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ISSUE BRIEF

HOW THE REST OF THE WORLD RESPONDS TO THE US-CHINA SPLIT

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This paper is a sequel to the Issue Brief One World, Two Systems Take Shape During the Pandemic *(September 8, 2020)—but can be read on its own*

The election of Joe Biden as the forty-sixth US president is not expected to change the list of substantive issues dividing the United States and China, such as trade, investment, technology, geopolitical competition, national security, and human rights—except that the priority among them may change, with human rights concerns moving more to the forefront. However, the tone and modality of the unfolding of the US-China competition will change from Donald Trump's unilateralism to Biden's efforts to build alliances with "likeminded" countries in Europe, Asia, and elsewhere to deal with the challenges China has posed. In a way, Biden's alliance-building approach may intensify pressure on the rest of the world to take sides. How countries respond to this challenge, unwelcome by most, depends on whether they see themselves as competitors to China, or as "price takers" in the international economic system.

The background

The US-China competition and conflicts have split the world into a US-sphere and Sinosphere, pushing other countries to take sides, especially when Biden begins to build coalitions of "likeminded" countries to deal with China. The most important question here is how the United States defines the "China challenge": is it to push back and change China's malign behaviors and policies in specific areas, or to question the legitimacy of China's political regime? Based on Joe Biden's statements—especially his interviews with the New York Times[1] — and those from people reportedly advising him (including a recent report from Brookings[2] counseling Biden to view China as a strategic competitor, but not an enemy), the former view seems likely to prevail in the next US administration. Such a view would be amenable to other countries, helping with alliance-building

1 Thomas L. Friedman, "Biden Made Sure 'Trump is Not Going to Be President for Four More Years,'" *New York Times*, December 2, 2020, https://www.nytimes.com/2020/12/02/opinion/biden-interview-mcconnell-china-iran.html?referringSource=articleShare.

2 Ryan Hass, Ryan McElveen, and Robert D. Williams, *The Future of US Policy Toward China: Recommendations for the Biden Administration*, November 2020, https://www.brookings.edu/wp-content/uploads/2020/11/FP_20201210_us_china_monograph.pdf.

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Chinese and U.S. flags flutter near The Bund, before U.S. trade delegation meet their Chinese counterparts for talks in Shanghai, China July 30, 2019. REUTERS/Aly Song

efforts. This approach has also been endorsed by the Senate Republican majority's report[3] on transatlantic cooperation on China; and welcomed by the European Union (EU) which has floated its own proposal for revitalizing the US-EU partnership.[4] By contrast, the latter view—attacking the role of the Communist Party of China (CPC) as expressed lately by several of Trump's senior officials[5] —will likely attract few international adherents. However, Trump's "China hawks," having established a certain following in the Republican Party and beyond, will likely continue to make strong anti-China statements. This will help shape US public opinion in favor of being tough on China, which, in turn, will constrain Biden's room for maneuver as well as color China's perception of the US attitude.

Basically, US-China interactions have contained elements of cooperation, competition, contention and conflict—but, after four years of Trump, the pendulum has swung well toward the contention/conflict end of the spectrum. It probably won't escalate further under Biden but would not change very much. Against this backdrop, the reaction by the rest of the world so far seems to have been divided between developed and developing countries.

Many among the developed countries, especially the European Union (EU), see China as a competitor economically, and in terms of governance models. They tend to side with the United States in criticizing China on human- and democratic-rights issues. However, they differ with the United States under the Trump administration in attaching value to working with China in strengthening trade rules, and on dealing with global problems such as climate change and pandemic threats. Overall, the EU will cooperate with the United States in demanding that China change perceived "bad policies" in areas where the interests of both sides coincide.

By contrast, most developing countries give priority to securing opportunities for trade and investment

3 "The United States And Europe: A Concrete Agenda For Transatlantic Cooperation On China," US Senate Committee on Foreign Relations, November 2020, https://www.foreign.senate.gov/imo/media/doc/SFRC%20Majority%20China-Europe%20Report%20FINAL%20(P&G).pdf.

