

## China Faces Crisis with Growing Confidence

by Mary Burdman

The collapse of illusions about the U.S. "New Economy" bubble has provoked a clear, sober, and essentially happy development in strategic thinking in China during the past year. The very evident economic/financial turmoil in the United States and Japan, have had a big, and necessary, impact in China. A Schiller Institute delegation visited Beijing for ten days in late July, to address a seminar sponsored by the China International Economic Relations Association, attended by 30 representatives of leading state banks, government commissions, and policymaking institutions. There, and in discussions with economists, scholars, and members of policy institutes, Jonathan Tennenbaum and I found a serious but, at the same time, fundamentally optimistic assessment of what China must now do to deal with the rapidly changing world situation.

With each visit to China, the changes are astonishing. The physical changes in Beijing in one year are breathtaking: now, a fifth "ring road" is being built, along with new underground lines. Newly restored historic buildings and avenues have emerged from behind shacks which used to hide them. One thing, fortunately, remains the same: The food is as abundant, inexpensive, and sublime as ever.

Of course, Beijing is not all China. The work to bring the rural population into a modern, urban economy, is more enormous than what has been achieved in the last half-century. China is still caught in its "dual society." Now, there may be fewer of the rural laborers, whose faces clearly show the depths of poverty from which they come, on the streets of Beijing. Its overall population is better dressed, fed, and equipped than before. But 70% of China's 1.3 billion people are still in the countryside, and bringing them into an industrial economy, at a time of world crisis, is the great problem Beijing must solve.

In general, however, the nation has unquestionably much greater confidence, in the policy of national construction they have been carrying out.

### China's Turn To Its Physical Economy

China turned definitively towards a "New Deal" economic construction policy in Autumn 1997, as the Asia financial crisis broke out. As the crisis deepened in 1998, Beijing announced a series of great projects, beginning with a \$750 billion investment program in January 1998, to develop essential infrastructure, including railroads, water management, power projects, and urban construction. The terrible floods of Summer 1998 made the issue of infrastructure a matter of national urgency.

Leading into, and during, this critical period, in several visits to Beijing and other cities, the Schiller Institute provided very timely warnings of Lyndon LaRouche's assessment, that the current financial system was bankrupt, and must be replaced by a new system which could rebuild the world's physical economy. A most important intervention was when Schiller Institute (Germany) President Helga Zepp-LaRouche visited Beijing in late September 1997, and emphasized that the crisis in Asia was going to worsen, and would break out in other parts of the world, if immediate steps were not taken to create a new world financial system. Her warnings, fully confirmed by events, had a big impact.

China preserved its national economic security through the crisis-ridden years of 1997-99, and refused to yield its vital defenses, especially its strong currency and capital controls, to the knuckle-dragging tactics of the likes of the U.S. Treasury's Larry Summers and other Wall Street "heavies." But concern abated somewhat, as the post-1998 "wall of money" operation inflated the U.S. economic bubble, and



## Changed Relations With 'Xiao Bush,' and Taiwan

Politically, also, China has faced a series of shocks. Beijing has repeatedly made clear that it needs and wants years of peace and stability, so it can concentrate on essential economic construction. China's leaders have also consistently said that improving relations with the United States is a basic international policy. This met with response from President Bill Clinton—until a special U.S. plane bombed Beijing's Embassy in Belgrade in May 1999. The U.S. fixation on Bush's provocative forms of "national missile defense" and "theater missile defense" programs, has soured relations further. There were evident hopes in Beijing, as in many other nations, that George W. Bush might bring in a more benign—or at least more isolationist—policy than that of the aggressively interfering Al Gore-Madeleine Albright regime of the Clinton Administration's later days. These illusions did not last. The outrageous behavior

*Schiller Institute representatives Mary Burdman and Jonathan Tennenbaum addressed a seminar in Beijing on July 22, sponsored by the China International Economic Relations Association. While the critical situation of the U.S. economy is now widely recognized in China, there is a tendency to see this as a "cyclical" problem. The Schiller representatives presented the picture of the enormous burden of unpayable debt being generated by Alan Greenspan's fruitless efforts to keep inflating the financial bubble, making clear that the entire system has broken down and must be replaced.*

of George W.—he is often referred to in China as "Xiao (little) Bush" and his administration, was a renewed shock.

the illusion was promoted in China as well, that this bubble was "unsinkable."

A year ago, economic thinking in China was still much too dependent upon getting foreign investment, expanding exports, and breaking into the "high-tech" New Economy, which, it was alleged, had "rescued" Asia from crisis. This blunted thinking about the real world situation. As a result, policymakers in China were not so well prepared for the past year's crash of the high-tech bubble, but that crash did shake people up.

Much more serious attention is now being paid to economic policy and to foreign relations. As the head of one institute, where the Schiller Institute has made many presentations, said: "This institute has been publicly predicting that the U.S. bubble would collapse for four years now. We were under a lot of pressure on this, but now, it is shown we were right!"

As many leading Chinese realize that "globalization" is not inevitable, but a crumbling system, they assert that China's being "behind in IT" (information technology) is actually to their advantage. China escaped the worst of the IT-bubble collapse ravaging Southeast Asian economies. The hegemony of U.S.-dominated "pop culture" has been weakened, and China's focus on developing its own internal economy, justified. China faces big challenges, but also has great resources, in its huge internal economy and in its growing cooperation with neighboring nations in Asia and Eurasia.

