China liquidity crisis destroying peasantry

by Michael O. Billington

The May 31 weekly edition of the Anglo-American financial newspaper of record in Asia, the *Asian Wall Street Journal,* carried a dramatic exposé of the emerging collapse of the "Chinese miracle," only weeks after a western media blitz touting China as the emerging "superpower." Quoting at length from a phone interview with Yang Peixin, a leading State Council economist in Beijing, the paper reviewed the imminent collapse of the banking system of the People's Republic of China, and ridiculed the simplistic "emergency measures" set in motion in May to attempt to contain the crisis.

Then, on June 2, a speech by President Jiang Zemin, which had been delivered on April 1, was printed on the front pages of every major newspaper in China, warning of the imminent collapse. Jiang's two-month-old speech said that the threat of uncontrolled inflation, massive corruption, and the growing disparity between the coast and the interior must be stopped or the consequences would be dire.

Since the beginning of Deng Xiaoping's "reforms" in the late 1970s, Beijing has repeatedly shown itself willing to sponsor a "yin-yang" cycle of boom and bust in the Chinese economy, encouraging massive expansion of uncoordinated investment in labor-intensive, export-oriented, low-technology processing industries, followed by draconian austerity when the resulting inflation gets out of hand. What remains constant in both phases of the cycle is the exploitation of the nearly 200 million unemployed peasants, and the willingness to send the tanks in to crush any opposition.

The May demonstrations in Tibet, suppressed by the Chinese Army, began not as independence rallies, but as protests against inflation and the introduction of fees for previously free medical services. The June 3 *Far Eastern Economic Review* reported that "localities all over China are experiencing similar cycles of rapid economic growth, inflation, corruption, disenchantment, protest, and repression."

Peasantry ready to explode

The destruction of the peasantry has reached the point of explosion. Zhao Renwei, a professor at the Institute of Economics of the Chinese Academy of Social Sciences, told UPI in Hong Kong in May that the disparity between rural income and urban income has collapsed to levels worse than the early 1960s. Between 1979 and 1984, when the reform effort was directed to saving the agricultural sector from the ravages of the Cultural Revolution, rural income moved up from 42% to 54% of urban income. This relatively sane approach was dropped after 1984 in favor of the revival of colonial-style free trade "concessions" to foreign investors along the coast. One result has been that rural income has fallen to 38% of urban income, with peasants now earning an average of about $10 per month.

Even this miserable level is overstated, since many peasants are not even paid for their grain. Vice Prime Minister Zhu Rongji (who has been functioning as prime minister due to the continued unexplained "illness" of Li Peng) has repeatedly demanded that the IOUs issued to farmers by local banks must be redeemed. He warned the National People's Congress in March: "We will lose the support of farmers, and agriculture will wither. The reputation of China's reforms will likely be ruined." Zhu reportedly threatened to "cut off the heads" of Communist Party cadre in the local banks who continued paying farmers with IOUs. At the same conference, Vice Prime Minister for Agriculture Tian Jiyun said: "If these are problems in the villages, there is no one in the current government who can stay in power."

Money diverted to speculation

The *Asian Wall Street Journal* article revealed some of the facts about this looting of the peasantry. Following Deng's famous trip last year to visit the Special Economic Zones in southern China, the entire country was driven headlong into a speculative binge in low-technology industrial ventures, stock market and real estate speculation, and the massive increase in drug flows that accompany such an unregulated "free trade" policy. Said the *Journal:* "Lending rates are kept at about 8%, half the level of inflation in major cities, to protect money-losing state enterprises. Such depressed rates have led to an insatiable demand for loans. In the past, Beijing curbed that appetite by setting lending quotas. But amid the go-go atmosphere of economic reform . . . bankers have come to ignore the quota system and have been lending relentlessly to support provincial governments' ambitious projects.

"The hottest items for many mayors and provincial chiefs are industrial development zones and, by extension, property speculation. About 9,000 zones have sprung up across the country since Mr. Deng's Guangdong trip."

As in post-communist Russia, it is the "former" communist officials who are the primary beneficiaries of the speculation. The *Journal* article referred to one Guangdong economist who reported that "many senior Communist Party officials, whose public offices put them in a position to facilitate access to land-development rights, have set up property companies. . . . The children of senior cadres, backed by easy bank credits and political pull, are trading properties among themselves and fueling the property bubbles."

In this environment, in line with Deng's slogan that "It Is Glorious to Be Rich," banks have ignored the reserve requirements which call for 6% of deposits to be set aside in cash, treasury bonds, or other liquid assets. The average reserves have fallen to 1%, Peixin told the *Journal*.

The farmer payments crisis comes from the same general source. Reported the *Journal:* "So illiquid are banks that they have trouble paying farmers for their crops. Each year, Beijing allocates state funds for grain procurement that are kept as deposits at government banks at all local levels. . . . Many banks issued promissory notes to farmers. Only about 10% of the total of 30 billion yuan ($5.26 billion) in such IOUs issued to peasants for purchases of their 1992 crops have been honored, according to Mr. Yang."

Compounding the crisis, the government cannot sell its state treasury bonds. The speculative investments offer about twice the interest rates offered on the state bonds, and, as mentioned, banks are simply ignoring the reserve requirements and thus have no interest in buying bonds. Of the $5.3 billion offered for sale, only $700 million (13%) were sold as of the April 30 closing date despite having started the sales two months early. The state news service Xinhua reported that the offer will be extended indefinitely, and that a "package plan to ensure bond sales" is being prepared. This undoubtedly means a return to forced purchase of bonds by enterprises or individuals.

