

# US-China talks: a fragile relationship

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30 July 2009

The July 27-28 US-China Strategic and Economic Dialogue in Washington highlighted the dependence of heavily-indebted US capitalism on China as a major source of financing. At the same time, the forum revealed the increasingly conflicting strategic and economic interests of the two countries.

First established by the Bush administration to discuss financial issues with the Beijing regime under former Treasury Secretary Henry Paulson, the meeting was upgraded by the Obama administration to include the State Department and the strategic issues that are looming large in US-China relations.

US President Barack Obama and Chinese President Hu Jintao agreed on holding the dialogue during April's G20 summit in London—amid the deepening global economic crisis. With a budget deficit to rise to \$1.85 trillion this year, the Obama administration needs China, now its largest creditor nation (holding more than \$800 billion in Treasury bills and several hundred billion in government agency bonds), to finance its massive bailouts of Wall Street. This week alone, the American government is issuing \$200 billion worth of bonds.

The Beijing regime, which is struggling with rising unemployment, desperately wants American demand to pick up again, to provide markets for China's ailing export sector. Last week, 30,000 rioting steel workers in the northeastern Jilin province killed their manager in a protest over privatisation and job losses, showing the deep social tensions created by the exploitation of the Chinese working class as cheap labour for global capital.

The US side was headed by Secretary of State Hillary Clinton and Treasury Secretary Timothy Geithner, along with Federal Reserve Board chairman Ben Bernanke. Beijing sent its largest ever delegation to Washington, with 150 senior officials led by state councilor Dai Bingguo (in charge of foreign policy), vice premier Wang Qishan (who oversees the economy) and central bank chief, Zhou Xiaochuan.

While the US brought a high-powered US team to the talks, none of the Chinese delegates were members of the most powerful Chinese Communist Party (CCP) Politburo Standing Committee.

President Obama inaugurated the event, declaring the US-China relationship will "shape the 21st century". To try brush off suggestions that China will challenge the supremacy of the US, Obama declared: "Some in China think we will try to contain China's ambitions; some in America think there is something to fear in a rising China. I take a different view. I believe in a future... when our nations are partners out of necessity, but also out of opportunity."

Clinton and Geithner wrote a joint *Wa* piece in the *Journal*, declaring: "Simply put, few global problems can be solved by the US or China alone. And few can be solved without the US and China together. The strength of the global economy, the health of the global environment, the stability of fragile states and the solution to nonproliferation challenges turn in large measure on cooperation between the US and China."

Clinton visited China in February, urging Beijing to keep buying US government bonds, an unprecedented action by a US secretary of state. In June, Geithner was in Beijing to assure the Chinese leaders that the Obama White House would protect the massive Chinese bond holdings by implementing savage austerity measures in order to slash budget deficits.

In his first official statement in January, Geithner had threatened that the new administration would name China as a "currency manipulator" for allegedly undervaluing the yuan to boost its exports and thus deepen the huge US trade deficit with China. At the meeting this week, Geithner remained silent on the subject. In the words of US Chamber of Commerce senior vice president Myron Brilliant: "This not an issue that the administration is banging the table on."

For their part, Chinese officials remained silent on their previous calls for the US dollar to be displaced by a new global reserve currency. Chinese central bank head Zhou told reporters that at the meeting with Geithner there was no discussion about a new international reserve currency, while China's managed currency exchange was only "touched upon".

Nevertheless, vice premier Wang reiterated Beijing's position of asking the US to protect the value of dollar, amid fears that growing US deficits will undermine China's huge dollar-denominated assets. Two-thirds of China's more than \$2 trillion in foreign currency reserves are held in US dollars. Geithner responded: "As China will do, we in the United States will move to bring out fiscal deficits down over the medium term, and we will work to reverse the exceptional actions we had to take to stabilise the crisis."

The multi-trillion bailouts of Wall Street by the Bush and then the Obama administrations were aimed at transferring astronomical financial losses onto the back of the American working class, which means destroying essential social services like healthcare and education as well as a further contraction of real wages. This constitutes the essence of Geithner's pledge to Beijing to "bring down" the US deficits through austerity measures.

The declining consumption of American workers, however, will send not only China but other Asian economies into deep trouble.

