

# EIR Political Economy

## China Needs Protectionism and the ideas of Friedrich List

by Jonathan Tennenbaum

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### **Collision! The Globalization Trap and China's Real Choice**

by Han Deqiang

Beijing: Economic Management Press, 2000, (title translated from the Chinese)

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The prospect of China entering the World Trade Organization (WTO), brought closer by the November 1999 “break-through” in trade negotiations with the United States, has unleashed an increasingly bitter controversy within China, on the entire future direction of the nation’s economic and foreign policy. This debate is not only important for China, but also touches directly on a universal issue of our time: Will the sovereign nation-state survive, as an indispensable instrument of human progress? Or will the oligarchical attempt to crush the nation-states, and to impose a worldwide imperial system in the name of “free-trade globalization,” plunge mankind into a new dark age? China has up to now retained a significant degree of economic sovereignty and independence; while most other nations, particularly developing nations, have long since fallen under the dictates of the International Monetary Fund (IMF) and other international financial institutions controlled from London City and Wall Street. The heated debates over WTO membership, show that the situation in China has arrived at a critical juncture.

At one extreme of the Chinese debate are advocates of a “shock-therapy”-style radical liberalization of China’s economy, who see WTO entry as a key means for sweeping away the remaining vestiges of the dirigist “command economy” of the pre-1979 period, forcing inefficient state-owned enter-

prises out of business, and integrating China quickly into the globalized, world market economy.

At the opposite extreme are voices denouncing the WTO agreement with the United States as *mai guo*—“selling out the country.” The expression “*mai guo*” immediately calls up the historical memory of the infamous “unequal treaties,” which China’s failing Qing Dynasty concluded with Britain and other Western powers beginning 1842, opening up China to wholesale looting by those powers and cementing China’s miserable status of a “semi-feudal, semi-colony” for a century. In the view of these nationalist critics, the WTO agreement with the United States is tantamount to a surrender of China’s sovereignty, and opens the door to forces that are trying to split and destroy China through a combination of economic, political, and military pressures. They warn that the further dropping of tariff barriers, and other liberalization measures demanded by the WTO agreement, will devastate China’s agricultural and industrial producers, creating a social crisis involving hundreds of millions of people and finally resulting in the virtual takeover of China’s economy by foreign capital.

During almost a decade and a half of negotiations on WTO entry (and before that, its predecessor, the General Agreement on Tariffs and Trade), the Chinese government has tried to keep an in-between position. On the one hand, the government maintains that WTO entry is a logical continuation of China’s economic “reform and opening-up process,” providing new opportunities to expand China’s trade and foreign investment, while stimulating, through increased competition, the reform and modernization of China’s enterprises. On the other hand, the Chinese government has demanded, in negotiations with the United States and others, that China’s integration into the global economy must occur in a gradual way, taking account



*Soviet experts discussing machine-tool operations with Chinese in the 1950s. During the 1950s, China was able, in part with the help of the Soviet Union, to establish its own industrial base in machine-tools and other capital-goods industries.*

of China's vital interests and "concrete conditions." In recent years the Chinese government, contrary to liberal free-market doctrine, has continued to practice a considerable degree of state intervention into the domestic economy, for example by dirigistically channeling resources into large-scale infrastructure construction. Chinese President Jiang Zemin has repeatedly emphasized that the present form of globalization, occurring in the context of an "unjust world economic order," has caused enormous suffering in developing countries around the world. The Chinese government has accordingly given verbal support to the idea of creating a new, just and equitable economic and financial system. At the same time, however, Jiang declares that globalization is an "objective historical trend," which China cannot remain aloof from.

Now, after the November "breakthrough" in the U.S.-Chinese trade agreement, the prospect of near-term WTO entry has drawn closer, and the debate in China about the *negative* effects of further trade liberalization has heated up considerably.

Without going here into the details of the agreement, it provides generally for a drastic reduction in China's protective tariffs in agriculture and industry, and a very significant opening up of China to operations of foreign banking and

insurance companies, as well as in telecommunications and other strategic areas. Although these measures do not go into effect immediately, but are to be implemented progressively over several years following China's entry into the WTO, they will mean a final, decisive break from the strongly protectionist, national-economic orientation of China's economic policy for nearly a half-century following 1949.

At the same time, there is no assurance that China, in exchange for painful and risky concessions on the liberalization of its economy, will actually get fair access to the kinds of advanced Western technology which could make a qualitative difference for its own future economic development. On the contrary, the U.S. continues to maintain extremely tight restrictions on machine-tool and other advanced technology exports to China, while cooperative ventures in aerospace and other high-tech areas are crippled or even shut down on account of the orchestrated anti-China hysteria in the U.S. Congress.

During visits to China last year, this author often posed the question to Chinese scholars and officials: "Given the enormous internal difficulties which a further reduction of tariff protection and other economic liberalization measures will create for China, why are you so eager to join the WTO?" I never received a really satisfactory answer. Apart from fact that the Central government had made the decision that China should enter, the main reason given was essentially *political*: WTO entry meant the final end to decades of painful isolation of China from the "world community." The WTO is presently the only important international organization of which China is still not a member, and many Chinese have regarded the long delay in entering the WTO, due to unacceptable conditions demanded from China by U.S. trade negotiators, as a slap in the face and insult to China's position in the world.

But such considerations, however weighty they might be from a subjective standpoint, hardly suffice to justify a decision of such potentially devastating effects for the internal stability of China. Evidently, the Chinese government's agreement with the United States is a "rotten compromise," made under heavy domestic and external pressure.

Of decisive importance, naturally, has been the pressure exerted via the United States, including from an ill-advised President Clinton himself, who seems to regard China's WTO entry as a crowning accomplishment of his Presidency's

China policy. The Chinese government, desirous of good or, at least, liveable relations with the United States, has been faced with the choice between two evils: On the one side, risking a direct confrontation and possible war with the United States, in case the open enemies of China (as typified by the so-called Taiwan Lobby in the U.S. Congress) get the upper hand in U.S. policy. On the other side, the fact, that the kind of radical economic liberalization policies, that Clinton and other supposed “friends” of China have been insisting upon as the basis for “good relations” with the United States—but which would inevitably lead to the economic and political destabilization of the country—are potentially no less a threat to China’s survival in the long-term, than if an actual war were to occur between the two countries!

In addition to direct pressure from the United States and an increasingly British-dominated European Union, one cannot overlook the existence of a powerful “free-trade” lobby within China itself, concentrated in the export-oriented coastal provinces and influential Hong Kong- and expatriate-linked financial interests. (The extent of direct British influence, via former colony and “free-trade” haven Hong Kong, should never be underestimated.) Moreover, the Ford Foundation, World Bank, and other Western funding institutions have had notable success in cultivating the younger generation of Chinese academic economists. Thereby, the influence of Western liberal economic doctrines has become very strong in the Chinese academic world, as also among the rising, new private business and financial circles on the mainland, who aspire to the wealth and lifestyle of their counterparts in Singapore, Hong Kong, and the West. To these people, the liberalization of the national and world economy, up to the point of virtually unrestricted free trade, appears as a natural, inevitable process. The highly protectionist, nearly autarkical economic policies practiced by China until 1979, have come to be regarded almost with shame, as symbols of backwardness, that were best forgotten as soon as possible. But in doing so, the Chinese risk naively running from one extreme to the other—just as occurred in Eastern Europe and the former Soviet Union.

