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Back to the Future? Prospects for a New Cold War Against China

This edition of our Weekly Geopolitical Report explores the prospects of a new Cold War between the United States and China. Based on the author's personal experiences at the end of the U.S.-Soviet Cold War, this report explores the various costs that would likely arise from a new Cold War and what those costs imply for investment strategy.

When I asked her if she had any trouble getting her ticket from St. Petersburg to Moscow to join me for the long weekend, she said, "No." Then, with a sly grin and a meaningful glance deep into my eyes, she added, "I just asked for help from a friend in the KGB who works for President Gorbachev." I suppose I grinned a bit, too, since she had just confirmed her association with Soviet intelligence, which I had suspected ever since we met in a hotel bar in St. Petersburg weeks before. If I did let a grin slip out, it probably also reflected the irony of knowing how badly my office at the CIA was going to react to this forbidden dalliance when I got back to Washington. But it was a beautiful, bright, crisp autumn morning in Moscow in September 1991, just after the attempted coup against Gorbachev, and I was still young.

The Costs of Cold War

During the Cold War, from 1947 to 1991, defense spending in the United States averaged 7.1% of gross domestic product (GDP). Since then, it has averaged 3.6% of GDP. If the post-Cold War spending is

taken as normal, it would suggest the excess cost of defense during the Cold War was approximately \$8.8 trillion in 2019 dollars, or \$201 billion each year of the conflict. Counting all U.S. military casualties in Korea, Vietnam, and other armed operations from 1947 to 1991, the Cold War also cost some 82,000 troops killed and 246,000 wounded. And that doesn't capture the nonmilitary costs of the standoff, like the massive foreign aid provided to Europe and Asia after World War II and longstanding openness to foreign imports and trade deficits, all of which helped ensure that U.S. allies stayed with us in the fight against Soviet communism. It also doesn't capture the social tensions of the anti-war protests in the 1960s or the political tensions generated when the U.S. put medium-range nuclear weapons in Europe during the 1980s.

The long, costly U.S. investment in defense during the Cold War was clearly successful, since it protected its global power position until Soviet communism collapsed under its own weight. But this successful investment in defense wasn't inevitable. Once U.S. policymakers like President Truman decided to contain the USSR's international ambitions using the whole range of the U.S. military, economic, and diplomatic arsenal, that policy had to be "sold" to the public. How was this done? Was it done truthfully? And now, as China reawakens and works to recreate its historical international dominance, will those U.S. leaders who want to preserve our global hegemony be able to sell the American people on a policy to contain and roll back China?

Truth and Lies

As expected, the security officers back at CIA headquarters couldn't quite see the humor in an Agency analyst having a fling with a KGB operative. I found that ironic because, in those heady days after the fall of the Berlin Wall, my direct superiors were eager to put me on various U.S. and NATO teams meeting with Russian officials to forge new, cooperative, post-Cold War relations (at the CIA, you're in high demand when you have near-native fluency in Russian, as I did at the time). One day, I might be asked by my office to chum around at a conference with Vassiliy Funtikov, the Russian Defense Ministry's finance director. The next day, I would be stuck in endless tag-team interrogations by CIA security officers:

Did she ever ask for information about your work? No.

Did she ever ask to take a picture of you? No.

Did she give you any gifts? Did you bring any back to your office? No.

What did you do to encourage her to meet with you? I bought her a vodka. She liked vodka.

Weren't you concerned that spending time with her would be compromising or embarrassing if they revealed it to your family? My family knows me. Nothing I did would ever surprise my family.

The polygraphs were brutal. For all the portrayals of lie-detector tests in popular culture, I've never seen one that fully captures their intensity and meanness, at least as they're practiced at the CIA. The idea is to ruffle your feathers, to shake you to your foundations so you "spill the beans" of your own accord. When an Agency

employee undergoes their required polygraph every few years, they're typically given the rest of the day off because they simply can't perform after the ordeal. How many times I remember boarding the shuttle from the polygraph center back to my office at headquarters, exhausted and numb and bathed in sweat!

The only thing worse than the interrogations and polygraphs were the security officers' threats and mind games, especially their warning that my continued contact with her would be a red flag for the KGB. They insisted that the KGB security officers would interrogate her at least as intensely as the Agency was interrogating me, perhaps at that very same moment. They insisted that the KGB officers wouldn't hesitate to execute her if they had any question about her loyalty. After all, in any war—hot or cold—victory depends on the buy-in and loyalty not just of the country's soldiers, but also of its intelligence agents, government officials, and the general public.



At the State Russian Museum in St. Petersburg, Russia.

