

## EIR Feature

# Chinese 'reform': Deng Xiaoping's cat can't catch mice

by Michael O. Billington

The western press regularly describes China as an economic miracle, flourishing and prosperous in the wake of the successful free-market reforms of the past 12 years under the guiding hand of the "progressive" Deng Xiaoping. Such luminaries as Henry Kissinger, Marshall Goldman of Harvard, and the economists of the American Enterprise Institute even go so far as to claim that their favorite communist, Mikhail Gorbachov, would have survived had he followed Deng's lead.

This self-serving analysis comes from the same "experts" who have reduced the economies of the developing sector to rubble over the past decades, and are repeating the process in eastern Europe with the "shock therapy" demanded by the International Monetary Fund (IMF) and the World Bank—not to mention the depression they have brought upon their own economies.

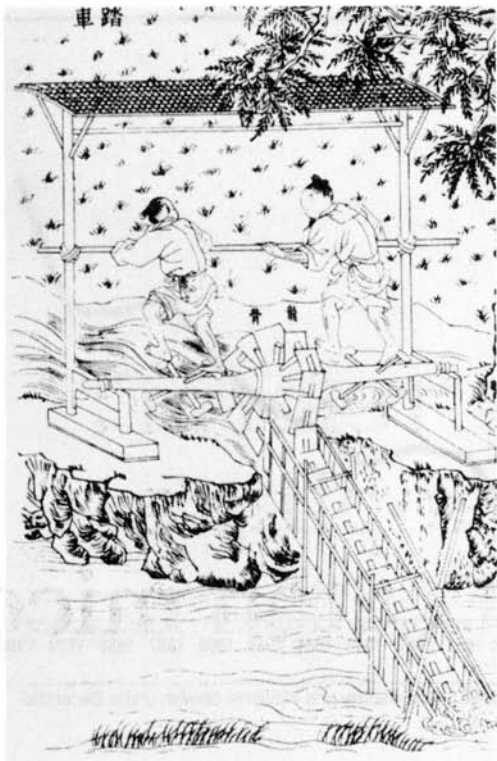
The admiration for Deng Xiaoping's "reform" stems from the fact that he has followed every prescription demanded by the IMF, the World Bank, and the related "private" advisers associated with Henry Kissinger's consulting firm, Kissinger Associates, Inc. As a result, China has become a model for the transformation of Third World nations into British "free trade" regimes.

The Chinese coast has been transformed into a series of "Special Economic Zones," where foreign investors enjoy the same access to dirt-cheap labor and tax concessions which produced the booming foreign enclaves in Hong Kong and Shanghai under nineteenth-century British imperial power. And, as in those days of old, drugs and the black market are expanding rapidly, with rampant corruption largely unchecked.

### **Cheap labor, free market**

**Figure 1** shows the wages paid to manufacturing workers in various Asian nations. Western businesses often refer to investment in China as being essentially free of labor costs.

Deng is famous for his slogan: "It doesn't matter if the cat is white or black,



Chinese peasants today are using the same primitive treadle-operated chain pumps to raise water for irrigation that can be seen in a woodcut from 1637.

as long as it catches mice.” His plan, as stated by various advisers both in China and from the West, was to use free market methods and foreign investments to build up an export industry, utilizing little from within China except cheap labor. With the accumulation of foreign reserves from these exports, China would supposedly be in a position to develop the real economy in the future. He dubbed this the “two legs” policy—one leg in the (capitalist) West and the other in traditional (socialist) China. In practice, however, this meant holding most of the country in a state of backwardness while building up the cheap-labor export industries.

The economists who designed the reform policies adopted the IMF/British fraud that anything directed by the state was “socialist,” while “capitalist” meant the absence of any government control, direction, or regulation—total “free trade.” This completely ignored the historical fact that every period of true development in the “capitalist” western world was based on the opposite policy—the *dirigist* policy of state development of basic infrastructure, protective policies for new or strategic industries and food production, and directed credit for useful industrial development in the private sector. This policy, once known as the “American System,” was associated with the first U.S. secretary of the treasury, Alexander Hamilton, and was entirely responsible for the creation of modern industrial economies in the United States and Germany, as well as the Asian economies of Japan, Taiwan, and South Korea.

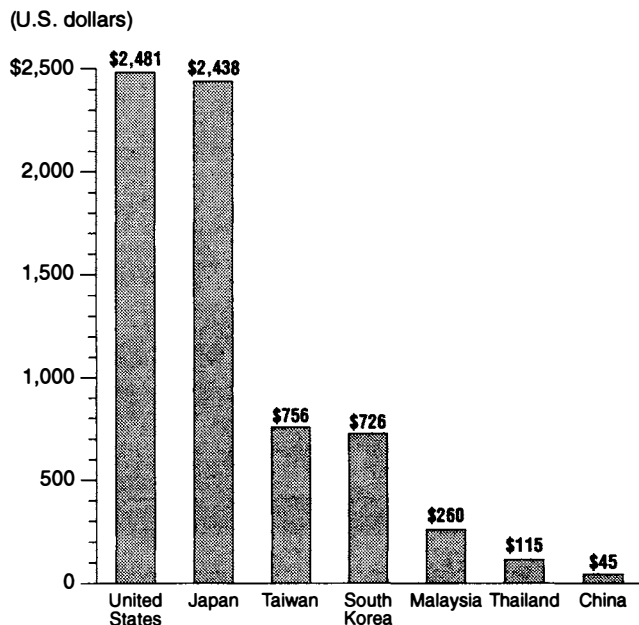
Deng’s policy was the opposite: He planned to accumu-

late foreign exchange at the expense of domestic consumption—especially at the expense of agriculture and the peasantry—and through ignoring the need for infrastructural development. **Figure 2** shows the increasing proportion of total production going to exports, especially after 1984. This policy resulted in a massive decline in agricultural and infrastructural development, putting China on a trajectory for a disastrous breakdown.

This decision represented, although in a different form, a continuation of the Maoist (and British) policy of intentionally holding the population in a state of relative backwardness. To expand exports without developing infrastructure required a conscious decision *not* to mechanize agriculture—both because the productive capacity was to be devoted to exports rather than to farm machinery, but also because the peasantry had to be kept on the land. Even without mechanization, about one-third of the peasant work force (over 100 million people) is “redundant” (as Beijing refers to the unemployed peasantry), creating the constant threat of a social explosion. Thus, Deng’s labor policy, for both industry and agriculture, was to grind as much production as possible out of a backward and unskilled work force.

