

# IISS 'divide and conquer' strategy for China is dangerously flawed

by Mary Burdman

In terms of strategy, there is little new in the latest London International Institute of Strategic Studies (IISS) policy paper on China. Gerald Segal's "China Changes Shape: Regionalism and Foreign Policy," issued in March 1994, is an expansion on the theme of "opening and dividing China" for which Segal has been the mouthpiece for at least the past year. However, the report comes out at an interesting time. Public admissions are growing that the "China economic miracle" is not what it was cracked up to be. For example, *Europa Archiv*, the corresponding German publication to the American *Foreign Affairs* magazine, has just published an article comparing the China "boom" to the disastrous 18th-century South Sea bubble. The same article is reportedly raising hackles at the house publication of the other leading official British policy institution, the Royal Institute of International Affairs.

While the IISS report itself does not waver from the World Bank assessment that China will become the "world's second largest economy" soon after 2000, it admits, "Yet, just as China looked set to have the largest GDP [gross domestic product], doubts were expressed about the extent to which China should really be seen as a unified economy." Since Deng Xiaoping launched his market "reforms" in 1978, the central government has lost much of its control over regional economies and politics, as Beijing itself is constantly warning.

## More difficult to deal with

Although, as the current crisis in the former Soviet Union makes clear to the sane observer, the situation is very dangerous, London's response is predictable. When in doubt, divide and conquer.

"If China is left to manage its own regionalism it might only be able to contain fissiparous tendencies by strengthening its nationalist and irredentist policies. If China is left to grow economically strong and more ruthlessly nationalistic at the same time, it is likely to be far more difficult for the outside world to deal with," the IISS report states.

Beijing's immediate response was to ban author Segal from making a trip to China, which Segal attributes to what he disparaged as old Chinese fears about foreign "conspiracies" to divide China. The conspiracy certainly exists: Already 100 years ago, future British First Sea Lord Charles Beres-

ford published a thick volume entitled *The Breakup of China*. It almost succeeded early in this century; now it is being tried again. "There is little doubt that these are revolutionary times," the report states. "The question is how the process will be managed."

## How to manage the breakup

The IISS is quite explicit on how it wants to "manage" the process. "The outside world has no interest in the formal breakup of China," Segal writes. "But . . . it may be that the only way to ensure that China does not become more dangerous as it grows richer and stronger, is to ensure that in practice, if not in law, there is more than one China to deal with."

As in the period leading into World War I, Britain has no intention of doing all the work. This report lays out a perspective to involve not only the Crown Colony of Hongkong, but also Taiwan and Japan in the process.

Segal cites examples of just how such pressure on Beijing should work. One of China's biggest foreign policy problems, he says, is its trade dispute with the United States, which claims that China's trade surplus is second only to Japan's. The Chinese assert that the United States is "unfairly" adding exports from Hongkong to mainland China's balance of trade ledger.

While a great portion of the Hongkong exports are actually produced in the sweatshops of Guangdong and other coastal provinces, in reality, Beijing's argument has weight. By setting up these cheap-labor export industries inside China, what Hongkong and Taiwan have deliberately done, asserts Segal, is to transfer large portions of their own trade surpluses—and related political frictions—with the United States onto China.

Such situations can be exploited to exert ever-more pressure on Beijing, Segal indicates. Both governments and international business should start to think in terms of a more decentralized China, opening direct relations with provincial and local authorities with the long-term goal of making these areas more dependent on external economic relations than they are on the central government.

If this process succeeds, the report suggests, it might even be possible to establish the means to discuss *security* issues, still the unchallenged province of Beijing with local

authorities. "While it is true that most issues on the international-security agenda will still be dealt with on the national level—for example, arms control or U.N. peacekeeping—it is possible that efforts undertaken at the provincial level to reinforce messages delivered in Beijing may well be worth considering," Segal states.

### Dangerous miscalculations

But the IISS is making dangerous miscalculations. Its smug assertions that Britain has conquered again in its dispute with China over Hongkong, must be considered in the context of the "global mudslide" of the financial system. Segal cites as proof of victory that "investment from southern China into the Hongkong stock market in early 1993 buoyed up confidence in the colony and undermined Beijing." It must be remembered that in the October 1987 global crash, shaky Hongkong was the first to give way. This time, as the derivatives center of Asia, it is headed toward playing a similar role.

The IISS is also miscalculating on the Chinese People's Liberation Army. While acknowledging that the PLA could hold the key to the leadership succession after the deaths of the last communist revolutionary leaders, "as power is decentralized within China, it is also decentralized within the PLA," Segal writes.

There is no question that the economic and political upheavals of the reform period have had enormous—and deleterious—effects on the PLA. However, the IISS makes the same dangerous and stupid mistake that western policymakers are making about Russia and the Russian military. If there are no strong national political leaders, "the PLA . . . is more likely to sit on the sidelines," Segal writes. The PLA could, he claims, repeat what he asserts has happened to the Soviet military, which he calls "an increasing irrelevance in the struggle for power."

Such a dismissal of the Russian military is dangerous disinformation; the West should take warning that it is the same dangerous disinformation for the Chinese case.

## Allais hits 'perversion' of British free trade

The Paris daily *Le Figaro* on April 26 published the first of a three-part series by Nobel Prize economist Maurice Allais on how to reverse the "perversion" of Europe that is occurring because of the rampant "free trade" ideology that has defined the way in which the European Union has been constructed over the past years. Europe, he warns, is being increasingly undermined by a "blind and centralizing ideological sectarianism," which threatens to destroy the freedom of the nations of the continent.

Under a subtitle "Free Trade Perversions," Allais asserts that the problems in the European construction process began in 1973 with the admission of Great Britain and a couple of other countries into the European Community. Since then, the EC had moved in a direction of "global free trade, under the influence, notably, of Great Britain, the United States, and GATT [the General Agreement on Tariffs and Trade]."

Allais then blasts the whole ideology of "the theory of comparative costs," or "comparative cost advantage," which is obviously, from his description, just a variant on Adam Smith's "buy cheap sell dear" philosophy. In great detail, Allais shows how this "comparative costs" fixation undermines national economies. He gives particular emphasis to agriculture and food self-sufficiency, warning that "global free trade" could lead to the disappearance of "almost all the agriculture of the European Community,"

since, under such a system, other countries like the United States, New Zealand, Argentina, and Australia have great relative advantages. "Such a disappearance must certainly be regarded as not desirable from the social and political point of view, and it is, in any case, a way of compromising the security of the EC on the food front." Similarly, he attacks the insanity of insisting that Japan give up its national production of rice.

Another argument punctures the logic of "globalization" (analyzed in *EIR*'s cover story of Dec. 3, 1993), showing how sending out industry to areas of "cheaper labor" destroys the economies that do this, both by undermining investment at home, and by increasing unemployment. The effect of this is clear: When workers are laid off, they don't have the money to buy the products that are produced in the areas of cheaper labor. So who benefits from this? Neither party to the arrangement.

Finally, under subtitles like "Monetary Perversions" and "Giant Speculation," Allais blasts the system of "floating exchange rates," saying that the entire argumentation of the advocates of this is blasted apart by the fact that there is so much "movement of short-term capital that is, essentially, speculative. . . . The magnitude of financial flows can never be stressed too much. The financial flows monitored by the Bank for International Settlements amounts, on average, to more than \$1,100 billion per day, that is, around 40 times the level of corresponding transfers in international commercial transactions throughout the world." It is this "giant speculation" which is responsible for the instability of the global currency markets, Allais affirms.—*Mark Burdman*