

# China cleans out British free trade vulnerabilities

by Michael O. Billington

Over the past four months, Beijing has taken dramatic steps to eliminate certain vulnerabilities within China to the effects of the ongoing crisis in the world financial system and the shock therapy demands of the British and the International Monetary Fund (IMF). Since February, a number of prominent political and business leaders, from Politburo members to top executives in state industries and financial institutions, have been arrested and/or forced to resign. There is no longer any question that Beijing is serious about the "Anti-Corruption Campaign," a campaign which has been demanded by most policy factions in China since the early stages of the reform begun in 1979, and was even acknowledged by the Beijing leadership to be a legitimate demand of the student-led mass demonstrations in Tiananmen Square in 1989. Until these recent events, however, it was generally believed that the well-connected elite were untouchable on their wide-open financial dealings, as many leaped into the hot-money empire of colonial Hongkong.

There have been three notable targets of the anti-corruption cleanup thus far. The first was the family which runs the nation's largest steel complex and a nest of subsidiary firms in Hongkong which are primarily engaged in real estate and related speculative activities. The second target was the powerful secretary of the Beijing municipal Communist Party committee, and extended to other prominent figures involved in massive Hongkong real estate development deals in Beijing. The third target was the corporate leadership of the largest brokerage firm on the Shanghai Stock Exchange.

The British press in the Crown Colony has gone to great lengths to portray these developments as merely the jockeying for position of contending forces, maneuvering to take control upon the death of the ailing supreme leader Deng Xiaoping. This has functioned as a smokescreen for the fact that all the critical targets of the campaign have been directly tied to the leading Hongkong agent for British operations in China, Li Kashing.

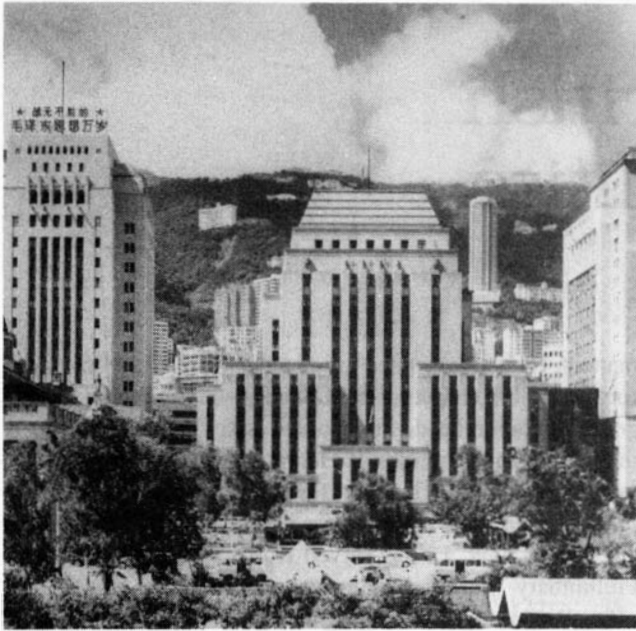
Li Kashing, reputed to be a member of the 14K Triad, the executive body of China's secret societies, is the leading modern-day British comprador in Hongkong. His primary holdings are in real estate, but he serves on most of the significant agencies and boards in the Crown Colony, including that of the Hongkong and Shanghai Bank, which functions as the effective government in regard to most financial

matters. He is also reputed to be one of the primary financiers for the Hollinger Corp., the Canadian-based British intelligence operation headed by Conrad Black, and whose board includes such luminaries as Henry Kissinger, Edgar Bronfman, and Margaret Thatcher. He is very close to the Keswick family of Jardine-Matheson, the historical controller of Britain's Dope, Inc. Li has served from the beginning on the Preliminary Working Committee of Hongkong leaders and officials working with Beijing on the 1997 transition, and in 1994 he was a founding partner in the New China Hongkong Group, a corporate alliance of government and business leaders from both Hongkong and the People's Republic which was formed to extend Hongkong-style government into the mainland.