4 "Joint Communication: A new EU-US agenda for global change," European Commission and High Representative of the Union for Foreign Affairs and Security Policy, December 22, 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2279.

5 Marc Santora, "Pompeo Calls China's Ruling Party 'Central Threat of Our Times,'" *New York Times*, January 30, 2020, https://www.nytimes.com/2020/01/30/world/europe/pompeo-uk-china-huawei.html?referringSource=articleShare.

cooperation with major countries, including the United States, Europe and China. In particular, the ruling elites of those countries prefer China's "non-interference in internal affairs" approach to financing—raising no awkward questions about human rights, transparency, or corruption in making loans—in contrast with Western bilateral official creditors or international financial institutions.

The US-China split and the pressure to take sides

The US-China competition and conflict have deepened and widened, from trade wars using tariffs, to export and investment controls of high-technology goods, and to geopolitical struggles for strategic advantage and influence. The contention has led to a "one world, two systems" situation taking shape during the pandemic.[6] Other countries have been increasingly pressured to take sides, despite the fact that many of them would prefer not to do so.

In any event, a dividing line seems to have been drawn between developed and developing countries. The latest manifestation of this division was at the October 6, 2020 meeting of the UN General Assembly's Human Rights Committee. At that meeting, Germany delivered a statement on behalf of thirty-nine developed countries criticizing China for its violations of human and democratic rights in Xinjiang, Tibet, and Hong Kong.[7] In response, Pakistan presented a statement on behalf of fifty-five developing countries opposing interference in what they considered to be China's internal affairs in Hong Kong. In addition, Cuba released a statement on behalf of forty-five developing countries supporting China's "measures against threats of terrorism and extremism in Xinjiang."[8] In another sign of support from developing countries, Chinese nationals have been elected heads of four UN-affiliated international organizations (out of fifteen), while no other country has more than one of its nationals in a similar position. However, on October 13, 2020, China was elected to the UN Human Rights Council with one hundred and thirty-nine votes, forty-one fewer than during the last vote in 2016—perhaps a sign that China's influence in developing countries, while still considerable, may have peaked.[9]

It is important to put this division in the context of sharply declining public confidence in both China and the United States in many developed countries. In a Pew Research Center survey conducted in fourteen developed countries and released on October 6, 73 percent of respondents have an unfavorable view of China, and only 19 percent expressed confidence in President Xi Jinping.[10] The United States did not do much better, with only 34 percent of respondents outside the United States having a favorable view of it, and an even-lower 16 percent professing confidence in President Donald Trump; President Joe Biden will likely improve upon that number. [11]The low esteem in which both China and the United States are held in many developed countries suggests that aligning with either is very much dependent on the issues and driven by calculations of national political and economic interests, rather than by ideological allegiance. Unfortunately, the storming of the US Capitol Hill on January 6, 2021 has weakened the moral authority the US used to enjoy, and will strengthen the national interest approach to international alliance building.

Developed countries

Among the developed countries, the EU has sufficient population size and economic heft to aspire to an independent role between the United States and China. Basically, the EU sees China as a strategic rival on governance issues, an economic competitor on trade and investment issues, and a cooperator on global threats such as climate change and pandemics. Against this backdrop, the EU's current attempt to rebalance its relationship with China means that it will be more critical of China's violations of human and democratic rights, as well as "wolf warrior"[12] diplomatic practices—openly siding with the United States. The EU will also push China for reciprocal treatment and a level playing field for trade and

6 Hung Tran, *"One World, Two Systems" Takes Shape During the Pandemic, Atlantic Council*, September 8, 2020, https://atlanticcouncil.org/in-depth-research-reports/issue-brief/one-world-two-systems-takes-shape-during-the-pandemic/.

7 "Nearly 40 Nations Criticize China's Human Rights Policies," Associated Press, October 6, 2020, https://www.latimes.com/world-nation/story/2020-10-06/nearly-40-nations-criticize-chinas-human-rights-policies.

8 "Nearly 40 Nations Criticize China's Human Rights Policies.

