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Dr. Wen Tiejun

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## China's Experience in Building Its Economy

*Dr. Wen is the Executive Secretary General of the China Society for Restructuring the Economic System, of Beijing. The full title of his speech is "The Experience of Constructing Infrastructure in China and the Third Land Bridge."*

I hesitate to tell you, how China has gained high economic growth, because nowadays, a lot of overseas scholars in China have decided that there is a kind of "China miracle." They want to rank China among the "top seven" [economies], and, considering its economic-financial capacity, they want to rank China among the "top three." This is not good. We want to rank our Chinese economy, as the 38th by per-capita GDP, because we are not far enough [developed]. We do not want to be any kind of competitor to any country.

China, in the Chinese language, is the "Middle Country." We have not [developed] far enough, we have not grown enough. I want to say that I am here to learn from you, from all the conference participants from so many countries.

You have discussed the financial crisis taking place in Western countries; I will give you some more information. In the first quarter of this year, foreign direct investment (FDI) has flowed into China very fast. The total amount of the added volume of FDI in China, is \$1.4 billion, almost the same amount as the total for 2000. Last year, we had \$1.9 billion as foreign currency reserves, making China the second-largest foreign currency reserve-holding country in the world.

But how did we gain such an amount of foreign direct investment? By hard labor. As Lyndon LaRouche has mentioned, we gave our best labor, for the cheapest price. We gave our best natural resources for the cheapest prices. We sell our basic goods to Western countries. For what? For these currency papers. Now, because of the "electronic-money" economy, we do not even have paper; we just have data, recorded on computers. It is basically nothing. When the financial crisis takes place, when the U.S. dollar and deutsche-mark are downgraded in value, what then of our hard currency

foreign reserves? We paid our best labor, we paid our limited resources, and we have just such paper, just data. When these are devalued, we are also destroyed. So, what is Chinese economic growth? We worry about this.

### The Lessons of the Past 100 Years

In comparison to our current situation, look at China 100 years ago. A century ago, China was, like most nations of Africa are now, separated into many parts, ruled by war-lords. Behind the war-lords, were the "big power" countries, the so-called imperialists. They sponsored and armed these war-lords, and they occupied different parts of China. They started war, they killed people: Everywhere, were massacres, famine, disease, people dying — like Africa now.

China fought for almost half a century. In the end, in 1949, we gained independence. But what was independence? It was just a word, a concept: We had almost nothing. We had just a few thousand kilometers of railroads; in the interior there were no highways, not even one kilometer: outside the very big cities, there were not even paved roads — most people had to travel by walking on footpaths. We had no industry.

In the second half of the Twenty-First Century, we just finished a period of primary accumulation for industrialization by the state. Some of the foreign scholars call us a communist country, or a socialist country. We respond: We are not any "ism" country; we are China, we are the Middle Country.

We have just completed the period of primary accumulation of state capital for industrializing. This did not produce a booming economy, it was just the first stage. Most of the Western countries took 100-200 years for this period; we took 50 years.

How did we do this? By exploiting ourselves. We had no colonies or imperialism at the expense of other countries; we based our economy on our limited resources and labor inside China. We did not learn, like our Japanese friends did: They wanted to learn from Western countries, and then attacked Asian countries, including China, and then were defeated. But we did not do this; we just worked inside China.

