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## China's Economy

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# Desperate Beijing leaders return to Maoist centralized planning

by Mary McCourt Burdman

The Chinese Communist Party's Central Committee, meeting in plenary session on Nov. 9, determined to junk Deng Xiaoping's economic "reforms"—the reforms so praised by Henry Kissinger following the Tiananmen Square massacre—and reimpose centralized political control over the economy. Ten years of Deng's decentralization and incompetence, following 30 years of Maoist idiocy, have now created an economic crisis that holds the potential for a renewed political explosion—this time on a scale even greater than the events of last May-June.

A reliable intelligence source reports that the Beijing leadership is now anticipating the outbreak of mass strikes leading to a major urban insurrection, before 1990 is out. Select units of the People's Liberation Army have been redeployed around the major cities, in preparation for such an eventuality.

The Chinese Communist leaders have indeed provided the model for the Kremlin, which officially dumped Gorbachov's *perestroika* restructuring policy on Dec. 13, a month after the Chinese Central Committee Plenum.

Deng's decentralization policies had left the central government badly indebted and desperate for funds, at a time when its political control was growing shakier. Whatever U.S. National Security Adviser Brent Scowcroft may have promised Beijing during his visit there on Dec. 11, the efforts of the U.S. and British governments to shore up the regime will not be enough. The fall of China's closest allies in communist Europe, Egon Krenz in East Germany and Nicolae Ceausescu in Romania, have the Chinese regime justly concerned. The revolt against Ceausescu holds a special lesson: The Chinese leaders have stated repeatedly that they are determined to repay the foreign debt, whatever austerity the population may have to suffer to do that. Ceausescu repaid Romania's debt by starving and freezing the Romanian people for years, and earned their undying hatred.

Unrest inside China is growing again. The first publicly reported protests in China since the June massacres were provoked by the economic situation. BBC reported that on Dec. 9 a small group of protesters gathered outside the Minis-

try of Radio, Film, and Television, with one sign reading, "Why is China so poor?" The protesters were herded away by police.

Three days later, the London *Times* reported from Beijing that Chinese workers are writing anonymous letters to government offices, threatening to strike if they are not given more money. Many workers who made 150 yuan a month (about \$35) a year ago now get as little as 40 yuan (\$10). Their pay envelopes have been robbed by their employers to pay taxes, and the "bonuses" most workers need to feed their families have been stopped. Some factories have already been hit by unofficial work slowdowns, the *Times* reported—on top of the "usual" situation in which most factories are closed three days of the week due to energy shortages.

The Communist Party's decision to dump *perestroika* followed a full year of chaotic, incompetent attempts to cut back on Deng's reforms through the imposition of harsh austerity. But the treatment was as bad as the disease, and production has collapsed. Indeed, a group of Hong Kong bankers told Reuters in December that lending to China is falling sharply because of the retrenchment policies imposed by government in 1988. China's "efforts to halt inflation were too drastic, and there are already signs of recession," a China specialist in a Hong Kong bank said. A French banker said, "The economic reform was on the right track, and we felt comfortable lending. But now it's obvious there is a return to a state plan-style economy. It may get worse in the future and we must think of China's repayment ability." Most telling, one Bank of China official in Hong Kong said the June massacre only accentuated the drop in lending to China. "There has not been much business since the fourth quarter of 1988 because of the economic austerity program," he said.

### Only international development will work

One of the most disgusting aspects of President George Bush's kowtowing to the bloody crew in Beijing, is that the Chinese leadership is highly vulnerable, and could be boxed in if the industrialized nations were to offer massive infrastructure investment in return for the end to repression. Deng

Xiaoping and Prime Minister Li Peng have repeatedly stated that China must have Western help, and especially Western technology, if China is going to survive. China has one-fifth of the world's population, only one-twentieth of the world's arable land, and no infrastructure or energy, after 40 years of communist rule. The incompetence and corruption of the Communist Party in running the economy, have destroyed the fanatical support for the communist movement which gave Maoist and Dengist excesses a free hand.

China must have international help to develop, a point made repeatedly by the founder of modern republican China, the great Dr. Sun Yat-sen, in his 1922 work *The International Development of China*.

But this is the last thing the depression-ridden United States and the Thatcherite catastrophe in Britain could, or would, give China. With the collapse of *perestroika* in the Soviet Union, China is their last hope for slave-labor, in-and-out looting operations to save Wall Street and the City of London just a little longer—if Deng Xiaoping's army can hold out.

