

Two models for the Yangtze River Valley

Michael Billington contrasts the "Great Project" under Chiang Kai-shek and German industrialists to today's looting policies by the Deng clique.

The discredited Communist dictatorship in mainland China has, over the past 10 months, begun a transformation which could properly be labeled a "recolonization" by Anglo-American financial interests centered around Henry Kissinger—including even the hated "extraterritoriality" privileges that placed the Western nations "above the law" in their concession areas. The People's Republic has even evoked the name of Dr. Sun Yat-sen, who developed extensive plans for the crash industrialization of China, to describe its own plan for the stripping of the nation's natural wealth and exploitation of the desperate population for sweatshop labor in the new foreign "concessions."

Only once was there a serious attempt to implement the plans of Sun Yat-sen—in the years immediately before the Japanese *blitzkrieg* invasion of 1937. Collaboration between German military and industrial circles and the Chiang Kai-shek leadership in Nanking unleashed an astonishing industrial transformation of the Yangtze Valley area, called the "New Economic Center," only to be cut short by the Japanese invasion and direct sabotage from Hitler and his backers. A comparison of the two models for "transformation" will provide a proper perspective on the disaster being imposed on China today, and the necessary direction required to reverse it.

Shanghai

The centerpiece of the Deng Xiaoping master plan, developed in collaboration with his "close friend" Henry Kissinger, is the creation of a "new Hong Kong" in Shanghai, and related "free-trade" zones and "open cities" along the coast. This is not a new *direction* in policy, but rather a leap forward in the Deng policy, in effect since the early 1980s. That policy was to open up the coast through concessions to foreign finance for labor-intensive, export-oriented light industry, while generally leaving the rest of the country, both industrially and agriculturally, to decay. All "great project" approaches to build infrastructure were rejected.

Premier Li Peng made this continuing policy explicit in a notice to provincial and municipal leaders. According to

the Hong Kong *Ching Pao*, Li said, "the gap" between the coast and the interior "may be widened within a period of time. Leading cadres should understand this and urge their subordinates to do things beneficial to the whole country. . . . *The interior should seek development focused on coastal development*" (emphasis added). Their approach to the Yangtze Valley is admitted in a *Beijing Review* article: "The latest plan focuses on how to make the most of the area's resources *for the development of Shanghai as the center* . . . which can promote the economic development of whole of the Chang-jiang [Yangtze] River Valley hinterland." This role as a mere provider of raw materials for Shanghai's foreign enclaves is mislabeled as a "transformation into the economic backbone" of the nation.

The financial preparations are well under way. The Communist government issued a series of new banking, investment, and labor laws over the past eight months that provide massive tax breaks to the banks and almost total liberty in the establishment of low-wage sweatshops (See *EIR* Nov. 16, p. 10, "C.V. Starr returns to Shanghai").

With more than 100 million Chinese either unemployed or "redundant" rural laborers, and the number *officially* expected to grow dramatically over the next five years, the pool of desperate cheap labor is vulnerable to such policies.

