United States at cross-purposes in its policy toward China

by Michael O. Billington

The Clinton administration is pursuing two separate economic policy tracks in its discussions with China which are potentially in direct conflict. One track, authored by the International Monetary Fund (IMF) and the Trilateral Commission, the Anglo-American banking establishment's policy association, insists that China be subjected to radical free-trade "shock therapy," using Beijing's re-entry into the General Agreement on Tariffs and Trade (GATT) as a lever (see *EIR,* Aug. 19, 1994, "Trilateral Commission Targets China").

At the same time, however, President Clinton has taken steps to redirect American investment in China into major infrastructure projects and heavy industry, in keeping with the recent Sino-German agreements reached by Prime Minister Li Peng and Chancellor Helmut Kohl in July. To this end, Clinton is sending Commerce Secretary Ron Brown to Beijing on Aug. 27. Brown will be the first cabinet member to visit China since Clinton extended Most Favored Nation (MFN) status to China, and comes as a personal presidential representative, flying on the President's jet with 25 CEOs of American industry.

Secretary Brown's mission to China, an administration source said on Aug. 15, seeks to steer U.S. companies away from the cheap-labor process industries of the coastal free-trade Special Economic Zones (SEZ), low-technology plants which "just use China for sourcing," i.e., use cheap Chinese labor and raw materials. The SEZs export what they make, dumping much of it onto the U.S. market, putting downward pressure on American wages and adding to the U.S. trade deficit with China.

Instead, the source said, members of the Brown delegation are "principally U.S. exporters of all kinds, including of high technology, who produce things like heavy capital goods *in the United States*—which creates jobs here—which we want the Chinese to buy."

Some close to Clinton, he said, are aware that using China as a cheap-labor pool harms China and America, and argue that the United States should change regulations to allow export of peaceful nuclear power to build China up—or else "the French and Germans will." U.S. exporters are very interested in building high-speed rail in China, for example, he said. "With the fading of COCOM and other prohibitions against technology, we're looking to develop new guidelines on what China wants to buy. We haven't opened the sluice gates, but there is an effort to treat China as a very serious market for U.S. goods, emphatically including technology and capital goods."

Kantor's Trilateral approach

U.S. Trade Representative Mickey Kantor put forward the Trilateral Commission's policy track for China through Deputy U.S. Trade Representative Charlene Barshefsky, who visited Beijing in late July, just before the GATT "Working Party on China" meeting which began on July 29. Barshefsky reiterated a U.S. policy first announced at the previous GATT "Working Party on China" meeting in June, at which the United States suddenly insisted that China enter GATT as a developed, rather than as a developing, nation.

The distinction is key. GATT regulations allow developing nations to set a schedule over several years to phase out various protective measures. Even such delayed actions, it must be noted, have destroyed the economies of several nations, such as Mexico's, by slow strangulation rather than decapitation. But slow strangulation is apparently inadequate these days for the western bankers, who are aware of the impending crash of the derivatives-led financial bubble in the western banking system and are demanding their right to loot.

The justification used by Barshefsky and the U.S. GATT negotiators for labeling China "developed" is twofold. "China is an export powerhouse. It surely is not a developing country across the board," Barshefsky told the press. China's foreign trade turnover is $200 billion per year, making it 11th in the world. But, as the Beijing-linked publication *Zhongguo Tongxun She,* based in Hongkong, wrote on July 29, "International organizations always use a country's per-capita GNP, and never an absolute figure in a single economic sector, to measure a nation's economy." Besides this fact, it is self-evident that nearly the entirety of China's exports is composed of textiles, toys, and similar cheap-labor products—hardly a measure of a developed nation.

The more devious means used to demand that China be treated as a developed nation is the IMF's new method of accounting, adopted in the spring of 1993, called Purchasing Power Parity (PPP). By insisting that goods and services be valued at world prices, regardless of the primitive state of living and production for the vast majority of China's peasants, and regardless of the 150-200 million unemployed peasants recycled through the SEZ sweatshops, the IMF simply declared China's economy to be three times bigger. Overnight, China became the third largest economy in the world, rather than the tenth.

