

Obama's China trip

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20 November 2009

At the beginning of his eight-day tour of Asia, President Obama declared himself the “first Pacific president” and announced that his trip would reassert American leadership in the region. For US imperialism, maintaining its dominant position in a part of the globe that accounts for half of world gross domestic product is a life-and-death question.

In the event, the trip, most importantly Obama's three-day visit to China, only highlighted the pronounced decline in the world position of the United States and the fact that leaders in Asia and elsewhere are increasingly cognizant of this momentous fact. The shifting tectonics of world relations, accelerated by a global economic crisis that erupted in the US, have imparted to world affairs a degree of instability and tension without precedent since World War II.

Beneath the diplomatic niceties of presidential summitry in Japan, Singapore and China, the growth of conflicts over trade, currencies and economic influence made themselves felt, at times in unusually blunt ways.

America has emerged from the first stages of the current economic crisis further weakened in relation to its emerging challengers, most notably China. This is most poignantly symbolized by the fact that Washington's chief economic lever for asserting its interests is the threat to its rivals posed by its policy of allowing the dollar to slide. By thereby cheapening its exports and making the imports of competing nations more expensive, and threatening the vast dollar holdings of China, Japan and India, the US is attempting to leverage its long-term decline into a means of offloading its crisis onto other economies.

In so doing, it is only further undermining world confidence in the dollar and in American capitalism itself.

Among the raft of commentaries on the starkly changed position of the US vis-a-vis China was a November 15 article in the *New York Times* that began: “When President Obama visits China for the first time on Sunday, he will, in many ways, be assuming the role of profligate spender coming to pay his respects to his banker.

“That stark fact—China is the largest foreign lender to the United States—has changed the core of the relationship between the United States and the only country with a

reasonable chance of challenging its status as the world's sole superpower.”

Another variation on the same theme was an editorial in the November 14 *Financial Times* that began: “When Mr. Obama visits Asia, he does so as the head of state of a battered superpower. No better symptom of US frailty can be found than the dollar—the currency in which Asians have invested so much of their people's hard-earned wealth. But Mr. Obama can only grin and ask his hosts to bear it.”

The *Wall Street Journal* placed greater emphasis on the provocative and aggressive nature of US monetary policy, noting that “the Obama administration seems to be trotting out an updated if more subtle version of Nixon-era Treasury Secretary John Connally's famous quip that the dollar may be ‘our currency’ but it's ‘your problem.’”

Indeed, the change since Nixon became the first US president to visit China is instructive. In 1972, the US, although already in decline, was still the world's dominant industrial power and biggest creditor.

Even more notable is the change since President Clinton held court in Beijing just eleven years ago. Already by then the world's biggest debtor nation, the United States, as the *Washington Post* put it on November 18, “was still basking in its position as the Cold War victor and the world's sole superpower.” China was then “the seventh-biggest holder of US Treasury securities. Today, China is the nation's biggest creditor and its trade with the United States has grown sevenfold.”

This time around, Obama's mission was to convince nations in East and Southeast Asia that they could rely on the US as a counterweight to the growing economic, political and potential military power of China, which next year will become the second largest economy after the US, surpassing Japan.

At the Asia-Pacific Economic Cooperation summit and the Association of Southeast Asian Nations meeting in Singapore, Obama sought to prevent the US from being frozen out of an emerging Asian trade bloc over which China is poised to exert the dominant influence.

He sought to channel the anger among Asian nations over the negative trade impact of the falling dollar and the

growing danger of asset bubbles fueled by near-zero US interest rates, and the Federal Reserve's policy of printing dollars in prodigious quantities, by diverting it away from the US and directing it toward China. The latter has gained a trade advantage against its neighbors by keeping its currency, the yuan, pegged to the dollar, thereby allowing it to fall in tandem with the greenback.

But it was the US which came in for public denunciations of protectionism, including from Mexico. China succeeded in blocking a US-backed resolution on allowing currencies to move in accord with market forces.

Obama's plan to put the onus for "rebalancing" the global economy on China by insisting that it revalue its currency was thwarted by preemptive thrusts from Chinese officials, who denounced US monetary policy as a threat to any global economic recovery and attacked the US for protectionism. They were able to point to growing concerns in the region over the inflationary threat from cheap US dollars and Washington's recent imposition of import duties on Chinese tire and steel pipe exports to the US.

For China's ruling elite, which presides shakily over a huge, restless and mostly impoverished population, acceding to Washington's demands would be tantamount to political suicide. Over the past year, despite its nominally healthy economic growth rate, China's exports have declined 20 percent and some 40 million workers have lost their jobs. The social implications of a further decline in exports that would accompany a major revaluation of the yuan are explosive in a still backward country riddled with ethnic, demographic and class tensions.

The realities of financial dependency compelled Obama to proceed with the utmost caution in his public remonstrations with the Chinese over their monetary policy and other issues. The joint appearance of Obama and Chinese President Hu Jintao following private talks was a frosty affair. Hu refused to bow to Obama's pressure for agreement on tougher sanctions against Iran and said nothing about the yuan, lecturing the US president instead on the evils of protectionism.

Obama made great play of welcoming China's rise and endorsing its status as a major actor in world affairs. He sought to reassure America's biggest creditor—which holds some \$800 billion in US Treasury notes—that he was serious about reining in soaring US deficits and imposing fiscal discipline on the backs of the American people.

But the real frame of mind within the US establishment and that of its closest Western allies was expressed by media commentators, who felt less inhibited. Particularly venomous were the rants of liberals who pride themselves on their free trade credentials.

In the run-up to Obama's Asian trip, *New York*

Times columnist and Nobel Prize-winning economist Paul Krugman vented (October 23) against China's "outrageous currency policy," concluding that "beggar-thy-neighbor policies by major players can't be tolerated. Something must be done about China's currency."

While Obama was in China, Krugman returned to this theme (November 16), warning of "a potentially ugly confrontation looming unless China mends its ways," and urging Obama to tell the Chinese "that they're playing a dangerous game."

Martin Wolf of the *Financial Times* in a November 18 column suggested the following script for Obama in his discussions with the Chinese leadership: "What you may fail to understand is the speed with which democracies can shift their attitude from the open hand to the clenched fist."

Ambrose Evans-Pritchard, writing in the *British Telegraph*, was even more explicit. "It is fashionable," he wrote, "to talk of America as the supplicant. That misreads the strategic balance. Washington can bring China to its knees at any time by shutting market. There is no symmetry here. Any move by Beijing to liquidate its holdings of US Treasuries could be neutralized—in extremis—by capital controls. Well-armed sovereign states can do whatever they want."

Such ravings must be taken seriously, not on their own merits, but as reflections of the explosive and violent tensions building up between major powers engaged in a struggle to redivide a world thrown into flux by the breakdown of an old world order based on American hegemony. They strongly indicate that there is no peaceful transition to a "multipolar" carve-up of the world capitalist system.

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