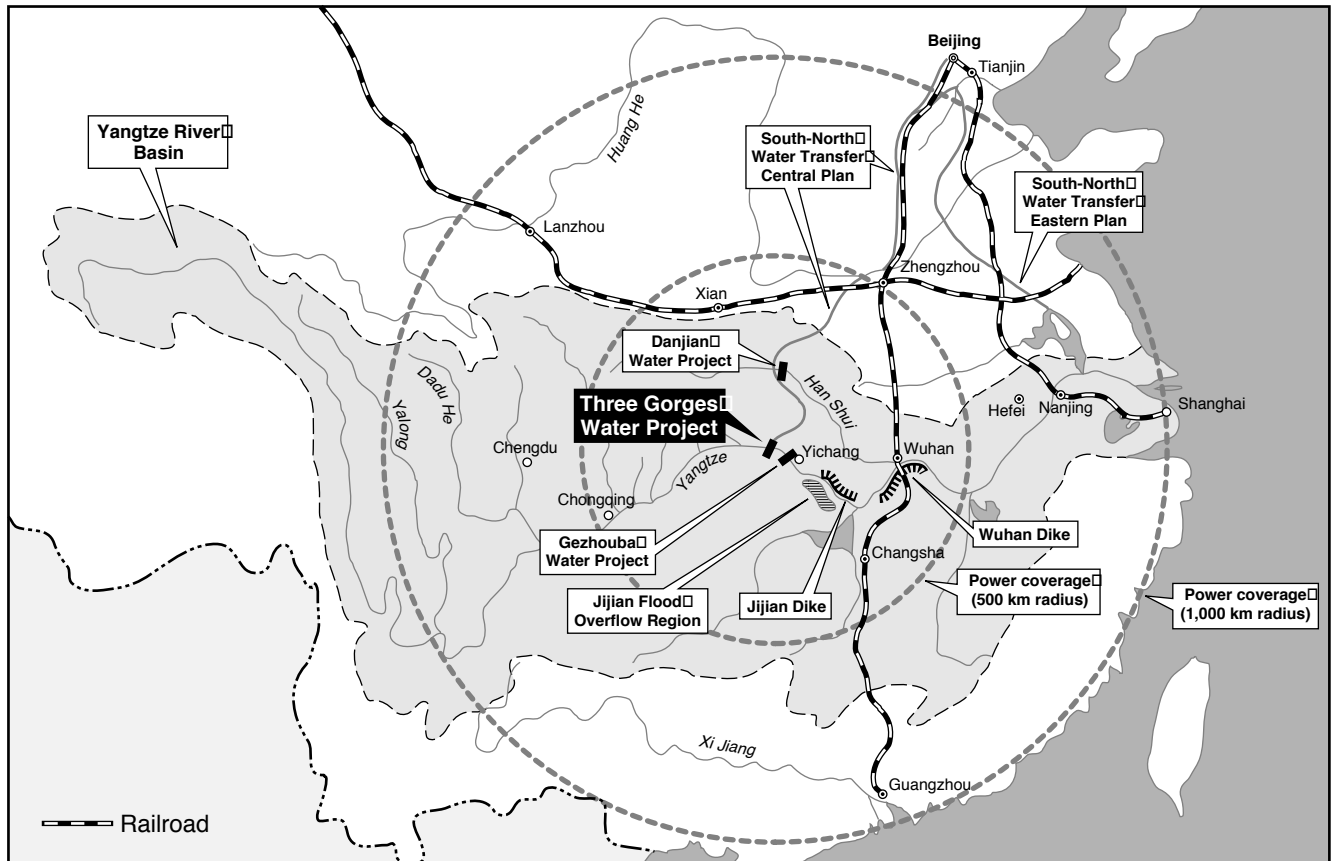
When we finished this period, we learned from our Russian brothers. We called them our "big brother," because when they had finished their primary accumulation for industrialization, they opened to the world, in 1956. Our big brother in Russia, wanted to force China to follow them, but in the 1950s, we had not finished the primary accumulation for industrialization, so we could not follow. This was the debate — the first debate between the two [Communist] parties, and then the two countries. The relationship between China and Russia became worse. It was not that we were not willing to follow Russia; it was that we had no economic base to do so, and we could not follow. Then, forced by military pressure, China thought to communicate with the United States, Japan, and other Western countries, and tried to open to overseas [in the early 1970s].

During the [following] 20 years, China had economic



FIGURE 10

## How the Three Gorges Dam Works with China's Water and Rail, and Power Infrastructure



This map, published by EIR, illustrates some of the areas of development discussed by Dr. Wen. China is now seeking to promote high-speed growth in the western part of the country, as it has already done in the east.

growth, but we also found a complicated situation. We learned a lot from Western countries, especially in the 1990s.

### Experience and Lessons

To now focus on the 1990s: This was a very complicated situation, in which we learned a lot from overseas. We not only gained experience, but also learned lessons—good and bad.

In the years 1992-95, China learned from Western countries to set up three markets: the stock market, the real estate market, and the futures market. These were opened to general investment. The real estate market was open to foreign investment, but the others were just for Chinese. These three became very high-risk markets. A large amount of investment flowed in, totalling, by 1995, about RMB 1 trillion [about \$1.2 billion]. One result was a big rise in bad loans held by the Chinese banks already by 1996.

This caused serious a financial crisis in China. In 1994, the Chinese currency was devalued by 50%. In 1996, inflation began to rise very fast, to 21%. The consumer price index

had risen 24.8%. With the currency devaluation, this became a crisis.

