

The Second Cold War

“When did Cold War II begin? Future historians will say it was in 2019... What had started out as a trade war — a tit for tat over tariffs while the two sides argued about the American trade deficit and Chinese intellectual property theft — rapidly metamorphosed into a cluster of other conflicts.”

- Niall Ferguson in a New York Times Op-Ed from December 2019

“Even under a Biden administration, I don’t think Cold War II stops. It’s structurally programmed to escalate.”

- Niall Ferguson, per the below interview

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Thanks to our partnership with Gavekal, Evergreen has a unique view into what’s happening in China and, more broadly, Asia. Over the last couple of years, the tit-for-tat trade and technological war between the United States and China has been consistent front-page news, raising alarms as to how badly the relationship might further devolve. To some, the battle is reminiscent of the Cold War, which took place between the United States and Russia over five decades in the 20th century and, to a lesser extent, Mao’s “Red China” of the ‘50s, ‘60s and into the ‘70s. Niall Ferguson, an acclaimed historian and filmmaker, is one individual who sees striking similarities between present and past conflicts.

Niall has written extensively about China’s economic rise, and even coined the term “Chimerica” to describe the unique links between the economies of the United States and China. He is a [senior fellow](#) at the Hoover Institution at Stanford and has taught at New York University, Harvard and Tsinghua University in Beijing. Over the past year, Niall has written columns and spoken often about what he terms the emergence of [Cold War II](#), and insists it could actually be a healthy competition between the U.S. and China if things don’t get too out of hand.

A clear risk in the latter regard is Taiwan, a country China has long coveted. That attraction has grown even more intense recently thanks to the increasing technological dominance of the chip industry by Taiwan Semiconductor. This elevates the odds that China might attack a neighbor that it views as rightfully its own (a view the US—and most of the rest of the world—does not share). With “semis” having taken on extreme military importance, this is more than a trivial risk.

This week, we are presenting a lightly edited Q&A between Niall Ferguson and David Barboza, co-founder of *The Wire* and former business reporter and foreign correspondent at *The New York Times*. The article originally appeared on [The Wire China](#) and outlines Niall’s views on the current trade and technological Cold War between the United States and China. Please enjoy this fascinating

perspective - one that includes an ending you won't want to miss.

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Q: You've traveled frequently to China, taught there at Tsinghua University, and written a great deal about the country's rise and the challenges faced by the U.S. and other parts of the world. You even coined a term — "Chimerica." And recently, you've written that a second Cold War, or what you call Cold War II, has broken out. Can you explain?

A: Well, it's been a journey for me because back in 2007, I was writing about "[Chimerica](#)" with my friend Moritz Schularick. We did a series of academic papers and op-eds on the curious, symbiotic relationship that had evolved between the United States and the Chinese economy. And so, a lot of people now say, "Wait, you're the Chimerica guy. Why are you talking about [Cold War II](#)?" And I remind them that the whole point of those articles was to make a pun on the word "chimera," because we thought Chimerica was unsustainable and stood a decent chance of blowing the world up, which indeed it did. There were huge imbalances [between the two countries]. In China, there was huge reserve accumulation, and that financing [of America] was one of the main reasons the U.S. real estate market became a bubble. So, the basic idea that Chimerica was going to blow up was, I think, right. But it took a while, a lot longer than I expected, for us to go to full scale antagonism [between the two countries].

For two reasons. First, it took a lot to get the American political establishment to get over globalization. To be precise, it took Donald Trump. And so even though it was obvious already in 2007 that the benefits of Chimerica went disproportionately to A.) China and B.) the top 1 percent in the U.S. — and not the median household — it took a lot for that to become politically actionable. And it took longer than I thought it would. I thought there would be protectionism in American politics even before 2007. Remember, I've been living and working here [in the U.S.] since about 2002. And one of my earliest questions to my friends in [the field of] political science was, "Where are all the protectionists that should be here complaining about China?" So, there was this huge lag before the politics aligned.