There are two reasons why this process could never lead to the intended result of accumulating foreign exchange to purchase advanced technology for modernization. First, the Anglo-American oligarchy would never allow it, as is clear from the balance-of-power and “technological apartheid” policies being implemented today under the guise of the “new

FIGURE 1  
**Average monthly wages of manufacturing workers**  
 (U.S. dollars)



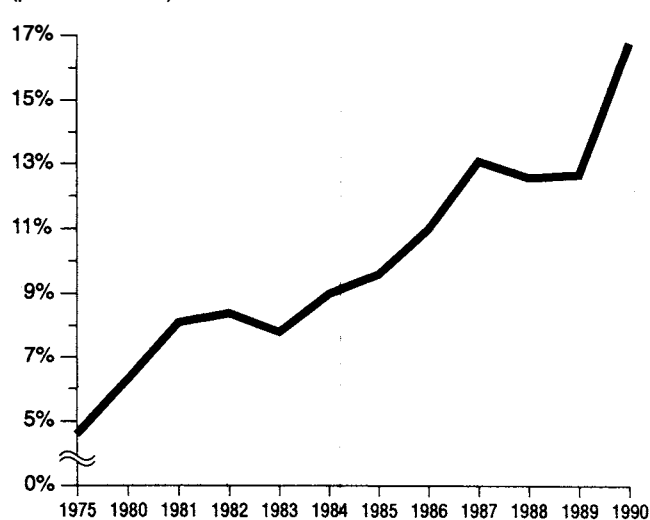
Source: International Trade Commission.

world order.” Second, the process of stealing from the necessary investment in both physical and the human infrastructure will result in a breakdown before such a “golden day” could arrive.

In any case, there is growing evidence that Beijing may have other intentions in mind: an imperial policy, aimed at domination of Southeast Asian and Central Asian markets, backed up by increasing military strength. China maintains military surrogates in Burma and Cambodia, and in April belligerently declared sovereignty over virtually all of the South China Sea. While there was extensive austerity in all other budget areas during the past three years of “retrenchment” of the Chinese economy, the official military budget has continued to increase. It is impossible to estimate total military expenditures, since the military itself sells arms in the international market, retaining the profit for its own purposes. However, China has been on a buying spree for advanced aircraft from the United States, Russia, and elsewhere, while building up every area of military capacity and streamlining the Army.

On the other hand, China faces the very real danger that its erstwhile “friends” in the West are also planning imperial options. The south of China is the recipient of the bulk of the “trade zone” investment. Anglo-American intelligence circles and press outlets play up the “booming south,” and regularly leak scenarios for the division of China between north and south, with the added potential of separatist revolts

FIGURE 2  
**China's total exports compared with GNP**  
 (percent of GNP)



Source: World Bank, “Microstability and Industrial Growth under Decentralized Socialism.”

in Tibet, Xinjiang, and Inner Mongolia. Since the north and central sections of the country are verging on economic collapse, such a policy could well succeed. One way or the other, Deng’s “reform” is leading to China’s self destruction.

### Five areas of infrastructure

Economist Lyndon LaRouche has emphasized that in order for sustained industrial and agricultural development to take place in any nation, five basic areas of infrastructural development are a prerequisite. These include: water management, measured in levels of fresh water available per capita and per square kilometer; transportation, measured in rail, waterway, and roadway per capita and per square kilometer; energy, measured in energy density per capita and per square kilometer; and two areas of social infrastructure: education and health.

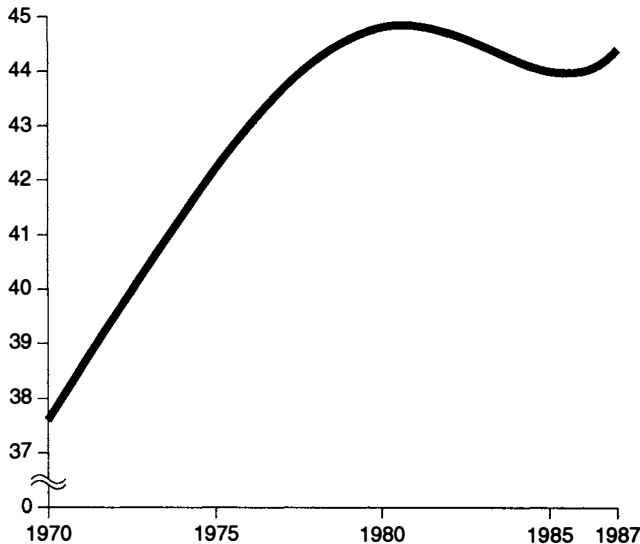
This was thoroughly understood by the leader of the Republican movement in China at the beginning of the century, Dr. Sun Yat-sen. Sun’s *The International Development of China*, published in 1921, based on the economic science developed by Alexander Hamilton, presented in detail the program necessary in each of these five areas in order to succeed in the development of China.

China’s economic history under communism has been a series of efforts to avoid this reality. In the 1950s, using the Stalinist model and with Soviet assistance, Mao Zedong built the beginnings of an industrial base, after 12 years of war with Japan and civil war had largely destroyed what Chiang Kai-shek had built in the 1930s. But the Stalinist errors in

FIGURE 3

**Irrigated land in China**

(millions hectares)



Source: U.S. Department of Agriculture, *World Agriculture, Trends and Indicators, 1970-89*.

Note: Total cultivated land is slightly less than 100 million hectares.

the Soviet Union were repeated in China, using the Marxist idea of “socialist primitive accumulation”—meaning the looting of the agricultural sector in order to build up industry. The infrastructure in physical as well as human terms was kept to a minimum in pursuit of short-term production quotas, ensuring an eventual breakdown. With the “Great Leap Forward” in 1959, Mao carried this misguided policy to the level of lunacy, as exemplified by the backyard steel mills, where peasants stopped growing food to produce steel in primitive backyard operations. The result was the death of over 30 million people through starvation and a collapse of the birth rate, and, of course, no real increase in industrial production.

The 1960s and '70s were characterized by the descent into the madness of the Cultural Revolution.

