

# THE NEW NORMAL *in Asia*

*A series exploring ways in which the Covid-19 pandemic might shape or reorder the world across multiple dimensions*

## Covid-19 Knocks on American Hegemony

Ashley J. Tellis

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After almost two decades of conflicted hesitancy, the United States finally acknowledged that it is involved in a long-term strategic competition with China. This rivalry, almost by definition, is not merely a wrangle between two major states. Rather, it involves a struggle for dominance in the international system, even if China as the rising power disavows any such ambition. China's very ascendancy—if sustained—could over time threaten the U.S. hegemony that has been in place since the end of World War II. It is this reality of unequal growth—which has nourished China's expanding influence and military capabilities—that lies at the root of the evolving rivalry.

Although the term sometimes has unsettling connotations, the United States is a genuine hegemon, understood in the original Greek sense as a leader in the competitive international system. This hegemony derives from the fact that the United States is the world's single most powerful state. First, it remains the largest economy in real terms, a foundation that underwrites its capacity to project military power globally in ways unmatched by any peers. Second, it possesses a sufficiently



*Ashley J. Tellis is the Tata Chair for Strategic Affairs and a senior fellow at the Carnegie Endowment for International Peace. He is also a counselor at the National Bureau of Asian Research and the research director of the Strategic Asia Program.*

effective state that presides over a remarkably productive society. And, third, in partnership with strong allies in North America, Western Europe, East Asia, and Oceania, who share both values and interests, the United States has created an international order that buttresses its primacy materially, institutionally, and ideationally, thereby allowing it to advance diverse interests while economizing on its use of force. Although these foundations have been stressed in recent times, the Covid-19 pandemic now threatens them in deadly ways.

## Battering the U.S. Economy

While it is still too early to tell what the pandemic's long-term economic impact on the United States will be, the early consequences are alarming. The slowing economic activity that began in March this year is expected to accelerate deeply into the next quarter, leading to a contraction of the U.S. economy (and that of its European partners) at double-digit rates. The 12% decline expected in the second quarter is equivalent to an annualized 40% decline rate in GDP growth, something never witnessed even at the height of the global financial crisis in 2008 (and that could exceed the worst since the end of World War II). As a result, the U.S. economy is

expected to witness an unemployment rate of some 15% in the second and third quarters of 2020, with double-digit unemployment persisting well into 2021 according to the Congressional Budget Office. This economic shock is part of the larger contraction in global GDP, which is also expected to witness negative growth in 2020.

The massive dislocations that are now occurring on a global scale have made the state the principal engine of mitigation and recovery, in effect returning it to the center stage even in what are otherwise free-market economies. This has already occurred in the United States. To alleviate the consequences of the rapid recession, the U.S. Congress has appropriated over \$2 trillion thus far, more than doubling the package passed during the 2008 financial crisis, with even more to come. And the Federal Reserve has launched a new round of quantitative easing involving \$700 billion worth of asset purchases, while dropping its benchmark interest rate to zero and reducing the discount rates and lengthening the loan terms for banks in an effort to keep aggregate credit flowing and illiquid firms solvent. The Congressional Budget Office has assessed that the legislative actions are expected to expand the U.S. federal budget deficit to \$3.7 trillion, and total U.S. debt by almost 10%, with the debt held by the U.S. public reaching 101% of GDP by the year's end.



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While such massive governmental intervention is inevitable and necessary, whether it will suffice for recovery is still uncertain. Much will depend on when the lockdowns can be relaxed, and that in turn depends on the progress made in containing the virus. The dilemmas involved in juggling the threats of pandemic resurgence, on the one hand, and the perils of continued contraction of the real economy, on the other hand, cannot be underestimated. What is certain, however, is that the U.S. economy will face significant transitions in the aftermath of this pandemic in at least two directions that bear on the future of its national power.

First, it is likely that the unrestrained globalization that evolved over the last several decades—driven largely by the profit-maximizing behaviors of private entities—will be replaced by a more constrictive version of interdependence in which states seek to protect critical aspects of the production chain within national boundaries as an insurance against future vulnerability. These efforts necessarily entail increased systemic inefficiency and could reduce overall growth rates, but it appears that governments are now more willing to accept such costs if they promise greater security and control.

