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ISSUE BRIEF

"One World, Two Systems" Takes Shape During the Pandemic

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The COVID-19 pandemic has caused calamitous public health and economic crises that will leave deep marks on social and economic behavior and activity in the years to come. It has also exacerbated preexisting conditions, both domestic (social and economic inequality) and international (fragmentation of the postwar world order). The latter has been manifested in an intensifying competition between the United States and China for political and strategic influence. So far, this competition has unfolded mainly through the Sino-US trade war, which has undermined the multilateral rules-based trading system built around the World Trade Organization (WTO). It has, however, also spread to geopolitical and strategic arenas, quickly escalating during the pandemic.

In essence, the post-Cold War globalized economic order has gradually morphed into a "one world, two systems" configuration, edging toward a new Cold War. In contrast to the geopolitical and ideological competition that marked the previous Cold War between the United States and the Soviet Union, and their respective allies, the current incipient one is more about battling for market dominance in high technology and industries of the future—seen by many as necessary to protect economic and national security. Attempts to sever economic relationships ("decoupling") in a highly interconnected global economy will prove difficult and costly to all due to transition costs and efficiency losses. Moreover, the dividing line between the two spheres—one led by the United States and the other by China—is not clearly defined. Major countries and regions such as Europe, Asia, and developing countries have aligned with one or the other contestant with varying degrees of convergence depending on the issues, sometimes driven by economic opportunism. Consequently, their alliance with either rival cannot be taken for granted, making for an unstable dynamic as the strategic competition intensifies going forward.

Strategic Competition

The growing schism basically reflects the incompatibility between China's governance and economic system (rule by the Communist Party of China practicing state capitalism) and the West's liberal democracies and market economies. The differences have been aptly characterized by the European Union (EU) in its 2019 strategy outlook, which describes China

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as a "systemic rival promoting alternative models of governance," at the same time being a negotiating partner and economic competitor.[1] The United States has adopted a competitive approach toward China, regarding it as a strategic competitor and declaring "a tolerance for greater bilateral friction."[2]

The differences between the two systems are wide-ranging; recent points of contention include China's treatment of Uighurs in Xinjiang, its control of information and lack of transparency at the beginning of the SARS-CoV-2 outbreak, and its imposition of the national security law in Hong Kong, undermining the "one country, two systems" model China had pledged to respect until 2047. The United States and other Western countries have criticized China over these issues—the United States has imposed sanctions on Chinese and Hong Kong officials. China has pushed back, using a "wolf warrior diplomacy" approach,[3] in particular against Australia for joining the demand for an independent inquiry into the origin of the novel coronavirus. Reflecting the fact that strategic competition has permeated international organizations, at the 44th session of the UN Human Rights Council (UNHRC) in Geneva this summer, the United Kingdom issued a statement on behalf of twenty-seven mostly Western countries criticizing China's imposition of the national security law in Hong Kong; Cuba introduced a counter statement representing fifty-three developing countries in support of China (the United States withdrew from the UNHRC in June 2018).[4]

Meanwhile, the strategic competition between the United States and China has sharpened in the Taiwan Strait and the South China Sea. China's increasingly assertive moves to exercise its maritime claims, backed up by efforts to modernize its armed forces and Anti-Access/Area Denial (A2/AD) capabilities, have been countered by strengthened coordination among the Quad countries (the United States, Japan, India, and Australia—with consultations extended to South Korea, Vietnam, and New Zealand). The United States in July declared China's maritime claims within its nine-dash line to be in violation of the United Nations Convention on the Law of the Seas (UNCLOS) arbitration tribunal's 2016 judgment—and, therefore, illegal, making Chinese companies engaging in exploration activities there vulnerable to US sanctions and litigation.[5] In July, the United States closed the Chinese Consulate in Houston, and China retaliated by closing the US Consulate in Chengdu. The United States has also conducted more frequent freedom of navigation operations through the Taiwan Strait and near the militarized man-made islands claimed by China. Both sides have held more than usual naval exercises—including China test firing one of its DF-26 "carrier-killer" missiles during a recent exercise. As a consequence, the risk of mistakes, miscalculation, and misunderstanding leading to more serious clashes has risen.