9 Mary Hui, "China's Election to the UN Human Rights Council Revealed Its Shaky Global Status," *Quartz*, October 14, 2020, https://qz.com/1917295/china-elected-to-un-rights-council-but-with-lowest-support-ever/.

10 Kat Devlin, Christine Huang, and Laura Silver, "Unfavorable Views of China Reach Historic Highs in Many Countries," Pew Research Center, October 6, 2020, https://www.pewresearch.org/global/2020/10/06/unfavorable-views-of-china-reach-historic-highs-in-many-countries/.

11 Janell Fetterolf, Mara Mordecai, and Richard Wike, "US Image Plummets Internationally as Most Say Country Has Handled Coronavirus Badly," Pew Research Center, September 15, 2020, https://www.pewresearch.org/global/2020/09/15/us-image-plummets-internationally-as-most-say-country-has-handled-coronavirus-badly/.

12 Aggressive messages by Chinese diplomats, usually on Twitter. https://www.cnn.com/2020/05/28/asia/china-wolf-warrior-diplomacy-intl-hnk/index.html

European Commission President Ursula von der Leyen, European Council President Charles Michel, German Chancellor Angela Merkel, French President Emmanuel Macron and Chinese President Xi Jinping are seen on a screen during a video conference, in Brussels, Belgium December 30, 2020. REUTERS/Johanna Geron/Pool

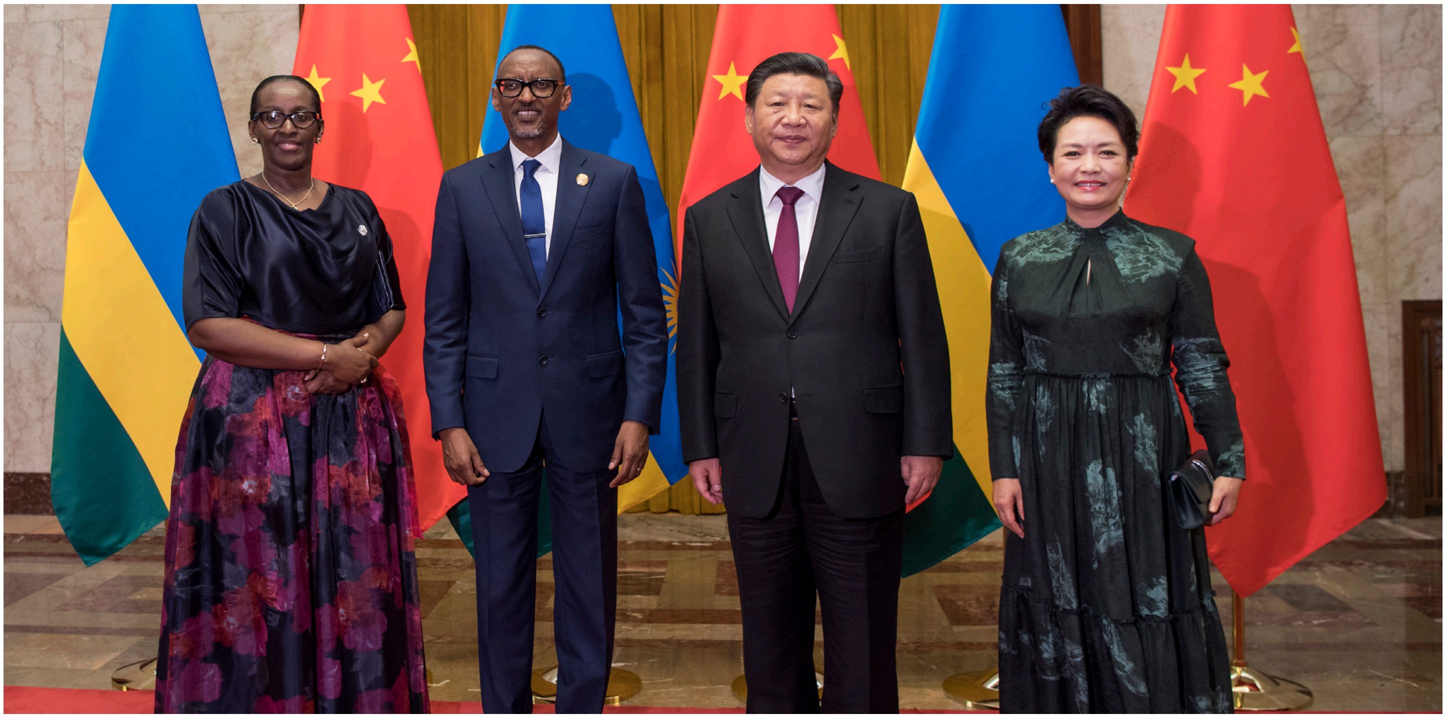
investment activities. However, the economic bargaining will be kept within the framework of negotiations and, if possible, on the basis of current or reformed World Trade Organization (WTO) trade rules—which treat tariffs as a last resort, not the first, as has been the case under the Trump administration.

