GATT and 'shock therapy' loot China

by Ray W. Wei

During the last week in December, the *People's Daily*, an official newspaper of the People's Republic of China, printed an article calling for the unification of foreign exchange rates. The call for unification is to pave the way for a "deepening of the open-door" policy to make the Chinese yuan totally convertible with the U.S. dollar, as demanded by the General Agreement on Tariffs and Trade (GATT).

In fact, there has been an unofficial exchange rate that floats 15-30% above the official rate. The official rate is set between the U.S. dollar and the People's Currency (RMB) by the Bank of China, while the unofficial rate is negotiated between the Foreign Exchange Centers and the trading companies willing to purchase either RMB or any other hard currency. Often, a higher price is to be paid for purchasing hard currencies for imports, and therefore, this dual exchange rate system serves as leverage to protect foreign goods from freely flowing into the country. Also, for foreign trading companies to market directly in Chinese shops, a Foreign Exchange Certificate (FEC) is introduced between U.S. dollar bills and the RMB yuan bills as a special bill—the third form of cash which flows underground to satisfy the thirst for foreign goods. But the real issue is not just to prevent dollars and FECs from changing hands between the various sharks swimming in the black markets in Shenzhen, Shanghai, or other Special Economic Zones where all kinds of illegal, quick money deals are made.

Get the China door wide open

For the last two centuries, the vast lands of China have been invaded by forces from the West. This was most clear-cut during the period of the "Opium Wars." But in Hong Kong today, opium traffickers like Jardine Matheson Ltd. still enjoy the tremendous wealth that they have made from looting southern China and Hong Kong ever since 1831. In the old days, the profit—measured in silver, gold, or other jewelry—was transported out of China under the security of western guns and armies. China was carved into concessions, and the Chinese turned into slave laborers. Indeed, "the China door was wide open," drugs poured in and gold was drained out.

Early in this century, Dr. Sun Yat-sen attempted to wake up the Chinese to the evils of British power, and against the Treaty of Versailles. But Dr. Sun's ideal of a republican China was sabotaged by the same forces from the West responsible for the Opium Wars. And as a result, Chairman Mao Zedong, who shared the same epistemological view of materialism with the British invaders, came to power in 1949. Mao closed the door to build his own fascistic empire.

Then, in 1978, Deng Xiaoping came to power and, obsessed with the fantasy that foreign bankers would come into China with dollars to bail out the flagging Chinese communist power, instituted his open-door policy. Deng, however, knew that the British power in Hong Kong and the U.S. interest group in Taiwan would not take their paws off China. There is no difference between what China is facing and what Poland and Russia have received from the West in the last few years. Deng opened the door, dreaming that western bankers would come to loot freely but save his old life and communist power; his blackmail to the world was, "If I die, you all die."

Who is pushing the issue?

Western bankers and investors came to bail out Deng, but they also brought "democracy" to smash communist power. Deng ordered the massacre in Tiananmen Square on June 4, 1989 to convince the world that communist power would be maintained at any cost. Some financiers were kicked out of the country. Among them was George Soros, who gave a million dollars of foot-in-the-door money before the massacre to run the Open Door Foundation. Deng kicked Soros out, accusing him of being "CIA connected."

Outside China, these same people set up funds to train Chinese students, political dissidents, and academics in free market economics at schools like Harvard and the University of Chicago. In this operation, the current head of the Chinese Alliance for Democracy was educated in Milton Friedman's mythical theory of free trade. Similarly, the key person responsible for reestablishing the Shanghai stock market—with permission directly from Zhao Zhiyang—graduated from Harvard.

The *People's Daily* article also argued that "the Foreign Exchange Administration has repeatedly said that the final goal of currency reform is free conversion of the yuan, which would tie us more closely to the world economy." But these arguments are advanced by the people who were trained by the western economists responsible for the current world economic breakdown, and are now being called upon to bail out the Communist Party. These are the same people who will protect foreign interest groups. Also, through the power of their political network, they made large amounts of money. Now, to import western consumer goods, they need to convert Chinese currency to the dollar freely.

In 1992, a new U.S. regulation made it possible to invest more than $1 million and apply directly for permanent residency in the United States. Out of the first seven applicants, a Chinese from the mainland ranked number two in terms of the amount of investment. Since the country's average annual income is only a few hundred dollars, where he got this money remains a big question.

Ironically, those made rich by abusing power are the people who would like to obtain foreign currencies to leave the country, to leave the poverty behind.

Two Chinas

There are two Chinas now, not the mainland and Taiwan, but a little China along the southern coast, whose wealth comes from looting the other China—the giant inland. To protect natural resources flowing out of inland China, local customs were set up for years on the roads to the coasts. Yet in the Special Economic Zones, largely unprocessed raw materials flow out of the ports, heading for Hong Kong, San Francisco, and Seattle.

In turn, South China is looted by western investors through the supply of cheap labor. Of course, China needs foreign currency to upgrade her technology, infrastructure, and to build physical economy. But, as indicated by data from 1988-90, roughly 80% of foreign currency comes from the export of cheap labor, including child labor, and low-technology consumer goods.

Since private savings of foreign currency in China is as low as $10 billion (including currencies from 32 countries ranging from the ubiquitous U.S. and Hong Kong dollars to the Russian ruble), which is about $9 per capita, savings in yuan has to be used for foreign exchange to satisfy the growing appetite in South China for imports of consumer goods, which has pushed the Chinese yuan even lower against the U.S. dollar.

If China rejoins GATT, and customs and tariff barriers are reduced, the domestic demand for imports will certainly grow more fierce. Inflation could then exert major pressure for the downward adjustment of the yuan.

Reentering GATT is simply applying "shock therapy" to most of the Chinese industries, as the country will be faced with drastic cuts in tariffs. A report cited in *Beijing Review,* a Chinese weekly magazine (Vol. 35, No. 48, 1992), showed that "at present, the average actual tariff rate in China is 22.5%, but that of the other GATT members which are developing countries is only 13-14%. China has to cut its overall tariffs by almost 50% in the next three to five years." All the uncompetitive fledgling industries involving advanced technologies (automotive, heavy machinery, chemical, bio-engineering, electronics, etc.), and all the industries that demand high-water, high-energy input, will face bankruptcy under the pressure of international competition, because 3-5 years is not a long time for these companies to upgrade their technologies. Exports will then remain cheap goods produced with less working skills, i.e., cheap labor. With cheap labor, China will never have enough funds to build infrastructure, jump-start the physical economy, and put the Confucian moral standard back into society under the science of Confucian economy. China, instead, will face the horrendous challenges of AIDS and economic disintegration at the turn of the century.