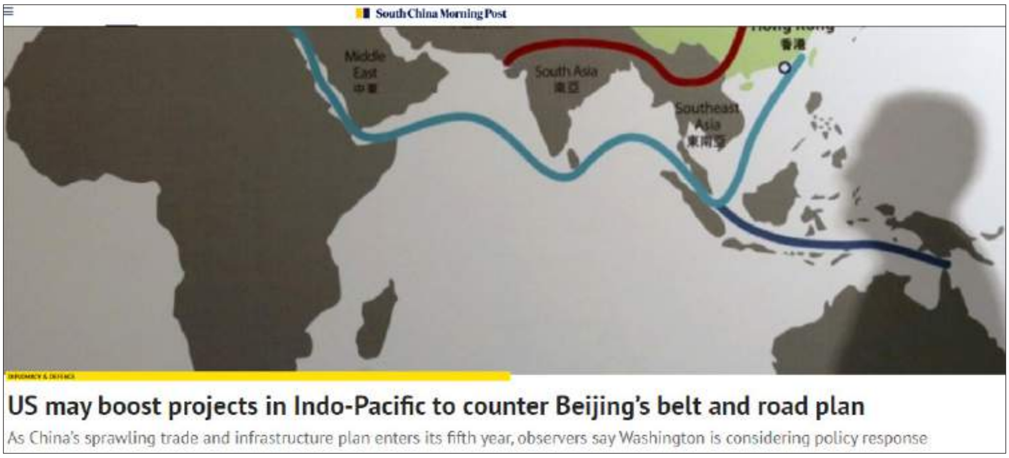
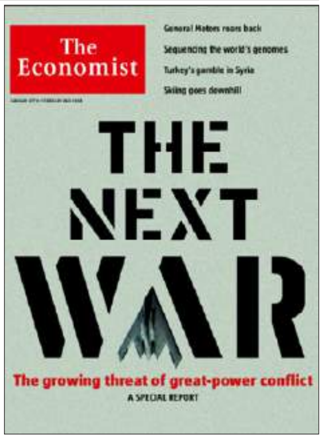
# To avoid a new financial crisis, look through China's eyes

*By Elisa Barwick*

China is perhaps the only country in the world that initiated a serious investigation of the causes of the 2007-08 global financial crisis with a view to changing the faulty financial system. Not only did China formulate an appropriate response to the crisis, it took it upon itself to share that response globally. It is crucial that nations finally realise what China is doing, rather than get swayed by the war cries coming from neo-conservative politicians, think tanks and media outlets. Time is of the essence, as prominent Chinese figures, alongside many other voices internationally, are warning the next crash is on the horizon. Guo Shuqing, Chairman of bank regulator the China Banking Regulatory Commission, told *People's Daily* on 16 January that a new bank panic is looming, posing "complex and serious" risks to the financial system.








China is challenging the global economic framework controlled by the City of London and Wall Street. Here are just a few of the recent attacks lobbed at China in response. Photos: Screenshots

Just as the drive for bail-in resolution regimes—the bankers' answer to solving a new crisis by stealing peoples' savings—was ramping up in trans-Atlantic jurisdictions, in 2013 Deputy Director of the Development Research Centre of the State Council, Liu He, conducted a comparative study of the 1930s Great Depression and the 2008 crisis. Liu is now the leading economic advisor to Chinese President Xi Jinping and represented China at the 23-26 January World Economic Forum in Davos. (*AAS* 31 Jan.)

Introducing his team's research, Liu said that they had come up with the project in 2010 because, "Since the onset of the 2008 international financial crisis, we have been thinking about how long the crisis could persist, what international impact it could have, and how we could respond effectively." A comparison of the similarities and differences between the Great Depression of the 1930s and the 2008 international financial crisis "has given us many thought-provoking ideas and revelations", he stated.

One crucial similarity, in both crises, is "laissez-faire regulatory policies, easy monetary and credit policies, asset bubbles and yawning income gaps", says the report. Both crises unleashed "a strong redistribution effect, which would cause shifts of power among large countries and major changes in international economic order".

Increased levels of globalisation have exacerbated today's crisis, given the post-industrial era's floating exchange rates, increasingly open capital markets, greater cross-border investment, loose financial supervision and the myriad of global multinational companies. This has unavoidably "entangled the interests of any single country with those of others".

Liu focuses in on "laissez-faire" policies. A French expression meaning to "leave alone" or let people do as they choose, "laissez-faire" defines an economic system in which the government does not interfere. "In the years before 1929 … the [Calvin Coolidge] government remained silent on the market economy's operations and allowed financial interest groups to play a decisive role in pushing the easing of regulation and financial liberalisation." Similarly, in the decades preceding the 2007-08 crisis, economic liberalisation flourished and regulations loosened, urged on by "powerful industrial and financial interest groups". In both cases, monopolies over major industries became more concentrated, the agriculture sector weakened, and industrial imbalances grew. Income gaps widened and risky speculative activity proliferated, reported Liu.

In both cases this economic liberalisation was associated with an assumed "economic boom", but while "people had become extremely speculative psychologically, persuading themselves that they could get rich overnight", manufacturing was declining and debt was exploding. In one write-up of the study, this was described as the detachment of the US financial industry in the excessive pursuit of wealth, from its core function of facilitating real industry.

Market forces exacerbated the crisis, the report goes on, as "making profits from market volatility is the very nature of financial capitalists. With weak government policies in place, international financial market forces would be more than happy to take advantage of chaotic situations, and when combined with political forces in the wilderness, put the authorities in peril."

