[This article will be published as part of a chapter in *China’s Ten Cyclical Economic Crises (1949-2020)*. This is for reference for SSFS7 participants. Please do NOT quote or reprint.]

**New Cold War, Unfolding Crisis and Great Transformation: from globalization to ecological civilization as localization**

Wen Tiejun

1. **The Crisis of Globalization and the New Cold War**

Entering 2020, China’s tenth economic crisis since 1949 broke out in a dramatic conjuncture. Unlike previous nine crises, this crisis was no longer a cyclical economic crisis in the classical sense[[1]](#footnote-1). After the end of the Fed’s QE policy during 2013-14, China experienced monetary contraction along with overproduction. Out of a status of dependency and structural complementarity, China strove to make use of its overproduction at the expense of environment and social welfare to complement US economy, attempting to sustain this unequal relationship. Under such unfavourable conditions, China still desperately endeavours to pursue the path of modernization unfolded as globalization in the last 30 years. However, the golden age of globalization might have come to an end.

The early 2020 marked the end of an era both for China and the world.[[2]](#footnote-2) If the 2008 crisis had been the crisis of financial globalization, then the 2020 crisis was the crisis of globalization itself. In 2020 people are witnessing the historical seismic shift of the global system itself. After a hundred year of reckless pursuit of industrialization and urbanization, China is confronted by the crisis of globalization, in fact the crisis of modernization itself. Nevertheless, many who strongly believe in this path were still dreaming of “back to business as usual”. They are conceiving all sorts of measures attempting to resume the normal economic operation. However, blind to the essential shift in global political conditions, it would be almost irrational if still clinging to economic rationality. Borrowing a famous slogan at the beginning of globalization, it may be expressed as “It is politics, stupid!”

**Debt Regime and the Heavily Indebted Hegemony**

Entering the 21st century, the global debt regime has turned upside down. Now the most powerful country becomes the most heavily indebted nation. It is the debtor country which holds the institutional power and repudiates debts. Powerful debtor becomes shameless repudiator. It may be less surprising if the readers are reminded that modernization is always intrinsically costly. The more modernized an institution, the more costly it is. In the age of financial capitalism, the high costs of ultra-modernized institutions (such as modern government, welfare and democracy) are sustained by mounting debts. The difference between the USA and China lies at the former being indebted to other countries while the latter indebted internally.

Now debt becomes a new regime with new institutional arrangement. In the past, the heavily indebted countries were requested to transform their institutions, making their people suffering, usually according to neo-liberal tenets. Nowadays, the powerful debtor country in turn requests creditor country to transform its institution to better benefit the former. Ironic and ridiculous it may seem, eventually the country which holds the international institutional power and discursive power can twist the principles it once sanctified in order to maintain its privilege[[3]](#footnote-3). The developing countries which fell into the debt trap since the 1980s might find it revealing that even if they follow the instructions to transform their institutions, the global debt problem would not be solved. The real ridicule lies at the powerful debtor country on one hand transfers their institutional outward cost through indebtedness while on the other hand requests its creditor country to change its institution at the former’s command. Even more ridiculous, the ultra-modern institution shored up by increasing indebtedness and barely sustainable is in turn taken as the exemplar to be emulated by the creditor country. Such is the farcicality of the time.

The countries which hold the institutional power cling to the old path whereas those countries with little power have little reflection and institutional innovation. The whole global regime therefore becomes increasingly degenerate probably until its implosion.

**Recourse to Cold War Strategy**

Lack of the capacity of innovation in thinking and social institution, the old hegemony now being heavily indebted is clinging firmly to its obsolete institutional and discursive power. Hence, unsurprisingly it has recourse to the old experience of Cold War victory out of path dependence. As a reactionary response to the challenge of the crisis of globalization, a New Cold War has become increasingly irrational and even strips bare the old mantle of political correctness. It is the hegemony’s desperate effort to sustain its privilege to transfer the cost of debt crisis to the world.

