Clash over type of investments in China

by Michael O. Billington

Amidst all the discussion in the U.S. Congress and the media about whether or not the U.S. should extend Most Favored Nation (MFN) status to the People's Republic of China (P.R.C.), a more crucial issue is being fought out in the background: What *kind* of investment will go into the world's most populous nation? Two opposite policies present themselves: on the one hand, massive infrastructure development, of the sort first proposed by Sun Yat-sen in the 1920s, or, continued expansion of the "free trade zone" policies in the coastal cities at the expense of the agricultural and industrial infrastructure of the country as a whole. It is this latter policy that has been the basis of collaboration between the U.S. and the P.R.C. since Henry Kissinger and George Bush first established ties with China in the early 1970s.

The current highly publicized debate over MFN is not what it is portrayed to be in the Western press, i.e., congressional pressure on Bush, or merely a partisan effort by Democrats to attack Bush's close relationship to the Beijing regime as a presidential campaign issue. This is made obvious by observing that the Bush administration itself began the confrontation by attacking China's balance of trade surplus and their military and technological trade with other Third World nations. These, and not human rights, are the issues that are actually governing the debate. The emerging new world order envisioned by Bush et al. insists that the developing nations must be prevented access to modern technology, claiming that such nations can not be trusted with potential military-use technology. Although China lacks the means to provide substantial aid to other developing nations, their ability to provide support outside of the control of the Anglo-Americans represents a threat to Bush's new world order.

Also, the Bush-Kissinger crowd want any available investment capital from other nations—especially Japan—to be diverted to bailing out the collapsing U.S. financial structure, rather than flow into Third World development. In such a new world order, the only investment funds to be permitted into the developing sector are those for labor-intensive, export-oriented industries under "free trade zone" regulations, creating conditions like those of the British Imperial age.

Modern infrastructure for all of China

The opposite policy, and the only one that could possibly reverse the catastrophic economic breakdown facing China, is to drop the "fast money" policy of the Special Economic Zones along the coast in favor of finally creating a modern infrastructure for the national economy as a whole. Such a program, as Sun Yat-sen correctly envisioned, was not only a necessary prerequisite for the development of China, but was also a necessary investment program for the *Western* nations, to provide the markets necessary for their own recovery from the post-World War I recession. The failure of the West to heed Dr. Sun's advice at that time, in favor of speculative looting, led inevitably to the Great Depression of the 1930s.

There are some voices, even within the P.R.C., who are calling for infrastructure projects in this direction. The current "hard line" leadership centered around Li Peng admits that projects such as building the Three Gorges Dam across the Yangtze, and the building of an extensive nuclear energy grid, are the only approach that could provide for real development. But there is no idea of how to finance such projects nor how to mobilize the skilled labor to implement them. In fact, the domestic policies of the regime are virtually a new Cultural Revolution, meant to suppress any independent thought of the sort that led to the 1989 revolutionary movement. Great projects will not function in such a mindless environment.

As to the "reformers" in the government, their reforms of the last 12 years were a disaster. The truth of the "opening up to the West" under Deng Xiaoping is that the economy was "opened up" to a collapsing, post-industrial mess in the United States, under the direction of Henry Kissinger and Associates. The Anglo-American interests, represented by Kissinger and Bush, were interested in China's economy only as a source of cheap labor, not as a market for heavy industry or infrastructure development, which would have required a transformation of the international monetary system. Today, while the Bush administration organizes *against* major infrastructure loans into the P.R.C., there has been no effort to slow down the investments into the cheap labor markets in the Special Economic Zones.

Japan, although it has also taken full advantage of the cheap labor in the Special Economic Zones, has repeatedly insisted that no long-term solution to the Chinese economy exists without a major transformation of infrastructure. Japan resumed a five-year, $6 billion loan program last November, which had been suspended after the Tiananmen Square massacre, which is primarily directed at basic infrastructure and resource development. They also called for the Asian Development Bank to extend a $500 million loan for rail and bridge construction. But the U.S. is reported to have argued against this ADB loan. China has now requested a massive $5 billion loan from Japan for resource development, in addition to existing agreements. The United States wants to divert such Japanese money to bail out the U.S. deficit, without which the bottom will fall out of the already bankrupt U.S. economy.