The communist leaders admit openly that they can only hold on to political power through military rule, as Deputy Premier Li Peng told the West German daily *Die Welt* on Nov. 16. When asked about Mao Zedong's statement that "power comes from the barrel of a gun," Li said, "I do not claim that our [socialist] system is yet perfect. It is in the development phase. Therefore we want to reform the system, and we need the experience of the West. . . . The decision to strike back against the counterrevolutionaries was a collective decision. . . . The Chinese state power is founded on guns. You are right, power comes from guns. Therefore we call the Army the 'Iron Wall of China.' "

This is the context in which the Chinese government's assertions of its commitment to "reform" must be seen. The official news agency Xinhua reported Dec. 12 that Li Peng had told a "group of foreign visitors" that it is "necessary to maintain continuity and stability of reform and open policy" in China. There will be, he said, "no change in the contract responsibility system" for rural households and factories, or in the development of special economic zones or efforts to attract foreign capital. China will continue "combining a planned economy with market regulation," Xinhua reported, quoting Li that "the view that a smaller proportion of the market economy in the whole economic setup, means the retrogression of the reform, is incorrect. Reform of the political structure is synchronized with the reform of the economic structure." Political reform, like economic reform, "should proceed from China's actual situation. . . . Reform of the political structure should be aimed at promoting national stability and prosperity; it is not to give rise to social turmoil."

And, while the official newspaper *Renmin Ribao* (*People's Daily*) reported Dec. 6 that the government's policy toward the private sector will not change, just four days earlier it had published a many-page article attacking a "Dec-

laration of Private Ownership" published in April 1989 "as the turmoil began." The paper defended "socialist public ownership" as the only way to save large-scale production and prevent chaos and social turmoil in China.

### Blaming corruption

In the year since the austerity policy was announced, and especially since the June massacres, one Communist Party spokesman after another has denounced the loss of central control, and blamed inflation, corruption, the collapse of production, and every other economic problem on the decentralization. This culminated in the decisions of the Central Committee Plenum which ended Nov. 9.

Documents from the plenum which are circulating privately among China's officials, charged that "years of mismanagement" of the economy by "central authorities" had dealt a "mortal blow" to the economy. But it is the Chinese people, not the rulers, who will suffer to make up for this mismanagement: The only public pronouncement from the plenum was a communiqué broadcast on state television Nov. 9, which proclaimed that the austerity program adopted in October 1988 would be maintained for at least two more years, to force down inflation below 10% and curb "overheated" economic growth to 5-6%.

Reports of the plenum documents appearing in the Western press say that the Communist Party decided to slash imports of luxury goods and high-quality consumer goods. Spending will be frozen except for defense, price subsidies, and priority construction projects. Yet, official figures show that 80% of China's imports are either vital raw materials such as steel, iron ore, or machinery. The documents exhort officials to "aggressively strive for long-term, low-interest loans from foreign governments and international organizations. . . . [But] never in the past nor in the future will China bow to any foreign pressure."

Finally, almost a month later on Dec. 14, the *People's Daily* and the English-language *China Daily* published the new rules dictating increased centralization of the economy. "Under a new policy to give central government more control over the economy, industrial firms are told to surrender part of their sales automatically next year," the *China Daily* wrote. The system will curb the "contract system" set up by dismissed Communist Party head Zhao Ziyang, which allowed state enterprises to keep a pre-negotiated part of their earnings, and individually invest or dispose of them. Many firms took advantage of this system and gave the government nothing. The new regulations will allow the government to reduce sales autonomy, increase taxes, and take over key enterprises, especially in coal, timber, iron, steel, and other metal production. The government will also take a bigger share of raw materials for the state sector.

The Chinese have reason to warn about "foreign pressure." Since the government ended its "no-debt" policy in 1981, China has gotten more and more into debt, especially

in the last three years. External debt alone now stands at about \$42 billion, which is small compared to other developing-sector nations, but, as the P. R. C. magazine *Outlook* reported in September, China ranks 100th in average per capita productivity in the world, with an average per capita GNP of 1,270 renminbi, or \$345.

China's foreign exchange reserves are at \$14.19 billion, down from \$18 billion last year; its trade deficit is \$6.6 billion, nearly twice that of last year.

