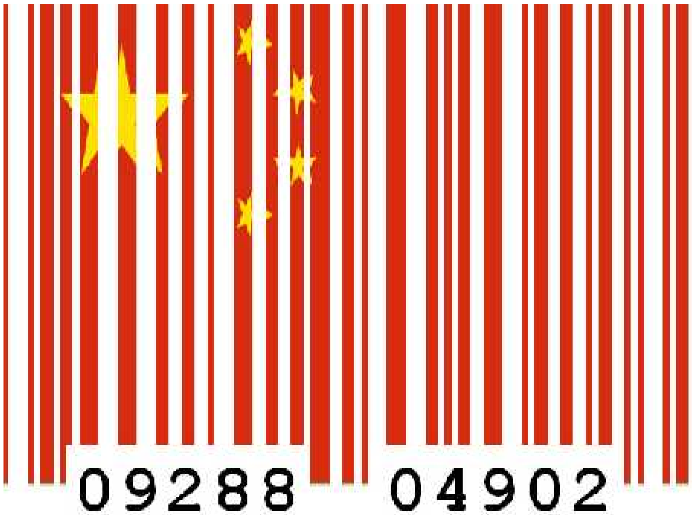

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Exclusive: China’s ‘Friends’ Work for Them, Not Us

William R. Hawkins

In an earlier column**,** I cited a spokesman for the Chinese Commerce Ministry as saying American firms were lobbying on Beijing’s behalf in Washington. But corporations prefer to have their views expressed by third parties, especially when working in league with a foreign power. And there are plenty of media outlets and think tanks willing to act as apologists for the Beijing regime.

For example, the *Wall Street Journal* published an op-ed by Zhong Shan, the Vice Minister of Commerce for the People's Republic of China, on March 26th. The Chinese argument was so fraudulent as to border on outright lying. Zhong claimed that in 2008, “Chinese and U.S. interests in bilateral trade are roughly balanced” when, in fact, the American trade deficit with the PRC was $268.1 billion, with the cash flow running 5-1 in Beijing’s favor.

Zhong got to a “balanced” figure by two questionable methods. First, he understated Chinese exports, placing them at $252.3 billion when the U.S. Department of Commerce reports $337.8 billion. Second, he lumps together all goods sold in China by American firms whether produced in country or imported, and then compares that number with Chinese exports. Since the U.S. only exported to China $69.7 billion worth of goods and services in 2008, most of the $224.7 billion worth of products Zhong counts as sold in China was produced in China, not America. They may have had American logos, but they came out of Chinese factories, just as did China’s exports. So either way, it is a “win-win” for China. Beijing gained the benefits of expanded industrial capacity and jobs creation on a very unbalanced basis.

And how American are Chinese-made brands? Consider General Motors, lured to China because it is the world’s largest auto market. Chinese demand for motor vehicles is not satisfied by imports, nor will it be. GM’s production and technology operations are in the form of nine joint ventures with Chinese partners in which GM owns no more than 50 percent of the enterprise and sometimes less. Its main partner is Shanghai Automotive Industry Corporation, a state-owned enterprise (SOE) that is the third largest automaker in China. Beijing Automotive Industry Holdings has bought power train technologies from GM's Saab unit for use in its vehicles manufactured in China. The Beijing regime makes sure that GM serves Chinese national interests.

It should be mentioned that on March 18th, the Chinese Ministry of Finance announced that during the first two months of 2010, total SOE profits were up 88.9 percent year-on-year. Beijing’s “national champion” firms are expanding both at home and overseas against foreign rivals.

On that same day, the WSJ editorialized in defense of China's currency policy. It parroted Beijing's claim that,

> Numerous countries continue to peg their currencies to the dollar, and with the establishment of the euro most of Europe decided to move to a fixed-rate system. The reason isn't to get some trade advantage against their neighbors but to gain the economic benefits of stable exchange rates – and in some cases a more stable monetary policy. A stable exchange rate eliminates a major source of uncertainty for investment decisions and trade and capital flows.

Overlook for the moment that the WSJ normally calls for "free markets" rather than government control of economic factors. It has long granted Beijing exceptions to the rules. The real point is that If China merely wanted stability; it could adopt any fixed exchange rate for the Yuan. What Beijing picked was a rate that is undervalued by 30-40 percent in order to give China-based producers a competitive edge both at home and abroad.

Beijing did allow the Yuan to appreciate against the dollar from 2005 to 2008, but this halted in as soon as China's trade surplus started to be impacted. China wants a stronger currency to pay for imports, especially oil which is priced in dollars, but not one so strong that it reduces exports. Maintaining its trade surplus is the top priority because that is what provides jobs. Mass unemployment would pose the risk of revolution. Beijing has not given up its independence by linking to the dollar as the *WSJ* tried to argue disingenuously. It has been moving cautiously in the resolute pursuit of the best policy outcome. The $2.4 trillion (and growing) currency hoard it has amassed, along with the world's fastest economic growth rate, attests to its success.

Another organization that Beijing loves to use to its advantage is the libertarian Cato Institute based in Washington, DC. Daniel Griswold, director of the Center for Trade Policy Studies at Cato, often gives "exclusive" interviews to Xinhua, China's state-run media outlet, in support of Beijing's policies. Chinese propagandists like nothing better than to throw the words of an American back at America. And what could be more ironic than a libertarian shilling for a Leninist dictatorship?

In a March 8th interview, Griswold said, "China has been moving in the right direction since 2005 by allowing the currency to appreciate. Threats from the U.S. government actually make it more difficult for the Chinese government to resume appreciation because it would look as though Beijing was giving in to foreign pressure." He apparently missed the fact that Chinese appreciation stopped in 2008. And, of course, Beijing will not voluntarily change a policy that is working to its advantage. It will take exactly the kind of pressure Griswold wants to head off to redress the imbalance. Griswold, however, is not interested in the international balance, only in protecting Sinophile business interests.

The libertarian view at the *WSJ* and Cato is that corporations know best, and if they think they can profit by working with Beijing, so be it. That's just "free enterprise." Yet, there is more at stake. Beijing is using the gains from trade, capital and technology, to expand its influence around the world in ways that confront U.S. interests on every front and pose a rising threat to national security.

Unfortunately, many in the business community simply don't care even when they see the danger. Best selling author Jim Rogers made a fortune on Wall Street before becoming infatuated with China. In his 2007 book *A Bull in China: Investing Profitably in the World's Largest Market*, he does not advocate setting up American firms in China; he wants to invest directly in Chinese corporations. He writes,

> Just as the nineteenth century belonged to England and the twentieth century to America, so the twenty-first century will be China's turn to rule the roost. Before I get into a single stock listing, the very best advice of any kind that I can give you is to teach your children or your grandchildren Chinese. It is going to be the most important language of their life-times.

His real sub-title ought to be "How to Profit from the Coming End of Western Civilization" as if he and his fellow travelers think their lives will be just fine in the wake the collapse of American preeminence. So fine, they can help bring it on without a second thought. There is nothing more dangerous (or loathsome) than arrogance based on stupidity, fueled by an irresponsible, myopic greed.

China's "friends" need to be seen for what they are, and their lobbying efforts summarily rejected. They do not have the best interests of the United States and its people at heart.

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