DOI: 10.1007/s10272-022-1056-3

Intereconomics, 2022, 57(4), 202-203 JEL: H56, N40, P00

The New Cold War and the Return of History

The 24th of February marked the beginning of a new dreadful war and the return of military conflicts to Europe. The Russian war against Ukraine as well as the resulting economic war between most of the OECD countries and Russia can be seen as a turning point in future history books with far-reaching consequences for several markets, multiple crises in numerous regions and the return of the threat of nuclear warfare. It is conceivable that we see the rebirth of a new era of conflict, the end of the late 20th century unipolar international security architecture under the hegemony of the United States, the end of globalisation and the beginning of a new cold war between the West and the East.

In the logic of the previous Cold War era, conflicts do not necessarily mean war between the large powers, but rather geopolitical tension, hostility or a proxy war, in which one or both of the larger powers challenges the other indirectly, as in Korea, Vietnam or Afghanistan. Based on the Thucydides trap hypothesis, Dalio (2021) recently predicted a higher probability of wars in economic, trade and geopolitical dimensions.

The Thucydides trap refers to the increasing risk of a war between two countries when a rising power challenges a ruling power in a joint area of influence. The deadly trap has been first described by the ancient Greek historian Thucydides, who wrote about the conflict between two ancient Greek city-states: "It was the rise of Athens and the fear that this instilled in Sparta that made war inevitable".

According to Allison (2017), the rise of China can be seen as such a serious threat to the United States that they are on a collision course for war "unless both parties take difficult and painful actions to avert it". In this line, NATO increasingly warns about the threat by China, e.g. in the NATO 2022 Strategic Concept, which was immediately criticised by China.

Allison (2017) reviewed 16 cases in the past 500 years of world history and concluded that 12 of them indeed led to war, most notably the big 20th century wars between the rising industrial powers in Europe (Germany) and Asia (Japan) and their neighbouring countries (World Wars I and II). Surprisingly, the conflict between the Soviet Union and the United States in the second half of the 20th century (Cold War) is one of the rare circumstances in which the conflict de-escalated without leading to a direct military confrontation. It is arguable that the threat of nuclear destruction leads to a balance of deterrence and helps to direct conflicts towards a frozen conflict or a "cold war". Unfortunately, a cold war does not mean peace.

It is reasonable to assume that Russia in 2022 would not be able, or would be less likely, to challenge the United States without the existence of the rising economic powers in Asia, India and China, who have made clear that they are not going to implement economic sanctions against Russia and may even stand to benefit from the redirected supply of Russian energy and raw materials (e.g. Kasturi, 2022). Given that the sanctions are built on the idea of influencing the cost-benefit balance of an aggressor to incentivise peace, incentives would be stronger if more countries or a larger fraction of world GDP would participate. In this line, sanctions lose their impact if not coordinated within a reasonably large share of the world market. But large groups of countries have not imposed sanctions on Russia, and the share of world GDP of the countries imposing sanctions

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with the United States has steadily declined, reflecting the waning economic power of the United States and the Thucydides trap.

According to estimates by the IMF World Economic Outlook, China has overtaken the United States as the largest economic power in terms of GDP in purchasing power parity in 2017, and it is expected to exceed the US economy by 40% in 2028, while its weight has been only 10% of the GDP of the United States at the beginning of the 1980s. The shift in the balance of economic power tends to affect diplomatic power, weights in international organisations and negotiations, as well as military power. However, so far the United States has not put a lot of emphasis on acknowledging the rising powers in Asia.

Against the background of a "changing world order", Dalio (2021) argued that the likelihood of an intensified conflict, an economic war or a geopolitical war, increases. He predicted a probability of a war in the range of roughly 35%. Navarro (2015), who later served as a director of the Office of Trade and Manufacturing Policy in the Trump administration, discussed the challenges of the Chinese rising military power and predicted a "coming China war". Not surprisingly, the United States during the Trump administration tackled the "China threat" as a trade and tariff war, which has not been particularly effective. His tariffs not only adressed China but also his allies, for instance Germany, leading to confusion in Europe. Trump's ideas on defense have not been convincing either. A bit ahead of his time, he pushed for a rearmament of the "obsolete" alliance. It is not unlikely that the United States under a second Trump administration would leave NATO in an attempt to make the former allies "pay for security". As this remains a possibility, Europe needs to build a European defense union, independent of the United States.

Ironically, 33 years ago, in the summer of 1989, Fukuyama (1989) famously described the "unabashed victory of economic and political liberalism" as the "end of history". Indeed, during the 1990s and 2000s the world seemed to come to an ideological, cultural, political and economic consensus. Fukuyama (1989) builds on the concept of Hegelian idealism, suggesting that history is made by ideas, including religion, culture and moral values, and contrasts this with the Marxian materialistic approach, which criticised Hegelian idealism back in 19th century.

As Hegel, who believed that history comes to an end with the victory of the ideas of the French revolution and with Napoleon's defeat of the Prussian monarchy at the Battle of Jena in 1806, Fukuyama assumed that the fall of the Iron Curtain represents an end of history in the sense that Western liberalism is not any longer challenged by any other ideological concept like Marxism–Leninism.

Today it seems that Fukuyama has been wrong. Not only because NATO is challenged again by an autocratic regime that obviously does not share the values of Western liberalism. Nor because the rise of the Chinese version of a socialist market economy might represent a more sophisticated metamorphosis of communist ideology. The recent internal challenges within the Western democracies show that a defence of democratic values does not necessarily need to begin in the international landscape. It is challenged in every election in every democratic country. The recent upcoming election polls, e.g. in the United States or Italy, do not provide a conclusive picture for the idea that Western values will a priori prevail.

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