

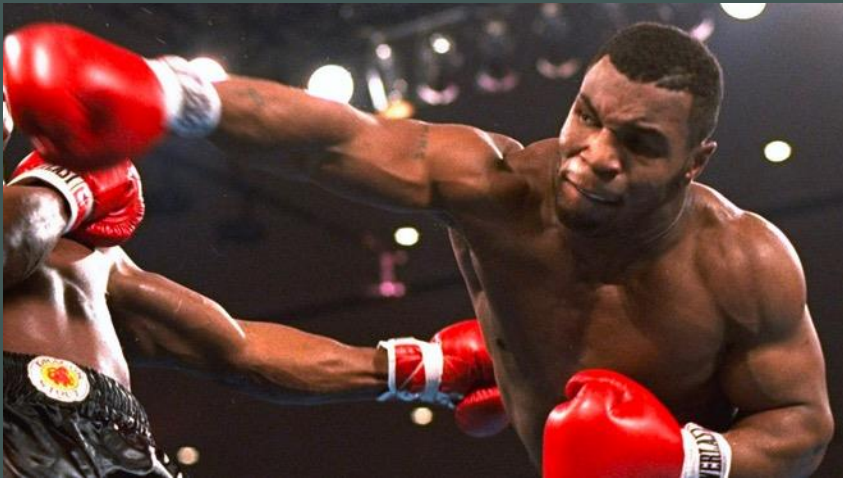
Ukraine, Israel, Taiwan

Crisis and Conflict in the Context of a New Cold War



London School of Economics, November 7, 2023

The world according to Mike Tyson:



“Everybody has a plan until they get punched in the mouth.”

The world according to Mike Tyson:



“Every question is hypothetical until it actually happens.”

We have passed from the “foothills” to the “mountain passes” of Cold War II.



Henry Kissinger and the author at the New Economy Forum, Beijing, Nov. 21, 2019. He raised that to “mountain passes” on Nov. 16, 2020. Last year he told me: “The Second Cold War will be even more dangerous than the first.”

If it looks like a duck, swims like a duck, and quacks like a duck, then it probably is a duck.

Ideological

- Liberal “human rights” vs. Marxist-Leninist “struggle for a new era” (*fendou shinshidai*)

Technological

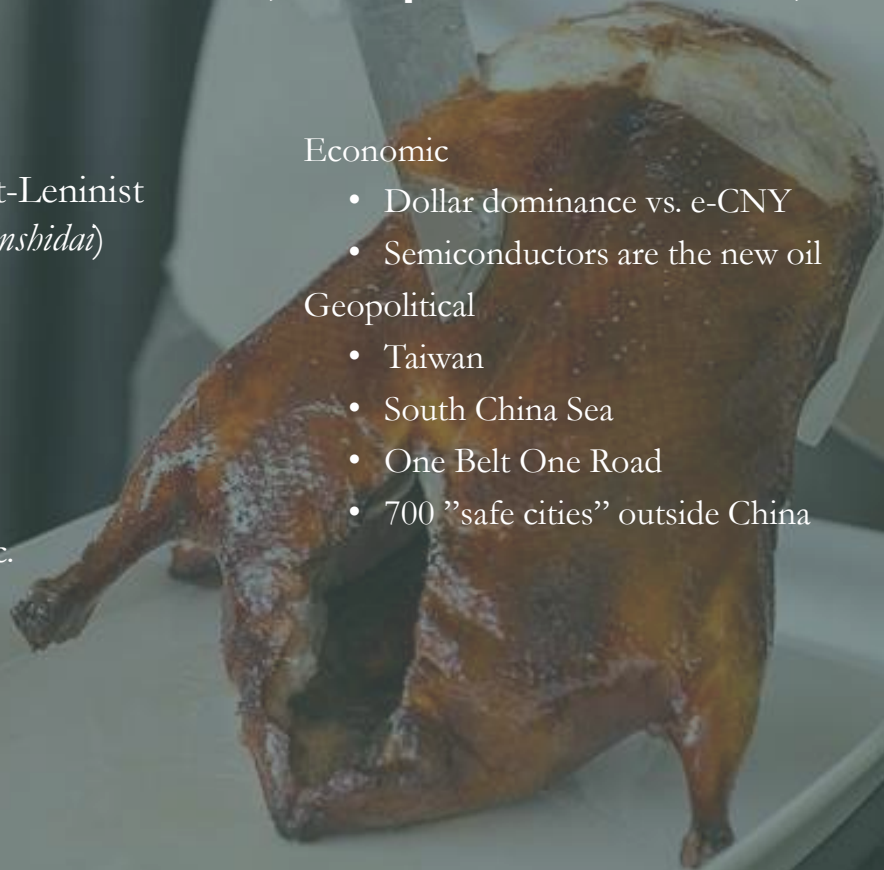
- 5G
- Artificial intelligence
- Quantum computing
- Vaccines
- Hypersonic missiles, drone swarms etc.

Economic

- Dollar dominance vs. e-CNY
- Semiconductors are the new oil

Geopolitical

- Taiwan
- South China Sea
- One Belt One Road
- 700 “safe cities” outside China



Economic inter-dependence did not prevent a drift toward Cold War.

Chimerical? Think Again

By Niall Ferguson and Moritz Schularick
Updated Feb. 5, 2007 12:01 am ET



Chad Crowe

If anything, it was asymmetric interdependence that led to Cold War II.



