

# The BLACK C o M M e n t a t o r

An independent weekly internet magazine  
dedicated to the movement for economic justice,  
social justice and peace - Providing commentary,  
analysis and investigations on issues affecting  
African Americans and the African world.

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**June 28, 2012 - Issue 478**

## **China's Direct Computer Link to US Treasury Auction System Emancipation from Mental Slavery By Dr. Horace Campbell, PhD BC Editorial Board**

### **Introduction**

The report in May of this year that China can bypass Wall Street when buying United States government debt in what is the Treasury's first direct relationship with a foreign government was reported by *Reuters* and carried by very few of the mainstream press. This announcement came at a moment when the depth of the Eurozone crisis was dominating the headlines and creating panic in the international markets. Though this arrangement has been in place for about one year, it was only in last month that *Reuters* revealed in its [report](#) that for the first time ever the US Treasury system granted China direct computer link to its auction system.

I can remember the days when the International Monetary Fund (IMF) sent representatives to sit in the Central Banks of Third World societies to monitor the operations of their Treasuries. In those days of US financial and military dominance, these IMF monitors dictated to states and governments about management of their economies and used the IMF lending power to dictate whether resources were transferred to a society or not. Now it has been revealed that the United States government has given the Peoples Bank of China a direct computer link to the US Treasury. It is the equivalent of a Chinese Officer monitoring the ebb and flow of US indebtedness and making decisions about buying and selling of US Treasury Bills without going through the Primary Dealers of US debt on Wall Street. This means that unlike other governments in the World, the Peoples Bank of China will not

have to place orders for U.S. debt through the Wall Street banks appointed by the feds as “primary dealers” to bid on Treasury auctions. In our commentary this week we will reflect on this major international development in the world of high finance in relation to three aspects of the international system. Firstly, what is the meaning of this arrangement for the stability of the international system in this period of depression? Secondly, what are the short term impacts on the relationship between the United States and the People’s Republic of China and thirdly, what is the importance of this arrangement for world peace?

In the conclusion we will note that while this arrangement for the short term is seeking to stabilize the international financial system, it is at the same time laying the foundations for the evolution of the international system towards a new international financial architecture.

### **China and the United States and stabilizing the international financial system**

When Lehman brothers collapsed and the world changed on September 15, 2008, the US Treasury Secretary Henry ‘Hank’ Paulson pushed through the Troubled Asset Recovery Program (TARP) but this was for domestic stability. We now know that this collapse was also being used to transfer more wealth to the very rich and powerful. We now know from the Federal Reserve Audit that the Federal Reserve provided a whopping \$16 trillion in secret loans to bail out American and foreign banks and businesses. Senator Bernie Sanders has been relentless in bringing this information of socialism for the rich to the public. While this transfer of Wealth from poor to rich was being put in place, quietly, and without major press coverage, Henry Paulson made a number of trips to China to set in motion a relationship with the Communist Party of China and the government of Peoples Republic of China to stabilize the international financial system.

It was in the context of these quiet visits by the Republican Treasury Secretary where there was broad agreement between China and the United States to coordinate the monetary institutions and the legal architecture for these institutions which flowed from international economic relations. It is the sum total of these monetary, legal and economic relations that constitute what is usually termed, the ‘architecture’ of the international financial system. This international financial system up to 2008 was dominated by the United States with the dollar as the dominant currency of World trade. This dominance was effected through international financial institutions such as the International Monetary Fund, The World Bank, the WTO and manifest on a day to day level by the dollar as the international reserve currency. In particular, the US ensured that oil was priced in dollars.

The current international financial system emerged out of years of Anglo-American imperialism and colonial domination.

After the Napoleonic Wars, Britain dominated the International Financial system and this period of dominance was reinforced after the partitioning of Africa in 1885. This period of British dominance was backed by the resources of African Gold and was appropriately called the international financial system backed by the Gold standard.

After the great capitalist depression of 1929-1945 there was a reorganization of the international financial system and the United States emerged as the dominant force. This was the stage of the Bretton Woods Institutions when the current multilateral institutions of imperial rule came in place. For a brief period the US dominated using the same gold standard but in 1971 the US was exhausted by its overreach in fighting against national liberation movements. Despite calls for the reform of the international system after 1971, the United States rebuffed these calls for a new International Economic Order and propped up the dollar by the expansion of the military. At the ideological level, the media and information complex propagated the idea that the international system was being kept alive by the prosperity of the United States. The dominance of the dollar was reinforced by the Wall Street, Treasury, IMF relationship which forced countries to purchase US Treasury Bills through specific Wall Street primary dealers.