The only comprehensive alternative to this dilemma, has been offered by Lyndon LaRouche: The prospect of a *fundamental change* in U.S. policies, toward support for protectionist policies of national-economic development around the world, in the context of a “New Bretton Woods” reorganization of the world economic and financial system and joint cooperation on the Eurasian Land-Bridge and other large-scale infrastructure projects. For this reason, whether or not this is acknowledged by the various sides in this matter, the fate of U.S.-China relations—at least in terms of any positive perspectives for the future—is closely tied to the political fate of LaRouche and his movement in the United States.

In the meantime, there have been remarkable developments from the opponents of “globalization” inside China. Breaking from what would be seen in the West as typical manifestations of xenophobia and Maoist rhetoric, books and

articles have recently appeared in the China, drawing attention to the fact that the original rise of the United States, Germany, France, Japan, and other industrial nations to strong economic powers, was made possible by protectionist nation-building policies which are *the exact opposite* of the “free-trade globalization” model being preached today. In the search for a way to maintain China’s independence and sovereignty in the face of “globalization,” patriotic Chinese scholars are turning to the works of Friedrich List and other representatives of what was known in the 19th century as an “American System” of protectionist national economy.

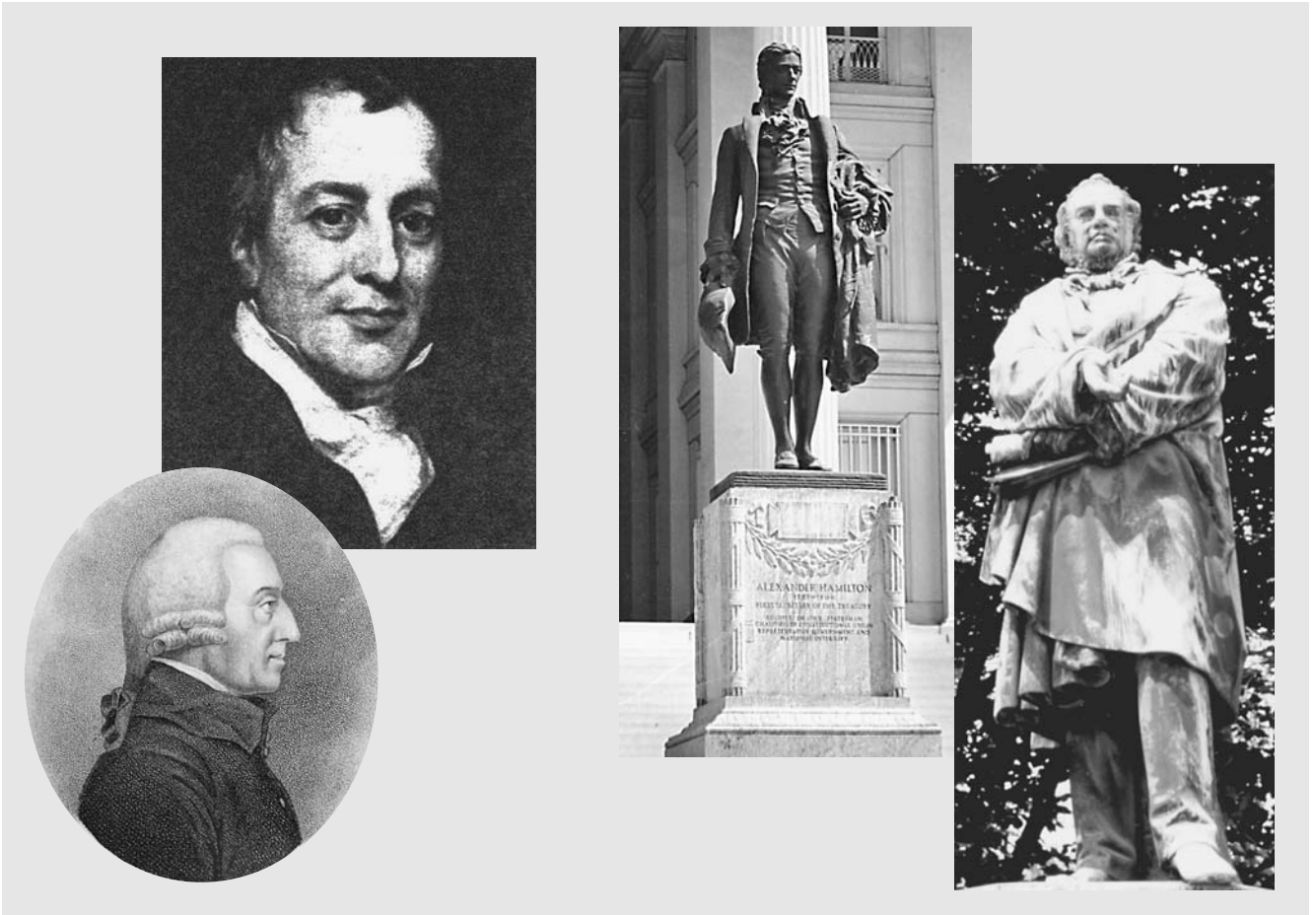
An outstanding expression of this tendency, is a book, published in China at the beginning of this year, entitled *Collision! The Globalization Trap and China’s Real Choice*. The author Han Deqiang, a young economist at Beijing’s Aerospace University, constitutes a devastating attack on “free-trade globalization,” both from the standpoint of its threatened effects on China’s economy, and in terms of the theoretical arguments, put forward by Chinese and foreign “authorities” in favor of globalization and WTO entry.

As a Chinese patriot, Han has harsh words about the United States. He sees the naive pro-American sentiment among many people in China, which is not based on real knowledge and is fraught with fantasies about the supposed marvels of the “free market,” as a deadly threat to his country. At the same time—and this is the central irony of the book—it is exactly the 19th-century struggle of the young United States against imperial Great Britain, which Han emphasizes as the historical example from which Chinese patriots should draw lessons today! Central to that struggle, Han emphasizes, has been the epic battle between the British free-trade doctrine, as typified by Adam Smith’s theory of the “invisible hand,” on the one side, and the protectionist system of national economy, of Alexander Hamilton and Friedrich List, on the other. From this standpoint, he uses Friedrich List and U.S. history to refute the fallacies of Adam Smith, David Ricardo, and their modern-day apologists, such as MIT’s Paul Krugman.

To a large extent, the book can be read as a plea for applying original “American System” economic principles in China. But the implication of his argument goes beyond this. According to Han, the world is presently on the verge of a new “Great Depression.” The collapse of the gigantic bubble on the world financial markets, will bring the present period of virtual hegemony of free-trade ideology to an end, and hasten in a new “high tide” of protectionist policies worldwide.

Han Deqiang’s book is clearly of considerable interest, not only for Chinese readers, but for a much broader international audience which would not ordinarily have access to such writings. With this in view, what follows is a presentation of some of the book’s main ideas, with the help of excerpts from the Chinese original, and with some comments and explanations interpolated by me.

(The reader should be cautioned, that the translations be-



Author Han Deqiang exposes the threat posed to China by British System economists Adam Smith (lower left) and David Ricardo (upper left) and their “market romanticism”: “In order to invade and cut up China into pieces,” he writes, free trade interests must “first anesthetize China by a magical doctrine.” The economic policies of Alexander Hamilton (second from right) and Friedrich List (right), the American System economists, on the other hand, built great nations, and can be a model for China today.

low are unauthorized and only intended to give a rough sense of the original. In order to render the summary account more readable, I have changed the order of some of the excerpts.)

