Strained US – China Relations: China's Crucial Role as America's Creditor

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The Obama Administration has heightened tensions with China through a series of measures which can only be characterized as major provocations designed to undermine relations between the two countries. These provocations include political support for separatist movements, such as the US-funded theocratic-monk led Tibetan secessionists and the Washington-based Uyghur secessionists, as well as through the $6.4 billion-dollar advanced arms sales to Taiwan, a virtual protectorate of the US Navy. President Obama has publicly met with and openly backed these separatist and secessionists groups, flaunting Washington's refusal to recognize China's existing borders. This is part of the US strategy of encouraging the physical break-up of independent nations, which are viewed as 'obstacles' to its program of global military empire building.

In addition to continuing and escalating the hostile policies of his predecessor, the Obama Administration has exploited several other issues in order to rally American public opinion and mobilize overseas allies behind its confrontational posture. First, the Obama Administration claims that China's currency (the Renminbi) is artificially undervalued to give Chinese exports an unfair price advantage, thus undercutting US manufacturing exports and costing "millions of American jobs". And secondly, the Administration claims that, after the US had opened its domestic manufacturing market to Chinese firms, the Chinese would not 'reciprocate' and open their financial sectors to Wall Street investment banks.

In retaliation for growing Chinese exports, Washington has raised protective tariffs on steel pipes and automobile tires, and issued Congressional threats of further protectionist measures.

The US has insists that other nations support its aggressive policy toward Iran, including imposing trade, investment and financial sanctions, supporting the provocative US naval build-up in the Persian Gulf and backing Israel's bellicose threats to bomb Teheran. In contrast, China rejects economic sanctions, in favor of negotiations, while increasing its trade and investments in strategic sectors of the Iranian economy. In the United Nations Security Council, the US has exerted diplomatic and mass media pressure to force China to vote for a Zionist-authored proposal of wide-reaching sanctions against Iran. Obama refuses to accept China's rejection of the US military-driven policy of regime change and the Chinese pursuit of free trade with Iran.

The US Administration's selective definition of "self-determination" includes giving support to secessionist ethno-religious regional movements in China, while, at the same time, invading and occupying independent states, like Iraq and Afghanistan, ordering missile attacks on other states, like Pakistan and Somalia, establishing over 700 military bases world-wide with extra-territorial jurisdiction and engaging in assassinations of its opponents abroad via the CIA and Special Forces.

In contrast, China is not at war and opposes military invasions of sovereign states. China does not have overseas military bases and is menaced by the US policy of encircling China's frontiers with American bases in client states in Northeast, Southeast and Central Asia.

While US military occupation forces brutally violate human rights of millions of citizens in occupied or targeted countries, and threaten the civil rights of critical Americans with arbitrary rulings, secret trials and the suspension of habeas corpus, the Obama regime excoriates China for its prosecution of opposition activists.

The Obama regime has latched onto a conflict between a private US corporation, Google, and Chinese hackers, which it alleges are state sponsored, turning the issue into a major struggle for "internet freedom" at the level of state to state relations. Despite the expanding presence of scores of US-owned IT companies in China, the Obama regime has raised the issue of "internet censorship" to the level of a major ideological confrontation.

Climate change is another source of aggravation between the states. At the Copenhagen summit in December 2009, Obama rejected any formal agreement on the reduction of carbon emissions while deflecting criticism and blame on to China and other developing countries, which had agreed to informal substantive targets on CO2 reductions.

Of all these points of contention, the most serious is Washington's financial, diplomatic and political support for ethnic secessionist groups in China, threatening the security and territorial integrity of the Chinese state. This paramount issue has re-awakened painful memories of earlier imperialist carving up of China, its rich port cities and territories and has forced the Chinese authorities to consider retaliatory measures.

Imperial Policies: At What Price?

The Obama regime's political and diplomatic provocations against China in pursuit of its military-driven empire, come at a very high real and potential price. We cannot assume that China will remain a stoic punching bag for the US, absorbing territorial threats, economic pressures and gratuitous diplomatic insults without taking counter-measures especially in the economic sphere.

China's Crucial Role as US Creditor

Obama's provocative militarist posturing toward China endangers major US private and public economic interests, including China's financing of the burgeoning US debt.

China is the world's largest and fastest growing investor in US securities. According to a detailed study by the Congressional Research Service (CRS) (July 30, 2009), China holds a vast amount of long-term treasury debt, US agency debt, US corporate debt, US equities and short-term debt estimated at over $1.2 trillion. China's investment in US Treasury securities were used to help finance the economic 'recovery' (such as it is). If the Obama regime persists in its provocations, China may decide to unload a large share of its US securities holdings, inducing other foreign investors to also sell off their holdings (CRS op cit). This would lead to a sharp depreciation of the dollar and force Washington to raise interest rates, which could drive the US into a deeper recession/depression. Economists, who claim Chinese economic interests would suffer from such a sell off, overlook the fact that for Beijing, national sovereignty is more important than short-term economic losses, especially in view of US support for secessionist movements. Moreover, the Chinese have a high rates of savings, huge foreign reserves and increasingly diverse markets and suppliers of essential commodities. China is in a better position to absorb the 'shock' of a decline in US economic relations resulting from American bellicosity than the debt-ridden, negative-saving, military-driven North American economy.

