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The Future World Order

With globalisation on the ropes and a hegemon in decline, prevalent political science theories suggest a conflictual future.

International politics for most of the past quarter century was relatively straightforward. The United States reigned supreme, with no other nation coming even close economically or militarily. Under its aegis, globalisation flourished, and conflicts were relatively confined in scope. Politics seemed to have become secondary.

While globalisation is still alive, the **prognosis is not favourable**. In addition, China's re-emergence means that for the first time since the end of the Cold War, the U.S. has to contend with another player in its league. China now has the world's largest economy and its **third-most capable military**. If it grows much further – admittedly not a foregone conclusion – it may replace the U.S. as the world's predominant power.

What does this new landscape of two major powers mean for the future of world politics? In particular, are China and the U.S. likely to rub along, albeit with some friction? Or is there a risk of major conflict or even war?

Theories of international relations

Of the large range of theories that have emerged on how states get along with each other, or not as the case may be, I will draw, in simplified terms, on two leading schools today: liberalism and structural realism.

Liberalism[1]

The basic notion in liberalism is that conflict tends to occur where states have diverging interests. Where these interests are non-trivial, sometimes such conflict takes the form of war. For instance, Ukrainian interests were to keep the Crimean Peninsula, whereas Russian interests were to regain it. In the end, Russia prevailed through military action. On the other hand, even territorial conflicts are often resolved peacefully, through negotiations or international arbitration.

What then makes it more or less likely that non-trivial disagreements will lead to conflict? Scholars in the liberalist tradition point to two specific mechanisms that enhance the chances of peace. First, "democratic peace" exists where both sides of a conflict are functioning Western-style democracies. To put it differently, democracies do not fight each other. While the literature is rather vague about the mechanisms explaining this phenomenon (mutual respect?), empirically, this is probably as close to a law-like relationship as one can find in political science. Importantly, democracies are quite willing to fight non-

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democracies, though the statistics are skewed by the fact that the countries to have fought most wars – France, the U.K. and the U.S. – are in the democratic camp.

One implication of this school of thought is that spreading democracy means spreading peace. This has been a basic tenet of U.S. foreign policy, at times with disastrous consequences (Iraq).

Second, "commercial peace" exists where both sides to a conflict are economically highly interdependent. The underlying notion is that both sides have so much at stake economically that it becomes too costly to settle conflict militarily. This is probably a weaker mechanism than democratic peace. The amounts at stake in mutual interdependence – say, through trade – are usually small relative to the size of the respective GDP levels. For instance, in the run-up to World War I, economic interdependence in Europe was actually very high, but the war broke out nonetheless.

Realism

Realism looks back on a long intellectual history, both in **China** and the **West**. It remains the dominant paradigm of international politics today.

The predictions of realism derive from its view of the international system as ultimately anarchic and based on self-help. In this view, there are no credible rules that prevent other, more powerful states from seizing weaker ones. While rules do seem to exist – for instance, in the shape of the United Nations – they are seen as derivative of the power of one or several states that can ensure compliance. Sometimes this works, as in the case of the first Iraq War. Often it does not.

This means states need to be concerned with securing their own survival against outside aggression. In realist logic, survival is likely if there is a balance of power: both sides of a possible conflict are equally strong. Under the crucial assumption of rationality, neither side will attack the other under these conditions. So survival requires building up a military strong enough to counter any threats – if necessary, with the help of allies – and an economy large enough to support the requisite military expenses.

In this paradigm, war becomes more likely when one side gains power relative to the other. In some cases, the gain of one side is matched by a build-up of the other side, which in turn prompts further investment in the military from the first. This is the classic arms race. In other cases, the declining side cannot keep up. It then has a range of options. It can try to find new allies to balance its rival. It can wage a pre-emptory war against its rival while it still has at least an outside chance of winning. Or it can just resign itself to the possibility that it will be conquered or dominated by its stronger rival. Regardless of the eventual outcome, a shift in the balance of power is dangerous.

The future of Sino-U.S. relations

If we apply these schools of thought to the relationship between China and the U.S., what is the prediction? For the sake of simplicity, I will mostly ignore that the U.S. has allies; relative to the U.S., their power is basically insignificant, and it will not change the analysis.

To start with liberalism: There certainly is plenty of potential for conflict. The two countries disagree on many things, some small, many large. For instance, there is the conflict over the four small islands known as Senkaku to the Japanese and Diaoyu to the Chinese. Japan controls them and considers them Japanese territory, but China has been stepping up activities to assert sovereignty over the islands. This is extremely dangerous because the U.S. would invariably be drawn into any conflict between China and Japan. The U.S. has explicitly stated that its security treaty with Japan covers the islands. Should anything happen, even based on miscalculation or a rash action of a local commander, the U.S. will have no choice other than to support Japan. Otherwise it will lose all credibility in international affairs (and even Trump would be unlikely to miss this point).