Where the United States is concerned, the drive to constrict globalization, which had already been initiated by the Trump administration prior to the pandemic, is likely to gather greater steam. The prospect of China retaining monopolistic dominance in global manufacturing is proving unacceptable to Washington when intensified competition with Beijing looms large. Consequently, even if global production chains do not retreat to within national boundaries—as is likely—the shift toward greater integration within regions populated by friendly states will gain momentum. China's own irresponsible behavior in concealing the scope of the pandemic's outbreak and its distribution of shoddy test kits and personal protective equipment internationally are only likely to reinforce the desire for greater national

autonomy over critical manufacturing capabilities whose definition now promises to transcend all narrow conceptions of national defense.

Second, short of an armed attack on the United States, the competition for public resources between nondefense and defense goods is likely to intensify. Already before the pandemic, political pressures within the country from both the right and the left were pushing in the direction of greater attention to needs at home, with the Trump administration's combative efforts at increasing burden sharing by the allies only a manifestation of this challenge. Even if the more optimistic analysis from J.P. Morgan, for example, comes to pass—that the United States could begin to bounce back from the pandemic in the second half of the year—the cumulative economic losses that the country suffers would total roughly \$11 trillion over a decade. More pessimistic assessments offered under some scenarios by McKinsey, in contrast, suggest that such losses would reach almost \$19 trillion over the same time period. Under such conditions, it is unlikely that U.S. defense expenditures at the 2019 level of \$676 billion could be sustained over the next decade.

If the experience of the global financial crisis is any indication, U.S. defense expenditures, which were reduced by some \$500 billion over a decade under the Budget Control Act of 2011, will likely face even deeper cuts given the much larger current stimulus packages that will have to be serviced over time. As it is, U.S. defense expenditures were already slated to fall as a percentage of GDP over the next ten years. Consequently, the Pentagon should consider itself lucky if, as one insightful RAND analysis concluded, the impact of Covid-19 on its budget was merely equivalent to a second sequestration. It will likely be far worse. At a time when the United States is struggling to reorient its military capabilities to deal with new rising challengers such as China—threats that the nation ignored for over two decades because of its involvement in wars in the greater Middle East—this

likely compression of its defense budgets cannot be good news. If Washington cannot complete the transformations necessary to successfully project power into the Asian rimland in the face of Beijing's significant and growing denial capabilities, the threat to American primacy will be serious indeed.

The coming pressures on the defense budget, however, are only part of a larger problem facing the United States as it seeks to buttress the economic foundations of its primacy. The recent rise of populism in both political parties has highlighted the acute income inequalities in the United States, which are now the highest among G-7 countries. A broad segment of the American population has not benefited from the otherwise successful globalization that permitted the country to enjoy higher levels of aggregate growth. The rising domestic demand for shifting resources from maintaining hegemonic order globally to remedying the economic losses suffered by the 80% of households who collectively earn just 48% of the country's income (according to the Pew Research Center) will only intensify because of the pandemic's consequences.

Although an increase in the size of the American welfare state and a transformation of its character as means of dealing with this problem are long overdue, these alterations unfortunately will have to occur against the backdrop of what Lawrence Summers and others have highlighted as the renewed threat of "secular stagnation." As scholars of international competition have long understood, successful hegemonies arise—and can be successfully maintained—only by states that dominate the cycles of innovation to create new leading sectors in the economy. These transformations produce supernormal returns, which are then utilized for satisfying internal needs and expanding external influence. By the best accounts, the United States has exemplified this pattern since around 1945. But if the country is in fact now trapped in a period of low productivity growth and persistent weaknesses in aggregate demand—each for different reasons—the net result may be a diminished capacity to sustain both the increasing domestic obligations and its extant international interests simultaneously. Or, in other words, the task of preserving U.S. primacy over the next few decades will prove to be harder than before. This constraint will only be amplified if the disconcerting findings of a working paper

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from the Federal Reserve Bank of San Francisco prove to be true of the Covid-19 pandemic: that the deleterious macroeconomic consequences of pandemics appear to persist for around 40 years.

## Discrediting U.S. State Competency

While a contraction of the U.S. economy as a result of the pandemic is to be expected, the effects have been exacerbated by the mismanagement of the American response. By the traditional standards of assessing state-society relations, the United States is usually considered, in Sven Steinmo's summary description, as a "strong nation-weak state." Its founders deliberately created a constitutional system that prevented overbearing political authority from extinguishing the liberties of its peoples. Yet over time the power of the American state grew to a point where it was effective enough to enjoy the best of both worlds: it was sufficiently capable of extracting the resources necessary to produce the public goods required within the country while deploying the military instruments necessary for external influence without at the same time stifling the freedom, creativity, and productivity of its population. Maintaining this fine balance was what made the United States exceptional. And, for most of the postwar era, the American state was in fact the object of global admiration precisely because it could advance these objectives simultaneously in ways that most of its other competitors could not.

