

Economic crisis threatens demise of Chinese Communist Party

by Mary Burdman

In recent weeks, Beijing has been the scene of one high-level purge, crisis meeting, and Communist Party brawl after another. China's Communist Party government is caught in the trap of its own making, and the harsh economic policies imposed on July 3 are a mark of desperation. Like their Russian predecessor Yuri Andropov, whose "reforms" imposed in 1983 ultimately brought down the communist government, China's rulers are damned if they do, and damned if they don't.

The "Chinese Model" could not possibly work, because of its systematic *disinvestment* in vital transportation and energy-generation infrastructure, which meant that the economy physically cannot grow. This was imposed on top of the years of looting of agriculture—the mainstay of the Chinese economy—and heavy industry. The "reforms" have set off a peasant revolt, and made the Communist Party an object of universal hatred, as its own leaders admit. But any economic crackdown will lead to another 1989-style rebellion, as the CP leaders also know, which maybe even tanks will not be able to quell.

Railway capacity is falling, energy output is shrinking compared to need, and top officials warn of new flood disasters. The official press is full of quotations of China's leaders, warning of the urgent need to build infrastructure. Finance Minister Liu Zhongli told the German daily *Handelsblatt* on June 22, in his first interview with a western paper, that "shock therapy" was "not desirable for China" and that "the financial authorities must support the reforms, to provide for the infrastructure projects and agricultural subsidies. There are no changes in our plans to build railroads, the road network, and air and seaports." Yet only two weeks later, Beijing announced that infrastructure projects would be curtailed.

Mass demonstrations of peasants, taxed to death and paid in worthless IOUs, have sprouted over China. The number of the *manilu*, the "blind wave" of unemployed, is estimated to be 200 million. In the biggest student demonstrations since 1989, groups of 1-2,000 students marched in the interior city of Xian in Shaanxi province for several weeks in June. Although the protests were "unpolitical," provoked by local authorities' attempts to build a highway through their cam-

pus, the dispute was only defused after the State Council, China's cabinet, ordered the Xian authorities to compromise.

The "boom" side of the Chinese Model is doing no better. Public corruption scandals are erupting all over. In Beijing, police patrolled the streets at the end of June to prevent demonstrations by some of the tens of thousands of Chinese cheated in the "Great Wall" 1 billion yuan (\$175 million) bond scandal. The owners of the Great Wall Corp. attempted to abscond with funds lured from investors with promises of 24% interest rates, but were arrested. At least 100 senior officials have been arrested in the case, including at least one vice-minister, and a former deputy chairman of Parliament has been reprimanded. On June 16, the Agricultural Bank of China announced another "major fraud case" in the *China Daily*. Over 200 falsified letters of credit, with a face value of \$10 billion, had been issued on April 1 in the name of the nonexistent "International Financial Department" of the bank in favor of "Sherwood Investments Ltd of the Bahamas."

China's cheap-export drive, the core of the Chinese Model, is slowing, while the backwardness of the economy is forcing a burst of imports. Exports rose only 4.4% in the first half of 1993, while imports, including equipment for foreign-funded enterprises, steel, machinery, and aircraft, soared 23% overall, leaving a trade deficit of \$3.54 billion. Moreover, at least \$5 billion worth of foreign goods is probably being smuggled in each year. But imports of China's most urgent needs, including fertilizer and raw materials, fell. The government's inability to collect taxes has created a budget deficit equal to \$4 billion last year, \$500 million more than expected. Total revenue in China was only \$71.6 billion. Finance Minister Liu Zhongli stated June 25 that many localities had run up deficits, totaling \$510 million.

Communist Party a 'heap of sand'

The Communist Party came to power on the basis of peasant revolt, and the peasant revolt in China's vast hinterlands could throw them out again. Beijing's leaders have watched events in Russia and eastern Europe with growing fear since 1989, one reason they have rejected the "shock therapy" formula. There was far greater unrest in China in 1989, set off by Prime Minister Li Peng's austerity program,

than there ever was in Russia in 1991.

The CP leadership is splintered, and the central government and provinces are deeply divided, as party Secretary-General and State President Jiang Zemin admits. The official *Peoples Daily* July 6 quoted Jiang: "If we lack a correct guiding theory and a strong spiritual pillar based on that theory, then it is impossible to imagine what our party, state, and nation will become. . . . We will become a heap of loose sand and be unable even to begin to talk about cohesion, fighting capacity, and creativity, and there will be no bright future."

