

system. . . . Our examiners report that those banks are adequately controlling their risks.”

A worm-like George Soros

The hearing reached its nadir with the testimony of mega-speculator George Soros, whose highly anticipated appearance drew a mob of 250 press and others. The popular press never fails to portray Soros as very intelligent and smooth, a worldly figure. But upon hearing him testify for nearly two hours, that impression is quickly changed. Under his smooth persona, one can perceive an obsessively object-fixated person, whose answers become very predictable, uttered in short, hack-like phrases. Moreover, Soros frequently contradicted himself, withdrawing what he had said only five minutes earlier. One had the strong impression of witnessing the testimony of a worm.

Unfortunately, Soros's testimony was never challenged. Soros was unctuously introduced for 10 minutes by Rep. Tom Lantos (D-Calif.), a leading hit-man for the Anti-Defamation League of B'nai B'rith, who called Soros “a close friend of many years,” both having been born in Hungary. Lantos hailed Soros's private philanthropy work in the former East bloc, which, as *EIR* has reported, is nothing more than a controlling mechanism for the International Monetary Fund's disastrous shock therapy policies.

Soros said that there are those who have “spread lies about how I make my money.” Engaging in classic misdirection, which no one in Congress tripped him up on, he said that mutual funds were responsible for the market downturn, and so were the banks and people using derivatives—but not his own Quantum Fund's use of derivatives. “As far as my hedge funds are concerned, I believe you are looking in the wrong place.” He insulted Congress, stating that “Frankly, I don't think hedge funds are a matter of concern to you [Congress] or the regulators.” Then, contradicting himself, Soros told Congress that hedge funds needed more regulation. Under questioning later, he reversed himself again, saying, “Banks monitor hedge funds better than they do other customers. There's really nothing to regulate on hedge funds.”

Soros was asked why his Quantum Fund, which is heavily dominated by the Rothschild bank, could not possibly go afoul or create problems. his arrogant reply: “I own a large share of my own company. That's the best guarantee it will not be over-leveraged.” No congressman even questioned that cheap salesman's “trust me” ploy. Soros also asserted, “I see no imminent danger of a market meltdown or crash.”

Yet Soros repeatedly made statements that provided enough rope to hang himself and the four regulators who testified before him, if any congressman had been alert. For example, he stated, that “instruments of hedging [such as derivatives] pass risk onto the system,” creating and building up systemic risk as a function of derivatives trading. This is exactly what every bank and derivatives trader denies has happened over the last five years.

China model is heading for a crash

by Michael Billington

The much-heralded “China model,” which has been based on the promise that a large accumulation of capital can be squeezed from an impoverished peasantry deployed as cheap labor in low-technology export industries, is fast approaching its unavoidable breakdown crisis. During March, Beijing's economic leaders scrambled to reimpose state controls on several sectors of the economy, in an effort to stop both the 20%-plus inflation and the uncontrolled speculative investment in real estate, smuggling, drugs, and sweatshop light industries.

There are serious questions, however, as to whether or not the central government can enforce the new controls in the face of regional resistance, which is being sponsored and supported by British-based operations to split China, or at least to so weaken the central government that the foreign “globalization” looting spree is not disrupted. Britain's foremost geopolitical policy think-tank, the International Institute of Strategic Studies (IISS), released a report entitled “China Changes Shape: Regionalism and Foreign Policy,” written by senior fellow Gerald Segal, which explicitly calls for western nations to deal directly with the governments and businesses in regional centers, especially in Guangdong province in the south, rather than with Beijing. “It may be,” the report states, “that the only way to ensure that China does not become more dangerous as it grows richer and stronger is to ensure that in practice, if not in law, there is more than one China to deal with.” This is, of course, a policy oft repeated over the 150-year history of British operations in China.

The IISS report points out that the People's Liberation Army still represents centralized authority; but the increasing involvement by both the Army itself and by the individual officers in money-making ventures has created strong interests linked to the regional economies. Meanwhile, Segal writes, “Beijing [can] no longer impose austerity measures on the national economy, and rich provinces [can] raise funds from local investment and abroad.” This refers primarily to the fact that Hongkong (i.e., British) banks and investors can issue credit directly in Hongkong dollars, which are now accepted as legal tender in Guangdong province.

The IISS program is being realized in the current crisis.

Zhu Rongji, the vice-premier in charge of the economy and head of the People's Bank of China, the central bank, spearheaded a set of financial reforms on Jan. 1 aimed at cooling speculation and reversing the collapse of central government revenues, including especially a new tax structure.