At the heart of this achievement lay effective governmental institutions and capable state managers, both of which were characterized by high degrees of substantive and instrumental rationality. It has now become clear that the Trump administration's failure to anticipate the arrival of the Covid-19 pandemic in the United States had little to do with strategic surprise. The intelligence community began warning of the threat in early January, officials in the Department of Health and Human Services began contingency planning in mid-

January, and the senior staff on the National Security Council started sounding the alarm later that month, only to be stymied by the president's lack of attention at exactly the time when the state as an institution has once again become central to managing the nation's response to the crisis. The erosion of the deliberative process within the White House and the subversion of the decision-making system by the president's idiosyncrasies thus have left the United States—the world's richest and most powerful nation—with the odious distinction of leading the global death toll with, at the time of writing, over 67,000 fatalities and rising (over twice the number of fatalities suffered by the next country).

When the prospect that the pandemic would break out of China appeared real, substantive rationality demanded that the federal government focus resolutely on preventing the virus from reaching American shores. But given the challenges arising from dense international travel, it was critical to do whatever was necessary to prevent its spread within the country. Thanks to past experience with pandemics around the world, public health authorities knew full well what instrumental rationality required: instituting immediate quarantines and lockdowns to buy time while mobilizing national capabilities for detecting infections, distributing protective gear, and searching for antidotes. The two months squandered by the president in denying the import of the pandemic resulted in a failure to mobilize the federal government in effective ways to accomplish these objectives, leaving the country trying to cope with the crisis largely at the state level. The net result has been patchwork effectiveness rather than a synchronized solution.

In fairness to the Trump administration, many of the resources (such as masks) that would have helped mitigate the pandemic were not replenished in the Strategic National Stockpile after George W. Bush's years in office in part because congressional Republicans rejected the funding proposed by the Obama administration. The

United States as a country is also not well organized to deal with large-scale disasters, given the priority placed on local and state governments as first responders. The failures in the federal regulatory system pertaining to the production of test kits and drugs, the lack of regional contingency planning, the absence of a permanent budget for the national stockpile, and the stark inequalities in access to medical care all remain serious structural constraints. And the market logic that governs the U.S. medical supply chain has not helped either: it resulted in hospitals reducing their inventory of critical supplies and manufacturers reducing their output of personal protective gear because of pressures on the bottom line, with neither sector anticipating that a global shutdown would retard their ability to speedily ramp up in a crisis.

But the failures of presidential leadership only exacerbated these problems. The painful absence of systemic rationality in regard to both the assessment of the pandemic and the decision-making process pertaining to it within the executive branch have been exemplified by the absence of competent officials in several positions; the muddled and often conflicting lines of authority regarding pandemic management;

the frequent subversion of professional epidemiological expertise; the politicized decisions regarding the removal of senior officials; and the almost caricatural presidential statements on medical issues. These shortcomings did not help either to correct the bureaucratic mishaps that occurred in the nation's health protection agencies such as the Centers for Disease Control and Prevention, the Food and Drug Administration, and the Department of Health and Human Services or to convey the resolution that was required to restore public trust and navigate the perfect storm caused by the nation's larger unpreparedness.

While the damage caused to the U.S. economy and the human losses will make the task of preserving U.S. hegemony after the pandemic harder—at a time when most assessments suggest that countries like China are likely to recover faster than the United States—the reputational damage to Washington is just as serious. Although variables like competency are hard to quantify, they are vital in international politics because they induce awe in others and make cooperation, if not compliance, easier. After all, the generation of hegemonic power is owed not merely to the strength of a nation's material base but even more fundamentally to the effectiveness

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of its state authority, which directs the transformation of latent resources into realized capabilities. Thomas Hobbes underlined this insight powerfully in the *Leviathan* when he declared, “Reputation of power, is Power.”