The second reason that Chimerica lived a bit longer than expected was that China's stimulus, in the wake of the financial crisis, had lots of spillover effects that weren't intended, and that helped the rest of the world, though mainly commodity exporters. China did this massive credit splurge and fixed asset investment binge, and it helped end the depression that we nearly went into. Most economists say that it was monetary and fiscal policy in the U.S. that prevented a great depression after 2009. But that's not quite right because China also prevented that from happening. China provided this huge support to commodity producers. That was why Chimerica limped on. There was this crucial moment in 2015 when China did a bungled devaluation. And although it wasn't a huge weakening of their currency, it confirmed that China was not going to do what Moritz Schularick and I had argued for; we had argued back in 2007 that the only logical way forward was for the RMB (editor's note: China's currency, known as the Chinese Yan or renminbi) to strengthen, and that it made no sense for it to

remain a weak currency. That is close to some of the things Michael Pettis has said. The devaluation in 2015 confirmed that was never going to happen; this idea of a convertible RMB that the People's Bank of China had talked about for years. And it coincided (and maybe it was more than coincidental) with Trump launching his [2016 presidential] campaign.

So Cold War II was not Donald Trump's creation. Trump just wanted a trade war — an old school, 1970s style, whack 'em with tariffs stuff we'd done to Japan back in the day; because the Chinese had already begun Cold War II. It's really something that Xi Jinping began ideologically, in terms of technology, in terms of great power ambition, in terms of geopolitical expansion, "One Belt, One Road," South China Sea... all of that was there when Trump started the trade war in 2018. He [Trump] gave everybody — whether they were at the Defense Department, State [Department] or wherever — permission to go after China. And Cold War II happened pretty rapidly. You could probably date it from that [Vice President Mike] [Pence speech](#) in October 2018. That was when the starting gun was fired on the U.S. side. But it wouldn't have happened if China hadn't already basically begun it.

The revelation for me was the "Map of the World According to Huawei." I have this little advisory business called [Greenmantle](#). Basically, I hire my smartest students and we try to figure out the world. And in early 2019, we did a "World According to Huawei" deck. And there was a map showing the countries that were kicking Huawei out, and the countries that have already accepted Huawei [telecom services and 5G]. And that was the moment that I realized that Cold War II had actually begun. And what really surprised me in 2019 was that very few people in the West agreed with me, but most people in China did.

At conferences, I started talking about this almost immediately, and I expected massive pushback. I thought that every time I say this sort of thing at an international conference, the Chinese are going to push back. And they didn't. And finally, I asked a fairly high [ranking] Chinese official, "Why didn't you disagree with what I said?" because I'd been quite provocative. And he said, "Because I agree with you."

That was another moment when the penny dropped. "Ah. They get this. It's the rest of us. We don't get it." And Covid-19 was the moment of truth, particularly in Europe. You suddenly see, "Oh yeah, they are our new antagonists." That's a long, rambling answer. But it does justice to how I thought about this.

You just noted President's Xi's muscular new approach. Are you suggesting that even before Trump unleashed his trade war that China was bulking up for a confrontation, or had set the stage for this Cold War II?

I think Xi, for purely domestic reasons, embarked on a course of greater assertiveness with the "China Dream" or "Great Power" paradigm that I believe underestimated the risks to China. This is a fundamentally misconceived strategy for China. Xi seemed consciously to cast aside the Deng Xiaoping approach of essentially, "Keep your light under a bushel," and consciously made policy and propaganda in a way that was, at the very least, assertive if not aggressive. "One Belt, One Road" is a

good illustration of this, because I agree with one of my students: “There’s less in the tin than on the label.” But the label is just very provocative. It essentially is a Chinese version of Weltpolitik, and it’s grown like Topsy to become an entirely global project.

China’s expansion as a creditor in emerging and frontier markets is a similar instance; or the building up of the facilities in the South China Sea. And then you get into the old ideological territory, like the denunciation of Western liberalism, and of rule of law, to all that stuff Xi enforced on the [Chinese] universities. This was part of this same conscious journey towards a more ideological and therefore Cold War-style PRC [People’s Republic of China]. The more you look at him and the people around him, the more you realize that they’re using what I called in that [“China: Triumph and Turmoil,”] TV series “Mao-stalgia,” or nostalgia for the old China of Mao, to legitimize the [Chinese Communist Party]. That’s where it came from.

I had a very interesting conversation a couple of years ago now with another very senior Chinese official. I was trying to press him in a long interview to help me understand what the significance of all this was. And he got a little impatient and said, “Look, you have to understand that Xi Jinping saved the Party, and saved the state and saved the army.” And I was very surprised. So, I said to [Tsinghua University economist] David Li Daokui, afterwards, “What did he mean by that?” And David said, “Well, you didn’t realize how bad it was.” The Western media did not really report sufficiently the extent of the crisis at the top of the Party at the time of [the] Bo Xilai [scandal of 2012]. And it wasn’t just [the arrest of former Politburo member] Bo Xilai. There was a sense that the Party was possibly in a terminal crisis — something I picked up on visits to Beijing. They were all reading Tocqueville.

