

HOW TO AVOID RUSSIAN-STYLE CHAOS

Cautious privatisation in China

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China's increasingly prominent role in international affairs has given special significance to the 15th Congress of the Chinese Communist Party which was held this September shortly after the death of Deng Xiaoping. In striking contrast to its reluctance to implement political change, the party took the decision to "restructure" the entire state-owned industrial sector. But the pace of industrial reform is provoking intense debate within the party. And workers are facing wage cuts or unemployment - to which they have been reacting with some violence. (See also "Two decades of reform".)

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China's communist regime displays a striking degree of both strength and fragility which was reflected in the strict etiquette governing the Chinese Communist Party Congress. One might have expected a greater degree of self-confidence on the part of China's leaders, given the country's recent economic successes, the smoothness of the hand-over of Hong Kong and China's growing prominence on the international scene.

Outsiders think it highly probable that China will come to rank as the world's "other" superpower, and a political and economic force to be reckoned with in the 21st century. The country's leaders and citizens have also begun to express ambitions of this kind although, aware that the road is full of hidden dangers, they do so only discreetly. After all, until recently, the official line emphasised China's relative poverty. As yet, these remain long-term objectives. It will probably be 2010, 2020 or even 2050 (just after the centenary of the foundation of the People's Republic) before Beijing will have properly caught up economically.

On the one hand, China is clearly on the path to becoming a world economic and geopolitical power. On the other, it is still in the throes of a difficult, and at times chaotic, process of economic and structural reform, with highly destabilising social implications. The result is a substantial gap between China's current situation, following twenty years of post-Maoist upheavals, and what is officially proclaimed by party leaders.

However, the problem is disguised by the display of patriotic fervour - part-real and part-induced - which some time ago replaced a hollow Marxist-Leninist rhetoric. This fiercely nationalistic attitude is reflected in the particularly repressive policy towards China's non-Han, irredentist ethnic minorities, notably in Tibet and Xinjiang (1).

Cautiousness pervaded the papers and meetings in the run-up to the congress. Mr Jiang's harangue on 12 September, the opening day of the party congress, was simply a more detailed version of the speech he gave on 29 May to the party's central college in the presence of the country's highest-

ranking officials. The keynote in both speeches was political stability. Leaders of the CCP were especially concerned to make a show of party loyalty, given that plans were being laid for a vast overhaul of the state economy, and its outcome is impossible to predict. Delicate questions like human rights or Tibet were put to one side.

Foreign policy issues (as well as Taiwan, which China treats as part of its domestic policy) were only dealt with in general terms, overlaid with expressions of goodwill. This was far from the aggressive stance which, until very recently, China adopted towards such issues. The congress highlighted the need for domestic stability, and in particular a controlled hand-over of power.

Even the one significant political change, the sacking of Qiao Shi, the party's former number three, was in a sense predictable. He was the only important official not to have attended the meeting on 29 May, which was designed to promote consensus within the party.

The theme of the congress, released some months earlier, was not new. Revolving around the notion of "spiritual civilisation", it became a sort of keynote for the Jiang era. It is a conveniently vague theme which, in its public expressions, inspires a random mixture of pioneering spirit, strong work ethic, determination, public spiritedness, family values, good manners, the Chinese cultural tradition and, above all, patriotism and a strict sense of discipline. In other words, allegiance to the "socialist" regime and to the power of the state (3): an umbrella term which is neither precise nor very convincing for the population.

Beneath this facade of economic and political continuity there is widespread social unrest, which though apparent at every level of society, is never publicly discussed. The party's emphasis on discipline shows its desire to strengthen its grip at the nation's helm which, despite the success of recent macro-economic reforms, is not safely assured. Party statements are addressed in particular at the army, which largely escapes civilian control, and is accused of corruption and frequent abuse of power by the population.

The "communist" leadership would like to feel confident of the army's loyalty. Acting as the armed wing of the party, the army's role is clearly to defend the regime rather than the country. Hence, as in the past, the CCP Congress elected the Central Military Commission (the army's supreme command), even though party avoids electing the government directly. No-one within the new leadership seems to have the same degree of authority over the army as, for example, Mao and Deng had in their day, even though Mr Jiang has been head of the Military Commission for the past eight years. True, the fact that the two vice-presidents of the commission (Generals Zhang Wannian and Chi Haotian) are also members of the politburo is proof of close relations between the party and the army, but this in itself is not an absolute guarantee of the army's loyalty. The appeals which the party made to its loyalty before, during and after the congress were too anxious in tone for anyone to believe that relations between the army and the party have yet settled down.

