RESPONSES TO ALAN DUPONT'S
CIS ANALYSIS PAPER (MAY 2020)

MITIGATING THE NEW COLD WAR:
Managing US-China trade, tech and geopolitical conflict

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THE CENTRE FOR INDEPENDENT STUDIES

JOHN LEE

Alan Dupont's report does a commendable job of covering the major fissures between the United States and China. It also develops the more important and insightful thesis that the economic, industrial, technological, strategic, and political disagreements are linked; in that one element is caused or else exacerbated by another. It then goes on to suggest some ways tension can either be reduced, managed or else contained. The worthy objective is to prevent a full-blown Cold War — or worse, a serious hot war between the two most powerful countries.

The report aims to present a balanced perspective of the US-China tensions, in that the grievances of both countries are given fair hearing and roughly equal time and attention. Presumably, doing so is seen as a prerequisite for reducing, managing, or containing differences and avoiding the so-called Thucydides Trap, which can descend into conflict. As the report argues (p.30):

> "Unless the US and China can moderate their aspirations for global leadership and reach some form of strategic accommodation, a comprehensive settlement of their disputes is unlikely. Trust, already in short supply, is steadily being eroded by rising nationalist and protectionist sentiment reinforcing suspicions about the purpose of each other's trade and industry policies."

The report is cautious as to whether such moderation and accommodation is possible and does not seem to conclude either way whether a comprehensive settlement of disputes is even possible.

I would offer two observations that support the case for pessimism, and will conclude with some brief policy implications.

First, although presenting a clear-eyed analysis, the report understates the long-standing and deep structural drivers for rivalry and distrust between the two countries from both historical and strategic perspectives.

Consider the clean out of 'liberals' from the senior ranks of the Chinese Communist Party in the years after the 1989 countrywide protests and Tiananmen massacre. The hardening line against political reform was informed by lessons learnt from the Party's near-death experience as well as the collapsed authoritarian regimes in the Soviet Empire and Eastern Europe.

This hardening political position against reform — which reaches its apogee under Xi Jinping — was accompanied by a conviction that the US was the unavoidable political and strategic rival, as the CCP were convinced that American power, influence and values could only be an existential threat to China's authoritarian system. Political and strategic documents and articles reveal China was preparing for an enduring and intense competition and rivalry with the US since the mid-1990s. Indeed, this author's own survey of over 100 documents and articles from the late-1990s to 2008 has found that about four-fifth of these were about competing with the US — how best to bind, circumvent, restrict or overcome American power and influence.

This suggests the US laboured for some time under the delusion that it was ever possible for China to emerge as a 'responsible stakeholder' for several decades. The contemporary objective of preventing a 'new Cold War' seems at odds with compelling evidence that China concluded it was already engaged in a Cold War with the US more than two decades ago. China's military spending, which has been increasing at twice the rate of GDP growth for over two decades, is largely aimed at countering and defeating American forces. It was more a case that the objective of increasing Chinese national power necessitated Beijing engaging with the US and the liberal international system in ways that the Soviet Union did not.

Second, the turn away from political reform had important economic corollaries: the return of the state in the political economy and the CCP's control over state-owned-enterprises. Earlier friction was only postponed when the US relented on forcing the CCP to exercise a lighter touch on the economy in the former's rush to admit China to the WTO and create immediate opportunities for American firms.

Moreover, a distrustful and paranoid CCP has long pursued an economic decoupling and mercantilist strategy, but one on its own terms when it comes to emphasis and timing. Blueprints for self-sufficiency and policies to ensure Chinese state-owned firms and national champions succeed (through subsidies, IP theft, political protection etc.,) predate this century and China's ascension to the WTO in 2001. The Belt and Road Initiative, introduced four years before Trump assumed power, envisages a Sino-centric economic order that excludes the US. 'Made in China 2025' became formal policy in 2015 with the purpose of helping Chinese firms achieve global domination in about a dozen sectors that will grow in importance.

The broader point is that China has been steadily pursuing the same objectives that are now infuriating the US for a long time, and has done so regardless of whether the US has been assertive, benign, or distracted with other matters.

This is all to suggest that the US (or any other country) has very little capacity to shape or alter Chinese objectives and ambitions. The relatively stable relations between the two countries a decade or more ago is better explained by the fact that China was less powerful and able to challenge the US than by the emergence of differences that did not previously exist.

The implication is that diplomacy and frank discussion will have its limits. More broadly, the search for an elegant or comprehensive solution may well be a futile one.

None of this is to say that US-China relations should be left to the gods, leaving us as passive bystanders. A geographically distant military power like the US is less threatening to regional countries than a resident hegemon like China, which has serious land or maritime disputes with a handful of countries.

For this reason, working with the US to prevent Chinese military, economic and technological dominance is perhaps a more urgent and important strategic objective than deescalating tension. The objective must be to create powerful disincentives for Beijing to push the envelope too far and disturb the peace, while escalation under some circumstances is a necessary response to deny or deter Chinese activity.

It may be that too much strategic accommodation of China is more dangerous than too little.

