'China model' à la Bukharin is no alternative to the IMF

by Mary Burdman

Russian and Ukrainian leaders are endorsing what they call the "China model" as an alternative to the chaos unleashed in their economies by the application of International Monetary Fund (IMF) shock therapy policies. Already in spring 1991, leaders of the then-Soviet Union were praising Chinese economic methods, comparing them favorably to those of the West. Then-Deputy General Secretary of the Soviet Communist Party Central Committee Vladimir Ivashko, in Beijing in February 1991, announced on his return to Moscow: "We should take a closer look at China, at its experiences, including its economic experiences both positive and negative, and not at the West, as some of our economists mistakenly believed." The reason for the attractiveness of China's economy then became clearer: Beijing granted the U.S.S.R. credit worth 1 billion Swiss francs to purchase Chinese food and other consumer goods, which Ivashko called "moral support for our country at a crucial moment in our history."

This past February, the head of the Community of Independent States (CIS) military forces, General Samsonov, on a visit to Beijing, announced that he was deeply impressed by China's "stability" and "economic growth." General Samsonov also toured the Shenzhen Special Economic Zone (SEZ) next to Hong Kong. This was the same SEZ where Deng Xiaoping made his dramatic reappearance into Chinese politics at the end of January to shore up the faction supporting his 14-year-old "reform" policy. In the summer and autumn, Russian "restorationist" leaders, including industrial lobby leader Arkady Volsky and Great Russia proponent Vladimir Zhirinovsky, both endorsed the "China model." Their support was reinforced by the enormous barter deal arranged in the spring, when a Chinese "entrepreneur" pulled together 500 railway cars of food and texiles to trade for four Russian Tu-15M passenger jets. The total value of bartered goods was $313 million.

In October, newly elected Ukrainian Prime Minister Leonid Kuchma told the French daily *Le Figaro* that he "very much likes the Chinese variant," while criticizing the IMF shock therapy. Kuchma said, "I don't understand . . . the privatization 'à la Polonaise,' it is like an earthquake." On China, he said, "It is not a matter of tanks. The primary thing that the Chinese have done, is to distribute land to the peasants. Additionally, there was the creation of free economic zones," which he said "could be created in Crimea, Odessa, the Transcarpathians."

Similarly, on Oct. 31, Ukrainian President Leonid Kravchuk, during a press conference in Beijing while on a visit to China which is expected to result in increased military sales, said, "I have great respect for the efforts of the Chinese Communist Party on economic reform."

What is the 'China model'?

The "China model" is hardly any positive alternative for those seeking a way out of the International Monetary Fund trap. Deng Xiaoping readily acknowledges that his reforms, which are a policy of "feeling our way" rather than any overall strategy to deal with China's enormous economic problems, have three essential components:

- a police state apparatus that *appears* to maintain political stability;
- limited privatization of agriculture from the Maoist commune system, which has led to an increase in food production in the short to medium term; and
- a very geographically restricted system of "free enterprise zones" or "special economic zones" along China's costal and border areas.

This Chinese model is, in essence, a rewarmed version of Nikolai Bukharin's New Economic Policy for the Soviet Union in the 1920s, which had the same essential features of peasant family rather than collectivized agriculture, and concessions to foreign investors. The policy was thrown out during Stalin's drive to build Soviet heavy industry.

But the Chinese model is only a short-term negation of other economic disasters. Beijing's current "stability" is based on the world's most repressive police state. The Gang of Ancients' determination to keep power virtually guarantees a chaotic succession crisis when Deng, now 88, finally dies.

The economic "reform," although it has maintained a level of food and consumer goods production that looks impressive in Moscow, must inevitably collapse in on itself. Under Deng, investment in infrastructure and agriculture has fallen even since the Maoist period.

The sharp economic division between rural and urban areas can be best measured in centuries of comparative development. In the interior, some 35 million of China's most impoverished people have an annual income of less than $40; tens of millions more are illiterate, with at most a few years of education. An official *China Daily* commentary announced in August that China's "poor areas" must rely on themselves for development, because the "economically pressed," better-off regions of China cannot contribute to the impoverished ones.