In other words, the EU wants to compartmentalize its political and economic relationships with China—to be critical in the former, and more cooperative in the latter. This approach is viable only to the extent that China agrees to play the game—at present, it is also in China's interests to do so. Basically, the EU and China have attained a very high level of mutual inter-independence.[13] China is second to the United States as a trading partner to the EU, with trade volume having increased eight times between 2000 and 2019 to €560 billion ($662 billion). Many EU companies derive a substantial portion of their revenues and profits from China. In particular, the EU depends on imports from China in one hundred and three product categories, including electronics, chemicals, pharmaceuticals and medical products, and metals/minerals. On the other hand, China also depends on the EU as its largest source of foreign investment and job creation, important export markets, and a key source of technologies and know-how—which is irreplaceable in lights of US restrictions on high-tech exports to China.

A clear example of the nuanced relationship between China and the EU is their reported agreement in principle on the Comprehensive Agreement on Investment.[14] After seven years of negotiations, a deal was reportedly reached on the strength of market opening moves from both sides. However, it is unclear whether other key negotiating demands by the EU have been met—demands such as China ensuring a level playing field for, and ending discriminatory practices against, EU companies in China; and embracing international environmental and labor

13 Max Zenglein, "Mapping and Recalibrating Europe's Economic Interdependence with China," Mercator Institute for China Studies, November 17, 2020, https://merics.org/en/report/mapping-and-recalibrating-europes-economic-interdependence-china.

14 Hung Tran, "An EU-China investment deal is near—but is it 'worth having?'" *Atlantic Council*, December 22, 2020, https://www.atlanticcouncil.org/blogs/new-atlanticist/an-eu-china-investment-deal-is-near-but-is-it-worth-having/.



2018 FOCAC Summit | Beijing, 4 September 2018 photo by: Paul Kagame, FLICKR, https://bit.ly/3sl8ONq.

standards. The details of the CAI, when finalized and publicized, will shed illuminating lights on the relative strengths of the two sides. Basically, China is prepared to engage in "give-and-take" negotiations and compromises in economic matters, but is unlikely to yield on issues which are integral to China's political system.

Indeed, the EU-China relationship is asymmetric in the sense that if China feels it is being pushed too far on the political front, it is prepared to use its economic leverage to exert its influence. China has recently made threats of retaliation, but has yet to take any concrete actions against the EU. On the other hand, if the EU is confronted with the need to take concrete steps to punish China for its human-rights violations in Xinjiang, for example, at the risk of losing Chinese market access, it's not clear where the chips will fall. In this scenario, it is likely that the internal consensus allowing the EU to speak with one voice on China—which is difficult to maintain given the heterogeneity of members' national interests—could break down, making the EU feeble in its confrontation with China.

Developing countries—Africa

Developing countries tend to view the US-China competition from the perspective of how to gain better trade and investment opportunities for their own economic growth and development. Ideally, these countries do not want to take sides and antagonize either contestant. However, more often than not, they are being put in a position of needing to choose between the options available (or not available) to them, and consequently end up moving closer to one side than the other.