**Reverse-globalization or the Exclusion of China from the Global Trade Regime**

After the globalization has exhausted its first phrase of momentum and resulted at widening wealth disparity around the world, some populist demagogues adopted a sort of anti-globalization discourse as a way to please their constituency. However, upon a closer look at their policies, we found little substances of truly deglobalization practices[[4]](#footnote-4) although there would be a trend of reshoring in certain key strategic sectors[[5]](#footnote-5). The present trend was more a reconfiguration than the disintegration of globalization. The result might be just an altered form of globalization at a lesser scale but no less intrinsically pro-capital and pro-elite. What was unfolding may be regarded as reverse-globalization. Or it might be called global regionalization.

The first phase of the globalization started at the end of the Cold War. The so-called victory in a political and ideological war over a major enemy had granted the USA with the confidence to open its global trade regime to any country willing to play the game. At this phrase, the globalization regime has been a gigantic profit machine based on highly complicate global supply chains and extraction of cheap production factors, such as labour, land and resources.

Nevertheless, the second phase of globalization (or post globalization era if one likes it) would be more about alliance of ideological and geopolitical compatibility than merely profit-making. In a sense, it was an endeavour to retrograde to 2001 before China joined WTO, or even to 1972 before China had rapprochement with the USA.

**Fast track to a New Cold War**

After the trade war and COVID-19 outbreak in 2020, Sino-American relationship fell to its worst moment since 1989 and showed no sign of relief. And most importantly, three decades after the Cold War, China emerged from the secondary to the major opponent to the USA. In a sense, the US-China relationship retrograded to 1972. Just that the USA now considers China taking the place of the USSR as its prime enemy.[[6]](#footnote-6)

In US strategic conception, its competition with China was full scale and in all major fields: Economy (extending to finance and currency), Military Superiority (extending to the space), Geopolitics, Technology, National Security, International Institutions and Ideology.[[7]](#footnote-7) In its official discourse and high ranking officers’ speeches, the USA’s engagement with China was raised to the level of an antagonistic rivalry between two opposite ideologies and even civilizations[[8]](#footnote-8). It might be too early to call whether the new cold war would lead to full scale military confrontation. If it is a soft delinking, what we would witness might be the emergence of two economic cores with overlapping supply chains and markets to some extent. For a certain period, the two cores would still be interwoven in complicate and tricky manners. However, if the confrontation escalates and eventually leads to a hard decoupling, then the probability of regional military tension and even proxy war would be not excluded. Bill Powell put the US new mission concisely: “Wage the 21st century's Cold War, while ensuring it never turns hot.” However, the historical lessons of the World Wars I & II show us clearly that any attempt of playing a rival game to gain greater supremacy while believing one could avoid full scale military confrontation would be a wishful illusion.

During this great splitting of the most important relationship in the world, what is truly worrying is the unsustainability of the present debt regime that should bother us. Technically, the USA has been insolvent. The financial orgy goes on with perpetual debt rollover because the USA is still the unchallenged political and military power in the world. The old financial regime with the Federal Reserve mechanism as the core becomes increasingly like a Ponzi scheme.

The USA’s heavy indebtedness with endless roll-over and even repudiation can only be sustained by its unchallenged hegemony. In comparison, China can only rely on domestic debt expansion. Here lies the greatest mental confusion. Financial capital and its appendages have long claimed that Chinese institutions should be transited to the western model without acknowledging that western institutions are now built on the increasingly shaky ground of mounting indebtedness, which are not to be emulated by other countries.

If the big game of debt is no longer sustainable like the situation before the WWII, does it imply a new world war looming on the horizon?

As the two nations are heading towards strategic collision in this post globalization era, this great shift may bring forth an even more complicated scenario in a world plagued by debt, recession, widening wealth disparity, social turmoil, political conflicts and ecological catastrophe.

1. **Ecological Civilization: localization as an alternative to globalization**

**Rural Revitalization**

China is facing a multi-dimensional crisis with exogenous and endogenous factors. Decades of developmentalism has brought about severe ecological degeneration, income disparity, class tensions and moral hazard behaviour. Since 2017 the government has adjusted its policy to foster an eco-friendly economy as an alternative development strategy. Hence the slogan, “green mountain is gold mountain; clean river is silver river”.

