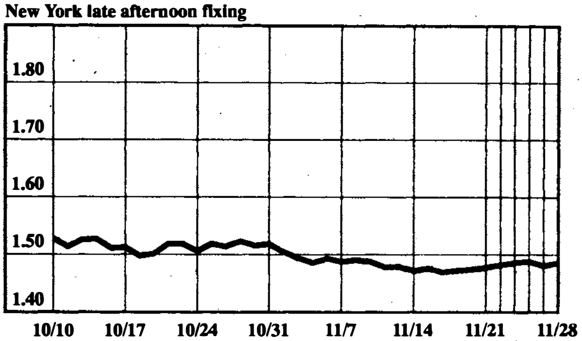
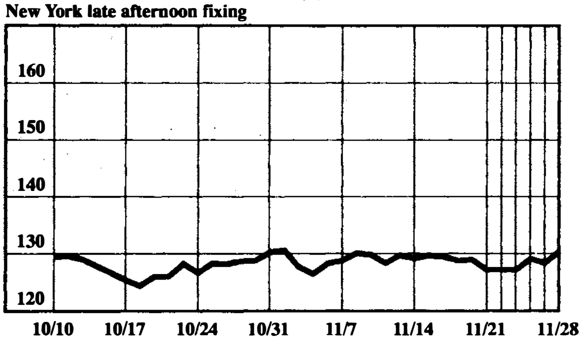
Currency Rates

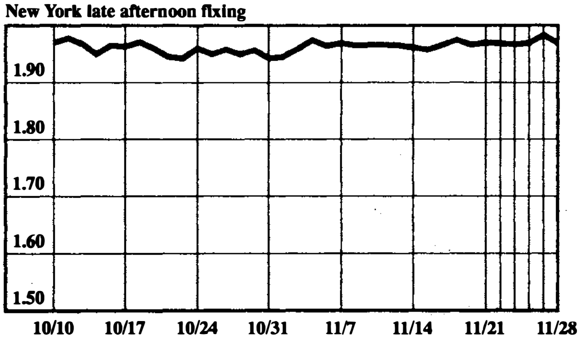
The dollar in deutschemarks
New York late afternoon fixing



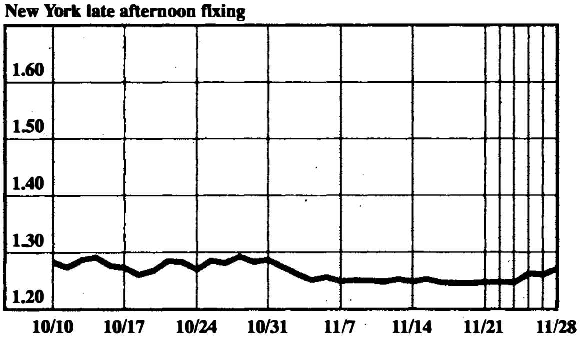
The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



China policy debate: prelude to crackdown?

by Mary M. Burdman

The situation in the People's Republic of China was aptly described as "schizophrenic" by an observer from Hong Kong who had returned from a recent visit there. No date has yet been set for the crucial seventh plenary session of the 13th Chinese Communist Party Central Committee, which must determine economic policy for the Five Year Plan which goes into effect Jan. 1. Prime Minister Li Peng announced Nov. 2 that the plenum would be held before the end of the year, but nothing more. The session was to have taken place in September, but the Asian Games were used as an excuse to put it off. The delay continues, despite the fact that Beijing considers the plan so critical that all other national meetings have been canceled until the end of the year.

There are ominous indications from top Communist leaders, despite the fact that contentious debate over economic policy among Beijing officials, well-known economists, and provincial and regional leaders appears more open than it has been since Li Peng imposed drastic austerity two years ago. Li has announced a national conference on economic strategy for Nov. 25-Dec. 1, and outlines for the Five Year Plan, revised at a national conference of provincial governors in September, are again circulating among provincial and municipal leaders.

Beijing apparently opened up policy debate on the disastrous economic situation at a symposium on economic reform sponsored by the Comprehensive Development Research Authority and the journal *Gaige* in Beijing on Oct. 10. Minister in Charge of the State Commission for Restructuring the Economy Chen Jinhua declared, "Now, deepening reform has reached a level where theoretical guidance is desperately needed." His next statement held a dire warning. "It is necessary to explore profoundly certain basic theoretical problems . . . guided by the principle of 'letting a hundred flowers bloom and a hundred schools of thought contend.' " This slogan, which every P.R.C. heavyweight is suddenly spouting in any and every context, was used by Mao Zedong in 1957-58 to lure China's thinkers to speak out; he then politically slaughtered them by launching the "anti-rightist" campaign, the prelude to the Great Leap Forward which starved 50 million people to death.