At the very most, Mr Jiang may have succeeded in neutralising the party's relations with the army. At any rate, this is how people are interpreting the absence of an army representative in the supreme instrument of state power, the Standing Committee of the Politburo (contrary to expectations and the precedent set by the previous congress). Time will tell whether or not Mr Jiang is able to withstand the nationalistic - even imperialistic - pressure that the army has exerted during recent years, especially in connection with the crisis over Taiwan at the beginning of 1996.

Clear links were established between the current ideology of "Chinese-style socialism" and the Deng era. But as everyone knows, the party does not proceed according to Deng's theory, whatever that might be. Instead, it pragmatically adapts to circumstances. Therefore, this does not have many implications, apart from serving to underline the party's commitment to the programme of "reform"

- for which read “upheaval” - begun by Deng.

The question of the allocation of office occupied a large place in the discussions. Qiao Shi, President of the People’s National Assembly (PNA) was formally removed from office as a result of an alliance between Mr Jiang and Li Peng.

The latter has retained his position as number two in the party hierarchy and will probably become head of the PNA in March 1998, when his second term in office as premier comes to an end. He will give up this post to Mr Zhu, who is the current vice-premier charged with responsibility for the economy and has lately become the party’s number three.

Post-communism within a communist state

But these political alliances do not tell us anything about the outcome of future power struggles. Mr Zhu is seen as an energetic and competent technocrat and supporter of reform. Mr Li, on the other hand is deeply unpopular, irrevocably associated with the 1989 wave of repression.

Political reformers appear timid, if not fearful - indisputable proof of insecurity on the part of the regime. There is no question of bringing up the events of Tiananmen Square in 1989, though it is generally understood that this terrible account will one day have to be settled.

This feeling was expressed at the congress, notably amongst former members of Mr Zhao’s “brains trust”. The need for political reform was also raised - exceptionally - though as cautiously as possible. The need to fight against corruption was proclaimed yet again, but without specifying how. To the point that it was barely credible. Corruption is omnipresent, and has increasingly permeated the country’s leadership. It is an intrinsic issue in any moves to reform the political elites (4). A huge discrepancy still exists between what Chinese society has become, what its citizens daily experience (which no longer has much in common with the situation under Mao) and the political management project that the regime is proposing for China.

The state’s authoritarian stance masks many cracks in its power, if not full-blown disarray amongst a group of leaders who are not sure how to recover their lost legitimacy. Their strength derives simply from the lack of any political alternative and the recent economic successes. The party enjoys power by default.

Conscious of pressure from the population, as well as from large elites whose main platform is the now more open PNA debates, the regime signalled its intention soon to implement political reform. The term reform includes improved management of the civil service, the setting up of an independent judiciary and the gradual introduction of a germ of popular participation, which would of course still remain strictly controlled. So China is being told to be patient. For now, they must be content with the modernisation of the civil service and a slimming-down of state bureaucracy, which has been cut from 9.25 million employees in 1992 to 7.25 million in 1996.

The official discourse surrounding the 15th Congress of the CCP drew on the theory of the “first stage of socialism”. Though this is not a new concept, it was nevertheless a subtle indication of what is to come. Back in 1987, this theme was launched at the 13th Congress of the CCP by the reformist leader, Zhao Ziyang. He used this concept to help him pursue a road to reform which was then under attack from a powerful wing of the CCP. This slogan represented a political compromise between different groups within the party, as did later the famous cornerstone of his policy, “market socialism”. It was a way of surreptitiously consolidating the future of the regime and its “socialist” roots, whilst turning the country into a non-socialist market economy: a case of post-communism

being set up within a communist framework.

In 1987, the main issue was to integrate rhetoric and action. Now, in 1997, the party is concerned not to rock the boat, whilst gently indicating that China is advancing along its chosen path, with no question - no possibility even - of turning back. It is going to attempt to reach the next stage, a stage in which capitalism is no longer taboo, even in the socialist state sector. Only the term itself remains unspoken.

For, in reality, it is no longer a question of which stage of socialism China is moving towards, but which form of capitalism (or nationwide free market system) is being established. The question is: to what extent can the regime keep up a strong economic performance and at the same time lead the country - in the national interest - towards capitalism, without destroying itself as a result? So far, it has succeeded remarkably well since the beginning of the reform process.

