

The new cold war between the US + West and China + Russia

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This talk is dedicated to the memory of Antonio Castro and Anna Jaguaribe, far-sighted Brazilian China scholars

Overlapping crises assaulting the world geo-political-economy

- **Pandemic**, whose force remains strong
- **Russia's invasion of Ukraine & continuing war** → **food shortage, fertilizer shortage, energy shortage** in Europe
- **Inflation**, 'cost of living' in major economies rising faster than at any time in past 4 decades
- Hundreds more millions of people are **hungry** than before
- **Plunging stock & crypto markets**
- Likely **rises in central bank interest rates** → cost to jobs, many developing countries threatened with debt crises
- **China's recent growth almost zero ! World economy has lost vital engine (for now)**
- Environmental damage, **acceleration in GHG emissions**

Russia's invasion of Ukraine, February 2022 → new cold war

- Prompted much talk of a coming Third World War (very hot !)
- But it looks like a **return to the old cold war** b/w US + West & Soviet Union & China (till 1980) : 1947 – 1991 = 4 decades
- “Cold war” b/c the leaders did not fight directly; fought **proxy hot wars** (eg Korea, Vietnam, now Ukraine) & supported dictators & insurgents
- Global peace maintained by both sides knowing they were subject to MAD (Mutual Assured **Destruction**) through nuclear war

They led proxy wars against sovereign states.
Did they face sanctions, like Russia?



New cold war = 2nd stage of **single** conflict, with 30 year 'globalization' intermission

- **Similarities** b/w old cold war & today's:
- US is again leading western alliance against a Russia-China axis, now with China dominant.
- Both sides again avoid direct fighting, for fear of MAD from nuclear weapons
- Both sides again court the bloc of "non-aligned states" = global South

Also important differences with first cold war

- **(1) China is mounting a much stronger challenge to US broad-spectrum hegemony** than Russia/Soviet Union ever did. (eg China is biggest trading partner of almost every Asian country.) US govt sees China-Russia alliance as mounting direct challenge not just to US but to the whole **“rules-based global order”** designed by US & allies.
- → Thucydides Trap.

Differences with first cold war (ctd)

- (2) First cold war was focused on military and space, between two basically different types of economy, between which there was little interdependence.
- **Second cold war is between 2 variants of capitalism, which are deeply interdependent.** The war focuses on these economic interdependencies. **Each side “weaponizing” ability to control supply of vital goods & services to the other.** Also **weaponizing ability to disrupt others’ digital networks (via hacking) = cyberwar**
- Hence MAD1 now joined by MAD2 (mutual assured **disruption**), which is constrained by MAD3 (mutual assured **dependence**)

Differences with first cold war (ctd)

- (3) Second cold war occurring in situation of much **more global upheaval & tension than in first cold war**. Eg climate chaos, artificial intelligence, pandemics, threat of major war, mass migration, soaring economic insecurity and inequality, political polarization or fragmentation across western polities;
- and a **general weakness of international solidarity in acting for the global collective good**, dramatically exposed by the way that rich countries hogged Covid-19 vaccines, and by failure of G20 proposals for debt relief for developing countries (eg Sri Lanka)

US response & China counter-response

- Biden: the United States will not stand by and let China 'win the 21st century'.
- US has led formation of four-nation 'Quad' group to counter Beijing: US, Jpn, Australia, India. So far, no impacts. Note: no countries in SE Asia
- Obama proposed the Trans-Pacific Partnership (TPP), which wld have been largest trade bloc ever -- & was designed to EXCLUDE China. Trump withdrew.
- China has led formation of alternative, Regional Comprehensive Econ Partnership (RCEP); and in 2021, also applied to join the successor to TPP.
- US is out of both. Instead, US has created Indo-Pacific Econ Framework. But it does not offer improved access to US market. Has attracted little 'buy-in' from regional countries.

The 2 biggest open questions

- (1) Will the current cold war tip into hot war, into the Third World War? Risks of **nuclear escalation** in event of Russia military collapse?
- (2) **Can the deep economic integration between China, Russia and the West survive intensification of super-power rivalries ?**
- Pierre-Olivier Gourinchas, IMF chief economist, doubtful. Warns of the world splitting into 'distinct blocs with different ideologies, political systems, technology standards, cross-border payments and trade systems, and reserve currencies'

‘Geopolitics is back, but it’s in the economy’ (Finnish general)

- Retired military officers who earlier -- during the post-first-cold-war ‘globalization era’ when the world economy operated on western rules with little challenge -- might have retired to a quiet life on the golf course are now employed on boards of multinational companies.