In a word, the current moves on the economic front constitute China’s proactive effort to steer away from decades of developmentalism in line with the western model of modernization. “Beautiful villages” are conceived to be the carrier of “beautiful China”. The national development strategy is gradually adjusted toward inclusive sustainable development which is resource-efficient and eco-friendly. Ecological civilization, rural vitalization, and poverty eradication are among the essential strategies of transformation.

Developing the cooperative economy is the key to rebuilding a robust rural society, which may once again serve as an antidote to the risk-based and risk-accumulating urban economy. Based on principles and practices of a cooperative economy, peasants can organize themselves, which in turn can consolidate the foundation of rural governance. The localized capitalization of rural resources based on cooperatives may help to shape a strong and healthy domestic demand.

**COVID-19 epidemic as a Strategic Time Window**

This historical juncture of US hostility along with an epidemic outbreak urges people to have a timely and profound reflection on the old development model, a rough extensive growth model which focuses on quantity rather than quality, with mounting risk. The guiding strategy to deal with the crisis should not be the “back to business as usual” mindset attempting to resume and sustain the old model and put patches on the fractured global industrial chain. Nearly four decades of practices has proven that export-oriented model was actually a prolonged overdraft on the eco-system and social reproduction. China should take this chance to really steer the economy and society as a whole toward ecological civilization with the ecologization of industry. Then this crisis would become a chance.

**From Globalization to Localization: Sustainable Inclusive Growth**

In the post-globalization world, China is facing double excess of both industrial capacity and capital. Chinese political and economic elites therefore feel compelled to expand their presence in the world. However, the world has changed. After decades of globalization and neoliberalism, worldwide social reactions (Polanyi’s double movement) have raised vociferous and strong protest against their progress. Ecological degeneration and climate catastrophe have signalled the limit of the prevalent growth model. Even if these Chinese elites emphasize that China is merely seeking equal and bilateral cooperation for development opportunity, the unipolar power, which has remained unchallenged for nearly 30 years and indulging in the ingrained Thucydides trap, naturally regards it as a challenge to its hegemony. Every move by a big country like China will be taken as a transgression against the presence of the dominant geopolitical power. Advancing with an expansionist strategy in the post globalization age, China has to face vicious competition and even a new cold war. Admittedly, the alternative option is not isolationism. However, an indispensible and more intelligent strategy would be to re-emphasize domestic economic circulation by ameliorating the gap between the urban and the rural, the rich and the poor, different regions, and different sectors. The external circulation (international trade) would serve as complementary to the internal one.

If China persists with the strategy of rural vitalization, determined to pursue the path of ecological civilization, its heretofore capacity to deal with global crises might still remain intact.

**Conclusion: Ecological Civilization as new paradigm for developing countries**

Most of the developing countries in the last 100 years have been pursuing modernization according to western model and pushing developmentalism. However, at the end of the day, many of them found themselves ensnarled in development trap. The reason may be attributed to the irreplicability of the western development path: colonization. (On the side of the West, it becomes a sort of path dependence.)

China is a late developing, populous ‘continental economy’. Colonization was never an option. Hence it went through a path different from the West. By the extraction of surplus from the *sannong* (the peasants, the rural and the agriculture), China accomplished the primitive accumulation needed for industrialization and the subsequent expansion. However, China has to convert to an inclusive growth oriented towards ecological civilization if it wants to sustain development in the ‘race to the bottom’ global competition plagued by the cost transfer of financial capitalism.

After 20 years of one-sided pro-capital mentality, Chinese leadership switched to a pro-people well being policy orientation after 2003. New Rural Reconstruction was put forward in 2005 as national strategy. Then the idea of Ecological Civilization was introduced in 2007. A year later, the goal of building a “resource-conserving and environment-friendly agriculture” was set up.