A British China analyst told *EIR* that "no bankers want China to default on its debt," and the International Monetary Fund is already intervening. On Nov. 14, 1989, Minister of Finance Wang Bingqian and Li Guixian, the governor of the Bank of China (China's foreign exchange bank) both met with an IMF consultation mission in Beijing. The IMF delegation was led by Asian Director P.R. Narvekar. Both Chinese officials briefed the delegation on China's current financial policies and "expressed hope of expanding cooperation with the IMF," *Xinhua* said. A week later, the government imposed tight controls on Foreign Exchange Certificates, its convertible currency. FECs can no longer be sold for hard currency, or even deposited by foreigners in bank accounts, for fear the funds will be withdrawn as hard currency.

China devalued its currency, the yuan, by 26.9% on Dec. 17, and it promptly fell again against the dollar on the main foreign exchange market in Shanghai. China officially devalued the yuan from 3.72 to the dollar to 4.72, and it then fell further to 5.67. The devaluation was done to boost production and promote foreign trade; but China's main exports include both crude oil and textiles, both of which are subject to international controls or quotas, and the devaluation will not increase them much. One Japanese banker said a 50-60% devaluation would have been more realistic.

In addition, Western sanctions, moderate as they are, have taken a toll. The Chinese government simply cannot afford to make necessary investments, even by focusing all its available credit on heavy industry. Two major steel-producing projects in northeast China, the Tianjin and Anshan seamless steel tube plants, have been blocked because they cannot import Italian equipment linked to soft loans totaling \$210 million from the Italian government. Due to the May-June upheavals, Baoshan steel works near Shanghai, built with cooperation of Nippon Steel of Japan and West German companies, was for the first time unable to meet payments to its foreign creditors on time. Due to this and international sanctions, Japanese bankers in Beijing said that it may be impossible to raise financing for the third phase of building the project, the *Japan Economic Journal* reported Nov. 11.

### Internal mess

The Chinese state, supposedly the center of the economy, lost control through Deng Xiaoping's "reforms." *China News Analysis* reported in its Dec. 1 issue that the state's national

income decreased from 37.3% in 1978 to 19.2% in 1988; and the portion appropriated by the central government shrunk from 70% in 1950s to 42.8% now. "The Center is fighting a defensive action" in trying to retake control. Economist Dai Yuanzhen says that the situation whereby only 19.2% of the national income goes to the government is unheard of in socialist countries and rare among capitalist countries; in China it should be 28%.

Finance Minister Wang Bingqian addressed this problem of decentralization in a report in the Sept. 2 *Economic Daily*. The rate of state enterprises retaining earnings has increased at a "phenomenal" rate, Wang said. Since the 1950s, ratio of central financial revenues to national financial income has fallen from 70%, or 60% in the 1960s, to 47.2% now, while price subsidies increased 39.8% between 1978 and 1988. The problem is compounded by a falling rate of labor productivity. "Inefficiency has not been tackled," Wang said. The profitability of industrial enterprises fell from 16.9% in 1978 to 8.7% in 1988; tax rate on turnover fell from 26.7% to 18.9% in 1988. Now, the crisis has hit the distribution sector: Capital tied up in the distribution sector has risen from 18% in 1981 to 25% in 1989.

The government must maintain heavy subsidies on food and other necessities, which are the only way most Chinese workers are able to afford to eat. The government spent \$140 billion on subsidizing everything from food to clothing, transportation, and toilet paper over the past decade, the *People's Liberation Army Daily* reported Nov. 28, as the only way to keep prices down as inflation took off due to Deng's reforms. Collapsing state industries are also subsidized: The government paid about \$22 billion to keep them going in 1988.

The result is a growing internal debt. In November, *Xinhua* reported that the State Debt Management Department had announced that China has an internal debt of 80 billion renminbi, (\$21.5 billion), but this figure does not include bonds issued locally by Chinese banks or enterprises. *China News Analysis* on Dec. 1 reported a much higher figure—an internal debt of 116.5 billion renminbi or \$31.5 billion. The government must repay \$8 billion in domestic debt in 1990, and \$7 billion in foreign debt.

The Communist Party leadership was warning already in September that "retrenchment"—malthusian austerity—was going to be imposed. The mass movements of May and June took a huge toll from the fragile economy, and there are constant reports of labor slowdowns since the June massacre.

Politburo standing committee member Yao Yilin, who distinguished himself by proclaiming that China could always turn to the Soviets if the West cut off economic relations, laid out the details of the policy in the *Economic Daily* Sept. 1. He called for a "mass campaign to increase revenues while reducing overhead . . . necessary to strengthen management of tax collection . . . and cut down on expenses. . . . Resolute measures should be taken to restrain excessive

growth rates of individual consumption. . . . Enterprise units should stop dishing out bonuses, subsidies, and goods indiscriminately." All investment which does not fall into the category of "controlled investment" will be cut off; but all regions should attract more foreign investment.