This situation has given rise to China's "ultimate weapon"—the massive 100 million-strong "blind current" of unemployed men, women, and children who roam the country. Deng has repeatedly threatened Hong Kong, Southeast Asia, Japan, and even the United States, that if the communists lose their grip and China "falls into chaos," hundreds of millions of refugees will flood Asia and America; he made the threat again during his visit to Shenzhen in January.

Agriculture

The "household contract" system begun in 1978, which abolished Mao Zedong's disastrous communes, allows peasants to grow their own crops on long-term leased plots of land, and contract for grain production with the state. This led to a big surge in food production from 1978 to the mid-1980s, but this has since leveled off. With China's population growing by 15 million a year, grain production has actually been *falling,* in per capita terms, since 1984. Only this year, China finally expects to have actually raised per capita grain production. China loses almost 130 million tons of grain a year—about 30% of the crop—due to wastage from lack of storage, transport, and marketing facilities. In many provinces, 40-70% of grain is "stored" outdoors, and China now has 45 billion kilograms of grain stored in the open air. Since 1949, a tiny $1.4 billion has been invested in building new granaries, and some from the old Imperial period (before 1911) are still in use.

Despite the appearance of abundant food in the cities, malnutrition remains a major problem in China. The United Nations reports that currently 41% of Chinese children suffer from malnutrition, a rate worse than most nations in sub-Saharan Africa.

Agriculture remains extremely primitive, massively exploiting human labor. China, although a nuclear military power, remains a rural agricultural economy, with approximately 75% of its 1.2 billion population still on the land. Average *annual* income for farmers is 710 yuan, or $125. The Oct. 14 *China Daily* announced a "drive to modernize and mechanize agriculture—appropriate to China's specific conditions." This means "applying different measures suited to different regions." In coming years, areas near Beijing, Shanghai, and other large cities, as well as the border regions of Xinjiang and Heilongjiang, will be the first to realize agricultural mechanization. "Other regions," an Agriculture

China's peasantry, an economic model? Russians and Ukrainians who are looking to the policies of the Chinese Communists as a way out of their crisis, are in for a shock. China's investment in infrastructure and agriculture is falling, and the most backward peasant regions, not part of the booming speculation in the free enterprise zones, have been left to fend for themselves.

Ministry official stated, "not only need machinery driven by mechanical or electrical power, but they also need implements driven by *man* or animal power."

Investment in agriculture has fallen steadily from over 10% of the total Chinese budget in 1978 to approximately 5% by the end of the 1980s. Even the breakup of the communes was one factor in this drop in investment: Under Mao, the communes maintained vital irrigation and water-control projects, but under the Deng "reforms," such maintenance was dropped, one of the contributing factors to the disastrous floods of summer 1991. As many as 800,000 people, not 2,000, as Beijing has claimed, may have died, and 20% of the cropland was flooded, just weeks before the harvest. While the total land area under irrigation grew significantly throughout the 1970s, in the 1980s this area decreased.

A 1991 article from Beijing reported that the farm machinery and tools from the communes were either distributed to the peasants or contracted to households. The machinery rapidly fell apart, because the peasants could not afford adequate fuel or replacement parts. Now, the article reports, "The greatest portion of the tractors in the rural areas are being used for transportation. The farmers can only use animals and manual labor to do the farm work." The article estimated that the area of land subject to intensive cultivation by machines is now only one-third of the previous amount.

The draconian austerity imposed on the entire nation in 1988 took another big toll. Official Chinese reports admit that rural incomes, which rose 15% per year until 1984, are now decreasing. The 1989 bumper harvest caused incomes to drop 2% from 1988, the first negative growth since the reforms, and the trend continues. But the peasants are being more heavily taxed all the time. Direct taxation of the peasantry is rising 10% faster per year than income is; when urban food subsidies and other social costs are included, the rise is 22% higher per year. Supply costs rose 57.2% over 1985-90, while grain prices only rose 27.8% to 1988, and not at all in 1989-90.

