
Economic Imperialism

Will the British succeed in splitting China apart – again?

by Michael O. Billington

This publication has consistently warned that the “economic miracle” of the Chinese free trade reforms under Deng Xiaoping was doomed to disaster, being based not on the development of physical and human resources for long-term development, but on vicious looting of the impoverished peasantry and the decrepit infrastructure. Now that the “miracle” is collapsing, certain British interests are openly discussing an option for the division of China, a classical British imperial policy which has been used repeatedly over the past 150 years to keep China backward and to prevent any republican forces from emerging to unite and develop a free China.

The southern province of Guangdong has already been largely transformed into an extension of Hong Kong economically. It is estimated that 40% of Hong Kong’s currency is circulating in *Guangdong Province* as legal tender. The current effort by Beijing to cut off the speculative binge of the past year and a half by provincial banks, mostly in real estate speculation, drugs, smuggling, and related criminal activity, will have virtually no effect in Guangdong, since the province is run by *foreign* credit through Hong Kong, and is not dependent on Beijing or the central bank. In an interview with *EIR* in August 1992, Peter Ferdinand, director of the Asia-Pacific Program of Britain’s foremost strategic institution, the Royal Institute for International Affairs (RIIA), said: “I’m inclined to think that capitalism can separate the southern rim off without all the bloodshed – separate it economically.”

Whether such an economic division would become a *political* division would depend on the role of the military, primarily the People’s Liberation Army (PLA). Dr. David Shambaugh, of the School of Oriental Studies at the University of London and editor of the *China Quarterly*, the leading journal of the old East India Company circles, responded to a question from *EIR* on the potential for a split: “It’s a scenario which certainly must be considered. Although most China specialists would dismiss it out of hand and assume that the military nation-state will continue, I am, however, toward the other end of the spectrum. I think there’s a good possibility that it might not. . . . However, for that to transpire would take a complete collapse of the central party state. There would have to be widespread – much more widespread than

1989 – demonstrations, and then, most importantly, the military would not respond as they did in 1989. . . . If some units of the PLA did not follow orders as they did in 1989, then you have the collapse of the central state and warring factions at the center, which would precipitate a situation where some parts of the country, or some provinces could split away.”

Shambaugh went on to predict precisely such a crisis in the months ahead: “The austerity plan is not going to work. Rural and urban discontent will rise to a boiling point. The central state will be challenged to suppress them, and they will call upon the paramilitary police to do so, which they won’t be able to do. They will then call in the military to do so.”

Potential for military coup

It is for this reason that Beijing has taken drastic measures over the past year to reassert central control over the PLA. In November, Gen. Yang Shangkun and his half-brother Gen. Yang Baibing were removed from their posts – the former as President of the People’s Republic of China and head of the Central Military Commission, and the latter as deputy head of the Central Military Commission – and the largest purge and transfer since the Cultural Revolution swept the military leadership. The Yangs and other older officers were viewed as a potential leadership for a military coup against the free trade reform policies which are ravaging the country. These purged leaders are still very much in the wings, and may well be encouraged by the emergence of an “empire” faction in Moscow, threatening to reestablish the Soviet Union in some form, in reaction to the devastation of the West’s “shock therapy” economic destruction in the former Soviet countries.

However, there is an equally dangerous threat to Beijing’s central control from the other extreme of the military leadership. Like the rest of China’s institutions, the PLA has “jumped into the sea” – the Chinese expression for political leaders who have followed Deng’s dictate that “it’s glorious to be rich” – by joining in the massive speculation binge. According to the Aug. 12 *Far Eastern Economic Review*, “More than 10,000 military-run companies have been established and officially registered since the PLA was allowed to

start doing business on its own account in the mid-1980s, but many thousands more are known to operate without the knowledge of the logistics chiefs." Most of this investment is in Guangdong, much of it in land and stock speculation, while several scandals involving connections between PLA units and organized crime gangs have surfaced. Much of the income from these business activities goes unreported to the central authorities.

On July 23, the Communist Party's Central Military Commission published a directive in the *People's Daily* ordering the military to stop diverting its budget into business ventures and get out of foreign exchange and real estate speculation, warning of a "growing tide of corruption, money worshipping, and hedonism."

