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## Socialist-market virus threatens US and China

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The Sino-US Strategic and Economic Dialogue sought to find areas of mutual interest so that both countries could co-operate on economic, security, environmental and foreign-policy issues. Nothing of substance came out of the meeting, but a "Memorandum of Understanding" was signed to further consider environmental and energy policy, and participants discussed steps needed to rebalance the two economies in the interest of global prosperity and to avoid destructive protectionism.

Economic policy issues dominated, especially China's concern over the impact of US fiscal deficits and the Federal Reserve's ballooning balance sheet on the future value of the US dollar as the world's key reserve currency. One of China's biggest fears is that the massive increase in US debt obligations over the next decade, and accommodative Fed policy, will undermine the dollar as an international reserve currency.

As the largest holder of US debt, China would suffer large losses if the Fed engineered a policy of inflation to reduce the real value of US debt. Although there is no immediate threat, China is already talking about a new "super-sovereign" reserve currency to replace the dollar.

While leaders of both nations discussed conventional issues, they did not acknowledge the significant policy mistakes on both sides that helped bring about the most serious recession since the 1930s.

Rather than allowing market forces to rebalance their respective economies, both Beijing and Washington are engaging in the very politicisation of investment decisions that is the hallmark of a socialist economy. Unfortunately, little mention was made of that fact during the dialogue. No one seemed concerned about the drift from market principles toward state planning - with the consequent socialisation of risk.

Vice-Premier Wang Qishan did lecture US officials on the need to

