

# China-U.S. Relations: From Trade War to Hot War?

## Part 2

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*70 years ago in April 1949 the last Western military action took place on Chinese territory. The '[Amethyst Incident](#)' saw Chinese Red Army troops fire on a British warship sent to remove UK embassy staff from the Chinese capital. At this time Chinese communist forces, on the verge of victory in their civil war against the armies of Chiang Kai Shek, feared a counter-attack by Western imperialism.*

The motive for this attack on British forces lay in the century old enmity that the Chinese population felt towards foreign troops that had enforced the robbery, humiliation and exploitation of the [unequal treaty system](#) on their country during the 19<sup>th</sup> and 20<sup>th</sup> centuries.

In his account of the 'Amethyst Incident', historian [Mark Felton](#), has noted that:

"The British certainly underestimated the degree of ingrained hostility towards them harboured by Communist troops who looked on the British and other foreigners as having abused, robbed and cheated China for over a hundred years for their own profit and power. The Communists did not want to see 'imperialist' ships on the Yangtze."

Robert Bickers in his acclaimed two volume history of China's relations with the West, *Out Of China: How The Chinese Ended The Era Of Western Domination*, states that Chinese public opinion applauded the attacks upon the British navy, 'for the foreigners who had kicked the Chinese around for 100 years had finally got what they deserved'.

This military encounter between Chinese and Western military forces over 70 years ago may seem obscure to most people in the 21<sup>st</sup> century. However, it helps shed light on the current trade war between China and the United States.

Understanding of China's suffering under Western domination in the 19<sup>th</sup> and 20<sup>th</sup> centuries gives us insights into the clash that underpins the trade war: the attempt by the U.S. empire to maintain its hegemonic position over the world economy against the rapidly rising power of China. It also helps us analyse longer term perspectives for the U.S.-China relationship: can they resolve their economic, and geo-political differences through negotiation or will the current cold war escalate to a military conflict in the future?

### U.S.-China Trade War and the global economy

The trade war appears dead locked with little prospect in sight of any kind of resolution to this conflict. Yet financial markets appear to have [placed a lot of hope](#) on some kind of deal being brokered at the upcoming trade talks on October 10-11.

President Trump claims that America is winning the trade war and that the US is inflicting economic pain on China that will force Beijing to the negotiating table. His claims are accompanied by threats of further action such as delisting Chinese companies from U.S. stock markets. The trade war, that Trump initiated, has inflicted [damage on both countries and the wider global economy](#).

In China manufacturing has taken a considerable hit from the trade war with car sales declining for 14 out of the last 15 months. In the first six months of 2019 car sales fell by 13% compared to the same period in 2018. Meanwhile, in the U.S., Moody's Analytics has estimated that the [trade war has already cost the U.S. 300,000 jobs](#) which could rise to 450,000 jobs by the end of this year if no deal is reached.

The [IMF estimates](#) that the current phase of the trade war will knock 0.8% off global GDP as it has undermined business confidence and helped reduce investment and global trade. Both the IMF and [Moody's Analytics](#) have stated that if the trade war continues with no deal it has the potential to push the slowing global economy into recession by Q4 of 2020. The trade war has also precipitated large declines and rallies in global stock markets over the last year as they react to the jaw boning of politicians on both sides with their threats and talk of a deal.

All the evidence that the global economy is slowing down and heading towards recession, from inverted yield curves to weakening economic growth, is being dismissed by politicians and mainstream economic pundits. They point to the bull market in the U.S. stock market and state that further interest rate cuts by the Federal Reserve together with a trade deal with China will [push financial markets further to make new all-time new highs](#) for the year.

This hopium based analysis has already got one of its desired goals namely further interest rate cuts by the Fed. Meanwhile, the ECB has already gone all in and announced a rate cut and stimulus through a renewal of its bond buying programme that was so unsuccessful the last time it was tried.

However, the other central premise of this bull market analysis looks increasingly unlikely to happen any time soon. The "hope" that the U.S. can bully and cajole China into a trade deal that infringes upon its economic sovereignty is based on a complete lack of understanding of how China views the world. Having said that, it appears markets are willing to accept any kind of deal even a sticking plaster one that lifts some tariffs but doesn't resolve any of the fundamental issues between the two nations.