Although Beijing has publicly asserted that neither Li Kashing nor any of his corporate entities are under any official investigation, it is clear that the networks within China connected to the kinds of "shock therapy" deregulation of industry and finance, such as those associated with the Hongkong speculators, are being cleaned out. The British have consistently portrayed China as being on the verge of general chaos and disintegration, a condition which the British themselves are attempting to create. However, the current leadership alliance in Beijing has in fact shown itself to be quite stable, and has increasingly over the past year turned China away from the British-IMF demands for privatization, deregulation, and an emphasis on the coastal low-technology industries for export, in favor of major infrastructure projects and the development of heavy industry, especially in the interior of the country. The recent arrests and forced resignations indicate that Beijing recognizes that such real development will not be possible unless the vulnerabilities to British financial destabilization and shock therapy are removed.

## A sketch of the reform era

A brief sketch of the reform era is necessary to properly situate these developments. As Deng Xiaoping began the reforms in 1978 to bring China out from under the ravages of the Maoist era, he believed that the massive financial resources of Hongkong were the necessary source for the modernization of China. In the early 1980s, when Li Kashing began to move large amounts of development capital out of Asia, into Canada in particular, Deng determined that he



*Beijing's "anti-corruption campaign" is designed to eliminate vulnerabilities to the world financial collapse, especially those tied to the Hongkong agent for British operations in China, Li Kasheng, who sits on the board of the Hongkong and Shanghai Banking Corp. (above) which dominates Hongkong's Central District.*

must redirect these funds into the mainland. The 1984 agreement with the British to return Hongkong to Chinese sovereignty at the end of the 100-year lease on the New Territories in 1997, included an unwritten protocol that China would establish several Special Economic Zones (SEZs), on the sites of the old British colonial treaty ports, where foreign investors would be permitted to set up tax-free, labor-intensive industries to exploit the cheap labor of the rapidly expanding pool of displaced peasants from the countryside. China became the "model" for the Third World side of the "globalization" of industry, a process led by Margaret Thatcher and her American sycophant George Bush to dismantle industry in the advanced sector, moving some of it to the Third World sources of cheap labor. As the productive economies of the West were replaced by speculative binges in junk bonds and derivatives, the "emerging markets" of the Third World increasingly became a source for both cheap labor and for massive speculative looting to feed the global financial bubble, leading to such fiascos as the Mexico crisis and the Barings Bank collapse, with many similar disasters waiting to explode.

In China, the implementation of the SEZ policy was a matter for considerable debate. Hu Yaobang, who had been in charge of the de-communization of agriculture, and who was the designated successor to Deng Xiaoping until 1987, insisted that the trade zones must be developed as an engine for China's domestic industrial infrastructure. He warned against what he called "two ends outside," referring to indus-

tries which imported raw materials and semi-finished goods from "outside" the country and merely processed them into exports, returning the product to the "outside," which, he said, would improve neither the national economy nor the skill level of the population in the long run.

Hu Yaobang's warnings went unheeded. The policy which ultimately guided the SEZs was that of Zhao Ziyang, who was to replace Hu Yaobang as general secretary of the Communist Party when Hu was purged in 1987. Zhao Ziyang was the darling of the New Age monetarists in the United States, those who are now known as the gurus of the Newt Gingrich, Phil Gramm "Conservative Revolution," such as futurologist kook Alvin Toffler, the Mont Pelerin Society's Milton Friedman, and king of the derivatives speculators George Soros, who was to become the primary sponsor of "shock therapy" in eastern Europe after 1989. With this team of advisers, Zhao Ziyang's reforms created several coastal boom towns, flush with hot money, cheap labor, drugs, corruption, and a relatively rich elite, while the rest of the country stagnated. By the early 1990s, the decay of basic infrastructure, such as power, water, and transportation, and the threat of a breakdown of agricultural production, as well as the social crisis caused by 150-200 million unemployed peasants, combined to cause a serious reconsideration of the direction of the reform process. The disastrous effects of shock therapy in Russia and the other eastern European nations were watched extremely carefully in Beijing, and the purported wisdom of its architects from the IMF, Harvard, and London was seriously questioned.

