

## **A New Cold War or Emerging Digital War?**

In 1947, Harry S. Truman delivered a speech at the United States Congress warning about the intentions of the former Soviet Union to expand the communist ideology to Greece and Turkey, which were immersed in a fight against communist subversion. In reaction, the US Congress appropriated money to support these countries and prevent a communist takeover, without committing US troops in the internal conflict.

Truman's speech became known as the Truman Doctrine, which guided the US foreign policy from 1947 to the collapse of the Soviet Union in 1991. The Truman Doctrine was supported by a "containment" strategy advocated by George F. Kennan, an American diplomat stationed in Moscow, who wrote a long telegram to Washington in 1946 explaining the nature of the Soviet conduct. In the telegram, Kennan recommended a US foreign policy toward the Soviet Union based on "a long term, patient but firm and vigilant containment of Russian expansive tendencies."

This thinking gave birth to the Cold War, an ideological battle, that divided the world in the Western bloc led by the US and the Eastern bloc led by the former Soviet Union, although later on the People's Republic of China parted ways with the Soviet Union to develop a Chinese-Maoist version of communism. In this context, the priority of United States foreign policy was to prevent the advance of communism anywhere in the world.

The Cold War was not fought directly between the US and the Soviet Union, but through proxy wars in different countries in Asia, Africa and Latin America, where each superpower supported their followers. Thus, the Hot War, with thousands of deaths, was fought in less developed countries and regions around the world.

The collapse of the Soviet Union in 1991 ended the Cold War and left the US as the sole military and economic superpower on the planet. However, another major competitor started to emerge quietly on the horizon: China.

As mentioned above, the People's Republic of China had parted ways with the Soviet Union in view of differences regarding the interpretation of Marxism on several issues, including the disagreement of the Chinese leader, Mao Zedong, on the Soviet Union's policy of peaceful coexistence with the US, while the Chinese leader preferred a more belligerent posture toward the West.

Interestingly, this Sino-Soviet split brought about a new approach between China and the US, leading to the establishment of diplomatic relations between both countries in 1979. The same year, Deng Xiaoping and other key figures of the Chinese Communist Party had started the implementation of reforms and opening of the Chinese economy, which Jiang Zemin later called

the “socialist market economy”, adopting capitalist characteristics and moving away from the centrally-planned economic model of the Mao era.

With Deng’s new economic thinking, China embarked in a steady process of economic modernization, attracting foreign investment and liberalizing trade, which resulted in a real averaged GDP growth of 9.5 percent per year from 1979 to 2019. This extraordinary development of the People’s Republic of China (PRC) prompted the World Bank to describe it as the fastest sustained expansion of a major economy in the history of humankind.

Before the change of economic policy, PRC was a backward country, with an inefficient productive structure, inward-looking, and relatively isolated from the world trading system, only importing what the country could not produce. Yet, as Wayne M. Morrison, Specialist in Asian Trade and Finance, pointed out in a 2019 study, Deng’s new policy managed to bring hundreds of million people out of poverty, and transformed China in the world’s manufacturer, merchandise trader and huge holder of foreign exchange reserves. And particularly, it transformed China into the largest US merchandise trading partner, being the US the third-largest export market, the biggest source of its imports and the largest foreign holder of US Treasury securities.

Also, this new policy facilitated China’s path to become a member of the World Trade Organization in 2001, establishing a stronger platform to penetrate world markets under international trade rules. Nine years after his accession to the world trade body, in 2010, China became the second largest economy of the world, displacing Japan to the third position.

However, China’ strong economic positioning began to generate complaints from policy makers and businessmen in the US, arguing that China’s industrial policies under an authoritarian form of state capitalism were undermining the US economy, generating a huge deficit, stealing US intellectual property and forcing US companies in China to transfer their technology in order to carry out their business operations.