The current economic and political crisis in Taiwan is a "marker" for China. It is clear that, without U.S. support, the pro-separatist Democratic Peoples Party (DPP) government in Taipei would likely have already fallen. The high-tech export model promoted by the DPP's predecessor, Lee Teng-hui, who tried to block Taiwan's growing economic relations with the mainland, is discredited: In July, Taiwan's exports, dependent upon the U.S. and Japanese markets, had the worst collapse since 1976, and economic growth is at its lowest in 25 years. The stock market has fallen by half, the Taiwan dollar is endangered, and debt and unemployment are looming over the economy.

The growing mainland-Taiwan economic relations are the only thing sustaining Taiwan now, as both sides know. As well, there are many indications of warming political relations, including delegations of opposition parties visiting the mainland, and, most remarkable, the message of congratulations sent by Beijing to the opposition Kuomintang (KMT) during its recent party conference, the first such gesture since before the civil war.

At the same time, there is great concern over the Middle East, where the U.S.-backed provocations of Israel's Ariel Sharon are threatening war. There is concern that separatist forces in Taiwan, backed by Washington, might also try dangerous provocations.

## The U.S. Bubble

In this situation, the economic overdependence of Asian countries on the United States, is a real problem. Beijing sees that the United States, unable to control capital flows based on real economic strength, now profits from political turbulence, whether in the Mideast, Europe, or East Asia. Also, as the U.S. market for exports collapses, trade and other conflicts are boiling up. But there is resolution among some leading circles in Beijing, to deal with the problem: in terms of history, China and the United States should be strategic partners in the coming century. If the United States rejects such relations, then China will develop cooperation with Japan, other Asian countries, with Russia, and with Europe. Ultimately, the Chinese believe, the United States will be forced to join the international cooperation.

This view is also based on the fact that high-level Chinese officials, who know U.S. Federal Reserve Chairman Alan Greenspan and his ilk, can see how urgently these gentlemen are trying to promote “confidence” in the U.S. economy. It is this cult-like confidence (or “financial fundamentalism”) alone, and not the (now-discredited) wonders of the Internet, which is the basis of U.S. financial “hegemony.” “If that confidence collapses now, the whole system will go with it,” one participant at the Beijing seminar noted. The effect of the U.S. bubble collapse on the rest of the world is also widely recognized in China—even the liberal *China Daily* featured a cartoon on Aug. 9, showing a multi-car crash with Japan, Taiwan, and Singapore all smashing into a wrecked auto labelled the “U.S. economy.” The present, dollar-based international financial system is seen as *unrealistic*, given the state of the U.S. economy, that producer of dollars and importer of everything else.

There is a consensus in China, that this “unipolar” system is obviously unstable, and must be replaced with a multipolar system. The situation is especially difficult for smaller economies, such as those of Southeast Asia, which alone cannot stimulate their own domestic demand. This is why China is promoting regional economic cooperation in Asia, and with Europe, as the only way out. This has caused re-conceptualization of what regional cooperation must become. Under the illusory “New Economy,” regional cooperation appeared as just some aspect of the unsinkable globalization process. Now, it is dawning, that regional cooperation must become “real,” based on genuine trade, investment, and development projects, and not just financial trends.

With the demise of the U.S. market, some economists report, other Asian countries are already reorienting their trade toward China. There is increasing discussion that, considering the danger of a U.S. dollar collapse, possibly China’s renminbi, which remained stable during the Asian financial crisis, could become the currency for regional trade; this was even mooted by Deutsche Bank’s chief economist Norbert Walter on Aug. 9. However, this poses a dilemma for China and other Asian nations: They all hold huge reserves in

dollars, and the renminbi itself is pegged to the dollar; a dollar collapse would destabilize Asian currencies.

## The Economic ‘Hard Nut To Crack’

There is also a tendency, as there is in Russia and India, for many economists to misapprehend the crisis as cyclical, rather than as a collapse of the entire system. Those who had promoted globalization still have influence, although many of the liberals are doing a lot of re-thinking. However, those who see the real scope of the crisis remain relatively few. While there is broad recognition that an entirely new, and just, world economic system *must* be created, there is a tendency to see this as a long-term undertaking.

The “hard nut to crack,” is the internal division of China’s huge domestic economy. Rural incomes are stagnating, and the problem only can be solved by bringing more and more of the surplus rural labor—some 400 million people—into an urban economy. The rural population, 70% of China, consumes only 27% of national production. In 1995, just 1% of the rural population had a negative cash flow; now it is 45%. However, a well-developed barter system exists throughout China: Everything, including food, transport, and even education and medical care, is exchanged through this non-cash system, aided by the traditional Chinese social system which ensures that even the very poorest cannot be abandoned.

What is essential, is to continue the government investment policy, and expand growth of production. If this dual society can be industrialized and united, China has huge potential for growth.

The potential for expanding Eurasian relations, especially with Russia, is also changing thinking in China. The new China-Russia friendship treaty, signed by President Jiang Zemin and his Russian counterpart Vladimir Putin in Moscow on July 15, has set the right direction for relations. The work needed to expand economic ties is very great, especially the renovation of transport and other infrastructure in Russia’s eastern regions. However, more and more people in China, including young people who had been fixated on the New Economy, understand and appreciate that Russia is now taking serious action in the international situation, helping to create a multipolar world.

The most profound problem in thinking in China, as in many other nations, is realizing that the current system is *already* collapsing, and conceptualizing a serious alternative. The tendency continues to be a cautious, “go slow” approach to creating a new world financial system. Thoughtful Chinese acknowledge that discussion of these issues do not begin from the world financial situation, but rather tend to focus on regional questions, which hampers ability to create clear principles and policies for the profound crisis now unfolding. But the warm response to discussion of Lyndon LaRouche’s thinking—both his warnings of what now threatens human civilization, and his concept of how that civilization can be saved—was more remarkable than ever.