

petes with foreign counterparts.

The downfall of both the export industry and import-competitive industry would cost numerous jobs in China. The majority of the export industry in China is labor-intensive manufacture, such the textile industry, absorbing a great number of laborers. And most of import-competitive industries in China are low-end service-oriented, offering many semi-skilled jobs.

Since the mid-1990s, the unemployment rate in China has been increasing. The registered unemployment rate in cities and towns in China is given as 3.5% or so by Chinese official bureaus. If the unemployment in the countryside is included, some economists estimate the jobless rate hits as high as 10% or so, and some of the jobless are long-term. It is not surprising that new graduates from universities cannot find work, but the scene would have been very hard to imagine only ten years ago.

Another explosive problem facing China is the high non-performing loans in banking and securities industries. Meanwhile, the savings rate in China has begun to have a tendency to decline. The Chief of the Chinese Central Bank, Dai Xianglong, confessed once that the non-performing-loan rate in Chinese state-run banks had reached 12%. Some economists estimate that it is indeed much higher. The weak banking system in China cannot afford the risk of opening up the capital accounts. If the RMB appreciates and floats in a relaxed band, the next problem immediately is the opening of the Chinese capital account, which the Chinese government is very much afraid of. The precedents of the Asian crisis, the Mexico crisis, etc., provide ammunition for keeping distance from the opening of the capital account.

The third political incentive to defend the RMB peg is the Communist Party's sovereign image among Chinese people. As long as the Chinese Communist Party maintains its sovereignty against foreign countries, it can keep its unchallenged authority among domestic people. Threatening China over its currency is nothing more than being counterproductive. Neither America's Capitol Hill nor Japanese government officials can coerce the Chinese government to do what they would like to see. Otherwise, the ordinary people in China could have the justification to sneer at their government.

On May 17 of this year, Chinese incumbent Premier Wen Jiabao told the delegation of the American Chamber of Commerce, that China will never succumb to foreign pressure on the RMB issue, and any kind of pressure or politicalization of economic problems would be ineffective in the settlement of problems.⁵

In a general sense, on any fundamental decision-making, government is inclined to risk-avoidance, rather than risk-loving or risk-neutrality. Of course, the Chinese government is no exception on this front. If the RMB maintains its peg versus the dollar, the risk for China is the potential inflation,

5. *China Daily*, May 17, 2005.

due to increasing the base money supply. However, if the RMB appreciates, the risk for China is multifold and more plagued, from the erosion of social confidence, increased unemployment rate, higher non-performing loans, to the eclipse of the Communist Party's image.

Of course, the Chinese government may choose an appropriate timing to revalue the RMB. Nobody knows when and in what forms. After all, Chinese national interests have been integrated into the world, so the Chinese government has to weigh the affection and interests of other countries. How to balance them? It needs time, patience, and more importantly, concrete steps to prepare for that.

Maj. Gen. Afsir Karim (ret.)

An Indian Perspective On Central Asia

General Karim is the editor of the Indian strategic magazine Aakrosh, and was formerly the editor of the Indian Defence Review. He was a member of India's National Security Advisory Board (1999-2001), and was awarded the AVSM award for valor by the Indian government for his military service.

The geopolitical importance of Central Asia needs no elaboration. The location of the region, forming a bridge between Europe and Southern Asia, is well known, but in various periods its importance has varied with the changing international security environments. Before oil became an important ingredient of strategic conflicts, Central Asia, as currently defined, remained by and large a peaceful region. The republics of Central Asia have yet to settle down politically and decide what their future course should be: Whether they will gravitate towards resurgent or moderate Islam, or follow the Western democratic pattern in the long run, is yet to be seen. The turmoil in Afghanistan had a major impact on this region, with ominous threats of Islamic fundamentalists still looming on the horizon.

The advent of U.S. forces in Afghanistan, withdrawal of the Soviet troops from this region, and the Chinese attempts to extend their influence in the region, started a new Great Game, in which several European and Asian powers, along with a new shadowy player, in the garb of resurgent Islam, have become actively involved. However, much depends on how we look at this game, and to which side of the geographic, political, ethno-religious divide we belong. The five countries that now constitute Central Asian Republics were, however, never given a chance to choose their future course or status

in the wake of the post-9/11 developments that brought American troops into the region. Since geography cannot be changed by world events, Russia will continue to breathe down their necks because of its permanent geopolitical interest in this area—which Russia calls “The Near Abroad.” Chinese influence will grow in the region, because of its economic thrust and geographic proximity.