Fragmentation of the Global Trading System

It has become clear that the WTO's multilateral trade rules have not been adequate for dealing with the growing weight of China's state capitalism, which has given unfair competitive advantages to its state-guided and -supported enterprises in both domestic and international marketplaces. The tension came to a head in 2018 when the United States started imposing tariffs and investment and export controls on Chinese goods and designated companies, triggering a Sino-US trade war. China's pervasive state subsidies also present a formidable challenge when it comes to concluding an EU-China Comprehensive Investment Agreement—planned for later this year. As the WTO global trading system is being splintered into hundreds of regional trade agreements (305 by last count, covering about half of world trade), countries have been pulled into a US- or China-centric sphere.

The US sphere is centered on the North American economic bloc, which accounts for the largest share of the world GDP at 27.4 percent. These countries have recently put in force the United States-Mexico-Canada

1 European Commission, "EU-China—A Strategic Outlook," March 12, 2019, https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf.

2 White House, "United States Strategic Approach to the People's Republic of China," May, 2020, https://www.whitehouse.gov/wp-content/uploads/2020/05/U.S.-Strategic-Approach-to-The-Peoples-Republic-of-China-Report-5.24v1.pdf.

3 Ben Westcott and Steven Jiang, "China Is Embracing a New Brand of Foreign Policy. Here's What Wolf Warrior Diplomacy Means," CNN, May 29, 2020, https://www.cnn.com/2020/05/28/asia/china-wolf-warrior-diplomacy-intl-hnk/index.html.

4 Eleanor Albert, "Which Countries Support the New Hong Kong National Security Law?" *Diplomat*, July 6, 2020, https://thediplomat.com/2020/07/which-countries-support-the-new-hong-kong-national-security-law/.

5 U.S. Secretary of State Michael R. Pompeo, "U.S. Position on Maritime Claims in the South China Sea," press statement, July 13, 2020, https://www.state.gov/u-s-position-on-maritime-claims-in-the-south-china-sea/.

A man wearing a protective mask, following the coronavirus disease (COVID-19) outbreak, walks past a screen showing Nikkei index outside a brokerage in Tokyo, Japan August 31, 2020. *Photo credit:* REUTERS/Kim Kyung-Hoon

Agreement (USMCA) with the aim of promoting trade within the region. While its relative share in the world economy has declined, this region is still the center of gravity of the global economy, retaining a leading role in many industries and technologies. During the pandemic-triggered economic and financial crises, timely support from the US Federal Reserve has helped stabilize international financial markets, reflecting the central role of the US dollar (USD) in the global economy. In particular, the USD share in allocated international reserves rose modestly to 61.98 percent in the first quarter of 2020 from 61.73 percent a year ago; its role in global payments via SWIFT (the Society for Worldwide Interbank Financial Telecommunication) increased to 42.2 percent in December 2019 from 39.8 percent in December 2017.[6]

The China sphere is built around the pull of its massive domestic market, with more than 600 million middle-class consumers, and growing, attracting multinational corporations; China's global infrastructure development strategy, the Belt and Road Initiative (BRI); and a series of regional trade agreements. According to the BRI's website, 138 countries have signed Memorandums of Understanding (MOUs) with China for infrastructure and

6 IMF (International Monetary Fund), "Currency Composition of Official Foreign Exchange Reserves (COFER)," accessed August, 2020, https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4; Galen Stops, "RMB Drops One Place in SWIFT Currency Rankings," *Profit & Loss*, January 23, 2020, https://www.profit-loss.com/rmb-drops-one-place-in-swift-currency-rankings/.

energy projects.[7] China has spent $575 billion financing those projects (in all sectors, already executed, in implementation phase, or planned) since BRI's inception in 2013, according to the World Bank.[8] These projects mostly rely on Chinese technology and construction companies. A few of the project and financing agreements have reportedly been contracted under Chinese laws with disputes to be settled in Chinese courts. Naturally, China is keen to encourage this trend, as well as to promote the use the Renminbi (RMB) to settle transactions through its Cross-Border Interbank Payment System (CIPS)—about 15 percent of China's foreign trade is being settled by the RMB.