China's outlook on international relations, including the current trade war with the U.S., has been fundamentally shaped by its experiences of Western domination in the 19<sup>th</sup> and 20<sup>th</sup> centuries. The degradation, exploitation and violence that China suffered during this period, referred to in China as the [Century of Humiliation](#), still fundamentally shapes its foreign policy and how it relates to the American empire that is trying to stifle its economic development.

In a [previous article](#) on this subject I explained how the U.S. feels seriously threatened by China's rapid development of its high tech industrial sector and the associated challenge to American domination of the global economy. Actions such as the Made In China 2025 Initiative and the One Belt and Road projects are seen as major threats to American domination of global trade. The U.S. also perceives both projects as a serious threat to its position as a world leader in advanced technology and its attempts at full spectrum military

dominance of the planet,

China's colonial past still resonates with the present

The protests in Hong Kong have led Beijing to change the emphasis of its domestic propaganda. Increasingly, the message of state propaganda, which is very tech savvy has, "[more aggressively](#) stirred up nationalist and anti-Western sentiment using state and social media."

A variety of different sources from [journalists based in China](#) to [youtube bloggers in the country](#) suggest that this propaganda is having success in stirring up nationalist sentiment and so shoring up support for the one party CCP (Chinese Communist Party) controlled state. State propaganda over the summer of 2019 has increasingly harped upon the struggle China waged against America during the Korean War and used imagery and rhetoric from the "[Resist America, Aid Korea](#)" campaign 1950-53.

On May 19 the [Global Times](#) ran an editorial which noted,

"The trade war with the U.S. at the moment reminds Chinese of military struggles between China and the U.S. during the Korean War."

The problems that China is currently having with Hong Kong are partly linked to its past of colonial domination by the West. After its triumph in the civil war in 1949 the CCP carried out a social and economic revolution in China. This saw the introduction of a centrally planned command economy along the lines of Stalinist Russia with no democratic participation by the masses. Rebuilding its shattered economy after the massive loss of life and economic destruction caused by the Japanese occupation (1937-1945) and the civil war against the Western supported forces of Chiang Kai-Shek was a mammoth task for the CCP.

Historian Robert Bickers has noted that the new government of China had its hands full preventing an economic collapse and famine while simultaneously trying to consolidate its grip on power. This situation allowed Chiang Kai-Shek to withdraw his defeated forces to the island of Taiwan which had been occupied by American forces since 1945. Taiwan was still under Japanese sovereignty until 1952 when the Treaty of San Francisco took effect. This allowed the military dictator Chiang Kai-Shek to remain in control of Chinese territory in contravention of the promise made to China in 1943 by the Allied powers in the Cairo Declaration that envisaged the return of Taiwan to Chinese control.

Besides Taiwan, the new CCP government in Beijing was de facto forced to accept that Hong Kong and Macao would remain in British and Portuguese hands respectively. So even after the momentous struggles of the Chinese people to resist Japanese occupation and their defeat of the U.S. sponsored dictatorship of Chiang Kai-Shek whose soldiers, "were drunks, brutes, rapists and murders,"[1] they were forced to accept that parts of their country would remain under Western control.

It is no wonder that many Chinese people remained wary of the West throughout the remainder of the 20th century.

To compound matters further China was involved in major confrontations with the U.S. and its Western allies during the Cold War.

From 1950-53 hundreds of thousands of Chinese troops fought against the Americans during the Korean War with Chinese losses estimated at over 180,000 men, that included Mao's son. Meanwhile, during the Vietnam War over 300,000 Chinese troops were stationed in North Vietnam to deter an American invasion of the Communist North.

The cumulative impact of this colonial past has been to fundamentally shape the outlook of both the CCP controlled state and the Chinese population. Since 1949 the CCP controlled state has revealed a determination to build up the country's economic and military strength to a point where it can never be dominated by the West again. This outlook has largely been accepted by the Chinese population acutely aware of the country's '[Century of Humiliation](#)' at the hands of Western powers and Japan.

