

step' process! As opposed to steel mills and railroads, heavy industry." This keeps the subject nation forever dependent on imports for any real development.

Interview: Lawrence Klein

Make bicycles, not Bullet trains

Part 2 of Dr. Lawrence Klein's Dec. 4, 1992 interview on China has been provided to EIR by a freelance journalist. The first part appeared in our Jan. 8 issue.

Q: I understand the big reform in China was kicked off by a U.S. trip by Deng in February 1979, to meet with the Carter administration. Were you involved in that?

Klein: I went in '79, and I got briefed by the State Department and Carter people from the Commerce Department, because I was a friend of the Carter administration.

Q: Was this after Deng came over to open it up?

Klein: My first visit was before he came; then I went there quite a few times after he came. What I was doing in China was very academic: We were trying to get the study of economics on a modern path. . . . It caused a lot of change, sure. I've been back almost every year since then, and you can see the progress on every visit. . . .

Q: I understand there was a debate between those who wanted a Japan model, to do a lot of infrastructure investing first, and a group around Zhao Ziyang, saying "No, we should go to the model of Alvin Toffler in *The Third Wave*: bypass all this heavy industry, go directly into a more modern."

Klein: I don't know the facts of that, but I do know that Zhao Ziyang had this idea, and essentially he wanted to liberalize more and more. You see, there were four principles. One principle was the open economy principle, the open door. And you could not do an open door principle and put up tariff walls and be restrictive. And in particular the Chinese were very exercised then, and are exercised now, about Most Favored Nation treatment, and they could *never* have gotten Most Favored Nation treatment on that basis. And *that's* what they really wanted!

Q: So the U.S. requisites for the Most Favored Nation treaty encouraged this open door policy to be adopted, instead of the centralized investment plan?

Klein: Yes; but that's only one of the aspects, the open door.

Modernization could have been done without the open door, adopting modern technology from the West. They also recognized they had infrastructure bottlenecks and they did some work on the bottlenecks, but the open door is something you can do very quickly.

Q: But was there one philosophy saying, "Put the investment into heavy industry and infrastructure," and another saying, "No, we can go to a service economy"?

Klein: The people whom I rely on, said: "We must raise living conditions for the bulk of the population." And that means more bicycles, more radios, more housing. These are not heavy industry ventures—we've got to get the people on our side by giving them a higher level of consumption. And that would say not to neglect heavy industry, but you don't emphasize heavy industry the way the Soviets did.

Q: They built bicycle factories instead of railroads?

Klein: They built bicycles, and there are millions of bicycles all over the country, the main transportation. . . . They didn't import; they only imported high-tech goods. Many universities have fancy lab equipment that was purchased by World Bank and other loans. But that was a very arcane, esoteric kind of investment. The concept of first getting *consumer* goods to people, that is step one in the "step-by-step" process.

Q: As opposed to putting a lot of heavy industry up?

Klein: As opposed to steel mills and railroads, heavy industry, yes. There were steel mills, and a lot of it came from foreign capital and expertise, but the first step was to raise the level of living.

Q: You had said that it's better to do this *before* lots of democracy, because that just causes chaos.

Klein: Yes, that's right, and I also said that one of the first things was food. In the early days, China had bad harvests and had to import food. . . . So the second step, which went along with that first step, was to liberalize agriculture. To provide people with their own plots.

Q: What do you think is going to happen now?

Klein: My projection is that China will keep an impressive growth rate, probably a little under 10%, between 7-10%; they won't let inflation again get out of control; they will work very hard to keep their foreign accounts in balance or in surplus—they have a big currency reserve now, they will try to project that; they will expand their Special Economic Zones and Export Zones; they will try to spread economic development more evenly over the country; and they will try to break the infrastructure bottlenecks—but that will be slow.

And that's the best I've got. It sounds good, but you see you must distinguish between rate of improvement, rate of growth—and level of living. It still leaves them as a relatively poor country. But, making very good headway.