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Written by **William F. Jasper** on May 23, 2011

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China – The New Investment Savior?

The *Idaho Statesman* in a June 6, 2010 story extolled the efforts of Idaho's Commerce Secretary Don Dietrich and Idaho Governor C.L. "Butch" Otter to lure Chinese investors to their state: "'The Chinese are looking for a beachhead in the United States,' said Idaho Commerce Secretary Don Dietrich. Idaho is ready to give them one," the *Statesman* reported.

Is Idaho really ready to give the Peoples Republic of China a "beachhead" in the Gem State? Secretary Dietrich's happy use of a military metaphor to describe China's aspirations vis-à-vis the United States is odd, to say the least; some might even consider it alarming, though the *Statesman*, apparently, saw no reason to question his choice of words.

Merriam-Webster.com defines "beachhead" as "an area on a hostile shore occupied to secure further landing of troops and supplies."

Dictionary.com provides a similar definition: "the area that is the first objective of a military force landing on an enemy shore."

As Idaho's chief promoter of commerce, Dietrich surely could not have intended to convey a willingness to provide a hostile foreign power with an invitation for a military invasion. His poor choice of words, however, is in a sense apropos, even if unintentionally so. It should be noted (since our journalists, pundits, and politicians seem largely oblivious to the fact) that in China's state-monopoly system of Leninist "capitalism," its corporations are instruments of national policy, fully integrated with, and subservient to, the Communist Party of China (CPC) and the Peoples Liberation Army (PLA). As such, China's corporations do indeed serve as forward troops in Beijing's global strategic economic warfare. And the line between economic warfare and the more traditional concept of military warfare can be very thin, as demonstrated, for instance, in the case of the crucial support from PetroChina, China National Petroleum Corporation (CNPC), Sinopech, and Sinomach for the ongoing genocide in Dafur by the regime of Sudan's Omar al-Bashir, which has resulted in over 300,000 slaughtered and more than 2.5 million refugees. Or in the case of China's cut off supplies of critical rare earth minerals — over which China holds a virtual global monopoly — to Japan for two months last year over a disputed fishing boat incident.

In 2005, the $18.2 billion bid by China National Offshore Oil Corporation (CNOOC) for the California-based oil giant Unocal touched off a political furor that garnered widespread bipartisan opposition to the deal based largely on national security concerns. In spite of CNOOC's cash-rich offer, public opposition to the Chinese takeover ultimately squelched the deal.

These and other clouds on the horizon, however, do not seem to dampen the sunny outlook of many state and local government officials who are eagerly — even desperately — courting China's seemingly bottomless pit of investment capital. Several years of recession and high unemployment, coupled with state and local budgets sliding toward the bankruptcy abyss, have led many political and business leaders to discount ethical and security concerns and look to China for a lifeline.

Governor Otter and Secretary Dietrich have been quite successful at securing Beijing's financial blessings. Hoku Materials, Inc., a subsidiary of China's Hoku Corporation, is completing a $400 million plant to make polysilicon for solar panels in Pocatello, Idaho's fourth-largest city. The company's promotional materials predict the plant will employ as many as 250 people when production gets ramped up.

Idaho is also negotiating major projects with the China National Machinery Industry Corp., known as Sinomach. "Sinomach," says Boise's major newspaper, the *Idaho Statesman*, "is China's third-largest contractor, with more than $14 billion in sales last year. It has been active in more than 130 countries in Asia, Africa, Latin America, Russia and Eastern Europe as general contractor for large infrastructure and building projects."

Sinomach is bidding to win a contract for engineering, procurement, and construction for a $2 billion fertilizer plant for Southeast Idaho Energy, which is projected to provide 700 to 1,000 jobs during construction and 150 permanent jobs after completion. A factor in Sinomach's favor is its access to financing from China's government banks.

Another project under negotiation with Sinomach is a massive 30,000-acre (a bit shy of 50 square miles) manufacturing, trade, and technology zone near the Boise airport.

What the *Statesman* article does not tell its readers is that Sinomach is not your typical private enterprise, as corporations are generally understood to be in the Western sense, but instead a commercial-political-military-intelligence instrument of the communist regime in Beijing.

