

## **China's Stock Market Crash and Alternatives**

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(Note: The following is based on the transcription of a seminar among several Chinese Founding Members of the Global University for Sustainability, conducted on 6 July 2015, and then revised by the speakers. The seminar also covered analysis of the Greek crisis, which is available under the Global U website, section on Region\Greece. The translation is done by Ms. Alice Chow, and vetted by Dr. Kho Tungyi.)

### **The Root of China's Stock Market Crash**

*Professor Wen Tiejun:*

The stock market crash in China this time has been an on-going, developing battle between 'long' and 'short' positions that reflects the unique characteristic of the phase of financial capitalism. On the surface it is a showdown between the long-position of Chinese state capital and the short-position of private capital. How should we view it?

Before the 2007 financial tsunami in Wall Street as a result of the sub-prime crisis in the USA, there had been a market crash in China that evaporated more than RMB 700 billion. This time, before the eruption of the global financial crisis which we are predicting, China also precedes it with a stock market crash, evaporating over RMB 7 trillion...

So, people are all asking: who is staging this crash in China? Who are the two sides battling in long and short?

You should all be aware that in the recent two years, close to US\$ 1 trillion of hot money had already flowed into China quietly. Is this another Trojan horse? Who could have allowed the escape of funds on a large scale? It was the integration mutually of the foreign capital of USA and the domestic capital of China. Given that the two are essentially the same, they would be able to collaborate with each other seamlessly!

That is to say, no particular investors have held a meeting with foreign and domestic capital wherein they agreed to close collaboration. Rather, the Chinese financial capital groups had demanded "deepening the reform" in accordance with their vested interests. After launching derivatives trade that could absorb great amounts of excessive supply of money, the foreign and domestic collaboration can finally take place in line with the ways of financial capital markets and the mechanism of virtue capital. It only needs someone to "pull the trigger" to kick start the shorting.

Before this, Western financial capital had already had the intention of short-selling China's capital market. It has been going on for at least five years. In these several years, every time I visited Hong Kong, I was invited by this or that large financial capital group to seminars or

discussions. Their unanimous voice was shorting China. It has been an open secret. Several years ago I had said, 'I am telling you that you cannot do the shorting now because China's financial capital markets are not yet opened to the outside.' China has only given a token policy of QFII (Qualified Foreign Institutional Investors) to foreign capital. Given the small approval limit, it is not sufficient to cause havocs.

Now, they have finally accomplished the shorting that they have dreamed of for years. Where did that opportunity come from?

Ever since the initiation of the "Shanghai-Hong Kong Stock Connect", the "Shenzhen-Hong Kong Stock Connect" [under preparation], the so-called "Shanghai free trade zone" and so on which was the start to opening up to foreign financial capital, then followed by other coastal and even inland cities to follow suit, the opportunity for the long-short battle arises from the opening up of these capital accounts. In fact, all these so-called opening up has to do with giving approvals to coastal region's strong requests to directly deal with foreign capital! Thereupon, this "new deal" of deepening reform, in which China turns towards western financial capital on all fronts, and of promoting "internet + finance", has indeed given the opportunity to foreign and domestic financial capital to mount a Trojan horse to go short on China.

Therefore, no matter what measures the Central government is to adopt in this long-short battle in the stock market, it will be entirely different from the previous times.

In 2008, Wen Jiabao's market rescue tactic of using RMB 4 trillion to 'long' was successful in producing results because in his time domestic financial controls had not yet opened up. A decade before that, in 1998 Zhu Rongji had launched national debt investments to strengthen centralized adjustments, which was in effect a 'long', and it was also effective because at that time the Central government had strict control over financial capital. Internationally, this kind of system is referred to as capital controls, while the entire external financial capital system is known as capital flow. That was why after the 1997 Asian financial storm and the 2008 Wall Street financial tsunami, there were discussions around capital control or free capital flow. The conclusion was that China's strict control of capital market had effectively prevented the East Asian financial crisis from worsening and later buffered the impact of the 2008 financial tsunami. In this decade the Chinese government has effectively prevented the publicly pronounced attempts by international financial capital to short selling on China.

In 2013, this time around the West had deployed various speculative schemes to cause emerging countries like Brazil, India, Russia and so on to fall into market crashes and large scale currency depreciation. China in 2013 still had not undertaken the project to deepen the reform on capital account, and hence fortunate enough to be spared.