China has lost no time in claiming that its authoritarian model of politics is far more effective in dealing with upheavals than its democratic rivals. While this argument is unlikely to have many takers in democratic countries, the fact remains nonetheless that the United States, with its dismal performance in managing the pandemic, has lost its sheen as a proficient power. Although the country as a whole still has numerous effective institutions—with the Federal Reserve and several state governors in particular exhibiting sterling performance during the pandemic—the presidency, the key center of government disproportionately responsible for providing policy direction, has not acquitted itself creditably. At a time when the competition with China is barely beginning, this is a handicap that the United States can well do without.

## Corroding the U.S.-Led International Order

Finally, since the end of World War II, successive U.S. administrations have recognized that maintaining systemic primacy through the use of military force alone would be a costly and ultimately subversive enterprise because it would in time provoke balancing coalitions aimed at neutralizing American hegemony. To avert this possibility and to secure political, economic, and ideational outcomes that were conducive to U.S. interests, Washington constructed and maintained what has now come to be known as the liberal international order—a regime of interlocking norms, rules, and institutions intended to protect democratic states and expand their prosperity in the face of strategic competitors. This

regime, which encompassed arrangements pertaining to collective defense, trade liberalization, economic and political development, and democracy promotion, was underwritten substantially by U.S. resources not as a favor to its partners but fundamentally out of self-interest, as all other hegemonic powers have done throughout history.

The United States, accordingly, provided security to its allies, permitted asymmetric access to its markets, and created various global institutions as a public good. In return, it expected its partners to collaborate in realizing goals that the United States had a privileged interest in, while at the same time providing legitimacy to U.S. actions undertaken in defense of either its own primacy or some collective ends. By definition, the allied contribution to these efforts could never match that of the United States because the latter was the hegemonic power and its benefaction was essentially what sustained its relative superiority over other partners and adversaries alike.

In time, this arrangement served to make the United States’ alliances meaningful instruments for upholding global order more generally and on terms that, although beneficial to its protectees, were uniquely favorable to maintaining American primacy. This compact thrived on the prospect that the United States would continue to protect the core interests of its allies in exchange for which the partners would pool their resources—political, economic, and military—in support of U.S. goals. Subsidizing the provision of such collective goods has been the hallmark of hegemonic stability since the earliest Western reflections first found in Thucydides. Although subordinate officials in the Trump administration have frequently reiterated the importance of alliances to U.S. interests, the president himself has rarely, if ever, done so. Rather, viewing U.S. alliances solely as undesirable burdens, he has consistently questioned their utility and value, and on occasion even expressed satisfaction at the possibility of their dissolution.

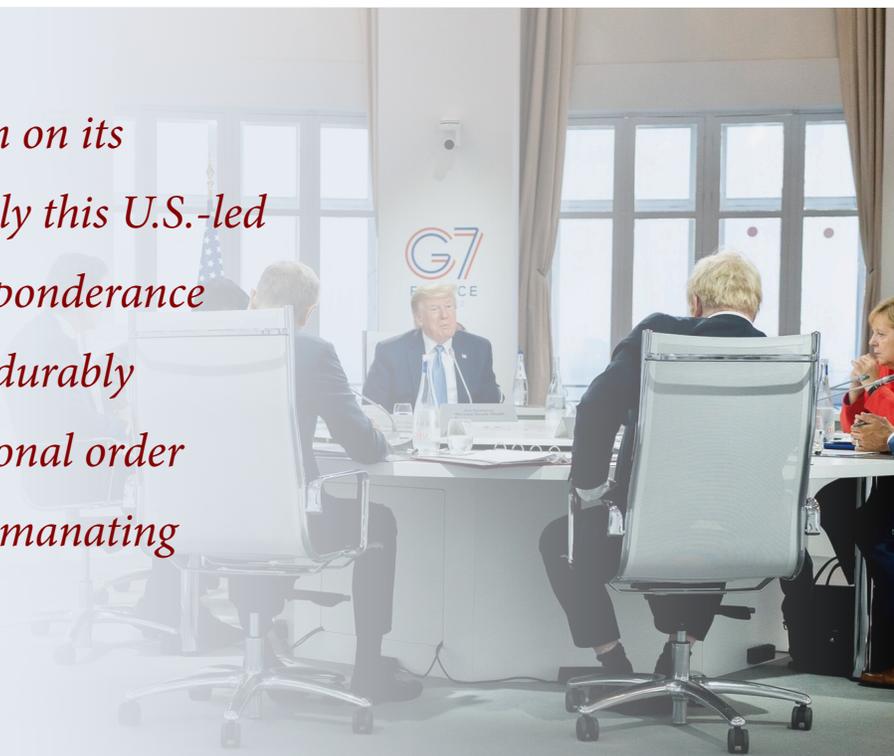
This disregard for the alliance system that the United States has carefully nurtured now for over half a century is grounded fundamentally in a failure to appreciate its importance for both the effectiveness and the legitimacy of American primacy in international politics. All previous administrations intuitively understood the benefits that the alliances provided in material, institutional, and ideational terms and consequently sought to preserve, if not actually deepen, them. The Covid-19 pandemic ordinarily would have stimulated the United States to lead a collective response, if not globally, then at least involving its allies and partners because this crisis was both genuinely transnational and immediately affected U.S. interests as well those of its closest friends in Europe and Asia.

