Beijing resorts to 'crisis management'

by Michael Billington

On Dec. 21, the Beijing government reimposed emergency price controls on 27 major commodities, including the basic foods of the Chinese diet: grain, rice, cooking oil, pork, and eggs. In only one week, prices on these goods had leaped by 30-40% in the capital and in some other cities. Although Beijing Vice Mayor Wang Baosen claimed that there was no shortage of foodstuffs, and threatened legal action against shops that raised prices, other reports indicate that farmers are hoarding grain in expectation of the coming crisis. Reuters reported Dec. 21 that city residents were also hoarding, expecting that the tax increases planned for next year would fuel inflation.

Price controls on grains had been abolished in May for the first time in the history of the People's Republic. Shortly thereafter, Vice Prime Minister Zhu Rongji, who had been given extraordinary power over all banking and economic policy, implemented a 16-point program to rein in the speculative boom in the free trade zones which had sparked inflation rates of up to 30%. Zhu's measures had only a moderate effect, and were resisted by those in the government and in the southern provinces who were benefitting from the bubble economy. At the critical Third Plenum held in November, the 16-point program was dropped, and speculation and the inflation have returned to the dangerous levels of the spring. With no price controls on foodstuffs, it was feared such inflation would create both urban and rural unrest.

There is open disagreement over how to deal with the threat of a breakdown. Although Zhu Rongji's "cooling off" policies were dumped, Zhu was covered in all the nation's media when the price controls were reimposed. He said that "stabilizing the grain price and inflation . . . are key to a smooth implementation of next year's reforms." In an interview with Dow Jones, Zhu even referred to the "bubble economy in China," admitting that the money supply *doubled* in 1992 and will double again in 1993. Zhu claimed that "all these problems have disappeared now," and declared that the proposed tax and banking reforms will be "the most unprecedented, significant, and profound economic structural reforms in the history of China."

However, official figures confirm that inflation in the major cities is rising again, reaching 21% overall and over 30% in some southern cities. Also, it is widely recognized that the reforms face powerful resistance from the same interests who overturned Zhu's 16-point program to rein in speculation, and that in any case the reforms would be meaningless if the renewed speculation creates hyperinflation or a crash. The World Bank, which has played an inside role in the creation of the cheap-labor policies in China to facilitate the "globalization" of the collapsing industrial sector in the West, issued a wa ing that renewed monetary expansion would jeopardize the entire reform process. The report was published in the government-run *People's Daily* of Dec. 1, showing the level of factional differences in the Chinese leadership. The World Bank's senior economist in Beijing, Hwa Erh-cheng, reported: "The growth in the issue of money is still too high . . . the trade balance continues to worsen, and the inflationary pressure remained very high."

The president of the Asian Development Bank, Mitsuo Sato, also warned that the unrestricted speculation could not be sustained, adding: "You might wish to somewhat adjust the too high rate of growth."

Policy of speculation is entrenched

But the policy of unrestrained speculation appears to be fully entrenched. Prime Minister Li Peng, who ironically was the architect of the "retrenchment" of 1988 in response to the last financial bubble, but which also led to the Tiananmen demonstrations, was headlined in the Chinese press Dec. 2 saying: "Keeping the economy on a fast and healthy track remains China's top priority." This is in keeping with Deng Xiaoping's pronouncement that "slow growth is not a socialist market economy."

Hongkong, meanwhile, which is the source of much of the speculative capital fueling the China bubble, continues its stock market boom, ignoring both the economic warnings and the political crisis over Hongkong's partially collapsed negotiations with Beijing. The Hang Seng index rose over the 10,000 mark, and passed 12,000 on Jan. 3. This is a *doubling* of the Hongkong market for 1993, most of the rise coming since August, led by a massive U.S. inflow in the form of "China Funds," gambling on the ability of Beijing to continue providing a nearly limitless supply of desperate coolie labor to the "recycling" factories on the coast.

The volatility of the situation was demonstrated by the announcement that *urban* unemployment, resulting from an first round of industrial and civil service layoffs since the breaking of the "iron rice bowl," has reached 850,000, with re-employment collapsing to 20%. This comes amidst the continued flow of unemployed peasants, estimated at 200 million, into the cities, willing to accept work under any conditions. Two deadly fires in sweatshops owned by Hongkong and Taiwanese interests burned alive 140 mostly female migrant workers, some of whom were caged into their work place. Beijing is trying to divert the outrage of the population by denouncing the "foreign" owners of the factories who "abuse Chinese law." The *Legal Daily* wrote that "Chinese will no longer accept being treated like dogs," and that Chinese should no longer work like "slaves on socialist soil."