

Yellen offers no concessions in economic push against China

Nick Beams**10 July 2023**

The visit by US Treasury Secretary Janet Yellen to Beijing over the weekend, while producing no concrete measures, has been presented as at least a step forward in easing the tensions between the world's major economic powers that together account for around 40 percent of global production.

The Treasury Department described the meeting with Chinese Premier Li Qiang and other Chinese officials as productive. Yellen claimed the US was not engaged in a “winner take all” conflict with China and wanted to engage in economic competition that would benefit both nations over time.

Such assertions, however, are a cover for what are essentially tactical manoeuvres involving several components.

The US wants to be seen as at least easing its confrontation with China, which began under Obama and escalated under Trump and Biden, while it steps up the Ukraine war directed against Russia. The strategic planning in US military and national security circles is first the weakening of Russia, if not its breakup, while the military encirclement of China is increased along with the imposition of bans on its acquisition of vital technology.

Another component is to offer reassurances to countries, highly dependent economically on China, that the US is not about to immediately sever economic relations as it prepares for war.

As a report in Bloomberg noted: “Yellen’s message may ease concerns among US allies that Washington has embarked on a path dedicated to fragmenting the global economy between an American and Chinese bloc.”

The US is also trying to prevent Chinese retaliation in the form of bans on exports of vital minerals and manufactured components for US industry before alternative sources of supply are put in place.

That issue has come into prominence in recent days with the decision by China in the lead-up to Yellen’s visit

to impose restrictions on the export of two critical metals—gallium and germanium—which are vital for many high-tech applications. The restrictions came with a warning from former vice-minister of commerce Wei Jianguo that the bans could be the beginning of Chinese countermeasures in response to US actions.

These issues were the subject of various comments by Yellen on the content of her talks. One of her central aims was to promote the fiction that the widespread technology bans are only related to possible military uses and not aimed at crippling Chinese economic advances in high-tech.

Anxious not to provoke further retaliation from China, she said: “The United States will take targeted action to protect our national security. While we may disagree on these actions, we should not allow that disagreement to lead to misunderstandings, particularly those stemming from a lack of communication, which can unnecessarily worsen our bilateral economic and financial relationship.”

The latter point refers to the critical role played by Chinese investment in US Treasury debt amounting to some \$868 billion, which, if withdrawn or significantly reduced, could set off a crisis in precarious US financial markets.

The Biden administration has been actively pushing for US firms to lessen their dependence on China—a policy for which Yellen has been one of the foremost advocates.

But in her remarks in Beijing, she emphasised the new term, derisking, that has been brought forward to try to disguise this objective.

“We seek to diversify, not to decouple,” she said on Friday. Expanding on her initial remarks the following day she said: “I’ve heard my Chinese counterparts express scepticism about decoupling—and have expressed some concern that derisking amounts to decoupling. And I felt that it was important for me to address this issue.”

She claimed that “derisking” involves attention to

clearly articulated and narrowly targeted national-security concerns, as well as broader concern with diversifying out supply chains which applied to only a “few important sectors.”

However, given that high-tech development in any area has potential military applications, so-called national security bans have a wide coverage. Moreover, the US has applied pressure to others, including the Netherlands and Japan, to take part in its restriction on key high-tech exports to China.

The real motivations have already been exposed by the technology bans imposed on the Chinese communications giant, Huawei, which was a leader in many fields, until US bans severely impacted its global operations.

A comment in the state-run news agency Xinhua last Friday said derisking “would not fool the Chinese side to believe the United States has given up its efforts to contain China.”

There seems to be something of a divergence in the reaction of Chinese government officials to the Yellen visit.

According to a Chinese readout of a meeting between Secretary of State Antony Blinken and Chinese Foreign Minister Wang Yi in June, China blamed the US for the increase in tensions.

“Wang demanded that the United States stop playing up the so-called ‘China threat’ and lift illegal unilateral sanctions against China, stop suppressing China’s scientific and technological advances, and not wantonly interfere in China’s internal affairs,” it said.

But a different tone was struck by Premier Li Qiang after meeting Yellen.

“It’s not all wind and rain,” he said. “After the wind and rain, once that passes, we’ll definitely see more rainbows.”

If Li actually believes that then he is deluding himself.

The more likely explanation is that he is trying to delude others by obscuring the serious impact the US bans are having on the Chinese economy. China’s much anticipated “recovery” after the lifting of all anti-COVID measures has not materialised as key indices turn down and youth unemployment continues to rise.

Yellen made no concessions during her visit, not even a movement on the tariffs imposed on Chinese exports to the US by Trump which have no relation to so-called “national security.”

On the national security question, she only offered an extremely vague commitment to flexibility saying that in some cases the US could be willing to “respond to

unintended consequences of our actions if they’re not carefully targeted.”

No mechanism has been indicated about how this might take place.

On the issue of Ukraine, which forms such a key component of the US tactical manoeuvres with regard to China, Yellen said she had raised “the importance of ending Russia’s brutal and illegal war against Ukraine,” coupling her remarks with a thinly veiled threat.

“I communicated that it is essential that Chinese firms avoid providing Russia with material support or assistance with sanctions evasion,” she said. The implication was that the US could impose sanctions against them if they do not comply with its demands.

The overall aggressive approach, which she sought to disguise with talk of discussion and dialogue and a healthy economic relationship, was revealed in comments to executives of US businesses in China. She told them she was conveying their concerns to Chinese leaders over government subsidies for state-owned enterprises among other market access issues.

The US has long maintained that it has a right to intervene in the running of the Chinese economy because such subsidies contravene its so-called rules-based international order.

At the same time, it is providing major subsidies to US firms, under the Inflation Reduction Act, to induce a movement back to the US for the production of major commodities, part of the drive to decouple from China, drawing opposition from both the European Union and South Korea as constituting a breach of free trade rules.



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