Several fronts of the new cold war

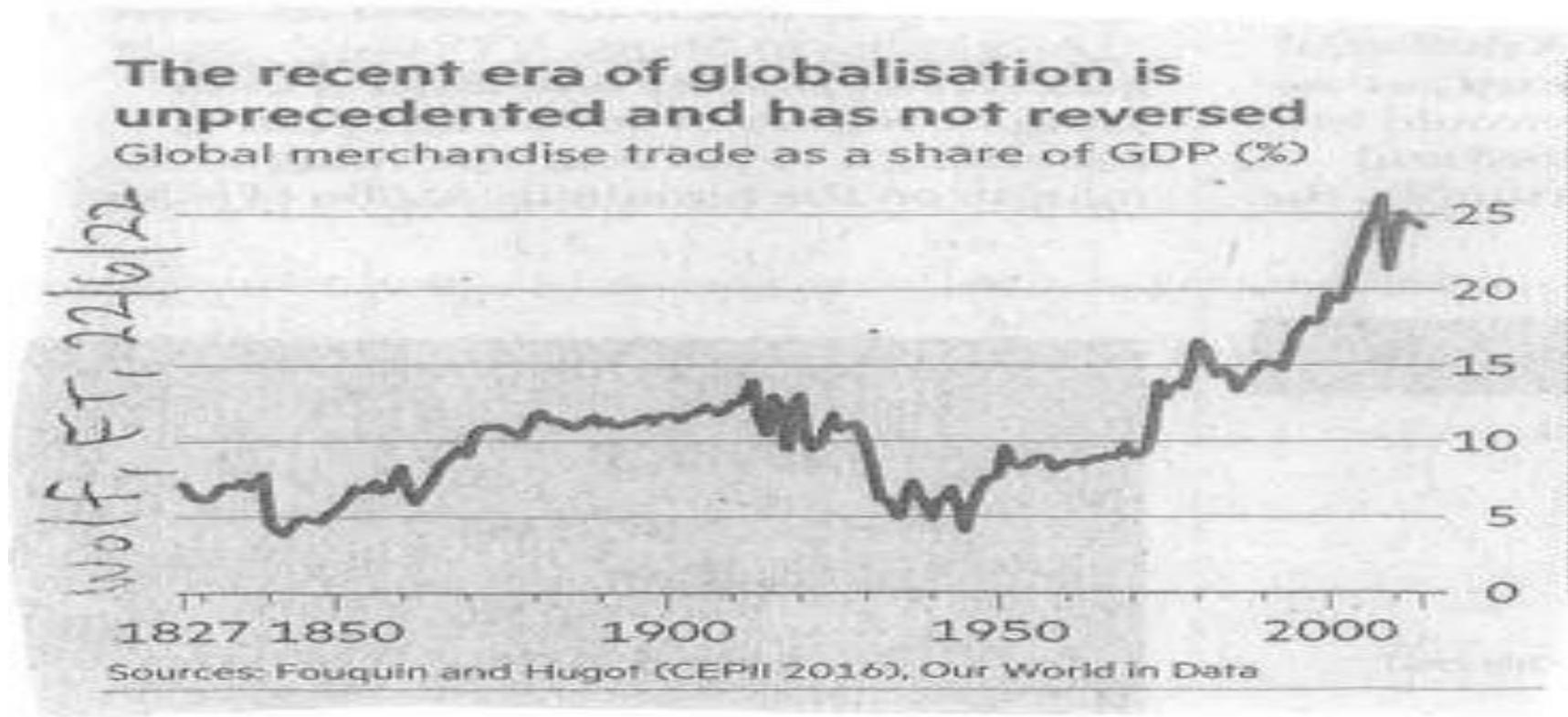
- Trade
- Capital markets
- High-tech
- (Digital technical standards)
- Cyber
- Propaganda

Trade cold war

- From China's perspective, US has long tried to exclude China from rule-making in international trade policy in order to defend its dominant role in the global trade regime. Hence the US-led Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) aimed to set rules for global trade while excluding China. Trade tensions between western countries and China plus the other BRICS (Brazil, Russia, India, South Africa) brought the WTO's Doha Round to a standstill.
- Trump raised pre-2017 average tariff on China from ~ 3% to ~ 20%. China raised its average from 8% to 20%. US has imposed export controls on items close to 'national security'.
- NYT (I) headline, July 7 2022: **'Export bans are central to US plan to foil China'**
- China uses trade controls as weapon to punish states for offending Beijing: eg Lithuania; Australia

But we are not (yet) in the era of “deglobalization”. Rather ‘slowbalization’