The 1988 austerity also caused the collapse of the rural "enterprises"—small, low-technology operations—which had employed some of the 100-150 million laborers who cannot be absorbed even into China's primitive agriculture. The economic cutbacks in the cities, where many of these surplus laborers had fled, sent millions of peasants back to the countryside.

The 'Special Economic Zones'

Industrial production in the SEZs is focused on the production of very cheap, light consumer goods for export. However, while China's share of world trade almost doubled in the 1980s, the vast portion of its record $72 billion in exports was food and textiles. China had only 1.8% of total world exports in 1990, and its sale of mechanical and electronic products was only 0.8% of the world market, putting China still behind such small nations as South Korea, Belgium, and Switzerland. In per capita value, China's annual exports amounted to $60; compared to $2,254 for Japan, $3,483 for the United States, and $11,800 for Belgium. Even for Guangdong, the most successful of China's provinces, the value of exports per capita is only $117. Compare this to the $10.50 for the interior province of Sichuan, with a population of 100 million.

Only a tiny percentage of the population works in the SEZs, which are strictly limited geographically to China's borders, especially on the east coast. While conditions in these zones can only be compared to the sweatshops of the 19th century, wages of approximately $680 a year are vastly higher than those in the countryside. Working hours in foreign-owned factories in the SEZs are often 14 hours a day, seven days a week. Factory owners, mostly from Hong Kong and Taiwan, claim that People's Republic of China (P.R.C.) workers are so much less efficient than their Hong Kong counterparts, that the long hours are necessary to achieve the same results.

Despite the conditions, tens of thousands of Chinese pour into the coastal cities from the interior looking for work. Official press accounts report that 2,000 arrive in Shanghai from the interior every day. More than 250,000 arrive in Canton a month; 100,000 are reported to have arrived in the city of Xiamen, opposite Taiwan, and 50,000 in Wenzhou. The railroad station in Guandong is completely blocked with people, with some 30,000 people *living* in and around the station.

Beijing warns repeatedly that up to 1995, China will have to create at least 35 million new jobs in the cities and towns, and 78 million new jobs in the countryside—on top of finding jobs for the already existing "surplus work force" of 10 million in the cities and 100 million in the countryside.

Industry

Chinese industry remains underdeveloped. Only 3% of the population constitute the Chinese "working class," yet, even of the approximately 30 million workers in the state heavy industries, 15% have *nothing* to do, emphasizing the inefficiency of these industries. They retain their workplaces, but have no productive function in the factories. By 1995, the government itself predicts that up to 15 million urban workers will not have employment. The prevalence of illiteracy is a major problem. Even in Shanghai, China's biggest industrial city, some 60% of workers have only a rudimentary education, 36% are at least literate with some level of other education, and only 4% are genuine technical specialists. Education and training are held in very low esteem: In China, a manual worker still earns more than an "intellectual," meaning teachers, doctors, and engineers.

The other overall problem with the work force is the massive growth of the bureaucracy during the Deng years. The Chinese bureaucracy has more than doubled in the past decade, from 13 million to 31 million, a far greater drain on the impoverished Chinese economy than industrial workers. Yet, on Oct. 20, the official *People's Daily* announced that "worker welfare" cannot continue. "Some people think the Communist Party should cover every eventuality—life, death, illness, housing—and they curse when they feel coverage is being lost. But without big changes and big upheavals, society cannot make progress." Subsidies for "money-losing factories" will cease, *People's Daily* announced.

There has been as little investment in industry as in the work force. The Nov. 1, 1991 *People's Daily,* in a report on heavy industry, said, "No major technological transformation programs have been carried out, so their technology and equipment have become old and outdated and have lost their competitiveness. In recent years, taxes and interest have squeezed out profits, and all sorts of apportions, fundraising programs, bonds, and expenses have chipped away at enterprise profits. What is worse, China's current depreciation policy not only uses a low depreciation rate, but also has not taken into account the influence of inflation on compensation and the renewal of fixed assets."