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RICHARD MCGREGOR

Alan Dupont has written a sharp and perceptive analysis about what he rightly calls an epoch-defining rivalry between the US and China. Let's leave aside the debate about terminology, and whether it should be called a new Cold War. As many have pointed out, and as he acknowledges himself, the level of the two countries' interdependence makes comparison with the Soviet Union inexact, to say the least. In fact, the two countries will have to self-consciously position themselves as new Cold War rivals — by unwinding some of the supply chains that now criss-cross their economies and the world — for this prophecy to take root.

This unwinding of supply chains and the rehoming of industrial capacity — in other words, reverse globalisation — is the theme of our age. Governments and business around the world describe the phenomenon in a single word: 'decoupling'; Dupont is right to focus on it. There are various degrees of decoupling. There is the Trumpian parody in which any jobs created and sustained by US firms will have to come home. And then there is managed decoupling that can ensure that western democracies can still engage with China, but from a position of strength, independence and sovereignty. I agree with Dupont that, properly managed, decoupling can help stabilise the US-China relationship. Each country will feel more secure and worry less that its rival has leverage over it. The current, zero-sum mode of interaction puts the two countries on track to some kind of military or cyber conflict.

Dupont doesn't shy away from the fact that even managed decoupling will be difficult. But even given the limits of space, I don't think he gets at what might be the hardest part, from a regional, and Australian, perspective. The countries that will be most affected by decoupling (however it is done) are US allies and partners in the region: Japan, South Korea and Taiwan. Along with China, these four countries are the beating heart of factory Asia. A few decades ago, they were known for cheap goods. Increasingly, they host the most sophisticated supply chains in the world, including in China itself, which is no longer just the final point of assembly for goods. China is charging up the value chain itself.

By and large, America's post war allies and partners don't want to decouple their economies from China, because to do so would mean a substantial loss in national income. Look what happened when the Japanese government recently offered seed funding to its companies to bring manufacturing back to Japan. Toyota, and other large Japanese MNCs, promptly said 'no, thanks'.

Australia is not an Asian manufacturing tiger, but will face a different kind of dilemma in an era of decoupling. Australia has already decided to keep Huawei out of its next-generation telecommunications system. But Huawei is just the start of the Chinese tech offer. China will be competitive, on price and quality, in many areas. If the US and China divorce, does that mean that Australia, as a US ally, must source its technology from a US-led bloc at any cost? Can we independently differentiate and make our own choices? Or does one big choice, in favour of the alliance, then determine all manner of other small choices about the systems we will use to live our lives? Australia will not be alone in being stuck between the two giants, and be forced to choose one industry policy over another.

The challenge that Dupont has set himself is highlighted by his recommendations at the end of his paper. He is to be commended for not shirking this task. Too many commentators get a free ride, dispensing highly critical pronouncements but then fleeing when the moment for remediative policy recommendations arrive. Still, the fact that many of his ideas seem to be re-heated just confirms how difficult it will be to find ways to bring the two parties seriously back to the table.

Take his idea of an 'Eminent Persons Group.' So-called eminent people, at least in the US, are all but discredited these days, as they are blamed for being too late to recognise the China challenge. In China, similarly placed eminent persons are cyphers for the CCP. To be fair, in both countries, they might be useful for floating proposals that their governments can't or don't want to debate in public, but that's about it. The same goes for back channel diplomacy and confidence-building measures. They might once have been good ideas but they hardly seem to meet the moment today.

There is no off ramp for the US and China for the moment, for the simple reason that neither country is looking for one. Washington feels it is playing catch-up in muscling up to Beijing, a debate that will only be sharpened in a presidential election year. And China under Xi is programmed not to take a backward step.

If Donald Trump wins the next US election, then, in my view, the US will continue its combustible decline. Given that he has governed for nearly four years by trashing the country's institutions and dissing longstanding allies, there is no reason to think that anything will change in his second term. China, as long as it steadies its economy and keeps it ticking over at a reasonable pace, will have little reason to come to the negotiating table while it is gaining strength.

If Joe Biden wins, the future might be different. He is an unknown quantity as president. His most attractive quality is that he is not Trump. He might at least be able to steady the ship and regain some of America's global standing. In which case, some of Dupont's recommendations might come into their own; of a limited, managed decoupling and the start of a process to build new structures and norms for cyber space and the Internet. China, of course, has no problem with the concept of decoupling. With the internet and industry policy, they have been pursuing such policies for years. The US is behind in this area as well.

The bar is low for US-China co-operation; which means the risk are high. As Dupont writes: reconciliation is impossible. Divorce is too costly. So separation it will have to be.

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PETER JENNINGS

Researching this note, I was shocked to learn that Mr Spock apparently never said to Captain James T. Kirk: “Its life Jim, just not as we know it.” But I can say to Alan Dupont: it’s a Cold War, Alan, just not like one we have ever seen before. Dupont’s paper sets out well the contours of this strange new geostrategic world. China is far richer than ever was the Soviet Union and far more integrated with the world’s democracies. Beijing is more cautious than Moscow, significantly militarily weaker but also much more strategically minded and (until recently) more patient. Potentially to our great cost, it may be that Xi Jinping is just as capable of miscalculating and overplaying his hand as any Soviet Commissar. That’s the trouble with Leninism: when no one can question the kingpin, the die remains cast until the leader is toppled.

