A 'New Deal,' with Chinese characteristics?

China has embarked on a $1 trillion, three-year infrastructure-building program to ensure continued economic growth. Jonathan Tennenbaum reports.

Chinese Vice-Premier Li Lanqing broke through the clouds of virtual reality at the Jan. 29-Feb. 3 World Economic Forum in Davos, Switzerland, by announcing that China intends to invest $750 billion in domestic infrastructure and public works projects over the next three years. Thereby, China would counteract the negative effects of the Asian financial crisis, maintain its high rate of economic growth, and provide alternative employment for workers laid off as a result of the ongoing reform of state-owned enterprises.

The substance of Li's remarks has not only been confirmed by a series of press reports and interviews with Chinese officials leading up to the March 5 opening of the Ninth National People's Congress (China's legislature); but, an even much higher investment figure of $1 trillion has been mentioned, as the core of a modern Chinese version of President Franklin Roosevelt's famous "New Deal" of the 1930s.

So, for example, Huang Qifan, deputy secretary general of the Shanghai Communist Party, was quoted in a March 6 interview with the *International Herald Tribune,* as saying that China's leadership regards $1 trillion in investment as necessary to keep a high growth rate and avoid massive unemployment. The investment would go for construction of roads, bridges, power plants, sewage treatment plants, water conservation projects, and agricultural projects.

Another article, in Hong Kong's *South China Morning Post* on Feb. 19, cites "Communist Party sources" to the effect that Zhu Rongji, the successor to Prime Minister Li Peng, has been studying the use of large-scale infrastructure, public works, and housing construction as key measures to stimulate the Chinese economy. "In strength and scope, the stimulation program may be comparable to Roosevelt's New Deal," the source commented.

Needless to say, such reports have attracted attention around the world. Besides favorable comments, including from some unlikely quarters, the Chinese announcements have provoked expressions of disbelief, and even enraged attacks. Can the Chinese be serious? Where are they going to get all the money? Perhaps the most peculiar reaction has come from a certain Siegfried Thielbeer, who blasted the "Chinese New Deal" in an article in Germany's major daily, the *Frankfurter Allgemeine Zeitung*. The article claims to demonstrate, from China's official government budget statistics, that the proposed investment figure is completely nonsensical, and that the Chinese government is already practically bankrupt, never mind investing another $750-1,000 billion!

Whatever the personal peculiarities of Mr. Thielbeer might be, his argument is typical of the psychotic frame of mind which characterizes the behavior of the International Monetary Fund and, unfortunately, most governments in the recent period. To Thielbeer—who otherwise specializes in attacking China for "human rights violations"—it seems self-evident, that the future of 1.2 billion human beings should be determined by bookkeepers' calculations!

Start with what is needed to survive

Thielbeer overlooks the elementary fact, that the Chinese leadership, unlike most governments nowadays, tends to be *sane* about these sorts of matters. They do not start with budget figures, but with *what China and the Chinese people need, to survive*. Ensuring the survival of China, under the present circumstances, is like fighting a war. There is no alternative to victory. So, when the Chinese leadership has determined, that the survival of China requires certain things, they will do *everything* they can, to make sure those things are supplied. If available funds are not sufficient, they will either directly create new money—which any sovereign government can do—or, they will find other ways to obtain the required result, by indirect means.

Discussions which *EIR* has had with Chinese economists in recent days, provide a rather general, but otherwise quite coherent and credible picture of the thinking behind the recent announcements.

It is clear that the term "New Deal" is indeed being used in Chinese government circles, in an informal way, to refer to the idea of stimulating China's growth by means of greatly expanded investments into infrastructure and public works.

This policy will develop as a dynamic, creative process. There is no fixed plan and no fixed scheme for financing at the moment. What exists now, is a basic idea of where China has to go.

The Chinese government does not propose to finance the

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whole of such an enormous investment through the national budget directly. But, the government can greatly stimulate the investment from many different sources, by financing some key projects, issuing bonds, mobilizing the population's savings, enhancing the credit-generating power and efficiency of the state-owned banking system, and giving preferential fiscal policies for investment in development of the interior regions of the country. This would especially include things like transport, energy, and water infrastructure.

The attitude would be: "Sooner or later, we will have to do these projects. Why not do them now?"

In the worst case, foreign investment and export earnings might collapse entirely as a result of the global financial crisis. Judging from their recent public statements, and other indications, the Chinese leaders now see such a collapse as a real possibility, and are rethinking their economic-strategic options accordingly. China's internal market has a vast absorption and growth potential. Why shouldn't the more developed areas along the coasts, invest in development of the interior?

Unlimited potential projects

As background, I would add the following. China has a practically unlimited array of potential projects for transport, energy, and water infrastructure, whose realization would be highly beneficial to the physical economy. These include, for example: Accelerating the construction of the "development corridors" along the Eurasian Land-Bridge, including opening up the enormous natural resources in the central and northwest areas along the Land-Bridge; north-south water transfer projects and irrigation projects to develop agriculture in the north of the country; improvement of the national water transport system; countless rail and road projects throughout the interior rural areas, which were inaccessible to modern transport until now; construction of new cities to accelerate the urbanization and industrialization of the country; construction of modern, high-speed transport systems for the existing major cities (by the year 2000, in China 100 million people will live in cities with 1 million or more inhabitants; today, almost none of those cities has an underground subway system). These sorts of projects are highly profitable in macroeconomic terms; they would make ideal applications for the Hamiltonian method of non-inflationary state credit-generation.

In physical terms, China possesses sufficient developable resources of manpower, production capacity, materials, and know-how to carry out a greatly expanded program of basic infrastructure construction by itself, without outside help. Of course, importing state-of-the-art machinery and other advanced technology will greatly assist the effort; for this purpose, China could make better use of its enormous currency reserves (over $139 billion), as well as its current export earnings. The huge construction boom in China's cities has already provided employment and a certain amount of industrial skills to millions of workers coming in from the rural areas. Up to now, much of that construction has been for nonproductive objects such as office buildings, hotels, department stores, and so on. If the same physical resources were applied to development projects in the interior regions, the real benefits to China's economy would be much larger.

Commenting on the ongoing session of the National People's Congress, some commentators have pointed to signs of a continued tight fiscal policy, as contradicting the idea of a "New Deal." However, it is important to understand that the Chinese government cannot simply flood the economy with new money. In order to avoid inflation and the "leakage" of funds into wasteful and speculative directions, investments must be carried out in a highly controlled manner and with great discipline. There need be no contradiction between the appearance of austerity and the implementation of a "New Deal" with Chinese characteristics.

The outlines of the new policy, will presumably become much clearer in coming weeks and months, when the newly formed government takes up its work. For the present author, three main questions are of particular interest: 1) How will the Chinese government mobilize the population for the new effort? 2) Will China's proposed "New Deal" include the crucial development of what Lyndon LaRouche calls "the Machine-Tool Principle"? This would have to include a much-accelerated program to develop the nuclear energy industry (especially the modular high-temperature reactor technology) as a prime "motor" of the Chinese economy. 3) Despite its large size and its "wall" of protective policies, China cannot long survive as an island amid the chaos of a total collapse of the world economy. Will China take the initiative, together with other nations, to push through an urgent "New Bretton Woods" reorganization of the world financial system? And, to restore the kind of elementary, economic sanity, which is so sorely lacking in many of the world's capitals?