Deng's reform, beginning in 1979, was but another attempt to bypass the necessary development of infrastructure, with no better results. I will examine each area of infrastructure over the past 12 years, using statistics primarily from the People's Republic and from the World Bank.

**Water**

Over 300 million Chinese do not have access to fresh water. While the total land area under irrigation grew significantly throughout the 1970s (despite the disruption of the Cultural Revolution), in the 1980s this area actually decreased (Figure 3). The methods of irrigation, due to the

terrible shortage of power in the rural areas, are generally no different than those developed in the first century A.D. (see pictures on page 15).

The shortage of water in the north is so severe that there are serious contingency plans to move the capital out of Beijing. The rebuilding and extension of the Grand Canal, and similar water diversion projects in the headwaters of the great rivers of China, have long been on the drawing boards, but are being sacrificed to the free trade policies.

The devastating floods throughout several areas of China in 1991 provoked several angry—and honest—reports from water experts in China. They stressed that the destruction was unnecessary; that the deaths and suffering could not be blamed on an act of God, but only on the acts of omission by man. The official *China Daily* on July 31, 1991 ran an analysis by the senior engineer at the Water Conservancy and Hydroelectric Power Research Academy, who said the government's policy in water infrastructure had been the equivalent of producing “coffins rather than medicine.”

The analyst described two major drainage channels that were designed in 1958 for the Yangtze and Huai rivers, the worst hit by the floods. Construction was never finished. They were reapproved in 1985 and again in 1988, with the same result. The cost of the projects would have been \$560 million. The damage they would have prevented in 1991 is estimated at nearly \$2 billion, and they would have saved many lives. The report complains that government investment in water control infrastructure had fallen from 7% of the budget in the 1950s to 2% today.

Plans to build the monumental Three Gorges Dam on the Yangtze River (originally proposed by Sun Yat-sen) have been approved by the government after years of feasibility studies. But, again, no date has been set, and the funding for the project is questionable at best. Even if it were to proceed, the lack of a broad, comprehensive water plan would extremely limit the impact of the Three Gorges project.

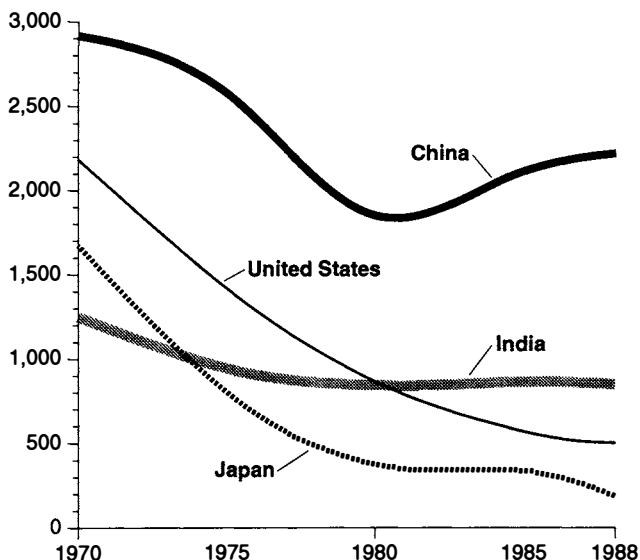
**Energy**

A similar situation exists in the area of energy. Although the energy consumption per capita for the country has risen over the past years, this has been almost entirely consumed in the coastal free trade areas. The shortage of energy in the interior is so severe that industries throughout the country are regularly forced to close down for as much as half the week.

China has constructed two nuclear plants, one of which is on line, and the second scheduled for operation next year. Plans for a third plant were recently announced, but construction would begin no earlier than five years from now.

China also has enormous hydroelectric potential, including the proposed Three Gorges Dam. The investments needed for these projects, however, are simply not forthcoming, neither domestically nor from foreign sources, which are primarily in search of the quick profit from the free trade zones.

FIGURE 4  
**Energy consumption, per \$1,000 GNP**  
 (kilograms of coal equivalent)



Source: U.S. Department of Agriculture, *World Agriculture, Trends and Indicators, 1970-89*.

One measure of the efficiency of energy use in an economy as a whole is the amount of energy consumption needed to generate a unit of production. **Figure 4** compares China to India, the United States, and Japan in this regard between 1970 and 1988. Before 1980, China was in step with these other nations in improving its efficiency of utilization of energy over time, but with the beginning of the reform, China's efficiency of energy usage actually declined. This was the result of the lack of infrastructure, combined with the fact that the plant and equipment in the medium and heavy industries is so antiquated that energy efficiency is declining. Even where new machines have been installed, the machine tool industry itself is turning out antiquated machinery, which means that little increase in efficiency is achieved.

*China Daily* printed a study on the energy shortages, showing that despite China's proven coal reserves of over 900 billion tons, the reserves in the currently functioning mines are nearing exhaustion, without replacement capacity being developed, so that coal production is expected to actually decline. Similarly, the oil outlook is "gloomy," says the report, since "few new oil fields have been found in recent years to replace the existing ones, some of which are already drained. Since the government has not significantly increased its investment in the energy industry in recent years, the development of power plants has slowed."

There are major efforts being made to open up the vast oil supplies in the far western region of Xinjiang, with primarily Japanese assistance. But only one single-track rail line con-

nects that area with the rest of the country, and the internal economy of the region has not changed much since the days of the Silk Road, making development of the oil resources problematic at best.

## Transportation

Dr. Sun Yat-sen's 1921 infrastructure development plan correctly argued that only such a policy could reverse the 80 years of destruction and decay that had wracked China since the onslaught of the British Opium Wars in the 1840s. The center of the program was a plan for 100,000 kilometers of rail lines criss-crossing the nation, both to facilitate the industrial development of the east and south and to open up the west, including Tibet and Mongolia, for modern development (**Figure 5**).

By 1985, only 35% of Sun's proposed rail length had been constructed. Under Mao, communist policy required the population to stay in one place. Movement between provinces had to be approved by the authorities, and usually wasn't. Thus, road and rail construction was intentionally held to a minimum in order to restrict free travel. Under the Deng reform, although there is relative freedom of travel internally, rail construction has been even further cut back (**Figures 6 and 7**). Passenger lines are massively overcrowded, as the tens of millions of unemployed peasants periodically pack the trains to the coast in the hope of replacing some worn-out bodies in the sweat shops. Transportation of coal and other commercial freight is so undependable that even the government statistical bureaus warn not to depend on their own schedules or prices.