Development planning took a dramatic shift. While Shanghai was being rebuilt as an international trade center, it was to be viewed not as another SEZ, but as the "bow" for generating development along the "arrow" of the Yangtze River, deep into the interior. The plans for the Three Gorges Dam on the Yangtze were finally approved, including massive water diversion projects to solve the water shortage in the north. Proposals for new Asian-European and Asian-African rail lines, along the routes of the old Silk Roads, were reactivated and partially implemented, with the included idea that these lines would serve as "development corridors" in the interior. At the same time, the policies of the IMF and the Hongkong financiers, who demanded rapid privatization, decontrol of prices, elimination of guarantees for the welfare of the state sector workforce, and so forth, came under attack, not only by diehard Marxist advocates of central planning, but by also many leaders of the reform in the government.

Over 1993 and 1994, China learned that the British Hongkong investors, who constituted the largest percentage of foreign investment in the mainland, were not willing to put their money into these long-term infrastructure development programs in the interior without unacceptable conditions on Chinese sovereignty and exorbitant guaranteed rates of return. At the same time, the Hongkong-led speculators easily found ways to circumvent the primitive government efforts

to control speculation in real estate and in the new stock markets, contributing to the worst inflation in the history of the People's Republic, and the recurring collapse of several localized speculative bubbles. Junior officers of state sector industries were seduced into speculation in the London derivatives markets by some of the yuppies deployed by the City of London, resulting in the loss to the Chinese government of hundreds of millions of dollars. The IMF, meanwhile, used China's desire to join the new World Trade Organization to demand that China drop all protective measures for its still primitive agriculture and industries, declaring that China must be considered an already "developed" nation merely because of its size.

### **No blind worship of western economic textbooks**

The conflict came to a head in August 1994 when Zhu Rongji, the Communist Party and government leader in charge of the economy and head of the central bank, addressed a special conference on the agricultural crisis. Zhu, who had since 1989 been considered by many in the West as the most liberal of the reform leaders in China, launched a scathing, surgical attack on the ideological roots of the shock therapists and their supporters within China. Zhu said: "There exist a series of erroneous ideas on the question of whether the government should intervene in the market and regulate. This series of erroneous ideas has led to chaos in the circulation sphere. We have suffered great losses as a result of such chaos! . . . It is still being advocated that the market is a panacea, that market means complete *laissez-faire*, letting prices be formed by the market spontaneously, and that there should be no regulation."

He refuted those in the party who complained that he was proposing to go backwards, to retreat from the reform. "Blindly worshipping and applying western economics textbooks," Zhu said, "will have grave consequences. . . . The western economics which is worshipped blindly is not even the practice of western economies, but stuff in western textbooks of economic theory. . . . Those comrades of ours have not fully grasped western economic theories, even less the practical experiences of western economies and capitalist market economies, but they would go all-out to advocate the market economy based on free competition, brandishing the stuff in textbooks, and letting an invisible hand guide the economy. . . . The question is, is it still possible to find a market economy based on totally free competition in today's world? No."

On the effects of the free trade policies on the economy, Zhu said: "Since the beginning of last year, we have suffered overly great losses. Nothing is regulated now. . . . Presently, fraudulent, fake, and substandard goods are prevalent; many people no longer have any sense of quality or law, and are not public-minded or ethical at all. Price increases on the past year are not caused by a tight supply-demand situation, but

by a lack of regulation of the circulation sphere and market prices."

Zhu Rongji also defended the state sector industries, speaking at the World Economic Forum in Davos, Switzerland. "China's state-owned enterprises are not losing as much as claimed by some foreign media. In fact, the economic performance of China's state-owned enterprises is becoming better year after year. The majority of the losing enterprises are the small and medium-sized ones, and their total assets and number of employees are less than 20% of those of all state-owned enterprises," he said. Zhu also pointed out that only two public sectors require major state subsidies, coal and the military industries, totaling about \$600 million.