This statistical fraud was the core of the May 1994 Trilateral Commission report, "An Emerging China in a World of Interdependence," which argued that China must therefore submit to all GATT requirements for advanced sector nations. As the same *Zhongguo Tongxun She* article accurately reports, "China would be subject to the international balance of payment clauses; abolish all non-tariff measures, including such protective measures as import inspection and the import permit and quota systems; and open its banking and insurance, air and sea transportation, port and telecommunications sectors, and its agricultural product markets. This was an attempt to make China sacrifice its national industry in return for a favorable vote by the United States."

Take it or leave it

Although the Chinese government still clings to the illusion that GATT and the World Trade Organization (which is to be created next year) are beneficial organizations which China should join, Chinese officials are adamantly refusing the shock therapy demands of the Trilateral Commission and its supporters in Washington. "China will not restore its GATT signatory status at any cost, and will not trade off the state's fundamental interests for the sake of reentry. China hopes that the United States will adopt a realistic attitude," Wu Yi, P.R.C. minister of foreign trade and economic cooperation, told U.S. Undersecretary of Commerce Jeffrey Garten on July 19.

Li Zhongzhou, the director general for international relations under Minister Wu, told the press that the package proposal which China would present at the July 29 GATT meeting was a final proposal, and that "GATT can take it or leave it." If GATT refuses, he said, "we would continue our economic reforms according to our own schedule and interest." Minister Wu also told Garten that if China's entry to GATT was blocked at this last minute, "its efforts over the last eight years will be totally wasted and all the commitments made by it will become invalid."

Another track—real development?

Garten was not unreceptive to the warning. Unlike Barshefsky, he was in China to prepare the Aug. 27 presidential visit by Secretary of Commerce Brown, not to threaten Beijing with IMF conditionalities. Garten's talks with Minister Wu focused on the potential for U.S.-China contracts of some $6 billion, mostly in power generation, telecommunications, and transportation, which would boost U.S. exports by $2-3 billion, Agence France Presse reported on July 20. Brown will likely announce resumption of U.S. government insurance and credits to U.S. exporters to China under the Overseas Private Investment Corp. (OPIC) and Trade Development Agency, programs suspended after the carnage in Tiananmen Square in 1989.

The United States has to be more cooperative in "China's competitive battleground," Garten told AFP. "I don't think American firms have faced this level of competition anywhere else, in terms of technology and backing by many governments in the form of multimillion-dollar 'umbrella' export financing packages."

Beijing, for its part, has announced several new policies in the past month which indicate a desire to change the direction of reform away from cheap-labor export zones, toward serious programs to rebuild stagnant or collapsing national industry and infrastructure in the interior. Premier Li Peng, returning from his trip to Germany with agreements for extensive infrastructural development and scientific collaboration, said that Sino-German relations were "a great framework for China's policy toward western Europe and the eastern European countries for the 21st century."

The official *China Daily* of July 28 began its lead story: "China intends to shape new policies this year to steer foreign investment away from speculative areas like real estate and into infrastructure and technology-intensive sectors." The Ministry of Foreign Trade and Economic Cooperation is preparing a new "interim national investment guide," and also announced restrictions against "participation of foreign capital in trades in which domestic productive forces had satisfied domestic needs." It is precisely such protective measures which the IMF/GATT negotiators want to eliminate.

President Clinton's deployment of Commerce Secretary Brown, however, should support the Beijing shift toward productive investment. The announcement of the Brown mission followed close after the dramatic shift in U.S. policy announced in July by Clinton while visiting Germany. The President announced a "unique relationship" between the United States and Germany and opened the door to infrastructure development programs in both eastern and western Europe, centered on high-speed rail connections across the continent. Chancellor Kohl had just concluded successful negotiations with Premier Li Peng on Germany's participation in proposed infrastructure development in China, including rebuilding and expanding cross-continental rail lines along the old Silk Routes.

It is precisely this potential for U.S. and German industrial collaboration in the development of, especially, Russia and China, which the British banking interests are desperate to prevent. If President Clinton pursues such a transcontinental development strategy, he can at the same time counter the IMF/Trilateral Commission influence within his own administration which wants to impose shock therapy looting policies on China similar to those which have already destroyed the economies of Russia and eastern Europe. Getting rid of such Bush policies would be as welcome as it is necessary.