Dupont is also surely right that the ever-tighter enmeshment of China’s economy with the rest of the world can provide no confidence whatsoever that engagement mitigates the prospect of war. Indeed, to use a phrase from the cyber world, economic enmeshment creates many more attack surfaces, as Australian beef and barley farmers have discovered to their cost. Australia’s eminent strategist Paul Dibb reminds us that, in the last Cold War, the Soviet and American nuclear arsenals could have come close to eliminating life on the planet. That’s not the stakes today — although China’s much smaller nuclear armoury is still large and diverse enough to survive a first strike and lay waste to many American cities. What this emerging Cold War holds in prospect is a sustained and painful unhinging of China’s economic and technological engagement from the democracies; endless opportunities for proxy fights and competitions in the developing world and the real possibility of conflict around the Western Pacific’s first island chain.

Not all problems have solutions, but Dupont offers nine recommendations “for managing the risk of a new Cold War.” Will these ideas work, save the global economy, stop conflict, and allow us all to live long and prosper? Here is my assessment.

Recommendation 1: Reduce strategic tensions.

Dupont thinks that the US and China should “strengthen not reduce the many areas of cooperation that once bound them.” This won’t happen without a fundamental reset of Chinese strategic objectives. In effect, this means the Communist Party would have to ditch Xi Jinping — and Xi is too powerful for that to happen soon. In the next two to three years, we will see increasing tensions and less engagement with the risks of conflict increasing. The US is likewise locked on this track. China policy is the one last area of bipartisan agreement in Washington DC.

Recommendation 2: Reform or replace the WTO.

This won’t happen either at least for as long as Donald Trump is in the White House. Trump’s idea of scrapping the G7 and creating a G11 — including Australia, India, South Korea and (gulp) Russia — is a thought worth developing, but that’s unlikely to happen given White House dysfunction. Europe won’t front up to take this President’s direction either. My guess is that the WTO will wither, and we will move closer to a protectionist world.

Recommendation 3: Strengthen international cooperation and middle power diplomacy.

There is zero chance that multilateral organisations will work to any positive purpose for democratic states as long as Russia is intent on wrecking and China is bent on suborning them. A President Biden would be more open to using international cooperation, but only to a limited extent given the popular American mood. Can the middle powers do a better job of working together? In some cases, maybe yes. Australia is working well with Japan and keen to do more with India. But the Europeans? That seems very unlikely.

Recommendation 4. Restore trust with confidence building measures.

China doesn’t really do CBMs because they undermine the believability of their blood-curdling games of strategic chicken. There is no tradition of the People’s Liberation Army engaging in CBMs in the way that the Russians and Americans did to keep a lid on the worst possibilities of conflict. During a visit to Taiwan in 2016, I was amazed to learn that the extent of crisis management contact with the PLA regional command over the Strait was an old fax machine. CBMs get in the way of Communist Party bluffing. Who in the Pentagon would trust their messages anyway?

Recommendation 5. Use preventative and back channel diplomacy to manage conflict.

Worth a try, but in the absence of trust this is unlikely to work either. The idea of back channel diplomacy requires that representatives of both the US and China can have real conversations, shedding the official talking points and opening up about what leaders are really thinking. Diplomacy needs the possibility of compromise, a quality in short supply as the PRC becomes more Leninist.

Recommendation 6: Apply managed decoupling to minimize disruption.

In effect this is what the US and many other countries, including Australia, have been scrambling to do for two or three years. Quite apart from governments, many businesses will be reconsidering the risk of engagement with China after Covid-19 and likewise decoupling. This is an essential — albeit economically disruptive — step and we will see more of it. But just as engagement doesn’t guarantee peace, nor does decoupling. It simply puts countries in a better position to withstand Beijing’s economic coercion.

Recommendation 7: Create a new architecture and rules for cyber and technology governance.

There is no chance this will happen, because China’s chief priority for cyber and technology is to enable domestic authoritarianism and, internationally, engage in the wholesale theft of the world’s intellectual property. Beijing benefits from the world’s incapacity to create cyber rules. That deep wrenching sound you hear is the democracies slowly realizing that we need to air-gap our IT from China. Cost drove the IT companies to China and security will now drive them away.

Recommendation 8: Integrate economic and security policy.

One might say this is happening, kind of, in the US and the developed world, but a more accurate description would be to say that the economists have had the shock of their lives. They are now beginning to understand that: China isn't democratising; the Communist Party has not shed its ideology; and Chinese capital comes with nasty strings attached. In cold wars, security policy trumps economic policy. This is the world we are heading towards.

Recommendation 9: Establish an eminent person's group.

