

from the U.S.A., Hong Kong (most of it is also re-exported to the U.S.A. and EU), and EU. On the other hand, China has a huge trade deficit with Japan, Asian NIEs, Germany, and ASEAN. For example, in 2004, China had a \$214.58 billion trade surplus with her top ten trade-surplus providers, and also had a \$116.61 billion trade deficit with her top ten trade-deficit suppliers, even if China only had a \$32 billion trade surplus this year. China now is something like a bridge transforming the trade surplus from the U.S.A. and EU to Japan, Asian NIEs, and ASEAN, with which China has a huge trade deficit. Because of this role of intermediary, China and her trade partners need a new framework to deal with their bilateral trade relations. China needs more appreciation from her trade partners for her role as a bridge. However, it is difficult for each trade partner to appreciate it. Not only China's trade-surplus providers, but also some of China's trade-increase sharers ever take advantage of it. So, the cost of China's development model is very high. This cost is shown itself in trade conflicts with her trade partners.

### ***The Perspectives of This Development Model***

The special mechanism of China's economic connection with the world economy will last for another decade. The reasons are as follows:

Firstly, Chinese economy has not yet finished integration with Asian NIEs, especially Taiwan's economy. Most importantly, deep integration with the Japanese economy is just on the way.

Secondly, the crowding out effect of inward greenfield FDI is not a very serious concern now in China, because the industrial capacity of FFEs is highly complementary with that of the old one China had. In terms of geographical locations, what FFEs have contracted is mainly concentrated on China's coastal areas, while China's old industrial bases are mainly in the west or middle regions. In term of industrial composition, what FFEs have established is mainly the labor-intensive industries, such as textile and clothing and so on, while what China had had was a diverse industrial base, mainly focussed on heavy industries. The former mainly focus on new emerging industries, while the latter the traditional industries. China has an almost unlimited low-cost labor force. Under these conditions, the crowding-out effects from inward labor-sourcing FDI are limited, if not zero. China is still a large developing country, with many investment opportunities untapped, so the crowding out effect is small or limited. However, this effect will increase in the future.

In the long run, the international trade in specific and economic development in general will depend upon the new competitive advantages results from the integrating of the industrial capacity of inward FDI with indigenous industrial bases; and will depend upon the cluster effects of this integration. If the Chinese economy is fully integrated into the world economy, the special mechanism will disappear.

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Lyndon H. LaRouche, Jr.

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## **It's Time To Dump 'Brand X' Economics**

*During the discussion following Dr. Song Hong's contribution, moderator Jonathan Tennenbaum asked Mr. LaRouche to comment further on the effects of globalization.*

Just one fact—let's take the effect of a 30% collapse in the value of the dollar on China. Just take the one fact—just take a 30% collapse of the U.S. dollar, a sudden 30% collapse of the U.S. dollar. What's the effect of that on China? China's economy? With what [Dr. Song] describes, China's economy has a vulnerability to certain kinds of problems. Some are long-term. Some are always short-term threats.

And these are the things that we should be concerned about, if we outside of China, are concerned with maintaining China's stability as a part of the world system, we have to be concerned about the effects of something like that on China's economy and political system.

### **Factors of Vulnerability**

Therefore, the fact that China is dependent on—two vulnerabilities: import of capital, in the form of licensing foreign investors; import of capital in the form of taking semi-finished goods or raw materials, and processing them in China, then adding something to semi-finished or processed goods to the world market. Which means that the power of China over its own internal market, is limited by these outside factors. These are factors of vulnerability.

And since the whole world system depends, to a large degree on—India has a different kind of problem. But, the whole world system, if you take Asia into account, take North Asia, take South Korea—for example, in electronics, in computer technology, South Korea is very crucial in the world supply of this. You take Japan's capability, which is also a machine-tool capability, which is lacking generally in Asia. Then you take the economies of Southeast Asia, then you take India: This area of the world, which is a key part of the world's population, has a certain built-in vulnerability which is a left-over effect of colonialism.

And therefore, the question: If we want to have a planet, we can not sit back and let something happen to destroy the stability of the economies of Asia, of which China is the largest single component. Therefore, it is in the interest of the world, it is in the interest of the United States, that China's stability be protected. Hmm?

And the problem he describes, which I just went through,

following through, making a diagram of what he's describing. The diagram is obvious. It's a vulnerability. It's a success, but it's a vulnerability. And it's the vulnerability we have to deal with.

And this is where the Russia problem, the project of the Vernadsky approach, becomes crucial: Because in this whole area, we have the need to develop an autonomous supply of essential raw materials. Then, you would have in Russia and associated countries of Central-North Asia, you then have a China, which is, with India, a major market for consumption of raw materials, and therefore, now you have a bigger *inside Asia* component of production; and now more of the product that is coming into China is now a China- or Asia-oriented product—which means that the economy is stronger.

Not that the economy is bad, but it's vulnerable, because the whole world system makes it vulnerable. The dependency on this kind of trade you described, of the internal/external reprocessing of semi-finished product.

Of course, the world is going in that direction anyway. We're going toward a world where the final product is not going to be the trade product. The intermediate product *is* going to be the characteristic product of export. People are not going to start, where they produce their own product, and come up with a finished product which is then marketed to other countries. We're going to depend, as we take in the case of South Korea, which has a very special part of the components of the computer industry. Therefore, we're going to have that kind of economy.

But, we have to have a sound base economy at the same time, which means we've got to have an orientation of an *Asia development*, a vertical development project in Asia, to take most of this stuff off the world market, bring more into Asia as such, in a straightforward line. And China's the key issue on this one.