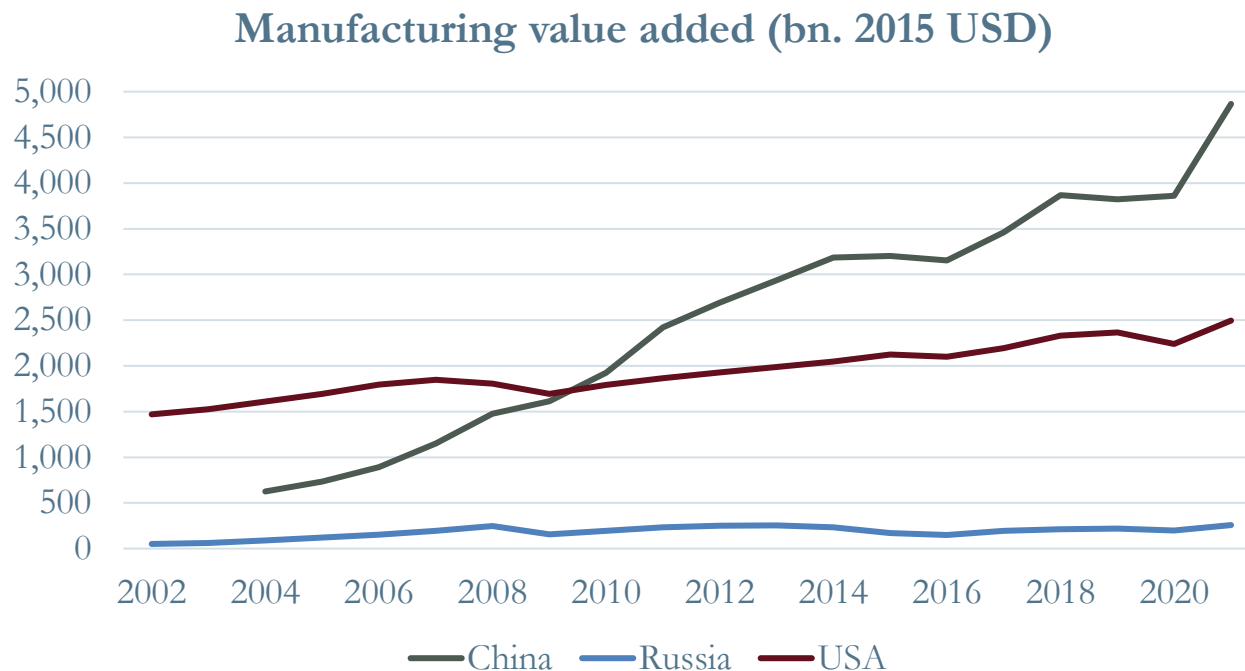
China's share of the total U.S. trade deficit peaked at 48% in 2015 but it was still 32% in 2021

China is the most formidable economic rival the U.S. has faced.

Actual and projected Chinese GDP as a percentage of U.S. GDP, two definitions, 1980-2026



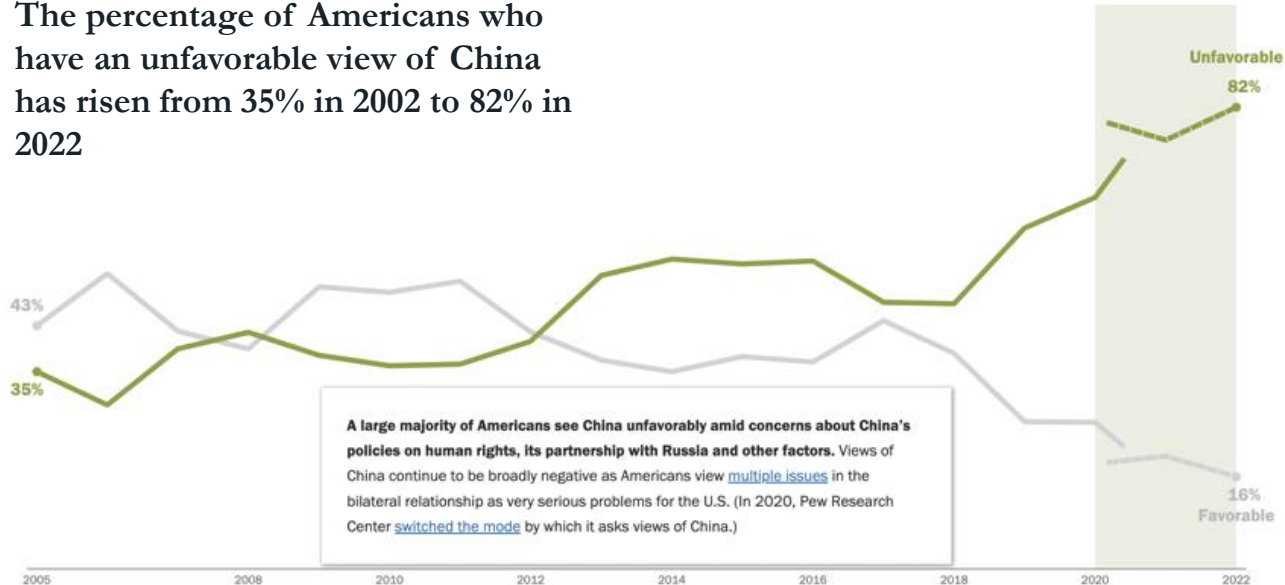
China's dominance of global manufacturing is an inescapable fact.



Sentiment towards China has soured ...

% in the U.S. who have a(n) ___ view of China

The percentage of Americans who have an unfavorable view of China has risen from 35% in 2002 to 82% in 2022



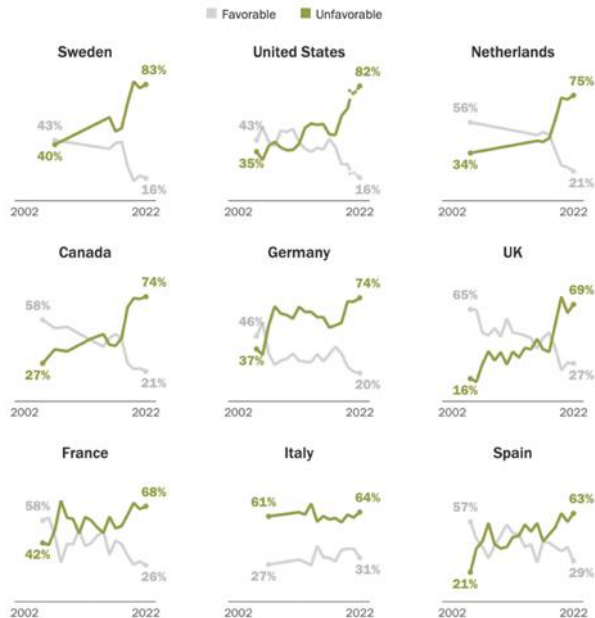
Note: In spring 2020, the Center ran concurrent phone (solid lines in chart) and online panel (dashed lines in chart) surveys in the U.S. In summer 2020 and prior to 2020, U.S. surveys were conducted over the phone.