Nevertheless, after the third plenary meeting of the eighteenth session held at the end of 2013, China had started to turn towards the western model of financial capital economy on a large scale. During this phase, the authority strongly pushed forward various trading tools such as margin trading, financial futures, over-the-counter financing and so on that would facilitate the development of derivatives. Because of that, it has actively created the historical opportunity for overseas financial capital to finally have the conditions for going short on China.

Therefore, I am not in the least surprised by the market crash in China today. We have a strategic think tank that, in earlier discussions even as early as three months ago, had clearly pointed out there would be a round of stock crash eruption in China before June 28. This prediction has been proven to be extremely accurate. How was it so accurately predicted? It was because they saw these successive, step-by-step institutional arrangements being put in place one after another, both inside and outside the country, finally culminating to the successful historical case of collaborative short selling China's stock market, by foreign and domestic capital.

Prior to this I had said that finance has no frontier, no national boundary. Whether it is domestic or foreign capital, as long as you are working with financial capital, you would embody the 'statelessness' of finance. The profit making process of financial capital through mobility is not in the least concerned with national boundaries. Therefore in the phase of financial capitalism, financial globalization would definitely take over the mainstream. The recent neo-liberal strategic thinking that was proposed in the top-level design of deepening reform has innately embodied financial colonialism, and would therefore be most resistant to nationalism, populism...

To be in the game of financial capital, there has to be a pursuit of liquidity. Profiting from liquidity is a major characteristic of financial capital. Of the so-called 'three new natures': liquidity, short-termness and concentrativeness, the first is liquidity. Because of liquidity, there would be short-term, concentrated entries and withdrawals. In the previous phase of industrial capitalism, imperialism had the 'old three natures': because it was parasitic, so it was corrupt and dying. In the past Marxism talked about the old three natures. What do the new three natures of financial capital of today refer to? Because it has to pursue liquidity to profit from capital, so it has no national boundary, no home nation.

In the past I have made the reference to you: old Marxists had said that "the proletariat had no home country". Yet as soon as imperialist countries were at war, the proletariat class immediately had home countries, all wanting to revert from internationalism to nationalism. This is a historical lesson. The reason that the proletariat class could not be 'countryless' is because industrial capital is "localized". The major basis for the proletariat class to have home countries is the re-distribution of the profits by industrial capital in the societies of the different home countries. Redistribution confers a fatherland to the proletariat. The 'countrylessness' of financial capital, this other form of internationalism, has finally been realized. By whom? By financial capital. Financial capital robs the whole world. Therefore financial capital can be registered in Cayman Island or Bahamas, any small country with a low tax rate. As long as profit is optimized and the speculative capital return is optimized, it can almost entirely ignore where the mother nation is. So although the Marxist internationalization of proletariat could not be realized in the phase of industrial capitalism, the financial capitalist class has finally become internationalist during the financial capitalism phase today. As long as they can rely on 'long-short' battles to arbitrage and make profit, they would wreak havoc anywhere in the world. This time it is the stock market crash in China.

Many of those who hold thoughts of western liberalism may take pleasure in seeing China's misfortune of the market crash. In fact, this situation has nothing to do with liberalism or authoritarianism. It is simply the phase of financial capitalism, a historical phenomenon of the 'long-short' battle of nationless financial capitalists. I hope everyone would look at this objectively, not to forget our key capability of innovative thinking, not to be influenced by that foreign environment where public opinion is entirely taken up by liberalism.

Looking at Greece, it is a case among the financial capitalism confrontation between the USD bloc and Euro bloc. The Trojan horse was arranged by Goldman Sachs way back, and it simply erupts today.

For the same reason, we see the market crash in China today as a case where the country-less international financial groups have finally gained the historical opportunity to short-sell on China as a result of a whole series of neo-liberal policies since 2013. If the Central government as represented by various departments such as Securities and Financial Supervision do not adopt emergency measures, then it would mean when the stock market crash erupts, international and domestic financial capital groups would be given the opportunity for shorting and bottom-fishing, and that would be even worse. The wealth of the physical economy that has been accumulated over the years would first be depressed to next-to-nothing, and then bought up at rock-bottom prices. It would be similar to the outcome of the 500-day reform in Russia in 1991. That had also been a robbery.

