# In Time Of Global Crisis, China Needs Scientific Economic Development

by Mary Burdman

At a series of economic policy summits in November-December, China's national leadership has spoken with unprecedented bluntness of the urgent need to maintain *real* economic growth in the face of the world's worst economic crisis "in 20 years." On Nov. 27-29, the heads of China's government and Communist Party met in Beijing for the Central Economic Working Conference, the annual economic planning summit. This was followed by the National Planning Conference on Dec. 2-3, where Minister Zeng Peiyan of the State Development Planning Commission (SDPC) reported on the situation this year and for the future.

Since September, there have been more and more warnings in China's national press, not to underestimate the heavy impact of the "cold current" in the world economy on China.

"In 2001, the pace of the three major economies of the United States, Japan, and European Union has further slowed down; world economic development has encountered difficulties unprecedented in the past 20 years," wrote *People's Daily* on Dec. 1. "The deterioration of the international economic environment will be worse than the Asian financial crisis. The acceleration of economic globalization has been an added burden on many countries and regions around the world."

Industrial growth, in official figures, is slowing steadily. From over 10%, year on year, at the beginning of 2001, it fell to just 7.9% in November, the slowest rate in China in two years. The growth of exports has crashed: In 2000, China saw an astonishing 27.8% growth in exports; this year, the rate of growth will be only about 4%.

China's reaction has been to reconfirm the primary importance of its "New Deal" policy, initiated since 1998. At the core of this vast national development program, is a set of great infrastructure projects funded by special treasury bonds issued at a rate of well over 150 billion yuan (about $18 billion) a year. In 2002, Beijing will issue another 150 billion yuan in special bonds.

In his report on Dec. 2, Minister Zeng Peiyan stated that what is now essential, is to maximize deployment of these long-term construction bonds to ensure sufficiently rapid and effective economic development. Funding must be planned "conscientiously," to ensure completion of projects already under construction, especially in western China, he said. By the end of 2002, a group of water management, power grids for rural areas, school reconstruction, and road projects will be completed.

The central government will push for "general speeding up of progress" on key projects, which include the Three Gorges Dam on the Yangtze River; the Qinghai-Tibet railway, the first ever railroad to the "roof of the world"; the natural gas transmission pipeline from Xinjiang to Shanghai, and west-east power transmission grids. Other critical projects will also be speeded up, and launched earlier than planned. Already next year, these will include a network of highways in western China, a water resources protection project in Beijing, and, most important, the long-planned "Move South Water North" project, to channel water from the Yangtze River to China's dry, densely populated grain belt in the north.

Investment of treasury bond funds will be accelerated in the first half of 2002, to stimulate growth in the face of the global slowdown, Zeng said. Technological upgrading of Chinese industry, especially "traditional industry," and enterprises, is another national priority, including that "key equipment be made in China," Zeng said.

The other top priority is tackling the problems facing China's huge rural sector, where 70-80% of the 1.3 billion Chinese people still live and work. Infrastructure construction must be intensified to improve peasant production and living standards. Energy supplies are critical, Zeng said. Millions must be employed, and the small city and town economy must be "actively developed." Modest estimates put China's "surplus" rural labor force at 150 million workers.

