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Investors caught in Cold War II crossfire

Robert Guy *Senior Writer*



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Renowned economic historian Niall Ferguson says China is making an example of Australia to highlight the dangers to other Asian economies of challenging its power, underscoring the need to cement relations with the incoming Biden administration to ensure Canberra isn't isolated [amid deepening trade tensions](#).

He warned that what he terms Cold War II will not end with the exit of US President Donald Trump from the White House, warning [the election of Joe Biden](#) will not lead to a wholesale reversal of the more assertive approach to dealing with China's rise as an economic and military challenger to the US.





Economic historian Niall Ferguson says China is making an example of Australia. **Fairfax Media**

"Joe Biden's national security team is not going to try and turn the clock back to 2016," Mr Ferguson told the UBS Australasia conference.

"So nobody should expect a reset that takes us back in time to the later Obama years. That isn't an option."

He said likely appointments such as former Obama staffer Michèle Flournoy as defence secretary or Kurt Campbell, who may play a role in China policy, had become "significantly" more hawkish on US China relations.



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The coming change in key policymakers will be closely watched not only by the Australian government but also by investors who have witnessed an ever-expanding list of industries targeted by Beijing in a unashamed exercise of economic coercion. Barley, beef, wine and coal have been targeted.

"I think the Chinese are seeking to make an example of Australia to try to show to

other Asian countries in particular that if you tangle with China politically, there will be dire economic consequences."

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"This puts Australia in a very difficult position because you don't want to find yourself coerced into acquiescing to Chinese influence operations, or indeed tolerating some of the things that the Chinese government is doing elsewhere in the world and at home."

He said the "crucial" issue was for Australia not to be isolated.

"It'll be very important indeed that the new Biden administration understands the Australian perspective.

While the Trump administration engaged in a trade and technology war, Mr Ferguson said that a sharper focus on blunting China's rise as a technological competitor would be a smarter approach.

He views the US's ability to impose sanctions as its "super power", and there is a window of opportunity to press home its technology advantages.

"I think the strategy is a smart one. It exploits China's biggest vulnerability."

"I'm not sure if the Biden administration will sustain it, though. There are plenty of people, lobbyists for the semiconductor companies in Washington, saying call off the tech war. This makes no sense."

He argues that the Biden administration may keep up the Cold War by increasing its military commitment to Taiwan but dial back the tech war and "probably" dial back the trade war.

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"If that's the way they go, then the Chinese will be very delighted because the tech war hurts them where they're most vulnerable."

On the outlook for global growth, Mr Ferguson said he expected a tortoise-shaped recovery, where the tortoise head – current growth – was lower than its shell (past growth).

He said governments did a good deal to offset the supply shock inflicted through lockdowns by embracing massive fiscal and monetary stimulus.

"It was really a relief to offset the shock and make sure that incomes didn't collapse in a tailspin that really would have created a depression."

"That's why ultimately the economic shock wasn't worse and why it wasn't longer lived."

Mr Ferguson cautioned on the prospect of higher inflation: "If we look further ahead and maybe a couple of years ahead, once the vaccine is widely distributed, there is a lot of spending power out there, especially in the US, ready to be unleashed."

"I think that as it's unleashed the Fed might be surprised by just how rapidly the economy bounces back, say, in the second half of next year [and] going into 2022."

Robert writes on companies and markets. He is a former New York and Shanghai correspondent, and has worked in Hong Kong. *Email Robert at robertguy@af.com.au*



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