Devaluation and gold purchases

As inflation soars over 20% (the *Shenzhen Daily* reported on June 3 that it reached a staggering 35.8% in the largest Special Economic Zone), Beijing has been forced to allow drastic devaluation of the yuan. The International Monetary Fund (IMF) has insisted that Beijing accept the black market rate as the official rate, which had been partially accomplished through the establishment of "swap centers" which trade currencies with less stringent government restrictions, open only to selected businesses. The yuan dropped by over 30% in the past six months in these swap centers. On June 1, Beijing dropped all restrictions on the "swap centers," and the value of the yuan plunged another 25% immediately, to the black market rate of 10.231 yuan to the dollar. The official rate is still at 5.71. Foreign investors can thus more than offset loses to inflation with gains on currency exchange. The Chinese peasants and the "blind flow" of 100-200 million unemployed take the loss.

One sign of the crisis visible in the United States is the recent increase of illegal immigrants, smuggled in on disease-ridden freighters. These hundreds of thousands of desperate refugees risk their lives on journeys comparable to the slave galleys, to work in the United States as indentured servants under the control of the Triad gangs to pay off the $25,000 cost of passage. So much for the "Chinese miracle."

Gold purchases in China and Hong Kong have skyrocketed as both the Chinese government and the tiny percentage of the population who are profiting from the free trade zones hedge against inflation. George Soros and his circle of international speculators are using the crisis to manipulate the gold price and the speculative market in currencies, which is the majority of the $1 trillion per day derivatives bubble now engulfing the world economy.

The official *China Daily* reported on June 2 that foreign investment increased by 167% during the first quarter over the previous year, reaching a record $3 billion. However, the same report admitted that nearly half of this investment was not even in the cheap-labor runaway shops for export, but were in the "service sector," meaning primarily in the speculative real estate bubble.

Meaningless countermeasures

Vice Prime Minister Zhu Rongji has established seven "working groups" to address the monetary crisis. The measures, however, do little but issue orders to follow existing regulations without changing policy. Banks are ordered to pay the farmers' IOUs, to meet payments due to Beijing, and to stay within the loan limits to the speculative development zones. Interest rates on bank deposits were raised by a modest 1.19 percentage points to about 8% in a feeble attempt to stem the flow out of savings—the first drop in total bank deposits since the 1988 inflation crisis—into gold or other hard assets.

The IMF, in a move which must certainly be regarded as a paradigm of the madness that now guides these Anglo-American financial wizards, has simply declared that the Chinese economy has leaped from tenth place in the world to third place, a fourfold expansion in Gross Domestic Product—all due to a new method of computation. The method essentially assigns equal values to products and services, regardless of the costs of production, in every part of the world. An estimate of the value of individual consumption is then multiplied by the national population and called the GDP, regardless of what is produced. The absurdity is demonstrated by the fact that the IMF first computed the Chinese economy to be *seven* times greater than under previous computations, but decided that that wouldn't look good, and therefore simply changed the figures to fit the desired result of a fourfold increase.

Back in the real world, if Beijing chooses to print money to meet the payments crisis, the resulting hyperinflation will certainly provoke the reaction in the population so feared by Zhu Rongji. If IMF-style "shock therapy" is imported instead, the collapse of employment and production will generate the same reaction. Both policies are based on extracting every last drop of blood from a population whose productivity is kept at the level of concentration camp victims. Without breaking the cycle, through launching a massive effort to build a modern infrastructure for industrial and agricultural development, and the necessary classical education policies required for such an effort, this looting process can only lead to a genocidal collapse of the Chinese population.

European farm union rips oilseeds pact

by EIR Staff

Europe's only continent-wide farm organization, the recently formed European Country Union (ECU), released a statement on June 15 blasting the French government's capitulation to the agreement reached between the United States and the European Community last November on oilseeds.

"Contrary to their electoral promises, the French government capitulated on June 8 in Brussels," the statement read in part. "The ECU considers that this sector is indispensable for the development of a new balanced Common Agricultural Policy, which is stable and economical, leading toward the food independence of Europe." The release continued: "On the night of June 8 and 9, discontented farmers painted yellow the office of Alain Juppé, the minister of foreign affairs, thereby qualifying him as a traitor."

French sellout

On June 8, at a meeting of EC foreign ministers, France formally ratified the so-called Blair House agreement on oilseeds, which the new government had denounced during the electoral campaign barely three months ago. It calls for EC farmers to set aside 10% of the land used to grow oilseeds, and places a limit on their production. Foreign Minister Alain Juppé justified the flipflop by saying that the EC had agreed to compensate those farmers whose land would be taken out of production, and that this agreement would be separated from the rest of the deal reached at Blair House, which limits subsidized exports, and is widely seen as the basis for an agricultural agreement on GATT, the Anglo-American-dominated General Agreement on Tariffs and Trade. Despite Juppé's disclaimers, the French move was hailed by British Prime Minister and free trade warrior John Major as a precondition to the long-delayed GATT agreement.

Last January, the U.S.-based magazine *Top Producer* indicated just how radical the oilseeds deal is: "The November agreement calls for the EC to trim subsidized farm exports by 21% (this is the part France claims they are still resisting) and reduce and cap subsidized oilseed plantings." This would cap EC oilseed production at what is supposed to be its current domestic needs. "It is the first time in history that a country has agreed never to raise production of a commodity."

The deal is such a manifest insult to French economic sovereignty that last Feb. 22, after Rural Coordination