Without democratic control over the Wall Street-Treasury manipulation of asset prices, the Wall Street firms created a neo-liberal framework for political power, one which gave them unlimited powers for speculative activities. This political power concentrated wealth in one per cent of the population but the very concentration of power was creating the seeds for the destruction of this capitalist class. Drunk with the supposed might of the US military, these financial oligarchs created new financial instruments and overextended their gambling until they brought the world to the brink of disaster in 2008. Since that time, the Chinese government has deftly and quietly worked with the US government to stabilize the international system and to work to harmonize the responses to the economic crisis. China, which by 2008 has become the largest holder of US Treasury bonds, played a central role in coordinating a sophisticated response to the meltdown to avoid panic.

With the memory of the consequences of the last great depression with the rise of fascism and competitive devaluations, the Chinese became the mainstay of stability by launching a massive stimulus program in 2009. What was left unsaid in the West was the fact that the capacity for the

Chinese to play this role emanated from the fact that it was a centrally planned economy. Quietly, the leaders of China were challenging the myth of Hegemonic Stability Theory that had been proposed by Anglo-Saxon international relations theorists. According to this Hegemonic Stability Theory it is necessary that there be a hegemon in the world for there to be stability in the international financial system. Drawing extensively from the imperial roles of Britain and the USA since 1816, this theory stated that a hegemonic power can impose some disciplinary restraints on the international financial system and harness its ability as international lender of last resort. This argument implied the recognition of the existence of a powerful central agency, which means that the performance of the global or regional system depends on the policy changes of this critical agency, just like the dependence of national economy on the work of its central bank.

China has turned this argument on Hegemonic theory on its head. The Chinese have eschewed the option of the RMB (The Renminbi, the official currency of the People's Republic of China), replacing the dollar as the currency of international trade in the short term. The leaders of China have also opted to build up the regional economic power in the Asia Pacific region with a clear effort to harmonize economic transformation with Japan and Korea and the ten societies of ASEAN. The continued existence of the high US debt and the instability generated by the uncertainties of the casino activities of US financial behemoths such as Goldman Sachs and JPMorgan Chase has forced the societies of East Asia to develop novel arrangements such as the bilateral currency swap arrangements, barter arrangements, resource for infrastructure contracts, the Asian regional CMI liquidity fund, etc. in order to bypass the Wall Street primary dealers. The media and the intellectuals in the United States have not yet fully revealed to the US citizens that the major cause of the financial crisis came from the irresponsible macroeconomic policy and financial regulatory practices of the US.

China had been trapped by a model of the low wage manufacturing that exported to the United States. This model that has been pursued since the era of Deng Xiao Ping, led to a situation where China had large holdings of US Treasury bills. Presently, China, holds \$1.17 trillion in U.S. Treasuries, and continues to buy some Treasuries through primary dealers (meaning Wall Street firms see [Primary Dealers List](#))

Now China is able to buy and sell Treasuries without going through these dealers while working out a medium term arrangement to get out of the trap of being a low wage economy propping up western capitalism.

This trap of China meant that while Chinese money managers were aware of the activities of companies such as JP Morgan and Goldman Sachs, (knowing full well that JP Morgan was losing billions on speculation on derivatives while acting as a primary dealer), China wanted to quietly sell US Treasuries without spooking the market so that there would not be a run on the dollar and a subsequent devaluation of its own holdings. It was, therefore, in the interest of China to grit its teeth and to search for ways to develop international economic coordination in order to stabilize the international system while looking for the slow evolution of a new international financial architecture. For a brief period, the Chinese political leadership had toyed with the idea of diversifying its holdings of foreign reserves by buying German debt and holding some reserves in the Euro. The depth of the European crisis took the Chinese intellectual class by surprise and slowly they are learning that the European Union and its currency arrangement called the Euro were based on an unsustainable model. It is this realization that is forcing the Chinese to pay closer attention to the operations of the US economy and to have direct access to the US Treasury and its computer link in order to bypass Wall Street.

The forum for this effort to stabilize the system has been maturing through the Strategic and Economic Dialogue (S&ED between the United States and China).

