

# China Stakes Out Roadmap for Reform

by William C. Jones

Nov. 26—The Third Plenary Session of the 18th Communist Party Congress, which concluded on Nov. 12, resulted in a program draft which will determine the direction of one of the most important economies in the world for the coming decade. Sixty areas of social, political, and economic importance have been targeted for major overhaul intended to transform the Chinese society and economy.

Although the Plenum had been introduced with great fanfare by the party leadership, raising expectations of major changes in policy, the communiqué was sparse on details about the measures adopted. Particularly disappointed, were many Western financial operators and businesses eager to see China “open for business.” The economic collapse which has engulfed the United States and Europe, has left the ravenous London-Wall Street financial oligarchy still very much intact—and seeking new prey. Indeed, the servility of the Western governments, notably, the Obama White House, to the financial oligarchy, has virtually drained the coffers of the public treasury in order to keep Wall Street afloat a little while longer. The hope of the desperate financiers was that China would now open its doors wide to their speculative undertakings.

On Nov. 15, a second document was released, entitled “Decision on Major Issues in Comprehensively Deepening Reforms,” more extensive in detail, with a list of 60 agenda proposals which, in their entirety, would represent a comprehensive reform program. China does indeed intend to “open up” to the embattered world financial system, but with a great deal of caution, and at a pace determined by the Chinese government. The image of the Soviet Union, which “opened up” abruptly under Gorbachov and Yeltsin, is a frightening example that is always in the minds of the Chinese leadership.

## Charting the Route

The reforms proposed were the result of a long and well-thought-out procedure. The Politbureau of the

Chinese Communist Party, with its new leadership under President Xi Jinping and Premier Le Keqiang, had decided in April, that the Third Plenary, traditionally dedicated to discussing economic problems, would deal with comprehensive reform, and would make major decisions regarding required changes.

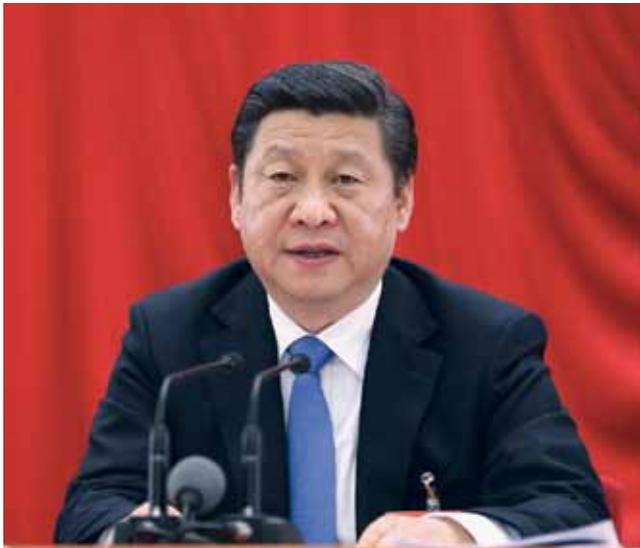
On April 24, the 60-member drafting group, under the chairmanship of President Xi, began work on the program draft. After being distributed for perusal and comment to both party officials and representatives of the other relevant institutions, the final version was voted on at the Nov. 12 plenary session.

## Financial Reform

The initial communiqué had simply indicated that the envisioned reforms would allow the “market to play a decisive role in allocating resources and to give a better play to the role of government.” A document issued prior to the Plenum by the State Council Development Research Center, “Plan 383,” had called on the state to virtually withdraw from economic activity, except in vital industries, and to relegate itself to a mere regulatory role.

“383” had also called for a gradual reduction of state-owned enterprises (SOEs) to the advantage of private firms. While the Plenum Decision promises wide berth for private enterprises and encourages them to take a more prominent role in the economy, including receiving shares in state-owned enterprises—so-called “mixed enterprises”—the state-owned enterprises are still designated the “major pillar” of the Chinese economy.

The document also calls for a reduction in government red tape for start-ups and measures that would facilitate the entry of foreign enterprises into various sectors of the Chinese economy, such as childcare, care for the elderly, architectural design, accounting and auditing, commerce and logistics, electronic commerce, as well as a further opening up of the manufacturing industry. It also would allow the formation of small and



Xinjua/Lan Hongguang

*Chinese President Xi Jinping addressing the 18th Communist Party Congress, which adopted a draft program for broad reforms of the Chinese economy.*

medium-sized banks to provide financing for small and medium-sized enterprises, presently relegated for their financing needs to a “shadow banking sector.” The document calls for more openness to the international financial sector but does not specify the conditions for its entry into the Chinese market.