Sinomach's website makes this interesting admission:

> With approval of the State Council, China National Machinery Industry Corporation (SINOMACH) was established in January 1997. SINOMACH is a large scale, state-owned enterprise group under the supervision of the State Assets Supervision and Administration Commission.

Unpacking those two sentences above reveals a great deal about Sinomach that rarely receives mention in glowing media reports and testimonials that read like press releases from the company's public relations department. It tells us that Sinomach was created with approval from China's State Council, which is the supreme administrative arm of the Politburo of the Communist Party of China (CPC), which rules China as a one-party dictatorship. The State Council is presided over by China's Premier, who, since 2003, happens to be Wen Jiabao (at the time Sinomach was formed, Li Peng was Premier).

Sinomach's company website also includes a flow chart that provides important admissions about the corporation's organizational structure. In addition to SASAC presiding at the top of the corporate pyramid, we see that the "Secretary of the CPC Party Committee," the "Deputy Secretary of the CPC Party Committee," and the "Deputy Secretary of the CPC Party Committee/Secretary of Discipline

Inspection Committee" serve in the top echelon of the company's management with the board of directors and executive officers.

Sinomach, as previously mentioned, is one of the Chinese state-owned enterprises — along with PetroChina and CNPC — that has been an important enabler for the genocidal practices of the al-Bashir regime in Sudan. And China does not merely provide capital and expertise for Sudan's oil fields; it actually deploys several thousand PLA troops to guard its corporate oil and pipeline facilities, Chinese prison labor for construction, and, most importantly, the weapons Sudan's troops and its notorious Janjaweed militias use to terrorize and slaughter their victims.

A little closer to home, Canada provides additional object lessons in the serious dangers associated with China's aggressive investment strategy. As far back as 1997, an extensive joint report by the Royal Canadian Mounted Police (RCMP) and the Canadian Security and Intelligence Service (CSIS) warned that "over 200 Canadian companies are under the direct or indirect control of China," as the result of a combined effort by the Chinese Intelligence Services and the triads, or Chinese mafia.

The RCMP/CSIS report, entitled "Sidewinder: Chinese Intelligence Services and Triads Financial Links in Canada," notes that "the Chinese government is trying to gain influence on Canadian politics by maximizing their presence over some of the country's economic levers. To that end, they proceed initially to buy and/or legally set up a company in Canada that, once under their control, buys other companies and so on. An effective domino effect ensues that acts like a well-spun web or network at strategic points.… These businesses are found in various sectors of the economy, ranging from multinationals to banking, high technology and real estate (CITIC, Norinco, Husky Oil, Grand Adex Properties Inc, Merrill Lynch, Gordon Capital, Inc, Tai Foong International, CIBC, Ramada Hotels, China Vision and Semi-Tech Corporation, etc.)."

In 2005, former CSIS official Michel Juneau-Katsuya stated that an estimated 1,000 Chinese spies had infiltrated the country and cost Canada $1 billion every month through industrial espionage. But the danger goes well beyond the economic and technological losses. In testimony to Parliament in 2007, CSIS Director Jim Judd noted that in addition to espionage, the Chinese agents/investors were attempting to interfere in Canadian politics and were intimidating Chinese Canadians who spoke out against China's repressive policies. In January of this year, CSIS Director Richard Fadden warned, in a confidential report that later leaked to the press, that "clandestine efforts by foreign governments to influence our officials, policies, and communities have the potential to undermine our ability to make independent decisions in Canada's national interests." Although the heavily redacted report does not mention China by name, it is largely understood that it is the primary concern of the CSIS. According to Fadden, provincial, municipal, and federal officials and public servants had already come under foreign influence and may be "subject to threats, coercion, or blackmail." "It is a slow and methodical development of relationships that aim to affect the perspective and decision-making of those being influenced," the CSIS director writes.

China may have a comparatively bigger foothold in Canada, but its presence here already is far from small or benign. FBI Director Robert Mueller told the Detroit Economic Club in 2003 that "theft of trade secrets and critical technologies — what we call economic espionage — costs our nation upwards of $250 billion a year." And China is the main problem.
In 2005, FBI Assistant Director for Counterintelligence David Szady told an intelligence conference that China had established an estimated 3,000 "front" companies in the United States and had targeted all

regions and crucial resource and technology sectors.