- The ratio of world trade to output is close to an all-time high



Capital cold war

- **Chinese government** is curbing foreign (US) investor influence in China's capital market.
- Beijing considers China must move from 'assembly center of the world' to 'high-tech powerhouse', for reasons not only of economic growth but also **national defence**.
- Government shuts foreign investors out of Chinese IPOs; blocks Chinese companies from listing in NY or London; & signals that it can be dangerous for Chinese investors to invest in activities not on government's menu
- **US government** preventing or strongly discouraging US investment in China's 'strategic emerging industries'. One investor commented, 'to be investing in China is almost immoral'

High-tech cold war

- **2015, Beijing published *Made in China 2025*** – strategic plan to give China commanding position in high-tech of Fourth Industrial Revolution – in semiconductors, AI, E vehicles, 5G, robotics, IoT, biotech, green energy, etc. Key instrument: concessional credit
- Part of broader strategy to transform China from “world’s factory” to “tech-intensive global powerhouse”. China now has >> supercomputers among the world’s 500 fastest than the US
- **US govt called MIC 2025 “economic aggression”**. Trump & Biden have raised tariffs on manufactured goods included in MIC 2025
- EU also alarmed
- US looks for ways to exploit China’s dependence on semiconductors; places export controls on US semiconductor tech to China

Semiconductors: the geopolitical chip wars

- Computer chips are 21st century version of oil.
- 80% of global chip production now in Asia.
- Almost all **advanced chips** are currently made in Taiwan, by TSMC; and Beijing's aggression threatens production of these advanced chips.
- US and Europe finally waking up, giving large subsidies for companies to localize chip production in their territory. US's Chips Act makes \$52 bn available.
- But China estimated to be giving **3 times** that in support of chip production in China.
- (Gillian Tett, 2022, "The chip pendulum is swinging west", FT 22 July)

High-speed trains: China & US

- China now has 35,000 kms of high-speed track = 2/3 of global total. US has 735 kms !
- Distance from Shanghai to Beijing ~ = NYC to Chicago.
- **Amtrack trains NYC to Chicago = 24 hours** (or fastest, 19 hrs & 32 minutes).
- **China's trains Shanghai to Beijing = 4 hrs 18 minutes**
!!

Super-computers

- Of the 500 fastest super-computers in world in June 2022, how many in each country, by rank order ?
- China 173
- US 128
- Japan 33
-
- 7th UK 12

Cyber cold war

- “Software is eating the world”
- But software makes users vulnerable to hackers
- Seamy underworld market for vulnerability points in software. Hackers inside govts (eg FBI, MI5, FSU) & outside, identify vulnerability points and may then break into computer networks to sabotage network or steal data for bribes or espionage. They may sell their knowledge of vulnerability points to “brokers”, who may sell on to others, including to spy agencies. “Zero-day exploits.”
- There are 2 kinds of companies & govt agencies: those who know they have been hacked and those who have been hacked but do not know it.

Eg Chinese hackers hacked Google 2009

- Specific goal: get Google's source code so they could get reliable access to any Gmail account, and especially to Chinese dissidents' Gmail accounts.

Nicole Perlroth, 2021, *This Is How They Tell Me The World Will End*

- Sophisticated hackers want to get hold of the source code, the raw matter for software & hardware. Source code tells your devices and apps how to behave. Manipulation of source code is the long game of sophisticated hackers. They can find or make 'holes' in it, analogous to invisible hole in the wall of the Oval Office, & use the holes to cause damage, get bribes, or gain secret information, immediately or years in the future (provided holes are not fixed).
- They target widely used software, like Windows or Apple's iOS.
- The holes are known as 'zero-days'. There is a market for 0-days, with sellers, brokers, buyers. Buyers include spy agencies. Prices may be > \$ 2 million per zero-day.
- IoT provides a vast attack surface !

US is the **offensive** cyber superpower, & also the most attacked

- Unfriendly states – Iran, N Korea, UAE, Saudi Arabia, China, Russia – know they cannot match US military, but can use cyber weapons cheaply to attack and defend themselves.
- Chinese hackers in 2014 hacked into US Office of Personnel Management, what they obtained included repository of details of everyone who had applied for a security clearance. The hack went undiscovered for over a year.
- In 2014-15 Russian hackers got access to security systems of: White House, State Department, Treasury, Dept of Homeland Security !