This perspective gives insights to the growth of China's involvement and influence in Africa. In the past two decades or so, many Western-inspired multilateral development institutions have slowed their lending to developing countries, with many projects being bogged down in lengthy assessments of environmental, labor-market, and social impacts. Official bilateral creditors, such as export-import credit agencies in Western countries, have also cut back on their lending to developing countries due to fiscal constraints—any credit extended usually comes with transparency and anti-corruption conditions. In contrast to the relative paucity of Western options, China has significantly increased trading relationships, becoming one of the top trading partners of most developing countries. China has also stepped up its lending and investing in developing countries, starting from a low base at the beginning of the twenty-first century. Moreover, Chinese loans and investments come without any awkward questions about transparency and corruption, consistent with China's foreign policy approach of "no interference in domestic affairs of recipient countries." This approach has been quite appealing to the ruling elites in many developing countries, who are eager to show some development achievements without having been pressured to reform, including taking measures that, in some instances, can upset vested interests and cause social unrest that threatens their rule.

In short, while Chinese trade and investment in developing countries serves China's interests in securing energy and commodity supply, as well as markets for its manufactured goods and excess capacity in infrastructure construction, such an engagement also fits well with the agenda of governments in recipient developing countries. Consequently, current governments in those countries will probably not pay much attention to criticism coming from the domestic opposition and members of civil society, as well as from Western governments and media—except to probably become a bit more careful in negotiating future projects with China. The criticism has centered around the lack of transparency, potential for corruption, and mis-investment leading to "debt traps."

The showcase of China's efforts is the Belt and Road Initiative (BRI). Launched in 2013, the BRI has attracted $575 billion of loans and investment from China for infrastructure and energy projects in one hundred and thirty-eight countries in Africa, Asia, Latin America, and Central and Southern Europe.[15] According to the World Bank, these projects have the potential to meet some of the infrastructure needs of the recipient countries, which are being ill-served by existing infrastructure, and to promote growth and long-term development—especially if the countries involved implement necessary reforms to address corruption, inefficiency, and debt sustainability.[16] In any event, BRI results and risks should be viewed in the context of a lack of alternative options from Western governments and companies.

More telling about the asymmetry of financial engagement between China and the rest of the world is the case of sub-Saharan Africa (SSA). Between 2000–2018, China's official bilateral lending to SSA amounted to $80 billion—compared with $17 billion from all of the official bilateral creditors belonging to the Paris Club, and $66 billion from the World Bank (and $44 billion from other multilateral development banks).[17] Private-sector lenders accounted for the lion's share of lending to SSA—$134 billion from bondholders and $160 billion from bank lenders and others.

In terms of foreign direct investment (FDI), Africa has received only about 6 percent of global FDI flows to developing countries, averaging $694 billion per year in 2017–2019.[18] Of that meager amount, China accounts for more than 12 percent, having surpassed the United States since 2014 by a widening margin. In fact, the United States has been divesting from Africa since 2015, reducing its FDI stock there.

Generally speaking, it is important to keep in mind that China's engagement with Africa has been multi-faceted with long and deep historical roots, reaching well beyond the recent waves of lending to Africa or the launch of the BRI in 2013. Starting in the 1950's and 1960's, China supported and developed strong ties with the anti-colonial liberation movements in various African countries. Such party-to-party relationships have been maintained, with many of those liberation movements having become government ruling parties in today's Africa. Parts of the cooperation agenda between the CPC and African ruling parties are training programs which China has sponsored for political and military officers, in particular on China's party-army model. In the China-Africa Action Plan 2018-2021[19] China provides 50,000 fellowships to African public servants and military professionals, giving China a unique opportunity to cultivate relationships with current and future African leaders. Furthermore, China has increased military cooperation with many African countries, becoming the third largest supplier of arms to Africa,[20] after Russia and the US. China has also cooperated with 20 African countries in their space programs[21] —an area ignored by the US—helping those countries launch more than 40 weather forecasting and

15 Erik Churchill, et al., "Belt and Road Economics: Opportunities and Risks of Transport Corridors," World Bank, June 18, 2019, https://www.worldbank.org/en/topic/regional-integration/publication/belt-and-road-economics-opportunities-and-risks-of-transport-corridors.

