China Says 'No' To 'Plaza Accord' Pressure

by Mary Burdman

All the continued hullabaloo by the George W. Bush Administration about the fixed exchange rate of the Chinese currency, the renminbi, to the dollar, is getting nowhere. The Chinese remain determined that they are not going to give into the U.S. pressure for the currency to "float," by which Washington really means to drastically revalue the renminbi upward against the dollar.

China has drawn the historical lesson of what the 1985 "Plaza Accord" brought about, negotiated at that year's Group of Seven finance ministers meeting in New York: It destroyed the rapid growth of the Japanese economy after World War II. The Bush Administration, and some in Japan, want China to submit to the same sort of agreement now.

A commentary published in the official *People's Daily* on Sept. 23, written by Prof. Jiang Ruiping, Chairman of the Department of International Economics of the Foreign Affairs College in Beijing, emphasized that in 1985, "the U.S. forced the Japanese yen to revalue," in order to artificially eliminate the huge U.S. financial and trade deficits with Japan. The Ronald Reagan Administration called a G-7 finance ministers' meeting, held at the Plaza Hotel, which "agreed" to force the currencies of especially Japan and Germany, to rise against the dollar. The yen doubled in value against the dollar in just two and a half years.

Postwar Japanese economic growth, "which depended heavily on foreign resources," was thrown into a "yen revaluation depression", wrote Professor Jiang. Tokyo resorted to its "zero-interest-rate" money printing, and set off that country's huge real estate and stock market bubbles; when they crashed, Japan was plunged into its persistent economic/financial crisis. Japan's drastic currency manipulations in 1997-98, which this time cut the yen's value by almost 55%, played a big role bringing about the Asian financial crisis. This is the bitter pill that Tokyo, trying "to be hand in glove with the U.S.," has been attempting to make China swallow.

The Chinese commentary was clearly a response to the events of this year's G-7 finance ministers meeting, and the immediately subsequent International Monetary Fund/World Bank summits in Dubai, United Arab Emirates, on Sept. 19-23. In Dubai, U.S. Treasury Secretary John Snow, who arrived after (unproductive) trips to Japan, South Korea, China, and then South Asia, kept insisting that Asian nations give in to an insane "free-floating" currency regime (i.e., one run by unregulated private-financial flows). On Sept. 5, President Bush himself went on the stump on behalf of this policy, appearing on CNBC cable TV, to pronounce that Snow had used his meetings in Beijing to "deliver a strong message from the Administration that we expect our trading partners to treat our people fairly—our producers and workers and farmers and manufacturers—and we don't think we're being treated fairly when a currency is controlled by the government."

'Same Message in China, Japan, and Phuket'

Snow repeated this demand—that a nation's currency should not be controlled by that nation's goverment, and that all countries knuckle under to "market-based exchange rates"—all along the trail to Dubai. "We've had a consistent message on currencies, whether in Japan or China or Phuket [Thailand] or at all the G-7 meetings," he blathered, as he flew into the United Arab Emirates. "We think the world trading system works best under a regime of market-based exchange rates and we're going to continue to push for flexible, market-based exchange rates. . . . It would be useful if the communiqué expressed support for flexible exchange rates."

Although both European and Japanese officials had expressed doubts about this policy, the communiqué issued by the Group of Seven on Sept. 21, ended up calling for "more flexibility in exchange rates." It read: "In the context of exchange rates, we will strengthen the dialogue with other major economic areas to promote a smooth adjustment of international imbalances, based on market mechanisms." Previously, G-7 communiqués restrained themselves to calling for "monitoring" exchange rate movements, and for governments to "cooperate as appropriate."

In the next days, the Japanese yen and the South Korean won rose sharply against the U.S. dollar, to the highest levels in three years. This brought protests from Tokyo, which has already had to spend 9.03 trillion yen ($76.8 billion) this year, to try to control the yen's rise.

Snow tried to offer some bribes to the Chinese, who had a delegation in Dubai. He told the IMF meeting that the United States would be willing to consider a future admittance of China to the "elite" G-7 group of nations. "The issue of membership gets reviewed from time to time, and I think we are open to looking at the whole question," he said. China should take a sober look at the treatment that Russia receives as a sometime member of what is called the Group of Eight. At these occasional, expanded G-8 meetings, Russian delegates are allowed in (to sit at the "children's table").

