

## The Pandemic & The “Thucydides Trap”

Tensions may not necessarily escalate after the Great Lockdown.

Recall that when we last left our rivals, they had just struck a partial agreement on rebalancing bilateral trade even as they continued to snarl about the long list of intractable issues that divided them. The betting now is that China and the United States will emerge from the Great Lockdown even more aggrieved and that investors should brace for a world of mounting tensions, rising trade barriers and greater risk.

But this crisis is different and the next flashpoints may not be so predictable. The conflict between Beijing and Washington will hardly disappear, but both governments now face new distractions that may reshape their grievances against one another and change the odds of an inevitable conflict. There look to be some significant detours on the path toward the so-called “[Thucydides Trap](#),” the political science jargon that describes how dominant powers and emerging challengers are often drawn into war.

Casting blame may prove more difficult: President Trump has suggested the virus originated [in a Chinese military lab](#) and others have called for [broader investigations](#) into the outbreak, but the spread of the disease is a natural phenomenon and a test of national public health policy and competence. Ratcheting up tensions with the other side for domestic political gain will be tempting, but those strategies may prove difficult when the economic damage was so clearly aggravated by early pandemic mismanagement in both capitals.

Meanwhile, recovery measures that stabilize financial markets and bail out large companies may fuel simmering tensions among both Chinese and American citizens around accountability and equality. Sooner or later this could trigger a fresh escalation of external tensions, but both systems may search out domestic culprits first.

Globalization will adjust, but advance: Talk of self-reliance, shorter supply chains and rethinking globalization will fade as soon as the costs come into view. Stockpiles of medicines and face masks may expedite responses to the next emergency, but it is impossible to avoid dependence on global trade. Moreover, even if a country makes all its own ventilators, the next public health crisis may require dialysis machines instead.

U.S. and Chinese firms already recognize the rising risks in their governments’ relationship and are exploring alternatives. Actually, the shift of manufacturing from China to Southeast Asia began long before the friendliness soured when Chinese coastal wages grew too expensive. Chinese firms have been courting new markets in Asia, Europe and Africa. These are new chapters for globalization, not an end of the story.

Ideological battles will grind on for now: Early judgements have highlighted the advantages of China’s broad state control, which enabled the government to identify carriers, control movement and better contain the virus. Still, its instinct for secrecy may have allowed the [spread in the early stages](#) and damaged confidence in the government’s continuing management of the crisis.

Many Western democracies fumbled the early response as well, but there may be more faith in the transparency of their efforts and thus in the durability of the recovery. A fresh debate around civil liberties will emerge to weigh the benefits of sharing even more health data to manage future pandemics, but that will be an adjustment rather than an embrace of authoritarian political models.

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The clash for global leadership will be postponed: For now, both countries will be too consumed by their own efforts to repair the internal damage than to give much attention to any grand international plans. China looks like it will emerge with the better growth numbers if [the IMF forecasts](#) are correct, but the limits of its global reach remain all too apparent. A principal focus to expand its influence through the Belt and Road Initiative now faces years of [bitter debt restructuring and recriminations](#).

America hardly seems poised to assert its vision of global leadership either. Worried investors flocked to the dollar once again at the height of the crisis, and the [Fed's rapid response](#) proved decisive for global financial markets. But there was little coordination with other countries and now the U.S. faces a massive task of domestic economic revitalization that will put most international goals on the back burner.

*“More than any tariff wars or geopolitical friction, innovation and digitization will change the way the world does business.”*

Technology will shape the global economy more than U.S.-China relations: Business models were already changing before this crisis as technology offered new solutions and shaped preferences from ride-sharing to the [Internet of Things](#).

These transformations accelerated during the crisis as video conferencing, online shopping and cloud-based software created new configurations for work and economic efficiencies. More than any tariff wars or geopolitical friction, innovation and digitization will change the way the world does business.

Fundamental differences between Washington and Beijing will not disappear, but the rivalry may seem less immediate and consuming as the two governments turn to the task of rebuilding their battered economies. Careful investors thinking about how best to deploy money in the post-pandemic world may be surprised to see slightly less friction for now.

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