Yet who would be happy about this? It would be the financial capital groups and those so-called academics the former has intoxicated over the years. The society would be left with chaos and nothing else after the corpses are shared and eaten up. Then would financial capital have benefited? In the short run of course there will be benefit. Yet in the long run, because it is corrupt, dying and by nature parasitic, ultimately when financial capital finishes with robbing all the real economies and have nothing more to rob, it would itself collapse. Just like the black hole theory. The black hole will collapse ultimately at its own gravity. Financial capital is itself a black hole. Ultimately, when long-short battles can no longer be waged, it will collapse.

## **The Passive Financialization of China**

*Dr. Erebus Wong:*

The USA returns to Asia Pacific in a high profile way aiming at re-balancing, instigating conflicts over the Diaoyu Islands and providing behind-the-scene support to the right-wing forces in Japan to reappear on the political stage. It has led to the abortion of the prospect of a '3+10' Asian currency alliance envisioned early this century in the Chiang Mai Initiative, hence secured the presence of the US dollar in Asia. Further, the USA has actively pushed forward the TPP to ensure that Pan American Pacific will continue to be a huge 'US dollar lake'. This is a strategy that concerns USA's future in the coming decades. China's initiative of 'silk road belts' and Asian Infrastructure Investment Bank (AIIB) aim to break through the blockade of USA's Pacific alliance by taking advantage of the vast continental depth to develop a secondary sea power along the long borders of continents. It attempts to create a RMB lake in continental Asia, Europe and Africa. The global political economy of the next ten years will develop amidst the collisions of the three major currency lakes, US dollar, Euro and RMB, in this geo-political strategic game.

The predicament of China is that the old development model of the past twenty years has reached the end of the road. The manufacturing industries in the country have seen earnings rate declining, down to zero almost. Yet China has accumulated substantial liquidity, and financial interest blocs are beginning to rise to push forward financialization and RMB internationalization. In the odd USA-China relationship over the past twenty years (China earning large amount of trade surplus from the USA yet could only let it flow back to the latter in the form of US bonds purchase,

providing low-cost funds to US financial capital to re-enter China to speculate and make profit), China was in fact being passively financialized. The large influx of US dollar has led to corresponding increased supply of RMB. The base money supply of China had in effect been passive. When industrial earnings rate declines while money supply increases, short of a corresponding expansion in physical economic volume, the result is asset bubbles in real estate and stock market. The land transaction policy that is being heatedly debated now, under various ideological disguises and pseudo economic theories, is in essence in the financial interest of sustaining the expansion of money supply through the privatization, monetization and financialization of land, and most importantly, to support the value of RMB assets.

Therefore it is absolutely unimportant whether or not this stock market crash in China is led by foreign short-selling deals. Before the imminent crash, we noticed a large scale of fund withdrawals from China equity funds. Are foreign investors simply holding a gloomy outlook on China's economy hence peacefully withdrawing, or are these their strategic arrangements? Or are they sending signals to financial crocodiles inside the country? All of these are in fact unimportant. In any case finance knows no home country. Financial capital simply has no loyalty. What is interesting is that this major crash serves as a mirror that exposes the demons. All brands of specialists came out. The financial bureaucrats rushed out to defend foreign capital, with the concern that the people would be misled by rumors. Authoritative financial experts asserted that the market was sacred and inviolable, and the government's interventional measures would surely fail. The Trojan-horse, yellow-skinned white-core 'banana' specialists sent by Goldman Sachs said that the most effective way would be to let the market "naturally" decline to release liquidity. Only then would the purchasing power re-enter the market, and so on. The thing is, after the blood bath, who would have money in their hands to fish at the bottom? Let us review history. The process of Russia in the early 1990's: 1. Financialized; 2. currency and financial crises; 3. physical assets seriously under-valued; 4. assets sold at rock-bottom prices. If the game is to take back the US dollar reserve accumulated over decades, China would be awakened from a long dream. Yet money in itself is not wealth. Acquiring all your physical assets at rock bottom prices is the true victory. So, all those issues being discussed in China are simply irrelevant. The crash this time is just the beginning.