Geography and ecology combine to make this region an immensely rich and attractive area to outsiders. Being hopelessly land-locked, Central Asia needs safe outlets of its gas, petroleum, and other mineral resources, and this makes it prone to coercion, not only by its two giant Asian neighbors, but also by the sole superpower, which has tremendous stakes in this oil-rich region, besides the requirement of containing Russian and Chinese influence and combatting Islamic fundamentalism. Americans would do almost everything possible to dominate this strategic region, as it is the only possible alternative to Middle East oil. Uzbekistan serves as one of the important bases for the U.S.-led coalition forces operating in Afghanistan. The United States has a large-size supply base and an important air base in Tashkent. A U.S. official in Washington is reported to have said that unrest in Uzbekistan could seriously undermine Operation Enduring Freedom, because “Tashkent is its lifeline.”



EIRNS/William Salisbury
Maj. Gen. Afsir Karim (ret.)

Obstacles to Regional Cooperation

Central Asia cannot be considered a region that is united in its political or economic goals, and all the countries of the region are unlikely to follow a common program. The sharing of dwindling water resources is a factor which may keep the area in constant turmoil, independent of the imperial designs or big power rivalry.

Central Asia can no longer be considered a geopolitical entity without including Afghanistan as a part of this region. The Central Asian region actually requires to be redefined, because of widespread ethnic, religious, and linguistic overlaps. However, neither China nor Russia would like an attempt at redefining Central Asia, which may intrude into Xinjiang or the Caucasus.

The one clear and present danger is Islamization, which recognizes no political boundaries. Regional ties may stabilize if common economic goals are defined and accepted, but the radical Muslim groups would not allow the area to stabilize only to benefit America and the Western world.

The vast energy resources of the underdeveloped countries of Central Asia will remain the main interest of outside powers, but external interference is likely to lead to regional conflicts, which may ultimately take the shape of smoulder-

ing, low-intensity conflicts. A profile of Central Asian countries shows a diverse yet integrated region, which faces various political and economic problems common to all countries of the region.

These problems have been greatly aggravated by the new Great Game being played in the region. It is necessary to focus on non-state players originating from the advent and destruction of al-Qaeda in Afghanistan, compounded by the American invasion of Iraq. The Islamic forces which have remained subdued since the American invasion of Afghanistan have now formed new terrorist groups of different varieties, without a central organization or definite goal, except the desire to hit at America and its allies. Nongovernment religious institutions, which have been increasing in Uzbekistan since the 1980s, are gradually transforming themselves into radical socio-political institutions preaching *Jihad*. The position is however not identical in all the states of the region.

Currently, most countries of the region have become a transit route for crime syndicates, weapons- and drug-traffickers who work in collaboration with several radical Islamist groups spawned by al-Qaeda.