Geithner called on China to shift toward more domestic-led growth for a “balanced and sustained global growth” while the US shifted from debt-driven consumption to increased savings rates. In the so-called economic rebalancing, the cutting of US consumption will come into sharp conflict with Beijing’s urgent need to expand production to create millions of jobs in order to quell discontent.

Referring to China’s own gigantic stimulus packages, Michael Pettis, a finance professor at Peking University, warned in the *Wall Street Journal*: “As China pours new loans into the system at a rate of more than a quarter of last year’s GDP in just six months, it creates short-term employment but increases additional excess capacity and degrades the government’s balance sheet... If rising savings in the US clash with the government-induced production hikes in China, both countries could be forced into mutually destructive policies. The consequences, especially for China, could be brutal.”

Knowing that the Beijing regime is sitting on a social time bomb, the Obama administration has been largely silent on China’s military-police repression of the unrest in Xinjiang Uighur region. As dozens of Uighur activists chanted slogans of “Shame on China” outside the White House, Chinese vice foreign minister Wang Guangya expressed “our appreciation for the moderate attitude of the United States” over the unrest in Xinjiang. He told reporters that Washington had “unequivocally said that this incident is entirely a domestic affair of China”.

Not only is American capitalism dependent on the brutal exploitation of the Chinese working class as cheap labour, the Obama administration is well aware that it is only a matter of time before large-scale social unrest also erupts in the US, as a result of the savage social attacks on the working class.

The US-China dialogue signified the historic decline of US capitalism. The meeting was designed to make some concessions to China in order to bring it within the umbrella of a US-dominated world order. Such a strategy was first proposed in Beijing in January by former US national security advisor Zbigniew Brzezinski, who played a key role in forming Obama’s foreign policy. Brzezinski delivered a speech as part of the official celebration of the 30th anniversary of US-China diplomatic ties. He was part of the US delegation that included key figures like former US President Jimmy Carter and former Secretary of State Henry Kissinger, who were received by Chinese President Hu Jintao and Chinese Premier Wen Jiabao.

Brzezinski’s speech was published in the *Financial Times* on January 13 under the headline: “The Group of Two that could change the world”. He noted that “a globally ascending China is a revisionist power in that it desires important changes in the international system but it seeks them in a patient, prudent and peaceful fashion.” Brzezinski called for a wider cooperation beyond the economic crisis, including Chinese participation in the US’s dealing with Iran, US-China consultation over India-Pakistan relations and a role for China in the Israel-Palestinian conflict and the Middle East in general. He postulated a partnership with China “paralleling our relations with Europe and Japan”.

However, the G2 concept has caused concerns in Europe and Japan that China will take a greater role in the world’s affairs at

their expense. In Obama’s speech for the US-China talks, he noticeably called the US-China relationship as “important as any bilateral relationship in the world”—a formulation calculated not to antagonise Japan—the key US ally in Asia since World War II.

Essentially, Brzezinski called for an accommodation with China in order to avoid a new world war: “In an era in which the risks of a massively destructive ‘clash of civilisations’ are rising, the deliberate promotion of a genuine conciliation of civilisations is urgently needed.”

However, the Washington gathering produced few substantive agreements. Far from suppressing the great-power tensions, the global financial crisis is exacerbating them. With less economic leverage over China than ever before, ultimately the only means by which US can assert hegemony is via its military superiority. That superiority is also coming into conflict with China’s own desire to become a major military power.

In March, the Obama administration sent a surveillance ship to the South China Sea to monitor Chinese submarines, leading to a confrontation with Chinese maritime patrol ships. Just days before that incident, a *Financial Times* editorial warned: “The biggest challenge the world confronts is coping with the rise of China. Relatively stable world orders do not easily adapt to the emergence of new powers. There are painful dislocations at best; catastrophic tragedies at worst. In so far as the current global financial and economic crisis partly originated in imbalances generated by China’s enormous trade surpluses—something Beijing disputes—the potential scale of such disruption is already clear. The same applies to China’s ambitions to project diplomatic and military power.”

Despite all the smiles and photo calls at the US-China “dialogue,” powerful economic contradictions are driving the two powers into potentially catastrophic conflicts.



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