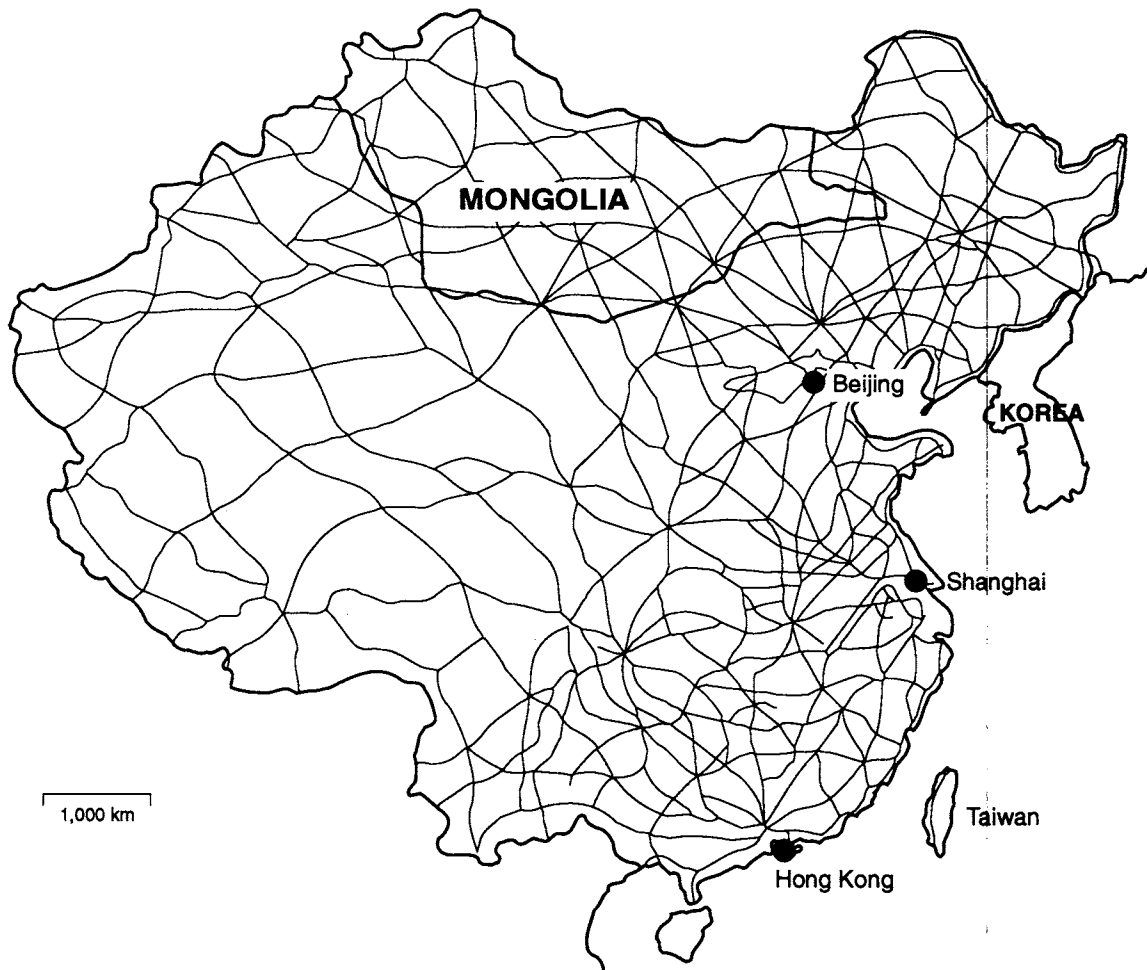
Where Sun Yat-sen envisioned 12.6 kilometers of rail per 1,000 square km nationally, that ratio in 1986 was only 5.5. **Figures 8 and 9** compare China's rail line density per square km and per capita with those of Brazil, India, the former U.S.S.R., and the United States. The density of roads is in the same relative backward state as that of rail.

The worst aspect of the failure to carry out Sun Yat-sen's rail program is seen in the backwardness of the western provinces (a fact which Beijing may soon regret, as the Muslim and Lamaist populations of the region are watching the breakup of their neighbors in the former Soviet Union into independent nations—and they have every reason to be unhappy with their development under Beijing's control). Of the 95,000 km of rail lines in Sun's plan, 22,400 km, nearly one-fourth, was scheduled for the three western districts of Xinjiang, Qinghai, and Tibet. Of this plan, less than 10% was constructed by 1985—and not a single mile of rail exists in Tibet.

## The impact on industry

It is this lack of infrastructure, not simply the fact of government ownership, that leaves the state industrial sector (which includes basically all the medium and heavy industry) grossly inefficient and unprofitable. What were once leading

FIGURE 5  
"Railway Plan of China—1921," by Dr. Sun Yat-sen



Source: Sun Yat-sen, *The International Development of China*.

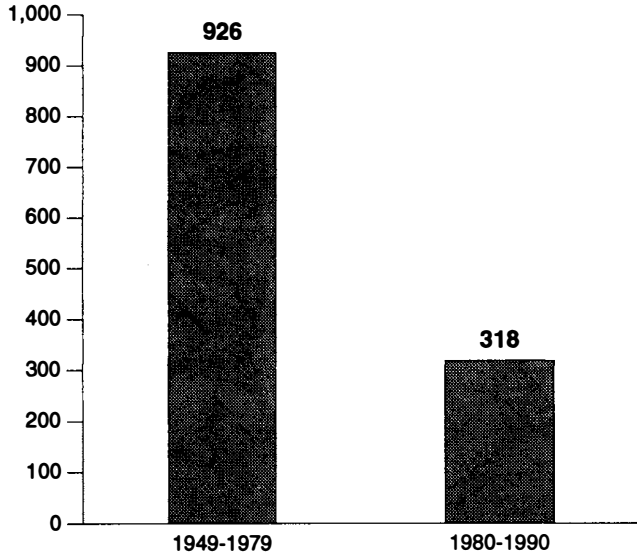
industrial centers of China—such as the upper Yangtze Valley and Manchuria—are now called the “rust belt,” and the term “Manchurian symptom” has come to mean obsolescence.