While there has been legitimate criticism in the West about the lack of transparency in China's lending to BRI countries, possibly causing high indebtedness and wasteful investments in many of them, it is important to keep in mind that in the past decade or so, Western governments and corporations have not been able to offer alternatives to meet the infrastructure investment needs of those countries, leaving them amenable to BRI projects.

China has also negotiated several regional trade agreements, the most important of which is the Regional Comprehensive Economic Partnership (RCEP)—scheduled to be signed later this year. RCEP will encompass the 10 Association of Southeast Asian Nations (ASEAN) countries and five other Asian countries—constituting a trading bloc with $21.3 trillion in combined GDP accounting for 40 percent of world trade.

Race for High-Tech Dominance

Going forward, the Sino-US competition will focus more on achieving market dominance, setting industry and technology standards, and influencing regulations in the digital economy. The United States has restricted access to US technology for more than 100 key Chinese high-tech companies, including Huawei, ZTE, HI Silicon, Hikvision, and Dahua Technology, by putting them on the Entity List—a Commerce Department license is required to trade with such entities—and prohibiting the sale of strategic products, including those made outside the United States but containing more than a minimum of US intermediate goods and intellectual property. In particular, those bans have been tightened recently, effectively denying Huawei's access to high end semiconductors, which would jeopardize its leading position in 5G equipments and smart phones, according to many observers. The United States has also banned Chinese-owned social media companies, TikTok and WeChat, on the grounds that they may be forced to share users' personal data with the Chinese authorities, as required by Chinese law.

In addition, the United States has paid much attention to controlling dual-use goods—goods that have both civilian and military uses. It seeks to get the thirty-three-nation Wassenaar Arrangement, which promotes transparency and greater responsibility in transfers of conventional arms and dual-use goods and technologies, to follow suit in response to China's military-civil fusion approach to technology development. In addition to banning Chinese-made equipment in its critical infrastructure on national security grounds, the United States has tried to get its allies to exclude Huawei from their 5G infrastructure. In July, the United Kingdom, in a reversal of its earlier decision and following US pressure, banned Huawei's involvement in its 5G infrastructure.[9] France has followed suit; both the UK and France join countries such as Australia, Japan, and Taiwan in banning Huawei.

Meanwhile, China has stepped up its total spending on research and development (R&D)—reaching 2.13 percent of GDP in 2017 compared to 2.7 percent in the US and 2 percent in the EU, according to the OECD.[10] However, according to a recent study, China has overtaken the United States in terms of R&D spending as a share of GDP in 2019 (3.7 percent versus 2.7 percent).[11] It has been estimated that by 2030, China will outspend the United States in absolute amounts as well: $900 billion versus $830 billion. Higher R&D expenditure does not guarantee more scientific and technological breakthroughs. However, coupled with the fact that China produces eight times more graduates per year in STEM (Science, Technology, Engineering, Mathematics) than the United