Looking at it this way, the predicaments of RMB and Euro are the same. When a currency becomes an emerging regional strong power and wishes to take one step further to challenge the hegemony of the US dollar, it could only accelerate the deepening of internal financialization in the process as it does not yet have the advantage of the US dollar of reaping profit globally. In order to ensure a relatively high endogenous financial profitability to support the value of assets being priced on this currency, it has to maintain the earnings rate of financialization through internal squeezing. The more Chinese financial interest bloc wants to go international, the more the entire economy has to be financialized.

*Professor Wen Tiejun:*

About the impact of China's development on conventional geo-political strategy we could have alternative assessment which is different from mainstream Western thinking.

For example, compare China to the European Union which has expanded eastward to include 27 countries, eventually coming to geo-political conflicts with Russia -- although those geo-political conflicts were formed in the phase of industrial capitalism, yet they still have strong repercussions even now. What kind of a country do you think China is? It is a super-size continental nation that has maintained traditional governance by the indigenous for several thousand years. The domestic language is predominantly Chinese, the culture is unified. Relative to the EU countries which have to form a unified system with 27 languages, the institutional cost for China is much lower. With the national political culture developed over several millennia to form a super-size continental nation, it has conditions that could allow a lot more room for internal integration than other regions.

In a nutshell, because China is vast and has a large population, the conditions for internal political integration are much better than the EU.

Now why do systemic crises occur successively in southern EU countries with no effective governance?

Erebus has mentioned that EU is not politically unified. Not being a politically unified country, it is not possible to have unified macro adjustment policies. He mentioned that the EU parliament could not control the ECB. Europe has not yet forged itself into a relatively mature and complete political system. Because of this, internal integration within the EU is much more difficult than in China and continental Asia / Africa. In particular, when China starts to form economic and trade regional integration with the surrounding countries, the comparative advantage will be much more obvious than the EU.

Another example is Venezuela's attempt to integrate a Latin American alliance, taking the opportunity of fiscal growth by way of high oil price. Nevertheless, before it has been accomplished, the price of oil dropped by a large extent and Venezuela's corresponding capacity for integration also declined. Furthermore, after the death of Hugo Chavez, the integration capacity of Venezuela is now probably not even one-tenth of what it was before. Brazil has also attempted regional integration between the two oceans but after Lula left, its integration capacity has also become lower. In a nutshell, Latin America again finds itself in a rudderless situation. As for Africa, the regional integration capacity is even worse.

If we look at the several large continents, it is only Asia that has the conditions for completing a historical regional integration. Europe has not completed integration. Latin America did have conditions for almost entering into a new integration but is no longer the case now. Africa does not have that opportunity yet.

So then, what is the present setup? Continental China has a complete set of state governance systems developed over millennia of political and economic integration. This can be compared with continental America, which has developed a White government authority after eliminating its indigenous peoples. Each has its own edge. Both of them are super-size continental-type nations. They would have the prospect of confronting each other across the Pacific Ocean. Looking at it from this perspective, it is an issue that we are more concerned about. In the global setup, China is a nation that has completed continental integration. The country areas of China and USA are similar. China has 1.36 billion of population. The USA has only 0.31 billion. On the basis of GDP volume, USA is the first and China the second. Both of these super-size continental

countries have an all-round and intact political system. The confrontation of the two different systems will be the principal contradiction in the geo-politics of the world.

We could say that from the perspective of the financial capitalism phase, the current principal monetary-political contradiction is the confrontation between US dollar zone and Euro zone. If it is from the perspective of systemic contradiction between nations, then the USA and China, the two countries that have completed continental integration, constitute the principal contradiction in regard of different state systems.

To rank the principal contradictions that prevail in the world now, we would find that the financial capital blocs' confrontation in the phase of financial capitalism – the contradiction between the two major capital blocs: US dollar and Euro – is still the principal monetary-geo-political contradiction. Yet, looking at it from a long-term perspective, the systemic contradiction between the USA and China, the two large countries that have completed continental integration, would be the principal geo-political contradiction.

Given that China's governing system has been developed gradually from ancient times to now over the course of four thousand years of history, while the USA is a united states that has completed the super-size continental integration radically over the recent few hundred years, the essential difference between their two kinds of systems would in the long run be the principal state-to-state contradiction.

Looking at the world's principal contradictions in this way, it can be understood with clarity: one is the principal monetary-geo political contradiction in the financial capitalism phase between US dollar bloc and Euro bloc; the other is the long-term geo-political contradiction between political systems of the USA and China.

