

US confronts China over trade, investment in Beijing talks

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Just days after trading verbal blows at regional security talks in Singapore, top US and Chinese officials are facing off at their annual strategic and economic dialogue in Beijing. The meeting began yesterday, with confrontations over a range of trade and investment issues as well as rising tensions in the South China Sea.

US Treasury Secretary Jacob Lew set the tone with imperious demands that China slash overcapacity. “Excess capacity has a distorting and damaging effect on global markets,” he declared. He called on China to “substantially reduce production in a range of sectors suffering from overcapacity, including steel and aluminium.”

Amid continuing global stagnation, the US is seeking to shift the burden of the economic crisis onto China and is threatening protectionist measures. Already, the US placed a tariff of 266 percent on some Chinese steelmakers in March, accusing them of selling below cost. Last month, the US Commerce Department announced separate tariffs of 450 percent and 522 percent on various Chinese steel imports.

Chinese Finance Minister Lou Jiwei defended his government’s policies, declaring that China’s industrial overcapacity had been “the subject of much hype around the world.” He said China had already cut 100 million tonnes of iron and steel production last year and intended to do more.

Lou said China had been applauded internationally for its massive infrastructure stimulus package during the 2008–09 global financial crisis, pointing out that in the subsequent three years China accounted for more than half of world growth. “Now you are pointing fingers at China’s overcapacity issue. What were you saying back then?” he asked.

China currently produces more than half the world’s

steel. Its exports last year alone were larger than the output of any other steel-producing country. Facing growing threats of trade retaliation, the Chinese government announced plans in March to slash capacity in the coal and steel industries, axing 1.8 million jobs—1.3 million coal miners and 500,000 steel workers.

The Obama administration, backed to the hilt by the American trade unions, is now pressing the Chinese government to make even deeper cutbacks, under conditions where Beijing fears social unrest will be generated by rising unemployment. China’s growth rate has fallen sharply already, from over 10 percent in 2010 to less than 7 percent.

Lew also demanded the reduction or elimination of regulatory barriers to US corporations. “Candidly, foreign businesses wonder if they are welcome, and find China’s regulatory environment harder and harder to navigate,” he said. Ahead of the talks, the American Chamber of Commerce claimed that 77 percent of its members now felt less welcome, particularly as a result of “unclear laws and inconsistent interpretation.”

Washington is pushing Beijing hard to revise its “negative list”—that is, the list of Chinese economic sectors closed to American investors. The previous list contained more than 40 sectors. US negotiators are insisting on a significant reduction as part of a Bilateral Investment Treaty that has been under negotiation since 2008. Chinese Vice-Premier Wang Yang indicated that Beijing would submit a new “negative list” next week.

The growing intractability of US-Chinese relations was reflected in the remarks of Chinese President Xi Jinping, warning of the limits to diplomacy. “Some differences can be solved through hard work,” he told the bilateral meeting. “Some differences cannot be solved at the moment.”

Xi was not simply alluding to the fact that Obama's second term is drawing to a close, and the dialogue in Beijing will be the last under the Obama administration.

Rather, Washington's trade war agenda goes hand-in-hand with its military build-up throughout the Asia Pacific and preparations for war against China. Obama's "pivot to Asia," which is aimed at the subordination of China to American economic and strategic interests, has dramatically increased tensions in Asia over the past six years.

Nowhere is this more so than in the South China Sea, where the US has deliberately inflamed long-simmering territorial disputes as a means of driving a wedge between China and its neighbours, particularly the Philippines and Vietnam.

A ruling is due this month in a US-backed legal case brought by the Philippines in the International Court of Arbitration in The Hague to challenge China's maritime claims. The court ruling is threatening a further escalation of the disputes, heightening the risk of an incident that could precipitate a conflict. China has refused to accept the court's jurisdiction.

Speaking yesterday in Beijing, US Secretary of State John Kerry declared the US wanted "a peaceful resolution to the dispute in the South China Sea and opposed any country resolving claims through unilateral actions." The remarks are entirely hypocritical, given Washington's unilateral actions in directly challenging China's territorial claims by provocatively sending US warships on three occasions within the 12-nautical-mile territorial limit around Chinese-occupied islands.

Treasury Secretary Lew's trade war demands yesterday were matched by US Defence Secretary Ashton Carter over the weekend at the Shangri-La Dialogue in Singapore. Carter declared there was growing regional anxiety "about China's activities on the seas, in cyberspace, and in the region's airspace" and warned that China "could end up erecting a Great Wall of self-isolation."

Carter backed the warning with a thinly-veiled threat of military action. He boasted that the US had its most advanced weaponry in the Asia-Pacific and it would take decades for "anyone to build the kind of military capability the United States possesses." Chinese Admiral Sun Jianguo retorted: "We were not isolated in

the past, we are not isolated now, we will not be isolated in the future."

The battle lines are being drawn on both the economic and military fronts. Unable to simply dictate terms economically due to its long-term decline, the US is reliant on its military might to try to get its way. This only heightens the danger that a minor incident in the South China Sea or another regional flashpoint will precipitate a conflict that spirals out of control.



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