But this was an empty gesture by Snow. As one well-informed City of London figure told *EIR* Sept. 23, the dollar plunged because "everybody knows" how desperate the Bush Administration is about the U.S. economy. "I don't think the dollar going down has to do with the Dubai G-7 communiqué insisting on flexible exchange rates; there is something else going on," he said. "The financial world has latched onto a falling dollar, because of knowledge that has been picked up

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. . . that the Administration clearly wants to abandon the strong dollar. It's fair to say, that they want to drive the dollar down, because of growing desperation about the American economy, as the election year approaches." China and Japan, he noted, are not going to change their policies just because of one communiqué.

Regular commentaries in the Chinese press recently have blasted as "unacceptable," the scapegoating of China because of the United States' own problems of soaring unemployment and de-industrialization. John Snow's arrival in China was greeted by the *China Daily* with an English commentary stating: "The Presidential election campaign in the United States is certainly one of the most influential political dramas in the world. But it is often unpleasant to be thrust into having to play a role in it. China's currency, unfortunately, is in a position of finding itself involved in the finger-wagging sessions that accompany this essentially American saga."

China had agreed to more exchange rate flexibility when joining the World Trade Organization (WTO), "but the unfavorable conditions in the world economy since 2001 . . . have delayed the process," the commentary stated. For China, a more expensive currency could mean widepsread job losses for Chinese workers, "who are much poorer than their American peers." Floating the yuan (as China's currency is called internally; calculations for international trade and exchange are made in renminbi) will open the way for even more speculative rises in the currency.

China Daily concluded: "A more undesirable consequence might be the impression that international browbeating can effectively mandate China's forex policy. Then, the next time some international dignitary says something about the renminbi, market players will follow his or her comments and put pressure on the currency.

"Should China now give in to pressure only to face dire consequences later? 'No way.' "

Unsavory Intrusions

China's commitment to a stable currency is extremely important for its national interests and national sovereignty. However, one problem is emerging: a host of unsavory characters are inserting themselves into the internationally hot debate on the Chinese currency, and, while defending the fixed-exchange-rate policy, are promoting their own unappetizing agendas to Beijing. The worst of these is monetarist Nobel Prize Laureate Robert Mundell, whom Chinese media are greeting as a "reasonable voice." Mundell does support "fixed" exchange rates, but as a tool of monetarism, to control national economies via severe austerity against national budgets and industrial production.

Mundell's money-fixated proposals, are sometimes mistaken as a version of Lyndon LaRouche's proposals. In reality, LaRouche has taken the scientific basis for expanding real, physical-economic production, for the development of sovereign nations, to the most advanced level, and proposes stable financial arrangements only to enhance long-term cooperation and investment among nations. Mundell, and his ilk, promote what appears to be financial "stability" for economic destruction.

Mundell claims—with much exaggeration—to be the "father" of the euro, the single currency of the European Monetary Union. He did play a role in shaping the 1992 Maastricht Treaty, which attempted to straitjacket European governments into fiscal austerity and disinvestment, and which is now an economic strangulation those nations are trying to break. The "euro-zone" nations of Germany, France, and Italy, with soaring unemployment and falling industrial production, now regularly violate the Maastricht debt austerity regulations.

Mundell may claim to support a national currency, but his real aim is a supranational "single world currency," controlled by a supranational "world central bank." This is hardly something which would be responsive, or accountable, to the interests of sovereign nation-states. This June, Mundell sponsored a gathering of a small group of top bankers and monetarists at his palace in Siena, Italy to discuss a scheme for eliminating all national currencies.

On June 30, the *Wall Street Journal*'s "editor emeritus" Robert Bartley covered the meeting, under the headline, "World Money at the Palazzo Mundell." "Does the global economy need a global currency?" asked Bartley. "If the euro can replace the franc, mark and lira, why can't a new world currency merge the dollar, euro, and yen?" This would mean "the grandest reform of all, a supranational central bank," he wrote. Among participants was former U.S. Federal Reserve Chairman Paul Volcker, a big supporter of a "world currency"—and, as Volcker himself referred to his policy at the Fed, "controlled disintegration in the world economy.

Perhaps slimiest of all, is "financier" Steve Forbes, who sponsored a financial bash in Shanghai in early September. Forbes also said that China should do the obvious, and keep its currency stable.

China's leaders may graciously allow Forbes to tell them to do, what they are already determined to do, but he should not presume too much on their politeness. A recent Indian visitor to China watched Forbes being questioned on television during his visit. Forbes was asked, if he would risk publishing his list of the "100 Richest Chinese" again this year. The last set had run into problems, Forbes was informed: In the national effort to stop corruption, half of the 100 were in jail, and the other half had fled overseas!

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