### Has China Fallen into a Trap?

At the outset, Han Deqiang describes the spread of “market romanticism” in China, blaming Chinese economists and mass media for spreading false expectations among the population, concerning what really will happen after entry into the WTO. Han cites typical articles which present a “grand vision” of how WTO entry will “make every consumer into a king”: Besides improving access to coveted foreign products, the Chinese public has been told that entry into the WTO, by forcing Chinese producers to compete with each other and with foreign producers on the domestic market, will reduce the prices of goods and increase their quality. Once “backward protectionism” is eliminated, Chinese households will enjoy a far greater selection of consumer goods, better prices, and better services.

“This may all true, and might become reality quickly after

entering the WTO,” says Han to his Chinese readers, “but you were not told how, at the same time, Chinese people are going to earn their living.” Chinese consumers are also producers, Han argues; if they lose their jobs, how will they be able to buy the cheap goods that WTO advocates are promising to them?

For example: “With American wheat, soya, cotton, beef, chicken, etc. entering the domestic market, 900 million rural Chinese people will suffer untold hardships.” Indeed, under condition of so-called “free competition” with cheap food exports from the United States and elsewhere, Chinese farmers would be hopelessly at a disadvantage. In China, the amount of cultivatable land per capita, is an order of magnitude less than in the United States, where land is plentiful and energy is cheap. The average technological level of Chinese farming is vastly inferior to the United States, and the cost of production significantly higher. In China, subsistence farming is still widespread, with many farmers still working tiny plots of land. Only about 35% of the total agricultural produce is distributed via the market, and much of the rural sector is

totally unfamiliar with modern market conditions. There are large discrepancies in the natural and social conditions, and consequently in the cost of agricultural production, between different regions in China. How, under such conditions, could Chinese agriculture possibly withstand the onslaught of U.S. and other foreign food exports? Without government intervention to protect domestic producers and to compensate for regional discrepancies, untold millions of rural Chinese could lose their livelihood, and be forced to emigrate into the cities to look for work.

But how will China's cities look, after foreign manufactures have flooded the markets? Han takes issue with overconfident statements of some Chinese entrepreneurs and officials, who claim that Chinese industry can quickly be prepared to face cut-throat international competition after WTO entry: "Even though [the competitive strengths of] China's banking, insurance, automobile, communications, chemical industry, textiles and agriculture are still very weak, and even though these sectors have a fundamental importance to the Chinese economy, and although they could become completely controlled by foreign companies, China with a thick head still wants free-market competition, calling itself a fervent disciple of free-market economy."

A well-known case is the Chinese automobile industry, which has been dominated by small producers who have no possible chance of surviving a further opening of the market to foreign companies. "Granted, China's auto manufacturing is inefficient, with more than 100 enterprises producing cars—but don't forget the employment effect of those enterprises," writes Han. "The question is, who will replace them? Will it be domestic, large automobile manufacturing groups, or will the whole domestic auto branch be collapsed? And what will happen with all the orders for machinery, electrical equipment, etc., which still provide much employment, which automobile production generates, and which make the auto sector a 'pillar sector' of the economy?"

In a special chapter going through the Chinese industry in detail, sector-by-sector, Han shows that the situation in the auto industry—often cited abroad as one of the "big losers" in a Chinese entry into the WTO—is *by no means an exception*. In *nearly all* significant sectors the competitive potential of China's domestic producers is extremely weak. Submitting the Chinese domestic market to "world market competition" would mean a wholesale destruction of domestic producers.

In fact, under the WTO agreements China will still be permitted a certain, albeit greatly reduced degree of protectionism, especially in an initial transition period. But even the limited reduction of tariff barriers and lifting of other forms of protection, implemented over the last ten years in the context of the market-oriented reforms, has led to a significant weakening of China's domestic producers and the "capturing" of many domestic markets by foreign interests.

An extreme example is non-alcoholic beverages, where the giant American companies Coca-Cola and Pepsi-Cola, operating through joint ventures, and exploiting their vast



*A "worker" under free trade in Honduras. The North American Free Trade Agreement created 2 million more unemployed in Mexico in two years, warns author Han Deqiang. "Because of the enormous army of unemployed, Mexican and foreign companies could push down wages, greatly reducing the living standard of Mexican workers. There are cheaper goods to be purchased, but they have no money in their pockets."*

advantages in technology, aggressive marketing, and overwhelming financial strength, now control over 90% of the Chinese market. The last, nationally significant group of domestic producers is faced with the choice of either going together with the "two Colas" in joint ventures, or going out of business.

Far more serious, from a strategic standpoint, is the grim situation in much of the Chinese machine tool- and industrial equipment-manufacturing sectors. These sectors, Han emphasizes, form the heart and core of any nation's industrial base. "What is it worth," he asks, "for China to be a great producer of textile and clothing, if it imports its textile machinery? What good is it for China to be the world's largest producer of television sets, if the production lines are imported? What good is it for China to produce as much electricity as Europe and the U.S., if it imports its electricity-generating equipment?"

The older generation of Chinese leaders had paid close attention to building up the machine-tool and related sectors; but, owing to the fact that key Chinese capital-goods sectors had to be built up from almost nothing, they still remain backward, compared to the advanced industrial nations. With the opening-up policy, imported machinery and industrial equip-

ment poured into China, accounting for two-thirds of the yearly capital-equipment expenditures in Chinese industry between 1990 and 1996. Orders to domestic suppliers of industrial equipment fell, and profit margins collapsed. Faced with shrinking profit margins and the increasing short-term difficulties, the domestic producers could hardly maintain the research and development activities necessary to keep up with the international level of technology. As a result, many strategic sectors of Chinese industry, which were formerly supplied practically 100% by domestic capital-goods producers, have become strongly dependent on imports of foreign equipment. For example, according to statistics cited by Han, the Chinese petrochemical industry is now 80% dependent on foreign equipment; the domestic markets for numerically controlled machine-tools, textile machinery, large-scale infrastructure construction machinery, and other high-technology machinery and equipment are dominated as much as 70% or more by foreign imports.

To a reader familiar with economic policy discussions in China, Han's presentation raises a notable paradox. The very same sorts of evidence, which Han cites as proof of an ongoing *destruction* of China's domestic producers, would be seen by many proponents of liberal reforms, as proof of the *opposite*: Namely, that the strategy, to use foreign investment, high-technology imports and the transfer of know-how through joint ventures and other cooperation, in order to modernize China's economy, has been a *remarkable success!* This paradoxical situation deserves a brief explanation.

Imports of advanced production equipment and know-how have surely played a major role in the extraordinary growth of China's industrial output over the last 20 years, as well as improvements in the quality of many products. (See our overview on China's physical economy, "What You Should Know About China's Economy," *EIR*, June 19, 1998.) It is also true, that, generally speaking, China has made much better use of foreign investment than nearly all other developing countries.

On the other hand, it is not hard to discern a dangerous *one-sidedness* behind the apparent success of China's foreign investment strategy. A revealing indication of this is the *high import dependence of China's exports*. It is estimated, that the imported content of products, exported from China, makes up on the average about 60% of the export value. In other words, China must import \$600 of equipment, semi-finished goods, and materials, in order to produce \$1,000 of export goods! In many cases of export products, mainly the relatively labor-intensive assembly operations and manufacture of low-technology components are located in China, while the really high-technology items and production equipment are supplied from abroad. Although a considerable portion of foreign investment, especially that coming from Europe, Japan, and the U.S.A., has gone into setting up modern, capital-intensive industrial plants, these typically involve the import of *entire production lines*, based on highly specialized technologies for which there is no equivalent equipment on the Chinese

market. Most of this advanced production technology remains essentially under the control of the foreign investor, and substantial amounts of spare parts and replacement equipment must be imported in order to keep production going.