What led to this Cold War outcome was much more domestically-driven than anything else. But Xi underestimated the potential blowback. And it’s happened. I just was looking at those latest Pew survey results. It’s not just the U.S., everybody is hating on China. The Swedes hate China more than the Americans right now. It’s right across Europe. There’s been a massive revulsion, which I think has to do with the idiocy of Wolf Warrior diplomacy.

Some analysts have said the relationship really began to crumble during the Obama administration, though former White House official Jeff Bader disagrees. The point they’ve made is that the relationship between the two countries began deteriorating and got ugly in the final years; that even before Trump took office, there was a sense that under President Xi, Beijing somehow shifted into that more assertive mode you referenced earlier. Did you sense that?

On the Obama-Xi relationship, I agree it was bad... Obama bought into the notion that having the Chinese in the system would gradually liberalize them. He just bought that off the shelf. There was this bungled pivot to Asia, which wasn’t really about China, it was about getting out of the Middle East. But that was a strategic failure. It became almost a subject of derision in Beijing. And the relationship between the two men was, in fact, quite bad personally. George Shultz always talks about the time that Xi and his wife [Peng Liyuan] were coming to California for one of those summit

meetings, and for whatever reason, [Peng Liyuan] arrived early, and there was nobody there to meet her. And Michelle Obama's response was, "I have a school thing with the kids. I can't make it." And George Shultz's version is that, and he's incredulous about this, Obama didn't understand the sort of basic way you play China. And little things like that contributed to this mutual antagonism, or at least to the negative view the Chinese had of Obama — their low esteem for him. So it was a problem.

Also, the Clinton-globalist consensus was that China is going to become more like us, and [they will] accept second tier or second fiddle status indefinitely. That was the sort of implicit part of it. What they all got wrong was that after joining the World Trade Organization, China bent the rules and was allowed to bend the rules in ways that greatly accelerated its catch up. Second point is about 2008/2009 [the global financial crisis]. Not only did the Chinese realize that all those brilliant people in the U.S. that they'd been studying under when they'd gone to Harvard and Yale were actually not so smart, but they also realized that catching up with the United States was attainable. And indeed, in purchasing power parity adjusted terms, they did it in 2014.

So, there's this realization, "Hey, we're actually going to do what the Soviets totally failed to do. We're actually going to catch up with them economically." And that led logically to a more assertive policy. And we failed to see that there's a bunch of unintended consequences here. One is, the Chinese didn't really mean to create the only rivals to Silicon Valley on the planet. What the Party meant to do was just to keep Silicon Valley and big tech at bay. But in fact, they did import substitution brilliantly. And that's why the only place in the world with its own tech ecosystem outside of Silicon Valley is in China. That's important because it means that the Party didn't really mean to be at the cutting edge of tech. But you know, Jack Ma and his counterparts achieved that behind the Great Firewall. That's important.

The second thing was that while they were forging ahead in terms of network platforms, and particularly FinTech, where China leads the U.S., they failed to appreciate (and this was a huge strategic mistake) that they were heavily reliant on the import of semiconductors and would not be able to quickly catch up and become self-sufficient in that area. The Achilles heel of Chinese power is that they have to import the high-end semiconductors from places like TSMC [the Taiwanese semiconductor giant that manufactures for many American firms]. And there is very little prospect, despite the ambitions of Made in China 2025, that China will get anywhere close to self-sufficiency by 2025. In January, I talked with someone from TSMC about the gap between the mainland and Taiwan in this respect, and he said, "You know, they're five years behind us. But five years ago, they were five years behind us. And five years from now, they will be five years behind us." That was a really interesting insight. I tried to put this into my Cold War analysis. Unlike the first Cold War, there's a sense in which this could be a pure tech competition without there necessarily being peripheral hot wars like Korea and Vietnam.