Creating a Public Consensus

It may be useful to look back at the very beginnings of the Cold War and the long chain of events that brought me to those CIA interrogation rooms. It's important to remember that the Truman administration

had quickly recognized the threat of a recovering, expansionist USSR and had begun to implement policies against it by the mid-1940s. State Department official George Kennan's famous "long telegram," in which he called for "long-term, patient but firm and vigilant *containment* of Russian expansive tendencies," had been received in Washington in February 1946 and was soon implemented. President Truman had declared his "Truman Doctrine" of supporting democratic governments in their struggle against communist aggressors in March 1947.

But the critical element in the Cold War was building a public consensus to contain the USSR. After all, public consensus would be needed to ensure prolonged congressional support for the military buildup, civil defense programs, intelligence efforts, foreign aid, and diplomatic initiatives needed to implement Cold War policies. As it turns out, building public support for the Cold War was aided mightily by a series of public relations mistakes by the Soviets themselves. Those mistakes included several aggressive, highly public geopolitical moves that drove home the autocratic, despotic nature of the Soviet regime and its global ambitions. Those mistakes¹ included:

- The Czechoslovakian coup at the end of February 1948, in which the Czech Communist Party seized power in the only Eastern European state that had remained democratic after World War II.
- The blockade of Berlin from June 1948 to May 1949, when the Soviets severed all rail, road, and canal access to the sectors of West Berlin occupied by the

U.S. and its allies. The blockade was relieved only by a long, heroic airlift.

- The unexpected and frightening detonation of the USSR's first atomic bomb at the end of August 1949.
- The Chinese Communist Party's victory in China's civil war in October 1949, which helped create the sense that international communism was a global movement directed by Moscow.
- The conviction of U.S. State Department official Alger Hiss, in January 1950, for perjury related to his denial under oath that he had been a spy for the Soviets during the 1930s and 1940s. Three days after the Hiss conviction, the British government announced that it had arrested an émigré German scientist, Klaus Fuchs, on charges of spying for the Soviets while he worked on the Manhattan Project during the war.

These dramatic events were extensively covered in the press, which alone would have created a popular perception that Soviet expansionism was a mortal threat to the U.S. and its allies. People were connecting the dots and deciding there was indeed a threat that needed to be countered. The process was taken to its logical conclusion by the master of all dot connectors, Senator Joseph McCarthy, who in February 1950 launched his infamous "Red Scare," with its hearings, investigations, and charges against communist spies and sympathizers throughout the U.S. government and U.S. society.

Making It Personal

The USSR's big, scary geopolitical moves helped create a consensus for the Cold War by showing Americans how Soviet aggression could potentially hurt them personally. Even later, when it became common for school children to jump under

¹ For a more in-depth discussion of these events, see: Gaddis, John Lewis. (2005). *The Cold War: A New History*. New York, NY: Penguin Press.

their desks in nuclear attack drills and government officials started posting yellow and black fallout shelter signs all over the place, the sense of risk was relatively abstract. But for many of us in the covert trenches of the Cold War, the costs were present and palpable.

My first encounter with the KGB had been at a reception in the Soviet Embassy in Brussels in June 1991, when an officer under diplomatic cover tried to hustle me into a side room for what probably would have been a “compromise operation” (shoving an envelope full of classified documents into my hands or otherwise setting up a quick, compromising photo, all with the aim of creating a career-ending international crisis). Although my position at the CIA was normally overt, my international travels were always under cover. I suspect I was sold to the KGB by either Aldrich Ames, the CIA officer arrested for being a double agent in early 1994, or Rainer Rupp, the NATO official arrested for spying in 1993 (codenamed “Topaz” by his handlers in East German intelligence). Whoever had blown my cover, the KGB thought I was a potential asset, and my intense travel schedule gave them plenty of opportunities to pitch me.

For the next three years, virtually every time I traveled abroad, I found a KGB welcoming committee waiting to “greet” me. London, Paris, Cannes, Rio de Janeiro—no matter where I went, whether I was traveling for work or on vacation—they would find some moment when I was alone to make their move. Sometimes, it was the brutish, thuggish type of guy who specializes in threats and intimidation, the kind who might moonlight as a loan shark’s thumb breaker. Other times, instead of sticks, they would try carrots, often in the form of a fetching model who wouldn’t look out of place at a Miss Universe pageant. But in each case, it

meant being constantly on guard and aware that I was defending myself alone, thousands of miles from home.

What really made the situation stressful was that the CIA security officers were never convinced that my fling in St. Petersburg and Moscow was over. Every time I came back from a trip and reported being pitched or harassed by the KGB, the questioning centered on what I had done to invite it rather than on what the Agency could do to protect me. It’s hard to describe how much I felt like a pawn in the great chess match between the U.S. and the USSR. A better analogy was that I felt like a fly stuck on the trunk of a massive elephant in mortal combat with its rival.