One could say, perhaps with some exaggeration, that the luxurious growth of China's foreign investment-fuelled industrial boom of the last 20 years is like the growth of a rain forest: The development is mostly limited to a relatively thin "top-soil" with a rapid turnover, but without deep-going roots underneath. The lack of "profound roots" is the inadequate development of China's own capital-goods-producing sectors, and the domestic scientific research and development capabilities upon which the vitality of those sectors is based.

From this author's standpoint, there is nothing wrong per se with a large-scale import of high-technology capital goods into China, as a *support* for modernizing China's industrial and infrastructural base—as long as such import is organized and regulated according to rigorous criteria of physical economy. Highest priority must be given to strengthening, not weakening, China's own capital-goods-producing sectors. The goal must be to develop China's own "full-set" scientific-industrial capability: The capability to generate new scientific discoveries; to transform those discoveries into new families of technologies (typically through the design of new types of machine-tools and related instruments of production); and to propagate the new technologies efficiently into the entire productive base of the economy.

To accomplish that, requires a high degree of dirigism and protectionism, and can absolutely not be accomplished under a free-trade policy. Otherwise, the effect of imports will be exactly the opposite, namely, to disrupt or even suppress the organic development of a "full-set" national scientific and industrial capability, with disastrous consequences for China's long-term future. Unfortunately, the author's own observations in China tend to concur with Han's warnings, that the latter is actually occurring. Han blames this in large part on the influence of false economic principles such as Ricardo's "theory of comparative advantage," lately warmed up by such "international authorities" as Krugman, and which have unfortunately found their way into the Chinese policy-making process.

## The Employment Issue

Before turning to these questions of principle, Han emphasizes the relationship between the pattern of foreign investment, the difficulties of state-owned industry, and the unemployment crisis which is hitting China with ever-increasing severity:

"Important is to note, that although the 1990s saw rapid growth of GDP, this did not lead to more employment. Many people have noted this paradox: Why is the macroeconomic situation good, but the microeconomic situation bad? . . . As a result there are people who doubt the reliability of the official statistics. But this can be understood immediately in terms of the effect of foreign investment. . . .



*“Should China’s working people, who are losing their jobs or are already unemployed, see themselves as hopelessly backward, and regard themselves as a stumbling-block to progress?” asks Han Deqiang. “No! We may be backward, but we are still human beings. . . . A civilized society must put human beings at the center, respect life and honor the human being, not the law of ‘the stronger eats the weaker’ from the animal realm.”*

“In the 1990s, the 500 largest multinational companies came into China in a big way, with their capital-intensive high-tech investment, so that by 1996, companies with foreign investment controlled and even monopolized several sectors. . . . Naturally, foreign-investment companies contributed some employment, but due to their high capital-intensity, they could reduce employment in the countries of origin, but not increase the possibilities for Chinese workers.”

In fact, Han argues, by supplanting the traditional domestic producers, operating with more labor-intensive technology, the foreign-investment joint ventures are eliminating far more jobs than they are creating. At the same time, the influx of foreign capital created major distortions in the structure of credit flows:

“Unfortunately, after 1992, attracting foreign capital became a fanaticism, everyone opened the door wide to give foreign investment preferential treatment. Only those who could get this money were regarded as successful. This craze led to an enormous waste of capital. . . . For the government and media, the amount of multinational company investment and penetration into China became the measure of success of the opening-up policy.”

According to Han, this craze for foreign investment, and the sharp increase in competition, is a major cause of the crisis of the state-owned industry, including the famous problem of “triangular debts” which plagues the Chinese banking system. In the struggle to survive under increasingly hostile conditions, state-owned enterprises have become caught in a spiral of deflationary price wars, unemployment, and ballooning debt.

With entry into the WTO, the collapse of traditional domestic enterprises, under the pressure of foreign capital and foreign goods, will greatly accelerate. Han warns, “If we don’t see this reality, and think Chinese enterprises are already prepared and have the capability to struggle and can jump into the heart of ‘globalization,’ then we are certainly running head-on into the arms of death.”

He continues: “This is no idle theorizing, but is concretely what has happened to many countries around the world. Before Mexico entered the [North American Free Trade Agreement] NAFTA in 1995, not only did the Mexican public believe that Mexicans would be able to buy dollars more cheaply, but also that Mexican goods would find unlimited entry into the North American market, and this would lead to an increase in employment. However, the Mexicans were wrong; by 1996, Mexican unemployment had reached 49%, in two years there were 2 million additional unemployed. What is more, these two years were what the London *Financial Times* called ‘a period of rapid economic recovery.’ Why did this happen? The real reason is extremely simple: Mexican textile exports increased rapidly, but U.S. multinational companies pushed out and destroyed a large number of Mexican companies . . . so that the number of new unemployed greatly exceeded the number of new employed. Because of the enormous army of unemployed, Mexican and foreign companies could push down wages, greatly reducing the living standard of Mexican workers. There are cheaper goods to be purchased, but they have no money in their pockets.”

“In reality,” continues Han, “this is an old story in Chinese history. After the end of the Resistance War against Japan,

the U.S. and the KMT signed a ‘Treaty on Friendship and Trade.’ . . . At first glance this was a friendly and equitable agreement, helping China to integrate into the world market. But in reality there was no comparison between the competitive powers of the two sides. . . . China was invaded by U.S. goods having prices one-third or less of the domestic prices, and Chinese national producers went bankrupt one after the other. From the last half of 1946 until 1947, more than 27,000 factories in Shanghai, Tianjin, Chongqing, Hankou, Guangzhou, etc., were closed, and up to the beginning of 1948 the number of factories closed in Tianjin reached 70-80%. . . . This ‘Friendship and Trade Treaty’ accelerated the fall of the KMT government.”

One would hope that people in Washington and elsewhere would draw the appropriate historical lessons!

### **The Immorality of ‘Free-Market Competition’**

“Many friends ask me: If the competitiveness of Chinese enterprises is so low, then why can’t we consider *not* entering the WTO? What is the reason why the news media and Chinese scholars, and even entrepreneurs are so excited about entering the WTO? This is exactly the question I have asked myself all the time.”

Han notes a widespread suspicion, among patriotic-minded people in China, that the news media and scholars favoring free trade, are being paid to serve the interest of multinational companies. While this may be true in some cases, Han says, the more significant factor is the influence of liberal economic ideas such as Adam Smith’s doctrine of the “invisible hand” on people’s *thinking*.

At one point Han describes this with a drastic metaphor: “The effect of Western [liberal free market] economics is . . . in order to invade and cut up China into pieces, to first anesthetize China by a magical doctrine. Naturally, to be fair, the anesthetizing effect of Western economics has only reached the central nervous system, and from the central nervous system to the whole body was only possible through the efforts of some Chinese economists and their friends in the mass media. Under this narcosis, the executioner has become a surgeon, and the butcher’s knife has become the surgeon’s knife on the operating table.”

In order to fight this “mental anesthesia,” Han Deqiang devotes an entire chapter to a dissection and critique of what he calls “market romanticism . . . the belief that the market can solve all problems,” which he traces back to the British economists Adam Smith and David Ricardo. An essential aspect of “market romanticism” is to regard “free-market competition” as practically the source of all good in the economy, and even as a basic moral principle.