One result was that 1 million rural enterprises were shut down in the first nine months of 1989—over 5% of the rural enterprises that employ 100 million people in China. Asian sources say that the figure of enterprises closed was actually 2.1 million. These enterprises' total output value was almost 650 billion yuan last year, 25% of the country's total social output value. The *China Daily* reported in December that 3 million more rural enterprises are being closed.

China's rate of industrial growth was *negative* in October 1989, the *China Daily* reported. After an industrial growth rate of 18% all last year, the rate fell to 0.9% in September and -2.1% in October. Official estimates said profits of state enterprises (i.e., most of Chinese industry) have dropped 17.7%, despite a fund of 100 billion yuan from the state banks. Public sector losses rose 120% in the first half of 1989.

China's coastal provinces, where Li Peng wants the West to invest, are all facing crisis. By November, the decline in industrial production had hit the province of Liaoning, on the northeast coast, hard. Liaoning is the largest industrial concentration in China. Total industrial output for November was 7.428 billion yuan, only 0.9% above the figure for November 1988. A 4.2% increase over 1988 had been recorded in the first nine months of 1989.

In Guangdong (Canton) township, one of the "showcases" of China, "blindness in their development and . . . economic retrenchment have caused unprecedented difficulties," Xinhua reported in December. The township registered a 40% increase in output value in the first half of the year, but from July on, output dropped fast. Due to weak markets, rising raw materials prices, and lack of credit, 45,000 enterprises in 1989 were closed, merged, or changed their production—and the township had a total of 1.15 million enterprises. For the whole province, the number of entrepreneurs fell by 15,300, to 967,000 since June, and was expected to fall another 30% by the end of 1989, Xinhua reported.

China's leadership will only lurch from wild "reforms" to heavy-handed retrenchment, as they have for the past 40 years, a Chinese economist told *EIR* in December. With its current bottlenecks, especially in energy and transportation, the Chinese economy cannot "afford" rapid development, and after five years' growth, the economy collapses for six or seven years.

This is what has happened in the past year. Beijing television reported Oct. 31 that from January to September, investment in state-owned units' fixed assets dropped by 9.2% from last year, and overall investment by state-owned enterprises fell by 20%. Investment in the fixed assets of autonomous regions dropped also from last year, as much as 20%

in many coastal provinces. Profits and taxes from every 100 yuan of industrial funds fell from 23.4 yuan last year to 20.1 yuan this year.

Growth of labor productivity slowed month by month in the third quarter of 1989, Xinhua reported Nov. 3, and actually fell in September. Compared to 1988, increases in productivity for state industry was 4% in July, 2.1% in August, and -1.8% in September. Worse, there has been no increase in the number of industrial products meeting quality standards for the past four years.

### Stagnation in agriculture

China's leaders have consistently proclaimed agriculture the basis of her economy, but China can barely feed its people.

On Nov. 27, the State Council proclaimed that China's "governments at all levels must exert unremitting efforts to revitalize agriculture through promoting scientific and technological progress. They must consider this a strategic project." Three days later, at a national meeting of provincial governors and officials, the leaders warned that agriculture is in a "stagnant situation." Provincial officials attacked the central government policy of cutting investment the moment "overproduction" was reached. Investment in cotton production in Hebei was cut totally in 1984 due to "overproduction," and, as a result, production dropped ever since. In Anhui, China's granary, the vice-governor said, the "ability to withstand natural disasters is very poor." Only 40% of the province is irrigated, and wheat production, in particular, was hit by natural disasters. But, he said, "agricultural investment earmarked in the state budget has not even returned to the 1980 level."

Agriculture in China is "in the hands of the gods," the *Ming Pao Monthly* of Hong Kong reported in October. All the talk of bumper harvests in the summer of 1989 is almost meaningless: The harvest was the largest on record, but only 2.5% above last year, and bad weather after July cut the fall harvest. At this point, even equaling the 1984 record harvest will not suffice: Population has increased by 70 million in five years.

Industry is held in check by stagnating agriculture. Agriculture provides the key raw materials for many industries, especially light industry. The drop in cotton production to 4 million tons, down from over 6 million in 1984, could put the whole textile industry—which accounts for the largest portion of China's foreign currency income in a "serious crisis," *Ming Pao Monthly* wrote.

