



All Is Not Quiet on the Eastern Front

Description

2022 was the year in which war made a comeback. But Cold War II could become World War III in 2023 — with China as the arsenal of autocracy.

War is hell on earth — and if you doubt it, visit Ukraine or watch Edward Berger's [*All Quiet on the Western Front*](#), Netflix's gut-wrenching new adaptation of Erich Maria Remarque's classic antiwar novel of 1929.

Even a small war is hellish for those caught up in it, of course. But a world war is the worst thing we humans have ever done to one another. In a memorable essay published last month, Henry Kissinger reflected on "How to Avoid Another World War." In 1914, "The nations of Europe, insufficiently familiar with how technology had enhanced their respective military forces, proceeded to inflict unprecedented devastation on one another." Then, after two years of industrialized slaughter, "the principal combatants in the West (Britain, France and Germany) began to explore prospects for ending the carnage." Even with US intermediation, the effort failed.

Kissinger posed an important question: "Does the world today find itself at a comparable turning point [like the opportunity for peace in 1916] in Ukraine as winter imposes a pause on large-scale military operations there?" This time last year, I predicted that Russia would invade Ukraine. The question one year later is whether there is a way to end this war, or whether it is destined to grow into something much larger.

As Kissinger rightly points out, two nuclear-armed powers are currently contesting the fate of Ukraine. One side, Russia, is directly engaged in conventional warfare. However, the US and its allies are fighting indirectly by providing Ukraine with what Alex Karp, chief executive of Palantir Technologies Inc., calls "the power of advanced algorithmic warfare systems." These are now so potent, he recently told the Washington Post's David Ignatius, that they "equate to having tactical nuclear weapons against an adversary with only conventional ones." Take a moment to ponder the implications of that.

War is back. Could world war also make a comeback? If so, it will affect all of our lives. In the second interwar era (1919-1939), we lost sight of the role of war in the global economy. Because the wars of

that time were small (Bosnia, Afghanistan, Iraq), we forgot that war is history's favorite driver of inflation, debt defaults — even famines. That is because large-scale war is simultaneously destructive of productive capacity, disruptive of trade, and destabilizing of fiscal and monetary policies.

But war is as much about the mobilization of real resources as it is about finance and money: Every great power needs to be able to feed its population and power its industry. In times of high interdependence (globalization), a great power needs to retain the option to revert to self-sufficiency in time of war. And self-sufficiency makes things more expensive than relying on free trade and comparative advantage.

Throughout history, the principal source of power is technological superiority in armaments, including intelligence and communications. A critical question is therefore: What are the key inputs without which a state-of-the-art military is unattainable?

In 1914, they were coal, iron and the manufacturing capacity to mass-produce artillery and shells, as well as steamships. In 1939, they were oil, steel, aluminum and the manufacturing capacity to mass-produce artillery, ships, submarines, planes and tanks. After 1945 it was all of the above, plus the scientific and technical capacity to produce nuclear weapons.

Today, the vital inputs are the capacity to mass-produce high-performance semiconductors, satellites, and the algorithmic warfare systems that depend on them.

What were the principal lessons of the 20th-century world wars? First, the American combination of technological and financial leadership, plus abundant natural resources, was impossible to beat. Secondly, however, the dominant Anglophone empires were poor at deterrence. The UK failed twice to dissuade Germany and its allies from gambling on world war. This was mainly because Liberal and Conservative governments alike were unwilling to ask voters for peacetime sacrifices, and they failed at statecraft. The result was two very expensive conflicts that cost much more in life and treasure than effective deterrence would have — and left the UK exhausted and unable to sustain its empire.

The US has been the dominant Anglophone empire since the Suez Crisis of 1956. With the threat of nuclear Armageddon, the US successfully deterred the Soviet Union from advancing its Marxist-Leninist empire in Europe much beyond the rivers Elbe and Danube. But America was relatively unsuccessful at preventing the spread of communism by Soviet-backed organizations and regimes in what was then known as the Third World.

The US is still bad at deterrence. Last year, it failed to deter President Vladimir Putin from invading Ukraine, mainly because it had low confidence in the Ukrainian defense forces it had trained and the Kyiv government that controlled them. The latest objective of American deterrence is Taiwan, a functionally autonomous democracy that China claims as its own.

In October, President Joe Biden's administration belatedly published its [National Security Strategy](#). Such documents are always the work of a committee, but internal dissonance shouldn't be this obvious. "The post-Cold War era is definitively over," the authors declare, "and a competition is underway between the major powers to shape what comes next." However, "we do not seek conflict or a new Cold War." For the major powers have "shared challenges" such as climate change and Covid and other pandemic diseases.

