China's rail and energy sectors, always brittle, begin to collapse

by Mary Burdman

Since the Chinese government imposed its 16-point control program at the beginning of July, in a desperate effort to control the financial chaos in the country, China's *real* economic crisis has become so evident that no amount of domestic or foreign propaganda can conceal it from public view. In recent weeks, China's own press has been full of reports of the dangerously wretched state of energy and railroads, brought to the edge of disaster by the diversion of funds into the crazy "bubble" economy.

With the world's largest population, China lags a *century or more* behind the industrialized nations in every critical sector of its physical economy, wrote Dr. Jonathan Tennenbaum in a recent report based on the economic methods of Lyndon LaRouche. "In fact, China's economy is characterized by a thin 'crust' of relatively modern science and industry, floating upon a gigantic mass of pre-industrial backwardness." China will only be able to develop if it acquires and applies the *most advanced* technologies on an emergency basis, Tennenbaum wrote. Only the LaRouche method for increasing the productivity of labor, per capita and per square kilometer, can save China.

Yet in the two vital sectors of energy and railroads, despite its relatively ambitious development plans, the Chinese government is focussing on *rationalization* and *conservation* as the means of surviving the critical period immediately ahead.

On Sept. 21, China's State Planning Commission called upon all local authorities to concentrate the nation's limited resources on 150 key development projects, the "lifeline of the national economy," the *China Daily* reported. Railways have been dubbed "the number one priority." At a conference in Qindao, Shandong, the commission called on all provinces and municipalities to review each current and planned project worth more than 10 million yuan ($1.75 million). Investment priorities are raw materials, energy, transport, and telecommunications, and these projects would be guaranteed, while less important projects, such as processing plants, may be suspended.

The power crunch

Chinese economists have asked the government to rationalize the nation's investment structure, because investment in key projects has lagged far behind investments in other sectors. "Fixed asset investment" in pivotal energy and raw materials sectors fell by 9.2% this year already, while real estate investment rose 143.5% to hit $4.8 billion.

At least one-third of China's industry is idle for lack of power, the *People's Daily* reported Oct. 11. The national power supply is 15-20% short of demand, and factories in Guangdong, the hub of China's "special zone" economy, are shut down three to four days a week because of lack of energy. In 1992, China lost output worth 730 billion yuan ($125 billion) due to the power shortage. Beijing has suffered power shortages since 1970; only Ningxia province in the northwest has a power surplus. With a population of 1.2 billion, China only has generating capacity of 180 million kilowatts. Germany, in comparison, with a population of just 80 million, has 60 million kilowatts generating capacity, of which 30% is from nuclear power.

"China is among the countries of the world with the lowest per capita energy consumption," the official *China Daily* acknowledged Oct. 19. Power consumption per person is only *half* the world average, and the efficiency rate of energy use in Chinese enterprises is only 30%, which is, at best, 10% lower than the advanced countries. In the poorer Chinese enterprises, the efficiency rate of energy use is as low as 10%. Most enterprises have to spend 70% of costs on energy and raw materials, with the result that low efficiency pushes product prices high, the *Economic Daily* reported. It also takes a huge toll on the population by causing extremely serious pollution.

In the late 20th century, the world's most populated nation depends almost entirely for its energy needs on a 19th-century technology, coal. Coal consumption is 75% of China's energy use, as compared to 17-30% in advanced countries, reported the *China Youth Daily* recently, and there is little short-term improvement in sight. Instead, in the long run, Vice Premier Zou Jiahua said, China will put equal emphasis on energy development and *conservation*. For the immediate period, priority will be given to saving energy by increasing efficient use.

"Energy shortages have worsened and have done great harm to the country's production capacity," the *China Daily* acknowledged Oct. 19. "To reduce the shortage and guarantee long-term economic development, conservation of energy must be promoted."

One indication of the chaos which has reigned in China since Deng Xiaoping gave full throttle to economic "reform," was a report in the official *China Daily* that "Management of the country's energy use has not been well organized this year because the administrative body in charge of it was abolished and self-restraint mechanisms in enterprises have yet to be established." Investment in greater energy efficiency fell to 2.4% of all technological renovation, one-third the previous level.