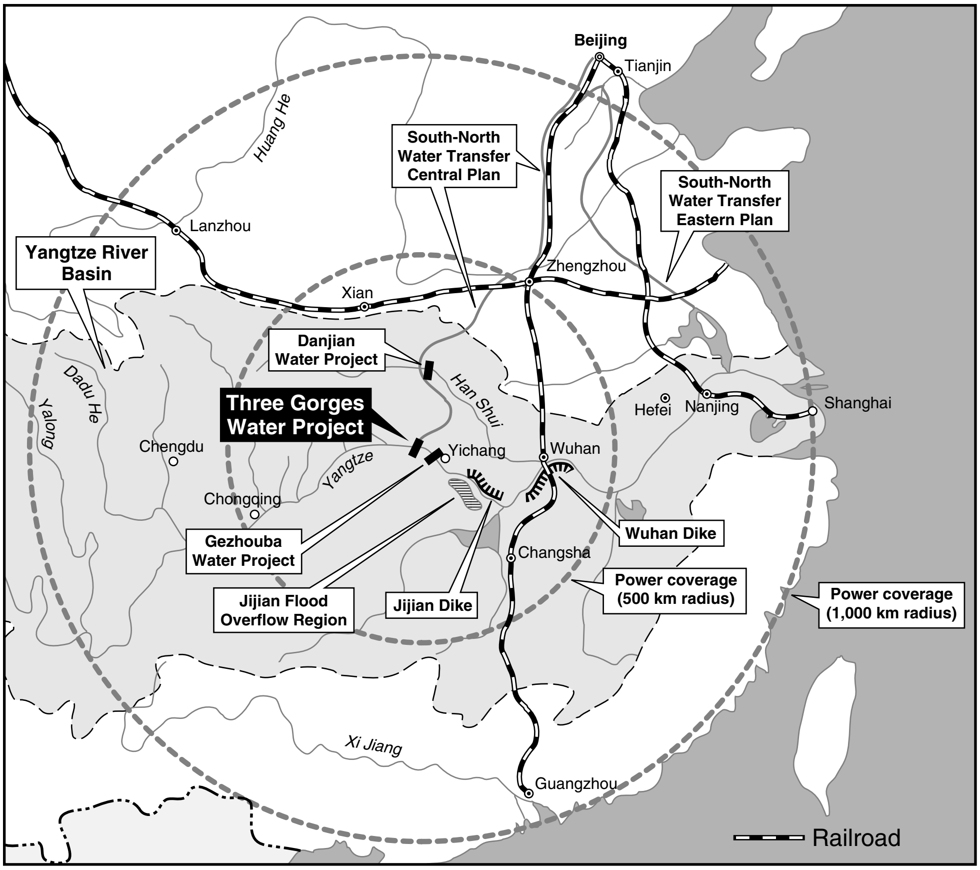
Critical also for China's "sustainable development capability"—which in China means a rate of economic growth which can sustain real progress—is developing education faster, promoting overall progress in health and culture, and environmental protection. This is not what it appears in Western terms, where the "green" ideology provides a cover for shutting down industry and advanced technology. For nations such as China and India, clean air and water and sufficient forest cover, are vital for national health and safety.

Zeng Peiyan also said that China must now move toward a situation in which "enterprises make independent decisions, banks evaluate loans independently, and government provides macroeconomic regulation and control."

All this must be done, while China enters the World Trade Organization (WTO), a circumstance which will most likely force China, which has maintained a trade surplus for years,

FIGURE 1

**How The Three Gorges Dam Works With China's Water And Rail, And Power Infrastructure**




into a trade deficit. As Trade Vice Minister Zhang Zhigang said on Dec. 11, this means that China will face an "extremely grave" economic situation in 2002.

## The New Deal

As the *China Economic Times* wrote the first week of December, China's economic growth "is largely attributable to the series of stimulus measures adopted by the government since 1998," financed over the past four years by over 500 billion yuan ($60.2 billion) in government bonds.

The critical problems for China now, are the "widening income gap and a slowing income growth, especially that of farmers and low-income residents," the article stated. In 2000, farmers' per-capita income was only 35.7% of that of a city resident, and the gap is growing. At the same time, the U.S. economy "runs the risk of sliding into further recession, which will directly have a negative impact on China's exports."

In January 1998, as financial crisis was wreaking havoc in Asia, Deputy Prime Minister Li Lanqing announced a $750 billion development policy for China, at the Davos, Switzerland, World Economic Forum. The core of this program was to be government investment for infrastructure construction.

In March that year, *Outlook,* a leading national magazine, wrote that "China's reforms and development need a Chinese-style New Deal." The same month, *China Daily* reported that the new Prime Minister, Zhu Rongji, "is poised to launch the Chinese version of Roosevelt's New Deal this year. . . . Zhu has made it clear that massive investment will be channeled into infrastructure, echoing Roosevelt's bid to revive the American economy in the 1930s."

Construction has included energy, railroads, roads, and water and reforestation projects. However, China remained too dependent upon its exports to the United States, Japan, and Europe. For the past 20 years, policymakers in China had focussed upon building low-value-added export industries along the east coast, and seeking foreign investment to speed up the long-isolated economy. Now, the external dependence of China's economy is around 40%, with China's annual exports equivalent to approximately 20% of GDP. Dependence upon trade in itself is not a problem—Germany's economy is at least one-third trade dependent. However, China's low-technology exports leave it dangerously vulnerable to the state of its more advanced trade partners.

As the crash of the U.S.-centered "New Economy" bubble became ever-more-painfully obvious throughout 2000, Beijing began to realize the peril of depending upon export growth. In 1998, People's Bank of China Governor Dai Xianglong had said that China could sustain a 15% yearly increase in fixed asset investment—about 3 trillion yuan ($361 billion)—if the GDP growth rate was at least 8%. That was maintained, according to official figures, during 1996-2000, but by 2000, China's GDP growth was 7.8%. This year, at best, it will be 7.4%, worth 9,645 billion yuan ($1.09 trillion).

