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American strategic decline is a myth Donald Trump continues to peddle



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Contrary to widespread belief, the US is not facing economic and strategic decline in any foreseeable future.

It had already reclaimed its superpower lead before Donald Trump swept into office vowing to make America great again. With hindsight we can see ever more clearly that the Lehman crisis was a false alarm.

Loss of dominance has long been a staple of US discourse. John Kennedy decried the ballistic "missile gap" with the Soviet Union before the 1960 election, when Russia had just four missiles and the US had thousands with explosive power equal to 1.3 million Hiroshima-sized bombs.



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Ever since I began covering the US as a journalist in the early Reagan years, there have been bouts of soul-searching. Paul Kennedy's theory of imperial over-stretch

in *Rise and Fall of the Great Powers* was all the rage in the late 1980s, when the Washington clerisy thought Japan destined for economic leadership.

Edward Luttwack upped the ante in 1994 with *Endangered American Dream*, warning that the US was turning into a third world nation. This was just as the US was about establish its undisputed hegemony over the digital age.

US decline was a myth then, and remains a myth today. Putative rivals have all run into trouble or face structural limits that will be obvious within a decade. India's time has not yet come.

The pessimists certainly had a plausible case in 2008, when oil reached \$148 a barrel and the country was dangerously reliant on imported energy. The dollar was so weak that the world's best-paid model - a Brazilian - demanded pay in euros only. It was shocking to watch the pillars of the financial system - Fannie Mae, Freddie Mac, Lehman, AIG - go down like ninepins, with tremors so violent that even General Motors and Chrysler had to be rescued.

Yet although these events were spectacular, and a defining moment in the ideological evolution of White House guru Steve Bannon, the US was never as weak as it looked.

America's car industry is back in fighting form. So are its banks. The dollar is now too strong for the world, and the international financial system is now more leveraged to dollar liquidity and US monetary policy than at any time since 1945.



The US car industry is now back in gear CREDIT: AFP

We can today see that the long reach of the Great Recession was worse for others. It was the eurozone that was to slide into an economic depression lasting longer than the slump in the 1930s. The crisis revealed the structural incoherence of the euro project, and discredited its moral claims.

Output is only now recapturing the pre-Lehman peak. Italian GDP is still 9pc lower. The euro share of global foreign reserves has dropped from 28pc to 20pc, ceding the terrain back to the dollar.

To the extent that Brexit was about immigration, it was the eurozone crisis that played the catalytic role. Mass unemployment led to flows of EMU refugees to the UK, while displacing many more from Eastern Europe who might otherwise have worked closer to home. Even if the EU holds together, it is a diminished force with Brexit. Its aura of historical inevitability has been lost.

The Lehman episode lured China into a snare that is now tightening. Hubris caused the Communist Party to cling too long to its top-down mercantilist model, based on over-investment in heavy industry. It has disguised the failure by pushing the country's debt ratio to 260pc of GDP, an untenable course when the efficiency of credit is collapsing.



Lehman's collapse forced China into a snare that is now tightening CREDIT: AFP

Premier Li Keqiang sponsored a report five years ago by China's Development Research Council warning that the country had already picked the low-hanging fruit of easy catch-up growth and risked falling into the "middle income trap" unless it broke the smothering control of state planning and industrial combines.

Everything he feared is unfolding. Xi Jinping's reforms have stalled. Premier Li himself has been pushed to the margins. The chances of avoiding the middle income trap are now almost zero.

This will be compounded by a slow demographic crisis. China's work-force is contracting by 3m a year. The country will soon mimic the ageing patterns of Japan. The true economic growth rate will fall towards 2pc by the early 2020s. China's GDP (actual, not PPP) may not surpass US levels this century after all.

Brazil and Russia - former darlings of the 'BRIC' quartet - have never recovered. Vladimir Putin acquired good military kit during the energy boom that gave him a window of advantage in Ukraine - and allowed him to prop up his ally in Syria - but Russia's shrunken economy is smaller than that of Texas. The state reserve fund has dropped from \$146bn to \$17bn. Swingeing budget cuts are only a matter of time.