On the other hand, “Russia poses an immediate threat to the free and open international system, recklessly flouting the basic laws of the international order today, as its brutal war of aggression against Ukraine has shown.” China, meanwhile, is “the only competitor with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military and technological power to advance that objective.”

So what will the US do to check these rivals? The answer sounds remarkably similar to what it did in Cold War I:

- “We will assemble the strongest possible coalitions to advance and defend a world that is free, open, prosperous and secure.”
- “We will prioritize maintaining an enduring competitive edge over the PRC while constraining a still profoundly dangerous Russia.”
- “We must ensure strategic competitors cannot exploit foundational American and allied technologies, know-how, or data to undermine American and allied security.”

In other words: form and maintain alliances and try to prevent the other side from catching up technologically. This is a cold war strategy in all but name.

US support for Ukraine since the Feb. 24 invasion has undoubtedly succeeded in weakening Putin’s regime. The Russian military has suffered disastrous losses of trained manpower and equipment. The Russian economy may not have contracted by as much as Washington hoped (a mere 3.4% last year, according to the [International Monetary Fund](#)), but Russian imports have crashed due to Western export controls. As Russia’s stock of imported component parts and machinery runs down, Russian industry will face deep disruptions, including in the defense and energy sectors.

Last year, Russia cut off gas exports to Europe that it cannot reroute, as there are no alternative pipelines. Putin thought the gas weapon would allow him to divide the West. So far, it has not worked. Russia also tried choking Black Sea grain exports. But that lever had little strategic value as the biggest losers of the blockade were poor African and Middle Eastern countries.

The net result of Putin’s war thus far has been to reduce Russia to something like an economic appendage of China, its biggest trading partner. And Western sanctions mean that what Russia exports to China is sold at a discount.

There are two obvious problems with US strategy, however. The first is that if algorithmic weapons systems are the equivalent of tactical nuclear weapons, Putin may eventually be driven to using the latter, as he clearly lacks the former. The second is that the Biden administration appears to have delegated to Kyiv the timing of any peace negotiations — and the preconditions the Ukrainians demand are manifestly unacceptable in Moscow.

The war therefore seems destined, like the Korean War in Cold War I, to drag on until a stalemate is reached, Putin dies and an armistice is agreed that draws a new border between Ukraine and Russia. The problem with protracted wars is that the US and European publics tend to get sick of them well before the enemy does.

China is a much tougher nut to crack than Russia. Whereas a proxy war is driving Russia’s economy

and military back into the 1990s, the preferred approach to China is to stunt its technological growth, particularly with respect to — in the words of National Security Adviser [Jake Sullivan](#) — “computing-related technologies, including microelectronics, quantum information systems and artificial intelligence” and “biotechnologies and biomanufacturing.”

“On export controls,” Sullivan went on, “we have to revisit the longstanding premise of maintaining ‘relative’ advantages over competitors in certain key technologies. We previously maintained a ‘sliding scale’ approach that said we need to stay only a couple of generations ahead. That is not the strategic environment we are in today. Given the foundational nature of certain technologies, such as advanced logic and memory chips, we must maintain as large of a lead as possible.”

Sanctions on Russia, argued Sullivan, had “demonstrated that technology export controls can be more than just a preventative tool.” They can be “a new strategic asset in the US and allied toolkit.” Meanwhile, the US is going to ramp up its investment in home-produced semiconductors and related hardware.

The experience of Cold War I confirms that such methods can work. Export controls were part of the reason the Soviet economy could not keep pace with the US in information technology. The question is whether this approach can work against China, which is as much the workshop of the world today as America was in the 20th century, with a far broader and deeper industrial economy than the Soviet Union ever achieved.

Readers of the science-fiction novel *The Three-Body Problem* by Liu Cixin will recall that the aliens from the planet Trisolaris use intergalactic surveillance to halt technological advance on Earth while their invasion force makes its way through deep space. Can arresting China’s development really be how the US prevails in Cold War II?

True, recent Commerce Department restrictions — on the transfer of advanced graphics processing units to China, the use of American chips and expertise in Chinese supercomputers, and the export to China of chipmaking technology — pose major problems for Beijing. They essentially cut the People’s Republic off from all high-end semiconductor chips, including those made in Taiwan and Korea, as well as all chip experts who are “US persons,” which includes green-card holders as well as citizens.

