

US State Department accuses China of “economic blackmail”

Mike Head
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The virulent US-driven campaign in the Australian corporate media against China rose another notch this week. Fairfax Media’s *Australian Financial Review* (AFR) ran a front-page lead on Monday, followed by an editorial on Tuesday, citing an unpublished US State Department report that accuses Beijing of using a combination of loans and economic coercion to take control of the Indo-Pacific region.

The 40-page document reportedly warns that “Chinese loans worth hundreds of billions of dollars are saddling Australia’s smaller regional neighbours with unsustainable debts and giving Beijing crucial economic leverage to gain strategic and military power.”

These charges follow a succession of similar warnings by Washington think tanks and visiting US representatives over the past several years—most recently the defeated Democratic Party president candidate Hillary Clinton.

The anti-China offensive has three purposes. The first is to condition public opinion in Australia and throughout the region in preparation for trade war and war against China. The second is to beat down those within Australian corporate circles who seek to avert or stall a confrontation with Beijing because of the massive profit interests at stake in China, the country’s largest export market. The third is to ratchet up the pressure from the US, on which Australian capitalism depends for foreign investment and military backing, for much more aggressive participation by Australian governments in military and economic operations against purported Chinese influence.

The provocative report alleges that 16 states are vulnerable to Chinese “debtbook diplomacy” and economic blackmail, including Papua New Guinea, Vanuatu, the Philippines, Cambodia, Laos, Thailand, Malaysia, Sri Lanka, Tonga and Micronesia.

The AFR asserted: “The unclassified document, dated 27 March 2018, emerged out of an earlier classified version written confidentially last year for United States Pacific Command (PACOM).” This points to definite military, as well as economic, calculations being made in Washington.

The document says Chinese lending is “likely to play an

important role in China’s multifaceted campaign to erode strategic advantages” of America and its allies, and displace the US as the regional hegemon.

This US hegemony was achieved by defeating Japan in World War II, then conducting a series of wars and coups, from Korea and Vietnam to the Philippines and Indonesia, at the cost of millions of lives, to assert total dominance over the region.

While railing against China’s alleged muscle-flexing, the document bemoans the loss of control over the region by the US and its imperialist allies, such as Britain, France, Australia and New Zealand. It quotes former Australian Labor Foreign Minister Gareth Evans who recently characterised Laos and Cambodia—former French colonies that were devastated by the US during the Vietnam War—as “wholly owned subsidiaries of China.”

Reportedly, there is alarm in the US that Papua New Guinea, which has “historically been in Australia’s orbit” has been “rapidly taking on Chinese loans.” PNG, the State Department reportedly claims, “can’t afford to pay and offers a strategic location [for China] in addition to significant LNG [liquefied natural gas] and resource deposits.” Papua New Guinea was an Australian colony until 1975 and is dominated by US and Australian companies and aid programs.

The report warns that Vanuatu is already “deeply in debt” to China and Beijing is “positioning itself to capitalise on the impending fiscal distress of Pacific Island countries.”

The US State Department openly states that US and allied dominance is essential to waging a war against China. It declares that if Pacific countries turn to Beijing, it could undermine US basing rights, “eroding US advantage in any future US-China conflict.”

The report recommends revitalising the Quadrilateral Dialogue between Australia, India, Japan and the US, directed against China, to bolster India’s role as a regional leader and to promote the “rules-based order” in the Indo Pacific—that is, continued US dominance.

The document accuses Filipino President Rodrigo Duterte

of backing down on the Philippines' territorial claims to the Scarborough Shoals in the South China Sea after China stopped buying large quantities of tropical fruit from the Philippines.

While accusing Beijing of coercing governments, the report highlights two countries where the US has intervened to help oust governments that it deemed to be moving too close to China.

The document notes that Sri Lanka, under President Mahinda Rajapakse, borrowed \$US8 billion from Chinese-controlled firms for projects such as an airport and port upgrade in Rajapakse's hometown of Hambantota. The port became a "debt trap," the report says. The Sri Lankan government could not afford to repay the ballooning debt and last year gave China a 99-year lease to the port, strategically located in the Indian Ocean.

In the January 2015 presidential election, the US backed Rajapakse's defeat and his replacement by Maithripala Sirisena, whose administration shifted the country's foreign policy away from China and toward the US and India. However, the government remained so debt-ridden that it retreated from its initial suspensions of Chinese programs and agreed to a modified lease of the port.

Likewise, the report says Beijing invested heavily in projects for Malaysia's then-Prime Minister Najib Razak, who was under US Justice Department investigation for corruption. It indicts Najib for going "largely silent" on China's claims to most of Malaysia's South China Sea economic zone. Corruption allegations against Najib helped create the conditions for the historic election loss of his UMNO government last week.

Washington is sending a blunt message to Canberra. Yesterday's *Australian Financial Review* editorial declared the report was a "warning bell." It insisted that a "failure of diplomacy" by Australia and New Zealand had permitted China to make "steady inroads" that marked a fundamental "geopolitical shift in our region."

This agitation is escalating a two-year media campaign to whip up anti-Chinese sentiment. Already, extraordinary claims are being made by the Australian establishment that "Chinese interference" in every aspect of political, economic and social life is bound up with plans to take over the country.

Prime Minister Malcolm Turnbull's government has responded with accusations that China is financing "white elephant" infrastructure projects in South Pacific states to gain influence. Australia demanded assurances from Vanuatu that it would never allow a rumoured Chinese military base; insisted it will build an underwater Internet cable to PNG and Solomon Islands in order to block a rival bid by Chinese telecommunications firm Huawei; and has

moved to tighten ties with Fiji where China has also made significant investments.

Pressure from the US intelligence, military and political establishment is ongoing however. During Hillary Clinton's tour of New Zealand and Australia last week, she insisted that both countries must "stand up" to "Chinese interference." Former US ambassador to Australia John Berry also told an audience of Australian military chiefs and diplomats that Chinese President Xi Jinping had "lied" about not militarising islands in the South China Sea.

Addressing war veterans in the audience, Berry said it was essential "that America and Australia both refresh and defend the rules-based order ... being on guard for authoritarian termites undermining the foundations of these institutions."

In part, such declarations are aimed at silencing the wing of the Australian corporate elite who are voicing concerns about the potential implications of the anti-China hysteria for their access to Chinese labour, markets and profits.

Yesterday's *Australian Financial Review* carried an opinion column by Geoff Raby, a former Australian ambassador to China who heads a Beijing-based business advisory firm that boasts of "helping Australian and Chinese businesses run successful operations across cultures and borders."

Raby called for Foreign Minister Julie Bishop to be sacked for making "strident public comments" against China and pursuing a policy of "strategic mistrust" that has triggered an apparent freeze on Australian ministerial visits to China.

Despite these alarmed misgivings, the Australian government is ramping up Canberra's commitment to US war preparations amid rising tensions between Washington and Beijing, which are being intensified by the Trump administration's trade war measures against China.



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