China’s new premier to enforce “painful” market restructuring

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China’s newly installed premier, Li Keqiang, emphasised in his first press conference on Sunday that the government is preparing sweeping “free market” economic restructuring measures, including privatisation of state assets and deregulation of the banking and finance sector. The remarks of Li, who was formally appointed the successor of Premier Web Jiabao by the National Peoples Congress (NPC) that concluded on the weekend, underscore the new Chinese Communist Party leadership is committed to an accelerated assault on the jobs, working conditions, and living standards of the working class.

After the NPC, Li took questions from Chinese and foreign journalists for nearly two hours in Beijing’s Great Hall of the People. During the press conference, broadcast live on Chinese state television, the new premier mentioned “reform” two dozen times to emphasise the forceful character of his policy. “The reform is about curbing government power; it is a self-imposed revolution,” he declared. “It will require real sacrifice and this will be painful and even feel like cutting one’s wrist”.

Li added: “We need to leave to the market and society what they can do well… All wealth creators, either state-owned or private, should be duly rewarded for having honestly competed on a level playing field.” The premier admitted that the government was heading into “unchartered waters”, warning: “We may also have to confront some protracted problems. This is because we will have to shake up vested interests… Sometimes stirring vested interests can be more difficult than stirring the soul. No matter how deep the water is, we’ll wade into it because we have no alternative.”

Li struck a populist, anti-corruption pose when he pledged to rein in spending on government buildings and on officials’ perks. This was an obvious attempt to placate public hostility towards the CCP leadership’s accumulation of enormous personal wealth in the last two decades. The premier was also preparing a bogus “shared sacrifice” rationale for austerity spending cuts targeting the working class.

The central message of Li’s press conference was directed to the international financial markets. He explained that the market would be given a greater role in setting the interest rate and exchange rate, allowing companies to have greater access to credit via bond and equity markets. Li also told global investors that the state-dominated railway, energy and financial sectors would be opened up by the government to allow private capital “to enter more smoothly and effectively”.

The premier’s remarks were hailed in the international financial press. Paul Markowski, head of New York-based MES Advisers and a long-standing consultant to the Chinese financial authorities, told Reuters that Li’s proposals would “bring on structural reforms that will ultimately reduce the old SOEs [state-owned enterprises] to ashes.”

Markowisk compared Li’s government to the one headed by former Premier Zhu Rongji in the 1990s, the “economic Tsar” who ruthlessly axed 30 million jobs in the last wave of privatisation that paved the way for China joining the World Trade Organisation in 2001. Within Li’s new cabinet, Vice Premier Ma Kai, Finance Minister Lou Jiwei, and central bank governor Zhou Xiaochuang were all leading figures at Zhu’s State Commission for Restructuring the Economy.

Li’s installation as premier is a product of a protracted power struggle within the Chinese Communist Party (CCP). Li was a student of a leading neo-liberal economist, Li Yining, at Peking University. In 1991, the economist and three of his students, including Li, co-authored a book, *Towards A Strategic Choice of Prosperity*, which argued for the introduction of share ownership reforms of state-owned enterprises. This ended up being adopted by the government as it moved to restore capitalism and sell off state industries in the 1990s. In 2005, Professor Li Yining became publicly known after declaring that it was necessary to "sacrifice a generation" or 30 million workers by axing them from state enterprises in order to advance further "reform".

Premier Li has now joined the new CCP leadership as it prepares to implement a sweeping pro-business agenda. After the ruling party's 18th Congress last November, CCP general secretary and now president Xi Jinping re-conducted the landmark "Southern Tour" by late Deng Xiaoping in early 1992, an event that turned the regime into full-scale embrace of capitalist market. The end of the 1990s saw China become a cheap labour workshop for world capitalism and a new property-owning class emerged out of the Stalinist bureaucracy.

A report by Ernst & Young for transnational corporations investing in China, *China's Productivity Imperative*, spells out the implications of the latest reform drive is to intensify the exploitation of the working class. It said China is facing "a very different business environment" than in the past decade, when growth was driven by exports to Europe and America. "The situation is most serious in relations to Europe, where exports have recently started falling," the report noted. "Revenues flowing to China's industrial sector have slowed as a result." At the same time, productivity growth in China has fallen from 4.7 percent average annual growth between 2001 and 2007 to just 2.8 percent between 2008 and 2010. As the earlier round of "market liberalisation and privatisation have largely run their course, and the mass reallocation of labour from low productivity agriculture to higher productivity is coming to an end", raising productivity is now "critical for China's economic future", Ernst & Young concluded.

China's levels of productivity are below even the world's average standards, lagging behind countries such as Thailand, Colombia and Morocco. At the same time, enterprises in China are facing threats from growing competition from cheap labour suppliers like India and Vietnam.

The agenda advanced by Li and the entire Chinese government will involve a concerted drive to enforce productivity speed-ups in factories and workplaces across the country and to drive down average wages. The latest "reforms" will escalate underlying social tensions in China to boiling point. The regime is preparing for violent confrontations with the working class. The NPC has approved a 8.7 percent increase to budget on domestic security this year to $124 billion, ahead of the country's military spending of $114 billion.