Source: Spring 2022 Global Attitudes Survey, Q5b.

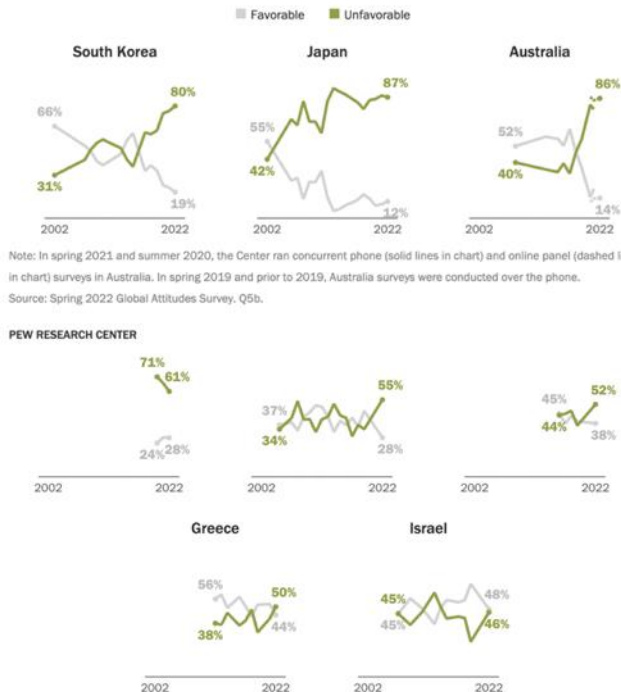
PEW RESEARCH CENTER

... almost everywhere.

% in each country with a(n) ___ view of China



% in each country with a(n) ___ view of China



Note: In spring 2021 and summer 2020, the Center ran concurrent phone (solid lines in chart) and online panel (dashed lines in chart) surveys in Australia. In spring 2019 and prior to 2019, Australia surveys were conducted over the phone.

Source: Spring 2022 Global Attitudes Survey, Q5b.

Note: In spring 2020, the Center ran concurrent phone (solid lines in chart) and online panel (dashed lines in chart) surveys in the U.S. In summer 2020 and prior to 2020, U.S. surveys were conducted over the phone.

Source: Spring 2022 Global Attitudes Survey, Q5b.

China's mishandling of COVID-19 and its clumsy "wolf-warrior diplomacy" have woken up the rest of the world.

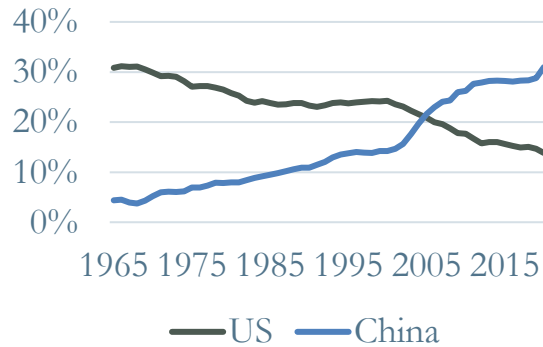


Even the climate is becoming a cold war issue.

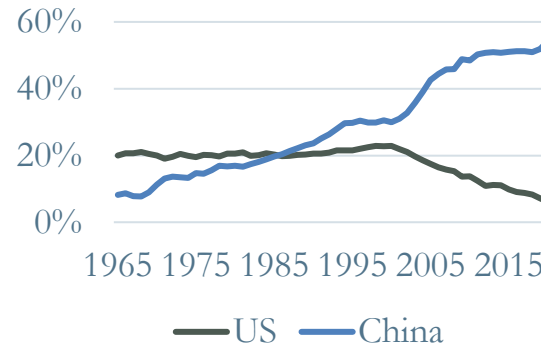


If you're worried about global warming, you should stage your protests in Beijing.

Shares of global CO₂ emissions, 1965-2020

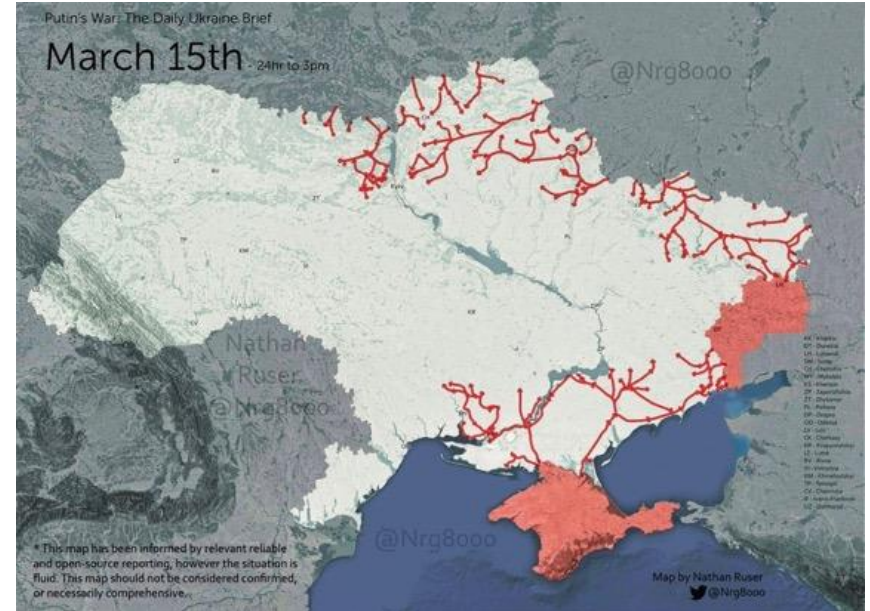


Shares of global coal consumption, 1965-2020



China is responsible for 64% of the 32% increase in CO₂ emissions since Greta Thunberg's birth (2003), and 93% of the 39% increase in coal consumption.