Last year Yi Qing Chen of Rosemead, California, was convicted of conspiring with officials at the Xinshidai Corporation, a Chinese state-owned enterprise, to smuggle “Qianwei-2” anti-aircraft missiles and launchers into the United States. Back in 1996, agents of China’s top arms corporations, Norinco and Poly Technologies, were caught smuggling 2,000 fully automatic AK-47s into the United States, the intended recipients being street gangs.

However, as alarming as arms smuggling and espionage cases may be, they represent only part of the Chinese investment offensive. “The Dalai Lama Effect” is a term used to describe China’s economic and trade retaliation taken in response to countries that officially receive Tibet’s Dalai Lama. Since China claims sovereignty over Tibet, and vigorously opposes “interference” in China-Tibet relations, it punishes those countries that cross them on this issue by blocking their exports to China. Or, conversely, it can apply its near monopoly on various products to punish those it wishes by denying access to products. This is precisely what happened last year when China held Japan hostage, refusing to sell it the rare earth minerals that are essential to Japan’s electronics industry. Japan caved in to extortion. Now China, which already controls 97 percent of the global rare earth metals production, is trying to buy up America’s rare earth deposits. And that’s just the tip of the iceberg; it’s also targeted our gold, lithium, oil, gas, molybdenum and other critical mineral and energy resources. The Japan/rare earth incident and China’s more truculent tone toward America should send some sobering messages.

China’s SEZ Zones Coming to America

With some people, however, delusion and denial know no bounds; prepare yourselves for the new PR offensive promoting the need for American communities and industry to adopt China’s SEZ model of mass production. Under the subtitle “An unusual idea that may become common,” the previously mentioned *Idaho Statesman* article suggested that Sinomach is interested in establishing American industrial-residential parks modeled after China’s huge Special Enterprise Zone (SEZ) program. The *Statesman* reports:

> Sinomach is not looking only at Idaho.
>
> The company sent delegations to Ohio, Michigan and Pennsylvania this year to talk about setting up research and development bases and industrial parks. It has an interest in electric transmission projects and alternative energy as well.
>
> The technology zone proposal follows a model of science, technology and industrial parks in China — often fully contained cities with all services included.

According to *Beijing Review*, China’s major English-language magazine, “The Chinese Government has set up four special economic zones. They are located in the cities of Shenzhen, Zhuhai and Shantou of Guangdong Province and the city of Xiamen of Fujian Province.” Shenzhen, the largest and most famous SEZ, has mushroomed in 30 years from a small fishing village to a megalopolis of 14 million people.

Is this what our political and business leaders have in mind for American communities? Is the centrally planned-and-controlled Chinese SEZ the future of America? Many of the Americans who have taken the guided Potemkin tours of Shenzhen or other parts of China seem to have been completely taken in by the attractive surface appearance of prosperity, efficiency, and progress. It is not uncommon to see

American Mayors, Governors, and business executives returning from China to give television and newspaper testimonials to the glorious transformations being wrought by “capitalism” and “free enterprise” in the People’s Republic.

Idaho’s Governor Otter has made China a major part of his “Project 60” program aimed at increasing the state’s GDP from $52 billion to $60 billion before he leaves office.

Utah’s Governor Gary Herbert, who led an April 2011 trade delegation to Beijing and Shanghai, said he was amazed by the scale of Chinese development and construction and impressed by the business community’s “embracement of free market principles.” Utah will host Governors from China’s provinces at the U.S. National Governors Association in Salt Lake City this July. Governor Herbert got considerable help with China connections from former Utah Governor Jon Huntsman, who has served for the past couple of years as the Obama administration’s ambassador to China. Huntsman, the millionaire scion of the famous Huntsman chemical empire, is leaving the diplomatic corps to throw his hat in the GOP 2012 presidential sweepstakes. His ambassadorial slot is being filled by U.S. Commerce Secretary — and former Washington State Governor — Gary Locke, also an enthusiastic China booster.