While denouncing free trade, Chinese government agencies also published documents strongly supporting the foreign policy initiatives of U.S. President Bill Clinton. Clinton has replaced the "globalization" emphasis of the Bush administration with a policy of fostering high-technology exports and investment in infrastructure, aimed at developing strong economies around the world. The official Beijing journal *Shijie Zhishi* on Feb. 1 praised "Clintonomics" as an attempt to "replace *laissez-faire* with activism and restrengthening government intervention in economic life." *China Daily* on April 3 even declared that the "special relationship" between the United States and Britain was finished, and the situation was "irreversible," praising Clinton's efforts to "combine central and eastern Europe together, to stabilize Russia, and then to form a new European pattern beneficial to it."

### **The arrests**

In late February, Zhou Guanwu, president of Shougang Steel, the premier steel company in China, suddenly resigned, while his son, Zhou Beifang, was arrested for unspecified economic crimes. The father, a close friend of Deng Xiaoping, had pioneered the "contract management" form of industrial management as head of Shougang Steel, while the son had headed its far-flung Hongkong operations. In 1993, Zhou Beifang, in partnership with the youngest son of Deng Xiaoping and the infamous Li Kashing in Hongkong, launched what became known as "backdoor listings" in Hongkong.

Five small or failing companies listed on the Hongkong exchange were purchased by subsidiaries of Shougang Steel. These shell companies then acquired a number of mainland firms, and proceeded to pour money into Hongkong real estate and other speculative ventures. This method not only bypassed both the Beijing and the Hongkong regulations for forming new listed companies, but also provided a means to transfer Chinese government-owned companies into private hands in, at best, a quasi-legal manner. It was also widely suspected that billions of dollars were illicitly laundered out of the mainland and into private accounts in Hongkong, some of it reinvested back into the mainland, thus receiving the special concessions reserved for "foreign investments." As enormous amounts of money flowed in and out of the main-

land through Shougang and similar networks, the biggest real estate bubble in world history drove Hongkong prices to four times the value of prime New York office space, with some mainland values in the SEZs not far behind. The bubble burst at the end of 1993.

The Beijing government has reported that Zhou Beifang's arrest is not related to his Hongkong business dealings. It is rumored that the charges will be related to an "illegal fundraising scheme" in Jiangsu Province with links to State Security. Li Kashing has reportedly expanded his connections with the Shougang group, but the group's stocks have fallen dramatically on the exchange. Li also, for the first time, moved a sizeable portion of his personal holdings in his Hongkong corporate structure into a trust in the British Cayman Islands, perhaps seeing the handwriting on the wall.

The second scandal revolves around the Beijing municipal authorities and party leadership, and their connections to the planned Oriental Plaza in Beijing, close to Tiananmen Square, which was to be built by Li Kashing. The original plan gave Li 63.7% of the project, through his major holding company, Cheung Kong, and its main subsidiary, Hutchison Whompoa. Last year, controversy arose over the height of the building, over a previously existing contract with a McDonalds on the same property, and over the percentage of ownership going to Li Kashing. Broader questions of corruption then arose, and the investigation spread to 17 construction projects, and 40 or so top officials, according to Hongkong press reports. The primary figure in the center of the scandals is Chen Xitong, the head of the Party Committee for Beijing and a high-ranking Politburo member. Chen was previously mayor of Beijing, and was one of the leading advocates of the military crackdown against the 1989 demonstrations.

On April 4, the executive vice mayor of Beijing, Wang Baosen, committed suicide some time after his secretary had been detained for questioning. Wang was the head of the city Planning Commission and a former aid to Chen Xitong. After three weeks of intense speculation, Chen Xitong resigned as head of the party (although he has retained his position on the Politburo). Chen's son Chen Xiaotong sometimes called "Beijing's Li Kashing," who runs one of the top hotels, is also under investigation. Again, no exact charges have been announced, and Li Kashing was not publicly named in any criminal matter. According to the May 6 London *Economist*, Li Kashing has "proclaimed his probity and threatened legal action against anyone who suggests otherwise."

