



SCENARIO 3

COMPETITIVE COEXISTENCE

In 2040, the United States and China have prioritized economic growth and restored a robust trading relationship, but this economic interdependence exists alongside competition over political influence, governance models, technological dominance, and strategic advantage. The risk of major war is low, and international cooperation and technological innovation make global problems manageable over the near term for advanced economies, but longer term climate challenges remain.

HOW WE GOT THERE

After a slow recovery from the COVID-19 crisis and an extended US-China trade war, by the late 2020s, pent-up demand and widespread popular frustration with underperforming economies led to a revival in the Organization for Economic Cooperation and Development (OECD) countries of market-driven economic policies to stimulate growth. Meeting in Canada in 2031, the G7 endorsed plans for economic stimulus payments, liberalized trade and investment, streamlined taxes, and decreased regulations. Memories of an overbearing European Union (EU) having faded, Europeans agreed to a new round of trade liberalization, somewhat paradoxically under strengthened EU institutions. Weakened by years of depressed oil prices, post-Putin Russia supported the new G7 economic consensus, and emerging economies, including Brazil and India, joined with important economic reforms.

China rejected the OECD model and adhered to its closed state-directed system but prioritized economic growth and trade. Beijing and Washington took steps to stabilize economic relations, despite their mutual suspicion and contrasting political-economic models. The relationship has been fraught with disagreements on core security issues and values, but seeking relief from the tight trade and investment restrictions of the 2020s led each side to conclude that they need each oth-

er to prosper; the two sides agreed in the 2030s to protect their most vital common economic interests.

China and the United States formed rival “communities of common values” that compete for markets and resources under opposing domestic systems, one based on state direction, autocratic control, and public surveillance technologies and the other on private enterprise, democracy, personal freedom, and open information flows. The competition somewhat dampened fragmentation within countries as populations rallied to support their countries and leaders. Much of the work of managing the flow of trade and information was done by large corporations doing business globally. The United States, China, and like-minded states belonging to their respective camps intervened to prevent small conflicts from escalating to the point that they would threaten global economic progress and stability. Nevertheless, geopolitical competition, such as in the South China Sea, remained a persistent threat to economic relations, and many internal conflicts in poor countries festered with little international effort to intervene.

Rising commodity prices and demand for foreign workers stimulated an economic recovery that improved prospects for growing middle classes in some developing countries. Several advanced economies with aging populations set up guest worker programs, filling important service jobs while reducing uncontrolled migration using biometric tracking programs. Rising wages in China led to outsourcing and income gains in India, Southeast Asia, and parts of Africa. Nonetheless, large youthful populations in the developing world, especially in Africa, did not benefit from the reviving global economy.

Advances in renewable energy generation and storage and in carbon capture technologies dampened the growth of emissions, but not

fast enough to prevent some catastrophic impacts. Wealthy countries were able to invest in adaptation measures at home to protect at risk populations, but developing countries lagged behind and suffered the most from increased disasters, presenting second-order security challenges.

KEY TAKEAWAYS

- ▶ The US-China rivalry and other state-to-state relations are channeled into competition for markets, resources, and brand reputation within mutually accepted rules in these areas. Publics rally around their governments in the competition, tempering societal fragmentation.
- ▶ Strengthened economic interdependence lowers the risk of the major powers pursuing armed conflict; most of them engage in influence operations, corporate espionage, and cyber attacks that allow them to achieve goals without risking destructive wars.
- ▶ The central security challenge is how to keep the geopolitical competition between the United States and China from undermining the economic cooperation upon which their prosperity and the global economy depends.
- ▶ Long-term stability remains at risk from growing climate challenges that were ignored in favor of near-term economic gains; technological innovations and economic prosperity have lulled leaders into believing that they can put off making hard choices on climate change.