

## **Escalating U.S.-China Confrontation and Its Implication to the World Energy Situation**

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The confrontation between the United States and China, the world's first and second largest economies, has continued to escalate. Their confrontation became a focus of attention due to their intensifying trade war in 2019. Today, however, their political tensions have grown beyond an economic "cold war", attracting global attention.

A key trigger of the political tensions has been the novel coronavirus outbreak, which originated in China's Wuhan and spread throughout China and the world. The United States has been hardest hit by the COVID-19 pandemic in terms of infections and deaths. Its economic losses have ballooned ahead of its presidential election this autumn. China for its part quickly contained the outbreak through powerful lockdowns and has taken a "mask diplomacy" offensive to address the global pandemic. In such situation, the United States shot China a hard look, questioning if China made the right response to the outbreak in the initial phase. The two countries exchanged heated words over the origin of the infectious disease. Concluding that the World Health Organization acted in favor of China in dealing with the outbreak, the United States declared its suspension of contributions to the WHO. When the U.S.-China trade war seemingly calmed down on their stopgap deal, the COVID-19 pandemic triggered a new bilateral confrontation.

Adding fuel to the confrontation has been the Hong Kong issue. When the United Kingdom returned Hong Kong to China in 1997, the former British colony was given a special position to enjoy high-level autonomy under the principle of one country and two systems over 50 years. Since 2019, however, large-scale protest rallies against a bill to allow criminals to be extradited to mainland China have frequently occurred, growing into a social movement. While the significance and value of Hong Kong's high-level autonomy became a matter of concern in the territory and the world amid the escalating confrontation between protesters and Hong Kong authorities, China enforced the Hong Kong national security law on June 30 to ban rebel protests in the territory. When the law was considered in China, Hong Kong citizens and Western countries voiced strong concerns about and criticisms against the law that was expected to undermine the high-level autonomy and the rule of law in Hong Kong. In such situation, the enforcement of the Hong Kong national security law demonstrated Beijing's strong determination to contain Hong Kong protests and invited strong repercussions from Western countries from the viewpoint of values including those of the rule of law and free democracy.

As protest rallies and social movements grew in Hong Kong over the extradition bill in 2019, the United States enacted the Hong Kong Human Rights Act in late November 2019 to support democratic movements in Hong Kong and check Beijing. In response to the enforcement of the Hong Kong national security law, furthermore, U.S. President Donald Trump signed into law the Hong Kong Autonomy Act on July 14 to impose sanctions on Chinese and Hong Kong individuals involved in

undermining the territory's autonomy and on financial institutions dealing with these individuals. He also signed an executive order to end the United States' preferential treatment of Hong Kong. As Washington has rapidly toughened its attitude against China, Beijing has criticized the U.S. actions regarding Hong Kong as interference in China's internal affairs. Particularly, Beijing has harshly condemned the Hong Kong Autonomy Act, threatening retaliation.

Issues contributing to the escalation of the U.S.-China confrontation are not limited to Hong Kong. Bilateral relations have remarkably deteriorated over a human rights issue in China's Xinjiang Uygur Autonomous Region and enhanced U.S. sanctions on Chinese telecommunications giant Huawei. On July 14, U.S. Secretary of State Mike Pompeo in his statement said, "Beijing's claims to offshore resources across most of the South China Sea are completely unlawful." This remark has further raised tensions between the United States and China. Washington had earlier maintained its attitude of keeping out of involvement in any individual maritime interest disputes in the South China Sea while pursuing the freedom of navigation in the sea. The Pompeo statement officially denied China's claims to resources in the sea, indicating that the United States would support Southeast Asian countries involved in disputes with China over South China Sea interests. The rising U.S.-China tensions are feared by some people to cause a bilateral armed clash. The Trump administration's hardline policy against China has been cited as a factor behind the growing U.S.-China confrontation. However, the United States as a whole, including the Congress and Democrats, has remarkably hardened its attitude against China.

The deterioration of U.S.-China relations and growing tensions have shaken the overall international situation. Compared with the U.S.-China trade war representing disputes focusing on economic issues, the currently escalating confrontation is deeper and more structural. As a matter of course, the deterioration of relations between the world's first and second largest economies affects the global economy, representing a grave economic challenge. However, their fundamental confrontation can raise serious problems regarding international politics, geopolitics and national security. Problems that have been left to market forces to maximize economic efficiency or utility could frequently be subjected to political or strategic decisions. Then, top priority could be given to national security or geopolitical considerations rather than economic efficiency, leading to direct clashes between national interests. Countries could try to rebuild global supply chains that have been based on economic efficiency and to improve their self-sufficiency rates for important or strategic goods. When the escalating U.S.-China confrontation exerts influence on the world, global geopolitical tensions would grow, leading other major countries in the world to consider how they should deal with the U.S.-China confrontation.

How would the escalating U.S.-China confrontation affect the international energy situation? First, the global economy would lower its growth potential when top priority can be given to economic efficiency. Then, global energy demand growth would decelerate, causing changes in regional demand change patterns. China has so far driven global energy demand growth. Over a long term, however, China's energy demand is expected to peak on economic growth deceleration and declining population. If global supply chains move away from China to other countries (such as India and Southeast Asian countries), energy demand growth in China would also shift to the other countries, causing a major change in the global energy demand growth pattern. How and where energy market growth would accelerate or decelerate would change.

Next, major countries would try to improve their energy self-sufficiency rates and enhance their respective energy security while responding to changes in the global energy demand growth

pattern. In a world with high geopolitical tensions, national security would be given priority and exert influence on energy policy. The emphasis on national security would promote the improvement of energy self-sufficiency rates, the diversification of energy sources and the enhancement of strategic cooperative relations between partner countries. If climate change initiatives are relativized, countries would give priority to the development of domestic energy sources advantageous for their respective energy resources endowments, and technological and industrial competitiveness. They would also emphasize the development of advanced or innovative technologies required for energy security and environmental measures, with technological supremacy becoming a new focus of international competition. Who would win technological supremacy in energy could be a focus of attention for international politics, the global economy and geopolitics. Technological supremacy in energy would be significant for the future prosperity and survival of the United States, China and any other country.

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