This is a sure-fire way to guarantee that nothing would ever get done. What governments need to do is to front up to the reality of the current situation, which is — as Dupont rightly says — an emerging new Cold War. That penny is dropping around the world and it will reshape how governments, businesses and individuals deal with China over decades. Parenthetically, one could offer the observation that the advice of many eminent persons in the United States and in Australia drove both countries into an embrace of Communist China that is now doing major damage to our sovereignty and strategic interests. No EPG for me, thank you very much.

Of Alan Dupont's nine recommendations I count one, on managed decoupling, as offering an essential way forward. The other eight are wholly or mostly dead in the water. In fact, this is because Alan's broader analysis is correct — we are in, or close to, a new Cold War; the costs and consequences of which can't be managed away. As Mr Spock would say: '"fascinating."

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SUE WINDYBANK

The world is at a dangerous inflection point, according to leading strategic analyst Alan Dupont in a masterful new CIS report. Relations between the United States (US) and the People's Republic of China (PRC) are in free fall, precipitated by a trade and technology war and accelerated by political and economic fallout from Covid-19. This in turn has laid bare a deeper geopolitical and system-wide contest for global supremacy that will last for decades. It is too late now to reverse the trend: we are already in the "foothills of a new Cold War." The great task ahead will be to avoid "its frigid heights."

Leaving aside one problem with this historical analogy — we know that the story ends with one side folding — his recommendations for putting a floor beneath the spiralling deterioration in Sino-US relations whilst renovating or replacing the crumbling rules-based trading system are eminently sensible. So too are his suggestions on binding new rules for cyberspace and internet governance; although the fundamental differences he cites between democratic and autocratic states over the balance between openness and control seem almost insurmountable. A further obstacle is that trust in the PRC post Covid-19 is at an all-time low, with US 'decoupling' from China now generating its own momentum. It must be surgically managed, he says, to achieve a "new modus vivendi" based on "hard-headed realism." As the new White House strategy states upfront: "Our approach is not premised on determining a particular end state for China." The focus will be on regime behaviour not regime change.

Dupont recognises that a Cold War style containment strategy would be "doomed to failure" because China's economy is "almost impossible to isolate given its size and centrality" to global commerce. The PRC is not the Soviet Union. It is deeply enmeshed in the world, with Lowy Institute research showing that two-third of countries now trade more with China than the US. This gives the PRC the capacity to 'weaponise' market access by trying to shape other government's policies through economic sticks and carrots that punish or co-opt elites in ways that resemble how the Party gets its way at home.

The ideological challenge is also different. Soviet communism was a revolutionary anti-capitalist ideology that had followers deep within Western polities. The PRC is a revisionist power bent on righting historical wrongs after a 'century of humiliation', but China Inc is not exporting revolution and the ethno-nationalism of Xi Jinping's 'China dream' does not have universalist appeal. However, the Chinese Communist Party (CCP) does preside over a Leninist party-state and is openly hostile to liberal values at home and increasingly abroad in ways that it may see as defensive but that democratic governments view as threatening.

Such differences do not invalidate some key lessons from the Soviet era. One is to prevent a cold war turning hot. Dupont argues that "neither side wants a full-scale military confrontation", but both are preparing for conflict. Numerous regional flashpoints — Taiwan, the South China Sea — could escalate into a direct military clash between the two nuclear-armed superpowers. Strategic dialogue to prevent misunderstanding is in the interests of their own self-preservation. Another lesson is that the US needs to work with allies to hold the line and impose costs on unacceptable PRC behaviour. This points to a more fluid strategy of constraining, rather than containing, China (as scholar Gerald Segal argued) — although Beijing will not see it that way.

But perhaps the most important lesson is that to compete successfully with the PRC in a new struggle that pits system against system, the United States must get its own house in order. Towards the end of his famous 'long telegram', the father of containment, George Kennan, warned that "Much depends on the health and vigour of our own society." This is where foreign and domestic policy meet. Indentifying the PRC as a strategic rival has focused minds in Washington to the extent that a rare bipartisan consensus has emerged on getting tougher with China. But competition needs to start at home, beginning with unleashing the animal spirits and innovative essence of American capitalism. As Dupont argues, that in itself would go a long way to offsetting the PRC's "dirigiste advantages in long-term planning, resource mobilisation and funding of strategic industries." The US also needs to become a better version of itself. Recent social unrest over racial inequality should be seen in this light as an example of 'creedal passion' that has historically galvanised the fabled US capacity for self-correction and renewal. Beijing would be unwise to read permanent American decline into its current chaos. Nor is the PRC's continued ascendancy pre-ordained.

Meanwhile Australia's own bilateral relationship with its top trading partner is heading south amidst PRC tariffs on barley and beef and travel warnings to Chinese tourists and students. Dependency on Chinese markets is not just about export percentages; it has a psychological edge. The PRC plays a pressing game. Federal fissures exposed when Victoria went over Canberra's head by signing up to Xi's flagship Belt and Road Initiative may be a harbinger of things to come. Beijing will keep probing for weaknesses to exploit. Likely domestic discord over the US alliance as Australia steps up to a more frontline role will present ample opportunities for wedging.