China's economic situation, which is still generally good, and also the scale on which China has opened up to the rest of the world, should encourage a deepening of the reform process. Yet the decision taken at the party congress to carry out a partial privatisation of state-owned industry is not so much indicative of the party's boldness, as an attempt to catch up with, and harness, a series of changes which are already under way and bowling along at a rather uncontrolled pace. According to the World Bank, the equivalent of \$10 billion of state-owned assets have already been sold into private hands in the last ten years, either illegally or via dubious transactions (5).

Foreign trade stagnated in 1996, with exports reaching \$151 billion, a rise of only 1.5% (and a surplus value of only \$13 billion). Nevertheless, the economy has maintained a healthy rate of growth at 10%. According to official sources, inflation has been contained at 5-6%, confirming the success of macro-economic reforms implemented since 1994. Even if one takes into account statistical distortions (which may overestimate growth rates and underestimate levels of inflation), the Chinese economy taken as a whole appears to be flourishing - to the tune of \$125 billion of exchange reserves, the second highest in the world. And that is without counting Hong Kong.

China received \$42.4 billion of direct foreign investment in 1996, up by 12% on 1995 (6). And - doubtless a favourable sign for the regime - 90,000 foreign-trained students have returned home during the last five years, of which 15,000 have settled in Shanghai (7).

China's overall economic success nevertheless masks growing regional and social disparities, which have been widening ever since the beginning of the reform process. Added to that are the risks faced by an economy which has become more exposed to the vagaries of the global marketplace, witness the financial crisis experienced in South-East Asia (8).

A vast survey conducted amongst a sample of 40,000 Chinese households confirmed the rise in the country's resources: three-quarters of households currently enjoy an annual income of over 10,000 yuan, a rise of 70% compared to 1991. But strikingly, 55% of wealthy households (with an annual income of over 100,000 yuan) are concentrated in the single province of Guangdong (bordering Hong Kong) which, being largely integrated into the global economy, has long been placed at the forefront of economic change. Whilst cities such as Shanghai or the coastal provinces of Zhejiang or Jiangsu are home to much of China's wealth, the hinterland is dirt poor (9). And in Shanghai the gap between the richest 10% and poorest 10% quadrupled between 1990 and 1996 (10).

The discrepancy between those who are becoming better off and those who are at risk can be seen in the reforming state sector, which has been selected as the highest priority for reform. This is one of the few areas where the official discourse surrounding the 15th Congress occasionally moves beyond generalities (11). If there has been a recurring theme since the reform process began in the

late 1970s, it appears that we are now entering the decisive phase of a restructuring process within a sector which was the embodiment of "Chinese socialism", and which in its own way can be seen as the concrete expression of 20th century state "socialism". On the agenda are forms of ownership, privatisation, and broad disengagement of the state in this sector.

These issues are being addressed more and more openly in the media. Certain influential economists, such as Dong Fureng, have called repeatedly for privatisation, or at least a full transition to a free market economy, in a public sector which employs 100 million workers in cities (118 businesses of which 7,000 are directly managed by central government). The role of the state should, it is argued, be restricted to infrastructure and national security (12).

With losses of 70 billion yuan (as against 54 billion in 1995), 1996 was a particularly difficult year for the public sector. The state sector suffers from a budget deficit of 70% and represents a substantial drain on the national budget - 16.2 billion yuan of subsidies in 1995 (13) - though financial aid to this sector has been cut regularly over the last few years.

Apparently, even the banking sector is under financial threat, as it finds itself increasingly having to take over from the state in supporting factories on the verge of bankruptcy: between 20% and 30% of loans are never reimbursed. The state is ultimately accountable, an arrangement which has become financially unsustainable.

Statements frequently appear in the press designed to prepare public opinion for a reform involving the introduction of a various forms of ownership. What is planned is a dual system in which part of the company's shares are sold off to employees in the collective sector, perhaps even to other (probably Chinese, though this has not been decided) private investors, and a large part of the shares - but not necessarily the majority - are retained by the state, allowing it to keep its influence (14) over the company's affairs. Official documents discuss this cautiously and without venturing into the details of such arrangements. And the legal framework has not yet been established (15). In the long run, the state would retain control over a smaller number of large companies (according to sources, between 500 and 1,000) but these would still represent over half of the assets of state companies.

Some of these state enterprises would become powerful conglomerates embracing a range of different activities. They would be commercially viable, competitive, international players, modelled on the large South Korean groups. Highest on the agenda is the need to raise the level of technology of goods manufactured in China, to ensure a rise in the proportion of goods supplied to the international market, and to modernise the army.

