

## China confronts financial turmoil with a 'New Deal'

by Mary Burdman

The election of a new government, as the first session of the Ninth National People's Congress (NPC) closed in Beijing on March 19, was the culmination of the highest-level national deliberations in China over the past half-year. These deliberations included the Ninth Chinese People's Political Consultative Conference (CPPCC), in Beijing in March; preparatory national policy meetings at the end of last year; and, the 15th National Congress of the Communist Party of China, in September 1997.

The agenda of these meetings was to establish an economic policy which can meet the world's most populous nation's urgent needs for development, in the midst of the financial and economic crisis devastating the rest of East Asia and Southeast Asia, and threatening to engulf the entire world.

President Jiang Zemin and CPPCC Executive Chairman Li Ruihuan both emphasized that the financial crisis was far beyond what had been anticipated in Beijing, as the two national congresses got under way the first week of March. Li Ruihuan warned that the crisis is far from over.

Speaking to the Hong Kong delegation to the CPPCC on March 7, Li Ruihuan said: "In my view, we cannot say the financial turmoil is over. It is very hard to say what is in store. In some countries, the situation may be more complicated. It is possible that economic problems will lead to political problems. Mishandling economic problems will result in social chaos and political problems, which, in turn, will make economic problems more and more serious. The problem in one country will spread to other countries. So, the turmoil is not over altogether. If someone says the turmoil is over, I believe it is too early to say that."

Jiang Zemin, speaking to the Shanghai delegation—his political base—to the NPC on March 6, said that "the ferocity, extent, and the duration of [the financial] crisis were more serious than anticipated." While China was relatively un-

scathed, Jiang said, "we must not underestimate its negative impact"; it "poses a challenge to China's economic development."

It is this sense of urgency, which prompted the public announcement that China would launch a "New Deal" in the last years before the new millennium. While the fundamental principles of such a policy—national construction, based on infrastructure development; giving a central role of science and technology in economic development—have been guiding China's national agenda for the last decades, the critical question now, is *getting things done*, effectively and rapidly.

That is the task of the government led by the new Prime Minister, Zhu Rongji.

The discussion of a "New Deal" has been going on since Vice Prime Minister Li Lanqing announced an investment policy, equivalent to \$750 billion, at the World Economic Forum in Davos, Switzerland, at the end of January (see *EIR*, March 20). Other leaders have since discussed this policy, but, until recently, the term "New Deal" had been used only unofficially. Now, it has emerged in the official press. This is, actually, far from a new concept in China; in building such projects as the huge Three Gorges Dam, China has taken the achievements of the United States in the 1930s-'50s as a model.

*Outlook*, one of China's most important magazines, wrote on March 13 that "China's reforms and development need a Chinese-style New Deal." This means that the unemployed would be put to work building transport, utilities, and telecommunications projects, and on agriculture and technical renovation. "The only way to keep up growth is investment spending," *Outlook* quoted senior government economist Zhu Baoliang. He said that government spending would increase by 15% this year.

On March 22, *China Daily* reported that "Zhu Rongji, the man who stemmed China's inflation without stifling growth,

is poised to launch the Chinese version of Roosevelt's New Deal this year. . . . Zhu has made it clear that massive investment will be channeled into infrastructure, echoing Roosevelt's bid to revive the American economy in the 1930s. Dai Xianglong, Governor of the People's Bank of China and a close aide to Zhu, has announced that China could sustain growth in fixed asset investments of 15% this year, up to 3 trillion yuan [\$361 billion], if GDP maintains a growth rate of 8%." Priorities include railways, the steel industry, housing, highways, and the water conservancy and management which is, overall, probably the single most urgent problem China has. "Analysts," *China Daily* wrote, "say it may take a long time to recoup the investment in infrastructure, but there is no need to worry about a bubble economy featuring repeated inputs in projects without sustainable profits."

### **New mode of economic growth**

In his closing address to the NPC session on March 19, re-elected President Jiang Zemin affirmed China's commitment to "the establishment of a just and equitable new international order," and urged that China "should shift speedily to a new economic structure and a new mode of economic growth, persistently implement the strategies of revitalizing the nation through science and education and . . . advancing the cause of building socialism with Chinese characteristics into the next century."

At a press conference the same day, Zhu Rongji, with Vice Premiers Li Lanqing, Qian Qichen, Wu Bangguo, and Wen Jiabao, discussed how the government was going to do this.

Zhu, who was first appointed a Vice Premier in 1991, has played a key role in directing China's economy, especially in ensuring a "soft landing" in the wake of the severe problems resulting from the growth of the "bubble economy" in the early 1990s. Zhu was appointed Executive Vice Premier in March 1993, and in June announced stringent measures to bring the bubble under control. In January 1994, China announced the creation of three development banks, the State, Agricultural, and Export-Import Development Banks, to ensure that the physical economy would grow.

Zhu, an engineering graduate of Qinghua University, was mayor of Shanghai, China's greatest industrial city, during 1987-91. In Beijing, he led the work to resolve the massive "debt chains" entangling China's state enterprises and agriculture, but, at the same time, backed projects in transport, energy, agriculture, and other sectors to ensure economic growth. Most recently, he has focussed on the huge task of reforming China's state-owned enterprises. This reform, which will have to mean laying off millions of genuinely redundant workers to ensure that the industries can become efficient producers, is one of the biggest motivations for undertaking the job-creating "New Deal."

At the press conference, Zhu pointed out that, with the financial crisis in Southeast Asia, "China is faced with a formidable challenge. Therefore, we must ensure that China's

speed of development will reach 8%, inflation will be less than 3%, and the renminbi [China's currency] will not be devalued this year." This "will have a bearing not only on the development of China, but also on the prosperity and stability of Asia as a whole. The main means that we will adopt to attain this objective is to increase domestic demand. . . . By stimulating domestic demand, I mean to increase the construction of infrastructure, such as railways, highways, water conservancy works, urban facilities, environmental protection facilities, and so on; and to develop high and new technologies, and strengthen technical transformation of existing enterprises, in order to increase the demand of the national economy. This also includes residential housing construction."

In addition, China must put into place, in three years' time, a modern enterprise system in the large and medium-sized state-owned enterprises. China's financial system must be "thoroughly reformed" in three years, and, the government must be streamlined. At the NPC, national ministries and commissions were reduced from 40 to 29, and half their employees are to be re-employed, as rapidly as possible. Local governments will also have to complete such reforms in three years.

There will be five reforms, he said: first, of the grain circulation system, to ensure that China's record grain reserves can be stored and marketed. The second will be to change the current investment and funding system, now carried out almost purely through government administration, to one based on the market.

It is important to understand, that the intent of these reforms, as with shrinking the government bureaucracy, is to get the government out of running enterprises and financial institutions, where government does not belong, and never functions well, enabling it to concentrate, instead, on meeting broader economic needs, especially in developing infrastructure.

Zhu Rongji's third and fourth reforms are of the housing system, enabling Chinese to own their own homes, and the medical system, to "ensure national basic welfare of the people." Finally, will be "further improvement of the fiscal and taxation system."

Finally, Zhu stated that the government's most important task will be "to vitalize China through science and technology." This is national policy; but it has not been carried out well, he stated. The reason is clear: "There is no money." The excessive government bureaucracy "is a self-consuming fiscal situation; all the money has been swallowed up." At the same time, duplication in many projects has wasted precious funds. All this will stop, he said. To carry out its "strategy of revitalizing China through science and education," the Communist Party Central Committee has established a "leading group for state development of science, technology, and education," to be led by Zhu and Li Lanqing. "We have the determination to further implement the policy of revitalizing China through science and education," Zhu said.