In a sobering analysis that assesses the bilateral relationship on its own terms and not through the US-China prism, former DFAT deputy secretary Richard Maude warns that a "new normal" of tension and friction risks becoming a "new new normal" of permanent hostility. This reflects the PRC becoming "more authoritarian, ideological and nationalist" under Xi, creating an "immense clash of interests and values" that no government can ignore. But we are not alone. Other countries are reaching the same conclusion, and initiatives are emerging to coordinate responses. The UK's proposed D-10 club of democracies to create alternatives to 5G to avoid relying on the PRC is one example. Another is an emerging united front over Hong Kong's endangered autonomy. Other developments include Canberra inking a Comprehensive Strategic Partnership with traditionally non-aligned India. The harder the PRC pushes, the greater the pushback.

For decades, Australia has enjoyed the best of both worlds in benefiting economically from China's rise whilst sheltering under the US security umbrella. The entire region has prospered under the Pax Americana that has underpinned the stability of the status quo. But this has changed because a rising China has faced less constraints from an America distracted by the 'forever wars'. Australia has worked hard with Japan and others to keep the US engaged, yet doubts persist in the region about US reliability as an ally that go beyond the Trump factor. Meanwhile a recent US Studies Centre report warned that the US "no longer enjoys military primacy in the Indo Pacific and its capacity to uphold a favourable balance of power is increasingly uncertain." But there is no evidence of US withdrawal. The great question remains whether the Indo Pacific is big enough for both China and the US to coexist, or whether it will be split down the middle with countries forced to choose sides.

In short, Australia faces a worsening security outlook at the same time as a severe covid-19 induced economic downturn. Another crisis — or crises — could be just around the corner. If measures of geopolitical risk were like a bushfire warning system, the needle would be quivering at 'high'.

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ROWAN CALLICK

It's 73 years since Bernard Baruch, businessman and advisor to US presidents, coined the title Cold War. He said during an event at the South Carolina House of Representatives: "Let us not be deceived; we are today in the midst of a Cold War. Our enemies are to be found abroad and at home. Let us never forget this: Our unrest is the heart of their success."

His friend, the famed journalist Walter Lippmann, launched the term into the lexicon when he used it in his *New York Herald Tribune* column a few months later.

The demarche from 1947 into armed — nuclear, but ultimately unconsummated — combat was shocking enough since it followed so swiftly a comradeship forged in the epic struggle to defeat the Nazi scourge. But those former allies shared little back then beyond that mutual goal and the consequent military connections.

Now Alan Dupont is foreshadowing — though readers may be relieved that he is not quite (yet) announcing, let alone lugubriously urging leaders to launch — a New Cold War that threatens to be more confronting than the first, since even more is at stake (unless one places the danger of nuclear annihilation at the centre of concern, which appeared considerably more vivid in 1947 than in 2020).

In contrast, the relationship between the People's Republic of China — which of course did not exist until a couple of years into that original Cold War — and the USA has developed into an enmeshment. China holds trillions of dollars of US Treasuries. Both countries' biggest companies have invested hugely in each other. Millions of young Chinese people have been educated in the US. Millions of people from the PRC have migrated to the US. Even more millions of Americans and Chinese have toured each others' countries. Indubitably, the US is the world's greatest centre of expertise in and understanding of the PRC, at almost every level.

So the decoupling — which is certainly under way — is an even greater shock to many structures (including trade, global financial arrangements and educational institutions) than that original Cold War. For the coupling with China was considerably more concerted, during the 40 years of the reform-and-opening era that Deng Xiaoping inaugurated in 1978, than the thin range of connections between the West and the USSR in the mid to late 1940s.

This engagement process with the PRC proceeded surprisingly smoothly almost right through the massacre around Tiananmen Square in 1989, hope combined with opportunism triumphing over considered understanding of the nature of the party-state system. As James Mann put it in his brilliant 2007 book *The China Fantasy*, "the American or European business and government leaders who deal regularly with China… foster an elaborate set of illusions about China, centred on the belief that commerce will lead inevitably to political change and democracy." World Bank chief Bob Zoellick was among those who championed the view that China wished to be, or could be persuaded to wish to be, a "responsible stakeholder" in the dominant liberal global institutions.

That era dissolved in the wake of Communist Party general secretary Xi Jinping's muscular 'rejuvenation' of the party and state. As a result the PRC segued into a partner that many Americans and other Westerners no longer recognise — one that, it has slowly dawned on them in the cold light of day, bears a very different aspect from the more pragmatic China that had appealed to their better, globalising, optimistic instincts. This new China is dominated by Xi's phrase inserted in both party and state constitutions: "Socialism With Chinese Characteristics for a New Era."

This is indeed a New Era. Deng presided over a now discarded Old Era — one wherein, for instance, 'one country, two systems' was perceived as a tolerable formula for Hong Kong, and even also for Taiwan. That Old Era is already consigned to historians. Relevant sinologists are grappling with the New Era, confronted by the enormous challenge of straining to peer inside the almost impervious black box which enfolds policy formulation and decision making within the tight circle of Xi advisors.