Against this, Han declares: “Economic competition is fundamentally brutal and double-sided. Huge corporations wipe out thousands of small and medium-size corporations. But, today, Chinese economists and media try to make competition into something ‘really good.’ [According to them] even

the losers benefit. Some people are even bold and self-assured enough to promote a policy of mercilessly destroying the ‘backward’ sections of society. . . . The slogan is ‘what is backward should be destroyed.’ ”

Han protests passionately against such an application of Darwinist thinking to economics, which he sees as a direct threat to civilization itself: “‘Destroy the backward’ is a law of the animal world, but it should not be a law of the human race. Don’t we recognize that we are a civilized society? A civilized society must put human beings at the center, respect life and honor the human being, but not honor the law of ‘the strongest eats the weaker’ from the animal realm. One cannot legalize the application of ‘the strongest eats the weaker’ for the human race. . . . If we were to accept this, then what about justice, what about truth, what about human rights, what about freedom, what about civilization? The history of human society, is the history struggle between civilization and barbarism, the test of strength between truth and the might of the stronger, the struggle between the freedom of the majority and the freedom of a small minority. It is exactly by resisting the principle of ‘getting strong by feeding on the weak’ that human civilization has progressed.

“Secondly, the principle that ‘everything backward should be eliminated’ means to be indifferent to human life and human rights. One could regard any people as ‘an obstacle to progress’ of technology and society, thus legitimizing the elimination of Indians in America, or the elimination of Chinese by the Japanese, which were all justified by the logic that ‘the advanced destroys the backward.’

“Thirdly, at present the Chinese economy is really backward compared to the developed countries. Does this mean that China’s state-owned industries should be eliminated? Given that much of China’s industry and agriculture are labor-intensive, and lack technology, this would mean that all of this should be eliminated, and only capital-intensive factories set up by foreign multinationals would remain. Then China’s independence would be eliminated, China would be finished. . . .

“Should China’s working people, who are losing their jobs or are already unemployed, see themselves as hopelessly backward, and regard themselves as a stumbling-block to progress? Should people, just at the sound of being cursed as ‘backward,’ withdraw from competition, and allow the multinational companies to take over? Should we accept our own elimination as the result of reform?

“No! We may be backward, but we are still human beings, we still must exist, we still want to develop from being weak to becoming strong. If the economists who are spreading ‘free-market’ ideology, make Chinese people think that the accomplishments of 50 years of struggle are just backwardness and should be eliminated, and if the Chinese people’s accomplishment in having raised their living standards (since 1949) is regarded as a vested interest to be abolished, then what kind of future do we have?”



The main point Han makes against the liberal principle of “free competition,” is that—contrary to the myth of the “invisible hand”—unbridled competition inevitably leads to making the stronger stronger and the weaker weaker, creating “a condition of continual warfare, where men are pitted against men. Although wealth is increased, poverty is increased, the danger of war grows and death hangs over people’s heads. The human race is turned more and more into an animal world of ‘each man being a beast to other men.’ Therefore, the so-called invisible hand is, in fact, . . . defending the rule of the stronger. For this reason, Adam Smith’s founding of orthodox Western economics is, in its essence, not science, but only the religion of market economy.”

Unfortunately, writes Han, “since the reform and opening up, China has, in reality, accepted the ‘invisible hand’ logic of market competition to carry out the reform of economic structure. . . . People have dropped their vigilance against the negative effects of the logic of competition, forgetting China’s weak position in international competition.

“. . . Over the last ten years, more and more young students have been nurtured in school and university lecture halls on market economy, being trained to admire free competition, trying to see the world through the colored glasses of Western economics. More important, the national government also has more and more expressed and unlimited support for free market competition, to the point that the news media are little by little peddling Adam Smith’s doctrines.”

### **Friedrich List versus ‘Market Romanticism’**

Han repeatedly emphasizes that Adam Smith was the originator of “market romanticism.” Quoting from Smith’s famous *Wealth of Nations*, Han focusses attention on Smith’s theory of the “invisible hand,” which asserts that the maximum good for society as a whole is realized, when each person in society pursues only his or her individual interests, *without any regard to the common good!* To demolish this key premise of “market romanticism,” Han poses to his readers the question: Whose interests does the “invisible hand” serve?

“It is hard for Chinese people to understand, when British merchants, pursuing their own interests in selling opium to China, how the invisible hand was promoting the general welfare. . . . Africans have a hard time imagining, how the Europeans, following each one’s personal interests in selling Africans to the American plantations, were promoting the general welfare in Africa. European working people, in the time of Adam Smith, had trouble understanding, how their being forced to work 19 hours a day in dark, unventilated, noisy factories, was promoting the general welfare. Thus, we are absolutely justified in being suspicious about the ‘invisible hand,’ and asking, whose interest it represents. In reality, we know, that Adam Smith wrote *The Wealth of Nations* with financial support from the East India Company. . . .

“Through the explanations of *Wealth of Nations*, the crimes of the East India Company in Asia became godlike acts

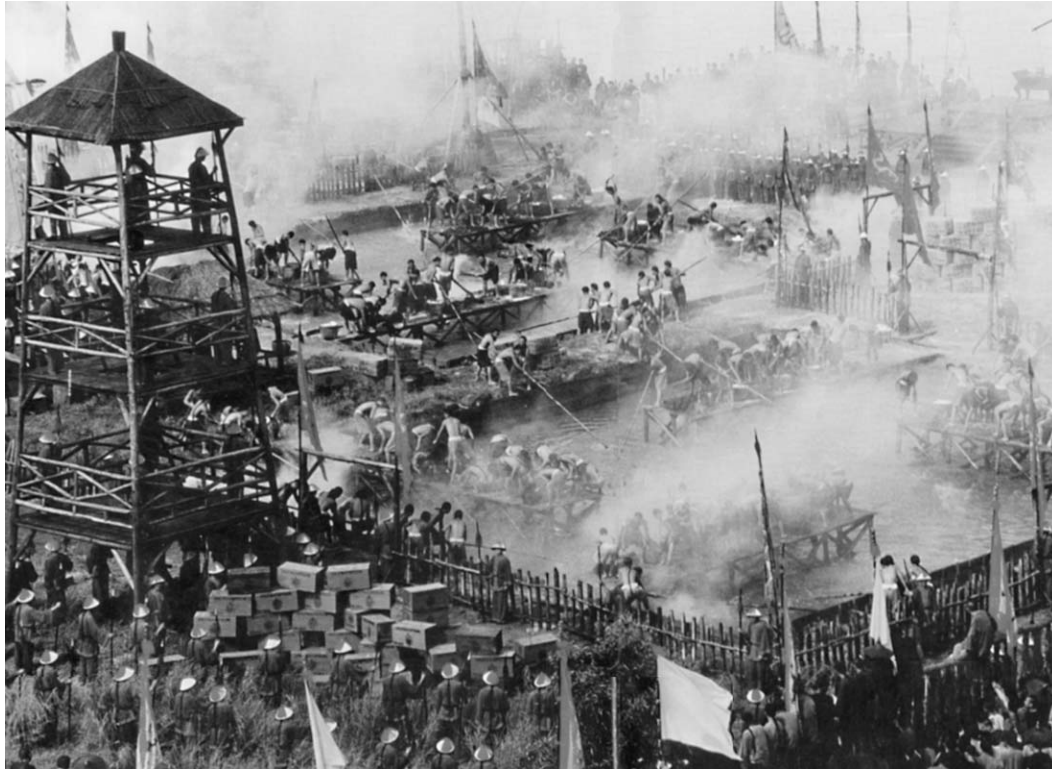
of promoting the general welfare, and the cruel oppression of that nation’s own workers by the factory owners was also just the owners’ carrying out their historical task of promoting the general welfare! Under the ‘invisible hand’ theory, the members of the fat-bellied upper class could feel at ease about the morals of their despicable and shameless behavior. For this reason, no doubt, after the publication of the *Wealth of Nations*, Adam Smith became a favorite of the British merchants and government officials. . . .