In October 1992, a new Communist Party leadership was installed; in November, there was the biggest reshuffle and purge of the military leadership since 1989. In the months that followed, there were high-level leadership changes in every Chinese province. In March, the entire national central government leadership was changed with the retirement of the last of the old revolutionaries. In late June, the State Council was revamped.

Purges continue, at the highest level. On June 29, the governor of the central bank, the Peoples Bank of China, Liu Guixian, was replaced by Executive Vice-Premier Zhu Rongji. Liu is being scapegoated for the financial chaos. His ouster is another signal of the eclipse of his sponsor, Li Peng, who installed him as central bank head in April 1988. Li Peng has been "politically" ill since late April, and although he has emerged for political functions, on June 25 he confessed to visiting Australian Prime Minister Paul Keating that "the doctors still advise me not to attend too many activities."

Even Deng Xiaoping, China's ancient revolutionary leader, may face eclipse. It was Deng who set off the reforms in 1978, and enforced them with the proclamation that "to be rich is glorious." Deng's famous "Southern Expedition" in January 1992 gave his official blessing to the cheap-labor Special Economic Zones, and the orgy of wild speculation and greed which is now threatening the CP's survival. In early May, Wan Li, the former chairman of the National Peoples Congress and one of the few surviving "Ancients" in China, berated the CP for its corruption and attacked Li Peng and his cohorts for the Tiananmen Square massacre in Beijing in June 1989. Wan asserted that Li Peng and others first provoked and then crushed the protesting students, to exploit the situation for their own political power. Wan went on to warn of sweeping unrest in China. Corruption, blackmail, bribery, illegal business operations, and decadence are relatively widespread in the CP, Wan said. The population is enraged; it is natural to air their grievances, and the party has no right to stop it. Those who are repudiating the law, are not the masses of people, but those "degenerate creatures" within the party, even at the leadership level, who dominate policy, Wan warned.

Deng was pointedly referred to in the past tense in an article published in the official English language *China Daily* on June 17, quoting a high-level CP official: "Deng was an outstanding representative and brilliant model of safe-

guarding, adhering to and developing Marxism, Leninism, and Mao Zedong Thought. And he had made historically important contributions to the creation of the theory of building socialism with Chinese characteristics."

Urgent meetings

On July 1, China's top leaders met in Zhongnanhai, their "Forbidden City," in Beijing. The meeting—unusual for secretive China—was publicized with a front-page photo in the *China Daily*. On the same day, the official Chinese press published Jiang Zemin's June 25 speech on the 72nd anniversary of the Communist Party's founding. Jiang Zemin spoke of the "profound economic and social problems" which had emerged under China's "reforms." He warned of "slackening of discipline" in the party, and of its members' money-worship, hedonism, and greed. Deep divisions in China's leadership could mean they would fail at the "historical tasks" at this "turning point of historic development." Regional needs must be subordinated to the center, he said, and the divisions between party and people "cannot be underestimated."

The result of these meetings was the announcement (in the Beijing-controlled Hong Kong press) on July 3 of a 16-point plan to attempt to bring the economy under control. The plan is schizophrenic. The reported measures include calling in loans diverted to speculative schemes; forbidding the issuing of new IOUs to farmers; controlling real estate speculation; raising interest rates to cut uncontrolled investment; attempting to eliminate internal debt; imposing a 20% cut in government spending—the Chinese bureaucracy *doubled* under Deng's reforms; and suspending new price reform rises. But the measures will also force workers to buy up an unsold issue of government bonds in the next two weeks, and reduce the scale of infrastructure projects. Freight prices were hiked 40% for the collapsing rail system. Earlier measures had demanded that all local taxes on the farmers be cut—but this means that vital education, water purification, and other rural development programs will be eliminated.

China's regional leaders have also been summoned to Beijing, where they met with Jiang Zemin and Zhu Rongji on the July 4 weekend. The autumn CP Central Committee plenum was moved up to the beginning of July and provincial governors were also summoned.

Vice Premier Zhu Rongji, the new economic czar, presided over a national finance meeting at which he acknowledged liquidity problems in the banking system. This emergency meeting was also given full publicity, on the television news. Yet the *Peoples Daily* confessed in a front-page editorial July 5 that no one has any idea what to do. "The market economy works by the same rules all over the world, yet it is still rather alien to us. We want to build a market economy on the foundation of the socialist system. This is a new creation never before seen in human history. . . . When it comes to the socialist market economy, we are still only primary school students."