



IS THE US CAPABLE OF SHAPING A RULES-BASED INTERNATIONAL ORDER?

BY ROBERT MANNING

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An earlier version of this article was published in [The Hill](#).

It is repeated endlessly: US foreign policy is about [defending](#) the “rules-based order.” That’s a codeword for the challenge from China, which is trying to rewrite the rules. Fine. But if the US can’t even design its own rules on, for example, the urgent issue of digital privacy or regulating Big Tech, how can it play on that larger stage?

No question, the wisdom that created the Bretton Woods system (the International Monetary Fund, World Bank, World Trade Organization, etc.) was based on well-conceived rules that were mutually beneficial. Relatively open trade and finance generated unprecedented wealth and power over the past 70 years. But as the rise of China demonstrates, the United States must now grapple with the dilemmas of its success. It is an increasingly multipolar world.

And it is not just about China. The European Union, with a very different approach to trade and tech rules than the United States, sees itself as the superpower of regulation, trying to leverage its \$15 trillion economy

and 516 million consumers to create global standards. Its General Data Protection Regulation (GDPR) has forced Big Tech to respect its privacy standards or face billion-dollar penalties. While the United States still lacks federal standards, several states, most notably California, have laws like GDPR.

More recently, the European Union is legislating a Digital Marketing Agreement (DMA) aimed mostly at US Big Tech to level the playing field for all digital companies. It is also launching a Digital Services Agreement (DSA) to regulate responsibilities of digital services to consumers in the European Union, and a [new initiative](#) to influence setting standards in emerging tech.

Why does this matter? We are in the midst of an unprecedented technology revolution (e.g. artificial intelligence, robotics, 5G, 3D printing, synthetic biology), and innovation will be the key driver of economic growth in the decades ahead. All aspects of our economy and lives are increasingly digitized. The Federal Reserve is even [considering](#) a digital dollar. Data and its cross-border flows have become the lifeblood of world trade.

The [World Bank estimates](#) that the digital economy is already 15.5% of global GDP. [E-commerce hit \\$25.6 trillion](#) in 2018. This trend was accelerated by COVID-19: From Zoom to telemedicine, digital services are rapidly growing in importance. The United States typically runs a massive trade deficit in goods but [large surpluses in services](#)—\$290 billion in 2019. Combine that with US status as a leading global innovator in information and communications technology, and the United States may be well positioned to thrive in the digital universe.

That’s where the rules and standards, still wanting for new tech, come in. They will shape markets and facilitate growth and jobs. Yet, for all the public outrage at Big Tech, a deeply polarized Congress has so far failed to pass federal privacy or substantive anti-trust legislation. Not for want of trying: Over the past several years, there have been dozens of tech bills offered. But only a handful get very far in the dance of legislation.

Even bills that have strong bipartisan support have stumbled. Versions of the \$250 billion America COMPETES legislation foundered over the past two years. The bill would boost high-end semiconductor manufacturing in the United States as well as tech research and development. Finally, last June, it passed the Senate with a solid bipartisan vote (68-32). The House haggled over it for months, attaching dozens of amendments, and finally passing it last week. Reconciling the different bills will drag the dance out to spring. This is not an inspiring way to compete with China.

A [package of anti-trust bills](#) that would make it harder for Big Tech to buy or merge with smaller firms and level the playing field on apps passed House committees last year. But differences within and between the two political parties make it problematic for any to reach [President Biden](#)'s desk this year. And with Republicans projected to take the House in November, many assess that if anti-trust bills don't pass this year, it will become more difficult to do so in the future.

Similarly with international technical standards in global standard-setting bodies like the International Telecommunications Union (ITU). China aggressively floods the zone with its own representatives, while Washington lags in mobilizing private sector stakeholders and US allies to push back against efforts to shape standards to Beijing's preferences.

The picture is even more troubling regarding trade rules. As Europe and Asia sign a [plethora of trade agreements](#), the United States has taken itself out of the game. In part because of a backlash to job losses to China earlier this century, both political parties are averse to the United States advancing new market-access accords and leaning in a protectionist direction.

Both the Bush and Obama administrations launched and negotiated the Trans-Pacific Partnership (TPP) accord, a 12-nation pact that would have covered 40% of the world economy. The idea was to fashion a high-standards regional agreement to gain leverage to write the rules and press China to reform or lose markets.

China is the [number one trade partner](#) of all US Indo-Pacific allies and partners.

But [President Trump](#) withdrew from TPP during his first week in office. Japan carried the accord forward, and, ironically, now China has applied to join. In addition, the Regional Comprehensive Economic Partnership (RCEP) signed by 15 Asian nations—including US Asian allies—went into effect last month. The United States remains the outlier.

Some in the administration are trying to fashion a region-wide digital commerce accord, in effect regionalizing high-standards accords the United States already has in the United States-Mexico-Canada Agreement (USMCA) and US-Japan bilateral accord. But that effort has been [blocked](#) by divisions within the bureaucracy.

All told, unforced errors have put the United States in an awkward position to shape the rules-based order it seeks. One hopeful sign, however, is the recently formed US-EU Trade and Technology Council. It is an effort to coordinate positions on things such as WTO reform and emerging technologies like 5G and AI. To the extent that the United States and European Union can harmonize their positions, they will gain leverage with China to shape norms.

The situation is less than reassuring. But as tech legislation creeps its way through Congress and the United States and European Union intensify efforts to find policy consensus, I am reminded of the [sardonic quip](#) attributed to Winston Churchill that Americans can always be counted on to do the right thing—after exhausting all other possibilities.

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