

Communists, bankers are reviving Shanghai

by Mary McCourt Burdman

Both Chinese Communist and Western ambitions seem to be meeting again in Shanghai these days. Before World War II, the city of Shanghai—which the British turned into a major port after the Opium Wars in the 1840s—was the financial center of East Asia and one of the world's great international cities. The International Settlement and French Concession, within which Europeans, Americans, Russians, and Japanese enjoyed all the advantages of extraterritoriality, were the center both of trade—including, of course, drug traffic—and of espionage for the region. The international concessions were also the cradle of the Chinese Communist movement.

All this came to an end with the Communist revolution in 1949, and Shanghai, although the biggest industrial city in China with 12.6 million people, has stagnated for decades. Even under the Deng Xiaoping free-enterprise “reforms” of the past decade, there was little investment in Shanghai compared to the “Special Economic Zones” and particularly the region between Hong Kong and Guangzhou in Guangdong province. Instead, while taxed far more heavily than any of these regions where the government wanted to foster the rapid growth of cheap export industries, Shanghai, like East Germany, was forced to survive on infrastructure that has scarcely been touched since 1949.

Shanghai was hit especially hard during the Cultural Revolution, especially the “sophisticated capitalists” who went about their business as they had done “when the British administered the city,” the *Far Eastern Economic Review* pointed out on March 15.

Now, there are efforts to change this, which are causing much speculation in the West about Shanghai's rising fortunes as those of Guangdong fall. Ousted Communist Party Secretary Zhao Ziyang came from Guangdong, where he was provincial party chief in the early 1950s. Certainly, a Shanghai “mafia” has risen to eminence in China in the past years, and some Westerners are dreaming of regaining their lost possessions. How much they will get, remains to be seen.

The Chinese Communist regime is undoubtedly interested in attracting Western investment. But its leaders are also

going all out to reconsolidate their power in China, drastically undermined by the “reforms” which came close to a free-for-all at times, with regions and enterprises securing their own foreign loans and their own special arrangements to withhold all taxes from Beijing. The process drove China to the verge of bankruptcy. Beijing must prevent any further drift of the southern and southwestern regions, including Shanghai and Guangzhou, away from the center, and is promoting Shanghai to do just that.

China's preeminent leaders, Deng Xiaoping and military strongman President Yang Shangkun, celebrated the Spring Festival (the New Year, China's most important holiday) in Shanghai in January. In February, two old Shanghai hands, Qiao Shi, Politburo member and head of China's internal security, and Zou Jiahau, who was promoted to replace Vice Premier Yao Yilin as head of the powerful national State Planning Commission in December 1989, were in the city.

Shanghai is being promoted as the new financial center of China, and last year did the heaviest foreign exchange trading in China. According to the P.R.C. publication *Outlook* in February 1990, “almost all of the foreign investment enterprises” and foreign trade companies must go through the Shanghai foreign exchange market. There are plans to allow foreign banks to open branches there, which until now has only been permitted in the Special Economic Zones, and in January 1990, China's first “Dow Jones”—the Shanghai Exchange Jing'an Index—was announced. The Shanghai Exchange was established in 1986.

Land use rights are now being sold in Shanghai for the first time since 1949. A plot was transferred to a Taiwan businessman to build a machinery and electronics factory, on a 50-year lease. Many foreign business people and overseas Chinese are negotiating with the city government for the transfer of land use rights.

A ‘new Gorbachov’?

Westerners are touting the mayor of Shanghai, Zhu Rongji, as a potential “new Gorbachov,” who will use his good ties with the West to win favors from the aging dinosaurs in Beijing. More likely, this is a double-sided game. The “reformists” in Shanghai are being promoted to attract Western investment, but Westerners should check their credentials. Just before the crackdown a year ago, National People's Congress head Wan Li, who had openly stated his support for the student demonstrators while in Washington a year ago last May, was abruptly summoned back to Shanghai. There, he was greeted by Jiang Zemin, who was appointed by Deng to replace the ousted Zhao Ziyang as party secretary, Mayor Zhu Rongji, and Shanghai party chairman Ye Gong Qi. Just days later, Wan emerged from the sanitarium where he had been confined to fully endorse martial law.

Mayor Zhu Rongji has fully endorsed the “stability” campaign—i.e., the brutal crackdown—being run by Prime Minister Li Peng, Yang Shangkun, and Qiao Shi. “The climate

for investment is unprecedentedly good, especially better than since last June," Zhu Rongji announced to Western reporters May 18. "After the test of last year's upheaval, the people of Shanghai are more firm, unified, and have come to realize that stability is important to the happiness of their lives."

At the same time, the central government has fully endorsed the development of Shanghai. Despite rumors that Mayor Zhu is his chief rival for his position, Li Peng went to Shanghai April 14-18, and announced that the Central Committee of the Communist Party and the State Council had approved the municipal government's plan to accelerate the development of Pudong and implement "flexible policies" there.

Li spoke at the ceremony marking the fifth anniversary of the Shanghai Volkswagen Corporation, the largest foreign car joint-venture in China. He announced that some of the policies of the Special Economic Zones can be implemented in Pudong, a 135-square-mile industrial and commercial project in East Shanghai which is to include tax-free warehouses and export-oriented factories. Vice Premier Yao Yilin met for an hour with British financier Jimmy Goldsmith on April 29 to promote investment in Pudong.

British financiers are leading the pack to get back into Shanghai, but they are not alone. Mayor Zhu has put together

an International Advisory Board of 18 companies, featuring the American International Group. AIG has Henry Kissinger as head of its international advisory board, which also includes Kissinger Associates partner Sir Y.K. Kan, the former chairman of the Bank of East Asia. AIG chairman Maurice Greenberg, who has friends in the Communist Party bureaucracy, also dealt with the ousted Romanian dictator Nicolae Ceausescu since 1979. He set up a joint venture deal with China's People's Insurance company in 1980.

The firms Arthur Andersen, Fiat, Renault, and Toshiba are also members of the International Advisory Board.

Prescott Bush, George Bush's older brother, is involved in Shanghai. He has a 30% stake in a project to build an \$18 million joint-venture country club for the expatriate community there. One must wonder whether, like the parks in the foreign concessions in imperial China, this will also prohibit "dogs and Chinese."

Siemens and Volkswagen of West Germany are also very interested in the future of Shanghai. Last September, Trilateral Commission and Bilderberg Group eminence Otto Wolff von Amerongen met with Chinese leaders Li Peng and Li Ruihian to discuss a new subway project for Shanghai. Both the Chinese press and the West German ambassador were very discreet about von Amerongen's visit, coming so soon after the Tiananmen Square massacre.

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