16 Ibid.

17 Kevin Acker, Deborah Brautigam, and Yufan Huang, "Risky Business: New Data on Chinese Loans and Africa's Debt Problem," Johns Hopkins University School of Advanced International Studies, July 2020, https://sais.jhu.edu/news-press/event-recap/risky-business-new-data-chinese-loans-and-africa%E2%80%99s-debt-problem.

18 "World Investment Report 2020," United Nations Conference on Trade and Development, 2020, https://unctad.org/webflyer/world-investment-report-2020.

19 Paul Nantulya, "China Promotes Its Party-Army Model in Africa," *Africa Center for Strategic Studies*, July 20, 2020, https://africacenter.org/spotlight/china-promotes-its-party-army-model-in-africa/.

20 China Power Team, "How Dominant is China in the Global Arms Trade?" *Center for Strategic and International Studies*, Updated August 25, 2020, https://chinapower.csis.org/china-global-arms-trade/.

21 Jevans Nyabiage, "China boosts its soft power in Africa while launching African space ambitions," *South China Morning Post*, October 11, 2020, https://www.scmp.com/news/china/diplomacy/article/3104900/china-boosts-its-soft-power-africa-while-launching-african.

crop monitoring satellites. Last but not least, most African countries have long worked with China, specifically with Huawei,[22] to build infrastructures and deploy 3G, 4G and now 5G telecom services. All these relationships help cement China's connections with Africa—which are not easy to dislodge.

Developing countries—LAC, MENA and CEE

China's trade, investment and "non-interference" formula has worked well in several other regions. China's trade with Latin America and Caribbean (LAC) countries has jumped from $12 billion in 2000 to $315 billion in 2019—with China becoming the top trading partner of several countries.[23] China's lending to the LAC countries since 2005 has surpassed $140 billion, exceeding the combined lending by the World Bank and Inter-American Development Bank.

China's trade with the Middle East and North Africa (MENA) region has grown quickly to $245 billion. China has signed partnership agreements with fifteen Middle Eastern countries, including a recently concluded strategic-partnership pact with Iran.[24] Basically, China enjoys growing trade and investment relationships with practically all countries in the region, including those usually at odds with one another—Saudi Arabia, the United Arab Emirates (UAE), Qatar, Kuwait, Iran, Iraq, and Israel, as well as Turkey.

China has tried to make inroads in the Central, Eastern, and Southern European countries, dealing with them through the 17+1 grouping to compete with the EU. So far, the results may have fallen short of what many Central and Eastern European (CEE) countries had expected, leading to some disappointment. Out of the $126 billion of Chinese investment in the EU (not counting the United Kingdom) in 2000–2019, less than $10 billion has been for EU members in CEE.[25] In any event, China has acquired stakes—in several cases, controlling stakes—in thirteen seaports across Europe.

Developing countries—Asia

The major deviation from China's approach in other developing regions is its aggressive exertion of territorial claims in Asia, including maritime claims against several Southeast Asian countries, claims against Japan in the Senkaku/Diaoyu islands, claims of sovereignty over Taiwan, and border conflicts with India. Moreover, China has tried to influence countries in the region to counter US actions in the Indo-Pacific. China's aggressive stand has pushed Asian countries to welcome US engagement, including active naval presence, in the region to provide a counterweight. However, due to the growing economic relationships between Asian countries and China—especially with the just-concluded Regional Comprehensive Economic Partnership (RCEP)[26] further promoting intra-Asian trade, already accounting for more than 50 percent of their foreign trade, and with the fact that the Association of Southeast Asian Countries (ASEAN) has recently replaced the EU as the top trading partner of China—these Asian countries are trying to walk a tightrope. They try to protect their national interests through diplomatic and political means, but many of them take care not to antagonize Beijing by formally siding with the United States specifically against China, as doing so would jeopardize the economic benefits of trading with the soon-to-be biggest economy in the world. Even India, which has actually fought border skirmishes against China and actively participated in the Quad (which brings together the United States, Japan, India, and Australia) to contain China, has also hedged its bets against getting too close to the United States (with whom it has trade problems) by reaching out to its traditional partner, Russia.[27] It has recently bought sophisticated S-400 missiles, and Mig-29 and Sukhoi fighter aircrafts from Russia, and placed $14.5 billion of military orders in 2019.[28] Overall, it remains an open question how sustainable such

22 Momoko Kidera, "Huawei's deep roots put Africa beyond reach of US crackdown," *Nikkei Asia*, August 15, 2020, https://asia.nikkei.com/Spotlight/Huawei-crackdown/Huawei-s-deep-roots-put-Africa-beyond-reach-of-US-crackdown.

