

China economy fuels social explosion

by Michael O. Billington

As the Chinese communist regime watches the collapse of the last vestiges of even the Gorbachov form of communism in the former Soviet Union, and takes note of the political troubles of their friend George Bush as the U.S. economy tumbles out of control, it is anxious to portray a sense of calm and stability in the Middle Kingdom, both for the world audience and for domestic consumption. However, recent internal Chinese policies reveal the reality of an emerging food disaster, a breakdown in basic industry, and a pending social explosion.

China's leaders are desperate to expand, or at least maintain, the flow of foreign investments into the growing number of free trade zones—the low-technology, cheap-labor revival of the 19th century “foreign concessions.” Although this economic policy has proven to be of no value to the development of the rest of the country, the free trade zones are the only sector of the economy that is not collapsing. The International Monetary Fund and U.S. and British policymakers are demanding that the real economy—the agricultural base, the medium and heavy industrial sector, and the civil service system that supports it—must be subjected to radical shock therapy, the same insanity that has brought collapse and civil war to eastern Europe.

While the Deng Xiaoping regime is perfectly willing to impose austerity on the already destitute population, it is increasingly aware that the regime's “mandate of heaven” has been lost in the eyes of the population, and that there are limits to what will be tolerated.

Bankruptcy proceedings against state firms

The government announced in November that for the first time in the history of the communist state, bankruptcy proceedings would begin against many of the state sector industries which are losing money. Of the 400,000 state sector firms, over a third are in the red, costing the government over \$10 billion a year in subsidies while simultaneously eating away the primary source of tax income for Beijing.

But then, in early December, the government announced that the closures had been stalled “due to the consideration that we have to preserve social stability. We have yet to put in place the necessary social security measures.” The

implication is that there is stiff resistance to ending the “iron ricebowl” (lifetime job guarantees) without providing something to replace it. Also, if the government were to implement unemployment benefits for the soon-to-be unemployed state sector workers, but failed to offer something to the 100-200 million “blind flow” of rural unemployed, an even greater social upheaval could result.

But the government simply cannot continue bailing out these losses by further expanding the escalating budget deficit. The way this crisis developed is a classic case of the combined insanity of both communist and “free market” economic incompetence. In the early 1980s, Deng Xiaoping and then-Premier Zhao Ziyang adopted the Henry Kissinger-World Bank proposal to concentrate financial resources on the development of the free-wheeling free trade zones along the coast, at the expense of agriculture investments, national infrastructure, or the maintenance of basic industry. The only policy towards these neglected sectors was more free market sophistries, allowing them “more freedom” to determine their production and marketing policies. Previously, state sector firms turned over all profits to the government. Henceforth, they would be allowed to retain all after-tax profits, but would also be responsible for their own maintenance and technological development. But in 1980, the ratio of taxes to profits was 34 to 66; by 1990, this had collapsed to 81 to 10, meaning the firms had nothing to work with after taxes!

Nor can this be explained away as “poor management.” As even the *People's Daily* admitted in a Nov. 1 report on heavy industry: “No major technological transformation programs have been carried out, so their technology and equipment have become old and outdated and have lost their competitiveness. In recent years, taxes and interests have squeezed out profits, and all sorts of apportionments, fundraising programs, bonds, and expenses have chipped away at enterprise profits. What is worse, is that China's current depreciation policy not only uses a low depreciation rate but also has not taken into account the influence of inflation on compensation and the renewal of fixed assets.” These firms have thus been granted the “freedom” to slit their own throats.

The shock therapy policies are hitting the population from other directions at the same time. “High Costs Push State to End Free Health Care,” headlined the *China Daily* on Nov. 22. Said the official newspaper: “State and local governments simply can no longer afford to offer free health care.”

Also, seniority pay raises in the state sector were eliminated. They will now be dependent on “merit.” However, state sector firms which are not making a profit (36% of the 400,000 firms) will receive *no* pay raises.

Mass layoffs are also in store for the civil service. All 15 million state sector employees are to go onto a “job contract” system. The Communist Party Organization Department “urged” firms to issue contracts to all employees, allowing those who are “unqualified” to be fired. This is being run in collaboration with the U.N. Development Fund, which has

demanded the end of lifelong tenure for civil service employees, bragging that they would dump another half a million people into the gutter.