Since 1994, pilot projects have been running in 18 cities (58 in 1996, 111 from the end of this year) (16) in which state enterprises have been fully privatised and allowed to compete freely on the market. The pace at which China can move from this experimental phase to a generalised reform will determine how firmly its feet are set on this new path.

Growing resentment amongst workers

There is still no question of breaking up the state sector in one single blow, as happened in Eastern Europe and the former Soviet Union. The consequences, as we all know, were harsh. Vice-Premier Zhu, who is responsible for the restructuring process, reminded the party during the congress that there was no urgent need for the government to launch a massive privatisation policy. And Premier Li acknowledges that the Chinese stock exchange system has not worked very well, disappointing hopes that it would raise resources for improving technology levels in companies (17).

Protecting state companies in order to avoid Russian-style chaos, an urban uprising even, is a key feature of the Chinese model of "transition". However, this has not prevented the regime from undertaking, or at least allowing, a gradual dismantling of the state sector. Although in 1980 the state owned nearly 80% of industrial activity, its share has now shrunk to barely one third (18), making it a minority shareholder. Though unthinkable until recently (despite a law passed to authorise it in 1988), companies are now being declared bankrupt all over the place: the numbers have jumped from 2,300 in 1995 to 6,300 in 1996. Bankruptcy often represents a convenient way of handing over debts which then fall to the responsibility of the banks and the state. The government actively facilitates this trend by encouraging failing companies to merge.

There is certainly not a consensus amongst the current leadership over the decision to launch a large-scale privatisation programme. Even in the context of a mixed economy and under the de facto or de jure supervision of the state (whether at the national, regional or local level), such a programme would allow capitalism to flow into the bastion of "socialism".

One can detect shades of meaning in statements issued by top officials. In order to demonstrate the dominant position of the state sector, the authorities add up the state share (around 30% of industrial production) to the share under collective ownership (around 40-45%). But the latter is sometimes public only in name: underlying it is a different thinking, less linked to the state than to emerging networks of power and the new elite.

China's ministries, which are under threat of losing their control, are naturally putting up a strong resistance. For, although the government's rhetoric claims that China will, in essence, remain socialist, the project, if it is allowed to run its full course, will constitute the most significant step yet taken towards recognising capitalism (even state capitalism) in post-Maoist economic reform.

The regime, meanwhile, is still haunted by the fear of social unrest and prefers to advance, as it has done in the past, by a series of carefully chosen pilot projects, with the option of backing off if necessary. Furthermore, China does not yet have a social security system: safety nets are currently largely provided by companies or on local or regional initiatives. For example, one third of schools and hospitals are still directly managed by state enterprises (19).

Discontent amongst the workforce has grown steadily in the industrial sector, which is being increasingly turned upside down. The authorities acknowledge that the five-day week, legally enforceable since 1 May 1995, is far from being universally applied. Ten-hour days are not unusual. But the discontent in state enterprises is also linked to backhand redundancies and salary reductions and countless delays in the payment of salaries. More than 9 million workers have been "relocated" - as it is euphemistically called - and 11 million are waiting to be paid. The state-owned textile industry, a very important sector for China, is in a particularly bad state (20). Furthermore, in May of this year, 2.3 million pensioners either failed to receive their pension or were paid a smaller amount than was due.

As a result, there were 26,000 cases "worker action" during the first half of 1997, up by 59% on the same period in 1996 (21). In the heavily-populated Western province of Sichuan, where the big economic changes have been late to arrive, several incidents of unrest have occurred, including the beginnings of an uprising in Nanchong. Twenty thousand workers in a virtually bankrupt state textile company went on strike, even besieging the town hall to protest against the six-month delay in receiving their wages.

The government has effectively managed to stifle such serious incidents, so that news only leaked out several months later. More recently, in July, nine people were arrested in Mianyang, in the same province, following a demonstration provoked when a silk-manufacturing company was declared

bankrupt. The workers went onto the streets and held up the traffic (22). The regime was reluctant to apply direct repressive measures except - as was the case in 1989 events - in order to crush all independent forms of organised activity amongst workers (23).

But the government is less hesitant than it was a few years ago in the pursuit of its goal of turning China into a free market economy. Although the elite is being increasingly won over to this project, the state-employed workforce is both afraid and hostile to government plans. Underemployment in the towns, which according to official figures currently stands at 3-4% (around 5 million people) - without counting those workers who have been "relocated" - could by the year 2000 affect 16 million people (24). Unemployment has already reached around 20% in certain regions of north-east China, formerly known as Manchuria, an area with an old, and now largely obsolete, heavy industry. And 200,000 workers, mainly in the textile sector, lost their jobs in Shanghai in 1996: and of those lucky enough to find other jobs, many now find themselves worse-paid. The others depend on small unemployment benefits. It is estimated that 400,000 workers from this town will find themselves in this situation within the next two years (25). And despite the 10 million workers in the state sector who have already lost their jobs, 15 million others are still "surplus to the sector's requirements" (26).

