

'Make Development the Central Theme': World Crisis Dominates Chinese Debate

by Mary Burdman

The economic-financial maelstrom centered in the United States is commanding attention in China, where the annual national legislative meetings began on March 3. National leaders all warned of the effect the "uncertainties" in the U.S. economy would have on China, and emphasized the vital importance of continuing to develop the enormous internal economy with "gigantic infrastructure undertakings." Speeches and discussion at the National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC), centered on economic stability, agriculture security, and construction of transport, water management, and power projects, while also looking to better the welfare of China's 1.25 billion people and deal with official corruption.

China is also aware of what it has to deal with, in the George W. Bush Administration in Washington, whose official policy is to consider China a "strategic rival." Beijing is focussing on cooperation with its neighbors, including Russia, Southeast Asia, and Central Asia.

Lyndon LaRouche, who has been warning for decades, of the financial disaster now upon us, and who has uniquely elaborated how the crisis can be resolved only by the nations' development of both physical and social economic infrastructure, observed at a conference in Washington on Feb. 17, that China's commitment to build such projects as the railroad to Tibet, "signifies that China has realized that it's going to lose a great deal of what it had depended upon, on the cheap-labor sales to the United States. . . . China is going to have to resort, more and more, to internal infrastructure development projects for its own survival, and therefore, is going to be much more interested in cooperation, in China and other parts of Asia, in this direction. . . . [I]f you have Russia, China, the ASEAN-Plus-3 group, India, and other countries involved in a long-term cooperation perspective, that long-term perspective will have more weight in bringing cooperation in the region, than any bilateral agreements that might be reached among the participants." Large-scale projects that involve this cooperation are the key, he said.

"As this financial system collapses," LaRouche said, we will "see a phase-shift in world politics, as well as economics, which might seem unimaginable today. . . . We have to think about the countervailing factors in the world situation, which

may create opportunities for action which will tend to minimize the danger from [Bush Administration] threats."

China launched its "Develop the West" program officially a year ago; over the past year, Beijing has announced a series of strategic infrastructure projects—including, potentially, the world's first long-distance magnetically levitated (maglev) train. At the same time, China has been promoting development of political and economic relations with the nations of Southeast Asia, and ties between China and Taiwan— itself hard-hit by the U.S. mess—have been warming. Russia and China will sign a new "Good Neighborly Treaty of Friendship and Cooperation" this Summer, and great projects to build rail links to Central Asia are also on the agenda.

Just before the Beijing meetings, China sponsored the first "Asia Forum" summit in Boao, Hainan province, to create an institution "directed by Asians, . . . aimed at promoting exchanges and cooperation among different countries in Asia with Asia's interest and concept taken into account, . . . and to realize common prosperity," as official press noted. There, Malaysian Prime Minister Mahathir bin Mohamad delivered a remarkable speech on creating a world development institution (see *EIR*, March 16, p. 52).

U.S. 'Uncertainties'

On March 13, Shi Guangsheng, China's Minister of Foreign Trade and Economic Cooperation, reported at a press conference that China's foreign trade is likely to diminish in 2001 from its previous, remarkably rapid rise, due to slowing economic growth—especially in the United States.

A month earlier, China's Customs Administration announced that export growth had slowed way down in January. China's foreign trade volume rose only 1.3% year on year that month, to \$32.46 billion. Total exports grew only 0.8%, the slowest rate of growth in 18 months. China's trade surplus in January was \$1.38 billion, down from \$1.5 billion a year earlier. Export growth is slowing steadily: From a peak of 45% in June 2000, it was 13.8% in November and 8.5% in December.

The shrinking U.S. market is the key problem. On March 11, China released figures showing that exports to the United States grew in January only 3.3% year on year, to \$3.5 billion,



Prime Minister Zhu Rongji with German Chancellor Gerhard Schröder in Germany. The Chinese leadership is shaping the Tenth Five-Year Plan around strategic projects for the development of national infrastructure.

a 16% decline from December. “The possibility of an abrupt economic recession in the United States is slim, but if it does happen, China’s economy could be greatly influenced,” the official *China Economic Times* has recently warned. In January 2000, exports to the United States had risen 24.2%. China’s trade surplus with the United States was \$29.7 billion in 2000, bigger than its trade surplus of \$24.1 billion with all the rest of the world.

