

# Reflections On a New Basis for U.S.-China Economic Relations

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It was hoped and expected by many from the Chinese side, that the expansion of trade with the United States, together with China's entry into the World Trade Organization (WTO), would help improve both economic and political relations between the two countries. I wish to point out, however, that the present, unhealthy structure of trade not only continues to be a major source of friction between the United States and China, but seriously endangers the economic and political security of both countries. We must realize, that the present trade structure is neither mutually desirable, nor is it sustainable under conditions of growing, acute instability in the U.S. and world financial system.

In actuality, we are faced with a choice between a disastrous, chaotic collapse of world trade as a whole, or carrying out a fundamental reform of trade relations, based on principles radically different from the liberal doctrines that have dominated the process of "free-trade globalization" during the recent period.

Conversely, restructuring trade relations between the United States and China, based on a long-term perspective for the real economic development of both nations, could become a pillar of global economic development and the realization of a new, just world economic order in the 21st Century. Of course, this would require a radical change in attitude and thinking on the part of the U.S. administration and leading U.S. institutions. Also, the Chinese side would have to remedy some serious shortcomings, in my view, in thinking about China's relations to the world. But a situation is developing, which leaves no acceptable alternative to such radical rethinking.

## 'Unhealthy Structure' of U.S.-China Trade

First, I want to briefly indicate what I mean by an "unhealthy structure of trade" which "endangers the economic and political security of both sides." Then, I shall indicate in what direction that trade structure should be adjusted, in order

to provide the maximum long-term benefit to China, the United States, and the world as a whole. Much more could be said about these matters, of course, and I hope my remarks will help provoke a more profound reflection.

In the late 1990s, I often heard Chinese officials expressing satisfaction at the strong growth in China's foreign trade, as if this would automatically mean an increased benefit to China's economy. But the reality is not at all so simple. For example, if you are exporting at prices below the real social costs of production, then more exports means bigger losses!

To judge the impact of China's trade on the Chinese economy, you have to examine what it really costs China, as a nation, to export what it exports; you also have to look at the composition of the *imported* goods, and their real value for China's economic development, as opposed to their nominal price-value. You also have to look at the effects of the trade structure on the overall character of China's social and economic development. If you do that in a rigorous way, as I shall indicate, you arrive at a much less favorable conclusion, than has generally been assumed.

Similarly, looking at the U.S. side of the equation, it might at first glance appear to be a great benefit for the U.S. economy, to be able to import large quantities of goods from China and other nations, at prices far below the costs of producing those same goods inside the United States itself. What, however, if those imports are connected to a process of radical de-industrialization of the United States itself, resulting in an accelerated shrinkage of America's pool of skilled manpower—which are thereby lost not only to the United States, but to the world economy as a whole? What will it cost the United States to rebuild its once-mighty, skilled industrial labor force to the levels necessary for long-term survival of the nation?

In fact, there is no possibility of an economic recovery of the United States from the present disastrous situation, without a major revival of U.S. production and export of modern industrial capital-goods—many of which the United States today either no longer produces, or which are currently banned from export to China and other developing nations by misguided government policy.

## China Is Losing on Exports

Now, I want to look at China's exports more closely. Ask yourself, first, how many dollars of foreign machinery, parts, materials, intermediate goods, etc., China must import, in order to produce \$100 of goods for export? Often, the imported content is 60-80% or even higher, as in the case of many internationalized manufacturing operations, in which labor-intensive steps have been located to China to exploit low labor costs, while crucial "high-tech" components are produced elsewhere. However, the situation is actually less favorable than it appears, even in these terms.

The crux of the problem, in my view, lies in a wrong

FIGURE 1

## China's 1998 Offer of Projects for Foreign Participation



In December 1998, Yu Shuning, Minister-Counsellor for Press Affairs from the Chinese Embassy in Washington, announced that, at a meeting of the Sino-U.S. Commission, “the Chinese delegation presented the U.S. side with three lists of major projects to provide opportunities for the U.S. business community to compete on the Chinese market.” The value of the projects were estimated at \$620 billion. Unfortunately, the response from the United States was rather negative. The map itemizes the proposed power projects (numbers 1-8), environmental protection projects (9-17), chemical fertilizer projects (18-20), transport (21-28), and technology transformation and renovation projects (29-38).

way of thinking about such basic economic notions as “cost,” “productivity” and “profit.” A typical expression of that wrong way of thinking is the widespread belief, that the existence of super-abundant, so-called “cheap labor” provides a

crucial “comparative advantage” to China’s economy.