In December 2000, it was announced at the Economic Work Conference that "China's advantage lies in its huge domestic market," which must be the basis of economic growth amidst the "intensifying competition in the international market and changes in the world economy." The center of the 10th Five-Year Plan 2001-05 would be a group of infrastructure "projects of strategic significance." Overall during January-October 2001, infrastructure investment rose 11% year-on-year, to 970.3 billion yuan ($117 billion).

## 'Coming To Naught'

As Bank of China Governor Liu Mingkang stated at the Ninth Sino-Japanese Economic Symposium in Tokyo on Dec. 1, "The uncertainty factor brought on by the '11 September' incident visited a deep negative influence on the global economy, which had already been in a long-term slide. In October the industrial production indicator for the United States manifested a continuous 12 months of decline; this was the first time since 1942." This "will cause all the efforts by the Asian economic exporters, to restore and revitalize following the Asian economic crisis, for the most part come to naught."

The "development of the Chinese economy has been unique," he said. The currency's exchange rate is stable. China has high foreign exchange reserves and "extremely abundant" savings. Total savings in China are 7.1 trillion yuan, and "the annual increase in savings is sufficient to support project loans with a total of 8 trillion yuan or $150 billion," said Liu Mingkang.

Beginning already in early 1997, the government made "a timely adjustment of the developmental direction of the Chinese economy, turning the export model into an internal demand pull, ensuring that under a situation of negative international influence, Chinese GDP would still realize a fairly stable growth," he said.

## Exports Collapse

Touring Hebei province in early November, President Jiang Zemin called on the nation for "clear thinking under the complicated domestic and international situations."

The third-quarter figures published by the People's Bank of China on Oct. 29 revealed the impact of the accelerated collapse of the world economy after Sept. 11. Bank President Dai Xianglong and other economic experts reported that "full attention must be paid on the negative impact" of the U.S. situation on China's economy. Areas being affected are trade growth, rate of growth of foreign exchange reserves, inflow of foreign capital, the exchange rate, and interest rates.

Official commentaries from the Ministry of Foreign Trade and Economic Cooperation, report that the severe decline in export growth, is "due to the U.S. economic downturn, and the general depression of the world economy." At the end of the third quarter, the trade surplus, at $13.4 billion, was down 30% on the same period of last year.

In Shanghai, China's largest port, exports grew only 0.4% and imports fell by 5.7% in October. In Hong Kong, which last year was the world's busiest container port, its exports, mostly goods being transshipped from China, fell almost 14% to a three-year low in October. Cargo volume through the port will likely contract in 2001.

Joining the WTO will exacerbate the problem. Bai Hejin, director of the Macroeconomic Research Institute of the State Development Planning Commission, warned that China faces a reduced trade surplus, and even a trade deficit during its first years of WTO membership. Speaking on Dec. 6 at the China Development Forum in Beijing, Bai Hejin said that due to international economic recession, "we are experiencing a difficulty, which is more severe than that when Asian financial turmoil swept parts of the world in 1997-98." It "is not an easy task for us to achieve a growth rate of even 3-4%" in exports, he stated.

## Investment Creates Wealth

Government investments in infrastructure, which are the "heart of China's economic stimulus packages, will continue as the driving force for China's economic growth in 2002," Wang Chunzheng, vice minister of the SDPC, said at a business conference in Beijing on Dec. 7.

It is clear, Wang Chunzheng said, that government-funded investment has played a more important role than either consumption or exports in spurring economic growth this year. From January-October 2001, fixed asset investment rose by 17.4% year-on-year, the best level in several years. State-owned and other sectors made "fixed-asset" investments of 1,842.4 billion yuan.

In contrast, consumption grew 10%, and exports, so far, by 6%. Government economic think-tanks do *not* expect consumption to rise, and the outlook for exports is considered—at best—"uncertain," due to the "volatile" global economic situation. China is trying, including with a series of international tours by top leaders, to expand trade with new markets, such as Russia, Ibero-America, and Eastern Europe, but this will take time.

In late 1999, China decided to issue more treasury bonds for technological improvement of key industries and enterprises, and billions of yuan in bond revenue have been allocated to key industries, such as metallurgy, textiles, petrochemials, non-ferrous metals, machine-building, electronics, information technology, and paper. Over three years, some 25 billion yuan has gone into this sector, Li Rongrong, Minister of the State Economic and Trade Commission (SETC), said in mid-November. These funds were used to subsidize the enterprises' interest payments on bank loans, directing the flow of bank loans, and increased overall investment.

About 1,200 such projects have drawn 220 billion yuan of investment and 172 billion yuan of bank loans. "That means one yuan of treasury bond has mobilized ten yuan of investment and six yuan of loans for technological upgrading," Li said. Such upgrading gives "huge development momentum" to the national economy, another SETC official noted. Some 600 projects which will be operating this year received about 155 billion yuan investment, including 17 billion yuan from treasury bonds, and alone will generate tax revenue of 8.8 billion yuan.