In 1995-97, China took steps. Fortunately, China has still not opened its money market to foreign investors, and all of the banks are owned by the state, so the government has maintained strict control. We were able to achieve a “soft landing” in these three years. So far, there have been no bankrupt banks. Although a large amount of foreign investment has flowed into China, it has gone into enterprises or real estate. Some has flowed indirectly into the markets, but not into the stock market. Currency convertibility, exchange rate, and interest rates are all controlled by the government, so the currency is stable, and remains the most stable in all Asia. This is a key difference between China and other East Asian countries.

China also has a very strong central government. Since 1995, the government has adopted a very special policy to emphasize the physical economy. The years 1995-97, we call the “soft landing,” from the crisis which was developing during the 1992-95 bubble economy.

## Meeting with LaRouche

In 1994, I had the opportunity to meet and speak with Mr. Lyndon LaRouche for six hours, and he taught me a lot. First, he explained what “physical economy” is. This is a very important concept. He also gave us a warning, about the global financial crisis. We talked about the bubble economy in both China and the Western countries, and he gave some very important suggestions for China, especially about infrastructure, and local development within China. I published this dialogue with Lyndon LaRouche in a Chinese magazine in November 1994, and this was the earliest publication to warn Chinese scholars and politicians about the world financial crisis. LaRouche’s forecasts have proven true, year by year—not only about the Chinese economy, but also about the world economy. He was the first to warn China to pay attention to the financial crisis. This was a great lesson for us.

Not only did he warn China to pay more attention to the financial crisis, but he also emphasized the physical economy. He emphasized infrastructure. Fortunately, our government adopted this kind of suggestion. Since 1997, we have put more emphasis on infrastructure in China, even amidst very serious deflation. The central government started a new policy for physical investment. Every year, the government invests 150 billion yuan for infrastructure development. In these years, we have completed a lot of projects in China.

I also discussed with LaRouche, how China was developing its land-bridge to Southeast and South Asia. Currently, this land-bridge has become even more practical, because we have designed an economic strategy for the new century, in which the development of western China is especially important.

We have built a whole new national railroad net: three main vertical and three main horizontal lines across China. This is in addition to the two existing Eurasian land-bridges, which are very effective. There is a booming area in southern China, along the region around Hong Kong and the Pearl River Delta. We have built a railroad from Hong Kong to Guangdong to Guang Xi and Yunnan. We have also built a new, modern railroad from Beijing to Hong Kong. These two form a “big cross,” and the construction was just completed in 1998. This railroad links eastern and southern China in one economic area, making communication and transportation much easier. Along the coast, and inside southern China, there are many very rugged mountains, and many big rivers and lakes, so geography is a big challenge, and the building of this infrastructure is essential for economic development. The focus on the physical economy in the 1990s, has been the basis of its rapid development.

## Physical Economy

We are trying to create a new concept. Many people think that population is a “burden.” Just in the coastal area of China, there are very little land resources, but a large population. But this is not a burden; these people need to improve their lives. There is a very large economic demand, and if the government

and enterprises try to provide them with basic goods, and fulfill their demands, the economy should be very healthy. This is physical economy.

However, the focus was only on half of China: The other half, the huge western internal part, still has to be developed. We are now in the new Tenth Five-Year Plan, 2001-05. One very important part of this plan, is to “Accelerate the Western Development,” through water projects, and railroad and highway construction. What has been done in eastern China, for preventing a financial crisis, and to encourage high-speed growth, now must be done in western China.

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China, like Vietnam, India, and Egypt, has a huge “surplus labor” force: some 200 million people just in China. These people need to be employed, and building such projects can give them this opportunity. Agriculture in China is not enough to support the 900 million people now in this sector: The labor needs to go into other sectors. Chinese people have enough food and basic necessities; this has been achieved since 1949. But still now, especially in agriculture, they cannot earn enough to pay for education, medical care, and other essential needs for developing the next generation.

In the 1990s, almost 200 million people left the agriculture sector, and went to construct railroads, cities and towns, and highways. Their lives have become better. They have also sent large amounts of money back to their families in the countryside. This year, the government will take steps, to help these migrant workers to settle permanently in the smaller cities and towns.

In the 1990s, China had a successful experience in which, by the construction of infrastructure, we have been able to transfer surplus labor to new sectors. Also, along these railroads and highways, many new small towns and cities have grown up, whose economies have developed together with the transport system.