A vicious sleight of hand was carried out against the state sector over the past decade by the reformers, which exacerbated the situation. In the early 1980s, with the backing of the World Bank, it was decided that more control over planning and investment in individual industries should be left up to the local managers. Before that time, all profits from state sector industries were remitted to the government, which in turn made the investment decisions for modernization, expansion, etc. In place of this, a tax system was established, whereby industries were required to meet a given tax burden, and were then free to invest the remaining profits as they saw fit. At that time, industries were sending about one-third of after-cost revenue to Beijing as taxes, retaining the

other two-thirds for investment.

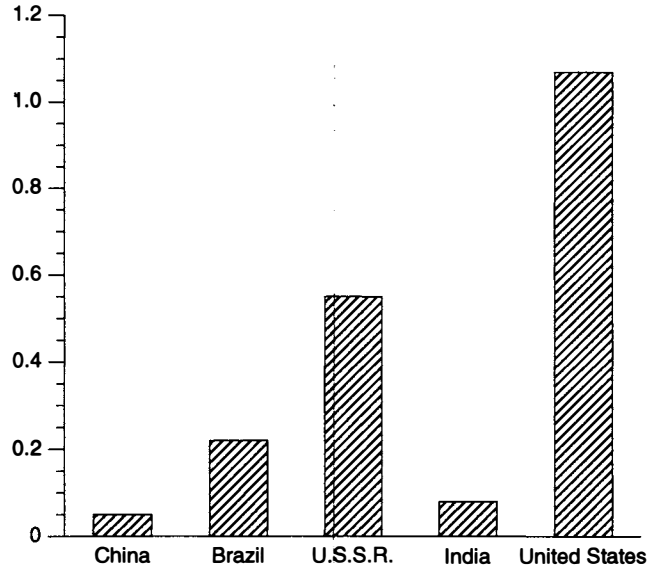
But individual industries could not affect the infrastructural nightmare that was causing the collapse. By 1990, firms were sending on average 81% of after-cost revenues to Beijing to cover the tax, leaving less than 10% for re-investment (the missing 9% went to newly imposed levies and such). The Nov. 1, 1991 *People's Daily*, in a report on heavy industry, said: “No major technological transformation programs have been carried out, so their technology and equipment have become old and outdated and have lost their competitiveness. In recent years, taxes and interest have squeezed out profits, and all sorts of apportionments, fundraising programs, bonds, and expenses have chipped away at enterprise profits. What is worse, China’s current depreciation policy not only uses a low depreciation rate, but also has not taken into account the influence of inflation on compensation and the renewal of fixed assets.” In other words, the state sector firms

**FIGURE 6**  
**Average rail construction per year**  
 (kilometers per year)



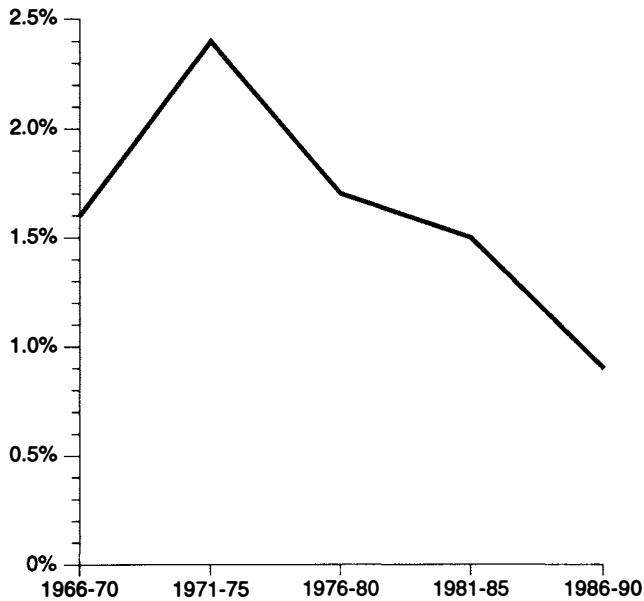
Source: National People's Congress, Deputy Chen Xiaoda, March 31, Beijing Central People's Radio.

**FIGURE 8**  
**Rail density, in terms of population**  
 (kilometers per 1,000 population)



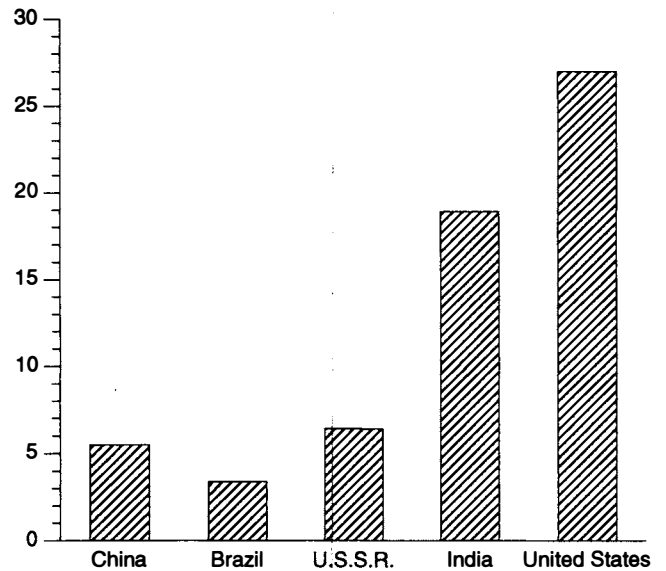
Source: World Bank, *Macro-stability and Industrial Growth under Decentralized Socialism*.

**FIGURE 7**  
**Transport investment as percentage of GNP**



Source: World Bank, *Macro-stability and Industrial Growth under Decentralized Socialism*.