Dupont does not deliver a new formulation to succeed Cold War. That may be a blessing. Once such a phrase emerges — more likely from a Twitter or WeChat post than from a formal speech like Baruch's — it will take on a life and an inexorability of its own. Within China, pro-party commentators have constantly warned for several years that any criticism, or even questioning tone, indicates a Cold War outlook — while insisting themselves that, as in the tradition of Cold War debate, all interlocutors must make it crystal clear on which side they stand.

It is salutary that Baruch emphasised his concerns that "our enemies are to be found… at home" as well as abroad, and that "our unrest is the heart of their success." Thrown forward these 73 years, such phrases resonate; as American, Australian and other liberal democracies find that their values are routinely undermined, casually discarded, or simply neglected by many of their core institutions including universities. It is intriguing that Dupont himself has chosen to move aside from important academic positions within a couple of top Australian universities to found his own political and strategic risk consultancy, the Cognoscenti Group, outside that old establishment that continues to cling to hopes of a restoration of the old Deng era of pragmatic partnerships.

Despite their immense range of connections with the PRC, Western — including Australian — elites profoundly lack understanding of Chinese history and of contemporary realities, allowing the dislocation which has appeared increasingly inevitable as Xi's ascendancy has developed, to manifest considerably more dangerously than if it had been addressed earlier. Credible China experts expressed concern for years, but could find little traction within those Western elites locked into apparently profitable PRC connections.

Dupont masterfully marshals in his paper many of the core issues at stake. He writes of a "managed decoupling," though just how one can do that remains elusive. The task is to maintain cordial connections with the broad Chinese population and mutually beneficial business relationships, while stepping back to create sufficient distance from the ruling Communist Party — which ultimately controls all institutions within the People's Republic of China — to prevent it altering the core identity and values of open, rules-based democracies.

This is of course made excruciatingly difficult because the party insists there can be no hint of distance between it and its version of history, and the Chinese people, cultures, and state.

Each country has to take on this challenging task of managing the relationship for itself. But it will be far easier to do so while also drawing on support from a pool of the like-minded. The Inter-Parliamentary Alliance on China, launched in early June with legislators from the US, the European Parliament, Germany, Britain, Japan, Sweden and Canada as well as Labor Senator Kimberley Kitching and Liberal MP Andrew Hastie, appears a promising prospect. They are committing themselves to "working towards reform on how democratic countries approach China."

But Xi is not essentially reactive to the world beyond China, despite the continuing perception within Western elites that they can influence events, trends and even institutions within China — only, towards a different end. They now wish to disrupt and dislocate Xi's 'rejuvenation' of China's power, rather than to celebrate and support China's 'peaceful rise' as before, pre-Xi. But their capacity to influence remains, as in that earlier era, highly circumscribed.

Xi's reference points are within. He is driven by his family's experience within the party elite, by that party's view of its destiny, by the strategies (and especially struggles) of Mao Zedong. The core approach and aims of Dupont's recommendations are sound, but the leaders, institutions and architecture capable of mediating convincingly that message of restoring trust, managing conflict, and other crucial goals, to China especially, but even also to the US, are absent.

The intent and the pervasiveness of the Communist Party in embodying every aspect of China, compound that challenge — especially since Xi has so effectively personalised and centralised power that credible nuanced, let alone alternative, partners for conversation within China itself, are also absent. As an example, Xi is unlikely to align with international data protection regulation since he believes in 'cyber sovereignty', and internationally looks to the Belt and Road Initiative as a vehicle for introducing Chinese internet norms, patterns and platforms.

Dupont is right that trade tensions are likely to be reignited, in part because the unlikely targets agreed for American exports to China are not achievable. But Beijing is skilled at 'wedging' Western states, and can turn such apparent problems into positives — for instance, punishing Australia for a succession of political sins by imposing an 80 per cent tariff on its barley exports while satisfying the US deal by buying from American farmers instead, or persuading the Australian state of Victoria through the familiar strategy of weaponising the economy, to sign up with the BRI and thus create animus with Canberra.

However, that core strategy may in future months and years prove diminishingly useful for the PRC. Its capacity to keep deploying this singular and successful weapon of mass destruction of rivals is being steadily eroded by the scale of China's economic setbacks, including debt, unemployment, diminishing productivity gains and misallocation of investment.

On the other hand — and Dupont is surely right in implying a balance of failure — the core reason that Xi has been able, as Dupont says, to "elevate interference and influence operations into an art form," lies in Western failure. The West has failed both to apply its usual standards of empirical criticism to the PRC, taking its claims to exceptionalism at face value, and also to promote and defend adequately its own longstanding values, including through its educational institutions.

But in minor mitigation, one might conclude: better a cold war than a hot one.