The Chinese Finance Ministry's response is to turn more to the development of SEZs and light industry. This past spring, Chinese Deputy Finance Minister Zhang Youcai announced that China's state sector had registered a loss of 31 billion yuan (approximately $6 billion) and is getting into more debt all the time. He said that the heavy industries had only until 1995 to turn the situation around. Zhang said that even profitable enterprises were losing 10% per year due to production of shoddy goods. Yet, more economic zones are being set up along its Russian, Mongolian, and North Korean borders. The zones will be aimed at spurring Chinese trade with these countries as well as attracting foreign investment.

All year, there have been regular reports of unrest—including strikes, demonstrations, factory occupations, and even attacks and killings of factory bosses—by China's generally well-controlled work force. The government is trying to implement an industrial "contract labor system" like that set up for agriculture after 1978, but the situation is much more difficult. The industrial work force has been "pampered" by Chinese standards. Now, Beijing is warning that "reforms" will mean mass layoffs, which means loss of food, housing, and medical and education benefits. At least 10 million jobs will be rationalized in the next five years, with up to 3 million workers losing their jobs this year.

Just before the 14th Communist Party Congress this month, the party leadership began circulating a document titled "Strengthening Police and Legal Work to Better Serve the Cause of Reform and Openness," which states that "the more we go for reform and opening, the more we have to strengthen police and legal work."

Transport

China is again, as in 1988, running up against its tremendous shortfall of infrastructure. At that point, the government's response was a total shutdown of growth and cutoff of credit to prevent "overheating." The political response of the population was seen in Tiananmen Square the next spring. China's lack of transport, water, energy, and raw materials development once again threatens to choke the economy. Even reputed economic "reformer" Zhu Rongji constantly emphasizes the problems of China's transport network. The railroad network has only grown by 2.8% per year, while the economy is growing 10-20%. Rail construction averaged over 900 kilometers a year until 1980, but since has stalled to just over 300, and investment in transport as a percentage of the economy has fallen from 2.5% in the early 1970s to just 1% now. Yet China remains with a very low density of railroads to both population and land area, compared to even the former Soviet Union or India. Of new construction, the much-emphasized 2,000-kilometer north-south railway, which will link Beijing with the south coast, is being built primarily by manual labor.

Of China's 1 billion kilometers of roads, only 25% are paved, and only 4% are either first or second class. On the roads, only 60% of transport is motorized—the rest being animal- or even *human*-powered.

New austerity program begins in Australia

by Don Veitch

In a series of measures aimed at introducing a free market regime in Australia, the newly elected Liberal government of Victoria (Australia's second largest and most populous state) has moved to abolish all basic wage rates and working conditions and to restrict the activities of trade unions. Seven thousand public servants are to be immediately dismissed, taxes are to be increased, and government-owned enterprises and hospitals will be privatized.

After a decade in the opposition in both Victoria and federally, the rabid free market-oriented Liberal Party, led by former International Monetary Fund (IMF) executive Dr. John Hewson, is now rushing to implement its agenda. The measures of the new Liberal government in Victoria are a harbinger of things to come. Victoria is set to become Australia's first *maquiladora,* in imitation of the slave labor camps on the U.S.-Mexico border. Not surprisingly, Hewson has pledged that if the Liberals also win the upcoming national election, he will bring Australia into the North American Free Trade Agreement (NAFTA).

These free marketeers pushing the agenda in Victoria, however, may have moved too quickly. The threatened backlash from Victorian workers over these "reforms" could jeopardize Hewson's chances to become prime minister of Australia in the next federal election (due to be called no later than March 1993).

The new Liberal government that beat out the ruling Labor Party with 56.2% of the vote to Labor's 43.8% on Oct. 4, is now headed by Jeff Kennett, a former advertising industry executive. Kennett has bragged privately about his "Genghis Khan"-like beliefs and his intention of leaving his mark on politics.

Attack on wages and labor

Within three weeks of winning office, the new government moved to balance the state's finances with a "mini-budget." A number of revenue-raising taxes were introduced including a $100 tax on each house. This latest measure is reminiscent of former British Prime Minister Margaret Thatcher's infamous poll tax. To no one's surprise, the Kennett government moves have been supported by the Rupert Murdoch and Conrad Black-controlled press in Victoria.

The mini-budget was immediately followed by an announcement that a 17% bonus paid on all public service holiday pay was to be abolished. These steps were a soften-