When confronted directly by constituents with questions about the ethical, practical, and national security implications of questionable business deals with the communist-controlled “People’s Republic,” the usual response from the China boosters is a flippant remark along the lines of: “Heh, heh, don’t you know, China is Communist in name only; they’re more capitalist than we are.”

Richard McGregor, former Beijing bureau chief of the *Financial Times* and author of *The Party: The Secret World of China’s Communist Rulers*, tackles that common canard in a recent issue of *Foreign Policy* entitled “5 Myths About the Chinese Communist Party.”

He writes:

“China Is Communist in Name Only.”

Wrong. If Vladimir Lenin were reincarnated in 21st-century Beijing and managed to avert his eyes from the city’s glittering skyscrapers and conspicuous consumption, he would instantly recognize in the ruling Chinese Communist Party a replica of the system he designed nearly a century ago for the victors of the Bolshevik Revolution. One need only look at the party’s structure to see how communist — and Leninist — China’s political system remains.

However, one needn’t take the word of outsider experts like McGregor, regardless of how well informed they may be. China’s own top Communist Party leaders, including Deng Xiaoping, the “Paramount Leader” who launched China’s “state capitalism” economic reform program in the late 1970s, have stated clearly that they are *using* capitalist tools and capitalist technology and investments to build and strengthen their socialist system. This is especially true of the Special Economic Zones, which U.S. politicians and corporate leaders find so enthralling that they hope to duplicate them here.

In an article entitled “China’s Special Economic Zones,” in the May 26, 2009 *Beijing Review*, Dr. Xu Dixin explains the essential socialist characteristics of the SEZ as closely adhering to the program laid down by Soviet Bolshevik leader Vladimir Lenin’s New Economic Policy (NEP) in the 1920s. Professor Xu Dixin writes:

> Although they represent a minor change in state economic policy, the special economic

> zones are not in basic conflict with China's socialist economic system. The economy in the special zones encompasses the socialist state economy, the collective economy and the individual economy, but state capitalism has the lion's share.… Lenin clearly said: "State capitalism is capitalism which we shall be able to restrict, the limits of which we shall be able to fix."

The author of the *Beijing Review* article, Xu Dixin, a vice-president of the Chinese Academy of Social Sciences and concurrently director of its Institute of Economics, is also a high-level Communist Party theoretician. Comrade Xu Dixin continues:

> The essence of developing the special economic zones lies in the import of foreign capital; *making foreign capital serve China's socialist modernization drive*. [Emphasis added.]

An extensive 2009 report by Japan's Institute for Developing Economies entitled "China in Africa: A Strategic Overview," confirms what a number of leading intelligence experts have been pointing out for years: China's massive Ministry of Commerce (MOFCOM) contains a sprawling network of intelligence units that interlocks with its major corporations and, in addition, works closely with the Ministry of State Security (MSS or Guoanbu, China's version of the Soviet KGB) and the PLA's Department of Military Intelligence (DMI). The Japanese study reports:

> Business intelligence plays a vital role in guiding China's energy resource acquisition programme. Not surprisingly, Chinese intelligence services are closely linked to major Chinese companies. These include Baosteel, CITIC, CNPC, the PLA aligned China Overseas Shipping Corporation (COSCO), involved in the shipment of raw materials to China; Huawei, ZTE, Merry Glory, Semi-tech, ZMC, etc; and use these companies to collect precious intelligence. This is also relayed via the State Body for Science and Technology (SSTC). Chinese companies are also used as cover for the infiltration of Chinese intelligence assets into targets countries masquerading as employees of these companies.

French investigative reporter Roger Faligot, author of *The Chinese Secret Service* and more than a dozen other books on intelligence and espionage, says that the network of Chinese spies outside of China numbers more than two million. Faligot and other researchers have documented numerous cases of those agents operating through virtually all of China's official ministries, corporations, chambers of commerce, student exchanges, media groups, and friendship associations.

The national security aspects of China's global investment program are complicated even further by an investment-immigration program sponsored by the United States government known as the EB-5 visa, which has the potential to bring to the United States tens of thousands of millionaire "princelings" of China's privileged Communist Party as "small investors" in American businesses. (See the sidebar on pages 14-15.)

