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China's Hot Stock: Orwell Inc.

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By Harold Meyerson

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The American economy may be teetering on the brink of a recession, but there's an industry our hedge fund gurus believe has an almost limitless future: the Chinese police state.

In a stunning report in the [New York Times](#) last week, correspondent Keith Bradsher documented the rise of [China's](#) electronic surveillance industry, whose leading companies have incorporated themselves in the United States and obtained the lion's share of their capital from U.S. hedge funds. Though ostensibly private, these companies are a for-profit adjunct of the Chinese government.

Li Runsen, technology director of the government's ministry of public security and the top cop policing China's Internet usage against the occasional appearance of a dangerous idea, now also moonlights as a director of China Security and Surveillance Technology, a company soon to be listed on the [New York Stock Exchange](#).

CSST, according to Terence Yap, its chief financial officer, produces security cameras and computer software that can monitor crosswalks -- to ensure that demonstrations aren't forming -- and cross-check the faces of Internet cafe users against photos of known troublemakers. Thus will China protect itself against potential terrorists.

China isn't really prey to terrorists. It is, however, subject to strikes of workers who don't get paid; to revolts over deadly environmental conditions; to religious activists who worship gods other than mammon and the state (the two that are officially sanctioned); to Web surfers enamored of a free exchange of ideas; to Tibetans seeking autonomy; and maybe, someday, to another outburst of [Tiananmen Square](#)-like, pro-democracy agitation.

An authoritarian government can never be sure how many of its citizens would relish its demise, which means the [Chinese Communist Party](#) has 1.3 billion potential targets for surveillance. Bradsher reports that 660 Chinese cities have begun installing high-tech surveillance systems. By one estimate, high-end surveillance will expand from a \$500 million industry in 2003 to a \$43 billion industry by 2010.

These numbers have drawn [Wall Street's](#) notice. CSST has received \$110 million in convertible loans from the Citadel Group, a [Chicago](#)-based hedge fund, which it has used to buy up smaller Chinese surveillance companies. Some Wall Street executives have even defended their investments by equating the Chinese surveillance system with the surveillance cameras of [London](#) and [New York](#).

To be sure, leading American companies have a long and sordid record of investing in totalitarian states, including [Hitler's Germany](#), Stalin's [Russia](#) and axis-of-evil [Iran](#) (hello, [Halliburton](#)). But, distinguish as we must among the various levels of hell, at least those American companies did not invest in the Gestapo, the Stasi, the [KGB](#), the [Revolutionary Guard](#). Maybe that was only because it was hard to turn a buck on the Stasi. Once China turned communist repression into an investment opportunity, however, capitalism responded as capitalism is supposed to respond: It wanted in. There are mega-bucks to be made, the hedge funds concluded, in hedging against democracy.

Capitalism is global now; democracy is not. We are moving toward one unified world market that is home to democratic and authoritarian systems alike. The Chinese model of Leninist capitalism poses a systemic challenge to the democratic capitalism that the West espouses. It promises continuing power and greatly increased wealth to the ruling elites of developing nations. Which means that America must disentrall itself from one of its most cherished myths: that capitalism and democracy go hand in hand,

that the spread of markets inevitably means the coming of democracy. That was a key argument that proponents of extending permanent favored trade status to China made during the 1990s. In fact, the creation of the Chinese-American economic entity that followed -- in effect, moving our manufacturing belt from the Midwest to [Shenzhen](#) -- has demonstrated the opposite. Leading American companies such as [Microsoft](#), [Google](#) and [Yahoo](#) have acquiesced in Chinese Internet censorship. China's nonexistent standards of product safety -- the direct consequence of its absence of democracy -- became our standards, too.

And now, some of Wall Street's smoothest operators are investing directly in China's suppression of speech, worship and the right to assemble. It would be nice if the United States developed some regulations or enacted some laws that discouraged our financial institutions from promoting a Leninist mega-state. House Foreign Affairs Committee Chairman [Tom Lantos](#) (D-Calif.) is looking into the matter, but he hasn't received any encouragement from the [White House](#). Asked about the hedge funds' activities, White House spokesman [Tony Fratto](#) said, "It's not appropriate to interfere in the private decisions of Americans to invest in legally incorporated firms."

If it comes down to a choice in the Bush White House between capitalism and democracy, or even capitalism and our national interest, the smart money's on capitalism.

meyersonh@washpost.com

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