

China refuses to capitulate to GATT; Kantor threatens trade war

by Michael O. Billington

The negotiations for the reentry of China into the General Agreement on Tariffs and Trade (GATT) broke down in December, thwarting China's strongly expressed desire to be a founding member of the World Trade Organization (WTO), which took the place of the GATT accords on Jan. 1. Although the world press reported the breakdown as a defeat for China, it was in fact a significant victory for Beijing on at least two counts.

First, China stood firm in the face of the International Monetary Fund (IMF)-GATT thugs who had orchestrated a global assault against China over the past year, aimed at forcing Beijing to open up the Chinese economy to the ravages of the London and Wall Street financial institutions as a "condition" of GATT membership. One faction within the Clinton administration, centered around Trade Representative Mickey Kantor, worked in tandem with the GATT free-trade warriors, in obvious cross-purposes to the President's infrastructure development plans for China. Kantor's representatives broke off talks on bilateral trade issues with the Chinese at the same time that the GATT talks collapsed, and Kantor is now threatening to launch trade war against China in retaliation for its refusal to capitulate to his demands. He expects to get full support from the yahoo Newt Gingrich wing of the new Republican majority in Congress.

In addition to the wisdom of rejecting the "shock therapy" approach demanded by the IMF and GATT, there is a second reason that the breakdown in the talks must be seen as a victory for China. The resulting pause in negotiations on how far China will go in cutting tariffs, opening domestic markets, accepting foreign financial institutions and practices, and so forth, may provide Beijing with the breathing space needed to realize that the entire GATT-IMF structure is in the process of terminal collapse. "Success" in joining GATT would be like successfully injecting oneself with the AIDS virus. The same message holds true for Taiwan as well, whose government is busily overturning every crucial policy which helped build their economy into one of the strongest in the world—all as "conditions" for acceptance into GATT along with (or ahead of) the mainland. The current explosion of a financial crisis in Mexico should be a warning that the free-trade mania, be it GATT, the North

American Free Trade Agreement, or the Asia Pacific Economic Cooperation forum, is merely aggravating the crisis caused by collapsing real production and an expanding speculative bubble in the world financial markets.

Negotiations began eight years ago, when China requested readmission into GATT, having dropped out after the Communist takeover in 1949. China began participating in GATT meetings while adjusting its economy to GATT requirements, although it was not an official member. By 1994, Beijing insisted that it had made adequate adjustments to be admitted, and set a deadline of Jan. 1, 1995, with the intention of gaining the political prestige of being a founding member of the new WTO.

A new condition

But last July, the GATT spokesmen suddenly added a new condition: China must enter GATT not as a developing nation, but as an already developed nation, which would place upon it vastly more stringent demands, including the abolition of all non-tariff trade restrictions such as import licenses and quota systems, the opening of the banking system to large foreign banks, and similar measures which would have devastated China's fragile and backward agricultural sector, destroyed many emerging industries, and generally sacrificed the nation's sovereignty.

This demand was preceded by a massive hoax carried out by the IMF, which introduced a new accounting mechanism in 1993, which suddenly thrust China into the position of the third largest economy in the world, from only eleventh the night before. The new "Purchasing Power Parity" method simply assigned a world value to goods and services and recalculated Gross Domestic Product for a nation based on its estimates of the average market basket of an average family, using world prices. This sleight of hand ignored the vast difference in value of goods and services defined by the accumulated value of physical and human infrastructure and technology which define the productivity of labor in a given nation. The new "fact" that China was the third largest economy in the world was inserted into every western analysis and news report.

Beijing refused to give in to this ploy, however. Minister

LaRouche interviewed in Chinese journal

As a sign of the awakening to the scope of the current global economic and financial crisis among Chinese intellectuals who are searching for solutions for their country's development, a bimonthly journal, *Strategy and Management*, in its last issue of 1994, printed an extensive interview with *EIR* Founding Editor Lyndon LaRouche.