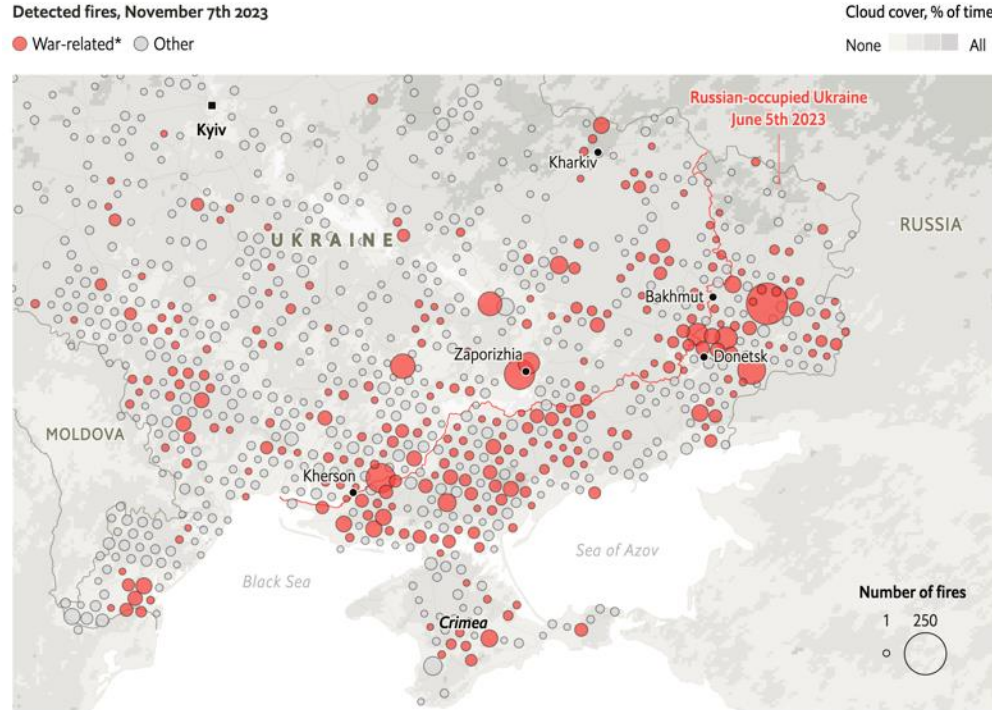
What's the significance of the Russian invasion of Ukraine for Cold War II?



The best analogy is that Ukraine is the Korea of Cold War II.



Unfortunately, that implies a stalemate and an armistice with the Russian still controlling their “land bridge.”



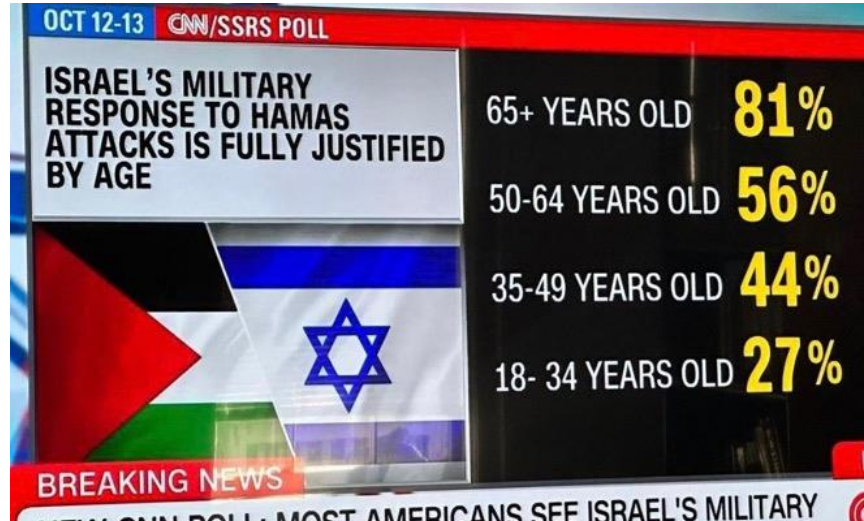
*Assessed by statistical model. Days of extreme heat and immediate aftermath (August 4th-August 11th 2023) excluded.

The October 7 terrorist attacks on Israel have precipitated the most serious Middle Eastern crisis since 1973.



Israel is in fact much more strategically vulnerable than it was 50 years ago.

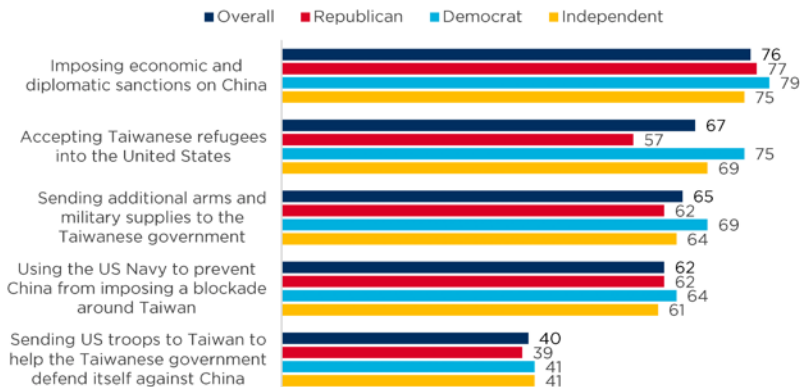
Voting Ended		10/27/2023	3:49:01 PM
Item 5 - A/ES-10/L.25			
Protection of civilians and upholding legal and humanitarian obligations			
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<input checked="" type="checkbox"/> ANDORRA	<input checked="" type="checkbox"/> CHAD	<input checked="" type="checkbox"/> GAMBIA	<input checked="" type="checkbox"/> LATVIA
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<input checked="" type="checkbox"/> BANGLADESH	<input checked="" type="checkbox"/> CYPRUS	<input checked="" type="checkbox"/> HAITI	<input checked="" type="checkbox"/> MALAYSIA
<input checked="" type="checkbox"/> BARBADOS	<input checked="" type="checkbox"/> CZECHIA	<input checked="" type="checkbox"/> HONDURAS	<input checked="" type="checkbox"/> MALDIVES
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<input checked="" type="checkbox"/> BULGARIA	<input checked="" type="checkbox"/> ERITREA	<input checked="" type="checkbox"/> JAPAN	<input checked="" type="checkbox"/> MOROCCO
<input checked="" type="checkbox"/> BURKINA FASO	<input checked="" type="checkbox"/> ESTONIA	<input checked="" type="checkbox"/> JORDAN	<input checked="" type="checkbox"/> MOZAMBIQUE
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<input checked="" type="checkbox"/> CABO VERDE	<input checked="" type="checkbox"/> ETHIOPIA	<input checked="" type="checkbox"/> KENYA	<input checked="" type="checkbox"/> NAMIBIA
<input checked="" type="checkbox"/> CAMBODIA	<input checked="" type="checkbox"/> FIJI	<input checked="" type="checkbox"/> KIRIBATI	<input checked="" type="checkbox"/> NAURU
<input checked="" type="checkbox"/> IN FAVOUR: 120	<input checked="" type="checkbox"/> AGAINST: 14	<input checked="" type="checkbox"/> ABSTENTION: 45	