The crisis is driving the Chinese goverment ever more rapidly into the hands of international finance. On Aug. 1, the *China Daily Business Week* had announced a "government policy shift" to "guarantee investment in the sector" to solve the "crippling power shortage." A plan to sell bonds worth billions of U.S. dollars this year will be withdrawn and replaced by loans for the same amount. The Ministry of Power Industry and State Energy Investment Corp. (SEIC) announced "emergency measures to ease fund shortages caused by local bank branches that have invested funds originally meant for the coal-mining sector in real estate and service industries."

The government and banks are scrambling to recover some of their squandered funds, but there is no time to wait. "Raising money through bond sales takes longer than securing loans and the money is needed urgently at key construction sites," an official from the SEIC said. In January-June, only 30% of state set loans were delivered, compared to 40% in same period last year. Construction of some power stations, including key state ones, was suspended for a time due to the financial crunch.

On Oct. 6, the Power Industry Ministry announced it needed as much as $25 billon in foreign investment over the next eight years. China is expected to become the world's fastest-growing power consumer and market for electricity generators. An unnamed official said that nine "huge foreign-funded projects have been approved and another five submitted to the government." Some $8.2 billion in funds is coming in from Britain, the United States, Indonesia, and Hong Kong, to build 14 power projects, one of which will be wholly foreign owned. They are to have a total capacity of 20 million kilowatts. In a major concession by the Chinese government, these foreign-funded power projects would receive clearance to take profits in foreign currency. They are to invest, run the projects for 20 years, and then turn them over to China.

The rail bottleneck

China's railway system is another disaster. The railways themselves remain one of major energy consumers in the country: They consume 2.5% of total energy—just hauling coal around China! The *China Daily* reported Oct. 22 that "energy control agencies" have been formed with leaders at all levels of the rail system and the ministry has created 258 "energy monitors."

But the rail systems do not work. On Sept. 19, the *China Daily Business Week* reported that the just-established Shanghai Coal Exchange could be forced to shut down after just nine months in operation, due to the railway crisis. Clients are losing confidence as overstretched railways are unable to guarantee deliveries. In nine months, only 30% of contracted coal has been delivered to buyers.

The SCE is run by the Coal Industry Ministry and the Shanghai government, which had had plans to convert it into a futures market. Such plans are not likely to bear fruit. The situation from May 25-June 30 was reported "dire," when no deals were made and few clients got coal delivered. The SCE is now still in operation only because the government ministry is backing it with special measures—asking mines to make deals at the SCE and use their own railways to shift the transacted coal. In the last two months, only 200,000 tons of coal were bought on the exchange, compared to 260,000 tons the first month of opertions; trade volume has fallen every month.

Vice Premier Zhou Jiahua had promoted the exchange as a key part of east China's economy, and predicted it would transact 100 million tons of coal this year. The SCE itself, more modestly, expected to deal with 26 million tons. But by end of July, deals involving only 1.2 million tons had been made.

Coal is vital for east China, where energy reserves are poor. In addition, the SCE was intended to "help the industry turn market-oriented." The central government had freed the price of 20% of coal in 1992, and planned to free all prices by 1995. But due to the effects of the rail bottleneck, the Coal Ministry admitted that price reforms were likely to be "hit" this year and that the railway crisis had affected plans to turn the SCE into a futures market.

The "Special Economic Zones" have also been hit. While power plants in Guangzhou often run short of fuel, coal stockpiles inland self-ignite because the wait for freight trains is so long. The rail "bottleneck" cost China up to $70 billion in lost production last year already, the Coal Ministry announced. Railway Minister Li Senmao said in 1992 that the entire rail system was capable of supplying only 60% of China's cargo shipping needs, and the situation has worsened since.

The situation has gotten particularly bad in recent months, as an Oct. 18 *China Daily* article revealed, despite strenuous efforts to cover up the fact. Rail freight "demand" has dropped as a result of the cooling-off measures, the *Daily* reported, with daily cargo volume down 14% from previous month, and down 20% from the year before.

Railway officials admitted that many coal consumers in these regions are now reluctant to order any new coal shipments from the coal-producing areas of North China. The *International Herald Tribune* reported Sept. 7 that some coastal factories prefer to *import* coal as the only way to guarantee regular delivery. As a result, the rail authories are now forced to seek more freight sources.