### **Short term impacts on the relationship between the United States and the People's Republic of China**

When Wall Street crashed in 2008, long term imperial strategists such as former National Security Advisor Zbigniew Brzezinski proposed the Group of Two (G-2 or G2) to reflect the special relationship between the United States and the People's Republic of China at a moment of crisis. China has acted in its own interest and has been building up its economic strength within Asia while building new relationships with countries called BRICS and within the wider context of supporting a G 20 formation to promote dialogue for the reform of the international financial system. It is within this new wide ranging platform that one needs to grasp the Strategic and Economic Dialogue ([S&ED between the United States and China.](#))

It was not surprising that it was in London in April 2009, at the height of the anxieties over the future of Wall Street and western capitalism, when President Barack Obama and President Hu Jintao announced the establishment of the S&ED. Henry Paulson and the Bush administration had initiated a low key mechanism for consultation called Senior Dialogue so that the neo-cons could continue their belligerent rhetoric against 'overvalued Chinese currencies;' while quietly pleading with the Chinese not to take any

precipitate action in relation to their holdings of US Securities. President Barack Obama and Chinese President Hu Jintao understood the need to go beyond grandstanding and established a mechanism where high-level representatives of both countries and their delegations will meet annually at capitals alternating between the two countries. This arrangement started in 2009 and the fourth session was recently concluded in Beijing May 3-4, 2012. At this 2012 meeting the "Strategic Track" consisted of deliberations between Secretary of State, Hillary Clinton and Chinese State Councilor Dai Bingguo. The "Economic Track" consisted of deliberations between U.S. Secretary of the Treasury Timothy Geithner and Chinese Vice Premier Wang Qishan. The level of seriousness of these meetings is manifest in the fact, apart from the principals, that there are usually over 20 officials of Cabinet-rank from each side who meet face-to-face and to discuss a range of substantive issues.

As the economic crisis deepened in 2011, the Chinese and the Obama administration agreed on a strategic framework for "Promoting Strong, Sustainable and Balanced Growth and Economic Cooperation." The agreement stated that,

"The United States and China affirm that both countries will, based on common interest, promote more extensive economic cooperation, from a strategic, long-term, and overarching perspective, to work together to build a comprehensive and mutually beneficial economic partnership, add to prosperity and welfare in the two countries, and achieve strong, sustainable, and balanced growth of the world economy."

This agreement involved deepening people to people relationships and was followed by the confidence building measures inspired by the visit of Vice President Joe Biden's visit to China in 2011 and a subsequent visit by Vice President Xi Jinping to the White House in 2012.

Despite these and other confidence building measures and the extensive plans laid out in the framework for strong, sustainable and balanced growth, there were sectors of the US body politic that continued a steady invective against China. The rhetoric was on full display in the saga of the Chinese lawyer Chen Guangcheng. With the usual anti-Chinese rhetoric, the corporate media of the United States had a field day about the escape of this campaigner from house arrest and his arrival at the US legation in China. One could see bungling efforts of the US government to clean up the mess by dispatching Kurt Campbell to Beijing to find a solution before the strategic and economic dialogue talks began. Southern Africans will remember Kurt

Campbell when he was opposed to African Liberation and wanted accommodation with apartheid.

It was this same Kurt Campbell, now Assistant Secretary of State for East Asian and Pacific Affairs who was sent quietly to find a solution. However, the Obama administration was in a fix. It was in China to plead with the Chinese not to sell Treasury Bills, while for the home audience, the media was seeking to overshadow the mission of Tim Geithner by focusing on Chen Guangcheng.

When Hilary arrived for the meeting, the saga continued and Hilary Clinton attempted to play to the US audience. The Chinese told the US that Hilary could take Chen Guangcheng so that they could focus of the serious business of stabilizing the frayed system. In fact, the Chinese leaders had to rebuke Hilary Clinton by stating in the ***China Daily*** that she should not say one thing to the media in public which contradicted the undertakings in private. China had agreed that Chen Guangcheng could leave China and go to the United States. The way in which the Chinese handled the relations exposed a superior grasp of the risks at hand, far beyond the grasp of Hilary Clinton. Timothy Geithner, who had a better understanding of why the United States had to manifest more humility, remained quiet in the face of the grand standing and press conferences that were being given by Hilary Clinton.

### **The importance of this arrangement of Chinese monitoring US Treasuries for world peace.**

Hilary Clinton was a Senator from New York. This is the state where the bankers and primary dealers of the Treasury wield extraordinary influence. It is from politicians in New York such as Charles Schumer where one still hears the refrain that China is undervaluing its currency. It is from the same New York media where there is a constituency that supports militarism, war and the cascading militarization that can spread beyond the Middle East. Hardly a week passes without a major report that the United States is now pivoting towards Asia and that by 2020, 60 percent of the U.S. Navy will be deployed in the Pacific. Last November, in Australia, President Obama announced the establishment of a U.S. military base in that country. With his eyes solely on re-election, Obama forgot the confidence building mechanisms that were being developed and played to the conservatives in the USA by stating that the United States will "continue to speak candidly to Beijing about the importance of upholding international norms and respecting the universal human rights of the Chinese people."