While by far the greatest part of China’s trade is with other Asian nations, trouble is looming on this front also. Japan, which has resorted more and more to the “New Economy,” including exports to the United States, is in big trouble, constituting a threat to the rest of Asia.

These developments are deeply affecting China’s interest in the World Trade Organization. Although the alleged “breakthrough” deal to get China into the World Trade Organization (WTO)—after 15 years of effort—was reached by President Bill Clinton and Prime Minister Zhu Rongji in April 1999, China has yet to join.

Shi Guangsheng, while advocating a “Go Global” strategy for China, has been making cautionary statements recently. On Feb. 26, he was quoted by the *China Business Times* that China’s entry into the WTO could be delayed until October or November—a delay that would set loose the usual circus in the U.S. Congress, to debate whether to grant China “normal trade relations,” although the United States has its biggest trade deficit in the world with China!

At the NPC, Shi again noted that there was still no specific

date in sight. “China’s accession to the WTO is . . . a foregone conclusion [and] not far off,” but there are real problems. The United States, particularly, rejects China’s right, once in the WTO, to increase agricultural subsidies as needed, and also objects to industrial subsidies and China’s refusal to surrender its insurance sector. “Some members have made their demands on China too high. These demands have exceeded China’s capacity as a developing country,” Shi warned.

The miserable demise of the “New Economy” is also sparking reaction in China. *China Daily* called its ten-year old stock market a “hot topic of discussion” at the national sessions. Nationally known economist Wu Jinglian, of the State Council Development Research Center, warned the CPPCC that “the over-speculation in the market, if not stemmed, may lead to the collapse of the market.” Wu, previously more a proponent of the markets, has been publicly calling for strict regulation, and likened the speculative stock market to a “casino.”

A group of younger economists, including Yang Fan and Zuo Dapei of the Economic Research Center of the Chinese Academy of Social Sciences (CASS), and Han Deqiang, of the Economic Management Institute of the Beijing Aviation University, sent an open letter to the NPC and CPPCC, stating: “The 1929 U.S. market crash led to a worldwide economic recession. The market collapse in Japan after 1989 and a Nasdaq crash in 2000 led to economic stagnation. These are all ‘overturned carts ahead’ ” for China.

The immediate issue is the spike in China’s “B-shares” hard-currency market, which was opened to domestic investors after Feb. 28. However, the B-shares market, with a capitalization of \$7 billion, is minuscule when compared to the many trillions in Wall Street’s bubble, and with China’s foreign exchange controls firmly in place, the B-shares bubble, while potentially nasty, is containable.

More broadly, the issue is the world financial meltdown. More and more of China’s economists see a “great recession” coming on in the United States. One indication of this concern, is that a proposed “high-tech” stock market has been delayed indefinitely, the China Securities Regulatory Commission announced at the NPC, due to the “emerging instability in the New Economy all over the world.”

The Strategic Projects

The NPC and CPPCC sessions discussed China’s Tenth Five-Year Plan (2001–05). Prime Minister Zhu, Zeng Peiyan, Minister of the State Development Planning Commission, and Finance Minister Xiang Huaicheng, outlined the core of strategic projects around which China will build its economy in this period. The basic principle, Zhu said, is “making development the central theme.”

The projects include the power lines and pipelines to transmit natural gas and electricity from the interior, to the densely populated east coast; the 1,118 km Qinghai-Tibet Railway and the Beijing-Shanghai High-Speed Railway; and

the “Move South Water North” project. Several new nuclear power plants are also on the agenda. All of these projects have been under consideration, and intensively studied, for a long time, some for decades. Now, they are to be realized.

The Qinghai-Tibet Railway, the first railroad ever to the “roof of the world,” presents unique technological challenges which will be met with a combination of Chinese and advanced foreign technologies. Debate is ongoing, whether the Beijing-Shanghai High-Speed Railway will use the magnetic levitation technology developed in Germany. On March 1, construction of the world’s first commercial maglev—Germany has only a demonstration train—began in Shanghai, to connect central Shanghai to one of its airports. This project could go much further. According to the German daily *Die Welt*, China’s Development Planning Commission is projecting that by 2050, China’s rail grid will be twice its current size, with an 8,800 km grid connecting the 12 largest cities at its core. For this central grid, the maglev would be the best option.