You could imagine Cold War II just being the space race, except its cyberspace. And when I was saying Cold War II is here, and it's good, what I meant was, "If we can have a Cold War that's just a technology race, the U.S. will unquestionably perform better." If we'd carried on in our second-term

Obama mentality — of “Hey, we’re not so exceptional. The rise of China is not something we can stop” — then the U.S. would, I think, have significantly underperformed and would have allowed China to basically ransack intellectual property through penetration of places like Stanford and the University of California and the big tech companies. So Cold War II is an opportunity for the U.S. to focus its mind on things like artificial intelligence and quantum computing and realize that it’s a race, as much as it was with the Soviet Union about armaments and space technology. And if it doesn’t get its Nikes on, it’s going to lose the race. So that’s why in favor of Cold War II. But, of course, there are risks, as there were in Cold War I. And the obvious risk is that you end up inadvertently with hot war, because both sides miscalculate over some island: Cuba in Cold War I; Taiwan in Cold War II.

How is the U.S. going to navigate a technology race if its universities are caught in a bind about whether some of their best science and technology graduate students are the future of America, or branded as potential spies? The U.S. didn’t seem to have this problem in the first Cold War. Everyone I talk to at the leading universities brings up the idea that we may be entering another McCarthy-era witch hunt phase, and that decoupling is impossible. American universities are beacons of learning. What can be done?

The decoupling debate has become oversimplified, as if your choice is between 1882 and a sort of Exclusion Act of Chinese or allowing the Chinese into the quantum computing facilities at Google. There’s clearly quite a lot of ground in between those two extremes. It’s not as if the Soviet Union was completely sealed off from the United States during the Cold War with relatively few assets. The Soviets actually penetrated the highest levels of American science, including the Manhattan Project. And so, what we can — and should — do is make sure that those commanding heights are inaccessible to Chinese or Chinese-controlled operatives. And that’s doable without kicking Chinese students out of Harvard undergrad programs. I taught at Harvard for 12 years, and some of my best students were from the PRC. I don’t think there was a massive threat to national security that they were hearing my version of Western history in my outline course, or sitting in on my seminars. In truth, universities are not all about cutting edge science. Even under a Biden administration, I don’t think Cold War II stops. It’s structurally programmed to escalate.

The other thing is that high-end, theoretical science was never sealed off from the Soviet Union during the Cold War. There was really high-level scientific cooperation between the U.S. and the Soviet Union. You were able to read Soviet scientists’ physics papers, and you wanted to because they were often extremely good. So, we just need to understand what is really valuable intellectual property that we want to protect for national security reasons or just for commercial reasons and ensure that we do that. We don’t need to kick all the Chinese students out of America to achieve that security. We just need to be a little more wary than the tech companies and the west coast universities have been because they clearly were penetrated by the Chinese intelligence services. And in that sense, it’s not all that different from Cold War I.

In my view, the big difference is more economic than security based. Unlike in Cold War I, we are very much intertwined with the Chinese economy. Chinese students are already a part of this. A much

bigger part of it is that Wall Street is still in love with Chimerica, and even wants to come on in [to China] when the Party says great new terms are on offer for Western financial institutions. They're all slobbering at the prospect of the Ant Group IPO [the IPO was called off last week, after this interview was completed]. And that is really different because there weren't alluring prizes in the Soviet economy that anybody in New York gave a damn about. That's trickier for me, because I don't see that we can have Cold War II and also huge American investments in Chinese tech [companies] and bonds. One of these narratives is going to turn out to be wrong. And my suspicion is that Wall Street is going to be wrong, because even under a Biden administration I don't think Cold War II stops. It's structurally programmed to escalate. And at some point, you're going to wonder why you bought all those Chinese securities when capital controls were still in place, and the rule of law was manifestly not a reality. Those look to me like investments that will, over a 10-year time horizon, look terrible.

But, it turns out that many of China's best technology firms were financed by American venture capital firms and investment funds. They seeded the rise of China, in many ways. Are you suggesting that we should close the door to Wall Street and Silicon Valley financing China's best technology firms?

There's a different set of historical analogies that are relevant here, because unlike the Soviet Union, China wanted to have a market economy wrapped around the state-controlled economy that they already had. And this was the big divergence from the Soviet game plan. Any country in history that wants to have an industrial revolution and catch up with the West copies the technology that it can get its hands on. The United States copied the industrial technology of Britain in the era of Alexander Hamilton. And so, it shouldn't be surprising to us that in pursuit of building a huge apparel industry in the early phase of its industrialization, China just copied and pasted. And it has continued to do that up the value chain. That was sort of the least original thing about the Chinese story. They were really just belatedly doing what had been done in Japan and then had been done in South Korea and Taiwan later. China was a late stage tiger in that respect.