Foreign Direct Investments

Almost all of the 400 biggest US multi-national corporations, listed in Forbes, have major profitable investments in China, which are growing. The Obama regime's increasingly confrontational position toward China puts these investments at risk.

US foreign investments in China far exceed the latter's investments in the US, according to a report published by the UCLA Asian American Studies Center. In 2006, China's foreign direct investment (FDI) in the US was $600 million, while US investments in China were $22.2 billion. The Report goes on to state "…the complaints by many American businesses and politicians that China can invest in US companies with relative ease while China still tightly restricts access to Chinese markets and companies appear not to be borne out by the numbers". The US government has, in fact, blocked several large scale investments by Chinese companies, including the multi-billion dollar purchase of an oil company (UNOCAL), an appliance company (Maytag) and computer company (3Com Corp). Chinese investments in the US are not always profitable. The Sovereign Wealth Fund (a Chinese government-run investment fund) lost over 50% of its $8 billion-dollar investment in the finance groups, Blackstone Group and Morgan Stanley, in less than a year.

The Obama regime's complaints about China's "restrictive" treatment of US companies fly in the face of economic reality. The attacks are part of a political strategy of anti-Chinese propaganda to heighten the American public's antagonism against China and rally domestic support for any military confrontation. Even as US companies in China reap profits a thousand times greater than Chinese investments in the US, and the leading investment houses swindle Chinese sovereign investors of billions, the White House claims foul play!.

China's much-maligned policy of restricting financial takeovers by Wall Street firms was one of the reasons the US speculative collapse did not impact its economy. And still Washington continues to attack Beijing on the issue of "opening Chinese financial markets to Wall Street".

US – China Trade

The Obama regime has repeatedly raised the issue of China's 'undervalued' currency, conveniently ignoring the fact that China's imports from the US are growing faster than its exports to the US. Between 2006 – 2008 US annual exports to China grew 32%, 18%, 9.5%, while its imports of Chinese goods grew 18.2%, 11.7%, 5.1%. Moreover top US exports included electrical machinery and equipment, power generation equipment, oil seeds and oleaginous fruits, aero-space products, optical equipment and iron and steel – a broad spectrum of American industrial products with high value-added, well-paying skilled employment and lucrative profits.

Moreover, the fact that US exports to China include a diverse array of manufacturing sectors and are competitive at the current exchange rate, suggests that the vast US trade deficit with China has less to do with China's currency policy and more to do with US public and private investment policies and the relative strengths of the productive forces of each economy. In large part, the majority of exports from China to the US are the result of US multi-national corporate decisions to produce and sub-contract in China. In other words, the trade deficit with China is directly related to US corporate global investment strategy, which, in turn, flourished after the US government liberalized it rules and deregulated US corporate conduct. Liberal investment policies under the US government, and not Chinese "unfair trade rules", are a major cause of the trade deficit.

The angry posture adopted by the Obama regime toward China's "undervalued" currency is a political ploy to deflect attention from its disastrous liberal economic policies and its support for the investment conduct of large US corporations.

The US annual trade deficit with China has grown almost four fold between 1999 – 2008, from $68.7 billion to $266.3 billion. The growth of the trade deficit coincides with the massive shift of US investment from manufacturing to speculative financial, real estate and insurance activities. In other words, the US re-directed its investment strategies from producing useful, quality commodities for domestic consumption and export to importing manufactured goods from abroad at a greater profit for the corporations. The weakening of US productive capacity – its productive forces – was reflected in its declining competitive position and its deepening trade imbalances. Given the tight relations between the White House and Wall Street, policy makers sought to blame Chinese monetary officials for an undervalued currency, rather than confront the bubble economy stimulated by the policies of the Federal Reserve and generated by the Wall Street investment houses, whose executives go on to occupy key economic posts in the US government and who provide substantial funding for electoral campaigns.

In those economic sectors where US investment has led to increased efficiency, like agriculture, the US has competed successfully. China is the leading buyer of American soybeans and cotton – accounting for over half world sales of the former and between almost a third of the latter according to the U.S. International Trade Commission and the US Department of Commerce.

