Unemployment and poverty spirals

Beijing accelerates market reforms as economic growth and investment slows

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The economic policy adopted by China's National People's Congress in March, and developed further during World Trade Organisation (WTO) membership negotiations over the past months, is designed to accelerate the expansion of the capitalist market and private property, and further open the economy to transnational investment.

The plans of the Beijing Stalinists were symbolically embodied in the major constitutional change endorsed by the Congress. Fifty years after Mao Zedong led his Red Army into Beijing and proclaimed the Peoples Republic, his heirs altered the Constitution to elevate private ownership of property and land to equal legal status with state ownership.

Another key legislative measure also advanced the interests of capitalist firms and entrepreneurs. New national contract and bankruptcy laws were implemented, replacing all previous national, regional and local laws governing commercial activity. The changes bring China more into line with the commercial laws elsewhere in the world that guarantee the rights of private investors.

Beijing made further concessions to international capital in April to try to secure Chinese membership of the WTO. The Ministry of Foreign Trade and Economic Cooperation announced that foreign financial institutions will be permitted to open branches throughout the country and that the telecommunications and retail sectors will be opened to foreign investment.

Joint ventures between foreign companies and Chinese firms will be permitted across the country as well, not just in defined Special Economic Zones. Significant cuts to tariff protection levels were promised over the coming years to 2005. Tariffs on vehicle imports are to be reduced from 100 percent to 25 percent. Agricultural tariffs will also be lowered, allowing imported foodstuffs to compete in China's markets.

The National People's Congress also reaffirmed the wholesale dismantling of most of China's state-owned economy. The budget presented by Prime Minister Zhu Rongji, and adopted with virtually no dissent, called for no slow down in the privatisation or shutdown of state-owned enterprises first outlined at the landmark 1995 National People's Congress.

China's government, at all levels, is divesting itself of virtually any ownership of industry. At the highest level, the central government is aiming to eliminate state ownership of all but 1,000 of the large state-owned firms by the end of next year, down from 11,000 in 1994. After last year's directive that China's military end any direct control of business enterprises, this year Zhu ordered the country's multitude of regional and local authorities to do likewise.

The closure or sale of state-owned companies will compound the country's growing social crisis. With most of the state firms being either obsolete or over-manned by commercial standards, analysts estimate a further six million more jobs will be eliminated over the coming 12 months due to layoffs or outright closures—on top of million of jobs eliminated from state-owned enterprises in 1998.

Job-shedding on a mass scale is also underway within the government bureaucracy in order to slash government expenditure. After mass layoffs in the national public service during 1998, the 1999 budget has called for local government authorities to shed 50 percent of their staff.

This year's National People's Congress took place as the Asian economic turmoil undermined the assumptions on which the government's economic plans were based. Beijing had counted on continuing high levels of foreign direct investment and economic growth to absorb some of the millions of workers laid off from state-owned enterprises, thus averting a potential social explosion.

China's state-owned enterprises provided more than employment to hundreds of millions of people. They also provided essential social support in the form of pensions, health care, housing, education facilities and even subsidised food. Millions of people now out of work not only have lost their jobs but any form of financial support. They have been plunged into complete poverty.

In the past, the government was able to use state-owned banks to extend loans to state-owned industries awaiting restructuring to enable them to continue to pay workers' wages. But a slowing of the economy and a massive accumulation of debt has compelled Beijing to speed up its restructuring, regardless of the social consequences.

The 12.4 percent average economic growth recorded from 1990 to 1995, when investment was flooding into China, has become a distant memory. The official growth rate fell again, from 9 percent in 1997 to only 7.8 percent for 1998. According to some economic commentators, however, the actual figure is even lower.

Levels of foreign direct investment have begun to fall over the last two years. In the first two months of this year investment dropped by 48 percent. Some worst-case scenarios predict that foreign investment could fall from $45 billion last year to only $15 billion this year.

Industries like garments and plastic products have seen orders shrink by over 20 percent in the first months of 1999. Exports of toys, textile and footwear have fallen by more than 10 percent and the machinery and electrical products sector has experienced a drop in sales of 1.9 percent. Over-capacity across manufacturing is estimated to be as a high as 50 percent.

The economic slowdown is leading to a mounting social crisis and growing hardship for tens of millions of workers and peasants. In the countryside, a vast pool of surplus labour produced by the breakup of the commune system in the 1980s is predicted to reach 200 million people by next year, or 30 percent of the workforce.

Some 90 million rural migrants seeking work have flooded into China's cities. An “urban poor” of more than 20 million people, who cannot afford even basic food, shelter and clothing, had developed even before the onset of the current economic crisis throughout Asia. Many were workers laid off by state-owned industries.

Now the huge internal migration is grinding to a halt and even being forcibly thrown into reverse, as the cities no longer have labour shortages. Municipal governments, with rising urban unemployment, are evicting migrants from their jurisdiction and forcing them back to the villages and townships. At the same time as laid-off workers return, employment in the countryside is contracting. Each year another 4 million join the ranks of the regional unemployed.

The increasing difficulties faced by China's rural masses are reflected in the staggering rise in the suicide level. The World Bank estimates the suicide rate in China to be 30.3 per 100,000 deaths, three times the world average. The rate for women is five times the world average. Each day 500 Chinese women commit suicide, overwhelmingly in rural areas.

Protests and demonstrations are growing over a range of issues, including the payment of road tolls, school fees and mistreatment by local police. According to one estimate, over 10,000 separate incidents have taken place in rural areas over the last year alone. In China's major industrial cities, protests by unemployed workers or those threatened with layoffs are said to be a daily occurrence.

To hold back social discontent, the National People's Congress authorised a 56 percent increase in the budget deficit in order to establish minimal social security payments for the growing army of unemployed and infrastructure programs to provide temporary, low-paid jobs. On April 20, IMF official Michael Mussa indicated temporary support for this welfare policy but made clear that such measures should be wound down next year.

As the policies rubberstamped at the National People's Congress are implemented and the full impact of the market reforms demanded by international investors is felt, the Beijing bureaucracy is presiding over a political and social crisis of colossal proportions.