**FIGURE 9**  
**Rail density, in terms of land area**  
 (kilometers per 1,000 km<sup>2</sup>)

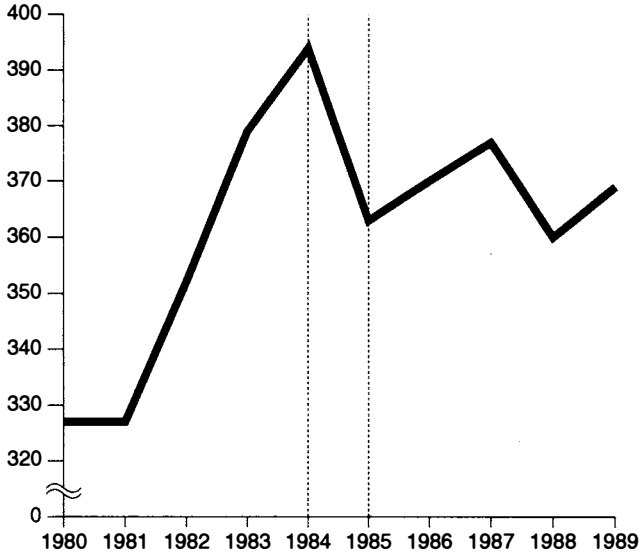


Source: World Bank, *Macro-stability and Industrial Growth under Decentralized Socialism*.

were given the "freedom" to slit their own throats.  
 Having driven the state sector industries into collapse, the

Beijing regime is now implementing the IMF's Darwinian "solution." Gao Shangquan, vice minister of the State Com-

FIGURE 10  
**Grain production per capita in China**  
 (kilograms)



Source: World Bank, "Options for Reform in the Grain Sector."

FIGURE 11  
**Grain consumption per capita in China**  
 (kilograms)



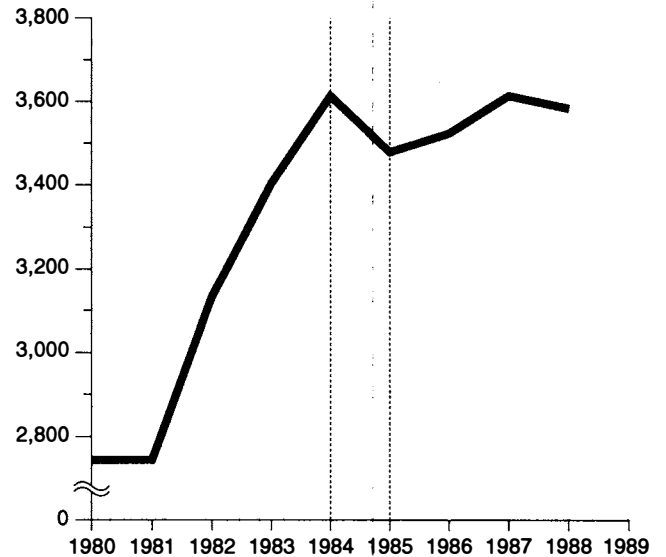
Source: World Bank, "Options for Reform in the Grain Sector."

mission for Restructuring the Economy, whom United Nations Development Fund director William Draper claims has given the fund and Draper full credit for the reform in China, told BBC in an interview April 27: "Enterprises that have long suffered from losses and have no development future . . . will either have to take part in market competition to be subjected to the process of survival of the fittest, or be liquidated according to the 'bankruptcy act,' or be eliminated in the process of mergers, closures, suspensions, and transformations." Those who lose their jobs will have to "engage in self-employment" or be taken in by the "development of tertiary industry."

### Food production

Figures 10, 11, and 12 show per capita grain production, per capita grain consumption, and per hectare yield, between 1980 and 1989. The dramatic increase between 1980 and 1984 is the result of the elimination of the hideous commune system in agriculture, which was imposed periodically in Mao's China, leading in each case to agricultural collapse and famine. Following the nightmare of Mao's 1966-76 Great Proletarian Cultural Revolution, the outbreak of famine as severe as that which followed Mao's other major fiasco, the Great Leap Forward, was imminent. By turning the land back to the farmers, restoring an approximation of the family farm system, and directing the necessary credit into agriculture, grain production rose rapidly to levels necessary to forestall disaster.

FIGURE 12  
**Grain yield in China**  
 (kilograms per sown hectare)



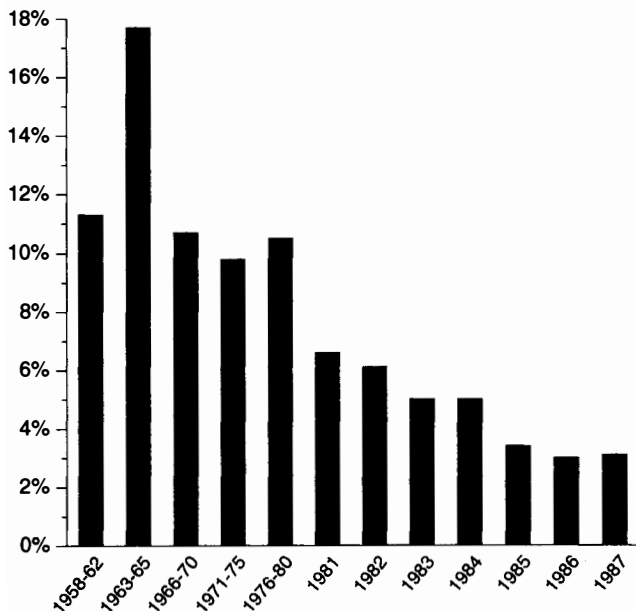
Source: World Bank, "Options for Reform in the Grain Sector."

However, as the graphs demonstrate, production collapsed in 1984, and has not reached the 1984 level per capita



FIGURE 13

**Agricultural investment as a percentage of the total budget in China**



Source: World Bank, "China—Between Plan and Market."

to this day. There were two interrelated causes. One was the decision to return to the policy followed by both Mao and Stalin: to loot agricultural production in support of other priorities. The portion of the budget allocated to agriculture was drastically cut, and continued to be cut each year (Figure 13). The second reason was that the investment in the early 1980s had not significantly addressed the problem of the fundamental infrastructure necessary to sustain agricultural progress, neither in water management and power supplies, nor in transportation. Allowing family farming is essential, but there is a limit to how much progress can be made without addressing the issues of mechanization and infrastructure.

To make matters worse, those areas of investment in farm machinery and water management which had previously been channeled through the communes were simply dropped from the budget when the communes were shut down. In a revealing article in the January 1991 issue of the journal *Jingji Guanli* from Beijing, analyst Sun Minghao reported that the farm machinery and tools from the disbanded communes were either distributed to the peasants or contracted to households. Renovation and replacement rapidly collapsed, due to the "old and antiquated ideas" of the peasantry, the "difficulties of maintaining the machines, shortage and lack of energy, lack of crude oil, and shortage of electricity. . . . The greatest portion of the tractors in the rural areas are being used for transportation. The farmers can only use animals

and manual labor to do the farm work." The analyst estimated that the area of land subject to intensive cultivation by machines is now only one-third of the previous amount!

