

change rate reform, and that any drastic changes would have adverse effects on China's national economy. The existing stable currency policy is appropriate for China's economy, Tang Xu said. "To a profound extent," the stability of the exchange rate safeguarded the country's daily financial operations. Were China to "free" its exchange rate, speculative "hot money" would move into its foreign-exchange market, and the RMB would "fluctuate severely," Tang added. This "would be a disaster, since China's financial capability to withstand the exchange-rate upheaval is so weak."

The Demise of the Dollar?

Snow, Greenspan, and Co. should try to think: What would happen were China to float the yuan in current conditions? As many economists in Europe and Asia recognize, if China were ever to revalue the yuan, other Asian nations would follow suit, blowing up the U.S. trade deficit even more. Worse—for the United States—all these nations would stop making big purchases of U.S. currency and low-yield U.S. Treasuries to keep their own currencies low. China alone has bought over \$60 billion in the last year, giving itself (or burdening itself!) with an enormous sum of \$346.5 billion in foreign-exchange reserves by June, a 42.7% increase over last year. Only Japan, with well over \$500 billion in foreign-exchange reserves, has more. With Taiwan and Hong Kong, these nations hold by far the biggest dollar reserves in the world.

Given the extreme volatility of the U.S. Treasury bond market, what would happen to the dollar, were these nations to diversify significant amounts into gold, or even the euro? Already in November 2001, Guo Shuqing, then head of the State Administration of Foreign Exchange, told European Union officials that China had begun serious purchases of euros. "Over the past two months we have bought a lot of euros. In the coming months, we'll buy more."

A highly interesting commentary published in the *People's Daily* already a full year ago showed that some, at least, in Beijing have a very sober understanding of the risks of holding so many dollars. China, the Aug. 9, 2002 commentary stated, as the second-largest holder of U.S. Treasury bonds, is a "great supporter" of U.S. economic and financial stability. But given the United States' huge fiscal deficit and unsteady dollar, China has to think of the risks involved. With the fall of the dollar and subsequent increased growth rate of China's foreign exchange, "the resultant question is that the inevitably larger scale of U.S. T-bonds held by China, means the involvement of higher political and sovereign risks. . . . It is the inflow [to the United States] of China's foreign exchange that contributes to U.S. exchange-rate stability."

However, noted the *People's Daily*, "from an economic point of view, there is 'no permanent friend but eternal benefit' . . . It is an eternal principle to strengthen caution against political and sovereign risks involved in international financial investments." Greenspan and Snow should think twice.

Iran, Russia, and India Build N-S Rail Corridor

by Muriel Mirak-Weissbach

While the attention of the world press has been rivetted on accusations that Iran is developing nuclear weapons, the Islamic Republic has actually been busily developing capabilities of a more important sort, contributing to establishing regional peace. Continuing its policy introduced in 1991, Iran has been concentrating on expanding its railway connections to the newly opened, former Soviet territories of Central Asia and the Caucasus, and thence, to Asia, along the new Silk Road.

One leading link in this grand transcontinental network, is the North-South corridor, which connects India, Iran, and Russia. The participating countries are speeding up their work on it, in the interests of enhancing trade, economic cooperation, and peaceful relations.

'Transport Corridors From India'

On July 22, the India-Iran Joint Business Council (IJBC) met in New Delhi. As reported in the Iranian paper *Ettela'at* the following day, A.K. Srivastana, chairman of the Indian section, stressed the importance India places on transport links to the Islamic Republic. In his welcome address to the group, which included Iranian Deputy Foreign Minister for Asia and Pacific Affairs Mohsen Aminzadeh, Srivastana said that Iran has emerged as India's potential gateway to Afghanistan, Central Asia, and Europe. He added, "India and Iran are working together to develop transport corridors from India . . . through Iranian territory."

Srivastana said complementarity of interests between the two countries in the energy sector should be developed also as a strategic area of their future relationship. He said that investment in upstream and downstream activities in the oil sector, LNG/natural gas hook-ups and secure modes of transport are the areas to further strengthen the relations.

Aminzadeh, in a meeting with Indian businessmen and exporters, said, "The issue of the North-South transport corridor between India, Iran, and Russia is one of the most important fields for development of regional cooperation, which will further link Europe and Asia with the adjoining countries of Central Asia and the Caucasus, Syria, and all other countries of the region." According to *Ettela'at*, he said that Iranian-Indian strategic cooperation in transit and transport "would enter an infrastructural phase with the development of Chah Bahar port and the construction of the 600 kilometer-

FIGURE 11
The New Russia-Iran-India Transport Corridor



John Sigerson / EIRNS 2001

long Chah Bahar-Fahraj railway line that will link this port to the nationwide railway and road network of Iran, that will also establish a link between the countries of Central Asia and Caucasus, the Caspian Sea, Russia, and Turkey.”

Talks between Russia and Iran focussed on the same project. On July 24, Iranian Ambassador to Moscow Gholam Reza Shafei met with Russian officials, and stated that Iran is adamant about construction of the North-South corridor. Significantly, Shafei called on Armenia and Azerbaijan and their neighbors to resolve the Karabakh issue, “hence removing the hurdles in the way of railroad transportation and agreement by Russian officials to let the Iranian-registered trucks travel on the northern Caucasus.” At the same meeting, Russian Transportation Minister Sergei Frank, stressing the importance of the corridor, outlined Russian plans for expansion of facilities in the Russian ports.

Build Corridor in Two to Three Years?

The agreement on the North-South international transportation corridor which connects India, Iran, and Russia to Europe has been signed by Iran, India, Russia, Belarus, and Kazakhstan. Oman and Tajikistan are expected to join the treaty in the near future. On Aug. 12, Russian and Central Asian news wires announced that the transport ministers of Pakistan and Afghanistan had signed an intergovernmental

protocol along with Tajikistan, Turkmenistan, and Uzbekistan on various aspects of the project, including providing security for the operation of the corridor. The joining of Afghanistan and Pakistan opens perspectives for establishing shorter land transit routes between the eastern Baltic and the Indian Sea.

As for the financing of the project, the Farsi paper *Qods* reported on Aug. 5 that Germany, Russia, and Iran are discussing the establishment of a consortium to build the corridor within two to three years. The consortium would build the rail and road corridors linking India, Iran, and Russia; lines going through Astrakhan; and transport lines from Russia to Europe and northern Europe.

Iran, which is the pivotal nation in the transportation grid, is also expanding its own internal lines, to maximize the advantages of its geographical position. IRNA reported on Aug. 12 that Iran plans to build 5,000 kilometers of tracks over 20-25 years. At present, 3,300 kilometers are being built, including the 1,000 kilometer stretch between Bafq and Mashhad (into Central Asia). Managing Director of the Islamic Republic Railways Mohammed Saeednejad announced Aug. 11 that 500 kilometers have been laid annually since 2000. He said the Iranian network should grow six-fold, from 15 million passengers and 26 million tons cargo per year, currently, to 80 million passengers and 56 million tons.