

The US-China summit highlights sharp schisms

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Yesterday's meeting between US President Barack Obama and Chinese President Hu Jintao had all the trappings of a major summit. Along with the pomp and ceremony, the meeting produced an unusually lengthy joint statement, covering everything from cooperation in space and student exchange programs to combating global warming and various diseases, as well as key strategic and economic issues.

The *Financial Times* commented that it was the attempted launch of "a G2 global steering committee" except that the term "G2" was eschewed "for fear of offending other players". The US ambassador to China, Jon Huntsman, told the newspaper: "There are really only two countries in the world that can solve certain issues. So the meetings really have been aimed at co-ordinating like never before on the key global issues ... There wasn't a single issue that was left out."

In reality, the grand summit was mostly show and no substance. The formulations in the joint statement about the need for peace, economic cooperation and strategic trust were a rather threadbare attempt to paper over deepening tensions fuelled by the continuing global economic crisis. On the key issues of trade, monetary policy and the yuan-dollar exchange rate, as well as the war in Afghanistan and the US-led confrontation with Iran over its nuclear programs, there was no agreement.

At their joint press conference, Hu and Obama were often talking at cross purposes. Hu pointedly declared: "Our two countries need to oppose and reject protectionism in all its manifestations." China has been critical of recent protectionist measures imposed by Washington on Chinese imports, including tyres and steel pipes, and has instigated investigations that could pave the way for retaliation.

The US has denied that its actions are protectionist and has in turn been critical of China's continued pegging of the yuan against the US dollar, thus keeping Chinese exports to the US cheap. Speaking in Tokyo before arriving in China, Obama described the present global imbalances—including the huge US trade deficit with China—as unsustainable. At yesterday's

press conference, he declared: "I am pleased to note the Chinese commitment, made in past statements, to move to more market-orientated exchange rate over time." Neither Hu nor the joint statement made any reference to a revaluation of the yuan.

For its part, China is deeply concerned about the weakening US dollar, which is undermining the value of China's \$2.4 trillion in currency reserves, mainly in dollar assets. On the eve of Obama's visit, the country's top banking regulator Liu Mingkang criticised the weak dollar/low interest rate policy of the US Federal Reserve, warning that it was having a "massive impact on global asset prices" and creating new speculative bubbles and financial instability in Asia, including China. The Shanghai share market has risen nearly 80 percent this year, partly as a result of the US's loose monetary policy.

Behind these tensions are concerns on both sides over continuing economic fragility and the dangers of social unrest. Obama has promised to bring the \$1.4 trillion federal budget deficit under control, but the imposition of savage austerity measures will undermine the jobs and living standards not only of American workers, but also of their Chinese counterparts as the US demand for Chinese goods drops.

According to the Chinese Academy of Social Science, 41 million Chinese workers have already lost their jobs since the beginning of the financial crisis last year. US demands that China revalue the yuan and increase domestic consumption will only make Chinese exports less competitive and lead to further job losses. To compound the difficulties, Chinese businesses are facing rising American protectionism.

A comment in yesterday's *Financial Times* by Martin Wolf, entitled "Grim truths Obama should have told Hu," underlines the intractable dilemmas facing the leaders of the world's largest and third largest economies. In the course of Wolf's imaginary speech, Obama bluntly declares: "I am not going to put our economy into a depression, to protect the value of Chinese saving." He then accuses China of "beggar-thy-neighbour policies" for refusing to revalue the yuan and goes on to warn:

“What you may fail to understand is the speed with which democracies can shift their attitude from the open hand to the closed fist. If, over the next year or two, your current account surplus exploded upward, while our deficit did the same, it would be impossible for us to ignore.” The speech concluded by warning of punitive trade measures of the type used by President Richard Nixon in 1971 to force revaluations by Germany and Japan.

While the speech is made up by Martin Wolf, it highlights the conflicts that can rapidly erupt into the kind of currency and trade wars that emerged in the 1930s. Behind these frictions lies the relative economic decline of the United States, which is desperately seeking to maintain its position of economic dominance against China’s rising power. The financial upheavals over the past year have not lessened, but accentuated the divide.

The US decline was underscored during Obama’s visit on Monday to Shanghai—the home of a large number of American corporations. Shanghai Communist Party secretary Yu Zhengsheng told Obama that US corporations, especially GM, were doing well. Impressed by what he saw, Obama called on US corporations to emulate GM’s “success” in China back home. That, of course, only has one meaning for American workers—a dramatically lowering of wages and conditions in line with China’s cheap labour benchmark.

The contrast of GM’s economic fortunes in China and the US points to the changing economic weight of the two economies. According to the *Wall Street Journal*, China now accounts for 25 percent of GM’s global sales—up from 10 percent just a year ago. GM expects to sell two million vehicles in China this year—as many as in the US. In the US, GM had to be bailed out to the tune of \$50 billion by the Obama administration. In China, this symbol of American capitalism is forging ahead with the assistance of local partners like Wulings, which account for two-third of GM’s sales.

Economic rivalry flows over into strategic competition and conflict. The Hu-Obama joint statement declared on the one hand: “The United States reiterated that it welcomes a strong and prosperous and successful China that plays a greater role in world affairs.” Then, on the other, it added: “China welcomes the United States as an Asia-Pacific nation that contributes to peace, stability and prosperity in the region.”

Nothing could be further from the truth. Like the previous Bush administration, Obama is engaged in an effort to encircle China through a series of strategic alliances and military agreements, stretching from North East Asia right around to South and Central Asia. Well aware of Washington’s

intentions, Beijing is seeking to forge its own alliances throughout Asia and globally, using its growing economic muscle in the form of aid and investment.

The US only welcomes a greater role for China if it is on Washington’s terms. In the lead up to his visit to China, Obama indicated that he would be seeking Beijing’s assistance in several key areas, including the expanding US-led war in Afghanistan and the continuing confrontation with Iran over its nuclear programs. Both these moves threaten to undermine vital Chinese interests—in the first case, in energy-rich Central Asia, and, in the second, in Iran, where China has energy contracts and investments.

No agreement was reached on either of these issues. Afghanistan was barely mentioned even though, according to the *Financial Times*, Obama had been seeking Chinese assistance, including possibly the deployment of Chinese police to help train Afghan security forces. While the joint statement did call for “a comprehensive and long-term solution to the Iranian issue through negotiation,” it failed to hint at any punitive measures, for which the US is pushing and China has opposed. In his comments at the press conference, Obama warned of “consequences” if Iran did not accept US demands, while Hu simply ignored the issue.

In the coming days, every effort will no doubt be made by both sides to publicly present Obama’s tour as a success. Behind the scenes, however, economic and military strategists in Beijing and Washington will be preparing for intensifying global rivalry for influence, profits and geo-political advantage between the two powers.



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