Both crises were preceded by wealth concentrating into the hands of a small elite group. The worsening crisis, however, brought with it "an immense pressure to change". Liu says that just as after the 1930s crisis the world economic focus shifted from Europe to the USA, today it is shifting to the Asia-Pacific region. "In this sense", Liu says, "despite its interruption of productivity growth, the crisis has released a positive, creative power and has produced a notable redistribution effect".

A key element of that shift is creating an expansion of aggregate demand—without it, attempts at Keynesian stimulation (increased government spending and tax cuts to stimulate demand) will ultimately fail. This requires ending the inequality gap, uplifting the masses and bringing them into the market place. China seized the opportunity to become a global manufacturing centre and is "driving a world economic recovery" with new technologies, investment in infrastructure and uplifting populations from poverty. Its Belt and Road Initiative is expanding aggregate demand even further, by sparking other nations to uplift their poor and develop into thriving nations and trading partners. Thus, Liu's report recommends seeking "the widest intersection between Chinese and global interests".

China sees its role as a catalyst to lead the world out of the depression, shaping a new international economic architecture as America did after World War II, and it has a firm place to stand to make this happen. In 1993, as America and Europe were dismantling it, China introduced the equivalent of Glass-Steagall banking separation to dry up speculation and focus investment into production and development. At the same time it began to create a national credit system, developing policy banks which would make credit available for productive purposes. China has also established the Asian Infrastructure Investment Bank, the New Development Bank in collaboration with the BRICS (Brazil, Russia, India, China and South Africa), and the New Silk Road fund, all committed to funding infrastructure development.

China has made well publicised moves in recent months to further outlaw speculation, domestically and overseas; to tighten regulation of its banks, including creation of a new super-regulator; and to outlaw Bitcoin. The Communist Party's Central Economic Work Conference, held at the end of 2017, saw President Xi called for vigilance in guarding against systemic financial risks. The conference declared that the country will seek to foster a "virtuous circle" between finance and the real economy. Reporting on the successful Chinese effort to rein in speculative housing inflation, the *Wall Street Journal* commented on 17 January that "China doesn't have the sort of risky financial products that crashed the American housing market and infected the global economy a decade ago." Annual housing price appreciation has dropped from 10 to 5 per cent, with the drop in Beijing and Shanghai and neighbour cities, falling from 40 per cent to nothing.

It's time Western nations learnt from China's example.

# Indonesian general: US 'form of democracy' no help

Lt. Gen. (ret) Agus Widjojo, the most respected military expert in Indonesia, "explained" to the US-Indonesia Society (USINDO) on 24 January that the US "form of democracy" may not be "compatible with long-term support" for countries like Indonesia.

In a very hard-hitting presentation to the elite of the US Indonesia hands (diplomatic, think tank, military, and business) at USINDO, Gen. Widjojo explained why China and the Belt and Road are looked to far more that the USA for help in development.

"China is enjoying the fruits of hard work, having enjoyed a long period without interference from foreign forces", he said. "They are extremely creative and innovative. They do not stick stubbornly to the communist ideology, but maintain strong central authority, while moving to an open economy. They left behind the pursuit by military means, which they recognised benefits no one. They stand out as the only country with money for infrastructure, and send cheap labour to help when the labour is not available. You can see the results in Africa; see what the Belt and Road has done."

*Executive Intelligence Review* magazine asked Widjojo to comment on the fact that nearly all infrastructure development in Indonesia is being built by China, despite major efforts to get US companies to invest. *EIR* noted that the western nations demand government guarantees for investments, which killed the Indonesian economy in the 1998 crisis, asking, "How can we get the United States to do it right, like the Belt and Road?"

Gen. Widjojo responded that the answer was contained in the question, adding: "After World War II, and through the 1960s, the USA was seen as the champion of independence and democracy. Everyone looked to the USA, to improve the welfare of the people. Then things changed. Different administrations came in, changing policies every time. There was no long-term support. The Russians, on the other hand, were consistent, and not ideological, offering complete assistance.

"How can we get the USA to change? That's up to the USA, but I'm not sure long-term support is compatible with the US form of democracy. We'd like to see long lasting support which will not fade away—and which is not tied to political baggage."

### BRI cooperation

Indonesian Foreign Minister Retno Marsudi visited China on 9 February, meeting with Premier Li Keqiang. China's Foreign Minister Wang Yi co-chaired the 3rd Meeting of the Joint Commission on Bilateral Cooperation in Beijing with Retno, with the countries agreeing to jointly promote "Belt and Road" cooperation.

Wang told his Indonesian counterpart that China looks forward to cooperating with Indonesia on numerous development projects, under the umbrella of the Belt and Road Initiative. Among the concrete projects they discussed is the Jakarta-Bandung high-speed rail line. Retno "voiced satisfaction over the outcomes of the development of Indonesia-China relations", Xinhua reported, and said Indonesia will work with China not only on the high-speed rail line, but also the "construction of Indonesia's three economic corridors in North Sulawesi, North Sumatra and North Kalimantan, the provinces closest to the Maritime Silk Road".

A Chinese press statement said, "China stands ready to, together with Indonesia, actively shoulder international responsibilities, join hands in coping with major international and regional issues, and jointly build a new type of international relations." The *Straits Times* reported that Retno's China trip closely followed US Defence Secretary James Mattis's visit to Jakarta, "which was seen as an attempt to reinforce defence relations between the United States and Indonesia to counter China's increasing military presence and influence in the region."