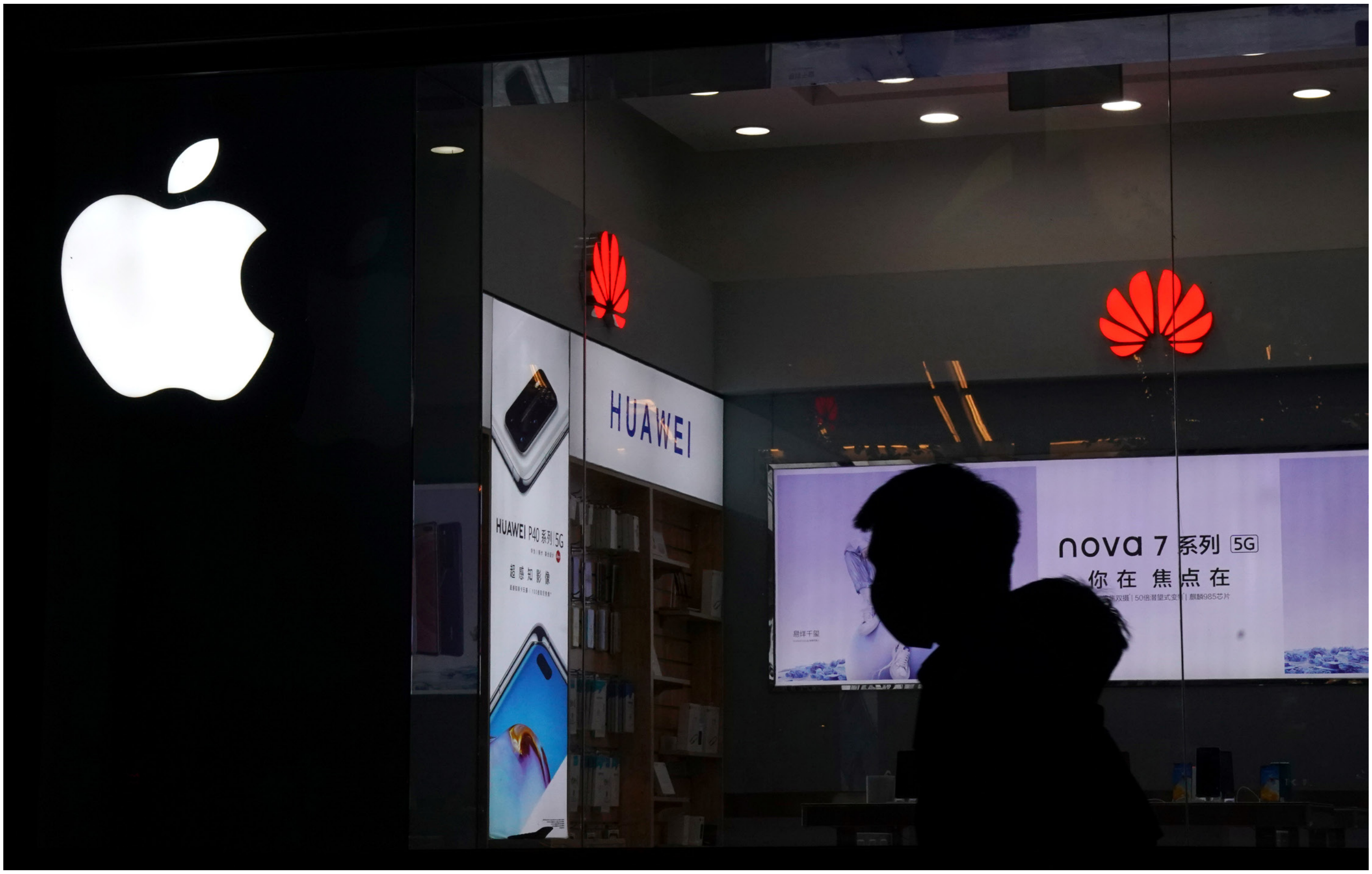
7 Green Belt and Road Initiative Center, "Countries of the Belt and Road Initiative (BRI)," accessed August, 2020, https://green-bri.org/countries-of-the-belt-and-road-initiative-bri.

8 World Bank Group, "Belt and Road Economics: Opportunities and Risks of Transport Corridors," 2019, http://documents1.worldbank.org/curated/en/715511560787699851/pdf/Main-Report.pdf.

9 Leo Kelion, "Huawei 5G Kit Must Be Removed from UK by 2027," BBC, July 14, 2020, https://www.bbc.com/news/technology-53403793.

10 OECD, Main Science and Technology Indicators, stats.oecd.org 2020

11 Alex Capri, "Techno-Nationalism and the US-China Tech Innovation Race," Hinrich Foundation, August 3, 2020, https://www.hinrichfoundation.com/research/wp/tech/us-china-tech-innovation-race/.



An Apple logo is seen next to logos of Huawei at a smartphone store in Beijing, China August 11, 2020.
Photo credit: REUTERS/Tingshu Wang

States (4.7 million versus 568,000 in 2016), it is reasonable to expect prompt implementation at scale of new technologies such as 5G, Internet of Things (IoT), electric cars, facial recognition, etc., giving Chinese companies an important advantage.[12]

China has also intensified support for its high-tech companies, including Huawei, which tries to defend and extend its penetration into developing countries. Despite US restrictions, Huawei has been able to increase its global revenues to $122 billion in 2019, second only to Samsung in the smartphone market; it has raised revenues by another 13.1 percent in the first half of 2020.[13] China has doubled down on its use of state subsidies to make state-owned enterprises “stronger, better and bigger.”[14] Complementing its “Made in China” plan, the Chinese government has launched a post-COVID-19 $1.4-trillion, six-year “New Infrastructure” campaign to build out its high-tech and digital infrastructure. In addition to banning foreign computers and software in government and public offices, China has completed its BeiDou-3 (BDS) global satellite navigation system, so as to be independent

12 Niall McCarthy, “The Countries With the Most STEM Graduates,” *Statista*, February 3, 2017, https://www.statista.com/chart/7913/the-countries-with-the-most-stem-graduates/.