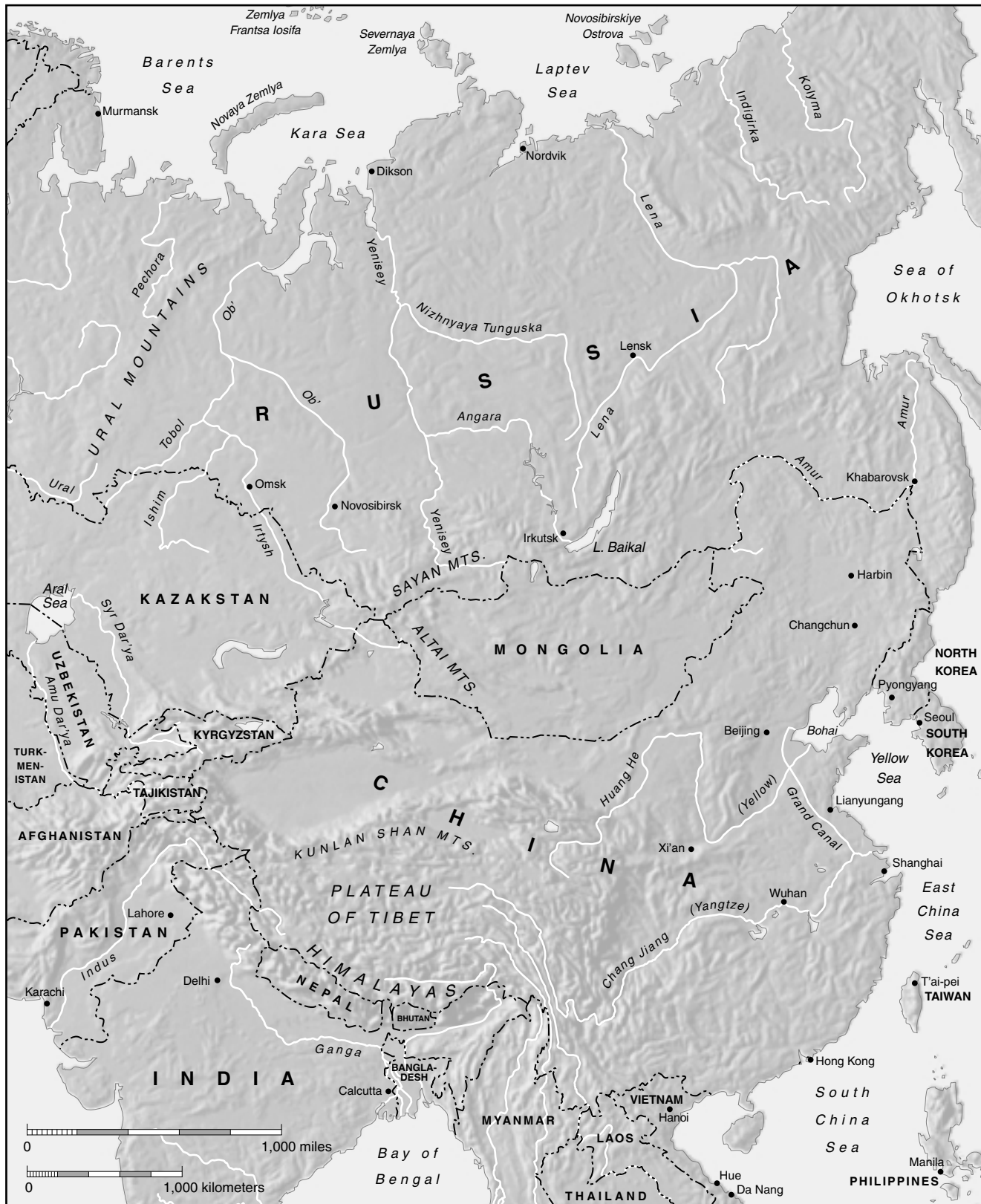
The uncertain conditions prevailing in the region, along with the lack of cohesion among various countries, has led to political and social unrest and rapid collapse of the trade and commerce systems. Lack of governance, corruption, a near-collapse of the administrative system, have added to the chaos. The civil war in Tajikistan and socioeconomic problems of Uzbekistan were the first direct manifestation of these conditions. Large poverty-stricken masses and rich elites which ruled the roost are creating irreversible stratification of the society. The legacy of unsettled territorial claims of various countries arising out of ethnic overlap and absence of well-defined boundaries, has greatly vitiated the security environment. The gradual drying up of the Aral Sea and Balkash Lake on the one hand, and flooding caused by the rising waters of the Caspian Sea on the other, have created a new set of serious ecological and socio-economic problems. These ecological problems, which are peculiar to this area, are a cause of constant friction between various Central Asian states.

Overpopulation in some countries, along with the shortage of agricultural land, have created large groups of rootless, unemployed youth who are highly prone to crime and violence. The influx of refugees from Afghanistan, who still move around across several international boundaries, provides raw material for terrorist organizations. The rise of Islamic opposition groups was perhaps the earliest sign of emergence of radical Islam in Central Asia. The current turmoil in Uzbekistan and Kyrgyzstan are signposts of a turbulent future.