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SALVATORE BABONES

Since the turn of the millennium, Australian strategic analysts have been lamenting, celebrating, or just plain noting without prejudice, the rise of China and concomitant decline of the United States. Alan Dupont, writing in the CIS analysis paper *Mitigating the New Cold War*, takes for granted "the declining power of the US" and accepts — or at least does not dispute — the inevitability of a rising China. Neither lamenting nor celebrating the shifting balance of global power, Dupont is mostly concerned with the development of mechanisms to ensure that the burgeoning US-China rivalry stays cold, instead of turning hot.

Taking a leaf from Harvard's Graham Allison, Dupont characterises the US-China dynamic as the latest of many historical instances when a declining power has faced a rising challenger. One of those historical precedents was the rise of England to supplant a declining Holland as the ruler of the seas in the late 1600s. In the wake of three Anglo-Dutch wars and a Glorious Revolution, an enterprising Dutchman named Bernard Mandeville followed his once and future sovereign William of Orange from Leiden to London, where in 1698 he set up shop as a literary physician in Hackney. A local primary school there is named for him.

In 1714, Mandeville published his verse masterpiece, *The Fable of the Bees: or, Private Vices, Publick Benefits*. The titular poem (originally composed in 1705) represented commercial society as a hive of bees: "Millions endeavouring to supply / Each other's lust and vanity." Individually, the resident bees were unruly, unordered, and unscrupulous. But somehow the hive not only survived, but flourished, and became the envy of the apian world. Mandeville suggested this was not despite the bees' uncooperative individualism, but because of it:

> Thus every part was full of vice,
>
> Yet the whole mass a paradise;
>
> Flatter'd in peace, and fear'd in wars
>
> They were th' esteem of foreigners,

However, he warned that the prosperity of the buzzing hive could be stifled by overregulation and forced temperance. Misunderstood by contemporary English readers as an attack on Christian morals, the poem was more likely an explanation in verse for the economic decline of Holland after its swashbuckling seventeenth century Golden Age. For Mandeville, the stifling authoritarianism of William III's reign in Holland would have stood in stark contrast to his limited powers in Britain.

Mandeville is often credited with inventing the idea (if not the terminology) of the 'invisible hand', when he argued a generation before Adam Smith that the individual pursuit of "Fraud, luxury, and pride must live / While we the benefits receive." The same invisible hand that gave commercial Britain dominance over statist Holland now guides American firms like Alphabet, Amazon, and Apple toward technological dominion in the twenty-first century. Their private vice of corporate greed yields the public benefit of technological progress. And for every technology they commercialise, a dozen or more once-promising ideas are abandoned on the side of the road.

China's state-led technology efforts are just as doomed as Mandeville's virtuous bees. In *Mitigating the New Cold War*, Dupont highlights Chinese strategic investments in emerging technologies like 5G wireless networking, artificial intelligence (AI), quantum computing, and advanced semiconductors, concluding that "the contest for tech primacy is delicately balanced." Indeed, China may be able to make dramatic gains in areas that the government — informed by the wise guidance of the Communist Party — identifies for development. But the trick in technology development isn't raising the money; it's figuring out how to spend it.

A technology like quantum computing may turn out to be the future of information technology — or it may forever remain an expensive toy. Dupont notes that China launched the world's first 'quantum satellite' in 2016. Four years later, it remains the world's only quantum satellite. Reportedly, it is capable of transmitting data at the startlingly non-quantum rate of 10 kilobits per second, just outpacing an early 1990s computer modem. Dupont writes that China has also:

> created an ultra-secure ground link between Beijing and Shanghai using quantum-encrypted keys, which reportedly serves the central 200 state institutions and enterprises but with limited bandwidth.

Follow his citation, and you discover that this impressive-sounding technology has the same 10k capacity as the satellite. At that rate, it would take a quarter-hour to transmit one smartphone photo. Those 200 state institutions had better stick to plain text.

This is not to say that Dupont is wrong to be concerned that quantum computing offers "the possibility of rendering conventional encryption systems obsolete" —making it possible that a country could "access every other country's secrets while making their own invulnerable to hacking." It is simply to point out that possibility and reality are two different things, especially when it comes to technology. The winner of the US-China technology race won't be determined by who spends more, but by who picks best.

There is no doubt that US-China relations have frosted over. However, ultimately Dupont's 'New Cold War' thesis rests on the widely-held assumption that China is a serious contender for technological supremacy. Deep strategic thinkers like Dupont might be forgiven for believing their opposite numbers in China can pick winners. And if they can, Dupont's nine recommendations for reducing great power tension may prove necessary. But if they can't, Australia would gain little from supporting Dupont's calls for middle power diplomacy, international standards setting, and the formation of a non-governmental 'eminent persons group'.

We all know Huawei sells the cheapest 5G networking equipment on the market. Few people claim it sells the best. This kind of equipment commands such low profit margins that American companies don't even bother to make it. China's past strategic investments — for example, in memory chips — have accomplished little more than accelerating the decline of once-advanced technologies into cheap commodity products. If that's how the Communist Party of China wants to spend the 'people's' money, so be it. Australians would be better advised to let their private vices run wild, and trust to the invisible hand.

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ALAN DUPONT

My thanks to the reviewers for their insights and thoughtful comments. I hope they will forgive me if my responses are, of necessity, brief and don't do full justice to the richness and nuance of their arguments.