At the same time, the document underlines the importance of strict government oversight and regulation, in order to maintain an even playing field in investment, and to prevent corrupt practices. While the document also talks in general terms of “accelerating the realization of the convertibility of renminbi capital accounts,” no timetable for a complete opening of capital accounts is given. The document also urges “marketization” of interest rates, again without a definite timetable.

The only area where there is a complete “liberalization” of the Chinese economy is in the Shanghai Pilot Free-Trade Zone. The Chinese leadership would like to see how this experiment works before moving further in that direction. Nevertheless, there is talk of establishing other “free-trade zones.” Much of the momentum for this comes from the fear that the U.S.-backed Trans-Pacific Partnership (TPP), a free-trade zone in Asia which would effectively exclude China, will have a devastating effect on China’s trade with its neighbors.

At the same time, the document underlines the im-

portance of moving forward with the Central Asian Silk Road project and the maritime South Asian Silk Road.

## **Economic Transformation Required**

What the Plenum document makes clear, however, is an understanding on the part of Chinese leaders that the manner in which China has operated over the last three decades is now at an end. The collapse of the economies of Western Europe and the United States has deprived China of the possibility of remaining a low-wage manufacturing producer for export to these nations. And, in fact, the internal changes generated by the rise in wages and living standards, have made the former economic model unacceptable to that part of the Chinese population engaged in urban industrial production. So it was with determination, and perhaps some trepidation, that the Chinese leadership is now embarking on the road to a fundamental transformation.

Much emphasis over the last few weeks has been placed on the need for technological innovation and the generation of new creative ideas in accomplishing that innovation. Raising the standard of living for the mass of Chinese people, half of whom still live in the countryside, will not be an easy task, but the key to achieving it is seen as increasing productivity based on technological advances.

In China, as elsewhere, some of the most creative innovations have come from the small and medium-size private enterprises. Chinese scholars look increasingly at the German economy (now in general decline), which was based on innovative industries centered primarily in what is called the *Mittelstand*. China is keen on creating such a “Mittelstand” in its own industrial production. Giving greater room for private industry and allowing some shareholding by private firms in the SOEs, is done in the hope of accelerating this process, even in the state sector.

## **Guaranteeing People’s Livelihood**

The Plenum document also calls for sweeping changes on the social and political front. What has captured most attention in the Western media is the reform of the controversial one-child policy, introduced in China in 1979. But the Communist Party, in fact, had a strong anti-Malthusian outlook, in opposition to the creation in the 1970s of a genocidal zero-population-growth movement, financed by important financial interests and promoted by the British royal



etr Pavlicek/IAEA

*The Chinese leadership expressed its intention to address the disparity between rich and poor, in the Plenum's Decision document. Here, in Beijing (left), the control room of an experimental gas-cooled reactor at Tsinghua University; and (right) an example of the impoverished living conditions of half of the Chinese population.*



family. The financial oligarchy was anxious to convince nations that the day of expensive “great projects” was over, and that they must be prepared to cut their consumption—and their populations. This movement was centered on the notorious Club of Rome which won significant adherence within UN institutions during the 1970s, and is the “godfather” to the present-day Green movement.

The justification for China's one-child policy was based directly on Club of Rome propaganda, using contrived computer-generated models to paint a dire picture of overpopulation in the coming decades; it convinced the party leadership to implement its one-child policy. The bankruptcy of that model is now keenly felt in China, in a rapidly aging population supported by an ever dwindling working-age population. The new policy will allow Chinese couples to have two children, if one of the parents is from a one-child family, although the pace of the reform will be determined by the local governments.

The document also calls for the establishment of a social security system for both town and country, and a system of unemployment insurance. It urges an expansion of educational opportunities and diversity of fields of study, so that a single exam, as is the case today, does not determine a person's educational opportunities going forward. Medical services will be expanded and doctors given the opportunity to practice in more than one hospital. There will be a reform of the public hospital

system, and private investment in hospitals will be encouraged. The Decision document calls for the creation of a medical insurance system and the establishment of non-governmental grassroots organizations to help deal with social problems on the local level. It also urges stringent

measures to alleviate the tremendous environmental costs of the last 30 years of unprecedented and rapid industrial growth.