The Threat of Radical Islam

The origin and activity of political movements under Islamic forces and their collusion with the opposition parties

FIGURE 1
Central and Eastern Asia



have become an integral part of the Islamists' tactics to create disorder. In Uzbekistan, geographical and political factors combine to enlarge this pattern. The demographic composition in the western and northwestern parts of Uzbekistan, which is generally heterogeneous, makes these areas prone to violence, while other regions, where the people have traditionally followed the moderate version of the Islamic ethos, still do not allow use of religion for political purposes. The higher level of education in urban centers encourages a moderate form of Islam. In Tashkent, Bukhara, and Samarkand, which have been great centers of Islamic culture and where moderate Islamic norms are strong, there is little chance of radical Islamic ideas taking root.

The troubled area of the Ferghana Valley is separated from main areas of Uzbekistan by high mountain ranges; the people of the valley have better connectivity with the Tajik and Kyrgyz people, compared to the people of Uzbekistan. This geographical divide is perhaps the main reason for poor development and lack of social and economic cohesion in this area, creating a favorable environment for growth of Islamic fundamentalism. During the Soviet regime too, people of the Ferghana Valley were considered less loyal than those of other parts of Uzbekistan.

For the last two decades, unauthorized religious schools have been proliferating in this valley. As the control by central authorities is weak, a number of these institutions have developed links with foreign radical Muslim organizations, especially with the Wahabi groups. The Wahabi influence has changed the traditional moderate Islamic mindset of the valley into a radical one. By the 1990s, educational centers were transformed into radical political institutions, and the traditional al-Hanafiya religious schools lost out to the radical Sunni al-Hanbali *mazhabi* (religious schools). The aim of various underground educational centers in the Ferghana Valley is to change the existing justice system to conform with the system that prevailed during the period of the Four (rightly guided) Khalifas of Islam. They advocated common property rights and total control of Shariat Laws over the lives of all citizens; in this commonality of views lay the reasons for their support of the Taliban regime.

In 1991, Islamic groups in some urban centers joined together to form the Adolat ("Justice" movement). Members of the Adolat roamed the streets and markets and arrested all people who disregarded the dictates of the radical religious leaders.

In December that year a huge gathering of the Adolat at Namangan demanded the declaration of Islam as the state religion, and transfer of several government buildings for the use of the Adolat movement. These demands rang alarm bells in government circles, ethnic minorities, intellectuals, and officially appointed religious leaders, who now faced aggressive competition. Adolat was banned soon by the government of Uzbekistan. One of the leading lights of Adolat was Tohir Yuldashev, who became an important leader of the "Islamic Movement of Uzbekistan."

FIGURE 2

Insurgents' Destination: The Ferghana Valley



According to the Uzbekistan Ministry of Foreign Affairs, more than 400 militants from Uzbekistan and Tajikistan had received training in special camps in Pakistan in the eighties. It was the terrorists trained in Pakistan who killed the deputy head of the local administration and several officers of the law-enforcement bodies in Namangan in 1997. According to reports, several young men from Namangan underwent military training in a school called Jurna al-Sanifia in Islamabad, and a school called Taban in the city of Mardan near Peshawar in Pakistan. We hope such activities are now no longer allowed in Pakistan. According to Islamic laws, the use of schools as arms-training centers is a sacrilege, but these laws are ignored by the radical groups.

Hizb-ul-Tahrir is a prominent radical organization; it has a pyramidal structure and is highly secretive in nature. Another radical group, called Akromid, after its leader Akrom Yuldashev, demands an equal share in land for the entire population; this a popular demand as the majority of people are poor and unemployed in the Ferghana Valley.

Concluding Observations

The current situation in Central Asia can only be stabilized by joint endeavor of America, Russia, and China, of which there is little possibility. The United States is unlikely to forgo its strategic advantages, Russia wants to continue its political and economic domination of the area, and China is making a bid to spread its influence by making a vigorous commercial thrust in this area. Pakistan and India, though rivals, have a common interest in unlocking the gas and petroleum resources for their benefit. The role of Iran has to be watched carefully, as Iran wields considerable influence on several areas of Central Asia because of linguistic and ethnic affinities.

