

## **Global Shift: How the West Should Respond to the Rise of China**

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### **Executive Summary**

How should the transatlantic community respond to the global shift in wealth and power? Will it divide or unify North America with Europe resulting in either Atlantic drift or Atlantic renewal? This report argues that the rise of new powers - first and foremost China - is but part of a bigger story. In two important ways, the world today is fundamentally different from the past. First, this is a world of unparalleled levels of global interdependence. Second, the rise of interdependence has not been accompanied by a global hegemonic power as in previous cases of global shifts, leading to a diffusion of world power that threatens to undermine the already limited capacity of present arrangements of global governance. In a world of complexity and turbulence, in which changes tend to be frequent, significant, sudden and unexpected, the gap between what is needed and what can be delivered is widening. This threatens the erosion of global order and the rise of anarchy or regionalism and thus endangers the interests not only of the West, but of all countries linked into the global network.

To deal effectively with these changes in world politics, the report offers a three-part strategy.

- First, *there should be a new division of labor among the members of the transatlantic community.* This will call for bringing to bear the separate capabilities and means of the transatlantic community members on problems based on a common vision and strategy. Simply put, America has vital security interests and commitments in East Asia and Europe does not. European security concerns, in contrast, are closer to home. Europe, consequently, should take more responsibility for the challenges in Eastern Europe and in the Mediterranean, while the United States should direct its focus more to challenges arising in Asia.
- Second, *the members of the transatlantic community need to cultivate a new mindset about their roles in the emerging interdependent, but multipolar world.* The United States, after years of hegemony, must recognize that it can no longer lead through a reliance on hard power, but must rely more on the power of its example and its contributions to global problem-solving. It will also need to be more realistic about matching its aspirations and commitments to its diminishing capabilities. Meanwhile, Europe needs to rid itself of a mindset of dependence on the United States and its tendency to focus more and more on itself, and develop its own abilities to solve problems in its neighbourhood and beyond. To do so will require, however, that Europeans move beyond purely national perspectives and cultivate a greater sense of European identity and political purpose.

- Third, *the transatlantic community needs to proactively lead in recasting global bargains* in the face of the ongoing diffusion of power and wealth. Working with rising powers will need to be a primary objective, but this should be built upon a solid transatlantic base.

This three-part strategy must be implemented across a range of issue areas. The report focuses on four such areas: the global economy, international security, energy and the environment, and the global commons. These sectoral analyses identify emerging global challenges, diagnose the shortcomings of existing international arrangements, and offer a number of specific recommendations, notably

- **Macroeconomic policy coordination:** The United States, the EU, and China should establish regular trilateral meetings on macroeconomic policy cooperation to inform each other about policy issues and measures of common interest in the areas of monetary, fiscal, and regulatory policy;
- **Trade:** The United States and the European Union should pursue a two-pronged strategy to sustain an open multilateral trading order. They should push for the rapid completion of the Doha Round. At the same time, in pursuing separate free trade agreements, they should actively coordinate on a set of core provisions that advances the transatlantic agenda for multilateral trade liberalization;
- **Energy and climate change:** The United States and the European Union should commit themselves to the principle of progressively increasing the price of CO<sub>2</sub> emissions over the next decade through appropriate measures of taxation and/or emission trading;
- **Security:** The United States, NATO and the European Union should comprehensively redefine and reshape their joint strategies for global peace and security through a new division of labor between them. While America increasingly focuses on Asia, Europe should take care of its own security and stability and that of its neighborhood to the East and the South. "Division of labor" does not equate with exclusion; on the contrary, it implies a common purpose and jointly set strategies, and coordinated but differentiated implementation through national and joint efforts;
- **UN reform:** France and the United Kingdom should closely synchronize their respective positions in the United Nations Security Council and align this common position with the European Union's High Representative and the other member governments. The aim should be to work towards a common European policy in the UNSC. London and Paris should also commit themselves to make available to a non-European country one of their permanent seats as part of a comprehensive Security Council reform. At the same time, the United States should commit itself to a double veto policy: it would veto any decision in the Council only if it were supported by at least one other permanent member of the Security Council, while challenging the others to follow the U.S. example.

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*The full report will be published on May 16, 2011, and will be available on the Transatlantic Academy website ([www.transatlanticacademy.org](http://www.transatlanticacademy.org)) or by request. For more information, please contact Jessica Hirsch at [jhirsch@transatlanticacademy.org](mailto:jhirsch@transatlanticacademy.org)*