Adaptive Economics

Robert B. Zoellick

The Aspen Strategy Group asked me to comment on calls for a "new order in the global financial and trade systems." I am skeptical of plans for new international economic orders or designs for new Bretton Woods structures. As an alternative, I suggest that policymakers should recognize the evolutionary dynamics of economic systems and foster continual adaptation.

Economies develop through constant change, often precipitated by unpredictable, sporadic events. Economic systems are more likely to resemble evolutionary and ever-mutating biological processes rather than planned orders guided by governments. Therefore, policies need to facilitate adjustment in a continually changing system instead of inventing new structures designed to suit the latest theories.

This perspective differs from that of the geopolitical strategist who pursues the logic of stability and balance—or the visionary who seeks a utopian ideal. Economic diplomacy should be premised upon the reality of perpetual dynamism, which differs from concepts of perpetual conflict or perpetual peace.

The *forces* of globalization have not retreated. Consider the demands posed by biological dangers such as viruses, food and energy prices, climate change and the energy transition, migrations, and financial and data flows. But the *governance* of globalization through the combination of official policies and markets has been fraying and fragmenting.

The U.S. experience with economic diplomacy over the past seventy-five years offers insights on how to adapt international economic institutions and networks pragmatically. Consider three principles:

First, systems need flexibility to adapt to changes in technology, finance, and business models. They must accommodate innovations and disruptions. The shift from the fixed exchange rates of the original Bretton Woods system to floating rates, as recommended by U.S. Secretary of the Treasury George Shultz in the 1970s, offers a good example.

Second, economic systems need to recognize power shifts, whether driven by economic development, technologies, demography, or military strength. For example, the recovery of the European and Japanese economies after World War II transformed the international economy. More recently, the rise of middle income developing countries, and especially China, has changed patterns of trade, investment, and finance—as well as reset other priorities.

Third, successful adaptation by the United States must be grounded in public support at home. U.S. Secretary of the Treasury James Baker recognized this principle when he devised new policies for G-7 economic coordination, exchange rates, and trade in the late 1980s.

Today, the United States needs to help citizens adjust to change without stifling innovation. Zoë Baird's work with the Markle Foundation seeks to meet this need, and the Aspen Economic Strategy Group sponsored a number of papers on this topic.

To translate these principles into action, consider examples of systemic adaptation. The G-20, guided by British Prime Minister Gordon Brown, organized a cooperative, constructive response to the global financial crisis of 2008-09. Today, the major governments would be unlikely to respond as well. To encourage the major economies to share macroeconomic forecasts—and discuss assessments and possible actions—the Director General of the International Monetary Fund (IMF) should convene (perhaps quarterly) the Finance Ministers and Central Bankers from the five principal Special Drawing Rights currency countries/entities: the United States, European Union, Japan, the United Kingdom, and China. Over time, informal exchanges could encourage habits of cooperation, for example, to address issues such as the challenge of debt for some developing countries. Common approaches among this core group could catalyze action among others, such as the G-7 and G-20, which represent the vast majority of governors and shareholders of the IMF, World Bank, and the regional development banks.

Furthermore, the multilateral economic institutions could buttress the work of the UN agencies charged with providing global public goods—such as health, food, and climate. These UN agencies do not have the authority or resources to match their mandates. Although the multilaterals have independent governance and financing systems, their shareholders are usually the same countries that oversee the UN agencies. The multilateral economic institutions can assist with expertise, resources, and convening power.

Today's economic actors will also need to develop—in concert with Ukraine—a plan for that country's financial survival, recovery, and reconstruction. Military support—while vital—will not suffice as a strategy to secure a sovereign, independent, sustainable democracy.

U.S. trade policy has stalled instead of adapting. Rising protectionism has increased costs and hurt competitive American businesses and workers; the lack of U.S. initiative has stymied America's capacity to shape the international economic rules of the future and forge mutually supportive economic and foreign policies. As former U.S. Secretary of State and Treasury Baker used to warn, "the easiest target to hit when hunting or in politics is a stationary one;" unfortunately, we have a "sitting duck" trade policy.

Washington should instead use the United States-Mexico-Canada Agreement (the revision of the North American Free Trade Agreement) model, which gained bipartisan support, to negotiate an agreement that would deepen strategic economic as well as security ties with post-Brexit Britain.

The United States should advance modular accords—with different degrees of commitment—to foster data exchanges and digital trade, which are now key components of all businesses.

Americans should even consider whether anti-inflationary politics could enable Washington and Beijing to reduce tariffs that both sides have imposed in recent years—which have added costs without gains for security. Moreover, if Washington is willing to spend over $50 billion to compete with China's industrial strategy, it should also be willing—without huge subsidies—to lower costs and boost U.S. trade leadership in the Asia Pacific by rejoining the Trans-Pacific Partnership (now the Comprehensive and Progressive Agreement for Trans-Pacific Partnership).

Such adaptations to the evolutionary economic system will produce sounder, healthier outcomes than debates over new orders and designs for grand strategies. (As the late German Chancellor Helmut Schmidt once advised, "Those who have visions should see a doctor.")

The pursuit of economic resilience through practical adaptations aims to prevent tipping points or downward spirals that lead to extermination. Such systems benefit from transparency, open flows of information, and feedback loops. As such, the adaptive approach has the additional benefit of being a natural complement to free and open societies.

NOTE: This short piece draws from a longer article: "Before the Next Shock: How America Can Build a More Adaptive Global Economy," *Foreign Affairs,* March/April 2022, vol. 1, no. 2, pp. 86-102.

Robert B. Zoellick is Senior Counselor at Brunswick Geopolitical, an advisory service of Brunswick Group, and a Senior Fellow at the Belfer Center for Science and International Affairs at Harvard University's Kennedy School of Government. In addition, Ambassador Zoellick serves on the boards of Temasek, Singapore's Sovereign Wealth Fund, Robinhood, and chairs the International Advisory Council of Standard Chartered Bank, and is on the Strategic Council of Swiss Re. He is a member of the boards of the Peterson Institute for International Economics, the Wildlife Conservation Society, and the Carnegie Endowment; chairs the Global Tiger Initiative; and is a member of the Global Leadership Council of Mercy Corps, a global humanitarian agency. Ambassador Zoellick was the President of the World Bank Group from 2007 to 2012, U.S. Trade Representative from 2001 to 2005, and Deputy Secretary of State from 2005 to 2006. From 1985 to 1993, he served as Counselor to the Secretary of the Treasury and Under Secretary of State, as well as White House Deputy Chief of Staff. He published his book, *America in the World: A History of U.S. Diplomacy and Foreign Policy* in August 2020. He is a member of the Aspen Strategy Group.