13 Celia Chen, “Huawei’s Revenue Rises 13.1 Percent in First Half of 2020 Despite Coronavirus Pandemic and US Ban,” *South China Morning Post*, July 14, 2020, https://www.scmp.com/tech/big-tech/article/3093053/huaweis-revenue-rises-131-cent-first-half-2020-despite-coronavirus.

14 Karen Yeung, “China Will Make State Economy ‘Stronger, Better and Bigger,’ Top Trade Negotiator Liu He Says,” *South China Morning Post*, November 22, 2019, https://www.scmp.com/economy/china-economy/article/3038993/china-wont-give-its-state-led-economic-model-top-trade.

from, and competing against, the US-operated Global Positioning System (GPS).[15]

Moreover, China is set to promulgate a "China Standards 2035" plan to develop and influence global technology standards.[16] China and its companies have been active in international standard-setting bodies such as the International Telecommunications Union (ITU) whose secretary general, Houlin Zhao, is a Chinese national; the Institute of Electrical and Electronic Engineers (IEEE); and the 3rd Generation Partnership Project (3GPP)—dealing mainly with wireless and voice/data systems, including mobile broadband standards. China has also developed its domestic standard setters, such as the China Electronics Standardization Institute (CESI), to push its standards in artificial intelligence. From China's perspective, trying to shape global technology standards will complement state support for its high-tech companies, helping them to strive for dominance in targeted technologies of the future.

The two spheres of influence have become most obvious in the Internet space, especially around the issues of freedom of speech, information, and data flow. China has exercised strict control and censorship of the Internet, imposing sanctions against circulating content not approved by the authorities. It has put up a sophisticated firewall against foreign websites, in particular, blocking hundreds of Internet and news providers such as Google, Facebook, Twitter, YouTube, as well as the *New York Times*, the *Wall Street Journal*, and the *Economist*. China has exported its model of "cyber sovereignty," including surveillance technology such as facial recognition, to quite a few countries. It has proposed a New Internet Protocol (New IP) incorporating centralized control features at the ITU to replace the existing US-originated Transmission Control Protocol/Internet Protocol (TCP/IP) standards.[17] More recently, China's imposition of the national security law in Hong Kong has forced many US digital platform companies to decide whether to pull out of Hong Kong or to stay and comply with the law and risk a backlash from their governments and customers in the West. As predicted by former Google Chief Executive Officer Eric Schmidt, the Internet as an integrated global platform is in the process of being transformed into a splinternet or "a bifurcation into a Chinese-led internet and a non-Chinese internet led by America."[18]

Impacts on Asia and Europe

The heightened strategic competition between the United States and China has pushed the rest of the world to take sides—an uncomfortable situation for many countries. It is instructive to examine the case of Asia (where Sino-US conflicts are most acute) and Europe (given its weight in world affairs and economic relations).

As mentioned above, countries in Asia have been forced to choose sides while they would much prefer not to. They tend to be politically aligned with the United States but have substantial economic relationships with China which they want to preserve. In particular, ASEAN has just overtaken the EU to become China's largest trading partner. Such substantial economic linkages have caused ASEAN countries to be ambivalent toward the US effort to leverage Secretary of State Mike Pompeo's statement calling out China's maritime claims as unlawful to build a coalition against China. This ambivalence is in contrast to the fact that several ASEAN countries have issued formal notes to the United Nations objecting to China's claims and actions while reaffirming their positions in the South China Sea disputes.[19] More recently, Indonesia and Singapore have downplayed Pompeo's statement while emphasizing the need for peace, stability, and freedom of navigation in the South China Sea.[20] Malaysia has declared that ASEAN should not take sides in the

15 *China Daily*, "Xi Declares Start of Beidou's Full-Scale Global Service," July 31, 2020, http://en.people.cn/n3/2020/0731/c90000-9716998.html?utm_campaign=Marketing_Cloud&utm_medium=email&utm_source=USCBC+News+Overview+7.31.2020&%20utm_content=http://en.people.cn/n3/2020/0731/c90000-9716998.html.