Next, do we risk re-running the Cuban Missile Crisis over Taiwan (with the U.S. playing the Soviet role)?

US Reactions to an Invasion of Taiwan

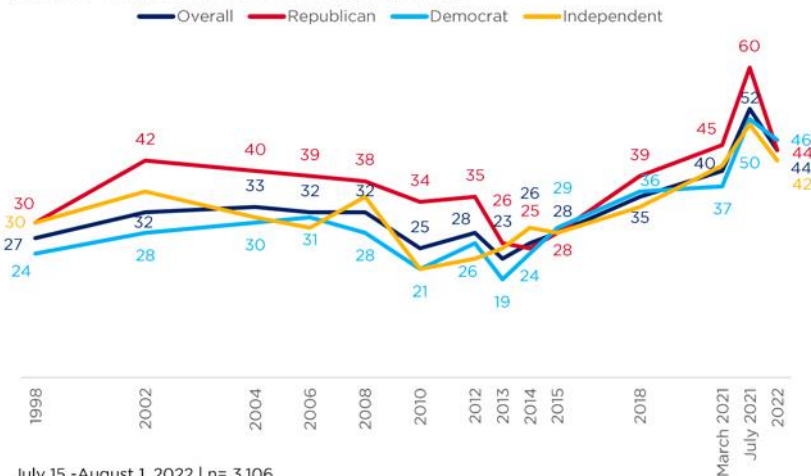
If China were to invade Taiwan, would you support or oppose the United States:



July 15 - August 1, 2022 | n=3,106
CHICAGO COUNCIL SURVEYS

Use of US Troops if China invaded Taiwan

There has been some discussion about the circumstances that might justify using US troops in other parts of the world. Please give your opinion about some situations. Would you favor or oppose the use of US troops: (% favor)



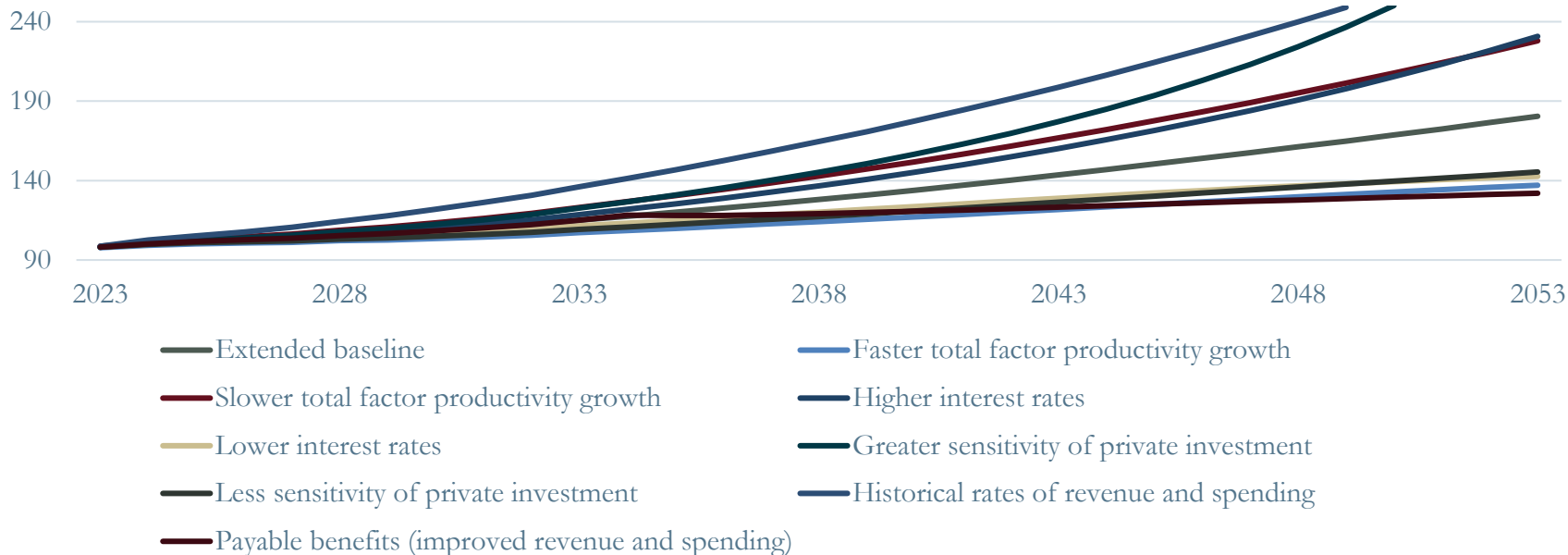
July 15 - August 1, 2022 | n= 3,106
CHICAGO COUNCIL SURVEYS

Is the U.S. ready for a showdown with China on top of crises in Eastern Europe and the Middle East?