From this cue, writers in mainstream newspapers then carry articles about "[Beijing Exhibiting New Assertiveness in South China Sea.](#)"

What both Jane Pérez and the realists inside China neglect to mention is that Global Warming is a more important question for some islands in the South China Sea. What is more important than struggles over oil and gas resources under the sea bed in the South China Sea is for cooperation between all parts of the world to reverse global warming.

Despite this reality, those students who had been reared in the climate of Hegemonic Stability Theory and "Eurocentric Conception of World Politics" can see no other outcome of the present international system than war between China and the USA in order to decide who will be the hegemon in the 21st century.

"It was two days ago when there was another such treatise in the *New York Times* where the writer was warning. "[Avoiding a U.S.-China War.](#)"

In this missive, the readers were being notified that "Relations between the United States and China are on a course that may one day lead to war." Citing a forthcoming book by Australian international affairs expert, Hugh White, about the dangers of confrontation between China and the United States, this writer was calling for the world to avoid war by a 'concert of power's in Asia.' We are told that in this book, Hugh White is calling for the United States to share power with China, in effect establishing the kind of G 2 envisaged by Zbigniew Brzezinski. This book was written before the word was out that U.S. Treasury Department has given the People's Bank of China a direct computer link to its auction system

This direct link between the computers of the People's Bank of China and the US Treasury puts the entire discussion about Cyber warfare with China in a different light. Why would China need to involve itself with clandestine cyber war with the United States when it has direct access to the most sensitive computer system in the USA? Recently, there was a very long article in the *New York Times* by David Sanger that "[Obama Order Sped Up Wave of Cyberattacks Against Iran.](#)"

What this reporting exposed was the real vulnerability of the United States in future wars because, in the next 20 years, the United States of America cannot compete in the training of computer engineers with Korea, China or India. To do so would require a fundamental overhaul of the US educational system.



The shortsighted elements who play to conservatives will beat the drums of Sino-phobia and warfare but those who want peace will have to follow the changes in the international financial system very closely so that the confidence building measures are kept in place so that the diminution of the dollar is a slow and gradual process and not one that precipitates war.

## **Conclusion**

The fact that the mainstream media has kept this new arrangement from the public is not surprising. This is because the 'mythology' of US strength and 'prosperity' is needed globally at the moment in order for the system to function, especially in the face of the collapse of the Euro. The absence of media discussion and information about China getting its own terminal and the evolution of the new financial architecture (less dominated by the US and West) really helps sustain the "mythology" of US hegemony and exceptionalism in the minds of Americans and many in the world.

However, if there were a serious discussion of international economic relations in the United States, how exceptional can Americans think of themselves if they knew that underneath their "strength" is the fact that the US must beg and borrow from other nations to sustain itself and hide the reality of how bankrupt and hollow the society has become over the last few decades of the neo-liberal financialization of the US and global economy which has only benefited the 1%.

Our ongoing effort to highlight the depth of this capitalist depression is to be able to keep making the linkages of the interconnected nature of the crisis. This week we can firmly link the story of China getting its own terminal, to the recent [report](#) of how much "wealth" US families have lost during the recent financial crisis caused by Wall Street. which actually further shines the light on how "imaginary" and "unsustainable" were the actual last few decades of America's "prosperity" which Clinton and others love to reference as examples of American superiority

The fact that the People's Republic of China has been given a terminal to buy US debt directly and bypassing Wall Street must be viewed in the context of the "architecture" of global capitalism in the current period of history which is a product of the recent decades of the rise of "financial" driven capitalist globalization. When seen in terms of "architecture," having the terminal can be placed in the larger context of the many steps taken by China, the US and the EU to both sustain the some central elements of the current system (like US dollar as the world's reserve currency) by actually evolving it with the introduction of new features (like China getting its own terminal. Other new features which be seen as both sustaining the overall system by

"evolving" it include the planned BRICS Development Bank, the bilateral currency swap arrangements, the Asian regional CMI liquidity fund, etc.

It is imperative that there are plans for the acceleration of the African Monetary Union and for the African Central Bank. What we want concerned economic planners to realize is that while the neo-conservatives focuses on individual variables which reflect sustaining the current system (like is oil still priced in US dollars), people and nations should be more forward looking and understanding of how the architecture (previously dominated by the US and the West) is evolving in ways (less dominated by the US and the west) which can open new opportunities for structural transformation in societies if peoples have the vision and desire for change.

Just as how Wall Street collapsed in 2008 and the Euro is collapsing, we are witnessing the evolution of a new architecture before our very eyes. If today, less than 10 per cent of Chinese trade is indexed in the RMB, what will the international financial system be like when over 50 per cent of Chinese trade is indexed in the RMB? In the short term, progressives must support the avoidance of war, but in all parts of the world a new mode of economics is needed to shape the multipolar world of the 21st century.

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