Following the September 11 attacks, for example, NATO invoked its Article 5 obligations for the first time in its history and sought to conspicuously demonstrate its fellowship with Washington. Asian allies and partners of the United States behaved similarly. When Covid-19

reached American shores, however, Washington's behavior toward its allies was incongruous with the expectations of solidarity. The administration reportedly attempted to coerce a U.S. manufacturer, 3M, to divert masks produced in Singapore for markets in Asia to the United States. And barely weeks after he received a rousing welcome from Prime Minister Narendra Modi, President Trump threatened India with retaliation if it did not export hydroxychloroquine to the United States, despite the drug being of dubious effectiveness against the coronavirus.

While any attempts at protecting the United States are obviously laudable, the strategy of coercing allies and partners who are themselves victimized by the pandemic did not advance this goal. Rather, it stymied the cooperation that might have allowed the United States to benefit from the research, development, testing, and production capabilities possessed by its allies and only confirmed the view entrenched abroad that the United States under the Trump administration cares little about its friends and has no compunctions about sacrificing

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their equities. That the European states failed to help one another during this disaster has not helped matters either. Yet, in a visible attempt to both exploit the shortcomings of intra-Western fraternity and demonstrate that it can serve as an alternative provider of global public goods, China grandly announced the delivery of medical assistance (albeit of suspect quality) to various European countries that were hit hard by the virus. The self-serving nature of this Chinese magnanimity should not be lost on any of its recipients, but the contrast with Washington's self-absorption was plain for all to see.

The absence of the United States in leading the international response to the pandemic has strengthened the perception, now commonplace even among its own allies and partners, that Washington can no longer be relied on to uphold the international order that it once created. If this pessimism takes root, it will denude U.S. alliances of their coherence and effectiveness, compelling allies to seek refuge in deeper self-help rather than to invest in cooperative action. International collaboration, even when most necessary, rarely arises as a result of spontaneous movement. It must be orchestrated. When the stakes are high, hegemonic powers usually are the states most capable of bearing the transaction costs required to make effective coordination possible, as U.S. leadership during the global financial crisis clearly demonstrated.

At the moment, the United States appears to believe—if its behavior is any indication—that bilateralism is a sufficient substitute for friendly coalitions and that its alliances are little more than the burdensome legacies of history with minimal relevance to the strategic competition that lies ahead. Nothing could be further from the truth. The United States is preparing for the return of great-power

rivalry with China at a time when its own relative power is declining and may be eroded further, depending on the outcomes of the current pandemic. Although there is no assurance that China will come out of this crisis greatly advantaged, given the uncertainties involved, prudence demands that the United States reinvest in those resources that offer the most promise.

That means focusing first and foremost on revitalizing its own national power and ensuring a more equitable distribution of economic gains domestically in order to protect a broad consensus in support of continued international primacy. But even as it attends to the business of internal regeneration, Washington must double down on its alliances and partnerships. Only this U.S.-led confederation contains the preponderance of the global product that will durably immunize the “strategic West” against any future challenges emanating from China or other rivals.

Preserving American hegemony over the long term thus must begin with consolidating Washington's leadership within the largest single bloc of material power in order that it may be effective beyond. Ensuring this outcome requires the United States to take seriously—and deepen meaningfully—the special geopolitical ties it has nurtured throughout the postwar period, which would among other things enable it to better shape the world's engagement with China to advance its own interests. The management of the global pandemic thus far raises doubts about the United States' ability to sensibly expand its power and to manage the evolving rivalry with China intelligently and in league with the nations that will be most needed for success. This is unfortunate given this administration's otherwise astute recognition of the return of strategic competition. ∞

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