

China sets anti-shock therapy course, to the consternation of the British

by Michael Billington

The Chinese government finalized its Ninth Five-Year Plan, covering the years 1996 through 2001, at a plenary meeting of the Communist Party Central Committee in late September. The published report and public discussions of the plan show that it is a dramatic departure from the previous three Five-Year Plans, causing considerable dismay to the British oligarchy in Hongkong and elsewhere.

Since the beginning of 1994, the Chinese leadership has sounded a number of alarm bells over the negative effects of the free-trade policies implemented systematically since the beginning of the reform era in 1979 under the direction of Deng Xiaoping. Although the reform never reached the frenzied level of the murderous “shock therapy” imposed on the ex-communist regimes of eastern and central Europe, the cumulative effect of the advice accepted from Margaret Thatcher and Milton Friedman’s minions from the International Monetary Fund (IMF), Harvard, etc., created the potential for disaster in the world’s largest nation. Over the past year and a half, Beijing has taken steps to reverse that dangerous course.

Under the direction of President Jiang Zemin and Vice Premier Zhu Rongji, the government has imposed policies to redirect the nation’s credit into areas of critical need, rather than facilitating the low-technology process industries and speculative investments in real estate in the coastal areas, while action was also taken against some of the most egregious corruption among those leaders who were dealing directly with Britain’s financial oligarchy in Hongkong. The Ninth Five-Year Plan is expected to formalize this new economic direction.

Several areas of concern are being addressed: the newly created stock, bond, and futures markets, which were virtually unregulated, and which experienced a series of speculative bubbles and subsequent collapses over the past two years; the drastic infrastructure deficit outside of the coastal trade zones, and the fact that foreign investment has been almost entirely directed to export-oriented process industries utilizing unskilled cheap labor; the growing agricultural crisis and the impoverishment of the rural workforce, especially as compared with the booming free trade zones; and the threat of a general breakdown of the medium- and heavy-industry sector, due both to the historical lack of technological invest-

ment and necessary infrastructure, as well as the effects of inflation and the accumulated debt structure of these State-sector industries.

Overcoming British irregular warfare

The British view these crises as fuel for their policy, openly expounded by London’s International Institute for Strategic Studies, to divide China into several entities following the death of Deng Xiaoping. British assets in the U.S. Congress, such as Conservative Revolution fanatics House Speaker Newt Gingrich (R-Ga.) and Sen. Jesse Helms (R-N.C.), launched a campaign against China, while self-professed British agent Henry Kissinger, playing his role as “friend” of the Chinese, is trying to drag Beijing back to the free-trade reform policies. Manipulation of the situation in Taiwan, together with operations run by the royal family’s pet Buddhist monk, Tibet’s Dalai Lama, and by BBC asset Harry Wu, were aimed at destroying the relations between China and the Clinton administration. As of this writing, however, Washington and Beijing have overcome this British irregular warfare, and a meeting between Jiang Zemin and President Clinton is scheduled for late October in New York.

The new Five-Year Plan has solicited an hysterical response from the British. The leading China analyst for the flagship newspaper of British Hongkong, Willy Wo-lap Lam of the *South China Morning Post*, published a diatribe on Sept. 13 against the “triumph of conservative cadres or born-again planners such as President Jiang Zemin, Premier Li Peng, and Vice Premier Zhu Rongji.” Lam wails that the new Five-Year Plan will “draw the curtain on the Deng Xiaoping era. The bulk of the goals of the Chief Architect of Reform have been rolled back. . . . Deng’s famous high-growth model has been consigned to history.” Typical of British disinformation, Lam admits to only two varieties of economic policy—either totally privatized and deregulated free trade, or communist central planning—such that the new policies are falsely described as a return to Maoist-Stalinist centralization, and the leadership is falsely accused of viewing the entire reform process as nothing but a “Great Leap Forward-style binge of investment.” Lam even compares this defense against shock therapy to the policies of the infamous Cultural Revolution!