But then you recognize the difference, which is that these other east Asian economies actually evolved in the direction of democracy, South Korea being the Chile of the region. It went from dictatorship to democracy. So did Taiwan. So, you didn't need to worry about the politics of this catch up, because as they caught up, they converged on Western norms of democracy and free speech, etc. But China was never going to do that because unlike these other regimes, it was a one-party Communist state. It was not capable of evolution in that direction, because the monopoly of the Communist Party on power is not something in any way compatible with rule of law, private property rights or the move towards representative government.

Now, the analogy that is relevant is IBM in Germany between the wars. Lots of American companies were doing business in Germany in the 1920s and the 1930s. And very few said in 1933, "Well, we can't carry on with this character in charge. Let's sell off our assets at the bottom of the market." 1933 wasn't a great time to sell assets. And so IBM in Germany is a good illustration of the problem that, imperceptibly, these American companies that got involved in the China story were investing in

and accumulating assets in a totalitarian regime — and that's what China is.

It didn't feel totalitarian. That's the funny thing, right? You were there. Shanghai did not feel like Moscow in the 1930s. I was, and on paper still am, a visiting professor at Tsinghua [University]. Initially, it did not feel that different from Harvard, except [that] students were harder working. And that's why it all kept going because there wasn't a moment when, you know, Steve Schwarzman or anybody else could say, "Oh God, are we actually helping to build the most powerful totalitarian regime in history?" It came in such small steps, and was so unwelcome as an insight that there was quite a bit of self-censorship going on. So that's the way to think about it: that China was from an economic standpoint, just a very large version of the East Asian industrialization playbook. But there was a political sting in the tail, and nobody quite wanted to face it. Some people are still in denial about it. I mean, Bob Zoellick still writes as if China is the China he dealt with, but it really isn't. And watching Tsinghua become more and more of an unfree institution has been pretty instructive for me.

Should the American or Western business community now be rethinking their China strategies, or perhaps just wait for Trump to leave office and hope things improve?

The big delusion is that Biden's going to come in and détente is immediately going to break out. This is a complete delusion. Oddly, it's just the delusion that liberals engaged in throughout the Cold War. They were always expecting some change of climate. I wrote about this in my [Henry] Kissinger biography. But I don't think that China is really sincere about détente.

This was based on conversations [I had] with Kissinger. I think they have revised their views of us and realize that we are not going to acquiesce. This is a little bit of the influence of Putin — that we are incorrigibly hegemonic. And also, that we are on the way out. A very important feature of the last 12 years is this growing sense in China that we're not so great after all. And so they're making the mistake of thinking that there's no self-repair function in the U.S. system. It's a big mistake. The same mistake the Soviets made in the '70s, when they thought the world was going their way because we completely messed up in Vietnam. So, this means Biden comes in, and the Chinese say, "Oh, great. Well, you'll take off the tariffs, won't you? And you'll get rid of the Commerce Department restrictions on Huawei, right? You'll stop all that annoying Trump stuff, won't you?" That'll be a problem for the Biden people, wouldn't it? Are they just going to say, "Yes," in return for nothing? No, of course not. They'll do what Michelle Flournoy and her counterparts have been trained to do, or Kurt Campbell, or whoever it is. They'll say, "Well, we're very interested in these ideas that you put forward. And here's what we think you should be doing." I think it's pretty clear that if Flournoy is at [the Department of] Defense, then the U.S. actually ramps up its commitment to Taiwan. If Biden is the man I think he is, his record has periodically been quite hawkish. Think of his view on Bosnia, for example. He's going to be tougher than Obama, particularly if it comes to the Xinjiang question, which is very problematic for Democrats.

So, I don't think Cold War II just goes away. And that's precisely why we need to stop exaggerating Trump's significance in this narrative. He didn't start Cold War II. It began before him. He came about

partly because of the way China was playing it. And when he goes, the public isn't about to kiss and make up with China. The mood has completely changed. Actually, this is Trump's major historical achievement. He has made legitimate an anti-Chinese sentiment on both sides of the partisan divide that Biden can't make go away. Right at the beginning of the [Biden] campaign he nearly said something nice about the Chinese, like, "Yes, they're nice, folks..." And everyone said, "What!?"

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