An alternative to appeasement of China

by Mary M. Burdman

The Taiwanese Council of Agriculture made a unique offer May 9 to the People's Republic of China, which could show the direction to defusing the extremely tense situation between China and its neighbors. It is also an offer which points to a critical issue the U.S. Congress should be considering in the upcoming fight over renewing China's Most Favored Nation (MFN) trading status.

Council of Agriculture head Yu Yushien announced that Taiwan will send intellectuals and other private groups to the Chinese mainland to assist in developing agricultural know-how—if the Communist regime gives up its one-party rule and "four insistences," and opens a few areas for "free economy." Yu told the press that he was confident that Taiwan's "rich experience in agricultural development" would help mainland farmers boost their living standards, but the transfer of agricultural technology would be of benefit only when the political and economic systems had been reformed on the mainland. Agriculture is still the basis of the entire mainland economy, employing 800 million of the P.R.C.'s over 1 billion people, and improving production is essential if China is to break out of its current terrible crisis.

The wretched state of the P.R.C. economy makes the leadership extremely vulnerable. At the same time, to guarantee that sanctions will ultimately benefit China by driving the Communist leadership from power, it is essential that the West offer China something real. Western nations must stop promoting the cheap-export "free trade zones," and shift to genuine development of agriculture, infrastructure, and industry. Margaret Thatcher's British government, however, has certainly made it clear that it has no intention of changing the free trade policy it has imposed on China since the Opium Wars of the 19th century. The British embassy in Washington, D.C. began lobbying in early May for the U.S. Congress to retain MFN status for China, on the basis that stripping China of the tariff advantages will cost Britain's colony Hong Kong of billions in trade. Britain has sold out Hong Kong's population of 6 million people, to attempt to gain trade concessions from the P.R.C.

Economy in crisis

Just how vulnerable Beijing's economic situation is, is shown by the report May 16 that China has told the United States that it is pulling out of a $550 million military cooperation agreement for modernizing China's F-8 jet fighters. This decade-long program, known as "Peace Pearl," was, of course, not shut down by President George Bush when he made his cosmetic suspension of military sales to China after the June 4, 1989 massacre in Tiananmen Square. The program was the largest Sino-U.S. arms contract of the 1980s.

U.S. military sources say China had been concerned for some time about the burgeoning costs of the program, the Los Angeles Times Service reported.

China's debt is another warning sign. The emphatic denial by an unnamed "senior official" of China's State Administration of Exchange Controls, that the P.R.C. government had guaranteed some $70 billion in debt run up by state-owned companies during the decade of the Deng Xiaoping "reforms," had the tone of "the lady doth protest too much." The official, the news agency Xinhua reported May 4, claimed that the amount now guaranteed by the Beijing government was one-tenth of the rumored figure. The official then went on to deny other "rumors" of an upcoming change in the exchange rate for the renminbi, China's foreign exchange currency. Similar rumors were roundly denied before the last 26.9% devaluation of the renminbi late last year.

The rumors originated in Hong Kong May 20, when a senior Beijing official told Reuters correspondents that China may owe up to $70 billion in government-guaranteed loans. This amount, in addition to the $41.3 billion foreign debt the government does acknowledge, would put China in the ranks of Brazil as one of the most indebted developing nations in the world.

The Beijing government had just done a survey on the debt situation, the official said, and realized that borrowing by individual state-owned companies had gotten out of hand, and that many of the loans are still outstanding. The economic crisis was forcing many companies to default on the loans, leaving the government holding the bag, the official said.

Despite the official denial, there is no doubt that individual companies' or regions' borrowing ballooned during the chaos of the "Deng reforms," a practice government officials roundly denounced when they attempted to get the economy back under central control at the end of last year. On May 20, Beijing announced that only 10 financial organizations will be allowed to take foreign loans.

In a test case that many Western investors are watching closely, the First National Bank of Chicago is suing a company in Hong Kong for defaulting on a $14.65 million loan, guaranteed by the Guandong province China National Machinery and Equipment Import and Export Corp. Many banks have cut their lending to China because they knew of its huge unacknowledged debt of up to $70 billion, Reuters reported. Britain's Lloyds Bank has already settled a $1 million case against the China International Trust and Investment Corp. (CITIC) out of court, and the U.S. First Chicago and Security Pacific banks are suing Chinese firms.