23 Ted Piccone, "China and Latin America: A Pragmatic Embrace," Brookings Institution, July 2020, https://www.brookings.edu/research/china-and-latin-america-a-pragmatic-embrace/.

24 Alam Saleh and Zakiyeh Yazdanshenas, "Iran's Pact with China is Bad News for the West," *Foreign Policy*, August 9, 2020, https://foreignpolicy.com/2020/08/09/irans-pact-with-china-is-bad-news-for-the-west/.Nasar Al-Tamimi, et al., "China's Great Game in the Middle East," European Council on Foreign Relations, October 21, 2019, https://ecfr.eu/publication/china_great_game_middle_east/.

25 Andreea Brînză, "Central and Eastern Europe is Not in Bed with China," *Diplomat*, July 3, 2020, https://thediplomat.com/2020/07/central-and-eastern-europe-is-not-in-bed-with-china/.

26 Hung Tran, "New Asian Free Trade Agreement Secures Economic Space for China," *New Atlanticist*, November 16, 2020, https://www.atlanticcouncil.org/blogs/new-atlanticist/new-asian-free-trade-agreement-secures-economic-space-for-china/.

27 Nalin Kumar Mohapatra, "View: Providing a New Impetus to the India-Russia Strategic Partnership," *Economic Times*, last updated September 25, 2020, https://economictimes.indiatimes.com/news/defence/view-providing-a-new-impetus-to-the-india-russia-strategic-partnership/articleshow/78317032.cms.

28 Nikita Simonov, "India's Russian Arms Purchases Hit 'Breakthrough' 14.4Bln, Official Says," *Moscow Times*, September 5, 2019, https://www.themoscowtimes.com/2019/09/05/indias-russian-arms-purchases-hit-breakthrough-145bln-official-says-a67153.

tightrope walking by most Asian countries can be if the US-China conflicts continue to escalate.

China has also made advances in Central Asia (CA), mainly through the Shanghai Cooperation Organisation—launched in 2001 with eight members including China, Russia, India, and several former Soviet republics—in addition to the BRI. China's trade with CA reached $41.7 billion in 2018, accounting for 22 percent of CA exports and 37 percent of its imports.[29] Furthermore, China has beefed up military assistance to the CA countries. However, China's growing presence represents an area of potential conflict with Russia, which regards CA as parts of its "near abroad" and resents other powers contesting its influence there; this is somewhat similar to its contention in the Caucasus against NATO and the EU. In addition, Russia does not appreciate its economically junior status in the current relationship with China. These grievances form a brittle foundation for the budding Sino-Russia alliance against its common enemy—the United States. This alliance aims to exploit obvious economic complementarities between Russia and China. Russia has diversified its energy exports by building a second Siberian gas pipeline to China, scheduled to be completed soon, and continues to supply China with advanced weaponry in exchange for manufactured goods, investments, and financing. This is especially useful for both in the face of Western sanctions.

On the strength of the economic relationships described above, China has established a range of international institutions in which it plays a domain role to the exclusion of the US and EU. Examples include the just-concluded RCEP, the ASEAN+3 Summit, the BRI Forum, the Asian Infrastructure Investment Bank (AIIB), the BRIC grouping and its New Development Bank, the 17+1 grouping with central and southeastern European countries (many of which are EU members), the China-Africa Forum, the Shanghai Cooperation Organization with central Asian countries, and numerous bilateral partnership agreements and a few strategic partnership pacts. These international institutions have given China the political space to compete against the US and the West.