Russia's cyber attacks on Ukraine, after 2014

- So far the only sustained use of cyber in war has been Russia in Ukraine.
- Perlroth: After Yanukovich was ousted in 2014, 'For five long years, they [the Kremlin's digital army] shelled Ukrainians with thousands of cyberattacks a day and scanned the country's networks incessantly for signs of weakness – a weak password, a misplaced zero, pirated and unpatched software, a hastily erected firewall.... **Anything to sow discord and undermine Ukraine's pro-Western leadership....** ' (xiv)
- In 2015, Russian hackers crossed a Rubicon: they routed attack through compromised servers in Singapore, Netherlands, Rumania, & shut down U power grid for 6 hours, just before Christmas (xvi)

Russia's cyber attack on Ukraine, 2017

- Perlroth quotes Putin 2017: Russian hackers are 'like artists who wake up in the morning in a good mood and start painting If they have patriotic leanings they may try to add their contribution to the fight against those who speak badly about Russia' (xiv)
- Soon after, Russian hackers shut down U's govt agencies, railways, ATMs, gas stations, postal service, radiation monitors at Chernobyl nuclear site.
- Then the same attack code jumped out of U and spread far and wide -
- shut down a Cadbury factory in Tasmania, disrupted operations at FedEx, halted operations at Maersk, etc.
- The attack coincided with Ukraine's National Independence Day

The underlying politics of new cold war: China

- RAND corporation study found that single most important quality of a society that makes for 'national competitive success' is: 'driving national ambition'
- China was a major civilization till early 19th century. Then 'century & a half of humiliation' at hands of West. Since 1980 China on relentless quest to recover previous status & self-esteem. Scores very high on 'driving national ambition'.
- So do Japan, South Korea, Taiwan, Singapore

China's 'humiliation' at hands of west, mid 19th century to 1980

Big Picture of "development failure": regional average income as % of W. Europe & offshoots (China & India included in "Asia")

	Latin America	SS Africa	Asia	China	India
1820	58	33	50	50	45
1950	40	14	10	7	10
2008	30	9	20	26	11

• Source: D. Nayan, Catch Up, fig. 2.4, p. 43. Based on Maddison data

China: state-led 'all-of-nation' capitalism

- China is following a 'state-led, all-of-nation' approach. Economy is capitalist, but much more penetrated by state/CCP than western states.
- Gives it huge advantages in entering sectors on tech frontier, and coordinating domestic investment strategy with international influence strategy & with espionage strategy.

China's 'infrastructure alliances'

- China has few military alliances, only 1 overseas military base.
- It has built dense network of 'infrastructure alliances', especially via Belt Road Initiative (BRI).
- BRI has (probably) committed \$1.9 TRILLION across ~ 1,600 projects since started 2013. Spent \$61 bn in 2020, \$60 bn in 2021
- Recipient governments take out loans from Chinese banks, and Chinese companies build the infrastructure.
- BRI projects are everywhere in global South, and also in **periphery of West (eg Greece)**.

US: remains the hegemon

- Many commentators exaggerate US decline and China's rise
- A state's 'structural power' can be measured by: population size x average income. US's structural power = 1.5 times China's
- US structural power reinforced by \$: 60% of global foreign exchange reserves, and the US government controls the world's dollar payment system
- US remains pre-eminent in S & T (eg Webb telescope)
- US firms had highest share of global profits in 18 out of 25 sectors (eg heavy machinery, electronics, aerospace, pharma, media ...), in 2006 and 2017
- US demonstrates its **continuing hegemony** in its ability to organize coalition to defenestrate the world's largest nuclear power & G20 member from global capitalism, after its Ukraine invasion

US can continue to experience turmoil & division at home while continuing to lead West

- How long can such a polarized, fractious nation continue to lead the West ? One cannot presume that domestic chaos must lead to external weakness.
- US has been polarizing for decades, yet it leads West's response to Ukraine. Germany is the most cohesive of the major democracies, it does NOT lead West's response to Ukraine !
- **US needs an existential enemy to solidify its leadership of fractious western alliance**, despite western electorates losing support for global leadership activities
- US constitution makes clear separation b/w domestic ('low') politics & foreign ('high') politics, which gives space for US geopolitical elite to continue to lead against China. But Trumpism ?

US / G7 response to China's BRI

- **2021**, Biden govt announced Build Back Better World (B3W), which pledged to 'catalyze hundreds of billions of dollars of infrastructure investment'. The G7 summit of 2021 pledged to support. After one year, no public or private funds made available. B3W sank without trace.
- **2022 G7 summit**, Biden proposed Partnership for Global Infrastructure and Investment (**PGII**) and G7 supported, pledging \$600 bn in public and private funds for infrastructure investments in developing countries over 5 years. The plan offers 'value driven, high-quality, and sustainable infrastructure', implicitly denouncing China's BRI; and the White House asserts it will 'advance US national security'.
- Q: will pledges be fulfilled with resources ? Even if yes, \$600 bn is less than one third of China's BRI.