16 Alexander Chipman Koty, "What Is the China Standards 2035 Plan and How Will It Impact Emerging Industries?" China Briefing, July 2, 2020, https://www.china-briefing.com/news/what-is-china-standards-2035-plan-how-will-it-impact-emerging-technologies-what-is-link-made-in-china-2025-goals/.

17 Caleb Chen, "China's 'New IP' Proposal to Replace TCP/IP Has a Built in 'Shut Up Command' for Censorship," *Privacy News Online*, April 3, 2020, https://www.privateinternetaccess.com/blog/chinas-new-ip-proposal-to-replace-tcp-ip-has-a-built-in-shut-up-command-for-censorship/.

18 Lora Kolodny, "Former Google CEO Predicts the Internet Will Split in Two—and One Part Will Be Led by China," CNBC, September 20, 2018, https://www.cnbc.com/2018/09/20/eric-schmidt-ex-google-ceo-predicts-internet-split-china.html.

19 Aristyo Darmawan, "Will ASEAN Member States United (sic) Behind the South China Sea Arbitration Award?" *Modern Diplomacy*, June 16, 2020, https://moderndiplomacy.eu/2020/06/16/will-asean-member-states-united-behind-the-south-china-sea-arbitration-award/.

20 Richard Javad Heydarian, "US Fails to Build Regional Coalition Against China," *Asia Times*, August 7, 2020, https://asiatimes.com/2020/08/us-fails-to-build-regional-coalition-against-china/.

Sino-US strategic competition.[21] The Philippines, the beneficiary of the 2016 UNCLOS ruling on China's claims vis-à-vis the Philippines in the South China Sea, said it has "agreed with China to disagree (about the judgment) and considered the South China Sea as an avenue of cooperation."[22]

In this tug of war between the United States and China, a possible outcome in the foreseeable future could be a creeping Finlandization of Southeast Asia—countries exercise their sovereignty in a way that is sensitive to Beijing's redlines, while emphasizing good relations with the US—even for claimants in the South China Sea disputes. In this context, it is important to reflect upon the results of a survey of ASEAN security experts conducted by the ISEAS-Yusof Ishak Institute in January.[23] While most of the respondents do not want to be put in a position of taking sides, if forced to choose, an ASEAN-wide majority of 53.6 percent prefer to align with the United States. However, counting by country, a majority in seven of the ten ASEAN countries picked China—the three strongly pro-US countries being Vietnam, the Philippines, and Singapore. A similar survey by the Center for Strategic and International Studies (CSIS) shows that a majority of Southeast Asian experts think that China has gained influence against the United States over the past ten years, and the gap will widen further in China's favor in the next ten.[24]

By comparison, the EU occupies a crucial position between the United States and China. With a 16 percent share of the world economy, the EU accounts for 35 percent of world exports—conducting 30 percent of its foreign trade with the United States and 15 percent with China. While the EU tends to align with the United States on governance, democratic, and human rights issues, it also tries to maintain dialogue with China with a view to protecting its economic interests. As such, it can be an important swing factor in the relationship between the two spheres. For example, earlier this year the EU joined the United States and Japan in proposing new rules to curb China's state subsidies; it has joined the United States on the Uighur and Hong Kong issues; but it supported the World Health Organization (WHO) when the United States withdrew from it in July, accusing it of a pro-Beijing bias.