“Nevertheless, at the beginning of the 19th century, the German economist Friedrich List already pointed out the mutual antagonism between national economy and Adam Smith’s free-market laissez-faire ideology.”

Han considers the work of Friedrich List as crucial to China today. Han includes a detailed topic-by-topic summary of the content of List’s classic, *The National System of Political Economy*, originally published in 1841. Han writes: “It was exactly under the conditions of the British free-trade assault [against Germany], that Friedrich List woke up to the dangerous nature of Adam Smith and Ricardo. Looking at this from the standpoint of developing Germany, he put forward the diametrically opposed concept of national economy, raised a cry of warning calling for trade protection, calling for the founding of the German Tariff Union, and creating the theoretical foundation for Germany’s rise to economic power.”

Han describes the historical situation of Germany in the period leading up to List’s composition of *The National System of Political Economy*, drawing a strong parallel to China’s situation today. Despite the initial successes of List and his collaborators in launching the industrialization of Germany—successes which included the establishment of the German Tariff Union in 1834 and the construction of the first German railroad in 1835—German manufacturing was still backward compared to England. Consequently, England was in a position to crush Germany’s fledgling industry, by flooding the country with cheap goods. But this British economic warfare could only function, to the extent the Germans could be discouraged or prevented from erecting tariff barriers to protect the domestic market for German manufactures. Hence the key to Britain’s economic warfare against Germany (and other nations), was to spread Adam Smith’s doctrine of free trade and economic liberalism. Han quotes at length from List’s characterization of how the British used Adam Smith’s theories, and points out that the ideology behind the present-day “globalization” policy, is practically a carbon copy of what List describes as British “globalism” of the 19th century!

“List made a powerful criticism of Smith in two decisive issues. Firstly, that so long as there exist nations, and not just a single world entity, the nations must consider how to develop themselves. . . . Second, List recognized that the development of productive forces is more important than static wealth, attacking the strategic crucial point in the methodol-



*A scene from the movie, "The Opium Wars." "It is hard for Chinese people to understand, when British merchants, pursuing their own interests in selling opium to China, how the invisible hand was promoting the general welfare," writes author Han Deqiang. "We are absolutely justified in being suspicious about the 'invisible hand,' and asking, whose interest it represents."*

ogy of Smith and Ricardo: The sources of wealth are not the same thing as wealth."

Han summarizes, with the help of original quotes, List's conception of labor power and his argument for a national-economic policy oriented toward the long-term development of a nation's *productive forces*, rather than considerations of momentary advantage. Han notes, that the rise of the United States, Germany, and France to industrial power in the 19th century, was due to the fact that, while their industry was initially less developed than in Britain, these countries followed List's concept of national economy rather than "naively following Adam Smith." Having become powerful in this way, however, these very same nations, "in order to stop any new world competitive opponent entering the paradise of the developed countries, are imitating the behavior of Britain, even promoting the dogma of Adam Smith, while quietly hiding their own experience—the teaching of List on national economy. For this reason, present-day economists have, without making any noise, simply removed List—one of the most prominent economists of the 19th century—and his works from the temple of economics."

According to Han, the exclusion of List from the economic policy discussion in China has been a major factor in the spread of "market romanticism": "Once the logic of free market competition has entered people's minds—concerning this point, the liberals can thank the media, otherwise List's national economy would certainly have come and challenged Adam Smith—the entry into WTO, which embodies that

logic, has very naturally become the goddess in people's eyes."

Besides Adam Smith's "invisible hand" and the doctrine of market competition, Han singles out another pillar of "market romanticism," which has greatly influenced China's acceptance of the WTO agreement: This is the "theory of comparative advantage," put forward by Adam Smith's follower, the British economist David Ricardo. Ricardo argued, that under conditions of worldwide free trade, each nation can and should concentrate its investment and labor in those areas of economic activity where the given country enjoys the greatest advantages in terms of resources, natural conditions, quality and cost of labor and so forth. In this way, free trade would lead to an optimum *international division of labor*, with each product being produced in the optimal location. In such a free trade paradise, each nation benefits not only from its own "comparative advantage," but also from importing at the lowest price those goods which are more efficiently produced elsewhere.

Actually, Adam Smith already applied this principle in his *Wealth of Nations*, when—exactly on the eve of the American Revolution—he admonished the American colonies to concentrate only on agricultural production, exploiting the "comparative advantage" of plentiful land, and to import all necessary manufactured goods from Britain. Smith sternly warned the American colonies against establishing their own industry! If Smith and Ricardo were alive today, they would no doubt congratulate China on the tremendous "comparative

advantage” of *cheap labor*, and advise China to drop most of its agriculture, and import its food from the United States and other countries where cultivatable land is more plentiful.

## Demolishing Paul Krugman

Friedrich List already refuted the Smith-Ricardo theory of “comparative advantage” nearly two centuries ago, Han points out. Yet today, so-called “authoritative” economists like MIT’s Paul Krugman continue to preach the dogma of “comparative advantage” to China and other developing countries, simply ignoring List’s work.

Han makes a special example out of Krugman, whose work has been widely published in Chinese and who is regarded as an authority. Quoting from Krugman’s writings and counterposing them directly to those of List, Han shows how Krugman again and again evades the crucial issue raised by List, namely, the primacy of *development of the productive forces* of a nation. Instead, Krugman simply repeats what Han calls “the fundamental methodological error of Smith and Ricardo,” which was located in their false, static conception of wealth. After quoting a passage where Krugman brushes aside the objections to the theory of “comparative advantage,” Han points out:

“What Krugman calls the ‘absurd error’ is exactly List’s main standpoint. But Krugman’s criticism simply reiterates the static model of Ricardo, ignoring the dynamic model which List developed two centuries ago, when List pointed to the harm that the free trade does to a country with underdeveloped productive forces. . . . Krugman claims, that underdeveloped countries just have to have a low enough wage level, then they could enjoy a comparative advantage in international trade. This means, that the developed countries can have a comparative advantage at a very high level of wages, and the developing countries can have a comparative advantage at very low wages, thus giving both sides a mutual advantage in free trade. I don’t know if Krugman understands what ‘very low wage levels’ means. Being Chinese, I know that a very low wage level signifies a miserable life. . . . After the Asian financial crisis, wages in Southeast Asia decreased dramatically, which should have given them a new comparative advantage, and for Mr. Krugman this supposedly shows the superiority of free trade: But for the countries in Southeast Asia it meant throwing back living standards by 20 years.”

Rather than providing an advantage, the exploitation of “cheap labor” in China and other countries in the context of free trade, actually does damage to all sides:

“[Krugman] has not addressed the problem, that importing cheap goods from foreign countries can damage the domestic productive forces and create unemployment. For backward countries, buying cheaply priced goods produced by countries with a high productivity means that the domestic high-value-added production can never be developed; for the developed countries, buying cheaply priced goods produced with low wages in backward countries, means that the labor employed in the low-value-added domestic production will

be thrown out of work. This is a reality that is known to everyone.”

