

Saving China's economy and the climate: can the twain meet?

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The impacts of the global crisis on the Chinese economy and the effect on tens of millions of migrant workers that were thrown out of jobs produced doom and gloom forecasts for the world's third-biggest economy in the early part of this year. Analysts agreed that if the economic slowdown continues the Communist party's claim to legitimacy, which was founded on the now wavering economic boom, is at stake. Indeed, the Chinese government's determination and ability for crisis management is facing a very tough test as the country battles the worst global economic crisis since the 1930s. At the same time, Beijing was abuzz with meetings as VIPs came to press China to do more for the climate in the run up to Copenhagen.

Although it performed better than other key countries, the expansion of China's economy continued to slow. The economy grew by 9 percent in 2008, down from 13 percent in 2007. The last quarter growth rate for 2008 was 6.8 percent, by far the lowest rate in the last seven years. (1)

With close to \$1.95 trillion in foreign exchange reserves, the Chinese government has dug deep into its deep pockets to stimulate the domestic economy. A RMB 4 trillion (\$585 billion) economic stimulus plan to encourage domestic demand was announced in November last year. Policymakers also cut interest rates, and launched thirteen tax reduction policies involving RMB 500 billion. (2) The aim of such draconian measures is to at least ensure an 8 percent economic growth this year and pre-empt the looming social instability being produced by the worsening unemployment. If the gross domestic product dips below 8 percent for 2009, which is still a healthy figure if compared to negative growth and contraction being experienced by major industrialized countries, it would be a disaster in China. The reason is that the demand for jobs would far outpace China's ability to create them.

Chinese leaders are increasingly worried about the growing risk of protests by disgruntled workers. The first quarter report of the Agriculture Ministry showed that about 20 million migrant workers (3), more than a sixth of the country's total, are now unemployed. This is a very high figure and is making some people nostalgic of the guaranteed cradle-to-grave employment during Mao's time. According to a report commissioned by the Chinese Academy for Social Sciences, 670,000 small- and medium-sized firms, many of them labour-intensive ones based in coastal regions, shut their doors since September (4). There are around 130 million migrant workers who are mostly employed in factories. The rural unemployment rate could be as high as 20 percent.

In addition, one million college graduates are not expected to be able to find jobs this year (5). Graduate unemployment was already a problem in 2008 as 27 percent of new graduates could not find a job (6) which is a very sensitive subject considering the big investment families make in education.

The first document of the year, issued jointly by the State Council and the Central Committee of the Communist Party of China, for the first time, focused on the unemployment problem of migrant workers. Local and central government departments were urged to create jobs and increase rural incomes. It is reported that the government is considering setting up a social security scheme for migrant workers. It will however take a very long time before it can take shape.

CHINESE MEDICINE FOR ECONOMIC ILLS

Premier Wen Jiabao announced China's aim to be the first to recover from the financial crisis (7). A series of new measures were put in place last March, which was based on the China State Council plan presented earlier in November 9, 2008. (8)

1. Housing: Building more affordable and low-rent housing and speeding the clearing of slums. A pilot program to rebuild rural housing will expand. Nomads will be encouraged to settle down.
2. Rural infrastructure: Speeding up rural infrastructure construction. Roads and power grids in the countryside will be improved, and efforts will be stepped up to spread the use of methane and to ensure drinking water safety. This part of the plan also involves expediting the North-South water diversion project. Risky reservoirs will be reinforced. Water conservation in large-scale irrigation areas will be strengthened. Poverty relief efforts will be increased.
3. Transportation: Accelerating the expansion of the transport network. That includes more dedicated passenger rail links and coal routes. Trunk railways will be extended and more airports will be built in western areas. Urban power grids will be upgraded.
4. Health and education: Beefing up the health and medical service by improving the grass roots medical system. Accelerating the development of the cultural and education sectors, and junior high school construction in rural western and central areas. More special education and cultural facilities.
5. Environment: Improving environmental protection by enhancing the construction of sewage and rubbish treatment facilities and preventing water pollution in key areas. Accelerating green belt and natural forest planting programs. Increasing support for energy conservation and pollution-control projects.
6. Industry: Enhancing innovation and industrial restructuring and supporting the development of the high-tech and service industries.
7. Disaster rebuilding: Speeding reconstruction in the areas hit by the May 12 earthquake.
8. Incomes: Raising average incomes in rural and urban areas. Raising next year's minimum grain purchase and farm subsidies. Increasing subsidies for low-income urban residents. Increasing pension funds for enterprise employees and allowances for those receiving special services.
9. Taxes: Extending reforms in value-added tax rules to all industries, which could cut the tax corporate burden by RMB 120 billion (about US\$17.6 billion). Technological upgrading will be encouraged.
10. Finance: Enhancing financial support to maintain economic growth. Removing loan quotas on commercial lenders. Appropriately increasing bank credit for priority projects, rural areas, smaller enterprises, technical innovation and industrial rationalization through mergers and acquisitions.