Chen Xitong has been replaced as Beijing Party chief by Wei Jianxing, a Politburo member who is himself in charge of the party's anti-corruption investigation. The Oriental Plaza is on hold.

The third major scandal involves Shanghai International Securities (SIS), the leading securities broker in the Shanghai exchange. On Feb. 23, SIS was caught in a massive price rigging of government bond futures during a day of total panic on the market. The bond markets had become the favored

place for the relatively small number of Chinese investors and speculators since the stock market died along with the Hongkong bubble at the end of 1993. In a single day of trading on Feb. 23, about \$150 billion in bond futures were traded. The government stepped in toward the end of the day, closed trading, and determined that SIS had been trading tens of billions of yuan worth of bond futures on its own account, without meeting margin requirements, in an attempt to get out from under a losing position. The government canceled a portion of the day's trading, and forced traders to unwind their positions through negotiations. The firm, partially owned by the city government, may have lost several million dollars.

Both Zhu Rongji and Premier Li Peng personally visited and investigated the Shanghai exchange. In March, a new director of the China Securities Regulatory Commission was appointed. In April, the president and founder of SIS, Guan Jinsheng, resigned, together with the chairman Xu Qinxiong. It is not yet known if there will be criminal charges.

Here again there is a Li Kashing connection, although in this case the connection is not as well known. When the Shanghai stock exchange was first set up, the government provided funds to two existing brokerage firms, including SIS, as start-up money. SIS founder Guan Jinsheng, working in conjunction with Li Kashing, used the government money to run a scam on the state-sector workforce. During the early 1990s, Beijing dealt with recurring government liquidity crises by resorting to a "forced savings" policy against state-sector firms and employees, docking pay checks to pay for government bonds which were only redeemable over a period of years. SIS officials traveled the country, buying up these government bonds for a fraction of the face value from desperate workers who needed the cash to survive the record rates of inflation. These bonds were then discounted with Li Kashing, providing a windfall for SIS and for Li Kashing—an auspicious beginning to the "free market"! In the absence of adequate regulation, such scams were run with impunity.

SIS fared less well this year with their criminal manipulation of the futures markets, which resulted not only in the dismissal of those responsible, but also in the elimination of the bond futures market altogether on May 18. The government regulators announced that the "experiment" in bond futures was indefinitely suspended. Over the past months, in fact, the government has banned futures trading in foreign exchange, steel, sugar, coal, rapeseed oil, and certain varieties of rice. The British effort to create a series of "new Hongkongs" in the mainland is suffering a severe blow.

### **Hongkong 'spin doctors'**

The Hongkong and British press have attempted to hide the clear intent of these measures by reducing them all to mere machinations of power struggles in a classical Chinese Dynasty change. The general spin is that Jiang Zemin is running all these "purges" in order to establish his independence from Deng Xiaoping before Deng dies, to avoid the

fate of Mao Zedong's chosen successor Hua Guofeng, who had been quickly deposed after Mao's death. Much is made of the fact that the Zhou family of Shougang Steel was close to Deng, and that one of Deng's children is part of the Shougang corporate structure in Hongkong. Such media deceit not only covers up the scope of the anti-corruption actions, but also feeds into the primary British operation in the Asia theater today—the intention to break up China in the period following Deng's death, through economic warfare and provoked civil or regional war. This is an exact replay of the British policy during and after World War II, as documented in the May 12 *EIR Special Report*, "Britain's Pacific Warfare against the United States."