The central government is in too much of a cash crisis to buy much of the 400 million tons of agricultural products produced in 1989, Asian sources report. Food is distributed to the cities almost entirely through a subsidized government system. In the province of Hopei, the government could not raise the 100 million yuan (about \$20 million) to purchase food, and much of 1989's crop is now rotting in warehouses

as a result.

The P. R. C. Agriculture Department reports that almost 130 million metric tons of food are wasted every year in China: 40 million metric tons between the harvest and primary processing, and another 25 million metric tons during transport.

### An irrational system

The real problem of the Chinese economy is the incompetence of those running it. As Jin Lizuo, a member of the State Commission for Restructuring the Economy, wrote in an article in *Britain-China* in 1989, China's problem is "resource dislocation" and an "irrational" investment pattern which is worsening rapidly. Energy consumption per \$1 GNP in China is *three times* that of the advanced industrial nations. Investment in agriculture fell sharply in the past decade: from a high of 11.1% of total capital construction investment in 1979, it fell steadily to 3.3% in 1987. Farmers' own investment was primarily in building new housing, Jin wrote, because houses as private property have never been touched since the P. R. C. was established, but land is only leased from the state, and no personal investment is secure from appropriation.

Investment in transportation and communication are only comparable to figures in the United States from a century ago, yet investment in these sectors has remained constant at about 15% of total capital construction investment over the past decade, Jin wrote.

China's communist leaders have one solution for their problems: robbing the workforce blind. Farmers in Jiangsu province, on the coast north of Shanghai are being taxed out of all their yearly profits when they sell their grain to the state, *Inside China Mainland* reported in November. The Money Collection Division has set up shop right at the buying stations, and in many cases farmers had to turn over their entire earnings to pay the tax.

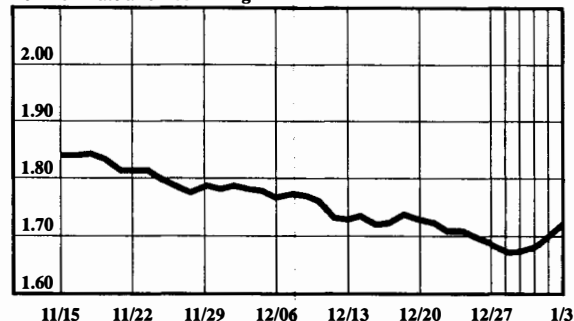
Rural revolts may also be building: In September, one official was killed in the relatively well-to-do province of Zhejiang, and about 200 land inspectors have been injured in the past months, mostly in disputes about peasants illegally farming state land.

On Nov. 18, the *China Daily* reported for the first time that workers were "contributing" up to 30% of their pay to buy government bonds, and that the practice of taking the money for the bonds from workers' pay may have "caused resentment." State-owned companies began stealing wages from workers' pay envelopes to pay for both state bonds and public debt bonds months ago. The state issued 12 billion yuan in bonds in June, and gave workers until the end of the year to buy them. The bonds pay 20% interest—the equivalent of China's official inflation rate. Already there is a black market in treasury bonds in over 100 cities, as the Chinese speculate that the state will be short of cash for many years to come.

## Currency Rates

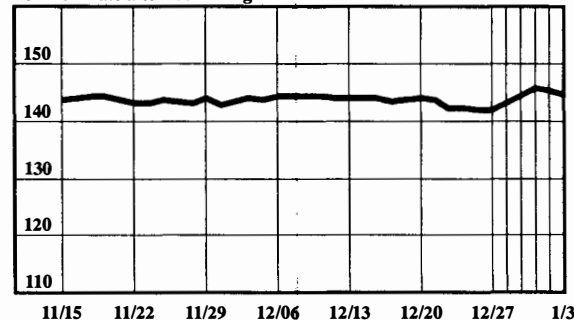
### The dollar in deutschemarks

New York late afternoon fixing



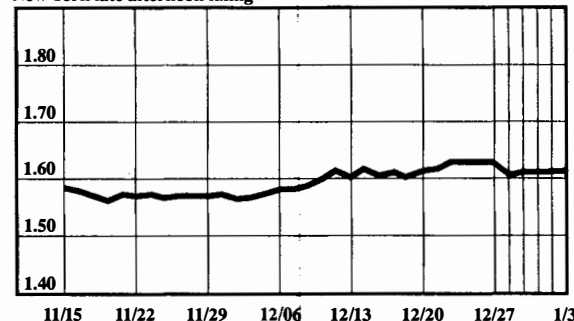
### The dollar in yen

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