The above measures benefited from China's advantage of having a lot of money that can be spent quickly to create jobs for its millions of workers. About \$146.5 billion (RMB one trillion) was put into infrastructure and energy-related projects such as new highways, railways, electricity grids and nuclear plants for 2009 and 2010. Some \$14.7 billion (RMB 100 billion) has already been allocated for projects that started in 2008, of which \$3.7 billion (RMB 25 billion) went to roads, railways and airports; \$5 billion (RMB 34 billion) for rural infrastructure; \$1.5 billion (RMB 10 billion) for subsidized housing, and \$1.9 billion (RMB 13 billion) for medical and educational facilities (9). The combined national, provincial and local projects that are lined up for economic stimulus, when implemented, will surely change the Chinese landscape dramatically.

The two biggest projects include a \$17.6 billion passenger rail line across the deserts of northwest China, a \$22 billion web of freight rail lines in Shanxi province in north-central China and a \$24

billion high-speed passenger rail line from Beijing to Guangzhou in the southeast. Apart from these, extra spending is planned in almost every town, city and county across the country. Intercity rail lines, the highest priority in the plan, will also be constructed to the tune of around \$88 billion. Some \$44 billion was already spent in 2008 and around \$12 billion in 2004.

A new bullet train from Beijing to Tianjin, which travels at up to 217 miles an hour, was opened in 2008. The construction of a high-speed rail route from Beijing to Shanghai at a cost of \$23.5 billion is also nearly finished. The said amount is almost equal to the price of the entire Three Gorges hydroelectric dam project on the Yangtze River. To ensure quick construction, the government employed 110,000 workers to make the route operational as soon as possible.

ARE THE MEASURES WORKING?

For many the important questions are whether the Chinese medicine of building roads and railways is the correct remedy for the current challenge and will it be enough to offset recession? What activities should be funded and how to ensure that they will benefit the lower-income groups? Will increased government spending create enough jobs to take care of the millions that already lost work and the new ones that will join the workforce? Lastly, can it help China transform into a low carbon economy to help prevent the climate crisis?

At first glance, it seems understandable that infrastructure took a big chunk of the budget. There is indeed an urgent necessity to reduce demand on personal cars and imported oil, to reduce air pollution and to relieve the annual shortage of seats on trains during Chinese holidays when millions of people visit their families. In the last four years, China has built as many miles of high-speed passenger rail lines as compared to similar investments in Europe in two decades.

On the other hand, concerned citizens worry that the RMB 4 trillion might only produce “roads and railways to nowhere” or are being invested in redundant, low-level construction. The \$586 billion stimulus plan is equivalent to roughly 15 percent of China’s GDP. Although they generated employment opportunities, previous resuscitation programs like the \$95.6 million (RMB 650 billion) campaign to revive the economies of the eleven western provinces in the late 1990s, have created large numbers of under-used highways, bridges, airports and railways in these outback regions (10). Recovery of investments in those projects will take decades.

There are questions that are swirling in China’s blogosphere about the wisdom of some specific projects. A \$3 billion metro rail system linking the southern manufacturing cities of Guangzhou, Dongguan and Shenzhen has been criticized as a waste of money because there are already four railway lines linking these cities and trains plying the routes often run empty. The same holds true with a \$4.5 billion highway connecting the Sichuan province cities of Chengdu, Zigong and Luzhou, because there are already highways from Chengdu to Zigong and from Zigong to Luzhou. A bridge project running from just outside Shanghai to a textile manufacturing centre on the other side of a bay was also revived to create construction jobs. The original project had been shelved because its designers were unable to get the \$2 billion needed to build it because it is a duplication of another massive bridge with the same route.

Given the questions concerning the process of selecting and judging the merits of the projects to fund there are some views that the “bao-ba” imperative (direct translation of save the eight, which means that the stimulus package is aimed at saving the 8 percent growth) might be seen more as a show of the government’s determination at crisis management and that its real effects may be exaggerated (11). There are also some who argue that instead of roads, bridges and railways, China must put more money into education and healthcare and alleviating poverty in the rural areas.