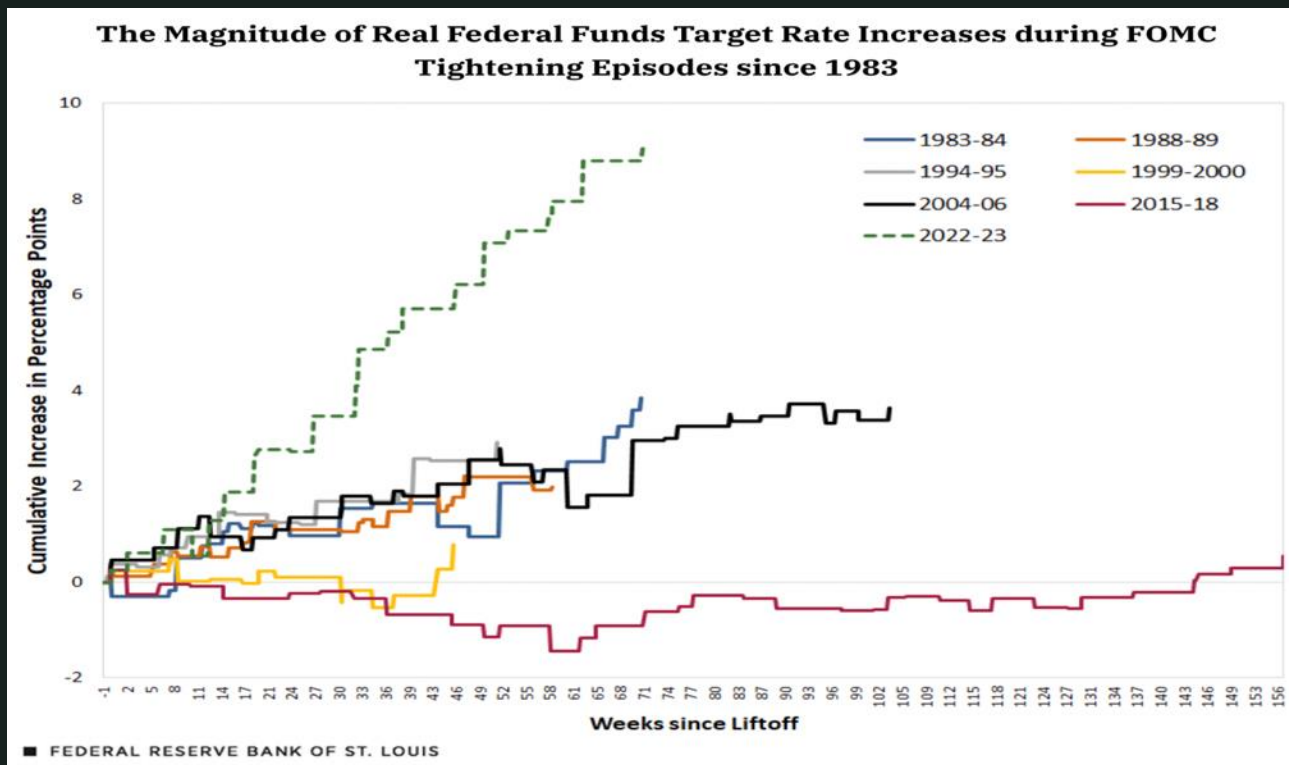


The apparent strength of the U.S. economy is based on an unsustainable fiscal policy.

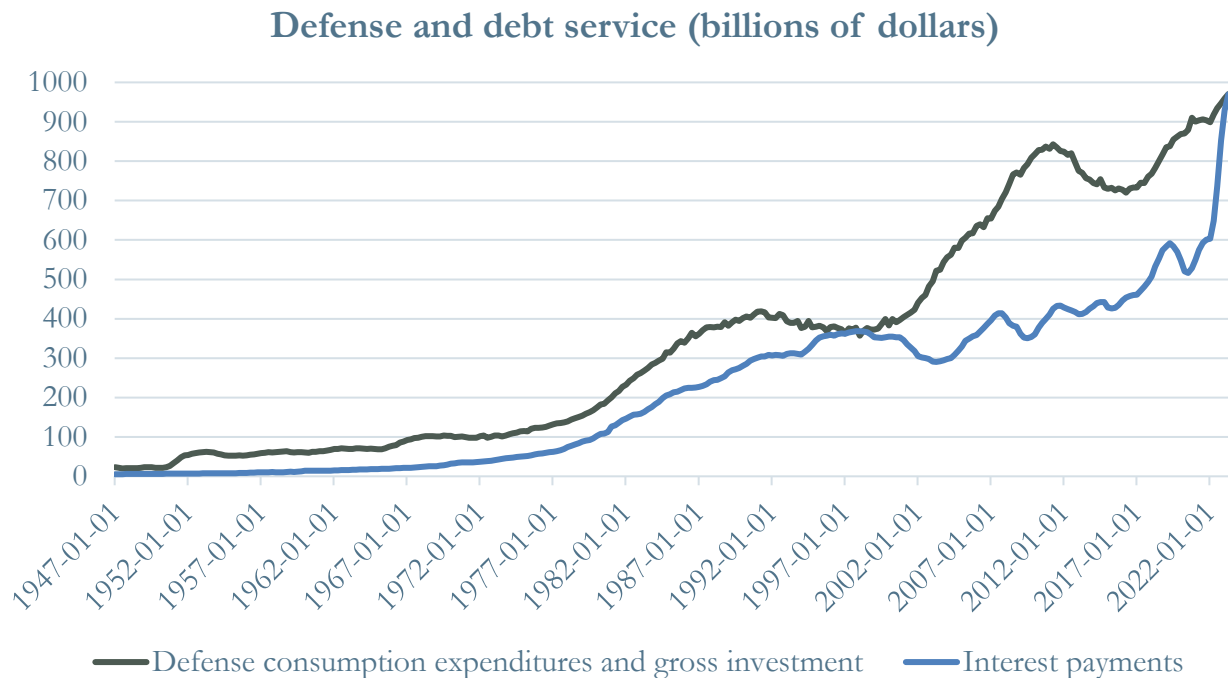
Federal debt in public hands as % GDP, latest CBO scenarios



The steepest real interest rate hikes in 40 years will have inexorable effects.