Conserve grain

The government's public pronouncements assure the world that despite the severe floods of the summer, the harvest will be adequate for the needs of the population. However, a dramatic increase in grain imports which the government can ill afford, and the preoccupation with the grain problem at the just completed plenum of the CP Central Committee, indicate a serious problem.

The plenum, held in almost total secrecy, decided to implement a "mixed" system of communal and family farming. The government has gone to great lengths to assure the world that there will not be a return to the failed communal farming system that led to millions of deaths by starvation under Mao Zedong's bloody reign. But, in fact, that is the direction of policy. During the summer floods, the decayed state of the water conservancy and irrigation systems of the country caused massive unnecessary death and destruction. Rather than learning the awful lesson of neglecting infrastructure as a national priority, the regime blamed the peasants. The solution: Groups of peasant families or small villages will be held collectively responsible for the water and irrigation projects, while retaining the family contract system (allowing them to market their own product over a set government quota).

The point is that no new investments are to be expected for the precarious agriculture sector. Since new investments in agriculture collapsed in the mid-1980s to accommodate the free trade zone policy, there has been a net decrease in grain production per capita. The government solution is like Jimmy Carter's energy program: use less. A Maoist-style national campaign to "cherish and conserve grain" has been launched, geared to restricting grain consumption. The government even announced that squads have been deployed throughout the country to bludgeon dogs to death in order to save grain! The official *Workers Daily* reported: "Dogs eat a kilogram of grain per day, twice as much as the average Chinese. The grain supply can't meet the demand posed by dogs." China has about 100 million dogs.

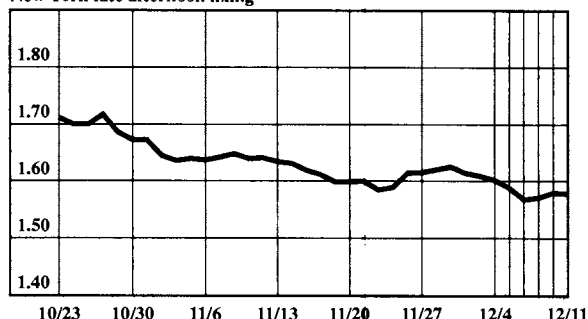
In a similar sign of desperation, the government issued a circular to "prevent the expected surge of feasting to celebrate the New Year and Spring Festival by either central or local government officials." They plan to check up on officials to stop this "unhealthy trend."

Perhaps the most telling sign of the threat of instability is the announcement of a new series of trials of students and workers involved in the Democracy movement, despite the public effort to assure the world of Beijing's concern for human rights. As the economy unravels, the continued use of terror to control the population will not long suffice to contain the explosion.

Currency Rates

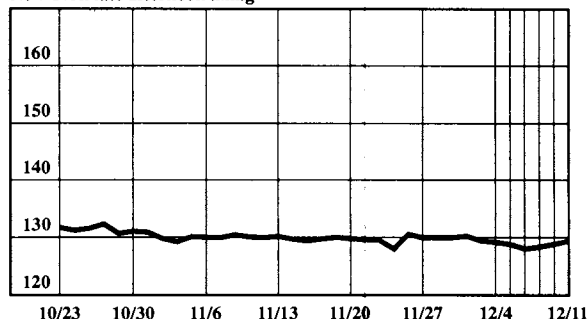
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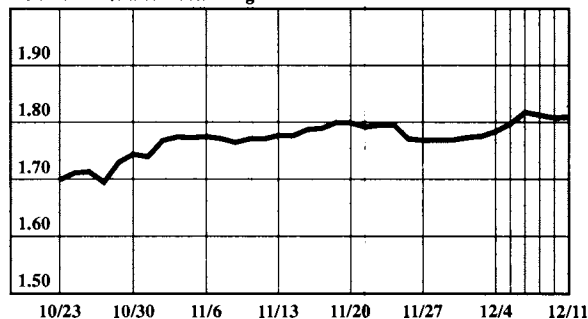
The dollar in yen

New York late afternoon fixing



The British pound in dollars

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The dollar in Swiss francs

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