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Why Obama Got Nothing at APEC Dealing With Republicans

by MICHAEL HUDSON and SHARMINI PERIES

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SHARMINI PERIES: During this year a number of governments applied sanctions against Russia for its involvement in the alleged pro-Russian unrest in the Ukraine. Sanctions against Russia were applied by many countries, with the United States and the European Union taking a lead. In retaliation, Russia has responded with sanctions against a number of countries, including a total ban on food imports from the European Union, United States, Norway, Canada, and Australia.

What does all of this mean to Europe, the United States, and the geopolitical reconfigurations on trade pacts?

Here to discuss all of this is Michael Hudson. Michael is coming to us from New York City. He is the distinguished research professor of economics at the University of Missouri-Kansas City.

So, Michael, what's going on this week in Beijing?

MICHAEL HUDSON, PROF. ECONOMICS, UMKC: The APEC meetings. In most such meetings for the last few years, including the G20 meetings (coming up in Brisbane this weekend) nothing really has been done. The United States is attending as the odd man out.

At issue are two different views of how economies should evolve. China is moving for its own trading bloc instead of being in a privatized pro-corporate bloc, it's a mixed economy. So what you have is the Chinese economy growing very rapidly, and the American economy that's been going flat.

In a situation like this there's not really much to say. Both sides want to make everybody look good. So China and the United States have announced pretty much what they were going to do anyway and make it appear as if they're all doing it in harmony.

President Obama was talking mainly to his American base, and to the Republican Party in particular to work on the Trans-Pacific Partnership, as well as to his Democratic base. His vision is a Trans-Pacific Partnership that will abolish government regulation of the environment, abolish regulation of banking, and implicitly nullify the Dodd-Frank Act. If a bank misbehaves or a government requires higher reserve requirements, then under the new international law that Mr. Obama is pushing, the government have to pay the private bank as if it weren't regulated. And if a government such as China imposes environmental fines on a company for polluting the environment, the government will have to pay the company whatever it would have made if it didn't have any such fines.

The big news in the American press is that China has agreed to lower its air pollution. Well, of course China has to lower its pollution. If you've been in Beijing, you know that it's a polluted city. So this is just an announcement of where it's going. Russia announced at the meetings a \$400 billion 30-year gas deal with China to increase gas exports, with some oil also going to China. So China will scale back its coal plants, and there'll be less coal smoke in the air. This would have been done anyway.

Mr. Obama said that the United States is also going to cut back carbon emissions. But he's still pushing for the XL Pipeline with Alberta to bring tar sands oil into the United States. That is the most high polluting activity on the planet.

What has been less talked about are the banking changes that have been announced.

PERIES: Before you move on, Michael, isn't it a bit ironic that on one hand China signs an accord with the United States making a commitment to cut emissions, but on the other hand they're making a deal with Russia that includes oil, a fossil fuel that will obviously increase emissions, not reduce them?

HUDSON: Every economy needs oil to some extent. China has to use oil for many things that gas simply won't work for. Every country's GDP goes up in keeping with its energy consumption. You could say the rise in productivity for the last hundred years, throughout the Industrial Revolution, has been an increase in energy use per worker or per unit of output. So it's the energy that's pushing growth. And of course China needs oil. In fact, one of its problems is that when people are getting richer, they want to have cars, and they use gasoline. So of course China's going to be dependent on oil from Russia.

Mr. Putin said that as a result of these deals, Russian trade with China and the rest of Asia is going to increase from 25 percent to 40 percent of Russia's GDP. This leaves Europe out in the cold. What's been clear at the meeting is that there's a coming together between China and Russia. This has been the opposite of what American foreign policy has been trying to push for since the 1980s. What is ironic is that where the United States thought that it was putting pressure on Russia and sanctions following the NATO adventure in Ukraine, what it's actually done is bring Russia and China closer together.

The most important way in which they're coming together is reflected in Mr. Putin's announcement that Russia is setting up its own bank clearing house system independent of the so-called SWIFT system. When you transfer funds from one bank to another, or when any bank uses U.S. dollars, it has to go through the SWIFT clearing house system in the United States.

Right now the only country that's not part of this is Iran. To Russia, this has tipped America's hand. It showed that what U.S. Cold Warriors really want is to break up Russia and China, and to interrupt their financial and banking services to disorient their economies. So Russia, China and Iran – and presumably other Asian countries – are now moving to establish their own currency clearing systems. To be independent of the SWIFT system and the U.S. dollar, Russia and China are denominating their trade and investments in rubles and yuan instead of the dollar. So what you've seen in the last few days in Beijing is a rejection of the dollar standard, and a rejection of American foreign policy behind it.

China has doubled its military spending since Mr. Obama was there in 2009. The president of China politely said, let's make sure there's not an accidental bang up in the air or on sea. What he means is, "We've defined our airspace over the islands that we're claiming as ours, so if one of your planes comes too close to ours and we bump into it and knock it down, please don't take this as an attack on America. We don't really mean it personally." So China's really throwing its weight around.

That's why Mr. Obama has looked so uncomfortable at these meetings. He knows that he hasn't gotten anything he wants. Asian countries are not about to join the Trans-Pacific Partnership, and they're moving on now to Brisbane, Australia.

In the next few days you're going to see Europe being left out. The sanctions that the United States and NATO have insisted that it impose on Russia have led to Russian counter-sanctions against French and Baltic and European exports. French farmers are already demonstrating, and Marine Le Pen's nationalists are likely to win the next election. The Baltic States are also screaming from losing their farm exports. France, Latvia, and even Germany had been looking to Russia as a growing market the last few years. Yet their leaders obeyed U.S. demands not to deal with the Russian market. This leaves Europe in a position of economic stagnation.

As for the sanctions isolating Russia economically, this is just what it needs to protect its industrial revival and economic independence. In conjunction with China, it's integrating the Russian economy with that of China, Kazakhstan and Iran. Russia is now going to be building at least two atomic reactors in Iran. The center of global investment is shifting to Asia, leaving the United States out as well as Europe.

So you can expect at the G20 Brisbane meetings next week to increase pressure from Europe to break away from the U.S. sanctions. All the United States has diplomatically at the present time is military pressure, while Russia and China have economic growth – markets and investment opportunities opening up. Despite the fact that there was an agreement on high-technology trade between the United States and China, the U.S. is basically being left out. This seems to be why Mr. Obama was looking so out of sorts at the meetings. He knows that the strategy that he was given by his neocons is backfiring.

PERIES: Finally, Michael, how do you think this is going to be dealt with by Congress and a Republican-controlled Senate now?

HUDSON: Obama said that he looked forward to dealing with the Republicans now that he doesn't have to deal with the Democrats anymore. Republicans are the only party that would agree to his pro-corporate, anti-labor Trans-Pacific Partnership. He has shown himself to be a Republican in the same spirit as Cheney and George W. Bush. The noises coming out of Washington from Harry Reid and the Democratic leadership are blaming Obama for mishandling the economy so badly and losing them the election – as if it were not their own doing and Steve Israel's support for Republican-striped Democratic Blue Dog candidates. So if I can paraphrase what Obama essentially said, it's "I'm a Republican and I'm supporting Wall Street." He's letting the Republicans know he's pushing for the kind of giveaways that the lobbyists have written into the Trans-Pacific Partnership. I think you've had Lori Wallach on your show explaining exactly what this is. So you can expect Obama to move even more sharply to the right, getting Republican support while the Democrats pretend to scream in agony and say, "My God, what have we ever done with bringing this guy in?" – while supporting Hillary.

PERIES: Michael Hudson, as always, thank you so much for joining us.