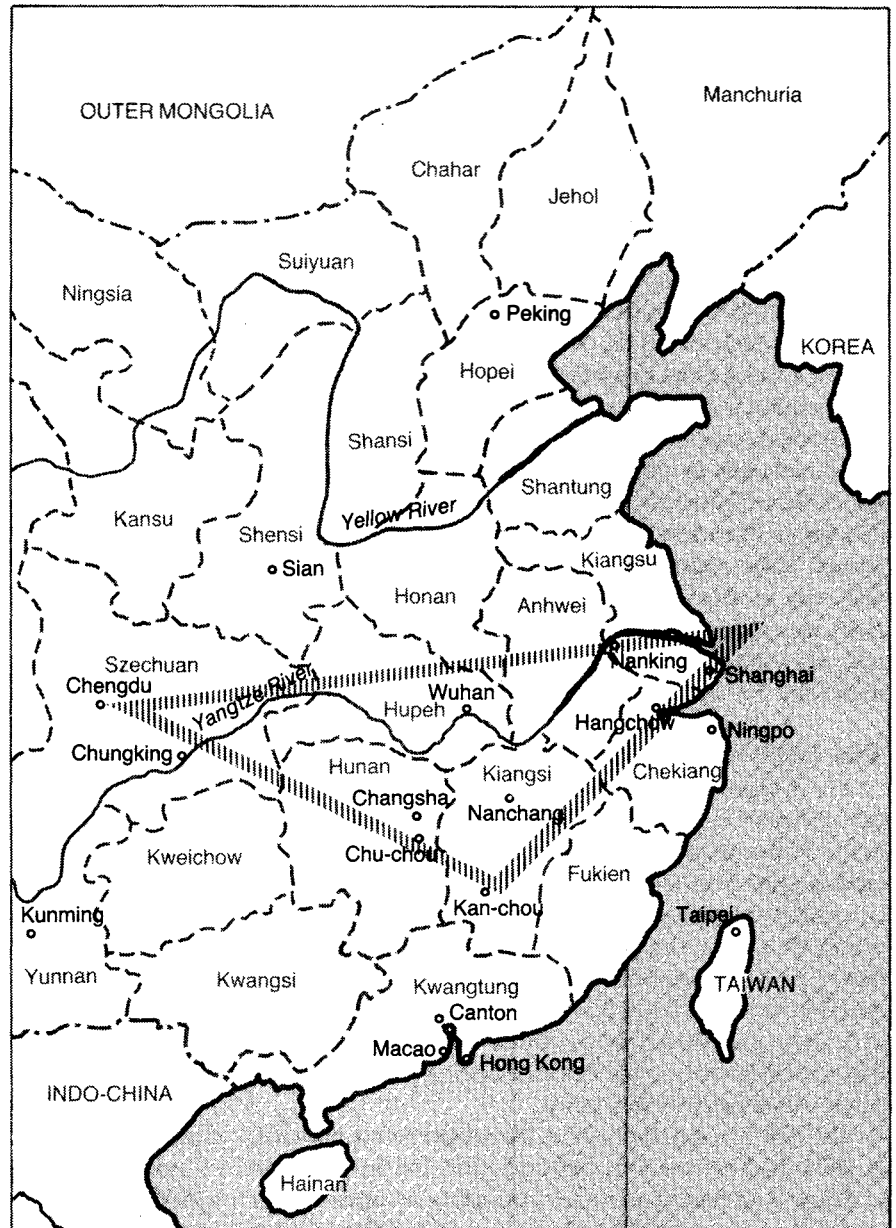
The Oct. 22-28 *Beijing Review* details the plans for Shanghai. The "Pudong" area, adjacent to the current Shanghai, was targeted by Sun Yat-sen as the preferred site for a new port city to rival the great metropolitan centers like New York. Although the current plan does include the creation of extensive port facilities, the similarity to Dr. Sun's "great project" approach ends there.

Three "districts" are being established:

1) a financial and trade center, "site of a new banking street" which will "help Shanghai regain its unique status as the largest financial center of the Orient";

2) an Export Processing District, divided between light industry integrated with the financial sector, and "luxury residences, apartments, office buildings, hotels, markets and recreational centers";

China's program for the 'New Economic Center' in the 1930s



3) a Free Trade District, allowing for “both free trade and export processing.” The district will be “within the national boundary but beyond the jurisdiction of the customs,” and “all foreign personnel and cargo will be able to move in and out of the district free of custom tariff.”

This is an astonishing admission to anyone familiar with the 100-year-long, bloody battle waged by the Chinese to regain their sovereign control over the tariffs from the British. The British seized and controlled the customs for *all* of China after the 19th-century Opium Wars, forcing an artificially low or (in effect) *negative* tariff on imports under their control—including opium—while seizing what little income was generated as payment for the “reparations” imposed on

China for daring to resist the British opium trade and seizure of power. Not until World War II, when the British depended on the Chinese resistance to Japan to slow down Japanese seizure of British colonies, did London give up their control of Chinese customs.

The *Beijing Review* reports further that the Free Trade Zone will be “highly isolated from neighboring territory by a separation belt (*very likely a real wall*)” (emphasis added). It was not reported whether or not the sign from the Park in the old Shanghai concessions, “No dogs or Chinamen,” will be hung on the wall.

The focus on the coastal export zones over the past ten years at the expense of the infrastructure necessary for nation-

al development has now created a general breakdown crisis in the nation's infrastructure. The rail system, due to both the failure to expand and the failure of maintenance, has been unable to move existing raw materials, especially coal supplies, to industry and to electric generation facilities, causing vast shutdowns and blackouts in industry over the past two years. The rail construction plans for the Eighth Five Year Plan (1991-95) include some ambitious projects, such as an 18-kilometer tunnel to link Chengdu, Szechuan with the northern provinces, and a 14-kilometer bridge, the longest in Asia, across the Yellow River. But the plan is no more than an attempt to patch the hole in the dyke, while the entire edifice is collapsing.