(Indeed, part of the high political price that Beijing pays for the U.S.-China WTO agreement, is the growing anti-China sentiment inside the U.S. labor movement, where the fear of losing jobs due to cheap imports from China, has made it very easy to induce working Americans and trade union officials, who might otherwise be friendly to China, to side with the right-wing anti-China lobby.)

Han notes that Krugman exploits the same trick as Adam Smith, using the activity of a small-scale trader as supposed paradigm for economic activity. Hence, Krugman “is fundamentally not looking at the question from the standpoint of the producer, and even more not from the standpoint of the long-term development of a nation. From the standpoint of science, Krugman has simply avoided the challenge of List’s national economy, and is obviously not honest. Should we worship this kind of ‘authority’ on international trade?”

Finally, Han quotes a passage in which Krugman brushes aside accusations, that the present international economic order, and particularly the exploitation of cheap labor in developing countries, aggravates the poverty in those nations. On the contrary, concludes Krugman, referring particularly to the situation in Central America: “If those countries were to reject the opportunities to export and trade, then they would fall into a situation of even greater poverty.”

Han comments: “This is not gentlemanly and cultivated, scholarly explanation, but an undisguised threat. What he is really saying is, . . . if you refuse to accept exploitation, you will get nothing to eat. . . . The deeper meaning is, that if you are thinking of getting out of the world capitalist system, refusing to trade with us, then you will become more poor.”

## The Lessons of Chinese and U.S. History

“Aha, we begin to think,” continues Han, asking his Chinese audience to reflect on Krugman’s bullying. “It was exactly after 1949, that the U.S.A. and the whole West were ridiculing China. But [Secretary of State Dean] Acheson miscalculated. The New China, which detached itself from the West, not only did not fall into greater poverty, but rapidly healed the damage of the war, cured the inflation, restored the national economy, and began a large-scale industrial development. . . . Under the conditions of total isolation from the Western world, the life expectancy in China was raised in 30 years from 35 years to nearly 70 years, China exploded atomic and hydrogen bombs, sent satellites into space, created intercontinental ballistic missiles. In this period, the total value of agriculture and industrial production increased on an average by 7.6% per year, an entirely independent industrial base was established from scratch, a huge army of scientists and teachers was created, which provided the material basis for the following 20 years of reform and opening.

“Krugman forgot, that after the end of the American Independence War, Britain still continued to threaten the United

## List: How British Free Trade Destroys Nations

One hundred and seventy years ago, the British free-trade school of Adam Smith was scientifically torn to shreds by German-American economist Friedrich List, who proved its fraudulent nature beyond a shadow of a doubt. The warnings he issued then, are just as valid today — not only for China and the United States, but for all nations.

In his 1827 letters to Philadelphia's Charles J. Ingersoll (published in *Friedrich List: Outlines of American Political Economy*), List announces his aim as, not just to protect the manufacturers of Pennsylvania, but "to lay the axe to the root of the tree, by declaring the system of Adam Smith and Co. to be erroneous — by declaring war against it on the part of the American System."

Addressing widespread ignorance on the subject of political economy, List writes:

"I remember an anecdote of a physician, who, finding his patient consulting a medical work about his disease, admonished him to take care not to die of an error in print. So, sir, I would admonish the people of these United States who rely on the celebrated system of Smith, to take care not to die of a *beau ideal*. Indeed, sir, it would sound almost like sarcasm, if in after ages, an historian should commemorate the decline of this country in the following terms:

"They were a great people, they were in every respect in the way to become the first people on earth; but they

became weak and died, trusting in the infallibility — not of a Pope nor of a King — but of two books imported into the country, one written by a Scotchman [Smith], the other by a Frenchman [Jean Baptiste Say] — books, the general failure of which was shortly afterwards acknowledged by every individual.' "

The fraudulent nature of Smith's system, writes List, begins with the very title of his book: *Wealth of Nations*. In fact, the book disregards nations altogether; it deals with the economy from the standpoint of the individual entrepreneur, and of the human race as it would be if it were *not* separated into nations. If the whole world were one nation, free trade would be fine. An Englishman would as readily emigrate to Hungary as a New Jerseyman today emigrates to Missouri. No nation would have reason to fear from any other. Such a state of affairs might be desirable, says List, "but, sir, it is not the state of the actual world."

In the real world, as List shows, free trade is a weapon used by the British oligarchy against its political opponents. The essence of the British system is to dominate others, "even at the expense of the lives of the citizens, to keep the world and especially her colonies in a state of infancy and vassalage"; the American national economy, on the other hand, aspires only to become *independent*.

The contest between these systems, List writes, may not be decided for several centuries. In the end, history will censure those who ruin their own nations by adopting English free trade, just as "it laughs at Esau for having sold his primogenitive birthright for a mess of pottage rather than to rely on his own power for procuring the means of existence."

States, and this threat was so real, that in U.S. history the period from 1781 to 1789 is called 'the crisis period.' At that time, England, using its enormous advantage in trade and manufactures, did two things. First, Britain implemented a severe ban on U.S. exports, including prohibiting U.S. goods from entering the Indian subcontinent: secondly, Britain dumped great quantities of cheap goods into the U.S. . . . The export of tobacco, rice, indigo and other agriculture products collapsed, trade and shipping fell back, ship construction stopped. One after the other, traders and farmers went bankrupt, the chain of mutual liabilities broke, creating a severe social crisis, in many places there were uprisings of farmers. But the American people did not, for these reasons, return to the bosom of England, but instead transformed the confederation government into a Federal government, strengthened the financial and banking system, strengthened the power of the central government, using the force of the nation to contend with England. And finally, through many tribulations, making trade protectionism the national policy, developing a power-

ful independent industrial system: Only through this process could Krugman get a place to put his foot."

The analogy between the situation of the young United States after the War of Independence, and the situation of the New China, both after 1949 and today, is a recurring theme in Han Deqiang's book. Following the extensive summary of List's *National System of Political Economy*, Han includes a further, detailed appendix on "The Lessons of the Rise of the United States for China — A Discussion of the Struggle between Protectionism and Free Trade in the History of the United States." This appendix goes through the zig-zag history of the fight to develop the United States' national economy during the 19th century, in the face of unrelenting economic, political, and even direct military warfare against the young nation by Great Britain. The outline goes into the factional situation in the former colonies, stressing that it was only under the psychological impact of Britain's repeated assaults, that American patriots could gather sufficient political support to realize the policies of Alexander Hamilton for a

protectionist national economy, a strong Federal government, and the development policies outlined in Hamilton's *Report to Congress on the Subject of Manufactures*. Han devotes considerable attention to the process leading into the U.S. Civil War, including the conflict over slavery and free trade, as a continuation of the War of Independence. The Civil War was both an internal war and an external war against Britain, Han emphasizes, documenting Britain's role as de facto chief military ally and supply base of the Confederacy. It was the victory of the Union in this war, Han stresses, which made possible the rise of the United States to the world's number-one industrial power by the end of the 19th century.