To build an ecological civilization, the economy must be re-embedded into society and society into ecology. The idea of ecological civilization is a response to the social and cultural crisis of post industrial civilization. It calls forth a paradigm change in civilization. After all, the development of civilization is ultimately over-determined by ecology and climate. The idea must question the development of capitalism in the last five centuries. It is high time we ponder upon our relationship with the nature, with society, with others, with ourselves, which are being shaped by capitalism (and worse still financial capitalism). If our existence is embedded into ecology, then we must hold the nature in awe and constantly remind ourselves that the nature is an end in itself rather a means to other purposes, such as economic growth.

China’s struggle to achieve modernization in the last 150 years has been a tragic and heroic saga. After all the pains and efforts, the revelation of the lesson is the idea of ecological civilization which questions morbid modernization we are still entrapped. China’s experiences in the last 70 years may be valuable not only to developing countries but human beings as a whole.

1. In classical sense, crisis is caused by overproduction and declining profitability. An economic cycle is expressed as the fluctuation of prices and enterprises life cycle. In financial capitalism, a large part of capital does not flow into real economy. Hyman Minsky supplemented it with the financial cycle through credit creation. [↑](#footnote-ref-1)
2. Some may believe that the 20th century ended at 1991 when the USSR collapsed. Some ideologues even claimed it the end of the history. However, viewed from the reckless pursuit of modernization, the long 20th century may have ended at 2020. [↑](#footnote-ref-2)
3. The Washington Consensus can be boiled down into two core tenets: free capital flow and absolute creditor right. [↑](#footnote-ref-3)
4. It depends on how one defines globalization. We think that during its prime time in the last three decades, the unit of globalization has always been nation-state. Certainly, globalization is characterized by the permeability of state by capital. But the erosion of state power is only relevant to countries in a less privileged position in the global regime. For the powerful core countries, it is not the case. Therefore, a revival of nationalism in political discourse does not necessarily imply genuine de-globalization in practice. For us, a genuine de-globalization should be pro-people’s wellbeing and empowerment, not to mention pro-ecological regeneration. However, many of the populist demagogues are in reality highly elitist and pro-capital. [↑](#footnote-ref-4)
5. Reshoring was not a strategy limited to the USA. Japanese government also planned to offer subsidies up to $2.25 billion to Japanese companies bringing supply chain back home. [↑](#footnote-ref-5)
6. # As a Newsweek essay put it, “Thus, a growing number of policymakers, current and former, and China hands old and new, acknowledge the obvious: Cold War 2.0 is here.” Joseph Bosco, a former Pentagon strategic planner and vociferous Anti-China hawk, expressed it in an unmistakably Cold War language: “Another long twilight struggle may be upon us and it may make the last one look easy.” Bill Powell, “America Is in a New Cold War and This Time the Communists Might Win” 18-05-2020

   <https://www.newsweek.com/2020/06/05/america-new-cold-war-this-time-communists-might-win-1504447.html> [↑](#footnote-ref-6)
7. US Congressman Michael McCaul, Republican Leader on the House Foreign Affairs Committee, announced on 19 May 2020 the pillars of the China Task Force: National Security, Technology, Economics and Energy, Competitiveness, and Ideological Competition. He said, “Each of these pillars represents a key focus area where U.S. leadership and democratic values counteract Chinese Communist Party (CCP) malfeasance globally. The five pillars reflect the key aspects of our strategic competition with China, as identified by our members: military superiority and homeland security; advanced technology; economic strength; increasing our competitiveness; and the battle between democracy and authoritarianism. We must take decisive action across each of these vital domains to better secure our future.”

   <https://gop-foreignaffairs.house.gov/press-release/mccaul-announces-china-task-force-pillars-and-co-chairs/> [↑](#footnote-ref-7)
8. See: *U.S. Strategic Approach to the People's Republic of China*. This report by the White House articulated its whole-of-government approach to China under the 2017 National Security Strategy.

   <https://www.whitehouse.gov/wp-content/uploads/2020/05/U.S.-Strategic-Approach-to-The-Peoples-Republic-of-China-Report-5.20.20.pdf> [↑](#footnote-ref-8)