The interview, conducted by a Chinese economist, was headlined "The General Crisis of the International Financial Capital System and China's Reform." In it, LaRouche discussed the emerging global financial explosion and, using examples from world and Chinese history, outlined the physical-economy alternatives that China could adopt to reverse the current economic crisis.

"Mr. LaRouche promotes a new renaissance of industrial civilization and the European Classic cultural heritage, which needs to be combined with infrastructure development and high-technology advancement. And he ridicules the free market theory in the West and other academic theories represented by the Harvard and Oxford schools," the editor of the semi-official journal wrote in the preface to the interview.

The journal ran the interview next to another with Harvard professor Jeffrey Sachs, the architect of the International Monetary Fund's "shock therapy" policies, which a growing number of Chinese recognize as the cause of the current economic disaster in Russia.

of Foreign Trade Wu Yi repeatedly warned the West that China "will neither sacrifice its fundamental interests for the GATT re-entry nor trade away its principles." The official *China Daily* reported on Dec. 29, 1994 that it was obvious that the West was aware that China was an underdeveloped nation, since "otherwise they would not have pledged over \$10 billion in the Chinese market to take advantage of one of the cheapest labor forces." The article continued: "Just make an excursion into China's vast interior, and one can well reason with those contracting parties which insist on labeling China as a developing nation." Ironically, it has been China's willingness to offer up a desperate, impoverished peasantry to the globalization (i.e., search for the cheapest labor supply) of the depressed economies of the West during Deng Xiaoping's "reform era" that has brought on the current crisis in the Chinese economy.

Trade war or development?

Much of the GATT attack was publicly orchestrated by U.S. Trade Representative Kantor, whose thug tactics have threatened to undermine President Clinton's efforts to dramatically upgrade trade relations between the United States and China. Last summer, after Kantor aide Charlene Barshefsky announced to the Chinese the new demand that China be considered a developed country for GATT entry, President Clinton sent Commerce Secretary Ron Brown on a special mission with a different message, aimed at the establishment of massive infrastructure development agreements between the United States and China. Brown announced that Clinton had "junked a 12-year tradition of laissez-faire government." Other officials told *EIR* that the administration intended to change the policy of "using China for sourcing" (using the impoverished, cheap labor for the production of goods shipped back to the United States), in favor of investments in major infrastructure and the promotion of high-technology exports into China, helping both the Chinese economy and U.S. industry.

Kantor has renewed his sabotage of the President's efforts by manipulating the conflict over Intellectual Property Rights (IPR), referring to the copyrights of computer software, videos, pharmaceuticals, and so forth. Kantor's aide Lee Sands, who was handling the negotiations, suddenly walked out of the meetings in a huff, in an obvious effort to insult the Chinese. He claimed that Beijing had not made any serious efforts to solve the problem, especially concerning the pirating of Hollywood videos and music compact discs (obviously of great concern to Kantor, who is infamous as the representative of the Hollywood mafia). Kantor admitted that he was using the IPR talks as a lever to force the Chinese to accept the GATT conditions, and has now set Feb. 4 as the deadline for China to meet U.S. demands or face punitive tariffs of 100% on imports worth up to \$2.8 billion. China promptly announced its own set of retaliatory measures, including the suspension of negotiations with U.S. auto companies, and imposition of tariffs on videos, CDs, cigarettes, and cosmetics.

China is keeping the door open for further talks to avoid trade war. Beijing is aware of the different contradictory policies of the Clinton administration. *China Daily* pointed out that "even U.S. Department of Commerce General Counsel Ginger Lew has recognized the progress" in regard to IPR matters, and points to the upcoming return visit of Commerce Secretary Ron Brown in April as a promising sign for bilateral trade relations.

At the same time, as *EIR* has reported over the past weeks, Beijing has publicly challenged several western banks over the introduction of highly speculative derivatives trading into the fragile emerging markets in China, refusing to honor derivatives contracts which they contend were obtained by unscrupulous means, and warning that they did not want to be caught in any potential financial crash in the West.