"In this tug of war between the United States and China, a possible outcome in the foreseeable future could be a creeping Finlandization of Southeast Asia…"

The EU has also exercised substantial influence in setting industry standards, first for its own market but eventually adopted by much of the rest of the world eager to do business with it—through the "Brussels effect."[25] This effect has been evident in areas such as environmental protection, food safety, and, more recently, data privacy protection. Compared with China's control of data for security reasons and the United States' free flow of data approach, the EU's General Data Protection Regulation (GDPR) aims to protect personal data privacy against possible abuses by both companies and governments, including by restricting the availability of data to foreign governments (this was reaffirmed by the European Court of Justice in July to include the United States, invalidating a widely used EU-US data transfer agreement). Generally speaking, as consumers become sensitive about protecting their privacy, they could put pressure on more countries and companies to adopt the GDPR.

Last but not least, until the US administration changes its preference for unilateral action, the EU can play a key role in catalyzing international cooperation to address common challenges to humankind, such as climate

21 Bhavan Jaipragas, "South China Sea: Avoid Siding With US or China, Malaysia Urges ASEAN," *South China Morning Post*, August 5, 2020, https://www.scmp.com/week-asia/politics/article/3096205/south-china-sea-avoid-siding-us-or-china-malaysia-urges-asean.

22 Raissa Robles, "In South China Sea, Philippines Is Stuck between a Pebble and a Hard Place," *South China Morning Post*, August 2, 2020, https://www.scmp.com/week-asia/politics/article/3095582/south-china-sea-philippines-stuck-between-pebble-and-hard-place.

23 Tang Siew Mun et al., "The State of Southeast Asia: 2020 Survey Report," ISEAS Yusof Ishak Institute, January 16, 2020, https://www.iseas.edu.sg/wp-content/uploads/pdfs/TheStateofSEASurveyReport_2020.pdf.

24 Michael Green et al., *Power, Norms, and Institutions: The Future of the Indo-Pacific from a Southeast Asia Perspective,* Center for Strategic and International Studies, June 9, 2020, https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/20624_Green_PowersNormsandInstitutions_WEB%20FINAL%20UPDATED.pdf.

25 Anu Bradford and Andrew Moravcsik, "The Brussels Effect: How the European Union Rules the World," *Foreign Affairs*, March/April, 2020, https://www.foreignaffairs.com/reviews/capsule-review/2020-02-11/brussels-effect-how-european-union-rules-world.

Malaysian Prime Minister Mahathir Mohamad listens to South Korean President Moon Jae-in during their summit at the Presidential Blue House in Seoul, South Korea, November 28, 2019. *Photo credit*: REUTERS/Kim Min-hee.

change (driven by the Paris Agreement) or future viral outbreaks and pandemics.

Given the important role that the EU can play, it is noteworthy that European Commission President Ursula von der Leyen declared upon taking office in December 2019 that she would lead "a geopolitical Commission."[26] After years of Euroskepticism culminating in Brexit, the EU seems to have recovered its sense of common purpose and cohesion. This was underscored in the EU's approval of an unprecedented €750 billion Next Generation EU recovery package—funded by EU borrowing on international capital markets, with more than half to be disbursed as grants to member states damaged by the pandemic—and a €1.1 trillion 2021-27 budget.

Going Forward

As the "one world, two systems" configuration is being fleshed out, it is not useful to argue for a restoration of the status quo ante, or a reform of the global rules-based system, motivated by a perception of universally shared values and goals—this is now seen as being more inspirational than realistic. Basically, such a one-size-fits-all set of global rules simply cannot guarantee a level playing field for companies operating under two different political and economic systems. It is also unlikely that

26 Lili Bayer, "Meet von der Leyen's 'Geopolitical Commission,'" *Politico*, last updated December 9, 2019, https://www.politico.eu/article/meet-ursula-von-der-leyen-geopolitical-commission/.

China can be persuaded or coerced into changing its political and economic system.

Furthermore, it is important to realize that the global economy has become so integrated and interdependent that a decoupling from China will be a very difficult and complicated undertaking. After the pandemic, some diversification and streamlining of global supply chains are desirable to enhance resilience and reduce dependency on China, especially in strategic and sensitive areas such as high technology and healthcare. However, a complete decoupling of economic relationships with China will be quite costly for all due to transition costs and losses of economic efficiency, as well as possible unforeseeable consequences depending on how China reacts.

"As happened in the past, through mistakes, misunderstandings, and miscalculations, conflicts can quickly escalate to all-out war."

