EU could not be starker. As the decade opened, the EU triumphantly declared that by adopting the single currency, it had positioned itself to overtake the US as the centre of gravity of the global economy. In reality, the eurozone has alternated since 2010 between phases of crisis and long periods of asphyxiation.

The numbers tell the story: measured taking account of differences in the cost of living, the GDP gap between the eurozone and the US nearly doubled during the decade, while unemployment in the eurozone remains more than twice its American counterpart.

Little wonder the US financial system has not merely consolidated but strengthened its pivotal role, giving American sanctions even greater bite than they had in the past and condemning Europe's attempts to bypass them to dismal failure.

Meanwhile, faced with those realities, the best the EU can come up with is a "Green New Deal", marking a return to the massive subsidies to "national champions" that helped stymie Europe's growth in the 80s.

The EU's poor performance is not a fate but a choice. It is a choice by elites that are sheltered from the consequences of their decisions, most of whose burdens fall on ordinary people, such as the French men and women who took to the streets as gilets jaunes and who have now brought France's transport infrastructure to a virtual halt.

But comfortable in its lifestyle, Europe's ruling caste prefers, and will continue to prefer, a decline into irrelevance to what it derides as the "savage capitalism" of today's US.

The contrast is, of course, even starker with China, which is in the throes of a far-reaching authoritarian reversion. However, while the return to state control is contributing to the slowdown in China's decades-long expansion, it will neither end that expansion nor dampen the ever-greater international assertiveness of the country's communist leadership.

As China flexes its muscles, the scope for regional frictions to escalate will only increase, testing the mettle of the Western alliance.

But the challenge China poses to the West, and particularly to the US, is in many respects less straightforward than that once posed by the Soviet Union.

For better or worse, the Soviet empire and the West were nearly entirely separate blocs, interacting mainly at the fringes of the world system.

However, the economies of China and the US are deeply integrated, and at least potentially share as many common interests as they have areas of bitter rivalry. Exploiting those common interests while successfully containing China's belligerent nationalism is a task as difficult as it is fraught with risks. Whether the US is up to that task is the defining issue for the 2020s.

Is the US, in Joseph Chamberlain's evocative description of late Victorian Britain, a "weary titan", staggering "under the too vast orb of its fate" and desperate to shed its costly foreign entanglements?

Or will its renewed vitality allow it to restore the "American century" that Theodore Roosevelt famously foreshadowed when he told his compatriots in 1905 that the time had finally come to "dare mighty things", and take the chance to "win glorious triumphs, even though checkered by failure, rather than to live in the grey twilight that knows neither victory nor defeat"?

There are, to those questions, no simple answers. As a new decade dawns, what is certain is that they will remain messy, complex and dangerous, and our future with them.