To get to the point as quickly as possible, let me suggest, that China—despite, or in a certain sense actually because of, the apparent cheapness of Chinese labor—is currently

exporting at significantly below her own real costs of production. Such a statement might appear absurd to many, at first hearing. “After all,” they will point out, “aren’t Chinese export industries earning a lot of money? Isn’t China as a whole enjoying a huge income from trade? Haven’t the export-oriented coastal areas of China enjoyed an unprecedented period of prosperity and development over the last two decades?”

These statements are all true, but they don’t address the essential problem.

To judge the real costs of production in China, we have to look not only at the direct outlays of industrial firms for labor, machines, materials etc., but also at the costs of maintaining the entire Chinese nation—its population, Chinese society as a whole—in a long-term perspective. That means providing for an overall rate of real physical investment, sufficient to guarantee the stability and development of the entire country, including the interior areas. If that social cost is not met, then China will disintegrate.

Because of China’s complex of accumulated problems, its special history, its natural conditions, its social structure and so forth, a very high rate of investment is required—both in absolute terms and per capita of the population—just to keep the country moving in a positive direction. This includes long-term, in-depth development of basic economic infrastructure across the entire territory of the country; and enormous investments—an order of magnitude higher than the current levels—into the general education, health care, and cultural development of the population.

From this standpoint, the impression of “cheap labor” is an illusion, based on ignoring the real costs of maintaining Chinese society, its population and households, which are the source of that labor. Profits, gained purely by exploiting the differential of wage levels between China and the United States, for example, do not, by themselves, reflect a real additional generation of economic wealth. On the contrary, they can conceal a process of looting China’s own potential for development, by not meeting the minimal costs which such long-term development entails.

### **‘Opening Up’ to a West in Decay**

Of course, these points are not unfamiliar to many Chinese economists and officials, who have acknowledged the bitter dilemma of so-called “export-driven economic development” advocated by such institutions as the World Bank, which has brought disaster to nearly the entire developing sector. The author has often heard: “Yes, we see these problems. But opening up was necessary. China has no alternative but to integrate into the present world economic system, and make the best of that. So far, we have done better than everybody else.” What, however, if the present world economic system is collapsing?

The great hope in China has been, of course, that the opening-up policy, and intensification of economic relations with advanced industrial nations, would give China full ac-

cess to the fruits of modern science and technology, thereby making possible a rapid increase in the productivity of the Chinese economy that might compensate for the exploitation of “cheap labor.” In fact, China has been able to absorb a great deal of technology and to reach a world level in a variety of specific areas. But the overall result falls far short of what potentially could have been achieved, and also far short of what China, minimally, requires for its long-term stability and development today.

There are a number of reasons for this. On the one hand, over the last 30 years, just as China was “opening up,” the industrial nations, including the United States, embarked on an insane policy of systematically dismantling their in-depth potentials for scientific and technological progress, embracing the parasitical ideology of the “consumer society” and plunging into accelerating cultural and moral decay. Thus, what China has been able to access, through its interaction with the Western nations, is, at best, the precious left-overs of a formerly much more powerful scientific and industrial culture, along with large amounts of garbage. China has also been bitterly disappointed by the refusal of the United States, in particular, to share some of the most valuable technologies and know-how still existing, which could make a significant difference for China’s development.

I should mention another aspect of the present, unhealthy trade and investment structure. Many of the joint-venture investments, through which China hoped to gain access to modern production technology, have taken the form of virtual “turn-key” import of entire mass-production lines, involving sophisticated equipment requiring long-term outside support. Quite apart from its proprietary nature, this kind of highly specialized equipment is poorly suited as a vehicle for transferring essential principles of technological design. Far from promoting the establishment of an all-round, “full-set” domestic industrial-technological capability, this sort of investment often actually increases China’s technological dependence on the outside.

### **Free-Trade Backlash in Both Countries**

Let me now briefly turn to the other side of the equation, namely the United States, which is now plunging into the gravest financial and economic crisis since the Great Depression, and potentially far worse. That crisis is itself inseparable from the pathological trade structure which developed over the last two decades, hand-in-hand with the transformation of the United States from the world’s most powerful industrial nation, into a parasitical, “hollowed-out” consumer society, dependent on a massive net influx of goods from the outside.