Trade, Credit, Investments versus Militarism and Speculation

China's economic relations with the US have been extraordinarily lucrative and favorable to the big US capitalists and the American government. By purchasing low-interest US Treasury notes, China has financed US trade and budget deficits, which are the result of exorbitant military spending, multiple imperial wars and occupations, and unproductive speculative investments. The US multi-nationals have reaped high rates of profit from their investments in China, profits far in excess of what they would have gained in the US, and many times more than what a few Chinese firms earn in the more restrictive US climate. Important US economic sectors in aerospace, agro business, port facilities, transport and giant commercial retailers and importers depend on and profit from trade with China. US speculators have been able to rake in huge profits from the Chinese Sovereign Funds by pumping and dumping speculative US stocks.

As China's dynamic growth and rate of consumer demand continue to race ahead of the US, American exports to China outpace its imports from China.

The growing political antagonism and reckless diplomatic actions against China taken by the

White House and Congress serve to undermine the basic economic interests of a broad swath of US capitalist enterprises as well as the credibility of the US economy. What is even more striking is that many of the charges leveled against Beijing, including its 'unfair treatment' of investors and 'closed economy' – apply with greater force to Washington.

The Paradox of Economic Gain and Political Hostility

The key to understanding this paradox of economic gain and political hostility lies in the fundamentally different political and economic structures and global strategies of the two countries. The US economy has been driven by its financial and speculative capitalist classes, which in turn wield decisive political influence over state economic policy. At the same time, the commercial capitalist class is more attuned to importing manufactured goods, rather than in long-term investment in research, development in the American manufacturing sector. Neither commercial nor financial capital has a stake in stimulating US exports and in investing in the productive forces of the country. The design and implementation of US global strategy is controlled by the civilian militarists and imperial ideologues, (especially the Zionists) in government and their counterparts in sectors of the military high command.

In contrast to the Chinese market-driven quest for global power, US imperialism is built around military conquest and appropriation of economic wealth. The disproportionate influence exercised by the civilian militarists in the US government has resulted in a series of foreign wars, which have severely strained the US economy and led to a military definition of US global objectives. Faced with China's growing economic relations and influence in Asia, Africa, Latin America and the Middle East and Beijing's opposition to US military-driven imperial policies against Iran, the Washington has escalated its political provocations, diplomatic pressures and interference in Chinese internal affairs. As these external pressures increase, Chinese public opinion turns more nationalistic, which in turn serves as a basis for US mass media charges of "xenophobia" and "chauvinism" on the part of the Chinese. The irrational nature of the recent anti-China propaganda promoted by the US mass media is most evident in the shrill warnings of a Chinese military threat to Asian security, especially when the US continues to expand its chain of military bases encircling China from South Korea, Japan, Philippines, Australia, Afghanistan and Central Asia. China has neither military bases abroad nor naval fleets off the coasts of any US or allied territory.

The greater the US reliance on military force, brutal economic sanctions and outright blockades to overthrow regimes and extend its network of client regimes, the greater its hostility toward China, which is expanding its economic ties with US 'adversaries', such as Iran, Venezuela, Sudan, Nicaragua, etc.

The US has severely weakened its productive forces in the process of funding a global military machine. China, on the other hand, has sought to become a world power on the bases of the long-term, large-scale development of its productive forces, even in the face of US opposition. At each and every turn, Washington has passed up enormous opportunities for the US economy from China's dynamic growth, booming market and overseas economic expansion, in favor of petty provocations.

Conclusion

Ultimately what we have is a conflict between two diametrically opposing political economic systems.

On the one hand, a United States military driven empire, which focuses on conquering Iraq, Afghanistan and Iran, backs the ambitions of a militarist Israel, seeks marginal client states in Latin America and militarizes Pakistan, Colombia and Mexico.

On the other hand, China deepens its economic ties with dynamic Asian countries; increases its oil links with Saudi Arabia, Iran, the Gulf States, Venezuela, Russia and Angola; displaces the US as the leading trading partner of Brazil, Argentina, Peru and Chile; and increases its trade and investment links with Southern Africa in minerals and related infrastructure projects. The contrast is striking.

China's global economic expansion is confronted by US military encirclement, diplomatic provocations and a massive anti-Chinese propaganda campaign designed to deflect US public attention from the extreme imbalances in its domestic economy. Instead of looking inward to understand why the US is declining, the Obama regime encourages the public to blame China's supposedly unfair trade policies, its 'restrictive' investment policies, its manipulated currency rate and its tough response to secessionist movements funded by the US.

In the end the US will not resolve its budget deficits and trade imbalances, not to mention its endless imperial wars, by pandering to self-described divine rulers, like the Dali Lama, and provoking a dynamic economic power such as China. Nor can Washington escape its profound economic imbalances by catering to Wall Street speculators and ignoring the decline of America's productive forces. Drones, military surges and surrogate puppet armies engaged in endless wars are no match for the surging investments, robust developing markets and joint ventures linking China with the dynamic emerging economies of the world.

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