Willy Wo-lap Lam, and those he represents, know better. The actual British concern is that dirigistic policies in Beijing will disrupt the looting process which has been carried out under the name of the "globalization" of low-technology industry, which depends on unrestricted access to a mass pool of cheap labor. They are also concerned that a strong China may form alliances with other Asian and European nations, and with the United States, which would destroy the "balance of power" required for the continued dominance of London's financial oligarchy—an outlook which has dominated British China policy for the entire 20th century. Continued Chinese interest in developing multiple "land-bridge" rail connections with Europe, as corridors of development across all of Eurasia, exemplifies the kind of development which the British view as a threat.

For example, the report on the Ninth Five-Year Plan, as released by Xinhua, read: "It is necessary . . . to further establish a series of trans-provincial economic regions based . . . on the existing economic patterns evolving around major cities and transportation arteries. These include the economic belt in the Yangtze River Delta, with Shanghai at the tip and the areas along the river; the economic zone in the southeast coastal areas embracing the Pearl River Delta and the southeast Fujian Province; the Bohai [Sea] Economic Ring . . . of Liaodong Peninsula, Shandong Peninsula, Beijing, Tianjin and Hebei province; and the economic belt linked by the Eurasia Railway Bridge and the Beijing-Kowloon Railway.

"Meanwhile, a number of major industrial bases, each with its own distinct features, will grow out of old industrial bases in the northeast, southwest, and northwest regions. . . . They should adopt industrial policies that avoid the tendency of different regions to go after similar industrial structures."

Dirigism and technology

The new policies in China are characterized by the debate over the fate of the five Special Economic Zones (SEZs), which have been the recipient of most of the preferential tax and tariff policies since the mid-1980s. There has been a reduction of the preferential treatment for the zones over the past year, provoking loud complaints from, especially, the officials in Shenzhen, the SEZ across the border from Hongkong. An analyst from the Chinese Academy of Sciences, Hu Angang, has been given wide press coverage proposing that the SEZs should no longer be "special," while insisting that the slowdown in growth in the zones is not due to the end of preferential policies, but rather to exorbitant costs from the speculative binge in the real estate market, and "corruption costs" to investors.

While moving to eliminate preferential taxes for foreign investments in the zones, Beijing is offering incentives for investments in targeted industries deemed crucial for China's development, especially in the interior. Hongkong analysts, who insist on the necessity for tax breaks and other handouts

to foreign investors in the SEZs, decry the support for targeted industries as "Stalinist planning." The same epithet is applied to Beijing's refusal to accept IMF demands to shut down large numbers of State-sector industries which are in the red. There will be efforts to merge ailing industries, but Beijing will not apply the bloodletting policies it has observed in Russia and eastern Europe, preferring to preserve their productive capacity.

Nor does Beijing wish to create new unemployment in the industrial sector, which would only add to the desperate situation in rural China, where there are nearly 200 million unemployed or redundant peasants. Government banks have announced plans to increase lending to the State-sector industries and to agriculture by 150% in the last five months of this year, according to the China News Agency in Hongkong. The Five-Year Plan is expected to distinguish between "competitive" industries which may be privatized or turned into joint stock companies, and "public welfare enterprises" which will remain in the public sector. Public ownership will be strengthened rather than weakened, according to a resolution entitled "On the Restructure of the State Sector" which was passed at the plenum.

Similarly, demands that China allow all prices to float freely in the mythical "free market" have been rejected. A draft of the Five-Year Plan obtained by the *South China Morning Post* says that "the government will continue to regulate the prices of commodities vital to the State plan and to the people's livelihood. . . . China is resolutely opposed to the shock therapy of blindly opening up prices." Nonessential consumer goods will be left unregulated, but the government will attempt to determine a form of parity pricing for grain, cotton, essential raw materials, and other goods and services, including transportation. "A system of comparative pricing based on production costs will be set up, so the profits and salaries [of production units] in different departments and trades will be more or less on the same level," the draft says. The plan embraces the results of the National Science and Technology Conference held in May, the largest conference of its sort held in China since 1978.

