

U.S.-China Dialogue: A One-Sided Affair

by William Jones

The second annual meeting of the Strategic Economic Dialogue (SED) in Washington on May 22-23 concluded with statements that were all very diplomatic and “upbeat.” Very few of the participants, however, were happy about the results. A main thrust of the session was badgering China about revaluing the renminbi, as an “easy fix” for the U.S. trade deficit, but at the expense of China’s own development strategy. The Chinese made very clear that while the RMB may be gradually pushed up in value, they would not be pressured into any radical moves.

The SED was the brainchild of Treasury Secretary Henry Paulson, ostensibly to bring together some of the leading Chinese and U.S. economic and trade officials to discuss the relationship. In reality, it has served as a forum for haranguing Chinese officials into letting the renminbi float against the dollar.

This session of talks began on a very sour note, with rumors flying that the Chinese delegation might boycott the meeting. In February, Washington filed a complaint against China at the World Trade Organization (WTO), alleging that Beijing provided illegal incentives that gave unfair advantages to such exports as steel. In March, the United States imposed tariffs of 20% on high-gloss Chinese paper. And in April, the Administration sued China at the WTO over intellectual property rights.

In addition, a group of 21 lawmakers from the Senate Finance Committee had written a letter to China’s Vice Premier Wu Yi, China’s chief trade official who led the delegation, asking her to be prepared to make “meaningful commitments” at this meeting. Congressional “trade hawks,” who have made nary a peep about how the U.S. auto industry has been sold as salvage to speculative pirates such as Cerberus, find it easier to blame China for U.S. economic woes, rather than looking at their own dismal policy failures.

Underneath some of the gilded diplomatic rhetoric, the Chinese delegates were very upset by the treatment they received. Why did the U.S. take punitive measures against China one month before the reconvening of a high-level dialogue to discuss economic and trade issues? they ask themselves. Aren’t these the issues that are to be discussed between the parties of the dialogue rather than unilaterally determined by the U.S. side? The continual drumbeat about revaluing the renminbi is taken by the Chinese as an attack



Chinese Ministry of Foreign Affairs

Chinese Vice Premier Wu Yi, meeting with U.S. representatives in Washington, said that China will determine its own financial policies, thank you, and that it must take such measures as it deems necessary to deal with “risks within the financial system.”

on the prerogative of a sovereign nation to control its own economic destiny.

President Bush was brought in for a session of finger-pointing. In a White House meeting with the Chinese trade minister on May 24, Bush said, “I emphasized to Madame Wu Yi as well as to the delegation that we will be watching very carefully as to whether or not they will appreciate their currency.”

What Can China Buy From the U.S.?

Regarding the trade deficit, China has argued that it would be more than happy to buy more from the United States, if the U.S. were willing to supply those items that were most important for the Chinese economy in its present state of development. Most of the items that they really need, and which the U.S. could provide, fall into the category of high-tech products, which, under the dual-use arguments of technological apartheid adherents, are restricted for sale to China, viewed by some in the Pentagon as a possible military threat.

In addition, the United States has become such a rust-bucket economy that we don’t produce as many products that might be of use to China. China is interested in maglev trains, but we have no industry to produce them. China wants to rapidly expand its generation of power by nuclear energy, but where are they to buy them from the U.S., except from Japanese-owned firms like Westinghouse, which fortunately has kept its production in the United States?

Nevertheless, China, knowing the climate that is developing in the Congress around trade issues, came to the session with a laundry list of products that it will purchase from the United States. Some of these items will be useful,

like railroad equipment and clean coal technology. Some of them may simply be to placate the “trade hawks.”

Pressure Tactics May Backfire

The recent session has significantly soured some Chinese leaders on the “economic dialogue,” one analyst remarked. To them, it’s beginning to look like a forum in which the U.S. can corral Chinese leaders, to wring from them more trade concessions. Scapegoating China for U.S. economic woes could result in a backlash from those in China who don’t believe in a partnership with the United States, the analyst warned.

But the Chinese representative made very clear in statements following the meetings, that the value of the renminbi will be a matter for the Chinese government alone to decide. Speaking at a banquet held at the conclusion of the session by U.S. business groups, Wu said, “I believe the floating band of the RMB exchange rate will be constantly expanded with market change. China’s exchange-rate reform

will be advanced in an orderly way, under the principles of self-initiative, controllability, and gradual progress.” “In the meantime,” she said, “we must take measures to effectively control and duly dispose of risks within the financial system.”

Nevertheless, China, under intense pressure, made numerous concessions to opening up its economy to the financial vultures, who are eager to exploit the growing Chinese market, allowing greater leverage for foreign firms to begin dealing in brokerages, insurance operations, and renminbi operations.

But in her address to the U.S. business groups, the Chinese Vice Premier also made very clear that there are limits to how far China is willing to be pressured to come to the aid of a bankrupt global financial system. “Any attempt to impose pressure on the RMB for its considerable revaluation cannot help at all and could probably injure the interests of the two countries and the public,” Wu said.

If the United States were interested in a serious economic dialogue with China, it would have to focus on the fundamental issue facing the world’s governments: to replace the rotten International Monetary Fund system with a New Bretton Woods-style arrangement of fixed currency rates and credit for productive development. As Lyndon LaRouche has emphasized, this would begin by forging an alliance among the United States, Russia, China, and India, around which other nations could coalesce. An attempt by the Bush Administration and/or the Democratic-controlled Congress to force China to finance the U.S. trade deficit by a major revaluation of the renminbi could open the floodgates to the very financial blowout, which they are so desperately trying to forestall.