

# Mainland China takes the IMF road

*The “forced collapse” that swept Ibero-America in the 1980s, has now reached China. By Michael Billington.*

In the opening speech before the yearly three-week meeting of mainland China’s “congress”—the National People’s Congress—Prime Minister Li Peng described in detail the virtual death sentence now being imposed on a large portion of China’s 1.1 billion people under the name of “retrenchment” and “rectification.” He also announced that the two-year duration of this “retrenchment,” first announced last September after the food and infrastructure crisis exploded into social chaos, will be extended for “several years.”

The program will please the officials from the International Monetary Fund, who could not have done better themselves in outlining a program of austerity. In fact, the IMF and the World Bank have, since Communist China officially joined in 1980, maneuvered into position to influence policy on the mainland in a pattern similar to IMF practice in South America in the 1960s and 1970s: First, encourage wide-open credit expansion and investment (a large portion of which is put into services and low-intensity export industries), *without* the necessary foundation in agriculture and infrastructure needed to sustain industrialization. Then, when the inevitable financial crisis erupts, impose austerity. This “forced collapse,” which swept Ibero-America after the debt crisis erupted in the early 1980s, has now reached China.

Prime Minister Li Peng has emerged as the policy strongman since the September 1988 Central Committee meeting that announced the “rectification.” He told the 2,768 deputies gathered March 20 in the Great Hall of the People in Beijing, and a national television audience, that the six months of cutbacks and rationing had brought only “limited success”:

- a 50% across-the-board gutting of construction projects;
- a 9.1% collapse in retail sales, due largely to the rationing of 13 items that had been floating in the “free market” of price reform;
- recentralization and tightening of credit (which had also been partially left to local free-market discretion), with a resulting shutdown of tens of thousands of enterprises across the country. The Agricultural Bank of China announced earlier this year that it will slash lending to rural enterprises by more than 50%, according to the bank’s Deputy Governor Wang Jingshi.

One may well ask how such devastation to the economy and the population could be measured as “successes.” The problem which Li Peng claims to be solving, he described as follows: The crisis of 1987 and 1988 was caused by the previous leadership’s “blindly expanding the scale of construction, one-sidedly seeking an increase in production and quantity” and failing to establish “macro-economic control systems while insisting on the policy of devolving powers to the regions and enterprises.”

When inflation skyrocketed, Li said, it “exacerbated the hysterical psychology of the masses and a wave of panic buying and depletion of bank savings hit the nation.”

Li and his economists acknowledge that the underlying problem is not really “too much industrialization,” but rather the woefully inadequate supply of energy and food and transportation systems needed to sustain that growth. But having no ideas how to solve that *real* problem, he’s adopted the Spartan solution of shock austerity à la Milton Friedman.

Not surprisingly, this shutdown of the economy did not stop the inflation spiral, and new panic buying is again reported in parts of the country.

The 1988 crisis marked the end of the ten-year-old “reform program” of China’s aging leader Deng Xiao-ping. (Deng did not appear at the National People’s Congress, pleading that he is passing leadership on to younger men.) Deng, one of the primary targets of the Cultural Revolution, recovered his position and took power after Mao Zedong’s death, implementing the shift to free market pricing and investment policies in 1979. While this rapid modernization did create several years of broad economic activity, and did open the mainland to the outside world, the decision was made *not* to make the necessary investments in agriculture and infrastructure. Over the past several years, the proportion of investment in energy has dropped from 6.5% to 3.8%, at a point when the country’s industry cannot function for more than a few hours a day because of lack of electricity. In agriculture, from 1968-85, the proportion of investment was already a paltry 10%, but in 1985—with the great reforms—the proportion went down to 3.8%. As for transport, less than 20% of China’s roads are paved, permitting an average speed nationwide of 30 mph.

Advice from Henry Kissinger and associates who ran the shift in U.S. diplomatic relations which dumped the Republic of China in Taiwan and recognized the Communist mainland government, brought in the monetarist advisers to track the emerging "socialist market economy" in the desired direction.

