China opts for 'national economic security'

by Jonathan Tennenbaum

Faced with the deepening effects of the world financial crisis on the Chinese economy—aggravating the problems of the state-owned industry and debt overhang in the Chinese banking system, and now compounded by the disastrous floods along the Chang Jiang (Yangtze River)—the Chinese leadership has practically dropped its pursuit of membership in the World Trade Organization (WTO), insisting instead on China's right to adopt dirigistic and protectionist policies, as necessary, in order to defend "national economic security." Recent statements of Chinese leaders, echoed in a growing number of other countries, are sounding the death knell for the mania of free-market globalization that has brought the world to the brink of the worst financial and economic collapse in modern history.

"The Southeast Asia crisis has sounded the alarm bells for us," writes *People's Daily* in a signal piece on Aug. 1, entitled "How to Understand the Meaning of National Economic Security." "National economic security is a strategic question whose importance cannot be overestimated. Economy is the basis for society. If there is no economic security, then there is no real national security," says the government daily.

The article defines economic security in terms of "preventing national economic development and national economic interests from being destroyed or threatened. Concretely this means to safeguard the resources needed to maintain national sovereignty and independence." Noting that "Western countries have all paid much attention to overall national economic security, not hesitating to use foreign policy, military, technological, and other means to guarantee their national economic security," the *People's Daily* declares that China must place top priority on "protecting the key areas of national economic security, needed to increase our nation's power to resist and defend against dangers. . . . This year the maintenance of stability and resisting the attacks of international economic fluctuations and the financial crisis, is closely connected with promptly resolving certain elements of economic risk."

An intense policy debate

The *People's Daily* article clearly reflects an intense policy debate, triggered in China by the shock of the financial collapse in Asia—a debate that touches on the core of the country's future strategy for economic reform. Referring to recent statements by Chinese President Jiang Zemin, *People's Daily* writes, "It is necessary to correctly deal with the relationship between opening up to the outside, and independence, self-reliance, and maintaining national economic security. . . . Following the Southeast Asia crisis, there are people who fear that the scale of foreign investment can influence our economic security. Generally speaking, our use of foreign investment and its scale is rational. However, in recent years foreign investment has gained superiority in some branches of industry, although these branches are not very many and are not the key sectors." Nevertheless, "we must be vigilant and not take the situation lightly." Referring to what are seen as unfriendly attempts of the U.S. and other Western governments to impose unacceptable liberalization policies on China as a condition for entering the WTO, *People's Daily* adds: "Some developed countries frequently exert their strength to hold back our country and exercise pressure which threatens our nation's economic security."

Evidently, the Chinese government has basically "written off" the issue of China's entry into WTO, realizing that any further concessions to "globalization" would put the very survival of the country at risk. While struggling to maintain foreign investment and export income at as high a level as possible, the government now sees that the world economy is headed in a completely different direction, than they had imagined two years or even one year ago.

Reflecting this, *People's Daily* of Aug. 2 quotes Chinese Premier Zhu Rongji, during a tour of Inner Mongolia, speaking of the "extremely complicated economic situation domestically and internationally, under which our country is making difficult achievements. . . . To carry out this year's economic development goals will be an arduous task, especially in view of the negative effects of the Asian financial crisis on our economy."

Zhu emphasized that the Chinese government is moving full speed ahead with its policy for large-scale infrastructure investments as "the most effective measure to expand domestic demand and stimulate economic growth." According to *People's Daily,* the government is taking measures against

An artist's representation of the Three Gorges Dam project. In addition to production of electrical power, the project is crucial for water management and flood control, the necessity of which has been underscored again by the devastating floods along the Yangtze River.

deflationary tendencies in the economy, easing the sources of credit and "providing more funds to increase the strength of infrastructure investment. . . . Increased investment must be channeled into highways, railroads, communication, agricultural water projects and environmental projects, urban infrastructure and construction in surrounding areas, rural electrification, construction of food storage facilities and economical residential construction, etc. New construction projects will be especially concentrated in the central and western parts of the country."

The flood emergency

The heavy flooding along the Chang Jiang, the worst since 1954, will have major economic and also policy implications. Top Chinese officials are speaking of an "extremely severe" situation for the entire nation, which is reaching a "crucial moment" not only along the Chang Jiang, but also with respect to the danger of a potentially catastrophic flooding of other rivers including the Huang He (Yellow River) to the north. The flood disaster brutally underscores the difference between real, physical-economic development, as measured in terms of the per-capita power of man over nature, and the fictitious, monetary-based Gross Domestic Product growth which some Chinese economists have paid too much attention to in recent years. China is long familiar with the "long cycles" of flood disasters, cycles which must be taken into account in calculating the real cost of maintaining China's physical economy. The flood disaster is a painful signal, that Zhu Rongji's infrastructure policy, good as it is, should actually have been launched much earlier. Notably, the State Planning Commission reportedly plans to pour billions of additional funds into water infrastructure on all of China's main rivers and lakes, including the Huang He dike system as well as the Chang Jiang. "Planned is a new high tide of construction of rural water management infrastructure, assuring the greatest benefit to the economy and society."