The plan will also continue the campaign against corruption, which is recognized as a severe danger to the survival and stability of the rapidly changing economy. The Communist Party Central Committee plenum which approved the Five-Year Plan also confirmed the fate of the ex-Beijing Communist Party chief Chen Xitong, who has been arrested for corruption for his role as comprador to the Hongkong tycoon Li Kashing, the central figure in British speculation in Chinese real estate, stock, and illicit smuggling and drug markets. Chen was formally dismissed from the Politburo. Countering the ideological "pragmatism" (i.e., corruption) of those among the Chinese elite who have profited enormously from the speculative and criminal aspects of the reform era, may be as difficult, and as important, as countering the British operations from the outside.

Li Peng reports on Ninth Five-Year Plan

The following are excerpts from the statement of China's Prime Minister Li Peng on the Ninth Five-Year Plan to the Politburo of the Chinese Communist Party Central Committee, as reported by China Daily on Oct. 10. Subheads have been added.

A good formulation of the Ninth Five-Year Plan (1996-2000) for China's economic and social development and of the long-term target for 2010 has a vital bearing on with what posture China will stride into the 21st century. . . .

The key is to achieve two fundamental shifts: a shift from the traditional planned economic structure to a socialist market economic structure, and a shift from an extensive economic growth model to an intensive economic growth model. In the final analysis, the shift in the economic growth model depends on scientific and technological progress and the improvement of quality of laborers. The crux of the matter lies in doing a good job in science, technology, and education. . . .

The contradiction has existed for many years: On the one hand, many enterprises cannot be upgraded because of the lack of funds, and, unable to meet the changes of the market demand and productive forces, stay idle; on the other hand, many localities and departments are eager to launch new construction projects and have built many redundant low-level projects.

In the future, no new construction project will be allowed where production capacities can be expanded by relying on existing enterprises and through reform, restructuring, upgrading, or expansion.

As for necessary new projects, including imported ones, utmost efforts must be made to raise their technological starting point and pay attention to their economic scale.

Meanwhile, it is imperative to follow the principle of paying equal attention to resource development and conservation, give top priority to conservation, and lower raw material and energy consumption, reduce waste through improving management, and achieve a marked increase in economic returns. . . .

Agriculture

There lies great potential for raising China's grain production, and China is definitely capable of feeding its popula-

tion, provided that the measures are effective. . . .

Imported grain is mainly for adjusting varieties and expanding grain reserves. We must know that grain sources on the international market are limited, it is impossible for China to import large quantities of grain. . . . It is necessary to step up the efforts to revitalize agriculture through science and education. . . .

Great efforts should also be made to develop rural socialized service systems, gradually increase the collective economic power of the townships and villages, and earnestly ensure a marked increase in the comprehensive agricultural production capability.

State enterprises

Efforts must be made to make the reform of State-owned enterprises the central link in China's entire economic restructuring in the coming period, especially during the Ninth Five-Year Plan period. . . .

China adheres to public ownership as the main element of its economy and takes the State economy as the leading factor. The State must do a good job in running a group of large enterprises and enterprise groups, which play a key role in the national economy, so as to ensure its regulation and control over the national economy.

The reform and transformation of the small State-owned enterprises should be accelerated by way of reorganization, association, merger, share system, and cooperation. . . .

The State Council is concentrating on the reform and development of 1,000 large State enterprises and enterprise groups. More than 800 industrial enterprises of them, possess 63% of the country's total value of industrial assets. . . . Doing a good job on these enterprises means we have done a good job with the majority, and this will benefit the reinforcement of the national economic strength and will increase China's ability to regulate and control the national economy.

As for those State enterprises which bear heavy burdens left over from the past and from the society, and, at the same time, occupy important positions in the national economy, the State will put in a sum of money, and take three measures:

1. Encourage them to merge with others. Enterprises which have been merged will be exempted from bank interest on their partial debt, or their interest will be suspended and the payment of their principal will be postponed;
2. A considerable part of the debts incurred to enterprises as a result of the change from State allocation to loans will be changed into State investment;
3. The debts of bankrupt enterprises will be offset. . . .

Regional development

China will gradually intensify its efforts to narrow the gap in regional development and take measures to support the development in the central and western parts of the country beginning in the Ninth Five-Year Plan period.

