



The China Card: Nixon déjà vu

Sometimes, getting away from the Market allows for quiet reflection on larger themes. Time to think and the FT's front page juxtaposed the truly revolutionary shifts that are now occurring in world politics. It would be foolish to think that these changes will not affect global economics. The lead story features the apparent agreement with China allowing the resolution of the brewing trade dispute between the U.S. and China. But, the trade agreement is just one of several agreements that seem to be turning China not only into one of the U.S.'s largest trade partner, but also a de facto ally of the U.S. in its quest for a more geopolitically, stable world. More announcements hit the press today that center on China and its evolution as a trade and peace partner for the U.S. Here are a few.

- ?? A high financial official, Guo Shuqing, head administrator of foreign exchange reserves, revealed that China was no longer in favor of a **fixed exchange rate** regime. A proposal to widen the band around the current rate is being given serious consideration as a step toward a floating rate system. From other sources, we know that officials at the Bank of China are planning several moves that will create various derivative and forward markets that will allow the diversification of risk bearing that is a necessary support for a fully flexible exchange rate system.
- ?? China dropped its proposal to require use of a Chinese based encryption system that would have frustrated or perhaps blocked the importation of microprocessor chips made by Intel. Considering the intellectual property protection that is effectually accorded Intel by this move, perhaps it is not a surprise that the Chinese also announced that their government will strengthen its enforcement mechanisms for software and other intellectual properties.
- ?? Finally, the Chinese revealed a previously unannounced three-day visit by Kim Jong-il during which some sort of agreement was reached that committed the North Korean premier to be more "patient" and "flexible" in his discussions with the U.S. over Korea's nuclear program. Given the delicacy of negotiations over the North Korean nuclear program, cooperation between Korea with China is a necessary if not sufficient condition for moving ahead on the multi-party talks.

There was also some apparent "give back," by the U.S. because once again the Bush Administration scolded the Taiwan government not to provoke China by appearing to rush into more independence moves. The current statements appear to replicate the ideas expressed earlier this year during a visit by the new President of China to the U.S. The U.S. does not wish to rock the boat by its actions, nor does it wish Taiwan to upset the growing linkage that the U.S. and China are forging to satisfy its own domestic political needs. And, we note the absence of strong, critical statements by the Chinese on the U.S. involvement in Iraq. These agreements follow by only a few weeks, the major state visit of Vice President Cheney to China, a not insignificant part of the puzzle, no doubt.

Considering this Administration started off its term with a public shift from China as "strategic partner" to China as a "strategic competitor," followed by a tough attitude toward North Korea, and capped by the forcing down of a U.S. spy plane, it would appear that the U.S. is now engaged in a revolutionary policy shift in Asia. China is too large and too important in trade and politics for the U.S. not to resolve some of the worst of these issues. With the Bush Administration arguably in trouble politically, the Chinese are producing real ammunition for the re-election campaign. If this sounds like Nixon going to China in 1972, it should! The parallels stretch further, as if history rhymes once again.



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The Nixon visit was one of the key moves of the Cold War. It capitalized on the Chinese-Russian acrimony and ultimately undermined the world wide Communist movement. It was brought about by a 'realist Republican government that had not found its way out of the swamp of Viet Nam! No one could question Nixon's ideological sympathies, and that made the visit and the conceptual agreements that followed even more important from a geo-strategic point of view.

These current American-Chinese understandings could hardly be less fateful for the U.S. Whether they will prove as successful in thwarting the Kerry bid for the White House as the Nixon visit did to the McGovern campaign is difficult to judge at this point.

One thing is clear, however. At the onset of the Bush Administration, the neo-con thrust toward China and North Korea was terribly threatening to a more stable world system. After the downing of the U.S. spy plane, the Bush Administration seemed to deny its Neo-con advisors their original Pacific strategy and revert toward the policies of Bush I. Bush I had a realist strategy that recognized the fundamentally powerful position that China would play in international politics. One cannot help but wonder if Bush II is trying to find new ground for stability in the Pacific? After all, these agreements followed the visit of Vice President Cheney to China, and no one questions that Cheney has always been the *eminence grise* behind the Neo-cons that pushed their policy views to such pre-eminence. Nixon déjà vu? Why not? Any port in the storm and storms we certainly have.



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MAS042204

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