Propaganda cold war

- US govt has long track record of creating & diffusing substantially false stories to discredit enemies, eg National Endowment for Democracy. Much more than Russia or China

Propaganda war: US against BRI: 'debt-trap diplomacy'

- US officials travel the global South to warn against China's "debt-trap diplomacy", especially through BRI projects. They land at airport built by China, they travel to capital by road or rail built by China, they go to central buildings built by China. And say ... "don't get into bed with China" !!
- They say BRI gets c'ies indebted to China to promote its strategic interests.
- They provide "evidence". State Dept commissioned KSG, Harvard, to host 2 military intelligence analysts (not economists) to write report "proving" this. In published report (May 2018), State Dept role invisible. State promotes report around the world as a **high-quality independent Harvard report**.
- In 2021 Senate approved annual \$300 mn for 5 years for fund to counter Chinese influence (Strategic Competition Act 2021).

BRI is response of a capital surplus country needing to recycle its surpluses by unlocking overseas demand for C industry & finance

- Since 2015 China growth model -- based on high investment & exports -- **in crisis**. Massive excess capacity, low profitability.
- ‘Policymakers & civil society organizations in the West & recipient countries shd stop responding to the BRI as though it were a well-planned grand strategy and recognize it for what it is: an often fragmented, messy, poorly governed set of development projects. What is needed [from West] is not so much a geopolitical pushback against the BRI, but the introduction of more selective interventions to improve transparency around – and the governance of – “megaprojects”, supported by the provision of alternative forms of devt financing.’ [Debunking the Myth of ‘Debt-trap Diplomacy’ | Chatham House – International Affairs Think Tank](#)

But China now scaling back on BRI b/c (a) big fall in fx reserves, (b) big increase in bad loans

- China fx reserves peaked at \$4 trillion in 2014, are now \$3 trillion, giving Chinese financial firms less hard currency to lend to BRI countries.
- **BRI loans now turning bad in record numbers.** China having to renegotiate many. It is being forced to realize that in many cases the problem is not “insufficient liquidity to repay”; it is a solvency problem, the projects can never repay.
- **China now faces its first overseas debt crisis.**
- But the BRI debt problem is just part of a wider debt crisis facing many DCs. **Q: Will China participate in multilateral debt renegotiations in BRI countries ?** (James Kynge et al. 2022, ‘China faces its first overseas debt crisis’, FT 22 July)

Evidence on the “debt-trap diplomacy” argument

- [U.S.-backed smear campaign created 'debt trap' narrative to defame BRI](#)
- <https://www.theatlantic.com/international/archive/2021/02/china-debt-trap-diplomacy/617953/>
- <https://www.chathamhouse.org/2020/08/debunking-myth-debt-trap-diplomacy>
- <http://www.sais-cari.org/s/PB62-Brautigam-Bhalaki-Deron-Wang-How-Africa-Borrows-From-China-V2.pdf>
- <http://www.sais-cari.org/s/V4-Briefing-Paper-7-Montenegro-Case-Study-Dec-2021.pdf>

CONCLUSIONS

- First cold war lasted 4 decades. Likely that this one will also last decades as China catches up from average income $\sim \frac{1}{4}$ of US's (market exchange rates).
- The biggest Q: will cold war tip into hot war ? Made more likely by 'tactical nuclear weapons'
- Second biggest Q: will 2 distinct technology blocs emerge in the world economy, one led by US and 'free market' values, the other led by China and 'state-directed' values ?
- Clear conclusions: (1) US & West are now losing economic & diplomatic competition to China in Asia.
- (2) If developing country (eg Brazil, India) can balance China and West, remain on good terms with both Beijing and western capitals, it stands to reap big rewards.

China-Russia axis post Russia's invasion of U

- China is probably giving a lot less MATERIAL support to Russia's war than rhetoric suggests.
- But China does NOT want Russia to be defeated. China fears being isolated without viable Russia by its side, vulnerable to what Beijing sees as “strategic aggression of the US-led West” (Zhao Tong, quoted in Jane Perlez, 2022, “Ukraine war pushes US and China further apart”, NYT (I) July 21)
- Beijing shares Moscow's perception on many domestic & international issues, framed as intense competition (material, ideological) with Washington.
- Washington must de-emphasise “contain China” and emphasise “engage China”, as a way to drive wedge b/w China & Russia.