Russia is discovering that it cannot rely on gas exports as US shale ramps up CREDIT: AP

Russia relies on exports of oil and gas that have fallen in value by over 60pc. The Kremlin is discovering that there will not be a normal cyclical recovery this time. US shale has entirely changed the structure of global energy.

A decade ago the US was preparing to import liquefied natural gas (LNG) on a large scale. The terminals have since switched into export hubs. American shale gas is being shipped to Europe.

The effect is to force down the market price of gas in EU, depriving Russia's Gazprom of its lockhold on prices. Lithuania's "Independence" terminal can now import LNG, eliminating dependence on the Kremlin. Poland is following suit. That strategic implications are profound.

As Goldman Sachs said this week, US shale oil can go from zero to peak output within six to nine months. It can do so on a big enough scale to hold down global crude prices, and for long enough to bleed OPEC and the Kremlin almost white.

The Permian Basin in West Texas alone could match Saudi Arabia's Ghawar field within five years, topping 5m barrels a day. Fracking technology has cut break-even costs so fast that old "super-basins" are poised for stunning revivals. It is no longer a question of whether the US will become a net oil exporter, but how soon.



Controversial fracking techniques could re-invigorate US 'super basins' CREDIT: ALAMY

While the US "manufacturing renaissance" has been patchy, cheap gas has restored the fortunes of the plastics, chemical, and glass industries. The American Chemistry Council is tracking \$130bn of new investment along the Gulf Coast, expected to create 460,000 jobs by 2022. The US unemployment rate is 4.7pc, near a half-century low

This is the recovery that Donald Trump managed to turn into a landscape of "rusted-out factories scattered like tombstones" in his dystopian inaugural address.

It is of course standard fare for opposition candidates to decry the decline of America during campaigns. What is different about President Trump is that he continues to push this line after taking office, presumably because he believes his own wild claims.

We all have to reach our own conclusions about Donald Trump. My view is that he matters less than we now think. His presidency may prove no more than a four-year embarrassment, leaving few traces.



Donald Trump's pledge to 'make America great again' ignored the reality of a strong economy CREDIT: AP

His plans to slash science and technology funding by 20pc would indeed risk the sort of decline he rails against. But his budget is dead on arrival in Congress.

His contempt for allies and the multilateral bodies that vastly lever America's strategic power is folly but the US Senate is likely to take charge and run foreign policy on traditional lines. Grown-ups at the helm of the State, Defence, and Treasury departments will navigate the reefs. America's institutions and courts will contain Mr Trump.

One can infer too much from America's misadventures in the Middle East. Those old enough will remember the hand-wringing after the Vietnam War, famously described as a "collective suicide attempt". Within fifteen years the US had won the Cold War.

The Arab Spring was never going to be easy to handle for a superpower with democratic principles and moral scruples. Syria did not lend itself to the Powell Doctrine of clear aims and crushing force. But there is a blunter point. The region has slipped to a second tier priority. The US is edging back in part because it no longer needs anybody else's oil, or soon won't. The Middle East is China's problem.



The US is responsible for 40pc of global defence spending CREDIT: PA

And no, the US has not disarmed. The defence budget was 40pc of all military spending worldwide last year. "It will take decades - and let me repeat that: decades - for anyone to build the kind of military capability the US possesses today," said Ashton Carter, the former defence secretary.

What is certainly true is that US productivity growth has fallen to a miserable 0.6pc but that is a global phenomenon. Chinese productivity is in free-fall. It does not change relative economic and strategic power.

The real threat to the US ascendancy is inequality inside the US, the vanishing middle in an hour-glass society of winners and losers in the digital era. This is sapping solidarity, a lethal effect as I learned during my years in Latin America.

It is what propelled Mr Trump into office, yet what he offers as remedy is austerity for the poor and tax cuts for the rich. My guess is that he will swept away in landslide swing of the pendulum in 2020.

Informed opinion thought Britain finished as a great power in the 1780s after it lost the American colonies. But as Adam Smith said at the time, "there is a great deal of ruin in a nation". The reprieve lasted another 130 years.