The USA is the principal agent of both contradictions, with the EU and China simultaneously. The contemporary world not only has a tripod setup because of this, it also facilitates conditions for the strategic partnership between EU and China.

## **The Compelled Financialization in China**

*Professor Lau Kin-chi:*

We have said earlier that China is the only one among the seven emerging countries (E7) that we are studying that could still hold its ground. The other six could not. On the recent stock market crash in China, your analysis is that China has allowed the influx of foreign funds through 'Shanghai-Hong Kong Stock Connect'. So, does China have stronger defending capacity?

*Professor Wen Tiejun:*

In 2013 when India had a financial crisis, Brazil also had it. Thereupon we said the E7 were in trouble. In 2013 China was the only one without a major problem.

Furthermore, we have quoted from what happened in the East Asian crisis in 1997, that all the East Asian industrialized countries that had adopted liberalized financial deregulation were

robbed by the USA-led speculative capital. Only Hong Kong, which had just been returned to China, was able to fend off the financial speculation of George Soros through China's pledge of support. The two economic bodies, mainland China and Hong Kong, were two East Asian brothers in adversity but fortunately spared. Only these two had not been robbed.

Then in 2013, again it was only China that had been spared from financial disasters out of the major emerging countries. Almost all emerging countries had been robbed. On that basis, I had asked that in writing the E7 report we should include these new changes to prove the theories that we have put forward.

Yet it is precisely in less than two years since 2013 that the newly risen Chinese financial interest bloc has been integrated into global finance at an accelerated pace. The financial market reform has accelerated, led by financial bureaucrats who publicly agree with the neo-liberal system. That created the conditions for international financial capital to enter China on a large scale, forming the opportunity for short-selling and robbing.

This analysis is critical. In these two years what has China done with regard to the financial capital institutions?

First, under the pressure from WTO, there has been a large expansion of the scale of QFII. In the past China did not allow foreign capital to directly enter the capital market. This capital control regulation was insisted upon in WTO negotiations – when China joined WTO in 2001, it insisted on keeping the capital market closed, insisted on restrictions over RMB exchange. These two terms have persisted from 2001 to 2015. According to the principles of the WTO, after the WTO's so-called transition period is over, China has to open the market on all fronts including capital market and currency market. This is the pressure forcing China to be integrated with neo-liberal institutions.

The second pressure is the TPP (Trans-Pacific Partnership) that the USA has initiated. The USA is firmly against India and China joining. China has financial control and India is semi-controlled. In the financial crisis of 2013, the semi-controlled India almost lost ground. If it had not then adopted tough measures, the blow on India's finance would have been devastating. India increased the tax on capital outflows, requiring any foreign exchange leaving India to pay a tax of 24%. With such measures the outflow of funds was halted. Otherwise there would have been a disastrous outcome for India in 2013. So India is under semi-control and because of this, the USA excludes India from the TPP. It should be noted that the core substance of TPP is not the general liberalization of commodities trade but the liberalization of financial flow.

In the two-year duration after the third plenary session in 2013, what has happened is precisely the so-called 'deepening reform' in China, being integrated into globalization at an accelerated speed. It brings about a very significant phenomenon. Since the 2009 major global crisis, excessive money supply by the USA, Europe and Japan have pushed up the price of raw material futures and grain futures, leading to more severe inflation in China because of its large scale import of raw materials, oil and grains. To deal with inflation, there is a need to increase interest rate, and then its financial capital is not competitive given that the USA, Europe and Japan are all using close to zero interest rate to help their financial capitals in international competition. In coastal regions, the US dollar financial capital is available at almost zero interest rate, whereas in China the capital from domestic banks costs at least 6-7%, which means Chinese capital cost is



6-7 times higher than the capital cost of USA, Europe and Japan. Therefore everywhere in China there are attempts being made to obtain overseas funds through all sorts of tactics. Why would foreign direct investment, FDI, enter so quickly into China, grow by so much, with trillions of hot money gushing into the Chinese market? That is because in these few years, foreign funds are too cheap while the cost of domestic funds, having to deal with inflation, is high. It leads to the large influx of foreign funds.