Shanghai Mayor Huang Ju was reported by IPS to have refused to implement the new taxes until 1995 at the earliest, and insisted that real estate development would be permanently exempt. Guangdong Mayor Li Zhi-lin told a meeting of Hongkong developers: "The law has been passed, and it must be followed. But in administering the law, we can be flexible and take into account the interests of foreign investors." The same March 8 IPS wire reports that, although the finance minister insisted that no modifications would be accepted, the State Administration of Taxation had to concede that "problems had come up when discussions were held with Guangdong and other provinces, so adjustments will be made to take account of their views."

Beijing can't halt the binge

Beijing's demands that fixed asset investment be strictly controlled and drastically reduced has been totally ineffective:

The figures for investments in new projects rose by 77% in January and February. The reimposition of wage and price controls will find just as much resistance. Government officials have announced that inflation will be drastically reduced from last year's rates down to 10%, but the figures for January and February have not even budged from the over 20% average. Efforts to restrict wages, together with timid moves toward closing state sector industries that are not producing a profit, put the government face-to-face with perhaps their greatest fear: a general upsurge of labor actions, potentially intersecting peasant revolts over deteriorating conditions in the vast agricultural sector. The All-China Federation of Trade Unions reported in March that there were 15,000 strikes, protests, petitions, and acts of sabotage by Chinese workers in 1993. Such growing militancy is the result of both the breaking of the "iron rice bowl"—the guaranteed job for Chinese workers—and the appalling conditions in the virtually unregulated coolie-labor light industry which is recycling the 150-200 million idle peasants through their doors. Vice Premier Zou Jiahua admitted that more than 60,000 people had been killed in industrial accidents and disasters between January and October 1993—about 200 *per day*.

The kind of transformation of the national economy necessary to avert the looming disaster is not unknown to sections of the Chinese government leadership. The influential magazine *Strategy and Management* last month published in full Lyndon LaRouche's programmatic proposals (first printed in *EIR*'s Feb. 11, 1994 issue) for Chinese development, written by Dr. Jonathan Tennenbaum of the

Fusion Energy Forum. This program calls for reversing the International Monetary Fund-sponsored cheap-labor and free-trade approach in favor of a massive transformation of both the physical and human infrastructure of the economy, centered on the building of 1,000 new cities powered by nuclear energy facilities and built around new educational institutions.

Such a policy would revive the historically respected role of the intellectual in Chinese society from the nightmare of Maoist (Taoist) disdain for the power of reason, and would place the individual human being at the center of the economy, valued for his capacity to advance his creative powers and skills, rather than as a replaceable cog in the labor recycling process of the free trade zones.

There is no indication, however, that such a transformation of the Chinese government's view of its population is under way.

The state of the real economy

Chinese economists have repeatedly told *EIR* that, although they agree that vast infrastructure projects are desirable, these can only be obtained in the long run by first accumulating foreign reserves through a period of exploiting cheap labor in export-oriented process industries. However, despite the ostentatious wealth in the trade zones, the central government is increasingly facing financial disaster due to the collapse of state sector industries income, capital flight estimated at over \$10 billion per year, corruption, and regional diversion of revenues. The 1993 budget deficit of \$10 billion is expected to leap to nearly \$15 billion this year.

Financing this deficit has led Beijing into ever-larger foreign bonded indebtedness, and to huge domestic bond issues. The domestic bonds may have to be sold by forced deductions from state employees' paychecks—a practice which was reintroduced last year, and which will further enflame the labor force.

The state of the real economy is reflected in the following brief reports, taken from official government reports:

- **Rail.** The notorious bottlenecks in transportation in China are getting worse rather than improving. There was a net *decline* in 1993 in both freight transport volume (0.2%) and passenger transportation (11.9%). A rise in freight transport in January, at the expense of further declines in passengers, fell back again in February. And yet, in March, the government announced a 30% *cut* in the railroad construction budget originally proposed for 1994. The total expenditures after inflation will be only slightly greater than last year, and will not increase total tonnage or passengers at all.