The party's official newspaper, *The People's Daily*, acknowledged in its 1 May editorial that the situation for workers has got worse, but promised that the deepening reform process would bring benefits for millions of workers (27).

These benefits are but a distant promise, however, in a country which despite rapid economic progress suffers from extensive poverty. Although it is admittedly on the decline, poverty is still estimated by official counts to affect between 60 and 70 million people (28). That is without counting the 300 million Chinese in rural areas who enjoy only limited access to resources.

The party continues to proclaim its commitment to socialism, but it no longer convinces anyone (least of all those close to them, and in particular their children who are living in a completely different world). Meanwhile, the questions of the future of the elite and which type of regime is best suited to take the country into the next stage of socio-economic transformation are the subject of open debate even in official circles, though not in public.

Much discussed amongst the leadership are new and more sophisticated forms of authoritarian management, and the best way of using the country's traditions and cultural heritage in order to avoid a popular uprising, something which still haunts those in power. Last, they are asking themselves how to avoid leading a country which is so complex to manage, so fraught with risks, and yet so full of promise, into structural chaos.

Notes

(1) See Vincent Fourniau "Pékin face au mouvement national ouïgour", in *Le Monde Diplomatique*, September 1997.

(2) *Summary of World Broadcast* (SWB), Far East (FE) no 2943, 12 May 1997.

(3) See, for example, "Xinhua", reproduced in *SWB*, FE no 2936, 29 May 1997.

(4) See Jean-Louis Rocca "Paradoxe modernisation", *Le Monde Diplomatique*, March 1997 (available in English, "The paradox of China's modernisation").

(5) *Far Eastern Economic Review* (FEER), 25 September 1997.

- (6) SWB, FE no 2998, 15 August 1997; Summary of World Broadcast, Far East Weekly (SWB, FEW) no 494, 4th July 1997; China Daily, 6 September 1997.
- (7) *FEER*, 7 August 1997.
- (8) See Frédéric F. Clairmont, "Typhon financier sur les 'tigres' d'Asie", *Le Monde Diplomatique*, October 1997.
- (9) SWB, FEW no 491, 18 July 1997.
- (10) *FEER*, 7 August 1997.
- (11) SWB, FE no 2969, 12 July 1997; and no 2938, 6 June 1997.
- (12) SWB, FE no 2998, 15 August 1997; and no 2981, 3 July 1997.
- (13) SWB, FE no 2938, 6 June 1997; Financial Times, 25 April 1997.
- (14) SWB, FE no 3025, 16 September 1997.
- (15) SWB, FE no 3001 G1, 19 August 1997.
- (16) *FEER*, 28 August 1997; SWB, FE no 3006, 25 August 1997; Françoise Lemoine, "Chine; la transition inachevée" in *Actuel Marx* no 22, 1997, pp 36-38.
- (17) SWB, FE no 3031, 23 September 1997.
- (18) SWB, FE no 2998, 15 August 1997.
- (19) SWB, FE no 3025, 19 September 1997.
- (20) François-Yves Damon, "Le devenir des usines textiles d'Etat" in *Transitions*, Bruxelles 1997-2.
- (21) SWB, FE no 2932, 30 May 1997; *FEER*, 4 September 1997.
- (22) *FEER*, 26 June 1997, p. 1415; SWB, FE no 2975, 19 July 1997.
- (23) On working conditions and new forms of exploitation, see the statements collated in the book by Hsi Hsuan-Wu and Charles Reeve, "Bureaucratie, bagnes et business", Paris, L'Insomniaque, 1997; or the Lettre d'information de la Commission internationale d'enquête du mouvement ouvrier et démocratique contre la répression en Chine, 25 rue Ledion, 75014 Paris.
- (24) According to an alarmist study which appeared in the Renmin Luntan, 8 May, in SWB no 2993, 9 August 1997.
- (25) *FEER*, 1 August 1997.
- (26) SWB, FE no 3028, 19 September 1997.
- (27) Renmin Ribao, 1 May, in SWB, FE no 2908, 2 May 1997.
- (28) SWB, FE no 3028, 19 September 1997.
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