Sun Minghao also noted that "there is a trend of a decrease in the caliber and size of the personnel contingent engaged in agriculture and grain development," due to the fact that the youth had largely left the farms to take low-skill jobs in the cities or in the rural industries. He failed to point out that many youth simply were never born, due to the forced birth control policies of the communist regime. He does note, however, that the crucial professionals in the 35-45 age level, who should have been directing the advancement of technological innovations in agriculture, did not exist, as a result of the collapse of education during the Cultural Revolution. In any case, he concluded, the technological innovations were not there, since the ratio of input in science and technology in the Gross National Product had fallen from 1.9% in 1984, to 1.3% in 1985, and to 0.8% in 1988.

**Social infrastructure**

At the beginning of the reform period, Hu Yaobang, one of the crucial figures in overturning the horrors of the Maoist Cultural Revolution, argued that the primary requirement to save China was a massive education campaign, within the context of increased freedom of thought. Hu counterposed this approach to the "fast money" policies associated with Deng Xiaoping and Zhao Ziyang, who had become the regime's primary contacts to the Anglo-American monetarist school of "post-industrial society" quacks. Hu also opposed Deng and Zhao for their insistence on retaining iron-fisted thought control.

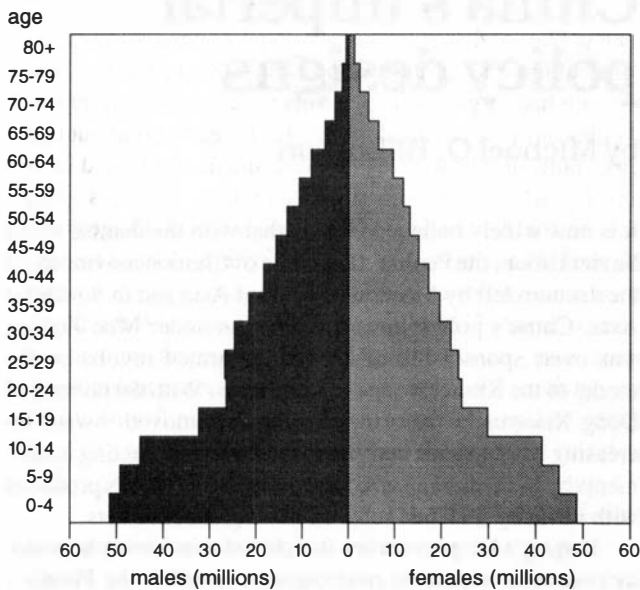
Hu lost. He eventually was ousted from power, and his funeral in 1989 sparked the Tiananmen Square movement. Rather than taking the development of the individual creative mind to be the center of economic policy, the opposite policy was adopted, of extracting everything possible from the muscle and bones of the backward population. While reliable figures on the state of health and education are virtually nonexistent, it is broadly admitted among the "China hands" at the IMF and the World Bank (where the Chinese economy is considered a great success) that health and education services have suffered badly since the mid-1980s.

The U.N. has admitted that 41% of Chinese children suffer from malnutrition—a rate worse than most nations in sub-Saharan Africa. The minimal free health care offered to most urban residents is coming to an end. "High Costs Push State to End Free Health Care," headlined the Nov. 22, 1991 *China Daily*, since "state and local governments simply can no longer afford to offer free health care."

With somewhere between one-fourth and one-third of the peasant work force unemployed, their children are widely reported to be dropping out of school earlier, or not going at all.

At the higher education level, the rate of trained scientists and engineers graduated from the school system has dropped

FIGURE 14  
**China's population by age and sex, 1964**



Source: U.N. Demographic Index.

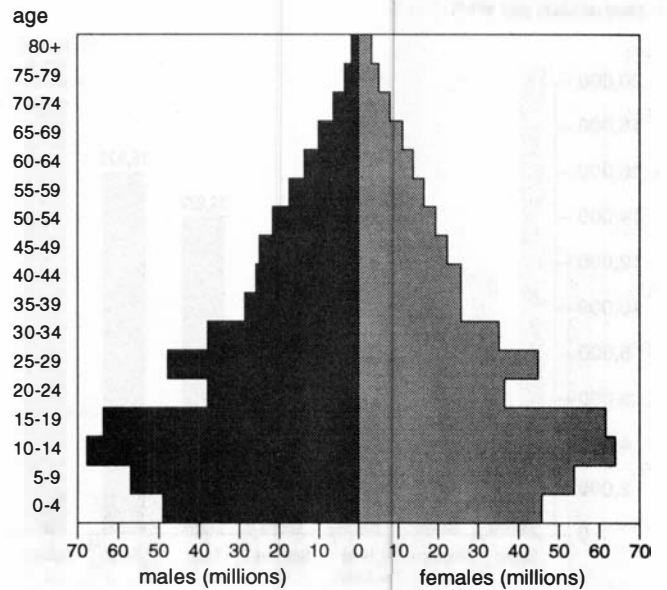
precipitously, as students turn to get-rich-quick courses in “business.”

That this is the desired direction of the reform group around Deng is beyond doubt. Yuan Mu, the director of the Research Office under the State Council, in the April 3 *Renmin Ribao* called for an end to “one-sidedly pursuing industrial and agricultural output values at the expense of the development of the tertiary industry,” meaning the service sector, financial institutions, and similar post-industrial society operations. Reform leader Vice Premier Zhu Rongji, following a tour of Hong Kong, praised the infamous British colonial outpost of drug money and unbridled speculation as “really a place to make money! It is really prosperous!” He went on to add his voice to the chorus calling for a greater emphasis on the “tertiary industry,” saying: “Tertiary industry needs little investment, yields much, and provides many job opportunities. What I am referring to includes selling fried dough on the streets, which is much better than receiving state subsidies.”