The British run speculation

It must be noted that the frantic pace of speculation of the past 20 months, although unleashed by Deng Xiaoping in January 1992, was carried out primarily through the British colony of Hong Kong. In that period, over \$10 billion in projects have been initiated by Hong Kong companies in the mainland, more than twice the total foreign investment in China in 1992, including Hong Kong, according to the *Asian Wall Street Journal*. Some of these investments may collapse as the bubble bursts, but at least some of the British banks in Hong Kong believe they can protect Guangdong from Beijing's control. When Beijing slammed on the brakes in 1988, Guangdong was only mildly affected, while the rest of the country contracted massively, raising the number of unemployed from the countryside astronomically. (This number is now close to 200 million, and some official estimates are that that could double by the year 2000.)

Guangdong, especially the Special Economic Zone Shenzhen, next to Hong Kong, thrived on credit from Hong Kong and virtual slave labor from this desperate mass of unemployed. Guangzhou (Canton) Mayor Li Ziliu boasted to the *Asian Wall Street Journal* that the current efforts to rein in the speculative free-for-all will be equally ineffective this time, since Guangdong will simply turn to Hong Kong for credit. Shanghai and other northern cities that are undergoing a similar speculative explosion are far more dependent on resources and concessionary policies from Beijing. Also, Beijing controls the currency exchange centers, both the official exchange and the "swap" centers, where selected foreign firms can exchange currencies at close to the black market rate. Guangdong, however, since the Hong Kong dollar is virtually an official currency, can avoid even this level of control.

Besides being independent of Beijing's financial controls, Guangdong has also found ways of diverting taxes and other funds away from Beijing and into its own coffers. The *Far Eastern Economic Review* reported on June 24 that two villages near Guangzhou have emerged as smugglers' outposts, where retailers from across the country flock to pur-

chase stocks of electronics, motorcycles, and other items smuggled in from Hong Kong. The Guangdong officials charge exorbitant prices to lease the small shops in these villages. Thus, funds that would have gone to Beijing as tariffs on legal imports stay in Guangdong. Hong Kong authorities facilitate the process. The director of the Hong Kong Customs and Excise department told the *Review*: "Strictly speaking, there is no law in Hong Kong that restricts goods from Hong Kong to China, as long as they are not stolen goods or illegal products."

Of course, such a process could not go on without complicity of at least some layers of the PLA as well. The PLA is, in fact, forced to engage in business, legal or illegal, but the structure of the budget. Only a fraction of defense costs is paid by the central government. The rest comes from military-run industries, which previously meant military production and sales of military hardware overseas. Increasingly, however, these extra funds have come from military-run consumer industries, or speculation in the private sector, or from the fruits of corruption. Beijing has increased the defense budget by over 10% each of the past three years, but this is less than the rate of inflation, aggravating the problem.

In Palmerston's footsteps

The potential for Guangdong to break from the north, perhaps in league with the other southern provinces, would depend on a faction of the PLA becoming so corrupted that they would join with the British in Hong Kong against a crackdown from Beijing. The British have used such methods before. In the 1850s and 1860s, while Lord Palmerston waged a series of wars against Beijing to force the acceptance of free trade in opium, the British gave support to a peasant revolt in the south — the Taiping Rebellion — while threatening Beijing to either submit to all demands or watch the British sponsor a Taiping takeover. When the Beijing government was eventually crushed militarily, the British turned against the Taiping, helping government armies to virtually exterminate them.

In the beginning of this century, faced with the victorious revolution under Sun Yat-sen's republican leadership in 1911, the British threw their support to the head of the military forces of the deposed dynasty, and subsequently sponsored various local military chieftains, breaking China up into warlord states. When Chiang Kai-shek later united the nation militarily, defeating both the warlords and the Communist Party, the British and their American allies backed the Communists in the north, again dividing the country and eventually facilitating the communist takeover.

This is the mentality of those like Peter Ferdinand of the RIIA, who said in the same interview quoted above: "We may see a breakup of China. It's quite possible to see two Chinas; an inland China focused on Beijing, the less-developed country we know and have distaste for, and a coastal China which is a separate capitalist country, internationalized."