John Lee won't be surprised that I share his pessimism about the immediate prospects for a comprehensive settlement of US-China rivalry. I also agree with two of his other key judgements: that China sees American power and democracy as an existential threat to the Leninist authoritarianism of the CCP; and that Party leaders began planning decades ago to supplant the US as the pre-eminent global power by implementing a 'whole of nation' strategy that deliberately targets perceived US weaknesses. But I part company with him in his assessment that "working with the US to prevent an authoritarian Chinese hegemony" is "a more urgent and important strategic objective than de-escalating tensions."

They are equally important and entirely compatible objectives, which should form the core of an integrated strategy for countering China's excesses. To paraphrase Winston Churchill's often misquoted admonition, meeting jaw-to-jaw is better than war. Preventing a hot war should be the ultimate objective of our policy. It's most likely to be achieved by a resolute defence of democracy, a strengthened military and targeted pushbacks in concert with like-minded countries — not just the US. In other words, hedge and constrain. Containing China is neither achievable nor desirable. Australia should avoid reflexively band-wagoning with a Trump-led US. There is a middle path, outlined persuasively by the former head of DFAT, Peter Varghese, in his June 27 article for *The Australian* ('How best to handle Beijing').

Richard McGregor says I don't get to the hardest part of decoupling — "US regional allies and partners don't want to decouple." That's true, but regional states will have to consider some level of decoupling from China, whether they want to or not, for three reasons. First, Chinese leaders have pursued strategic decoupling for years — John Lee's point — making other countries progressively more vulnerable to Beijing's coercion and pressure as they become ever more reliant on China for critical goods. Second, the coronavirus pandemic has highlighted, for many countries, the widespread loss of national resilience and sovereign capabilities stemming from China's increasing domination of global value chains; so some degree of separation would have occurred anyway, regardless of US-China rivalry. Third, although a hard coupling (divorce) is neither feasible nor desirable; a managed or selective decoupling is necessary, already underway and accelerating.

Peter Jennings makes some good points in his critique of my recommendations. He will be pleased to know I have taken some of them on board in a later publication. But he is too dismissive of the value and efficacy of diplomacy and multilateralism. The reason for having a clear-eyed view of China is to illuminate pathways to compromise and renewed habits of cooperation. In pushing back against egregious Chinese behaviour, democracies need to keep open channels of communication and look for opportunities to mediate differences. Even at the height of the Cold War, the US and the Soviet Union were still able to keep a lid on their rivalry and agree on measures for managing conflict. There is no reason why the US and China can't do so too. And don't write off Europe as a player and a potential partner in constraining China. Finally, momentum is growing for a reformed, or reconstituted, WTO and new rules of the road for technology and cyber governance, which could gather steam if Biden wins the presidency.

Sue Windybank provides a succinct and largely supporting analysis of the causes and consequences of US-China rivalry and makes a few telling observations of her own. One, in particular warrants elaboration: that "dependency on Chinese markets is not just about oft-cited export percentages; it has a psychological dimension. The PRC plays a pressing game."

China's attempt to create the impression that its rise is inevitable, and resistance futile, has a long tradition in the Middle Kingdom's strategic culture and use of political warfare. The CCP has been remarkably successful in convincing a sizeable percentage of the world's population that China is more powerful than it really is, and of conditioning Western elites — who should know better — to self-censor and accept China's assurances and propaganda at face value. The best antidote is the disinfecting light of public exposure. But although the remedy is known, democracies have been negligent in actively contesting China's self-serving myth-making. We need to do better, without falling into the opposite trap of under-estimating China's strengths.

This leads me to **Salvatore Babones** and Bernard Mandeville's bee metaphor, which Babones uses to argue that uncooperative, but creative, individualism always trumps statism. Or put another way, China's vast mobilisation of capital is not enough to triumph over American ingenuity and enterprise. Babones may be right, but you wouldn't want to bet your house on it. Xi Jinping's China is a far more formidable competitor than the failed Soviet Union. The US, and fellow democracies, need to take China seriously and not underestimate the country's self-evident enterprise, ingenuity and technological progress, even when overhyped.

How has China reached a position of global prominence so quickly given the mess that paramount leader, Deng Xiaoping, inherited over 40 years ago? China's industriousness, ambition, strategic approach to influence building and the West's failure to match them are only part of the answer. The other side of what **Rowan Callick** calls "a balance of failure" is the West's reluctance "to apply its usual standards of empirical criticism to the PRC, taking its claims to exceptionalism at face value, and also to promote and defend adequately its own longstanding values, including through its educational institutions." This misperception has been compounded by a second failure — the fanciful notion that Western elites "can influence events, trends and even institutions within China."

Callick is right on both accounts. Fortunately, democracies are slowly awakening to the true nature of China's authoritarian challenge and beginning to develop effective responses. These must include defending our values and institutions against attacks from within. Bernard Baruch's warning rings as true today, as at the start of the last Cold War: "Our unrest is the heart of their success."