Major changes are also planned in the judicial system, giving it more independence from the executive authority. The “re-education through labor” punishment system, which has been highly criticized, has been abolished. The resolution also calls for progressively reducing the use of charges which carry the death penalty. It also calls for protecting the rights of lawyers in their court proceedings.

### **Securing Land Reform**

The yawning gap between urban and rural areas is expressed most dramatically in the widening gulf between rich and poor. The 50% of the population still tied to the land socially and economically, includes a large portion of migrant workers. The resolution calls for expanding the rights of migrants coming to the cities

to seek employment. There would be an easing of the so-called *hukou* system, which prevents migrant workers from receiving social security or housing benefits otherwise provided for registered city residents. As there is still a great concern in the party leadership that this might cause a flood of rural migrants to the already overflowing cities, the *hukou* system has not been totally abolished. But the reforms will considerably improve the conditions for migrant workers during their residence in the cities.

Land in China is owned by the state or by the village authorities. Farmers lease the land for as much as 30 years, and the plots are generally small. Land which is under cultivation cannot by law be used for other purposes. But the land utilized by the rural population for their residences can. Local governments, however, dependent on land sales for 40% of their income, often simply expropriate the farmer's non-agricultural land for a mere pittance, and sell it to developers at a high price. The new measures will allow farmers to lease or to exchange their land for its estimated value, and would facilitate the combination of smaller plots into larger farms, with a corresponding increase in the productivity of scale in agriculture. The document also calls for allowing the right of inheritance of the land. The document urges the introduction of property taxes to provide income to local governments.

The Decision document furthermore mandates the creation of an Economic Council under the President which will be responsible for implementation of the reforms. In addition, a National Security Council will be set up, also under the President, which will be responsible for both internal and external security. The recent terror attacks on Tiananmen and in Taiyuan in Shanxi province have heightened concerns about the increasing terrorist threat. It also centralizes more broadly command over the armed forces and the police.

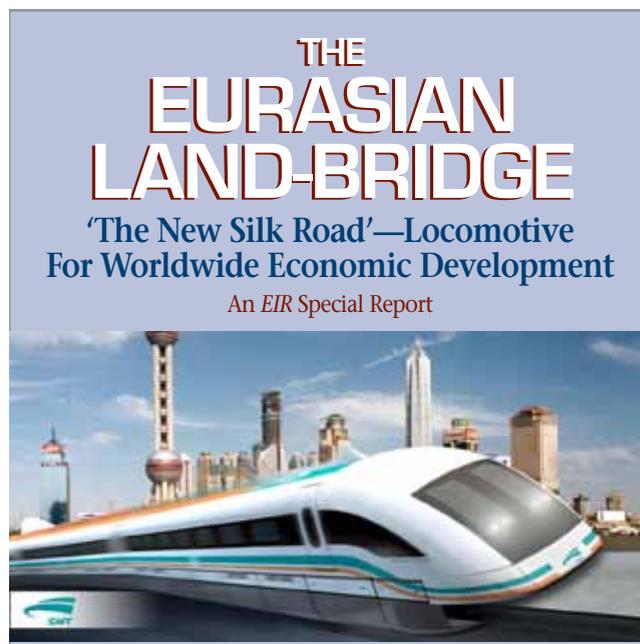
### Changing the Surrounding World

If all or even most of these reforms were implemented in the next few years, we would see a much different China, one more confident and more at ease with itself than the China of today. But the envisioned reforms also mean that the country will now be more integrated into the international system, a system in an advanced state of collapse.

To achieve the condition which the Plenum Decision proposes, the bankrupt London-Wall Street

system has to be abolished. The same type of measures which China envisions to protect its own economy from new financial "bubbles," resulting from any "liberalization," have to be established at the international level. A solution is already at hand in the international mobilization for the proposal by Lyndon LaRouche for the reestablishment of Franklin Roosevelt's 1933 Glass-Steagall "firewall," separating commercial banking from the financial pirates of the investment banking world—and this time, on an international scale.

China is characterized as a "stakeholder" in the world economy, and, indeed, is a very crucial one. But it must now consider playing that role on a global scale, to prevent the London-Wall Street financial "bubble" from blowing out and destroying whatever gains China has made. The current bankrupt financial system must then be replaced by a worldwide system of credit, which can be applied to realize the type of projects envisioned by the Silk Road development, and similar developments in other parts of the world. This is an issue of decisive importance for China and the world, since the "revival" of China cannot long survive in a world descending into economic chaos.



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*An EIR Special Report*

(1997) 260 pages **\$100**  
(EIR 96-007)

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