The major measures . . . include:

- gradually increasing financial support and construction investment in the central and western regions, and giving priority to arranging resource development and infrastructure projects in the regions;

- readjusting the regional distribution of processing industries; . . .

- . . . aiming to enhance the capacity for self-development of these regions;

- accelerating the reform and opening-up, and directing more overseas funds to these regions; and

- strengthening the economic association and cooperation between the eastern and central and western regions. . . .

With the development of the overall economy and the improvement of the central fiscal strength, the State will gradually increase its support to the less-developed areas in the central and western regions. As for the central and western regions, they should carry forward the spirit of relying on themselves to accelerate their development and narrow the gap. . . .

The following excerpts are from the release on the Ninth Five-Year Plan, as reported by Xinhua. The section on science is point three of the "nine major principles for social and economic development."

Vitalize China with science and education, while spurring a close integration of economy, with science, technology, and education.

Science and technology are the primary productive forces, education is the basis; economic growth must rely on science and technology, and in turn, science and technology must serve economic growth; and education must be oriented to the modernization program, to the outside world, and to the future, aimed at raising the quality of the entire population and training a large number of outstanding people in all fields for the next century. . . .

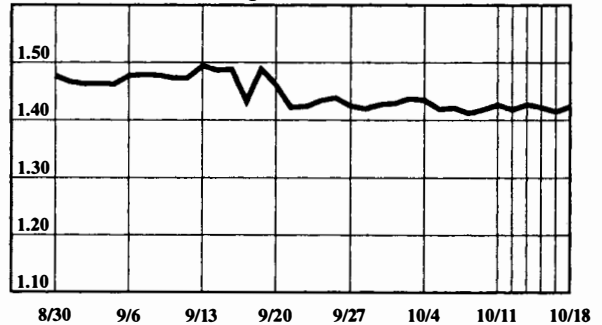
China's success in building a socialist culture and ideology will determine the success or failure of socialism in the nation and what kind of China enters the 21st century. . . . The fundamental tasks are to train socialist citizens to have lofty ideals, moral integrity, good cultural qualities and discipline, and to improve the whole nation's ideological and moral standards and scientific and cultural qualities. Top priority should be given to . . . young people and children. . . .

The basic requirement for social moral construction is love of the motherland, the people, labor, science, and socialism. This love should be reflected in all aspects of life. . . . A new type of personal relationship should be developed featuring equality, solidarity, friendship and mutual help, and an etiquette system . . . featuring respect for the old and care for the young, respect for teachers and care for students. Education must be stepped up to improve social, professional, and moral standards.

Currency Rates

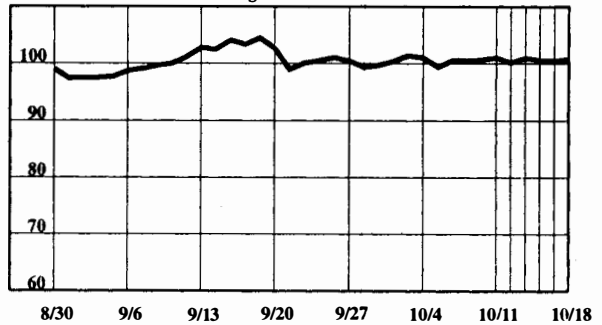
The dollar in deutschemarks

New York late afternoon fixing



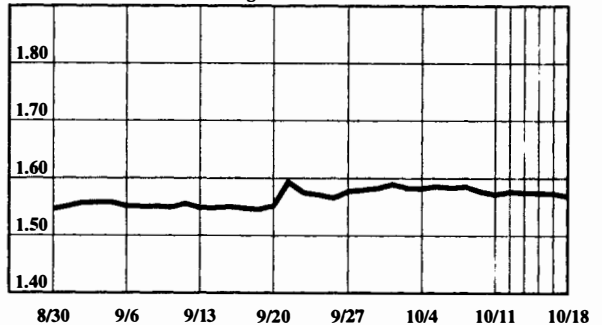
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