### **No More Rotten Compromises**

Han's book is a call for China to drop all "rotten compromises," and implement a rigorous policy of protectionist national-economic development in line with List's "American System." Besides simply protecting domestic producers, China must concentrate resources on building up key, strategic industrial sectors and strengthening its national advanced-technology base, orienting its growth toward the needs of providing useful employment to the population and making efficient use of the nation's resources. Han cites as examples from the Chinese discussion, the build-up of small- and medium-sized industries supplying machinery and equipment for the development of agriculture; creation of efficient public transport systems (as opposed to a wasteful overemphasis on personal automobiles); the development of the Western areas of China through infrastructure projects, etc.

Han notes that the problem of corruption must be dealt with effectively in order for a policy of state-financed large-scale infrastructure projects to have the desired effect. Besides this, he criticizes the Keynesian notion of "stimulating internal demand," often cited in China to justify the infrastructure investments, but which in itself hardly provides a competent basis for economic policy-making.

Underlining the necessity for rigor in economic policy, Han devotes a chapter of his book to criticizing the wishy-washy position of so-called "market realists," who favor a certain degree of protectionism for technical reasons, while in reality fully embracing the axioms of Adam Smith and Ricardo's British system. A typical "market realist" professes his admiration for free trade, but admits that, unfortunately, the ideal of pure free trade cannot be realized in the present real world. In the same general category are the typical neo-Keynesians, influential in center-left circles in many countries, who often appear as the "alternative" to the hard-core IMF and Chicago School monetarist policies. These neo-Keynesians measure state investment and intervention into the economy, while in reality opposing the kind of sovereign nation-state development policies advocated by Hamilton and List. Han singles out for extensive criticism the Argentine economist and United Nations official Raúl Prebisch (1909-86), whose *desarollista* ("development")

school had a big influence on development policy in Ibero-American and other so-called Third World countries. Han particularly criticizes Prebisch's famous theory of "the center and the periphery," which on the surface appears to fully champion the cause of the so-called developing countries, but, in reality, as Han puts it, "is the crystallization of the life-long experience of a true adherent of liberalism." Prebisch is well-known to LaRouche's collaborators as a British agent, who notably fought against the establishment of Hamiltonian-style national banking systems in the Ibero-American countries, in favor of British-style independent central banking.

As far as Keynesianism itself is concerned, Han has the following to say: "Only during the great depression, when ruling circles had lost control over the economy, and the 'market was not working properly,' there was a certain recognition of the reasons for state intervention. However, Keynesianism is not really a rejection of market romanticism, but rather a limited correction, combining the market mechanism with government macroeconomic adjustment according to the method 'one step back, two steps forward,' affirming the core role of the market, and in essence maintaining Adam Smith's 'invisible hand.'"

### **Can Protectionism Still Be Revived?**

Han devotes an entire chapter to this question, refuting the widespread myth, that protectionism is an outdated "relic of the 19th century." On the contrary, Han argues, firstly, that the United States, while currently championing free trade around the world, in reality employs substantial protectionist measures to defend its markets at home, while reserving its right to unilaterally implement even stronger measures as it sees fit. The infamous "Super-301" clause is only one case in point. In this respect, Han points out, U.S. policy mimicks the typical two-faced policy of the British in the 19th century: protectionism for Britain and free trade for everybody else! Moreover, in spite of globalization, Japan and the European Union also continue to practice a very substantial degree of protectionism. So protectionist methods are by no means a mere relic of the past.

Second, and more importantly, Han points out that the world is on the verge of new Great Depression. He reviews in some detail the highlights of the long-term process which has led to the present gigantic financial bubble on the world markets, and notes that the expectation of a crash with ensuing new depression, is now shared by numerous American and other Western economists.

Han points out, that if we look at the last 200 years' history of the industrial revolution, including the history of the United States, we find an alternation between periods where protectionism predominated, and those where free trade took the upper hand. But, he emphasizes, in this back-and-forth, the periods of free trade were relatively brief. At the point of crises and depressions, the United States, Germany, France,

and other industrial nations repeatedly went back to methods of protectionist national economy. In fact, the world is already on the way toward a “new high tide of protectionism.” In this situation China should cast away naive illusions, pay attention to the reality of what is happening, and stop making concessions to a system which is already collapsing.

### China-U.S. relations

As we already noted, Han Deqiang has harsh words about the United States, which, turning against its own best traditions, has made itself a world champion of British-style, neo-imperial globalization policies. To that extent, the United States has also made itself a real adversary of China, and the Chinese people should realize this clearly, Han admonishes. As a passionate Chinese patriot, he sees the problem from the standpoint of a China “on the receiving end” of those destructive policies. While repeatedly pointing to the historical struggle of the early U.S. against the British Empire, as a lesson for China today, Han does not emphasize the *continuing* struggle to eliminate British policies and British influence *inside* the United States—a struggle presently being led by Lyndon LaRouche and his movement.

With that, admittedly very crucial limitation, Han poses the question: How could there be a “strategic partnership” between China and the United States, in a situation where


the U.S. government, including Clinton himself, is trying to impose upon China policies of globalization and economic liberalization, which, if adopted, would mean the total destruction of China as a sovereign nation? Is it not ridiculous that China should sacrifice its own survival, in the naive wish to “be good friends” with the United States? Besides, Han notes, the United States has traditionally tended “to bully its friends while respecting its adversaries.” Would not China gain greater respect from the United States, if it rigorously drew the line against “globalization,” and insisted on pursuing a sovereign and independent, protectionist national-economic development policy?

Han does not advise a confrontation with the United States, but, rather, suggests that such a rigorous policy course by China would actually lay the only possible basis for “real progress” in relations between the two countries. In the meantime, China should pursue a foreign policy of cooperating with those nations and tendencies around the world, which are opposed to the kind of “unipolar” world order, the rule of a tiny minority over the globe, which Zbigniew Brzezinski, George Bush, and others stand for. The natural allies of China would include above all Russia, developing nations, nations of continental Europe etc.; and also, at least the *perspective* of a growing resistance to those policies, within the United States itself.

### The Education of the Chinese Citizen

In the final section, Han notes that some people think the situation in China, as a result of the spread of liberal ideology, has become hopeless, and that corruption and egotism have already spread beyond the point of return. But, he points out, these problems are not a matter of “human nature,” but a function of the social environment. Corruption is the result of failure of people to understand the relationship between their own long-term interests and the interests of society as a whole. That, in turn, has much to do with a failure of education. Han quotes a statement by Deng Xiaoping, in which the late Chinese leader regrets the inadequate attention to the education of the population as citizens. Deng explained, “I mean political education, not simply school education and education of the youth; I mean the lack of education of the citizen . . . concerning what kind of country China is, what kind of country it should become. This kind of education has been too little, this is the biggest mistake we have made.” In this spirit, Han Deqiang closes his book by calling for launching an open and wide-ranging public discussion in China on fundamental policy issues, including the issues raised in his book. Such a discussion is key to combatting corruption and strengthening the government and the party, Han writes. He notes the reaction in China to the shock of the bombing of the Chinese Embassy in Belgrade, which not only unleashed a wave of patriotic feeling, but also caused many people to think more seriously about the future of their country and their own personal role in the world.

## If You Thought Adam Smith Was The Founding Father of America’s Economic Strength— Think Again.



**READ**  
*Friedrich List: Outlines of American Political Economy*  
With a Commentary by Michael Liebig and an Epilogue by Lyndon H. LaRouche, Jr.

“I confine my exertions solely to the refutation of the theory of Adam Smith and Co. the fundamental errors of which have not yet been understood so clearly as they ought to be. It is this theory, sir, which furnishes to the opponents of the American System the intellectual means of their opposition.”  
—Friedrich List to Charles J. Ingersoll,  
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