Chinese Communist Party plenum to unveil “free market” blueprint

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The third plenum of the Chinese Communist Party’s (CCP) 18th Central Committee opens in Beijing tomorrow. This event has been promoted both by the regime and the global financial press as President Xi Jinping’s and Premier Li Keqiang’s formal announcement of a new round of pro-market restructuring, with immense implications for the Chinese working class.

A member of the seven-man CCP Politburo Standing Committee, Yu Zhengsheng, declared at a forum last month: “This round of reform will be unprecedented in terms of its scope and intensity.”

The “third plenum” of each new central committee has been a key turning point in the process of capitalist restoration in China over the past 35 years. The third plenum of the 11th CCP Central Committee saw the coming to power of Deng Xiaoping in 1978. He initiated the “reform and open up” program to dismantle collective agriculture and established the first cheap labour “Special Economic Zones.”

In 1984, the third plenum of 12th Central Committee expanded market reforms into urban state enterprises. In 1988, the 13th Central Committee’s third plenum imposed price and wage “reform” in urban areas, which triggered nationwide upheavals of workers and students in 1989, culminating in the bloody Tiananmen Square massacre.

Following that turmoil, and the dissolution of the Soviet Union in 1991, Deng turned the entire party and state bureaucracy toward fully transforming China into the world’s premier low-wage platform and initiated a massive wave of privatisations that laid off millions of workers. That agenda was announced at the 14th Central Committee’s third plenum in 1993.

According to the *Financial Times*, the 2003 third plenum under former President Hu Jintao “became a marker of his administration’s shortcomings”—that is, it was something of an exception to the rule. With rapidly expanding exports to the West fuelling double-digit growth rates, the pro-market offensive stagnated. China’s remaining state enterprises became some of the most profitable businesses in the world, due to their protected position in sectors like banking and energy. International finance capital, making huge profits from China, lessened its pressure for further opening up of the economy.

The global financial crisis in 2008 and the ongoing world slump have impacted heavily on the Chinese economy over the past year. Beijing is desperately seeking to lift economic growth, presently 7.5 percent a year, by boosting foreign investment. That can only be done via a new round of restructuring that must renew the lowering of working-class living standards.

At last year’s 18th CCP congress, Premier Li was installed to carry out this task. He is a pupil of China’s leading neo-liberal economist, Li Yining, with whom he co-authored a book, *The Strategic Choice To Prosperity*, in the early 1990s, setting out an agenda to transform state enterprises into joint-stock companies. In February 2012, the State Council’s Development Research Centre combined with the World Bank to produce a joint report, *China 2030,* to outline this project.

Last week, the same think tank released more concrete plans, labelled the “383 project.” The report calls for a reduced role for the state, including in bank lending, industrial output and land use, and for economic activities to be mainly shaped through monetary and taxation policy. Its proposals include:

* In basic industries, sectors such as energy and telecommunications will be opened to foreign investment, in order to attract “competitive investors

and operators to stimulate domestic competition." Imports of oil and gas will be deregulated, with the government no longer setting fuel prices. Major state energy companies will be broken up, handing their pipeline operations to new corporations. Large commercial clients will be allowed to directly purchase power supplies, with prices determined by the market, in order to undermine the position of state-owned power grid companies. Another round of telecommunications restructuring will break up state monopolies into smaller companies to compete with each other.

* In finance, government shares in financial institutions will be significantly reduced, with the state ownership changed to internationally-accepted share ownership. A deposit insurance scheme will be created, in order to establish a bankruptcy mechanism for finance houses. The aim is to make the Chinese yuan an international settlement currency in some regions, and an international reserve currency within a decade.

* The State Asset Administration Commission, which oversees, in particular, the 100 or so largest state companies, will be directly responsible to the State Council, headed by Li. A State Assets and Debts Table will unify state assets and fiscal revenues, allowing the government to finance its budget from state assets. In effect, it can privatise them if there is a deficit.

* In a move that foreshadows greater austerity, a more centralised taxation system will curtail the ability of local governments to raise revenues through non-tax incomes such as land sales. Consumption taxes will become a major new revenue source, shifting the tax burden from business into working people.

* As part of land reform, a state land assets company will take over the role of local governments in land sales, with revenues controlled by the central government. The land reforms will give farmers the right to sell the use of collectively-owned lands. Farmers who lose their lands will supposedly be covered by a partially government-funded social security system.

* A national social insurance scheme will be established, allowing hundreds of millions of internal migrant workers to be integrated into the urban workforce. At present, their household registration and associated social services are tied to their hometowns, rather than the places where they work. The purpose is not to protect workers, but to create a national healthcare and superannuation insurance market for financial institutions. Workers will have to finance their "security" via deductions from their already low wages.

Health care is already a major source of social tensions. According to the *Economist* magazine last year, the share of total health spending borne by Chinese patients rose from 20 percent in 1978 to almost 60 percent in 2001, as state-owned enterprises were privatised eliminating subsidised health care for workers. In 2006, Beijing was forced to introduce a basic health care insurance scheme, especially to cover the hundreds of millions of rural poor. However, a 2012 study in the British medical journal *Lancet* found that patients covered by this scheme still bore 60-70 percent of outpatient costs, and more than half of the cost of inpatient treatment. As the same *Economist* report pointed out, 40 percent of China's hospital revenues come from the sales of medicines, and less than 10 percent from direct government funding. Under the new reforms, the system will be further run down.

The social divide between rich and poor will continue to widen. With local governments having to cut public spending due to the tax reforms, millions of migrant workers displaced by land reforms and driven into the cities as new sources of cheap labour will be unable to cope.

There are sharp political divisions within the regime, because sections of the bureaucracy, tied to state enterprises, could lose out. Western commentators have pointed to "political resistance" from "vested interests" against the sweeping plans. *Financial Times* correspondent Gideon Rachman, who was invited by a Chinese think tank to meet with President Xi last week, wrote: "I left Beijing with some doubts about Mr Xi's program."

In order to placate sections of the state bureaucracy whose privileged position may be at risk, a retirement fund will be created to reward officials who have not committed any major corruption.