These complaints were strongly voiced during the 2016 presidential elections by the then candidate Donald J. Trump, who after becoming US president adopted a hardline trade policy toward China imposing US\$500 billion tariffs on Chinese products from July 2018. China in turn retaliated establishing US\$185 billion tariffs on US products.

After two years of trade war between these two countries, there seems to be a light at the end of the tunnel as both nations have signed a One Phase Trade Deal in January this year, where the US scrapped tariffs initially set to take effect in December 2019 and reaffirmed its commitment to tariff reduction worth of US\$120 million on Chinese products, while China agreed to purchase an additional US\$200 billion worth of US manufacturing, energy, and agricultural goods as well as services over the next two years.

The phase one deal also addresses steps that China has taken to carry out structural changes, which will ensure greater protection for intellectual property rights, eliminate forced technology transfer, and tackle other thorny issues such as currency and foreign exchange.

Although it seems that progress has been made on the trade conflict, there are still other US actions that has generated a confrontation between the US and China such as the ban of Chinese telecommunication companies Huawei and ZTE to develop the 5 Generation Mobile Network (5G) in the US market as they are considered a national security risk due to alleged links with the Chinese Communist Party. US security experts view these companies as an extension of the surveillance system of the Chinese government, and especially when any local or foreign company operating in Chinese territory is obliged by the state security law to provide any information requested by authorities.

Therefore, Huawei and ZTE have become interesting study cases regarding the emergence of a new and potential digital divide in the world, where already the “Five Eyes”, representing the five intelligence communities of the United States, United Kingdom, Canada, Australia and New Zealand have warned on the security risks when dealing with Chinese telecommunication companies. China has denied these allegations, describing them as a campaign to discredit Chinese tech companies, which has proven successful in world markets.

It is important to mention that in the digital age, telecommunication companies play a fundamental role in the digitalization of human activities. Thus, in this new context, countries will have to carefully decide which telecommunication company will be allowed to manage their telecommunication network, understanding that they are in the middle of digital technology conflict.

Actually, after the Chinese government enacted a new security law in Hong Kong in June this year, several IT and financial companies are assessing the convenience of doing business there or moving to another jurisdiction. Such is the case of Bigo, a smaller rival of TikTok maker, ByteDance, which moved its server from Hong Kong to Singapore in order to avoid being caught in the apps crossfire between China and the US, although Bigo is still weighing options since its owner is a Chinese company.

Besides the five anglophone countries, we are already observing major European countries like France, where President Macron is not banning Huawei, but will certainly choose European providers such as Nokia or Ericsson to develop its 5G for security reasons. Naturally, many governments will handle their telecommunication infrastructure in a very sensitive manner as 5G will be critical in the whole management of human societies, connecting virtually everyone and everything together, including machines, objects and devices, with greater reliability, massive network capacity, and overall higher performance.

I believe Chinese leadership has a complex task ahead trying to persuade countries around the world that its telecommunication companies are not used to gather intelligence information to advance the interests of the Chinese Communist Party in the world or simply will have to use its market power to obtain worldwide support for his 5G and other technologies. And certainly, there will be a number of countries that will subscribe to the Chinese telecommunication technology, which truly enjoys high quality and affordable prices.

I just hope that in the trade discussions between China and the US, both countries can include and reach an agreement on the 5G issue, where the Chinese technological giants such as Huawei and ZTE are allowed to be audited by the US Public Company Accounting Oversight Board as any European or American corporation would be audited in its respective country. That would help Chinese companies to show they are committed to transparency and access rules dispelling any doubt on their business activities and relation to the Chinese government.

Otherwise, the whole world will be immersed in a new digital conflict between the United States and China, with two blocs trying to contain instead of engaging each other, and with a potential spill over into a financial showdown of incalculable consequences due to the strong interdependence of these two large economies.

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Note: After finishing this article, China proposed rules to G-20 member countries with the purpose of banning governments to have access to sensitive information from companies operating abroad, in response to Washington's accusations that Chinese telecommunication companies share sensitive information with Beijing.