Just now Erebus talked about China having been 'passively financialized'. Large scale trade surplus has given rise to foreign exchange flushing into China, in turn leading to expansion of domestic money supply, facilitating the rise of financial capital power to a great extent. Since China is a country with control over foreign exchange, the influx of foreign currencies into China has increased domestic money supply, causing the total volume of domestic financial capital to substantially increase. Therefore, China has passively joined the global financialization process. Financial capital has expanded drastically. Within a short period of around a decade, China's money supply has expanded by tens of trillions - twenty to thirty trillions – more than three quarters is increased supply for passive hedging. It is necessary to have a clear understanding of this process in China. It is not done actively but rather passively.

Where does the large quantity of money go? The capital cost of domestic funds is higher than foreign investors, therefore not as competitive as the latter. In the past years it has gone into real estate on a large scale but since last year it started to be taken out of real estate and put into the equity market, because real estate is under pressure and real estate asset pricing is becoming bubble-like. Much of the investment in real estate has suffered losses, so funds are taken out and put into the equity market, quickly leading to speculation frenzy.

This situation is simply a usual phenomenon in accordance with the laws of financial capital pursuant to China's passive financialization. Large quantity of excessive funds first speculates on real estate then on the stock market. It is similar to the situation in USA in 2007, where the bubble in real estate had burst in 2007 and created the financial crisis in 2008. This time, if the lesson is seriously learnt then it might be said God has once more blessed China at a critical moment.

We should all understand and not be swayed by vulgar media and academics. In fact you cannot swim against the law of financialization even though it is passive financialization. Excessive money supply creates bubbles in the stock market. Now that the market has crashed and excessive supply has vaporized, it amounts to the digestion of financial garbage created from passive financialization. Looking at the financial phenomenon in China from this basis, we can become more neutral. By getting a grasp of the fundamental laws of economy and finance, we can understand what is happening in China.

We have talked about the process by which China joined the WTO. Let us review it this time.

First, what is the Uruguay round?

In the 1980s when neo-liberalism was pushing forward the liberalization of finance, countries led by the USA that set the rules for global trading demanded substantial adjustments to

GATT which had been in force since 1944. In the post-war era USA needed to export goods to the rest of the world so the GATT institutional rules were fitted to the vested interest of the USA in exporting goods. By the 1980s, the USA had the need to let excessive financial capital flow out and therefore demanded to include financial liberalization in GATT. However, GATT was an agreement on customs and trade, and had not included the free movement of finance. Therefore, negotiation around the liberalization of finance was first included in the Uruguay Round.

Erebus mentioned that since grain and oil are anchored on the US dollar, it enables the latter to become the chief clearing currency in the world. Most countries in the world need to buy oil and grain, so everyone has to use US dollar to clear trading. The USA demanded to include the free trade of grain – agriculture – in the framework of GATT. The others disagreed so a Uruguay Round was set up to negotiate the liberalization of finance and agricultural produce trade which had not been included in GATT before.

The Uruguay Round was set up in 1986. After long debates, GATT was finally abolished in 1994. The GATT was renamed WTO which went on with the Uruguay Round. That meant WTO had existed only since 1994. Back in 1944 it was GATT that had been established. After half a century, it had been directed, or perhaps even half coerced, by the neo-liberal strategic thinking of USA pursuant to the rising of financial capitalism, to transform into WTO, to include financial trade and agricultural trade as part of liberalization. That was why when China joined the WTO the negotiation requested a guarantee to exempt the capital market from opening up. The final outcome of negotiations was that all industries would be opened, with the exception of the capital market and currency exchange over which the Chinese state would still control.

Now that the WTO transition period is over, the guarantee can no longer be in force. That is why, after 2013, in order to comply with the principles of WTO of opening finance, to start with there was the setting up of Shanghai free trade zone, a liberal economic enclave that opens up to foreign financial capital, an experimental zone for free foreign exchange that is regarded as successful after a year. Now Guangzhou, Shenzhen, Wuhan, Tianjin, both inland and coastal, all want to establish similar free trade zones as Shanghai. Local governments and domestic enterprises all want low-cost foreign exchange. Since foreign capital is cheap whereas domestic funds are costly, every place wants to open: if Shanghai has benefited so much from opening, we inland also want to ....

These are the two sides of pressure, domestic and foreign, that have led to acceleration of the movement of financial capital in China. Under the circumstances, Chinese leaders may not be able to keep it under control. Looking at it now, it would be very difficult to keep it under control.