Chinese Revolution of 1949 used to bolster Xi's oligarchic regime

The 70th anniversary of the Chinese revolution, that swept away the comprador capitalism of Chiang Kai-Shek and expropriated the rotten feudal system, that caused mass impoverishment of the peasantry, has been used by President Xi to bolster support for his oligarchic regime.

In his address to the Chinese people he spoke on the same spot from which Mao had declared the People's Republic of China on 1 October 1949. President Xi played on the collective historical memory of how the Revolution of 1949 ended China's instability under a U.S. sponsored regime that left the country impoverished, destitute and divided. [President Xi](#) said that the Revolution of 1949:

"... marked the end of more than one hundred years of national humiliation and misery the country had suffered since modern times. The Chinese people managed to stand up on their feet and embark upon a great journey of national rejuvenation. Over 70 years the Chinese have been united as one people. Through hard work and perseverance we have scored unparalleled achievements."

Xi also played upon nationalist sentiment stirred up by the current trade war with the United States when he declared:

"Today a socialist China is standing in the east of the world and there is no force that can shake the foundation of this great nation. No force can stop the Chinese people and the Chinese nation from forging ahead."

Later in his speech Xi recognised that the stability of his regime rested on its ability to meet the material needs of China's 1.3 billion population. He stated that one of the key tasks of his government was to 'meet the people's aspirations for a better life'.

This brings us back to the current trade war with the United States as Xi's ability to maintain current living standards is dependent upon the future success of the Made In China 2025 initiative and the Belt and Road infrastructure project. Equally critical is warding off American attempts to thwart its economic and technological development through the current trade war.

Prospects for a U.S.-China Trade Deal

The current trade war will never be fully resolved until Washington drops its key demands for China to make structural reforms to its economy that would infringe on its national sovereignty. These American demands include:

- Reducing the state's share in the overall economy from 38% to 20%.
- An enforcement mechanism for any trade deal that would put power in American hands to effectively police China's economy.

Closing state-controlled factories at American insistence is not an option that Xi could pursue. Neither could he agree to allowing the U.S. have a veto over China's compliance with any U.S.-China trade deal without losing support from the Chinese people. If Xi agreed to such American demands it would feed into strongly held memories of the Century of Humiliation when Western powers dominated and controlled its economy through the unequal treaty system. Xi is never going to agree to American demands that would undermine the CCP's grip on power.

Having said this, Trump is beginning to realise that China cannot be bullied into submission on the key issues that led him to launch the trade war in the first place. As 2020 looms with a re-election campaign only a year away it would be no surprise to see Trump come to a compromise deal with China where a limited trade deal is agreed upon.

This could involve the removal of certain tariffs or all tariffs, China agreeing to purchase more U.S. agricultural products and allowing greater access for U.S. investors into China's domestic market. Meanwhile, the U.S. would continue letting its chip makers and soft ware companies sell to strategically important Chinese companies such as Huawei.

[Lance Roberts](#), chief editor of the *Real Investment Report*, sums this possibility up nicely with the observation:

"For Trump, he can spin a limited deal as a 'win' saying 'China is caving to his tariffs' and that he 'will continue working to get the rest of the deal done.' He will then quietly move on to another fight, which is the upcoming election, and never mention China again. His base will quickly forget the 'trade war' ever existed.

Kind of like that 'Denuclearization deal' with North Korea."

A short-term trade deal concluded in the autumn that would remove some or all tariffs and give U.S. companies some certainty over the future direction of trade policies. It would give stock markets an undoubted boost.

J.P. Morgan's chief equities strategist [Lakos Bujas](#) has estimated that a short term trade deal could boost the S&P500 Index to new highs for the year of 3,200-3,300.

Whereas, a failure to get any kind of limited deal or an escalation from current levels of hostility would impact very negatively upon financial markets sending the S&P500 Index to 2,500.

This would be disastrous for a president facing re-election, who claims credit for the current highs in financial markets which he boasts are indicative of how strong the underlying U.S. economy is.