Don't Worry, Be Happy

Many American leaders, however, are blinded by dollar signs and promises of booming exports and homegrown jobs. Chinese capital investment in the United States is a wondrous blessing, and a timely one at that, they say. And they have no shortage of "experts" offering intellectual cover for this opinion.

The Economist, for instance, the British magazine regarded as holy writ by many academics and pseudo-intellectuals, chides those responsible for "bouts of national angst" over China's global spending spree. In a November 11, 2010 article on Chinese acquisitions entitled "China buys up the world — And the world should stay open for business," *The Economist* opines: "As [China] invests in the global economy, so its interests will become increasingly aligned with the rest of the world's; and as that happens its enthusiasm for international co-operation may grow." "To reject China's advances," says *The Economist*, "would thus be a disservice to future generations, as well as a deeply pessimistic statement about capitalism's confidence in itself."

Accordingly, *The Economist's* ebullient confidence sees only pots of gold at the rainbow's end:

> China's state-owned firms are on a shopping spree. Chinese buyers — mostly opaque, often run by the Communist Party and sometimes driven by politics as well as profit — have accounted for a tenth of cross-border deals by value this year, bidding for everything from American gas and Brazilian electricity grids to a Swedish car company, Volvo.

"There is, understandably," admits *The Economist*, "rising opposition to this trend. The notion that capitalists should allow communists to buy their companies is, some argue, taking economic liberalism to an absurd extreme. But that is just what they should do, for the spread of Chinese capital should bring benefits to its recipients, and the world as a whole."

This is the attitude adopted by many who see no problem with China's state-run enterprises buying up oil and mineral deposits, energy companies, and manufacturing and technology corporations throughout the United States. Thus, neither Republican nor Democratic pols have kicked up much dust over the Chinese bids for Mt. Hope and Mt. Liberty molybdenum mines in Utah, for instance, even though molybdenum is a strategic metal that is critical to our national security.

Those smiling delegates from China's Ministry of Commerce, Ministry of Finance, and its corporate titans are here with suitcases full of cash *and they want to help us, they say*. We need only sell them our oil and gas fields, our mines and water, our farmland and forests — in short, all our natural resources. But, some Americans might ask, why is there not sufficient domestic capital here to provide our funding needs so that China's investors would not be needed? There are at least a couple answers to that question, both of which point an accusing finger at policies of the federal government, and especially the Federal Reserve. First of all, the free-spending and borrowing policies of President George W. Bush, followed by the even more wildly profligate spending/borrowing President Barack Obama, are, as economists say, "crowding out" the private sector. A couple trillion dollars of our own domestic capital supply have already been preemptively taken by the Federal Reserve and showered upon favored Wall Street firms, banks, insurance companies, and foreign governments. (The Federal Reserve — which is as "opaque" and "driven by politics" as any Chinese institution — still refuses to provide answers to Congress and the American people as to whom they have dispersed these enormous funds, and under what conditions). The second answer is that the market hates uncertainty, and the Federal Reserve's policies, coupled with President Obama's additional myriad proposals of spending, regulations, and taxes have created so much market uncertainty and anxiety that lenders are unwilling to lend.

Economist Thomas Sowell explained recently in his syndicated column: "The policies of this administration make it risky to lend money, with Washington politicians coming up with one reason after another why borrowers shouldn't have to pay it back when it is due, or perhaps not pay it all back at all. That's called 'loan modification' or various other fancy names for welching on debts. Is it surprising that lenders have become reluctant to lend?"

"Private businesses have amassed record amounts of cash," notes Professor Sowell, "which they could use to hire more people — if this administration were not generating vast amounts of uncertainty about what the costs are going to be for ObamaCare, among other unpredictable employer costs, from a government heedless or hostile toward business. As a result, it is often cheaper or less risky for employers to work the existing employees overtime, or to hire temporary workers, who are not eligible for employee benefits. But lack of money is not the problem."

One might be led by the facts on the ground and the effects they are causing to conclude that the Federal Reserve and the Washington politicians are saddling us with policies designed to make us as dependent on China for capital as we are for manufactured goods.

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