Regional integration rather than a transnational frame-

work should be allowed to evolve in the region, as they require a common economic approach for the development of oil and gas resources. Tajikistan and Kyrgyzstan can complement each other in building a strong economic base in the region.

- The international community should help in the process, and the United States, Russia, and China should stop looking at it as an arena of strategic competition; given the present security environment and aggressive U.S. policies, cooperation between big powers is unlikely.

- Islamic resurgence is still subdued here, but backing of dictatorship for the sake of maintaining military bases can give a fillip to radical Islamic movements. The sudden outburst of violence in the Ferghana Valley and the ruthless suppressive measure taken by Uzbek authorities is one manifestation of the lurking dangers.

- If the situation in Afghanistan stabilizes and radical elements are either sidelined or defeated, one can hope for a peaceful and prosperous Central Asian region to emerge.

Lyndon H. LaRouche, Jr.

Economic Foundations of A Peace of Westphalia

Lyndon LaRouche made these remarks on June 28, during the discussion following the presentations of Dr. Sergei Glazyev of Russia [published in last week's EIR], Dr. Ding Dou of China, and Gen. Assir Karim of India.

I'd say this, that some things were overlooked in the discussion and they should be raised: First of all, we have to look at the composition of consumption and the composition of production. In those terms that you can not compare the present economies in terms of money volumes, or currency valuations at present, because they don't mean anything. And they're about to become totally meaningless.

For example, as I mentioned in my principal remarks, the case of the 70% factor¹ in composition of economy—social composition of economy, in China and India, which are the big vulnerabilities. You have comparable, or worse situations in the rest of Asia. So that, you can not price—the price of goods, the price of a commodity is not meaningful, because the present prices are based on an overvaluation of the performance of the economy, by the lack of performance in meeting

1. LaRouche stressed in his keynote speech that 70% or more of the population of these countries lives in extreme poverty. See *EIR*, July 8.

the requirements of the population of the economy as a whole. If 70% of your population is living at grossly substandard, unimprovable conditions, don't say that the economy of the remaining 30% is a good performer.

Now, we have the same thing in the United States, in a different way. We have destroyed our infrastructural composition, which should be 50%, at least, of our total national product, should be invested in basic economic infrastructure. We have not invested in basic economic infrastructure *for over 30 years!* Our infrastructure, which has a general average physical life of 25-30 years, is now at the terminal stage *of its physical life!* Power production, water-management systems, so forth—they're collapsing; our health-care systems are collapsing. The value of the dollar was premised on the total composition of the dollar, in terms of what it was spent for. Which included infrastructure, which we haven't spent for in the past 30 years. Hmm!

You find a similar situation in Europe: Look at health care in Europe; look at housing in Europe; look at net purchasing power of a standard of living in Europe. How many Germans are unemployed? And the unemployment of Germans is *a cost of production!* Which is not being paid! You've got to employ 10 million Germans, before you can bring the German economy back into balance. The euro or mark don't mean a damned thing, until you get 10 million or more Germans profitably employed.

It doesn't mean a damned thing, unless the people, the 70% whose needs are not being met in Asia—or more, in many countries—unless those needs are taken into account to bring them up to standard, then your currency is overvalued.

Now, what we're going to have to do, is this: We're going to have to think in terms of the future of what *the standards of cost must be, of maintaining a national economy with an acceptable rate of improvement and growth in the economy.* This is the problem that confronts India; which China has expressed its concern about—it's much more concerned, actively, on this thing, and therefore China has the leading position, because of its concern about the development of infrastructure for the Chinese population of the coming two generations. And the future of China, and the value of China today, depends upon what China will be two generations from now. The cost of reaching that level in two generations, in a reasonable rate in China, is the cost of production.

We have in Russia, you have a similar thing.

The Issue Is Leadership

But, look on the other side, what's the general solution for this whole business? The solution is *leadership*. Not who is going to agree. Who is going to take the risk of leadership? I would propose that the country that is able to take leadership now, and *will* take leadership, I think—right now; I wouldn't have said it six months ago—but now: the United States. If we have the courage to dump George Bush and