Other conflicts abound. There is the South China Sea, claimed almost in its entirety by China, a stance not supported by the U.S. There is Taiwan, which China considers a "renegade province" but which the U.S. supports in preserving the status quo. And there are the Dalai Lama and Tibet, North Korea, exchange rates, complaints about dumping and countervailing duties, investment obstacles, and U.S. monetary policy, to name just a few.

Of the two mechanisms that may increase the chances of peaceful resolution, only one offers small hope. As "democratic peace" does not exist because China is not a Western-style democracy, commercial peace may prevail instead. In particular, China holds a large amount of U.S. government bonds. This sets up interdependence because the U.S. likes China to buy these bonds so it can finance its deficit cheaply, while China would like the U.S. not to default on these bonds. Weaker ties are trade and direct investments. For instance, the entire trade between the two countries is worth about US$600 billion. This sounds a lot, but it is worth remembering that U.S. GDP (at purchasing power parity) was about US$18.5 trillion in 2016, and Chinese GDP was around US$21 trillion. Either side could produce the entire value of trade between the two countries in less than two weeks. It seems

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unlikely that this is much of a constraint.

Democratic peace may however make a surprise comeback if China grows further. As I have argued before, it seems unlikely that China **can grow rich**, in terms of per capita GDP, without democratising. Ironically, while President Xi Jinping seems to be fighting tooth and nail to prevent such a development, it may actually be desirable both in terms of further development and world peace.

How about realism? The balance of power is clearly shifting in favour of China. China's GDP, which is an indicator of its ability to afford a military, is now larger than that of the U.S. (at purchasing power parity), and China still grows faster than the U.S. In terms of military power, the U.S. still reigns supreme, but China is catching up fast. This is visible, for instance, in the change of military spending since 1990. While the U.S. budget doubled by 2014, mostly to pay for expenses of ongoing wars, the Chinese budget increased by 2,000 percent. In nominal terms, the U.S. still outspends China, but at purchasing power parity, China has almost caught up. Most importantly, China has gained strength relative to the U.S.: the balance of power has shifted.

Historically, similar challenges to a **predominant power** have tended to lead to conflict, often hegemonic war. In this case, the saving grace is likely to be the presence of nuclear weapons. While most people would say that these make the world more dangerous, the realist school would argue that, in the right hands and under the crucial assumption of rationality, they can make the world safer. In essence, they are the great equaliser: If you have nuclear weapons, you can still feel safe if a rival eclipses your conventional forces as long as you can credibly threaten to annihilate them.

We have actually seen this kind of scenario before: during the Cold War. Realism suggests that this part of history may repeat itself. As China gains strength, a number of states would effectively come under its control. This may not be by choice – after all, few of the Warsaw Pact countries stuck with the Soviet Union by choice. They would then confront a bloc formed around the United States – also not necessarily by choice, as South American countries can attest. While direct conflict between the blocs is unlikely, it may occur at the fringes as proxy wars. Sadly, the most likely geographies for these wars will again be Africa and Asia.

In short, both frameworks suggest that the relationship between the two countries will be conflictual. All-out war seems unlikely but is possible, while a renewed Cold War scenario may well materialise.

Implications for business

These large changes are afoot, whether we like them or not. It is worth noting that they are not somebody's "fault". China is developing, which is its right, and the world needs to find a way to accommodate its re-emergence. To the extent Western nations do not share the same global vision as China, however, they need to think about how to create a stable space of their own.

Western business leaders need to realise that they are key players in the survival of a globalised system that has benefitted them and their nations greatly. Brexit and Trump, among others, are indications that this system is threatened. Business leaders need to redouble their efforts to make globalisation palatable to the people, thus enabling politicians to "sell" high levels of economic openness, including EU membership, to voters so their countries can reap the attendant benefits. I have previously laid out some **options**.

It is likely that security concerns will increasingly cast a shadow over business between China and the U.S., and by extension, between China and the West. We have already seen an increasing number of state interventions against planned Chinese acquisitions in the West, such as the current U.S. intervention against the **sale of Aixtron**, a German semiconductor equipment manufacturer. The situation will likely worsen. The reverse has, of course, been long true; key firms in China have not been, and will not be, for sale.

We may further see a return of something akin to the old CoCom list to regulate the export of sensitive goods to China. These exports are already circumscribed, but further tightening is not out of the question. Likewise, Western firms may increasingly face guidance or restrictions against locating certain activities in China.

Obviously all this would leave the world worse off economically. But in the end, when states become concerned with their survival, maximising overall wealth takes second priority. Firms should not be caught by surprise and do their part to prevent the worst.

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[1] "Liberalism" in this article refers to the political science theory by that name, not the philosophical school of thought by the same name or any specific outcome. Liberalism as theory allows for very illiberal outcomes.

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