It's the center of it. China will be the center of any such development. India has a slightly different role. But it also has a significant role, in terms of the overall determination of the Asia market.

It is a dangerous situation—and we have to think about it. We have to be strategically alert to it.

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## Concluding Remarks

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*At the conclusion of the evening panel on June 28, LaRouche gave this summary presentation.*

Let me just do what I think is probably most useful, which ties into my initial presentation, some aspects of my initial presentation this morning.

The problem of the world economy, is that what is believed to be economics is largely absurd. And what is practiced by governments is largely absurd. The reason is obvious: Is that, in 1763, the Anglo-Dutch Liberal system established imperial control, or imperial hegemony in world trade and

world economy. And therefore, the world has operated since that time, chiefly under the domination of an increasingly powerful liberal system, which is a method of economics which is taught in universities, and practiced generally, which is clinically insane from the standpoint of science.

There existed prior to 1763 the foundations of a competent form of economics. Now, modern economy started during the Renaissance. Before the Renaissance, that is, the 15th Century, *there was no real economy describable as such as a system of economy, in Europe*. It began with the formation of the sovereign nation-state, with Louis XI's France. But then, in the process, this Venetian crowd was able to develop, after a number of experiments, the Anglo-Dutch Liberal system, which in 1763 became an empire: *an empire of the British East India Company*—even before the British monarchy became imperial.

This empire has dictated—for example: Marxism was a branch of British liberalism! Marx studied at the British Library, but he studied under the British Haileybury School economy of Bentham. And his ideas were those of Bentham. His cell theory, or his *Capital I*, is nothing but British economics, with a certain social implication added to it.

Now, these systems that were used are *mechanical systems*. They are *Cartesian systems*, based on the method of René Descartes. These are systems which are incompetent in physical science, which have been taken over into the field of economics. The reason I've emphasized, among others, the Vernadsky point, is that Vernadsky understood these kinds of systems, as dynamic systems, in the sense of Leibniz. And therefore, world economy is actually based on a system of thinking, which has *nothing to do* with anything generally accepted in textbooks as economics today, around the world. And what is taught is fundamentally incompetent!

## The System Is Finished

The reason we're having a world crisis, is because the system of economics under which we've been operating, including the economic theory, is *incompetent!* Systemically incompetent! Now, a systemically incompetent system does not necessarily collapse today: It collapses in its appropriate time, when reality catches up with it. And that's what's happened to us.

So, now we're in a collapse of a system which could not work. For a time, systems using that kind of economics *did* work, but only for one reason: Because they violated the principles of that economics. They worked, because governments were protectionist, and applied protectionist measures to ensure the provision of infrastructure, and to regulate trade *and prices—by regulation, by protectionist methods* as they were called, and fair trade methods.

We're now in a system, where we *eliminated* fair trade methods, over the period 1971 through 1981-82. We eliminated them. We went to a *free trade* society. We eliminated fair trade, we went to free trade.



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*The discrepancy between China's drive for modernization, as shown in the world's only commercial maglev train in Shanghai (above), and primitive agriculture in the countryside, underlines China's economic vulnerability. Said LaRouche: "We can not sit back and let something happen to destroy the stability of the economies of Asia, of which China is the largest single component. Therefore, it is in the interest of the world, it is in the interest of the United States, that China's stability be protected."*

So therefore, the system, the liberal system is working *to perfection*, as taught by the Mont Pelerin Society. That system is systemically insane! The only reason that that kind of accounting and that kind of economics succeeded at all, is because governments imposed protectionist distortions of that system, to compensate for its intrinsic insanity.

Now, we've come to the point, the system is finished. It's finished, because globalization as taken to its extreme, doesn't work any more. So, the problem is, we have to go to a different kind of thinking, than is used in this kind of teaching. *Scrap all standard economic theory: It is all incompetent*, especially when it's allowed to run its in its pure form. Only protectionist

methods of sovereign government can prevent this from doing this. To the degree you decentralize, to the degree you globalize, you remove *all* protection against the full impact of this insanity.

So therefore, what we have to do, is we have to realize that the topic which has come up here, in the course of the day, which I introduced, but nonetheless keeps coming back in different forms, is, we have to recognize that what is believed to be economics, what is taught about how to manage a business, all the things that are generally accepted by accountants and so forth: Throw it away! It's all garbage. But you have to understand what is a true economic system, a physical economic system. And Vernadsky, in his work on defining the Biosphere and Noösphere, addressed this question. Real economy is a Leibnizian *physical* economy, in which these principles are *dynamics*, which apply to *organic systems*—like a whole organic process, a forest, a continent—would apply to organic systems, is what we have to use in understanding economy.

And, to me, this is, of course, my specialty. This is what I understand. And it has come to the fore, here, in the discussions, because it's coming to the fore in science on a large scale. We can no longer pretend that "Brand X" economic doctrines work—they don't. They've come to the outer limit. We're going over the cliff. There is no way of living with this kind of system.

And what our friend here from China has just expressed, is an expression of an anomaly which is imposed on a country, by a *global* system which is insane. And what we have to do, is, we have to—from my standpoint—the basic solution is, we have to go back to sovereign nation-state government. End globalization. We have to use protectionist methods, so that countries such as China, and others,

defend themselves by state authority of protectionist measures.

But, at the same time, rather than just trying to protect ourselves from a disease, why don't we try to eliminate it? We should protect ourselves, but we should eliminate it. And that means, that we start to think—redefine economics, by defining it on a physical basis, in terms of what are called *dynamic methods*, the methods of Leibniz, as opposed to those of Descartes.

And that's what we're really talking about here: It's how to have a sane economy, when we have come to the point, we're about to be put in the dungeon of an insane asylum.