The proposed Kashi-Andizhan railroad, to connect Xinjiang with Kyrgyzstan and Uzbekistan, opening up the “Paris to Shanghai railroad,” was also raised at the legislative sessions.

Lack of water in northern China is already costing economic losses of over 120 billion yuan (\$14.5 billion) a year, and the problem must be solved. The “Move South Water North” project will divert 38-48 billion cubic meters of water to the north a year, an amount equal to the annual run-off of the Yellow River.

Real Economic Achievements

In his report to the NPC on March 5, Zhu Rongji described China’s recent achievements, which include having helped some 80 million people out of severe poverty, at the same time that China was able to carry forward its “863 Program” of science, technology, and education development, initiated by the late Deng Xiaoping.

China has had to cope with both man-made disasters, including the Asian financial crisis, and natural ones, such as severe floods and drought. “Making development the central theme,” China must now restructure to prevent the old, “crude” manner of growth, Zhu said. “The state must hold a controlling stake in strategic enterprises that concern the national economy and national security, but not necessarily in others.”

On March 8, Development Planning Minister Zeng Peiyan emphasized that China must face the situation that, despite “healthy growth, . . . the foundation for sustainable economic growth has not been consolidated.” Also, “uncertainties” in the U.S. economy, he noted, will affect China’s foreign trade. To ensure development, Beijing will direct a new issue of treasury bonds to “gigantic infrastructure undertakings,” and enhance the ability of non-state-owned enterprises to invest. Zeng said that 12 western development projects will be launched, with combined investment of 300

billion yuan (\$36.3 billion). These projects will also provide work for China’s interior population—close to 900 million people.

Zeng Peiyan warned that income growth for more than 70% of the rural population is too slow. In the countryside, average per-capita annual income is just 2,550 yuan—about \$325—and must be raised. Farmers are also burdened with high, arbitrary fees, which must be replaced with a responsible taxation system. Such a system has been pioneered in Anhui province, also the site, over 20 years ago, of the restoration of the household farm system, which launched China’s overall economic reform under Deng Xiaoping.

Financing Growth

China will run up a record budget deficit this year, due to its “pro-active” fiscal policy, but her leaders are being actually extremely cautious. Finance Minister Xiang Huaicheng announced a record deficit of 259.8 billion yuan, but this is barely a 4% rise from last year’s deficit. The government plans to issue 150 billion yuan in bonds, including 100 billion yuan (\$12 billion) worth of construction bonds and 50 billion yuan (\$6 billion) of special bonds to finance the development of western China.

China’s deficit is just 2.7% of GDP, and public debt is estimated at only about 28% of GDP, far smaller than that of the Group of Seven industrialized nations. Since most of the public debt is domestic, there is no threat on that front to China’s foreign-exchange reserves, the second-highest in the world.

Xiang Huaicheng noted that “there is some instability in world economic growth this year, and this will affect China’s exports,” but despite this, China will be able to get its economy to move into a “virtuous cycle . . . with better quality and higher efficiency growth.” This will be achieved with massive expenditure to increase economic growth and help create jobs for millions of laid-off workers and redundant agricultural laborers in the interior, he said. The infrastructure construction will also benefit China’s domestic steel, cement, and other heavy industry. Light industry, however, will face slower growth, as the U.S. and Japanese markets contract.

Agriculture and “grain security” were also under discussion. There was a sharp drop in grain production last year, aggravated by severe drought, after several good harvests. This problem cannot be addressed just by focussing on increasing grain production; “grain security” can only be met by ensuring overall agricultural production, and especially *future* grain production capacity, by protecting farmers’ incomes, safeguarding scarce farmland, and ensuring sufficient water, reported Chen Jiyuan, former head of the Institute of Rural Economic Development of the CASS. Imports and exports will be part of “grain security.”

