

China's Sweeping Free Market Reforms. Consolidating the Cheap Labor Economy, Devastating Social Impacts

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In what is being promoted as the most sweeping pro-market reform drive in three decades, the Chinese Communist Party (CCP) has unveiled the main resolution and President Xi Jinping's explanatory remarks to the third plenum of the 18th Central Committee that concluded last week.

The global financial markets regarded the initial communiqué released on November 15 as disappointing due to the lack of any concrete policy. Stock markets in mainland China and Hong Kong tumbled the next morning. "Then, on the weekend, well ahead of the usual schedule for such announcements", the New York-based *Bloomberg.com* noted, "the party released a longer follow-up statement worth getting excited about," adding that, "It's radical stuff".

The market excitement was summed up by American billionaire investor, Jim Rogers, cofounder of the Quantum Fund with Gorge Soros. He announced he was considering migrating to China with his dollars, as "the most important economic event of the next 10 to 20 years is what happened in Beijing."

The "Decision on Major Issues Concerning Comprehensively Deepening Reforms" is a 60-point blueprint for the next 10 years. It stressed that "the reform of the economic system is the focus of all the efforts to deepen the all-round reform", which will allow the market to play the "decisive" role in economic life. Some sections of the Chinese press even predicted that the state would be reduced to the status of "night watchman"—a phrase used to describe 19th century "laissez-faire" capitalism of Dickensian Britain.

The blueprint is in line with the demands of Western finance capital outlined in a joint report produced last year by China's State Council and the World Bank, *China 2030*. The aim is to intensify the exploitation of the 500-million strong Chinese workforce through production speedup, streamlining and opening up the sections of the Chinese economy previously closed to global capital. It will create greater supplies of cheap labour through sweeping land reform to drive more peasants into the cities, the loosening of the "One Child" policy to boost population growth and a possible increase in the retirement age.

Central to the proposals is financial sector liberalisation that will allow private capital to set up small and medium banks, as well as further moves toward exchange rate flexibility and market-determined interest rates. The ultimate aim is to make the tightly controlled capital account freely convertible. A deposit insurance scheme will be established that will

effectively allow financial institutions to go bankrupt, but protect investors. The “Big Four” state-owned commercial banks are poised to become big losers as their current dominant position will be significantly eroded.

Previously state-dominated sectors including finance, petrochemicals, aviation, coal, shipping, electricity and even military industries will be opened up to private and foreign investors. Moreover, the resolution calls for a “hybrid ownership structure” that mixes state, private and other forms of ownership. It will transform state assets into what it calls “state capital” that will invest in enterprises in a similar fashion to various sovereign funds in the global stock markets. Several state asset management companies will be set up for that purpose.

Although the plenum resolution stressed the state will continue to control strategic sectors related to national security, state-ownership will be more like a giant-managed fund exercising influence mainly through majority share-holding, rather than direct administrative control. Corporate executives, rather than party bureaucrats, will be appointed to run these companies which will be accountable to shareholders and the board, not party authorities.

There is no sign, however, that Beijing will fully privatise the 100-plus largest state-owned enterprises amid concerns about national security raised by the US “pivot to Asia”. The revelations of former NSA contractor Edward Snowden that US tech companies have assisted US agencies to gain access to telecom networks have triggered alarm bells in Chinese security circles. Beijing has begun to exclude American corporations such as Cisco and IBM, leading to sharp falls of their recent revenues, and use Chinese companies instead.

Chinese media has highlighted the new austerity that Xi has imposed on the CCP bureaucracy with bans on drinking, fine dining and luxury offices, supposedly to end endemic corruption. In reality, these measures are to discipline and downsize the large state bureaucracy, turning it into a “service” government subordinate to the new Chinese elite and the operations of the “free market”.

The government will also deregulate much of the pricing for oil, gas, power, water, transport and telecommunications inevitably leading to higher living costs for the working people, who are already under severe financial strain. As much as 30 percent of the profits of state enterprises will be used to finance “social security”, up from 15 percent at present. The real motive behind this decision is to lessen taxation on private sector firms and further cut the already low levels of state spending on pensions and health care.

Last year China recorded the first decline in its working age population (16-59) in recent decades. In a bid to boost birth rates, the new proposals will loosen the “One Child” policy for the first time since it was enacted in 1979. Couples will be allowed to have two children, if one of the parents was a single child.

The proposed land reform, supposedly to give farmers the right to sell their land, is aimed at driving millions of rural poor into the cities as cheap labour. A market in urban land has existed since the 1990s. But rural land, though no longer farmed collectively since the 1980s, is still collectively owned by farmers at least nominally. In practice, it is controlled by village and township CCP bosses, whose collusion with developers and corrupt practices have often provoked violent protests and clashes.

Now farmers will be allowed to sell their land. In a related decision, the household

registration system will be dismantled, ending the formal ban on rural residents living in the cities. The influx of rural labour will vastly heighten the pressure on jobs and social services in the urban areas. Officially, 51 percent of China's population now lives in the cities, up from 18 percent in 1978. In reality, 270 million "urban" residents, almost of 40 percent of total, still have their household registration in rural areas, and are not entitled to social services in the cities.

The CCP regime is deeply concerned about the prospect of social unrest. Xi announced several cosmetic changes, including the abolition of the widely hated "correction through labour" system which allows police to send minor offenders to labour camps for up to four years without due procedure. In reality, Xi is strengthening the police state apparatus with the establishment of a new powerful National Security Committee that places the military, intelligence, public security and diplomatic apparatus under his direct control.

Xi is being compared to Deng Xiaoping who initiated the process of restoring capitalism in 1978. Professor Xiao Gongqian of Shanghai Normal University summed up the enthusiasm in ruling circles for "a golden age of Chinese neo-authoritarianism" to protect the interests of the wealthy elites as the social divide deepens. "It's essential to concentrate power now. This period requires a strong man, a very powerful leader, and this powerful leader must have both prestige and also institutionally guaranteed powers," he declared.

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