Beijing is under tremendous pressure. The year 2000 is looming, and all the Communist Party's strategic goals for that date, including the pledge to double the Gross National Product. Party general secretary Jiang Zemin announced on Nov. 19 that China must reach the goals set by Deng Xiaoping in order to keep the population under control. China's economy "cannot be developed without a certain rate," Jiang said. But the goal of a 6% growth rate is unreachable. China's industrial growth rate was *negative* at the beginning of 1990, and only increased to 5.9% in June. Production growth rates then fell again due to "hot weather," and only rose in August and September to an official rate of 7.5%.

Any expansion in production is due to the fact that the leaders of Guangdong and other provinces are obstructing Beijing's attempts to consolidate economic control. As long as the Chinese people think they are *not* working for the central government, they may be willing to produce. For decades, the classic mode of resistance to the Commuist regime by the Chinese population—since strikes were outlawed in the 1950s—is work slowdowns by industrial workers and peasants. There were already sit-in strikes in Guangdong province, China's "showcase" of reform, in the first half of the year, Hong Kong's *Ta Kung Pao* newspaper reported.

Looting the work force

The parameters of the economic debate in Beijing, nominally on how to combine reform with socialist planning, are actually on how to further loot the work force while preventing political upheaval. The central government is bankrupt, and its immediate goal, while attempting to attract more foreign loans, is to squeeze trillions of yuan of savings, most of it hidden under the mattresses, out of China's population. Beijing will attempt to do this by cutting the price subsidies for city dwellers and state industries, which now cost one-third of the national budget, and which sent the budget deficit up from 20% to 34% in just one year.

This is a risky proposition. An exiled Chinese economist reported that the Communists will be able to hang on to power only as long as they keep enough food on the store shelves and the current "Gang of Ancients" stays alive. But for the first time since taking power 40 years ago, the Communist Party is planning to cut the grain price subsidies for the cities. Lines are already forming at Beijing stores, after the price of sugar went up 58% on Nov. 2. The costs of coal, salt, and gasoline have already gone up, and rumors that cloth and clothing prices would also rise sent Beijing residents out to buy whatever they could.

The situation in agriculture remains grim. Li Peng announced at a national grain conference Nov. 14 that, "although China has reaped a bumper harvest this year, the amount of grain per person has not yet reached the previous record [of 1984] as a result of population growth." He called for mobilizing "all social forces to help solve the shortage of grain storage facilities." The State Council has decided to set up a special grain reserve system to buy all surplus grain from farmers and ensure they are paid (in previous years, they received only IOUs), and to "streamline the relationship" between the central and local governments.

Desperate measures

Beijing is using the chaotic situation inside the Soviet Union, the result of perestroika, as a heavy-handed propaganda weapon. Chinese television regularly shows the empty food stores in Moscow, emphasizing that the stores in China's cities are (so far) relatively much better supplied. The Chinese media also made much of a group of Russian professors visiting the University of Beijing recently, who exclaimed that they found Beijing "incredible" compared to Moscow, where "we have nothing."

The tactic could backfire, however. Like the U.S.S.R., the Chinese empire is facing dissolution, with mass unrest in the border provinces and the eastern coastal provinces on the edge of economic secession. They are refusing to kowtow to Beijing's demand for funds to bail out the huge state industries. A State Statistics Bureau spokesman reported Oct. 24 that taxes and profits from the state industries fell 21.5% from last year, a 100% greater loss in one year. The current economic system, the spokesman admitted, is "not that rational."

In the first nine months of 1990, the State Statistical Bureau announced, the government pumped $8.4 billion into subsidies to factories, but there are no buyers for the resulting output. State factories stockpiled some $25.3 billion during this period, 50% more than last year. But the state sector can neither sustain the work force nor the government, and last year cut tax payments from almost $1 billion to $110 million.

When 40 senior officials from the State Commission for Restructuring the Economy gathered in Beijing on Nov. 8, State Council official Yuan Mu told the conference that China's industry and agriculture had been in a state of imbalance for many years. While industry grew 4.5% between 1985-88, agriculture only grew 1%, and basic industry shrank 7.5%, while processing went up 10%. China lacks 70 billion kilowatts of electricity a year, and only 65% of goods are transported on time.

The only thing going up in China is debt. Li Peng's austerity has not cut foreign debt: Official figures put debt at $45.4 billion at the end of June, up 10% from last December. Overdue loans total $150 million, and debt payments will peak at $10 billion a year from 1992-95. Despite all the talk of "socialism," in the wake of the visit of an International Monetary Fund delegation on Nov. 12, the Bank of China took the classic "free market" step of a second currency devaluation in less than a year on Nov. 19. The yuan was devalued 21% last December, and now another 9.75%, to 5.2 to the dollar. The move was done to boost exports: China's trade has fallen 2.8% so far this year compared with 1989.