Perceptions of China

[As the U.S. once again faces a rising power, this time China](#), it has to decide whether it should marshal its full panoply of resources to defend itself and its position in the world. If it decides to do so, it will first need to convince its people to invest the resources necessary for the fight. As we’ve discussed many times before, Americans over the last decade or more have become weary of the traditional U.S. role of global hegemon, and many officials seem happy for the U.S. to turn inward and decouple from its global responsibilities. Others, however, want the U.S. to reinvigorate its hegemony and create a public consensus to resist China.

Their problem is that [China’s modern strategy has so far allowed it to avoid the scary, dramatic moves that generated U.S. pushback against the Soviet Union seven and a half decades ago](#). China’s strategy was enunciated concisely by Deng Xiaoping with his dictum, “Hide your strength, bide your time.” His idea is that China should continue to develop in a low-key manner that isn’t scary enough to provoke a direct response but will ultimately present the U.S.

and its allies with a *fait accompli*, i.e., a China that is diplomatically, economically, and militarily invincible. The idea is for China to develop secretly until it bursts into its rightful place at the center of global geopolitics with no country able to stop it.

In our [WGR from August 10, 2020](#), we showed how Secretary of State Mike Pompeo and other China hawks in the Trump administration are trying to build support for a policy of rolling back China's presence in the global economy and geopolitics. We showed that Pompeo's approach identifies the threat as Chinese communism, and we questioned whether the threat of communism would really motivate U.S. citizens to support a more aggressive policy against China. As our discussion here shows, Pompeo's questionable approach may be all that's available given that China has been strengthening and chipping away at U.S. interests "under the radar," far too subtly to generate hysteria or fear among many U.S. citizens. Many Americans see China as a threat to U.S. manufacturing, but that may not be scary enough to build consensus for a new Cold War against China.

Ramifications

After they interrogated her for the last time, the KGB security officers led her down to the torture chambers deep in the basement of Lubyanka, the KGB headquarters building in central Moscow. There, they shoved her into a cell and blew her head off before she could turn around. Or at least that's what my security officers at the CIA told me. Was it true? Considering the USSR's long history of much more serious crimes and atrocities, often for much more mundane transgressions than associating with a mid-level CIA analyst, there was no reason to think it wasn't true. On the other hand, it could easily have been a lie designed to

discourage me from pursuing any further relationship with her.

The rise of China doesn't just present the risk of a world where Beijing is dominant (we'll examine what that scenario would look like in a future *WGR*). China's rise also doesn't just present the risk of the U.S. and its allies pushing back and embarking on a [new, 21st-century Cold War, with all the attendant costs like those outlined at the beginning of this article](#). Great power competition always involves less quantifiable costs as well, like the risk of nuclear annihilation (perhaps the biggest cost of the Cold War) or the secret battles and burdens of those in the intelligence services, who hardly ever get to hear the "Thank you for your service" that people in uniform get to hear.



Lubyanka, KGB Headquarters in central Moscow.

Finally, even though there is now a [bipartisan recognition that China presents a broad, overarching challenge to the U.S. international position](#), the lack of an obvious, palpable Chinese military threat that resonates personally with Americans means that U.S. officials trying to forge an anti-China consensus may be tempted to craft a threatening narrative out of whole cloth. If that happens, the excesses and exaggerations of the McCarthy era may be instructive. To the extent that leaders in

Western democracies embellish the truth or turn to exaggerations in order to generate a public consensus against China, the costs would be in terms of reduced government transparency, truthfulness, and moral standing. That might be even worse than a U.S. government agency lying to one of its employees or leaving him to wonder for the rest of his life whether his youthful indiscretions led to someone's death.

Investors trying to craft a strategy for the future need to make assumptions about the kind of world they'll be living through in the coming years: a world where the U.S. maintains its traditional hegemony, or, alternatively, a world dominated by China. Either way, the U.S. is likely to face enormous costs—economically, militarily, politically, socially, and even morally. We are likely to face big risks and geopolitical crises that are difficult to discern today as

we focus on present dangers like the coronavirus pandemic or the threat from lesser powers like Iran. The unrecognized geopolitical risks related to China argue for keeping a close eye on international developments like those we cover in these *Weekly Geopolitical Reports*. They also argue for keeping one's assets well diversified, since geopolitical tensions have a way of worsening unexpectedly and pushing risk assets downward. At the very least, worsening U.S.-China tensions are probably another reason to maintain a healthy exposure to gold and other assets that can serve as a safe haven in times of crisis.

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