This financial crisis is indeed a good thing. Although it robbed a group of people, yet it also taught a key lesson to the people in China, telling them: ‘Do you think there will definitely be advantage in opening up? Just one trillion US dollar of hot money has already caused such turmoil to you. How many market rescue policies have you dispatched one after the other - the “ten imperial decrees” – even ten market rescue policies could not stop the outflow of funds.’ If we say that in 1998, 2008 and 2013, China had been fortunate enough to be spared from disasters, then this time it already has one leg deep in mud. The other leg is still onshore. It is trying to pull itself out, trying hard to pull out. Today, July 6, the market index [Shanghai A Share] is maintained at around 3900. Everyone begins to feel there is a small victory in this long-short battle. After this crash, people should start to have some discussions, should realize what it would mean to China to

have free trade zones like Shanghai all over the country. Is it disastrous or advantageous? On this people should be awakened. It may be regarded as a lesson.

*Professor Lau Kin-chi:*

Yet if China has to comply with the exogenous pressure of WTO, does that mean that within a year or two China would have to concede no matter what?

*Professor Wen Tiejun:*

Objectively speaking, after more than a decade, if the total volume of financial assets of USA, Europe, China and Japan are converted to US dollar, the four do not differ by much. Obviously USA is the largest with over 30 trillion, Japan is over 20 trillion, China is almost 20 trillion, more than two-thirds of the USA. Europe is the same as USA. It is an obvious trend that China will enter the global competition of financial capital. Given that the WTO transition period is over, it would be very difficult to continue curbing the free flow of foreign currency in and out even if China wants to.

What can China do? It is still a choice. The AIIB and Silk Road Belt have in themselves an intention by China to try out a route that differs from the globalized competition in the financial capitalism phase. China has that intention.

The financial capital of the USA wreaks havoc in the virtual markets, waging long-short battles everywhere, whereas China's enormous financial capital would mostly be used upon infrastructure, improving the infrastructure of the continental bridge between Europe and Asia, as well as the surrounding areas, to accomplish the absorption of large amount of financial capital through infrastructure and at the same time driving development of the physical economy in countries along the way. This is obviously different from the way the US dollar bloc has been leading in the global financial capital competition. If you want to talk about what is alternative, if indeed the Silk Road Belt initiative could drive real industrialization and improve conditions for infrastructure, it would be an alternative. That is because we have not put the enormous amount of excessive financial capital into the stock market to create bubbles, we have not played it the same way as US financial capital. If it is to be another game that would facilitate the physical economy of emerging countries, it should have the characteristics of alternative economy in itself.

*Professor Lau Kin-chi:*

The Chinese government has dispatched "ten imperial decrees" during the time of stock market crash. Are there certain "Chinese characteristics" that could have the capacity to do this?

*Professor Wen Tiejun:*

That's right, since all big investment organizations like Central Huijin are owned by the state. If there is not the capacity of the state in controlling financial capital, the ten imperial decrees could not have been dispatched, and would be useless even if dispatched. It was not that the USA did not want to dispatch "imperial decrees" to stop the 2008 financial tsunami, but that even if they were dispatched there would be no stopping it. For China, given the system where most financial organizations are state-owned capital, they could do it.

## **The Significance of Alternative Practices in Crisis Situations**

*Professor Lau Kin-chi:*

In the past when we had discussions with Henk van Arkel from the Netherlands and Luis Lopezllera from Mexico, they strongly advocated using alternative currency for economic transactions, to replace the mainstream currencies that were 99% conducting financial speculation. Venezuela and several other Latin American countries have been designing a Southern currency with the intention of breaking out of US dollar clearing. Speaking from the standpoint of global setup, a tripod model will offer more restraint than a monolithic model. Yet from the perspective of how to benefit the majority, the countering of financial capital does not necessarily need to rely on one super-currency to restrain another super-currency, but to the largest extent possible not to have our own economic activities being impacted by it. Let the physical economy (agriculture, industries, industrialization, services) break out of the financial control of US dollar and the like, not to be impacted by speculation – such proposals exist and some countries have made attempts. Nevertheless it has not yet become viable in general.