Conclusion and outlook

Going forward, US-China competition and conflicts are very likely to persist, with some risk of intensifying—in particular, in the Taiwanese Straits and the South China Sea. The conflicts could spread from trade and direct-investment restrictions, especially in high technology sectors, to more scrutiny of financial flows including portfolio capital flows and defense buildups—as has been the situation in the last few months of the Trump administration. However, the ways in which the conflicts unfold will change. Under a Biden administration, the United States will step back from unilateral actions, and instead rebuild ties with likeminded countries to present a "united front" in demanding that China respect agreed-upon trade and other international rules.

What are the prospects for this "united-front" approach making progress in negotiating with China? While it is still too early to judge, it seems fair to say that the outlook will be mixed. Certain problems can be resolved with China—such as cutting back on tariffs (especially since China has seen the benefits of unilaterally reducing tariffs for non-US trading partners, boosting trade with them to compensate for losses of trade with the United States) or strengthening the protection of intellectual-property rights (which is now also in China's interest, as it has recently paid and received an increasing amount of royalties to and from other countries). However, there seems to be little chance of getting China to change its political and economic system, which goes far beyond industrial subsidies to embrace pervasive control, guidance, and support for both state and private companies to serve the strategic goals of the Communist Party of China. Thus, the problem of an uneven playing field will remain, since it is inherent in the coexistence between two incompatible political and economic systems in China and the West. In any event, the negotiating approach could reduce the unpredictability in US-China relations seen in the past four years, but will probably put pressure on other countries to take sides.

While most Western, developed countries will welcome the renewed US coalition-building efforts with various degrees of commitment, the developing world remains the main area of contention. Because these countries will be in very challenging situations in the aftermath of the COVID-19 pandemic and associated economic recession, their need for financing and investment is even more acute than before. As the Chinese economy continues to recover more smartly than the West, China will be in a position to continue investing in developing countries, especially through the BRI—which is now becoming a valuable strategic springboard to develop a viable economic space for China in the face of pushback from the West. Under these circumstances, unless the West steps up its official assistance (which will be difficult, given budgetary constraints in many developed countries) as well as trade and investment opportunities, economic engagement between many developing countries and China will continue; so will their political support for China in international organizations and forums. Basically, until

29 Temur Umarov, "China Looms Large in Central Asia," Carnegie Moscow Center, March 30, 2020, https://carnegie.ru/commentary/81402.

the West puts money where its mouth is, no amount of anti-China criticism will change reality on the ground.

However, China's aggressive behavior in Asia has pushed many countries in the region to take countermeasures. If China were to export its aggressive behavior in Asia elsewhere, it could jeopardize the support it has earned in several developing regions, and instead would harden criticism of its involvement in those countries. Therefore, how countries align themselves in the US-China conflict also depends on China's behavior going forward.

Ultimately, the likely protracted US-China contention will lead to one of the two possible outcomes. The first one is war; for example one triggered by escalating conflicts in the Indo-Pacific region and compounded by a series of accidents, mistakes and miscalculations by both sides. The probability of this scenario is still low, but has clearly risen in recent years. One mitigating factor though is the result of China's military modernization efforts, including building up the third largest nuclear warheads stockpile [30]in the world (after the US and Russia) together with a credible intercontinental ballistic missiles capability. This will revive the concept of "mutually assured destruction" (MAD)—this time between the US and China—helping to deter an all-out war or to contain any armed conflicts to local or regional theaters.

The alternative outcome is that eventually, one of the two contestants will collapse politically due to internal contradictions and weaknesses; much like the collapse of the Union of Soviet Socialist Republics (USSR) which ended the previous Cold War in favor of the US and the West. This time, the major contestants—the US and China—each has many strengths but also serious internal weaknesses. In the end, the final outcome of their contention and conflict will depend on how well each country can resolve its domestic problems and strengthen the resilience of its society and economy.

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30 Kelsey Davenport and Kingston Reif, *Nuclear Weapons: Who Has What at a Glance, Arms Control Association*, August 2020, https://www.armscontrol.org/factsheets/Nuclearweaponswhohaswhat.

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