**Population control**

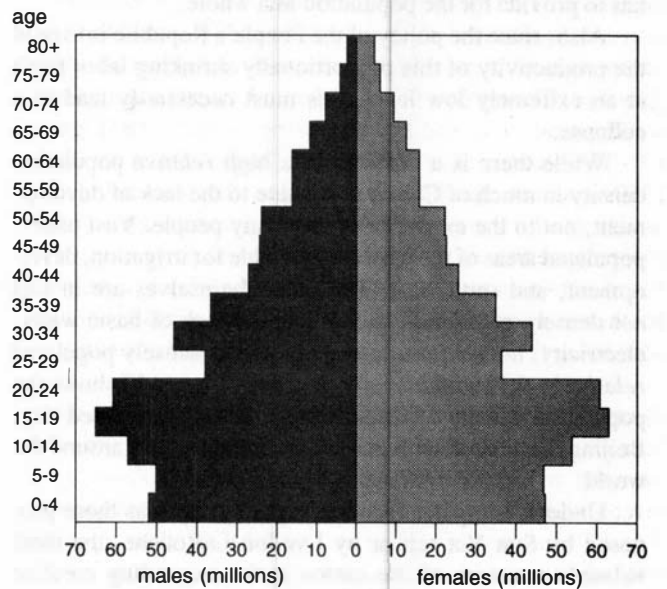
Since the Chinese policy for the labor force does not provide for a standard of living adequate to raise a family, it is not surprising that the regime has maintained and enforced the brutal one-child-per-family policy, one of the evils that emerged without change from the Cultural Revolution. While admitting to a decrease in agricultural investments, the rulers argue that the cause of poverty and malnutrition is “overpopulation.” This policy, like all the “quick fix” gim-

FIGURE 15  
**China's population by age and sex, 1982**



Source: U.N. Demographic Index.

FIGURE 16  
**China's population by age and sex, 1987**

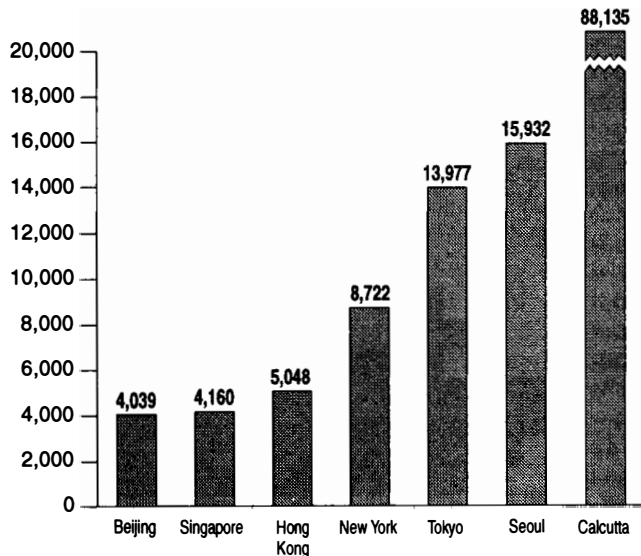


Source: U.N. Demographic Index.

micks to avoid real development, is a time bomb rapidly reaching an explosion point. As **Figures 14, 15, and 16** demonstrate (ignoring for these purposes the demographically ominous wide gap between the number of males and fe-

FIGURE 17

### Population density of selected major cities (population per km<sup>2</sup>)



Source: UNDP Human Development Report.

males in the Chinese population), the younger generation is becoming proportionally smaller, leaving a shrinking proportion of the population making up the work force, which has to provide for the population as a whole.

Also, since the policy of the People's Republic is to hold the productivity of this proportionally shrinking labor force at an extremely low level, this must necessarily lead to a collapse.

While there is a problem of a high *relative* population density in much of China, this is due to the lack of development, not to the existence of too many people. Vast underpopulated areas of the west are available for irrigation, development, and settlement. The cities themselves are in fact *not* densely populated, except that the lack of basic water, electricity, housing, etc., leave them too densely populated *relative to the available infrastructure*. Figure 17 shows the population density of China's most densely populated city, Beijing, compared with that of other major cities around the world.

Under a competent economic policy, such as those proposed by Sun Yat-sen or by Lyndon LaRouche, the most valuable resource of the nation is the expanding creative power of the population. This requires, first, removing the ideological straitjacket now imposed through judicial barbarism and tanks by the communist regime, so that the potential of the creative individual mind is free to contribute to the nation's development. In that context, it will be quickly apparent that there is no "overpopulation," but that an expanding population is essential for the work that lies ahead.

## China's imperial policy designs

by Michael O. Billington

It is now widely believed in Asia that with the demise of the Soviet Union, the People's Republic of China is moving to fill the vacuum left by Moscow in Central Asia and in Southeast Asia. China's policy toward the region under Mao Zedong was overt sponsorship of subversive armed revolts on the model of the Khmer Rouge in Cambodia. With the coming of Deng Xiaoping's "reform," Beijing has moved toward increasing its economic activity in the region, attracting investments by its own cheap labor and dumping the goods produced with virtually no labor costs on the regional markets.

Beijing's long-term view has shifted to attaining hegemony over Asia within the next century. In 1987, the *People's Daily* bluntly declared that China's defense strategy for the period through 2020 "should be based on fighting major wars and fighting nuclear wars." With the fall of the Soviet empire, China considers itself even more vulnerable, and more in need of a "Greater China" on the lines of the ancient "Middle Kingdom," to which all nations in Asia paid tribute.

The most blatant threat was the February promulgation of a law declaring that virtually the entire South China Sea and most of the East China Sea were Chinese territorial waters, announcing that any military ships passing through these waters would be required to obtain the permission of the People's Republic of China. Similar rules apply to aircraft. The law states that China has "the right to adopt all necessary measures to prevent the harmful passage of vessels through its territorial waters." This move has not been taken lightly by Japan and others who are threatened by it, although China has insisted that the law was merely a codification of existing laws, and that there will be no change in practice.

The basis of the claim is China's claim to the Senkaku Islands north of Taiwan, which are also claimed by Japan, and the Paracels and the Spratlys in the South China Sea, which are also contested by Vietnam, Malaysia, and the Philippines. China has simply claimed that all the area surrounding these strategic islands is Chinese territory.

These belligerent claims took on more meaning when it was learned that China had obtained the technology for in-flight refueling for its fighter-bomber fleet, giving it air superiority over any of the Southeast Asian nations that might test Beijing's claims to the islands—as Vietnam has in the past, resulting in skirmishes with the Chinese Navy. A *Wall Street Journal* report on March 23 quoted U.S. officials saying the technology came from Israel, following efforts by both the