If China and other nations appeared to benefit, in the short term, from the U.S. role as an “importer of last resort,” that benefit has had a very high price for all sides involved. This includes the high political price that China pays inside the United States, for tolerating a global “free-trade” policy which, in effect, has played off Chinese workers against

American workers. This helped cause major elements of the U.S. labor movement, which might otherwise strongly support improved relations with China, to align instead with the anti-China lobby.

In return, the conditions imposed by the United States for China's membership in the WTO, threaten to cause massive disruptions of Chinese society, that could one day lead to a powerful political backlash in China against the United States, as well as the leadership's reform policy. The naive expectation, that trade liberalization would strengthen peace and political stability, could turn into the opposite in reality: "free trade" as a major factor leading to war.

Should anybody be surprised? The process of "globalization" and radical liberalization of world trade and financial flows represents, de facto, a revival of the "free-trade" policies of the British Empire. And what was the British Empire, but a continuous nightmare of genocide, looting, and war? As two nations which have had a certain experience in fighting against the evil of the British Empire, it is time for the United States and China to re-evaluate their economic and political relations on the basis of that experience. That includes a radical break from the concept of "free trade," "cheap labor," and everything that goes along with that.

Quite apart from the use of "free trade"—both by the British Empire and again today—as a tool of conquest and destruction of sovereign nation-states, it is completely impossible to establish and maintain mutually beneficial trade relations on the basis of a "free trade" or "free-market system." Long-term economic development—whether of a single nation, or between nations—requires human thinking and planning. It requires long-term policy-directions and agreements that take into account the probable requirements of two or more generations into the future.

In the case of the United States and China, certain general directions are clear. The United States must abandon the insane policies of the last 30 years, including the U.S. role in imposing disastrous policies of financial globalization, deregulation and free trade, upon nations throughout the world. The United States must return to the classical American System of Hamilton, Carey and Friedrich List, and revive its former role as a leading developer and exporter of modern industrial capital-goods and a "volcano" of scientific and technological progress.

Rebuilding U.S. scientific, technological and industrial capability is impossible, without, on the one hand, protectionist and related government measures to foster domestic production and investment; and on the other hand, a large, sustained increase in high-technology exports to developing countries, including China.

China also cannot develop without protectionist measures, coupled with an expanded rate of import and absorption of modern technologies, which China's development requires. These include things like advanced nuclear energy technologies, modern high-speed (maglev) transport, novel

laser and plasma technologies, biophysical technologies and so forth.

## Strategic and Financial Requirements

Rather than depending exclusively upon exports to finance imports of modern technology, nations should agree on establishing new mechanisms for the creation and issuance of long-term, low-interest credit for development projects and technology transfer on a large scale, along the lines Lyndon LaRouche has proposed for many years.

Of course, the necessary context for such a policy goes far beyond bilateral relations between the United States and China. On the one side, China has a vital interest in the "Strategic Triangle" partnership between China, India, and Russia; in the kinds of cooperation in Central Asia exemplified by the aims of the Shanghai Cooperation Organization; and in the launching, in partnership with Europe and Asian nations, of a new era of large-scale infrastructural development of the entire Eurasian landmass (the Eurasian Land-Bridge).

On the other hand, there can be no world economic recovery without a "New Bretton Woods" reorganization of the global financial and monetary system, as proposed by LaRouche. The recent period of the unrestrained, savage "free-trade" globalization must be ended, and replaced by a combination of protectionist measures for national economic development, coupled with long-term, mutually beneficial trade agreements between nations. Under such conditions, stability will return to the global economy, and the useful volume of world trade will be greatly increased.

A couple of years ago, the Chinese government presented a long list of major state-financed infrastructure projects in China, inviting the United States and U.S. companies to participate. At that time, the response from the United States was rather negative. Ironically, however, it was the U.S.A., under such Presidents as Abraham Lincoln and Franklin Roosevelt, that provided the world with the best model for development based on great infrastructure projects—from the transcontinental railway to the Tennessee Valley Authority (TVA), forerunner to China's great Three Georges Project of today.

Were the United States to return soon to the best traditions of Lincoln and Roosevelt—as it would under a President LaRouche—a bright future for both nations would certainly be assured.

Thank you.

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