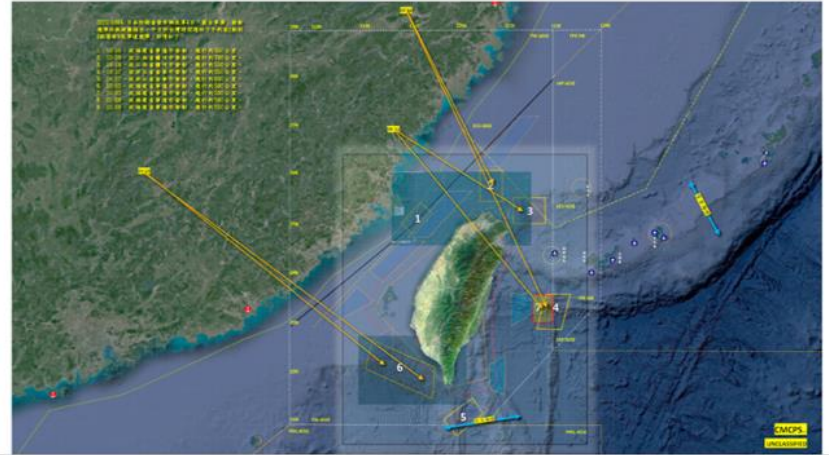
U.S. debt service is about to exceed the defense budget.



And a showdown over Taiwan would have dire economic consequences.

“The United States should ... rehearse—at least with Japan and Taiwan—a ... plan to challenge any Chinese denial of international access to Taiwan and prepare, including with pre-positioned U.S. supplies, including war reserve stocks, shipments of vitally needed supplies to help Taiwan defend itself. ... The United States and its allies would credibly and visibly plan to react to the attack on their forces by breaking all financial relations with China, freezing or seizing Chinese assets.”—Robert Blackwill and Philip Zelikow for Council on Foreign Relations (2021)

The PLA's joint exercises around Taiwan after Pelosi's visit

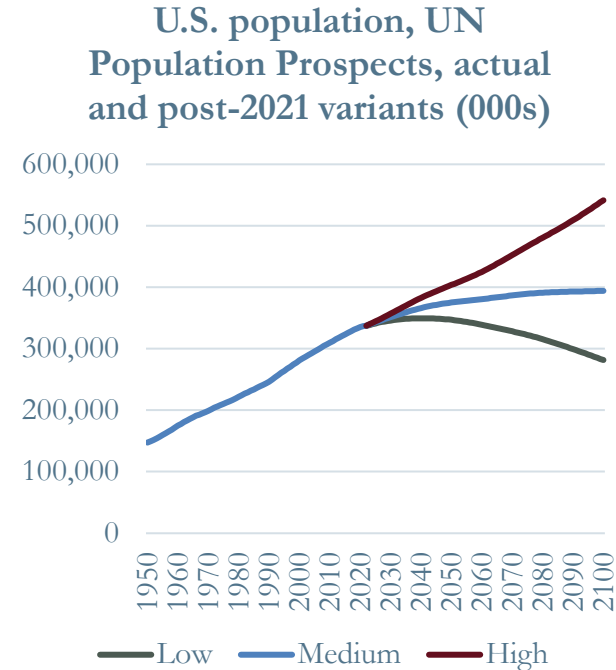
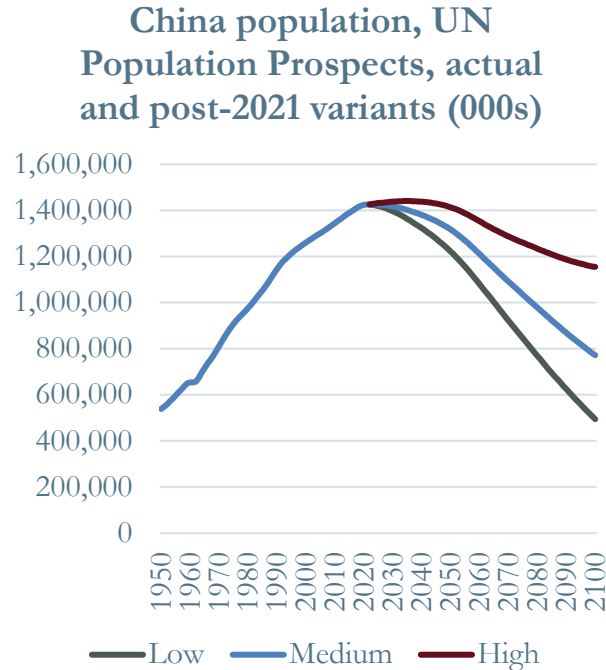


Now for the good news

U.S. rivals, in particular China, are facing much more serious problems.



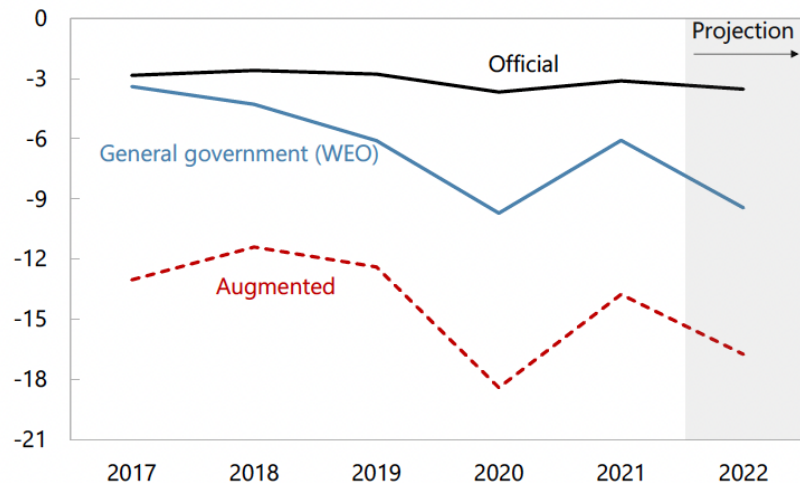
The demographic dynamics are radically worse for China.