Consequently, the rational way forward is to agree to a set of parameters that allow the coexistence between two different and competing systems—within such parameters containing clear redlines, strategic competition can occur without uncontrollable escalation to all-out war. In addition, there should be agreed modalities for possible cooperation to address common challenges to the world as a whole. (The new modus vivendi will also affect the functioning of international organizations launched in an earlier era of assumed global cooperation and solidarity.) The prospects of such a scenario will be greatly enhanced if Western countries coordinate their policies and actions based on shared values and goals, presenting a united front when dealing with China. However, if the current disarray in the transatlantic relationship continues, with the United States and Europe at odds over many issues, China will have the opportunity to play the divide-and-conquer game to its advantage.

The new modus vivendi is not an updated version of detente—a phase of relaxation in geopolitical tension during the Cold War with the former Soviet Union. Richard Nixon and Leonid Brezhnev promoted detente to lessen the risk of nuclear escalation and war between the United States and the Soviet Union, while the economic relationship between the two countries was limited. Trade between the United States and the Soviet Union peaked at 1 percent of the foreign trade of each country. By contrast, China accounts for 13.1 percent of US foreign trade, while the US makes up 14.2 percent of China's.[27] China's substantial economic relationships with countries around the world—accounting for 12.4% of world trade ahead of the US11.5% - cannot be easily unwound without significant costs.[28] Instead, such relationships need a proper framework to work for the equitable benefits of participating countries.

In terms of trade with China, learning from the failings of the WTO, the proper framework has to deal squarely with the problem that state subsidies are parts and parcel of China's political and economic system. Furthermore, the fact that Chinese companies—regardless of forms of ownership—are required by law to hand over data and information when requested by security authorities has to be kept in mind. Under those circumstances, no international rules can make China stop its subsidies or respect consumer data privacy. Consequently, instead of a rules-based system like the WTO, trade with China probably has to be managed on a reciprocal and outcome-oriented basis to avoid deleterious impacts on participating countries—for example, hollowing out their manufacturing bases (a phenomenon to which technological advances have also contributed and that needs to be addressed by each country).

The alternative to coexistence is a continuation of the current situation with intensifying conflicts spreading to new areas without a clear endgame being articulated by either side. As happened in the past, through mistakes, misunderstandings, and miscalculations, conflicts can quickly escalate to all-out war.[29] In any event, the strategic conflict between the United States and China will likely trigger a new arms race that many countries can ill afford given the fact that significant fiscal resources will be

27 US Census Bureau, Foreign Trade—Top Trading Partners June 2020, https://www.census.gov/foreign-trade/statistics/highlights/toppartners.html June 2020; and Wikipedia, List of the largest trading partners of China, https://en.wikipedia.org/wiki/List_of_the_largest_trading_partners_of_China 2020

28 *China Power*, "Is China the World's Top Trader," Center for Strategic and International Studies, last updated March 17, 2020, https://chinapower.csis.org/trade-partner/.

29 Michèle A. Flournoy, "How to Prevent a War in Asia," *Foreign Affairs*, June 18, 2020, https://www.foreignaffairs.com/articles/united-states/2020-06-18/how-prevent-war-asia.

required to address the consequences of the social and economic crises triggered by the pandemic.

Harvard University's Graham Alison has analyzed the strategic competition between the United States and China in his classic book *Destined for War: Can the US and China Escape Thucydides' Trap*—in twelve out of sixteen historical cases in which a rising power challenged the incumbent hegemon, the outcome was bloodshed.[30] Despite the oddity of comparing the United States to Sparta and China to Athens, war in the present Sino-US competition for power and influence is not inevitable. Much will depend on the ability of the two countries and their leaders to reconcile their differences and find a way to coexist—as mentioned above. However, with political polarization and populist demagoguery on the rise in many countries, it is increasingly difficult to expect political leaders to be able to rise to the occasion and find a rational way out. The only hope is that when conflicts escalate to the point of war, the prospect of unfathomable mutual destruction will focus the minds and help leaders pull back from the brink.

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30 Graham Allison, "The Thucydides Trap: Are the U.S. and China Headed for War?" *Atlantic*, September 24, 2015, https://www.theatlantic.com/international/archive/2015/09/united-states-china-war-thucydides-trap/406756/.

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