## The future of U.S.-China relations in the 21<sup>st</sup> century

If the U.S. and China come to a limited trade deal over the next period it won't change the fundamentals of their adversarial relationship. The United States has been the world's hegemonic economic power since the Bretton Woods agreement of 1944. It has dominated global trade through the dollars use as the world's reserve currency and been an economic powerhouse in the field of advanced technologies.

Now China has come along and upset the apple-cart by challenging American dominance of the global economy. This kind of existential struggle has been played out many times throughout history when dominant powers face competition from rising nations. The Greek historian [Thucydides](#) explained this simply, "It was the rise of Athens and the fear that this instilled in Sparta that made war inevitable."

Over the last 500 years alone there have been 16 cases where a hegemonic power has been challenged by a rising power. In 12 cases the irreconcilable contradictions between the hegemony and challenger led to war breaking out.

The last century witnessed the titanic struggle between the Soviet Union and the United States that came desperately close to nuclear war and led to a series of highly destructive proxy wars being fought all around the planet.

The United States like so many other hegemonic empires in the past from the Romans to the British Empire have bankrupted themselves fighting wars to cling onto their position as top dog.

The U.S. sees China as an existential long-term threat to its economic and military dominance which won't be resolved up by any limited trade deal that maybe concluded this autumn.

[Randall Schriver](#), the assistant defence secretary for Indo-Pacific security affairs, made this point clearly when speaking on the 70 anniversary of the Chinese Revolution at the Brookings Institute:

"We feel we are in competition because fundamentally we have different visions, different aspirations and different views of what regional security architecture should look like. Globally, China seeks to shape a world consistent with its authoritarian model and national goals."

He expressed American unease at China's rapidly expanding economic and military capabilities:

"The department views military developments in China as seeking to erode U.S. military advantages. They are working to become the pre-eminent power in the Indo-Pacific while simultaneously making plans to expand its presence and sustain its capabilities farther from Chinese shores."

Schrive acknowledged that the American empire can no longer assume its vast military will intimidate rising states away from a clash with the U.S. It now finds itself back in the same position it had during the Cold War where it now has to expect a fight from a powerful

opponent:

“Instead of expecting to dominate an opponent, our armed forces are learning to expect to be contested throughout a fight, while achieving the political objectives set for them. ”

At the end of World War Two the U.S. dominated the global economy in a way that no other nation has ever done in human history. The many advantages it had, such as the dollars dominance of global trade, are being challenged by China as it seeks to secure markets, raw materials and energy sources to secure the living standards of its 1.3 billion people.

### Scenarios facing the American Empire

The United States ruling class faces several choices at this crucial juncture in history. Having dominated the 20th century the U.S. now faces a powerful rising challenger in the 21st century that is relentlessly pursuing an economic strategy that will leave the United States in its shadow unless it takes decisive action now.

Several possible courses of action are outlined below.

It can try to come to a comprehensive long term resolution of its differences with China that would [effectively divide the world into two zones of economic influence](#): the Western zone led by the U.S. and supported by its NATO allies and an eastern zone led by China and supported by Russia.

The other option it faces is to try and combat the rising economic power of China through increased economic warfare such as comprehensive sanctions on key sectors of China's hi-tech industry, blocking China from the SWIFT system of global payments, forcing U.S. companies to divest from China. Such measures, of course, would push political tensions between the two powers to dangerously high levels. These could result in proxy wars being fought or at worst a conventional conflict that would rapidly escalate to nuclear war.

Of course, none of this may come to pass and we may just see a drift in American policy as its political class struggle to resolve pressing domestic problems. As [Ray Dalio](#) has commented unless the U.S. deals with its huge wealth inequalities over the next period then it faces a period of intense class conflict that may threaten the capitalist system itself with overthrow. Domestic turbulence in the United States, crippling its ability to act in checking Beijing, would de facto let China emerge as the world's largest economy that would dominate global trade.

The economic and geo-political conflict between China and the United States will increasingly dominate global affairs over the next few decades. The American Empire faces difficult choices either to confront, acquiesce or accommodate the rising power of its Chinese rival.

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Note

[1] quote from Robert Bickers, *Out Of China: How The Chinese Ended The Era Of Western Domination*, 2018, Penguin Books.

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