It’s also true that there are no quick fixes for Chinese President Xi Jinping. Most of China’s fabrication capacity is at low-tech nodes (larger in size than 16 nanometers). He cannot conjure up overnight a mainland clone of Taiwan Semiconductor Manufacturing Co., which leads the world in the sophistication of its chips. Nor can Xi expect that TSMC would conduct business as usual if China launched a successful invasion of Taiwan. The company’s chip fabs would almost certainly be destroyed in a war. Even if they survived, they could not function without TSMC personnel, who might flee, and equipment from the US, Japan and Europe, which would cease to be available.

Yet China has other cards it can play. It is dominant in the processing of minerals that are vital to the modern economy, including copper, nickel, cobalt and lithium. In particular, China controls over 70% of rare earth production both in terms of extraction and processing. These are 17 minerals used to make components in devices such as smartphones, electric vehicles, solar panels and semiconductors. An embargo on their export to the US might not be a lethal blow, but it would force the US and its allies to develop other sources in a hurry.

America's Achilles heel is often seen as its unsustainable fiscal path. At some point in the coming decade, according to the Congressional Budget Office, interest payments on the federal debt are likely to exceed defense spending. Meanwhile, it is not immediately obvious who buys all the additional Treasuries issued each year if the Federal Reserve is engaged in quantitative tightening.

Might this give China an opportunity to exert financial pressure on the US? In July, it held \$970 billion worth of Treasuries, making it the second-largest foreign holder of US debt. As has often been pointed out, if China chose to dump its Treasuries, it would drive up US bond yields and bring down the dollar, though not without causing considerable pain to itself.

Yet the bigger American vulnerability may be in the realm of resources rather than finance. The US long ago ceased to be a manufacturing economy. It has become a great importer from the rest of the world. As Matthew Suarez, a lieutenant in the US Marine Corps, points out in an insightful essay at American Purpose, that makes the nation heavily reliant on the world's merchant marine. "Setting aside the movement of oil and bulk commodities," Suarez writes, "most internationally traded goods travel in one of six million containers transported in approximately 61,000 ships. This flow of goods depends on an equally robust parallel flow of digital information."

The growing dominance of China in both these areas should not be underestimated. Beijing's Belt and Road Initiative has created infrastructure that reduces Chinese reliance on seaborne trade. Meanwhile, Shanghai Westwell Lab Information Technology Co. is rapidly becoming the leading vendor of the most advanced port-operating systems.

The war in Ukraine has provided a reminder that the disruption of trade is a vital weapon of war. It has also reminded us that a great power must be in a position to mass-produce modern weaponry, with or without access to imports. Both sides in the war have consumed staggering quantities of shells and missiles as well as armored vehicles and drones. The big question raised by any Chinese-American conflict is how long the US could sustain it.

As my Hoover Institution colleague Jackie Schneider has pointed out, just "four months of support to Ukraine ... depleted much of the stockpile of such weapons, including a third of the US Javelin arsenal and a quarter of US Stingers." According to the Royal United Services Institute, the artillery ammunition that the US currently produces in a year would have sufficed for only 10 days to two weeks of combat in Ukraine in the early phase of the war.

A February 2022 Department of Defense report on industrial capacity [warned](#) that the US companies producing tactical missiles, fixed-wing aircraft and satellites had reduced their output by more than half.

As I have pointed out elsewhere, the US today is in some ways in the situation of the British Empire in the 1930s. If it repeats the mistakes successive UK governments made in that decade, a fiscally overstretched America will fail to deter a nascent Axis-like combination of Russia, Iran and China from risking simultaneous conflict in three theaters: Eastern Europe, the Middle East and the Far East. The difference is that there will be no sympathetic industrial power to serve as the "arsenal of democracy" — a phrase used by President Franklin D. Roosevelt in a radio broadcast on Dec. 29, 1940. This time it is the autocracies that have the arsenal.

The Biden administration must be exceedingly careful not to pursue economic warfare against China

so aggressively that Beijing finds itself in the position of Japan in 1941, with no better option than to strike early and hope for military success. This would be very dangerous indeed, as China's position today is much stronger than Japan's was then.

Kissinger is right to worry about the perils of a world war. The first and second world wars were each preceded by smaller conflicts: the Balkan Wars of 1912 and 1913, the Italian invasion of Abyssinia (1936), the Spanish Civil War (1936-39), the Sino-Japanese War (1937). The Russian invasion of Ukraine may seem to be going well for the West right now. But in a worst-case scenario, it could be a similar harbinger of a much wider war.

by Niall Ferguson

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1. Army-Wars-Conflict Zones-Military Tech.
2. Main
3. Opinion-Comments
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