## Developing Relations with Southeast Asia and India

In the last century, China cooperated with European nations, including Russia, and set up the two big land-bridges in the north: the Trans-Siberian Land-Bridge, and the Euro-Asian Continental Land-Bridge through Central Asian na-

tions.

Now, in this century, we will try to develop the third land-bridge, the Afro-Asian Land-Bridge. This has not yet been developed, but we must prepare the research for this project. This must be more effective economically, than the two others. Siberia has huge areas which have very few people, and little infrastructure. This is also true for Central Asia, where there are vast unpopulated areas and deserts. There is little population or economic demand.

The third, Afro-Asian Land-Bridge, would go from Egypt to Hong Kong. From eastern China, with a very large population and booming economy, the whole Afro-Asian Land-Bridge would go through areas which are booming with people and life. This includes Vietnam, Myanmar, Bangladesh, India, Pakistan, Iran, Saudi Arabia, Iraq, and then Egypt in North Africa, and from there to the rest of Africa. This whole area has a huge and very dense population, and they need to improve their lives. The area also urgently needs infrastructure construction. Meeting the needs, to improve the lives of the population, is the energy of economic growth.

Population is real capital, which can be used to develop the economy. The density of the population is a big advantage: It means that every project benefits a concentrated population, and contributes to building the peoples' economy more efficiently.

### The Strategic Triangle

We are discussing in this conference today, the "strategic triangle" Russia-China-India. As one of our colleagues from Russia has stated, there are good and growing economic and political relations between Russia and China, and there are projects which benefit both sides; there are also good and growing economic and political relations between Russia and India. But what about China and India? There is very little trade, and little economic relations. But what if we can cooperate to build the third, southern land-bridge, from Egypt to Hong Kong? There are just some hundreds of kilometers of railroad that need to be built, between India and China. We have built up a railroad from Hong Kong to Yunnan. From Yunnan to Laos can be built. South China has large industrial facilities. It has a lot of know-how for construction of railroads, especially in very rugged areas, which is very useful for this whole southern land-bridge region.

India has its own railroad net. But Myanmar, Laos, and northern Thailand have no railroads. If we can do our research to build these projects, we will build our cooperation on this basis. Then, we will have the basis to complete the third side of the triangle, China-India, for the benefit of many nations along this railroad.

In Europe, there is very good know-how and technology, and also large investment capacity. If the European Union could cooperate with China and India, to build the southern land-bridge, this would be very beneficial for both sides. This would not only solve the problem of China-India, but also solve the problems faced by the European countries.

Let me give an example. Yesterday, Dr. Glazyev<sup>1</sup> mentioned that China and Russia's entire trade is calculated in dollars, which means that we help to support the dollar. If we calculated our trade in deutschemarks, immediately this would support the deutschemark; if we calculated in Japanese yen, it would be the same. Who supports the American dollar? Our developing countries, our producers. We give the United States all of these basic goods, and then we get in return—paper! It is true.

Once I discussed this idea with an American professor, a very good friend. I said, that if China sold \$10 billion, in the U.S. money market, what would happen? It would devalue the U.S. dollar immediately. If China sells these dollars, who will follow? South Korea, Taiwan, Hong Kong, Singapore, all of these East Asian countries, because they all own dollars. If China sells, it would devalue the dollar, and if other countries sell, it would destroy the dollar. We cannot do that, because we hold such large numbers of dollars. So, this is a kind of contradiction: Whoever can solve it, will win the Nobel Prize.

As LaRouche mentioned, we need a new world financial order, a new world financial institution. Who will create this? Perhaps, the "strategic triangle"—perhaps we can set up an international, alternative credit system, not based on the dollar, not on the deutschemark. Anyone who wanted to join, can join and benefit. Anyone who wants to object, would not benefit. Money can only profit from the physical economy, and where is the important physical economy area? It is the strategic triangle.

Thank you.

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Sujit Dutta

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## India and the Eurasian Development Perspective

*Professor Sujit Dutta is a Senior Fellow at the Institute for Defence Studies and Analysis in New Delhi.*

The Schiller Institute's ideas and the kind of conference you have held in the past two days, is clearly an important step in the global struggle over ideas, which is the most important in



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1. Dr. Sergei Glazyev's speech was printed in last week's *EIR*. An interview with him appears in the *Economics* section of this week's issue.