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WORLD NEWS: THE AMERICAS: Capital markets 'could be used as tool of US foreign policy'

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To enforce its will around the world, Washington has traditionally relied on the time-honoured trade embargo. But under a new set of legislative proposals, the US could also use its capital markets as a foreign policy tool.

Fred Thompson, a Republican senator from Tennessee, is preparing to introduce an important but little-noticed amendment to the current bill to grant China permanent normal trading status.

The measure would call on the president to submit an annual review of China's record on weapons proliferation and impose a graduated series of economic sanctions for any transgressions. At their most severe, these would prohibit companies owned by Chinese nationals from raising funds on US debt or equity markets.

The proposal's chances of becoming law do not appear great, but it reflects a growing body of opinion that the US should leverage the supremacy of its markets to help achieve its policy goals.

Last year's Cox committee report concluded that China is using US capital markets as a source of military funding and a way to disguise efforts to acquire sensitive US technology.

Another report, prepared by former CIA director John Deutch, also concluded that the US "is not making optimal use of its economic leverage in combating proliferation".

"Trade sanctions are only one of the economic tools at our disposal," the report said. "Access to US capital markets (is one of) the wide range of economic levers that could be used as carrots or sticks as part of an overall strategy to combat proliferation."

Supporters point to the four-decade trade embargo against Cuba, which has failed in its objective to topple Fidel Castro while costing US industry untold business opportunities.

In contrast, capital market restrictions are a targeted economic sanction which avoids "collateral damage" to US companies, they say.

This year, proponents have been emboldened by the successful opposition to a planned initial share offering by PetroChina, the main operating sub-sidiary of China's biggest oil company.

After an ad hoc coalition of left-leaning protest groups and conservative national security types united against it, PetroChina was forced to scale back its offering from early plans of up to Dollars 10bn to just Dollars 2.9bn.

Now, with the battle raging over permanent normal trade relations with China, Sen Thompson is trying to draw attention to what he says is the country's record in helping rogue nations acquire weapons of mass destruction.

"It makes no sense for us to consider this trade issue in total isolation from the real world that we live in," said Sen Thompson in an interview.

"If we give the signal that we're more interested in the dollar than our own security, it'll have all kinds of ramifications." Clinton's unusual alliance, Page 16

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