‘Rein in the Horses’

From this overall economic perspective, the Beijing government made several sharp warnings to the Bush Adminis-

tration. On March 6, Foreign Minister Tang Jiaxuan gave a press conference in Beijing, in which he called on the United States to realize the “serious dangers” of its policy toward China, especially in relation to Taiwan. “If the U.S. side continues to fail to honor its commitment on the Taiwan question and insists on selling advanced weapons to Taiwan, including particularly the Aegis missile destroyers and the Patriot anti-missile defense system, that would send a very wrong signal to the Taiwan authorities, which will encourage a very small number of people—the Taiwan independence elements—to continue to engage in separatist activities,” he said.

“The U.S. side should come to the recognition of the serious dangers involved. It should rein in its wild horse right on the side of the precipice.”

Vice Prime Minister Qian Qichen, the *éminence grise* of Chinese foreign policy, will be visiting the United States March 18-24, to take up “some issues” standing in the way of better U.S.-Chinese ties. “Provided that the U.S. side takes appropriate steps to approach the Taiwan question, among other issues, Sino-U.S. relations face a future of moving forward,” Tang said.

Tang also stressed the “very sound momentum” of Sino-Russian ties. He said that Russian President Vladimir Putin will visit China twice in 2001, and that Chinese President Jiang Zemin will go to Russia, likely in July, to sign a new “Good Neighbor Treaty.” China and Russia continue their economic, scientific, and technological—including military—cooperation.

China is also making what Xiang Huaicheng called a “moderate” defense-spending increase of 17.7%, to 141 billion yuan. Xiang called this necessary “to adapt to drastic changes in the military situation of the world and prepare for defense and combat, given the conditions of modern technology, especially high technology.”

Foreign Minister Tang also said that “there is the need to modernize national defense and reform the military structure.” While the increase seems large, Tang said, China’s overall defense budget is the “smallest among major powers in the world,” and amounts to a mere 5% of the United States’, and just 30% of Japan’s. Tang denied the increase had any link with China’s opposition to the U.S. National Missile Defense. The increase will go mostly to raising pay for servicemen, and secondly, to “modernize national defense and reform of the military structure.”

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German Waste Water Helps U.S. Bubble

by Rainer Apel

On March 1, several thousand citizens of Düsseldorf, a big city in western Germany with about 600,000 inhabitants, took to the streets to protest against the planned sale of their city’s utilities to private investors. The plan was conceived before the outbreak of the most recent crisis in California’s deregulated, privatized energy sector, but the commitment of the Düsseldorf municipal administration to privatize the city’s utilities appears the more absurd, as it is being adhered to even after the latest disaster headlines from California.

A crucial role in voicing the Düsseldorf citizens’ concern, and collecting 63,000 signatures against the planned sale, has been played by the Civil Rights Movement Solidarity (Bürgerrechtsbewegung Solidarität, or BüSo), the political arm of the LaRouche movement in Germany. This was reflected also in the media, which otherwise prefer not to report at all on the BüSo activities: The day after the protest rally, all the leading news dailies of the region ran pictures showing the BüSo picket signs. For example, the March 2 issue of the Düsseldorf section of Germany’s leading mass-circulation newspaper, *Bildzeitung*, carried a picture showing a picket reading: “Privatization of the utilities is theft from 600,000 Düsseldorf citizens—BüSo.” The *Westdeutsche Zeitung* daily also showed that picket, and another one by the BüSo, reading, “Privatization is theft,” along with picket signs held up by other protesters. *Express*, a regional tabloid, ran its article with a picture showing that picket against privatization, and another one by the BüSo, reading: “No California conditions in Düsseldorf! We want municipal utilities!”

The municipal administration of Düsseldorf rejected the 63,000 petition signatures, but it is forced to hold a regular referendum now, scheduled for May 20—and the law has it that if 90,000 citizens vote against the privatization plan, it is off the agenda for good. That target of 90,000 votes can be reached, because many citizens are very angry and concerned, which has to do with the abrupt awakening transmitted across the Atlantic, by the news from the energy disaster zone in California.

The situation in Düsseldorf sheds light on the advance of deregulation and privatization in German municipalities in general. Under the combined impact of sinking tax revenues, increasing debt, and cuts in federal and state subsidies to the cities, the comptrollers in many German municipalities have signed on to dubious schemes of selling their real estate, utilities, hospitals, and public transportation to private financial