By 1987-88, the economy unraveled (see *EIR*, Nov. 11, 1988, "Beijing Regime Faces Breakdown Crisis"). Inflation reached 40%, food and commodity shortages led to hoarding and a run on the banks.

It was then that Prime Minister Li Peng was made economic czar, replacing Deng Xiao-ping's protégé Zhao Ziyang, the Communist Party chairman, who led the discredited reform policy. Li Peng's rectification unleashed a further descent into chaos.

### Wandering hordes

The "free enterprise" policies of the reform years had created the first unemployment problem in the Communist era. Previously, the "three irons" policy was generally upheld: 1) the iron rice bowl—everyone gets food, but not much; 2) the iron chair—everyone gets a job, but not much choice of mobility; and 3) the iron wage—a guaranteed wage, although extremely low.

The introduction of free-market decisionmaking means employers could dismiss workers, and workers and peasants could seek work in the free-market sector. The resulting free labor was absorbed mainly in construction projects in the cities and in the rural industries.

The forced collapse of half these projects and thousands of rural enterprises over the past six months has given rise to the mass migration of over 5 million desperate peasants and rural workers flooding into the cities, finding only more unemployed workers there from the closing projects. The migrants are sleeping in the streets, begging, looting and jamming the train stations. In Heilongjiang province in the northeast, one of China's poorest provinces, more than 1.2 million migrants from the rural areas and 350,000 from central China have moved into the larger towns, with no expectations for food, shelter, or jobs.

The government has called out the military in several areas to help move the peasants back to the country. They are generally not welcome there either, since local leaders are trying to live within the shrinking rations allotted to them. There is no "welfare" or "unemployment compensation" system. According to the *Beijing Nongmin Ribao*, of the 400 million rural labor force in the mainland, 220 million, over half, are "surplus workers," and as many as 110 million totally without work!

### Li Peng's program

**Agriculture:** The main initiative is the increase by 18% in the price for grain paid to peasants under contract to the government. This is slightly less than inflation last year, and

far less than the inflation on materials needed for farming. This could scarcely be expected to reverse last year's decline. A smaller increase will be paid for cotton. An unspecified increase in spending for forestry and water conservation was announced, but within the confines of "reducing expenditures and currency issues this year."

Admitting that this is nearly meaningless, Li called on peasants to help themselves: "Peasants should be encouraged and guided to invest more money in agricultural production and development. They should be the main source for expanding input in agriculture."

**Energy:** Li made no pretense of solving an energy shortage that has left many industries shut down or open only two or three days a week due to the scheduled blackouts. Said Li: "In energy, equal importance will be given to development and conservation." Billed as a "top priority," government investment is in fact being cut, with a planned kilowatt output reduction of 20%. An official from the Ministry of Energy Resources said, "We cannot pin our hopes on the power industry changing the situation this year. The key problem is how to slow the economic growth rate and adjust the industrial structure."

**Education:** Also billed as "top priority," but the only source of income for reversing the education breakdown, Li said, is new school taxes (taxes are a new free-enterprise addition in China) and a call on the people to solve the problem: "It is imperative to encourage all sectors of society to run schools and open up new funding channels."

### Making China 'attractive'

The IMF is already demanding more. Reuters reported a "Western banker" saying immediately after Li's speech that austerity is not enough—"The leadership must use this period of austerity to make fundamental reforms." He proposed driving up interest rates to dry up all credit, raise prices of energy and transportation, stop wage increases (which are not even keeping up with inflation), and cut off credit altogether to the "inefficient" state sector enterprises. Only then will China be attractive for foreign investment. Such pronouncements are intended to strengthen Li Peng's resolve in crushing the expected resistance from local officials and desperate people.

Li Peng's approach to the crisis is perhaps best demonstrated by his leading role in the murderous population control policy. He recently proposed that even the emergency aid to impoverished areas of the country should be dependent upon adherence to the one child per couple official limit. During the National People's Congress, Li's allies reported that the biggest problem in enforcing the population policy is that the newly created free-labor sector is no longer under the "government work unit" control, where wages can be slashed and rations denied to couples who have more than one child. Li is preparing a new law to prevent this loophole, trying to establish total control over every citizen.