

## Present Day Views on China

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### Preface - How the US Failed on its Chinese Assumptions

It's important to view the context of which Sino-American relations were normalized under President Nixon. Because the priority of the United States at the time was the prevention of a very real nuclear threat from the Soviet Union against the US mainland. Thus, the United States forgone anti-communist rhetoric in order to pursue relations with the Soviet Union's major ally in order to weaken Soviet world presence. However, the anti-communist rhetoric has always been present within US foreign policy, it was just in this case, the US chose to turn a blind eye to China. Instead, the US believed that opening up the country to trade would usher in a new age of capitalism in a newly formed, war-ravaged Communist China, whilst simultaneously dealing with the immediate Soviet nuclear threat. Thus, Nixon's dealings with Mao are typically given a "pass" due to the circumstances of the times with the Soviets, and instead critiques on the following administrations are typically the focus. However, the overarching Chinese assumptions on China set during the Nixon era, and especially the efforts of Secretary of State Henry Kissinger, will set the stage for decades of American foreign policy.

This section and its details would require an essay of its own. Suggested readings include:

On China (Henry Kissinger, 2011)

The China Reckoning (Campbell and Ratner, 2018)

How the West got China Wrong (The Economist, 2018)

Has U.S. China Policy Failed? (Harry Harding, 2016)

As a summary, original assumptions on Chinese policy as set out during the Nixon administration was made under the pretext of the liberalization of the country as a result of opening up international markets to China. This was Kissinger's policy of appeasement. Later on, Clinton embarked on his mission to sponsor China's admittance to the World Trade Organization (WTO) while firms entering China still found themselves at the mercy of the powers of the CCP, who still restricted access to much of their markets, thereby disrespecting the spirit of American sponsorship to the WTO. International firms, especially technology firms, found themselves unable to fully enter the Chinese market, and instead found parallel firms open up in their place, within China's domestic market. For example: Google and Baidu, Amazon/eBay and Alibaba, Apple and Xiaomi, Youtube and bilibili. For years, American firms have tolerated incremental concessions for access to the Chinese market, while they see their opportunity costs skyrocket from dealing with the Chinese system, who actively seeks to hinder their market access and steal their technology. This is the painful result of the failure of American policy on China.

### A Pivot to Asia

For decades, American foreign policy was predisposed with issues in the Middle East, hinging from an antiquated dependence on foreign oil, where the vulnerability was really brought to light with the OPEC oil embargo in the 1970s. Coupled with 9/11, the US was forced into decades of American involvement in the Middle East. It was only in the past five years that North America as a whole has been able to wean off of foreign oil thanks to feats of engineering in the development of unconventional oil deposits in the United States and the oil sands in Canada. Increased production has turned the US into the third

largest oil producer in the world (EIA, 2018), and coupled with Canada's oil production, essentially guarantees North American energy independence with the natural technological shift away from fossil fuels. Thus, American foreign policy has noticeably taken a turn away from the Middle East, as evidenced by the drop in involvement regarding Afghanistan, Iraq, and the waning authority on oil of Saudi Arabia (and OPEC as a whole).

Now, the Trump administration has recognized the failure of the previous administrations regarding China and Trump has noticeably taken a hardline stance against China. However, in contrast with the past, these actions show some understanding of the Chinese culture of face, a concept that eluded the decision-making process of previous Obama, Bush, and Clinton administrations.

Such actions include the trade pressures imposed on China in March 2018, Trump has shown a willingness to attack the economic face of China and threaten the people's livelihood that President Xi has promised to the populace. This has eerie parallels to the instigation of the two Opium Wars in the 19<sup>th</sup> century, where the Western World united against the Qing Dynasty to force more open trade with the walled off country. As to be expected, China has come out against these pressures, both in recent times, and in antiquity. Chinese have taken the hypocritical view that America should not be closed off to global trade, while quietly saving face by asking the EU for an olive branch in early April 2018.

<https://www.scmp.com/news/world/europe/article/2140674/eu-feels-heat-china-us-trade-row>

However, the Taiwan issue has put the CCP in a tight spot, as their face to the world depends on the 'reunification' with Taiwan, having preached this for the decades since the KMT fled to the island, and entrenching this view with generations of Chinese. With the US unanimously backing Taiwan in 2018, as evidenced by the Taiwan Travel Act (H.R.535), passing both the US House and Senate under **Unanimous Consent**, and Section 1259 of the National Defence Authorization Act for Fiscal Year 2018 (H.R.2810) suggesting possible American Naval presence using Taiwan's ports. President Xi must come to realize that fulfilling their 'national rejuvenation' and bringing China into a 'new age' will involve hard-power military actions against the United States and all her allies. Again, this is not a matter of waiting out the Trump administration, as the Taiwan issue is one of the only issues that is truly bipartisan in the American political game, and I would even go out on a limb to suggest that if Hillary were elected in 2016, she would have carried out the same actions that Trump has.

Akin to Xi Jinping's 19<sup>th</sup> Party Congress speech, the United States has also likely entered a 'new age' with regards to policy on China, scrapping the old appeasement strategies of Henry Kissinger in favour of a more hardline approach. With the entrance of Trump and his more recent additions of John Bolton, a military hawk and Peter Navarro, an economic critic of China, it has never been more evident that a shift against China on the world stage is in the works.

The American foreign policy calculus on China of the Clinton, Bush, Obama administrations has changed and pivoted its attention on China, and such is the crux of my thesis.

## Possible Flashpoints causing Chinese Action, and American Response

### Economic Shocks

It is no question that we are currently in a mid to late-stage economic cycle in early 2018. The Chinese have always taken direct intervention in the markets in order to preserve investor confidence, especially in domestic stock markets, where state funds actively prop the market. A true plunge protection team. Even in the wake of a technical market shock, such as the volatility product collapse of February 2018, the CCP has taken upon itself the creation of rose-tinted market glasses in the form of hiding the Chinese VIX index entirely to shield the populace from truth. Precedent of Chinese response to systemic risk in the 2008 Global Financial Crisis (GFC), also suggests that the CCP is willing to embark on massive infrastructure spends in order to prevent worker protests as a result of factory closings and layoffs. Even if such infrastructure spending results in vast “ghost cities” and underutilized infrastructure.

What would be the catalyst for another crisis? While that will remain a mystery until the future meets the present, one can hypothesize what the CCP will put in front of the populace to paint a favorable picture of economic conditions, under the Nationalistic rhetoric of Xi Jinping in the “new era”.

### Yuan Revaluation

This was recently brought to my attention on the DeepThroatIPO blog of the currency manipulation that have been, and continue to be undertaken by the CCP with regards to propping up the value of the CNY by taking advantage of low transaction settlement volumes worldwide to maintain an illusion of scarcity. All the while printing vast amounts of money internally (see the M3 money supply of China), akin to the dual currency system of Germany prior to WWII. Original article can be found here:

<https://deep-throat-ipo.blogspot.ca/2018/04/the-new-phone-books-herethe-new-phone.html>