For example, the May 11 issue of the *Far Eastern Economic Review* from Hongkong reports on the measures taken against Li Kashang's allies under the title "Palace Purge," calling the arrest of Beijing party chief Chen Xitong "the first public shot fired in the struggle to succeed ailing patriarch Deng Xiaoping," ignoring the now generally recognized fact that that "struggle" has been going on for years and is now quite firmly settled. Most revealing is the fact that the cover story of that issue was entitled "Fragile China," a report on the supposedly "futile battle" to hold China together. Britain's preeminent China specialist, Gerald Segal of the International Institute of Strategic Studies in London, is quoted saying: "The bottom line is that if you want to run a modern, market economy you cannot do so in a country of this size without federalism—full stop. . . . So something has to give. The party can give way, accept decentralization and learn to live with this new world. Or it can fight, in which case it will face economic problems, or political ones, or both. There is no going back."

Similarly, the May 20 issue of the *Economist* covers the arrests as nothing more than Jiang Zemin's "chance to purge a few political rivals and slightly improve the party's popularity." However, the same issue also carries an indirect response to the May 12 *EIR Special Report* on Britain's historic and continuing warfare with the United States. The *Economist* reviews a book by Chinese historian Lanxin Xiang, "Recasting the Imperial Far East," which was featured prominently in the *EIR Special Report* as a valuable documentation of Britain's efforts to sabotage President Roosevelt's policy of fostering a strong Chinese nation, preferring to keep China weak and divided. The *Economist* admits it all, and defends the policy! "Certainly, Britain's view of China was colored by its century-old dealings in a strife-torn country and its proven ability to extract profit from a chaotic economy," writes the *Economist*. But there is nothing wrong with that, since Britain was only trying to "make the best of a bad hand on protecting its commercial interests. Here, there was no hope of an understanding between Americans and British." British efforts to divide and weaken China have not changed, and the Beijing leadership is demonstrating an increasing ability to defend the country.

## Kissinger's China war comes to Congress

by Kathy Wolfe

Following Henry Kissinger's attack on China as a strategic threat in a March 29 speech in London, former British Prime Minister Margaret Thatcher's pet politician George Bush and friends have begun a preelection attack on President Clinton over China and Asia policy.

Despite Kissinger's past as an architect of the U.S. "China card" policy, the newly beknighted former secretary of state is now raising the alarm against Beijing. In a March 21 speech in Bombay, India, Kissinger said bluntly that it is China per se, with its "extraordinary economic progress," which threatens "especially Northeast Asia," because China "is on course to emerge as an extraordinary superpower within 20 years." In his March 29 speech to a conference of the Royal Institute of International Affairs (RIIA) in London, Kissinger demanded that the United States adopt British geopolitical policy, that China must not be allowed to grow strong. "It is against the American interest that any major region of the world, either Europe or Asia, be dominated by any country," he said, also predicting an outbreak of wars in Asia.

The Kissinger theme has now been picked up by Bush networks in the United States. Their promotion of the June 8-11 visit to the United States of Taiwan President Lee Teng-hui is but one move in a plan to demonize the People's Republic of China (P.R.C.) "as if it were some sort of 'evil empire,'" Dr. Lawrence Niksch, Asia director for the Congressional Research Service, warned a Capitol Hill seminar on Taiwan on June 1. He noted that the Bush group is mounting an attack on China, as a "lightning rod" to attack President Clinton, for bettering U.S. relations to Beijing.

The major promoters of Lee's U.S. trip were the British-linked Heritage Foundation; Bush's ambassador to Taiwan and Beijing, James Lilley; and George Bush himself, Heritage Foundation Asia expert Brett Lippencott told *EIR*. They are working in Congress with Sens. Frank Murkowski (R-Alaska), and Jesse Helms (R-N.C.), and Reps. Douglas Bereuter (R-Neb.), and Benjamin Gilman (R-N.Y.).

This same group has inserted "over 20 pages of China-bashing" into the major U.S. foreign aid bills this year, both HR 1561, the "American Overseas Interests Act," and its Senate counterpart, the "Foreign Relations Revitalization Act of 1995," an aide to Representative Bereuter, head of the