Similarly, the water supply system has collapsed in many cities, including Beijing and even in the model "Special Economic Zone," Shenzhen, across from Hong Kong. Water delivery to Shenzhen has been reduced to three-fifths of the normal daily consumption level, and "the economy will definitely be affected," according to officials quoted in the *Hong Kong Standard*. The Beijing water situation is so serious, and solutions so far from sight, that there is discussion of moving the capital to another city.

The 1930s 'New Economic Center'

As an approximation of what *could* be done with republican leadership in China, the "New Economic Center," begun in the 1930s, aimed to transform the several provinces extending south from the Yangtze River into a productive base, generating out to the rest of the nation and beyond (see **Map**, p. 17). This astonishing project has been virtually buried in history by both Maoists and by Western scholars as part of the effort to paint Chiang Kai-shek's republican government as "corrupt gangsters," and to prevent any effort to replicate it as a replacement for the financial looting preferred by the Anglo-American banking crowd.

Dr. Sun Yat-sen, throughout the decade before his death in 1925, had exerted every effort to link the development of China with that of Germany, including an unsuccessful intervention to prevent China's alliance with Britain against Germany in World War I. Both he and his protégé Chiang Kai-shek admired the Zollverein, the German Customs Union designed by "American System" economist Friedrich List, for creating the "military and economic strength, and the political unity attained in the North German Confederation" (quoted in *Germany and Republican China*, William C. Kirby, Stanford, 1984, p. 149). Relations with Germany were transformed in 1933 and 1934 similarly through the efforts of Gen. Hans von Seeckt, the founder of the German Reichswehr, and Otto Wolff, an industrialist who had also played a leading role in the German industrial policies in Russia before 1933.

At that point, Chiang Kai-shek had been almost entirely isolated by the Western world. In 1920, Britain, France, Japan, and the United States had formed the "New Four

Power Consortium," ostensibly to "regularize foreign investment in China; but its practical effect . . . was to cut off credit by any one of its participants. In its 17-year existence, *not one loan was granted by the consortium or member powers acting under its auspices*" (Kirby, p. 195). In addition, only the Germans had provided the military support necessary for Chiang to clean out the remnants of the warlords and to finally drive the Communists out of the crucial, strategic province of Kiangsi.

Seeckt signed a secret treaty with Chiang Kai-shek in August 1934, which constituted the first trade treaty with any nation in which China was fully equal and independent. It was entirely a barter agreement. German capital goods were exchanged for raw materials and agricultural products—the majority of which were the strategic minerals tungsten and antimony. (Much of China's strategic minerals were in the Kiangsi area—the routing of Mao's Red Army facilitated their development.) A 100 million Reichsmark credit was established by a semi-private corporation in Berlin (Hapro), actually run by the War Ministry, to be drawn upon by the Republic of China to purchase capital goods, to be paid entirely by Chinese exports. The actual credit extended was several times this amount. These credits were in 1935 "the sole available means of financing new state enterprises" (Kirby, p. 135). Interest on the credits was 5% (British loans were offered at 12%, and were to *remain* at 12%), with no time set for the delivery of goods in payment, nor any limit on expanding the credit, nor any security. The security for the German corporations involved came from guarantees from the Reich. There was no foreign ownership or management. Each of these points represented a total departure from all treaty arrangements over the previous century.

Otto Wolff of Cologne was the primary figure on the German side between 1934 and 1936. He began by building a series of rail lines through Chekiang, Kiangsi, Hunan, and Kweichow (see **Map**), the heart of the "New Economic Center." He brought Krupp and Stahlunion Export in during 1936. He then built China's first motor vehicle manufacturing plant in Chu-chou, Hunan, at an intersection of the rail lines, in collaboration with Daimler-Benz. Construction of a truck plant, which would have produced the entire product domestically, was begun, but was interrupted by the war. With Junkers, Wolff built the first Chinese airplane plant in Hangchow. Siemens built ports and turbines, while IG Farben built chemical plants.

The IG Farben representative, Max Ilgner, did a thorough study of the general potential for German industry, preparing a three-volume report that circulated in several hundred copies. "Ilgner said German industry need not fear that an intensification of the Chinese industrial sector would lead to its independence from foreign sources; it would result instead in the 'creation of additional purchasing power' " (Kirby, p. 202). This identified, negatively, the opposite British policy (then and today) which aimed to extract as much as possi-

ble in raw materials and cheap labor while intentionally preventing the development of an independent industrial base, assuring China's continued dependence as a *debtor*, not as a developing market.