- **Steel.** Steel production is increasing significantly, but a profile of China's largest steel company, Shougang, indicates the problems and the dangers. Shougang is expanding by purchasing idle steel plants in the depressed U.S. econo-

my. Their new mill in Shoudong, which will be the largest in China, was previously a working mill in California. The Pittsburgh *Post-Gazette* recently reported that several major USX plants in the area have been packed up and shipped to China. While this may appear to be a boon to China's economy, in the long run, such asset stripping from the advanced sector physical plant and skilled labor force is precisely the policy which is locking the world economy into a systemic depression depression breakdown—which will, of course, include China. Shougang's president foolishly bragged to the *Asian Wall Street Journal* that the company will survive in a collapsing world steel market because of cheap labor. "Labor constitutes only about 4% of our costs, compared to over 40% for Japanese steel workers," he said.

Worse, Shougang Steel has become one of the leading state sector firms to become massively involved in Hongkong real estate and similar speculative operations. Chairman Shou Guanwu deployed his son, along with the son of Deng Xiaoping and several other "princelings," to work with Hongkong's Li Ka Shing, the "Dope, Inc." tycoon who represents the interests of the Anglo-American financial elite in the Crown Colony. Like USX, which "diversified" out of steel production into real estate speculation, leading the collapse of U.S. steel production during the 1980s, Shougang now runs a series of shell companies listed on the Hongkong Exchange which are heavily involved in the speculative China bubble.

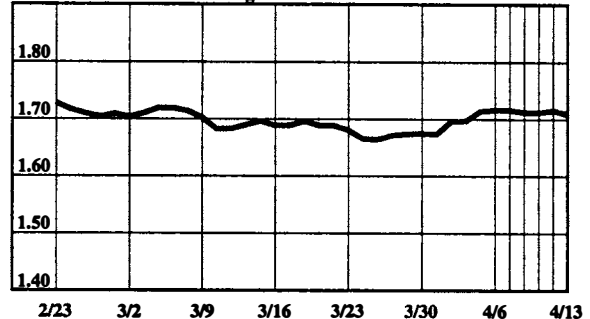
- **Energy.** The head of the energy program at the East-West Center in Hawaii, Fereidan Fesharaki, said that China's energy sector was out of control. "The whole structure is unravelling," he told Reuter news service on March 13. Besides the notorious inability to transport coal, which already ties up about 50% of the national rail capacity, a similar crisis has developed in oil. The booming southern provinces have turned to imported oil, despite the fact that China's oil industry is one of the world's largest. Beijing imposed a temporary ban on all oil imports in an effort to "better coordinate domestic oil sales with imports," according to a government official. Fesharaki, however, said, "This is not a sign of a plan, but a sign of anarchy."

- **Education.** China's expenditures per capita on education (about \$11.50 per year per elementary student) are among the lowest in the world. The *China Daily* reported that 91% of Beijing's teachers are trying to find other work. Both government studies and foreign observers have reported that school-age children are increasingly dropping out of school in the countryside. In one horrifying report from Hebei province, where an explosion in a fireworks factory injured 73 peasants, 34 of those burned were 11- to 13-year-old schoolgirls who had been forced by their school to work in the factory. Officials told Reuter that an estimated 50,000 such illegal plants were believed to be operating in Hebei alone. Those who refused to work were expelled from school.

Currency Rates

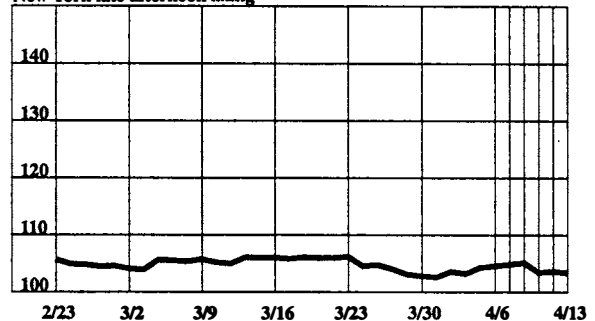
The dollar in deutschemarks

New York late afternoon fixing



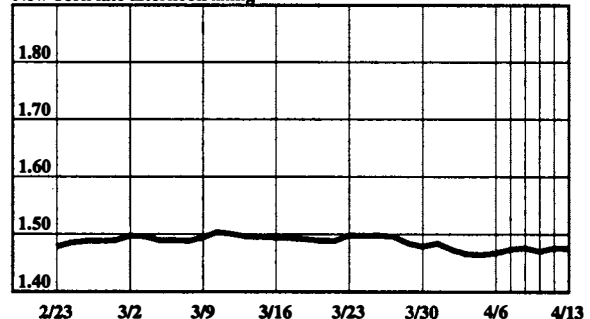
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