More than 200 million Chinese lack health insurance. The budget allocation for health is a mere one percent of the GDP. As announced last February the government put a \$124 billion, three-year overhaul of its healthcare system that aims to provide "safe, effective, convenient and affordable health services" to all of the country's 1.3 billion people by 2020.

Despite the government's encouragement for families to spend more, urban as well as rural residents are holding on to their money. The Chinese citizens' savings rate of 46 percent is one of the highest in the world and people's attitude towards savings will not easily change since the stimulus package is not fully addressing the key issue of lack of social security benefits. The nation-wide health insurance and pensions program only started in 2002. Given the possibility of a long period of belt tightening and lack of guarantee of job security, ordinary wage earners will remain frugal because they simply need to save the money to pay for increasing school fees for their kids and relatives' medical bills.

Some efforts are seen as sincerely aimed at helping the poor. To support job hunters, the central government extended subsidies and prepared training programs directed at migrant workers (12). Flexible employment policies and more training chances were also encouraged.

GREENING CHINA

Even before the beginning of the global economic crisis, many were doubtful about the sustainability of China's growth strategy. The huge gap between the living conditions in the rural and urban areas was caused by substantial diversion of rural resources to industrial use, on the generally accepted assumption in policy circles that farming is backward, unprofitable and unproductive. China's economic development is the result of rapid industrialization, the bedrock of which is to turn most farmers into non-farmers.

The environmental degradation caused by the growth model is very obvious and strongly felt, especially by the poor who rely on natural resources for their livelihood. China's efforts to achieve a greener economy, more than ever, must be strengthened to ensure a sustainable recovery from the current crisis.

Strengthening the local economy is seen by economists as inevitable since it would be difficult for China to maintain its recent export trajectory. A shift to greater domestic consumption is seen as inevitable (13). However, this will only happen if the huge gap between the rural and urban conditions will be narrowed.

ADDRESSING THE CRISIS AND THE LONG WAY AHEAD

This year as many as 24 million people will be competing for as few as eight million newly created jobs. There are new efforts directed at organizing the unemployed, again it is a very young initiative and the discussions are more about helping sacked workers to get a new job. The youth and students are not organized around economic issues as well. Many are focused on local problems and issues connected to the environment. In terms of perception, the Beijing stimulus package is successful in creating an impression that the Chinese state is indeed taking care of its own people.

A recent state guideline said that at the cost of lowering its economic growth pace, China sets the target of cutting energy consumption per unit of gross domestic product (GDP) by 20 percent and cutting emissions of major pollutants, such as carbon monoxide and sulphur dioxide, by 10 percent between 2006 and 2010. Beijing announced that almost 40 percent of China's four trillion-yuan economic stimulus package had gone to green projects. China is already making progress on the low-carbon economy front, laying the foundation for clean-energy jobs and innovations. Climate Group ranked it second in the world in 2007 in terms of absolute funds invested in renewable energy. In actual terms, China spent \$12 billion, behind just Germany's \$14 billion. These

investments have placed China among the world leaders in solar, wind, electric vehicles and grid technologies.

Beijing demonstrated signs of political hardening since last year when it comes to tolerance of dissent. This was attributed to the country's holding of the Olympics last August and the 20th year anniversary of the Tiananmen protests of 1989 this June. Central and local authorities are fearful that the crisis might produce national level dissent comparable to the 1989 Tiananmen mobilisations. Localized public incidents are so common now and the tactics are getting more and more creative. The National Security Bureau stopped publishing the number of such incidents since 2007. Issues related to ethnicity are also exploding and showing threat for violent expression of dissatisfaction as can be seen in the case of the unrest in Xinjiang province now.

Will national level social movements emerge out of this crisis? Many are saying that it is not yet possible in the near future. Despite the fact that a huge number of workers are losing their jobs, their anger is more focused on the factories and the bosses that fire them. With less possibility to find another job, their time would rather be spent on job hunting. It would also be foolish to underestimate the state's ability to suppress emerging independent labour movement. As can be seen too in the publicized protests like the taxi drivers protests in Chongqing and Guangdong, the authorities moved swiftly to placate the demonstrators. The climate issue offers opportunities for people's participation and slowly, people are seeing the connection with justice issues. However, the discourse is still developing and a movement for it is still developing.

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