"The government will give subsidies to those key profit-making products, enterprises and industries needed in the market," SETC Vice Minister Xie Xuren stated. The government had spent 19.5 billion yuan to subsidize interest payments on state-firms' loans for technological upgrades in 1999-2000—despite the fact that the WTO, which China has just joined, considers such subsidies as "unfair competition."

The most serious problem remains, that although the portion of investment into research and technological innovation is rising, this is from a very low base, as the *Economic Daily* pointed out on Dec. 15. Overall, only 15% of investment is into R&D, far too low for a nation which needs great leaps in technological capacity to ensure basic progress for its huge population. At the same time, there is the serious problem of the "Dofu" projects: badly constructed roads, bridges, and other infrastructure, some of which have even collapsed.

It is notable on this front, that the Association of German Machine-Builders reported in October, that despite 12-20% collapses in new orders, German machine-tool exports to China had risen 58% in the first seven months of 2001. For mining equipment, wood-processing, and industrial conveyor systems, the increase was even 130% over the same period. Some $10 billion-worth of new industrial contracts were signed between German and Chinese firms during Chancellor Gerhard Schröder's visit to China on Oct. 31-Nov. 2.

The national policy to "Develop the West," China's underdeveloped interior, is having an effect. This policy was announced in March 2000. While GDP and other such figures are extremely unrevealing as far as real, physical economic developments are concerned, the SDPC reported in early November, that fixed asset investment had risen 25% in 12 provinces, regions, and municipalities in western China. This investment included reforestation and construction of ten key projects, at a combined cost of 20 billion yuan. More projects were begun this year, which will cost about 300 billion yuan.

## The True Science Of Economics

The essential question for China remains the incredible task of transforming a nation of 1.3 billion people into a modern industrialized nation. Of these people, as many as 800-900 million remain in the rural sector, where economic growth, and therefore their real living standards, have been stagnating for at least a decade.

There is certainly realization, at the highest levels, that this is an *existential* problem for China, and must be solved.

It is here, at this vital point, that Lyndon LaRouche's unique understanding of the *science* of economics, must be discussed and absorbed in China, as is being done in Russia, India, and other nations. In his discussions since 1989, of the great challenges and opportunities of developing the Eurasian land-mass, and in recent visits to India and Russia, LaRouche has emphasized those essential principles for the science of national economic development.

"Over 50% of an investment in any effective economy, is in basic economic infrastructure, which is by the state. . . . A healthy economy, is *dominated* by the nation-state," LaRouche recently told a group of economists in Guatemala. "The nation-state provides regulation, *intended to promote the general interest;* nothing else, for *all* the population, and *all* of the people. This will take 50% of the total, physical activity of government of any healthy economy: investment and maintenance of basic economic infrastructure.

"This is done either by the public sector directly, through government operations, or through *highly regulated* utilities which are chartered by governments" (see *EIR,* Nov. 25, 2001).

In discussions in Europe over the past decade, LaRouche has stressed the principle, that no private interest could have the interest, or should have the authority, to ensure the "general welfare" of the entire population, which is the responsibility the state to provide for infrastructure, including basic physical infrastructure, and scientific and technological research, education, and health.

At the same time, in the most genuinely successful and innovative Western economies, it has been established that agriculture and industry, especially machine-tool and related innovative, advanced technology sectors, "have never been successful except when run as essentially private, entrepreneurial enterprises."

The state, however, remains responsible for "*fostering* technological progress," including by the private, innovative advanced technology enterprises exemplified by Germany's famous *Mittelstand,* the highly productive small and medium-sized businesses.

The heart of the matter, as LaRouche told a group of economists and others in New Delhi on Dec. 3, is the development of science (see *EIR,* Dec. 14, 2001). This is not what is known as "contemporary accepted science." Such "science" is essentially Malthusian: "It does not allow for any radical change in fundamental principles of science. It does not allow for that kind of society. You teach people how to manage existing technologies, not how to introduce new ones."

What nations such as India and China need is "good physical scientists," who have "the impulse to go out and do what" these huge, underdeveloped nations need. That is, to "develop science, and apply it to . . . production, . . . to raise the level of productivity of the land and people." In contrast to economics as a physical science, "economics, as taught today, is linear. Linear mathematics, which has no correspondence to physical reality. It is at the blackboard; it is on the computer; it is linear." Instead, science and economics must "improve the productive powers of labor," LaRouche said. Science must be explained by work, by actual production, and not on the computer. The fundamental issue, is "man's increased power over the universe, the power to exist, the power to increase the life-span of populations, and by increasing the life-span of populations, increase the possibility of the development of populations."