China's fundamental economic dilemma

On the positive side, the Chinese government—unlike virtually every other government in the world—is reacting to reality, and has recognized the need for *major changes of policy-course*. Up to a year ago, Chinese planners were counting on huge injections of capital, especially via Hong Kong, and on a long-term favorable trade climate as the key supports for a speedy reform of the state-owned industry and debt-ridden banking system, and continued rapid growth of the economy as a whole. The devastating impact of the Asian crisis on Hong Kong, whose return to China from British control a year ago was expected to bring enormous financial dividends to the country, more than symbolizes the manner in which China has seen the rug pulled out from under what had earlier seemed a solid development strategy. The decline of Hong Kong, as emphasized by events of recent days, has been dramatic indeed. In all, stock market values have dropped by roughly half from the levels of one year ago, and the main "pillars" of Hong Kong's economy—real estate, and its role as a major international trading and banking center—have been badly shaken.

China's present dilemma also reflects the fact, that the boom of foreign investment and trade in China—which amounted to nearly $200 billion net foreign investment between 1992 and 1996 alone, and a trade volume of about $300 billion in 1996—has always been a two-edged sword.

On a fundamental level, as Lyndon LaRouche has emphasized in recent discussions, China, in order to remain stable, must maintain a *high rate of social capital formation*. That, in turn, ultimately depends on the continual injection of new technology in the form which LaRouche has identified as the "machine-tool-design principle." The "machine-tool-design principle" means, roughly, a process which begins with a new hypothesis of experimental physics and the design of a new type of laboratory apparatus which demonstrates the new physical principle; and then proceeds through the transformation of such laboratory designs into new families of machine-tool and other industrial technologies. That process is most efficiently accomplished with the help of a large network of small and medium-sized high-technology companies, run by highly qualified scientists and engineers. Since China's own capability in this domain remains very underdeveloped, China's future depends crucially on trade and close scientific-technological cooperation with countries such as the United States, Germany, Japan, Russia, and a few others, which possess advanced machine-tool-design capabilities.

Unfortunately, although very significant infrastructural and industrial benefits have occurred, much of the foreign investment and export earnings which China has enjoyed in the context of the "globalization" of the world economy, has been applied in directions quite different from LaRouche's "machine-tool-design principle." Much industrial development has been based on the import of highly specialized machinery and complete production lines, without the transfer of the in-depth know-how and R&D capability to further develop such technology in China itself. Often, also, the inputs to production include key high-technology components which must be imported from the outside, so that a significant degree of dependency, typical of Third World countries generally, is hidden under the otherwise impressive sum of China's imports and exports.

Another weakness, much decried by Chinese economists and leaders, has been a build-up of redundant production capacities in the rush for quick profits, resulting in mountains of unsellable products, especially textiles and low-quality consumer goods. China's cities have meanwhile seen a dizzying boom of construction of luxury hotels and apartments, shopping malls, office buildings, and other non-productive facilities, out of proportion to the development of the physical economy. Added to this, China's population and cadre, suddenly moving from a condition of extreme poverty into *relative* abundance, lack the education and science-oriented industrial culture which characterized the United States, Germany, and other industrial nations in their best periods of development. Hence, there is a heightened susceptibility to shallow commercialism, corruption, and a climate of "getting rich quick." The situation is aggravated by the massive efforts of the Ford Foundation and other Western foundations to promote a profound disorientation among Chinese economics students and entrepreneurs in the name of so-called "Western free-market economics."

These problems, of which the Chinese leadership is more or less acutely aware, mean that any attempt to stimulate growth by "pure Keynesian" methods of increased spending alone, could easily produce the opposite of the desired effect. To ensure that increased infrastructure investment will not be squandered in poorly planned, wasteful projects and purely linear, scalar expansion of production which would have little or no positive effect on the real productivity of the economy as a whole, Zhu Rongji is rightly insisting on a dirigist approach, "1) To absolutely avoid blind haste, avoid build-up of excess inventories of products; 2) to absolutely avoid superfluous duplication of projects; 3) in accelerating infrastructure investment to observe . . . quality first. New projects must be rigorously evaluated and organized in accordance with the central government's guidelines."

The combination of the Asian financial collapse, the decline of Hong Kong, and now the disastrous floods, is delivering a painful, but hopefully healthy shock to China's strategic thinkers. The question now is, whether the leadership will be able to mobilize the nation around the emerging new policies, while at the same time moving to secure the international conditions under which China and other developing nations will be able to access the machine-tool-design capabilities they need to survive.

Question called on policy toward Sudan

by Linda de Hoyos

The government of Sudan announced a unilateral cease-fire Aug. 3, on the eve of the opening of new talks between the government and the Sudanese People's Liberation Army (SPLA) of John Garang, scheduled to begin on Aug. 4 in Addis Abeba, Ethiopia, under the auspices of the Inter-Governmental Authority on Development (IGAD). The purpose of the cease-fire, as the Sudan government release stated, is first to assure full access for the United Nations' Operation Lifeline Sudan relief operations in southern Sudan, where 2.6 million people are in grave danger of starvation due to the displacements and destruction caused by the