The largest chapter of Ilgner's report was on *cultural* relations as the necessary foundation for economic collaboration. In China this centered on the Germany Institute in Peking, which published translations of Schiller and Goethe and functioned as a clearing house for industrial and educational exchanges and support.

The Ilgner report led to the establishment in 1936 of a "Three Year Plan" between Hapro in Germany and the "National Resources Commission" in China under Chiang Kai-shek. Had the full scope of this great project not been disrupted by the Japanese invasion, and later by Hitler, Goering, and Ribbentrop's orders to end all relations in favor of the military alliance with Japan, China would have experienced perhaps the greatest economic transformation of any nation in history. It is also generally recognized that with even two more years' delay, China would have been strong enough to repel the Japanese *blitzkrieg*.

The Three Year Plan included the following major elements:

- 1) Expanded tungsten and antimony mining, critical in munitions production, and the construction of a ferro-tungsten plant in Kiangsi, providing China the means to produce its own finished product.

- 2) The Central Steelworks in Hunan, built by Krupp. With the loss of Manchuria in 1931, the Republic was left with *no* modern steel capacity. The iron works that were the pride of the "self-strengthening" movement of the late 19th century, had "proved unable to compete with foreign imports, and had altogether ceased production" (Kirby, p. 213). The new Hunan facility was connected by rail to potential new iron and coal resources, and by highway to the ferro-tungsten plant in Kiangsi. The entire infrastructure for two blast furnaces, a steel refinery, a hydroelectric power plant, and by-product facilities was completed in July 1939, but then the Japanese forced the nationalist government evacuate to Yunnan.

- 3) Extensive iron, coal, lead, and zinc mining.

- 4) Copper smelting and coal liquefaction plants in Kiangsi, which were forced to evacuate to Yunnan in "dramatically scaled-down versions."

- 5) Nitrogen and alcohol plants. Although these, too, were forced to evacuate, China became a major chemical producer.

- 6) Central Machine Manufacturing Works in Hunan, including an engine plant, a power plant, and machine tools facilities. Construction was near completion when forced to evacuate to Yunnan.

- 7) Central Electric Manufacturing Works, spread across the country, producing electronics equipment. In this area alone did the British and Americans participate, but only

after 1938.

While the Japanese encroachment increasingly disrupted the program, on the German side, Hitler had ordered a halt to the entire China policy as early as 1937, even though his relations with Japan were erratic at best. German industrialists and the military were almost universally in support of China, including military defense against Japan. Hitler's orders were strenuously resisted. Goering ordered all shipments stopped in October 1937, then again in April 1938, then again in April 1939. These orders were never fully followed, and not until the Japanese attack on Pearl Harbor and German recognition of the Japanese puppet regime in occupied China in 1941 did the trade actually end.

One extremely revealing effect of the Sino-German project was the shattering of the "united front" among the other Western powers to hold China in backwardness on the British model. The railroad boom, in particular, convinced some bankers that they had better get in on the new construction. But despite the collapse of the "New Four Power Consortium" in 1937, the British refused to lower their 12% usury rate and to meet the German "equal treaty" terms, and virtually no new support was forthcoming until Japan attacked Pearl Harbor.

Also, as historian William Kirby points out: "The Three Year Plan of the National Resources Council did leave a legacy: It is to be found in the dominant role played by that agency and the government in the wartime and immediate postwar economy and again in the Taiwanese industrial economy of the 1950s" (Kirby, p. 217)

Compare the *cultural* worldview which governs these two opposite approaches to economic policy. Chiang Kai-shek and his German collaborators acted in the tradition of Friedrich List and Dr. Sun Yat-sen with a commitment to developing the productive powers of the Chinese population through the introduction of the best available technology, to a purpose beneficial to all mankind. Kissinger and his aging and decrepit friends in Beijing, in keeping with the British model of Adam Smith and the East India Company, are concerned with precisely the opposite: extracting as much wealth as possible while preventing any expression of creative thought among the population. In the unbridled words of British Imperial apologist Adrian Wood in the London *Financial Times*, after praising both the opening up of land and securities speculation and the "painful" austerity on the people, "if the political system becomes pluralistic and democratic, it becomes easier for the losers and the shortsighted to unite to block economic reforms that are in the long-run interest of the people."

The legacy of List and Sun, inspired by the notion of the inalienable rights of man from the U.S. Declaration of Independence, can be seen today in the temporarily repressed Chinese freedom fight and in the newly unified German nation. It is to this tradition that we must look for a reversal of the unfolding disaster in the People's Republic of China.