Clinton looks to Beijing to stave off wider financial crisis

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While the media coverage of Clinton's trip to China has focused on such largely orchestrated events as his press conference with President Jiang Zemin and his speech to students at Beijing University, the most critical discussions between the US and Chinese governments were being held outside public view and did not even involve the summit participants.

On Thursday, June 26, while Clinton was touring the terra cotta soldiers erected by a 2,000-year-old Chinese dynasty and speaking with peasants in a carefully scripted meeting in a farm village, US Treasury Secretary Robert Rubin was in Beijing for talks with his Chinese counterparts: Prime Minister Zhu Rongji, Finance Minister Xiang Huaicheng and central bank chief Dai Xianglong.

Rubin emerged from the talks saying he was well-pleased with the Chinese commitment to cooperate with the United States in efforts to contain the mounting financial crisis in Asia. Of particular significance, he said, was China's pledge to maintain the stability of its currency, the yuan, in the face of mounting pressure for a devaluation.

Rubin has repeatedly described China as 'an island of stability' in the Asian crisis because Beijing has refrained from devaluation, despite the effect on Chinese exports of competition from Thailand, Indonesia, South Korea and other countries whose currencies have sharply depreciated in recent months. The value of the Indonesian rupiah, for instance, has fallen 80 percent against the yuan since the Asian crisis began one year ago.

The combined effect of increased price competition in export markets and the declining demand for Chinese goods in Japan, South Korea and other countries hard-hit by economic slump has dealt a serious blow to Chinese exports. In the first five months of 1998 Chinese exports grew at an annual rate of only 8.6 percent, well below the 20.9 percent average in 1997. In the month of May, exports suffered their first year-on-year decline in recent history, falling 1.5 percent. Some important industries, such as textiles, are facing huge losses because of competition from Southeast Asian and South Korean firms.

The export decline is both an economic and political problem for Beijing. Export industries, making use of the country's huge reservoir of cheap labor, have been the basis for the economic growth of the last 10 years in China's coastal regions. Last year, when Zhu Rongji and other top Stalinist economic officials announced a major effort to privatize or close down much of state-run industry, they assumed that the export boom would provide jobs for the bulk of the displaced workers. Now these hopes are being dashed, with incalculable consequences for social and political stability.

Chinese officials have refrained from taking action to devalue the yuan, despite their fears about growing social antagonisms at home, because the effects of a currency depreciation could be even more catastrophic. Finance ministers and central bankers in Asia, the United States and Europe have all expressed concern that a Chinese devaluation--followed necessarily by a collapse of the Hong Kong dollar, the only other stable currency in east Asia--would trigger a second and more dangerous wave of financial panic, and not only in Asia.

Rubin left Beijing ahead of Clinton and traveled to Malaysia, Thailand and South Korea, three of the countries hardest hit by the Asian financial crisis. In each country he is reiterating US support for the policies of economic austerity and financial deregulation dictated by the International Monetary Fund.

While the mass media in the United States seeks to conceal from working people the implications of the deepening financial crisis, the mood in official Washington and on Wall Street is becoming increasingly gloomy. Typical was Fred Bergsten of the Washington-based Institute for International Economics, who told a Canadian newspaper, 'I think we are literally on the brink of a renewed, virulent outbreak of crisis. We are talking, in some parts of Asia, of their equivalent of the Great Depression.'

The major imperialist powers have made a series of efforts to reassure the Beijing Stalinist regime that its efforts to prop up world capitalism are appreciated. At the summit meeting of the G-8 countries last month in Britain, the presidents and prime ministers singled out China's role in the Asian crisis for praise. British Prime Minister Tony Blair, speaking for the group, declared, 'We paid tribute to the role that China has played in the aftermath of the Asian crisis, and its strong commitment to financial stability.'

When the US Treasury intervened in currency markets June 17 to prop up the Japanese yen, it was largely in response to Chinese statements that the plunge in the yen was making it more and more difficult to maintain the value of the yuan. One Chinese official told the *Financial Times* that contingency plans had been drawn up for a devaluation of the yuan if the yen reached a value of 170 to 200 against the dollar. The US intervention temporarily stopped the yen's fall at 147, but since then its value has begun to slip again.

The greatest point of pressure is Hong Kong, which was returned to Chinese sovereignty a year ago but maintains a separate financial regime. The Hong Kong dollar has been pegged to the American dollar since 1983, but with other Asian currencies plummeting against the dollar, the peg has come under great strain. On the eve of Clinton's visit, the Beijing-appointed governor of Hong Kong, Tung Chee Hwa, announced the freezing of all government land sales and an emergency package of measures to prop up the financial markets in the former British colony.

Beijing has so far been able to avoid devaluation. This does not mean, however, that its fundamental economic position is any better than that of Indonesia or Thailand. By some measures it is even worse--the banking system, for instance, has bad debts estimated at three times its net assets--but the full effects have yet to be felt because the yuan is not a convertible currency.

As the *Financial Times* declared, in a comment published June 30, 'China's financial crisis is just as bad as that of any other Asian country, except for the fact that foreigners are not involved.' The insulation of China from the economic storm sweeping Asian markets is thus one of the remaining legacies of the Maoist policy of economic autarky, and is strictly a short-term phenomenon.

While its export surplus and influx of capital investment have allowed Beijing to amass the second largest currency reserves in the world, an estimated $180 billion, this is dwarfed by the vast sums traded each day in world financial markets. The country with the largest reserves, Japan, has been unable to defend the value of its currency or to pull itself out of a decade-long slump.

See Also:

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[25 June 1998]

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