In the face of a real estate slump and consumer risk-aversion, China has lost fiscal room for maneuver.

Government Balances

(In percent of GDP)

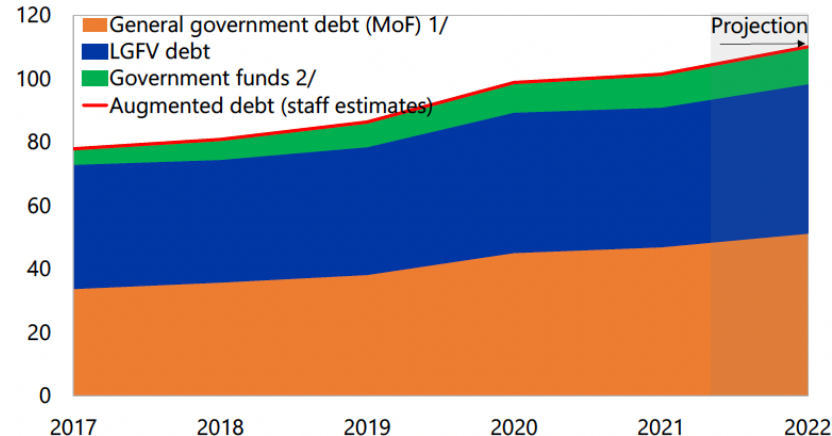


Sources: Authorities; and IMF staff calculations.

Note: See Table 2 in staff report for definitions of government balances.

Augmented Debt

(In percent of GDP)

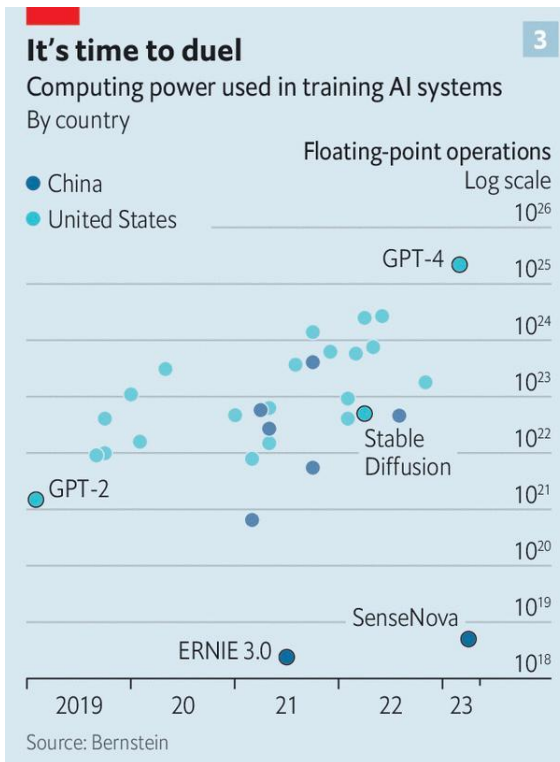
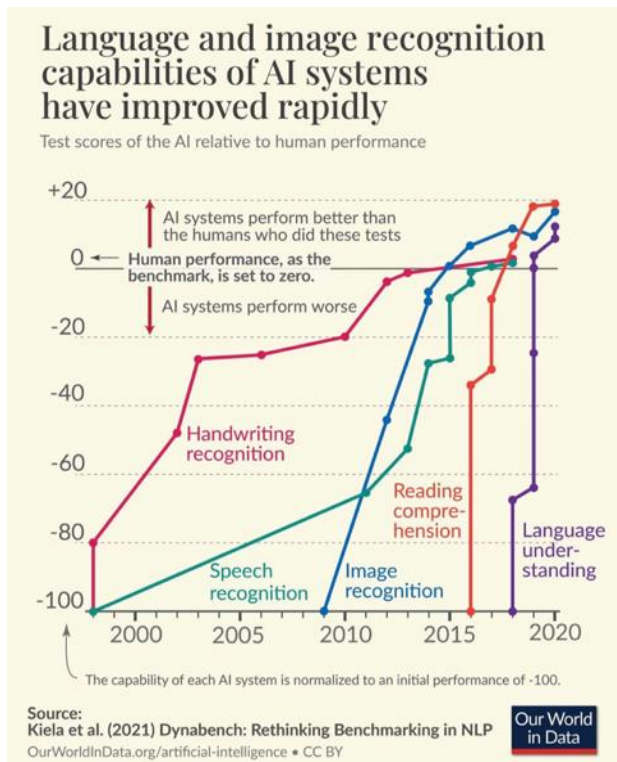


Sources: Ministry of Finance (MoF); and IMF staff calculations.

1/ Data through 2020, 2021 estimated, 2022 projection.

2/ Government guided funds and special construction funds (social capital portion only).

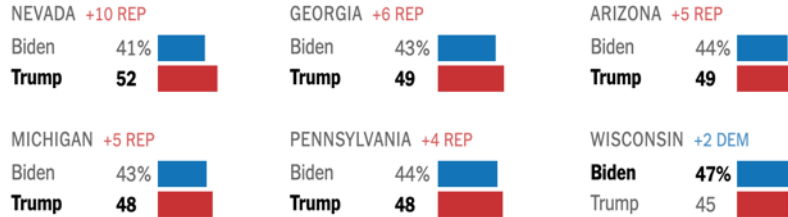
U.S. leadership in AI seems likely to deliver meaningful benefits in terms of productivity.



And when it comes to deterrence, “madman theory” may be better than “nice guy theory.”

Trump Is Ahead in Five of Six Swing States

Margins are calculated using unrounded figures.



Based on New York Times/Siena College polls of 3,662 registered voters from Oct. 22 to Nov. 3 • By Ashley Wu and Molly Cook Escobar



(Shame about the republic, but we nearly made it to 250.)