On the other hand, the existing challenges are mostly negative reactions, such as discontent with the present situation as expressed in street politics. There is need to actively transform that into a civil society self-defense movement. We have discussed food sovereignty and rural regeneration, to let everyone see that there are realistic, practicable ways out, not just wishful thinking. At this time when everyone is concerned about Greece's situation, we can launch relevant debates and investigations. ARENA, together with other international organizations such as Freedom from Debt Coalition, has jointly signed a statement to support the "No" vote of Greeks to oppose austerity. To some extent it is rather like the atmosphere of Occupy Wall Street movement. The people are generally mobilized, yet "autonomy" is often an empty slogan if there are no realistic proposals. Thus, our endeavor should be at two levels: first, macro analysis; second, articulating real, viable practices that exist even if they do not yet constitute comprehensive alternatives.

*Professor Wen Tiejun:*

We should discuss what would be 'alternatives' at this time.

With a clear analytical framework of the principal contradictions discussed above, we can have a clearer understanding of social movements.

Under this framework of fundamental contradictions, we would place the partial issues that we have thought of for purpose of analysis. For example, "unified regional integration" has been

attempted by Venezuela and by the EU; Brazil is working on it now; China proposing now for ASEAN to constitute “ten + one”, and so on.

Further, when I visited the USA, PK Hui went with me to learn about the Ithaca Hours and the community currency of Mexico’s Tlaloc. These are localization efforts, attempts at integration in order to raise the capacity to deal with financial capital crises. There is also the initiative of the Southern Bank by Ecuador. All these alternatives around the world are innovations to face the challenge of globalization.

By including these into the macro analysis, we would realize that: regional integration is the alternative development model under the monetary-geo strategic confrontation of the two major blocs, and the geo-political confrontation between the two big nations!

We should take note of what constitute alternatives under the challenge of financial globalization. Regional unification is an alternative. So, what comes under regional unification? Localization. And below that would be community integration. All these initiatives are beneficial to the people en masse in facing the cost transfer of financial globalization.

Now we shall talk about communalization.

With that general framework as the premise, we shall look at what we do in terms of community regeneration and localization. Every approach has great positive significance. They all make us optimistic. Furthermore, the rural construction movement that we have persisted on for more than ten years in China, community regeneration, common wealth and local knowledge, all have positive significance.

Why is that?

Because when a global crisis occurs with the principal contradiction inside the major framework, leading to devastating outcomes, what is it that the people en masse could respond with? That is localization. It is the economic foundation that would maintain relative stability for a place or a region. Because of that, these localization experiences should be highly regarded by us, and not to be belittled.

Therefore the Global U platform that we are working on should treat the localization or community integration experience that are being practiced and garnered as major points for reflection. Every case has innovative significance.

In the bible, as men had been too greedy, God destroyed the world by flooding in order to teach them a lesson. Before the flood came God had selected Noah and his family for salvation due to his endeavors in localization and farming. He was asked to bring some animals to keep the balance between human and natural ecology. They all went up in the ark. When the flood came, his whole family with the animals drifted on the sea. That was the bible’s story that explained the revival of the human race.

We shall put the stories aside. Yet we must not belittle the localization of today, including the transition town that we have seen in Europe. It is typical localization. Right now, the New Economy Coalition in Boston and New England is advocating community economy. Residents in the community initiate community regeneration on their own. The whole approach is of innovative

significance, being conscious and active efforts by the people under the major crisis. So we should not be pessimistic.

If there have not been major crises and serious sovereignty bankruptcy cases like those in the Mediterranean, if there are no Greek crisis, people would probably not be alerted still and would remain intoxicated with greed. If China does not have a stock market crash that vaporizes RMB 7 trillion and the common folks robbed clean overnight, they would be intoxicated with the expectation of sure-win gains from the stock market. In a nutshell, everyone would be indulging in greed. Today when people encounter setbacks from crises, they would then turn around and pay attention to what is localization, what is alternative, transition, new economy etc. All these would be like the material used to build Noah's ark, and would gradually give rise to even more attention. Our rural construction practices will also be more and more looked up to. Although there are still many who do not understand, the mainstream is still contemptuous of us, so what? What we represent is the direction of ecological civilization that human beings will be moving toward. We have enough confidence and are not pessimistic. If we analyze the current phenomena objectively and cool-headedly, our confidence should indeed be strengthened.

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