

Obama administration stokes up trade tensions with China

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In an ominous move in only the second day of the new US administration, President Barack Obama's treasury secretary-designate issued a pointed and provocative threat of punitive trade measures against China. Timothy Geithner, currently the president of the Federal Reserve Bank of New York, accused China of "manipulating" its currency in a written statement submitted Thursday to the Senate Finance Committee, which was considering his nomination to head the Treasury Department.

The committee subsequently voted to recommend his appointment to the full Senate, which is expected to confirm him on Monday. Five of the committee's Republicans joined with all ten Democrats to support Geithner's confirmation.

Geithner's written statement, submitted in response to questions on US policy toward the Chinese currency, the renminbi, from New York Senator Charles Schumer and Michigan Senator Debbie Stabenow, signaled a more aggressive and confrontational policy by the new administration toward China than that of the Bush administration. His use of the term "manipulation," in particular, was calculated to provoke the Chinese government, because the Treasury Department is required, under a 1988 trade law, to submit a report to Congress in the spring on international currency questions in which the official designation of a country as a currency "manipulator" sets in motion aggressive diplomatic steps that can lead to punitive tariffs and other retaliatory trade and currency measures.

The Bush administration and its treasury secretary, Henry Paulson, avoided using the term "manipulation" in the course of protracted efforts to push the Chinese to further drive up the value of the renminbi, resisting pressure from US manufacturers and the trade unions which have demanded more aggressive steps, including

trade sanctions, in order to force Beijing to sharply increase the value of the renminbi so as to raise the prices of Chinese exports and thereby make them less competitive with US goods.

Since 2005, when China ended its currency peg with the US dollar, the renminbi has risen by some 20 percent in relation to the dollar, but has dropped slightly in recent weeks as the global economic slump has taken hold and China's exports and overall economy have slumped.

The newly confrontational tone signaled by Geithner's statement portends growing protectionist trends fueled by the accelerating US and global recession, and threatens the kind of "beggar-thy-neighbor" policies that dominated the Depression era of the 1930s and led ultimately to world war.

Geithner's statement came as a shock to financial markets and prompted a decline in the prices of US Treasury notes, reflecting fears among investors that China might retaliate against US moves to force it to revalue its currency by cutting back its purchases of US government debt. The US economy is dependent on huge inflows of capital from China, in the form of purchases of Treasury bills and notes, to sustain its operations under conditions of massive US trade and current account deficits.

In his statement to the Finance Committee, Geithner wrote: "President Obama—backed by the conclusions of a broad range of economists—believes that China is manipulating its currency." The statement further noted Obama's support as a senator for "tough legislation to overhaul the US process for determining currency manipulation and authorizing new enforcement measures so countries like China cannot continue to get a free pass for undermining fair trade principles."

Obama would, the statement continued, "use aggressively all the diplomatic avenues open to him to

seek change in China's currency practices."

Senator Schumer, who once co-wrote a bill to impose punitive tariffs on China if it did not revalue its currency, praised Geithner's statement, telling the *New York Times*, "For the first two days, this is a big step." The other senator to whom Geithner was responding, Michigan's Debbie Stabenow—a close ally of the United Auto Workers union bureaucracy—had also written a trade-war bill against China, which was co-sponsored by then-Senator Obama.

That Geithner's threat against China was a calculated statement of the new administration's policy is underscored by his long experience in matters of international trade and currency relations. Before assuming the presidency of the Federal Reserve Bank of New York, Geithner was a policy director at the International Monetary Fund. Prior to that, he was the undersecretary for international affairs in the Clinton administration, a key figure in managing the Asian financial crisis of the late 1990s and a Treasury attaché to Japan. As the *Times* noted, "By his own description, Mr. Geithner's expertise is in matters of currency exchange rates and monetary policy."

Moreover, the Obama administration hastened to confirm that Geithner's statement reflected the position of the president. The *Times* cited an unnamed administration official as saying that Geithner "was only repeating what Mr. Obama had said during the campaign" and quoted the official as saying that the president intended to use "all the diplomatic avenues available to him" to deal with the currency issue.

The provocative and reckless tone of the administration's statements evidently caused concern even within the National Association of Manufacturers, whose members have long pushed for stronger trade measures against China. Frank Vargo, vice president for international economic affairs at the association, said, "You know, the world has changed a lot with the financial crisis and China has a lot in US Treasuries. This needs to be done in a cooperative, not a confrontational, way." (*New York Times*)

On Friday, China responded angrily to Geithner's statement. Agence France-Presse reported the Chinese commerce ministry as saying Beijing "has never used so-called currency manipulation to gain benefits in international trade," and adding, "Directing unsubstantiated criticism at China on the exchange-rate

issue will only help US protectionism and will not help toward a real solution to the issue."

The decision by the new administration in the first days of its existence to provoke a confrontation with China is an indication of things to come. The deepening world economic crisis, centered in the United States, will only intensify the aggressive, nationalist and militarist tendencies of American imperialism, which the Obama administration, no less than its predecessor, represents.

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