

The Way of Restructuring by Laurence Brahm

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Remember the old movie “A Funny Thing Happened on the Way to the Forum”? It was about the Roman Empire undergoing convulsion when there was too much wealth, extravagance, centralized bureaucracy and decadent corruption. Well, a funny thing happened to me on the way to Tiananmen Square.

On Oct. 24, just 10 days before the opening ceremony of the 18th CCP Congress in Beijing, former Premier Zhu Rongji appeared at the Diaoyutai State Guest House. And he was not alone: his old Cabinet showed up with him. There was China’s Vice Premier Wang Qishan, central banker Zhou Xiaochuan, and head of China’s sovereign wealth fund Lou Jiwei. When Zhu was premier they were his right-hand and advisors. Ten years after he left office (and commenced a 10-year silence), Zhu was back!

The surprise meeting at the politically significant Diaoyutai Guest House was explained as a conclave of advisors to Tsinghua University to urge it to become the Harvard and MIT of the Orient. That is a good idea. But the Diaoyutai Guest House is nowhere near Tsinghua University. And nobody from the Western media even bothered to wonder whether there might be some coincidence between the meeting and the soon to begin 18th CCP Congress.

Maybe there was no coincidence. But that is a long shot since nothing seems to happen in Beijing these days without prior approval – and often a lot of those are needed.

When Zhu Rongji became premier in 1998, he launched the biggest restructuring of the Chinese government since its founding in 1949. It was all about the transition from planning to market. Old industrial command ministries such as textiles, light industry, iron and steel, electronic industrial machinery, among others were downgraded to departmental level and then reduced to mere chambers of commerce. The State Planning Commission was sidelined and a new State Economy and Trade Commission became the mega-coordinating ministry entrusted to push everything to the market. Monetary policy was personally handled by Zhu to control inflation. State owned enterprises were turned into shareholding corporations. Private business was encouraged. Foreign investment was welcomed. And programs for re-forestation and conservation were introduced. It was a great time to be in China.

A decade ago, President Jiang Zemin and Premier Zhu retired. Hu Jintao became president and Wen Jiabao became premier. For 10 years China embarked on hyper-growth that depleted its own natural resources, including its water supply. Massive industrial expansion – the GDP model – was driven by fixed asset investment into repetitive projects creating inflation, environmental desecration, and a system of corruption that has not been seen since ancient Rome – which the new leadership is now cracking down upon.

Under the Wen years, key transitional organs that Zhu established to steer the economy from planning to market were eliminated and planning had its powers restored. The private sector was squeezed, state-owned enterprises beefed-up. Hu and Wen refused to meet with foreign business leaders, unlike Jiang and Zhu who constantly kept in touch with foreign corporate executives – not only to ensure their investments but to hear first-hand their views on the global economy and China’s.

Wen opened the door on massive mining and deforestation as part of the resource grab – GDP model. Today, China is the world’s worst polluter, has cities where infrastructure overburdened by growth has become dysfunctional, and water will soon be a scarce commodity. But golf courses flourish and Ferraris gridlock in traffic. We are told that this is all about science as a concept of development.

In short, China has some of the same problems today that Zhu worked so hard to fix when he took the reins of government in 1998. The state functions need to get filtered out of business, triangle debts untangled, environment restored through introduction of renewable and efficient energy, inflation managed through independent monetary policy, and international business needs to feel welcome again.

So now, why did Zhu really appear at the Diaoyutai Guest House? Is it possible that some of his old policies might be re-introduced to untangle the economic mess that China’s new leaders must tackle? New party boss Xi Jinping received foreign economists and specialists in the Great Hall of the People on Dec. 5, just two weeks after closing the 18th CCP Congress.

If we try to portend how government restructuring might look under the new leadership of Xi Jinping and Li Keqiang, president and premier, respectively, it could look like this:

The National Development Reform Commission (the brainchild of outgoing premier Wen Jiabao), which has become a conglomerate of all the former industrial, energy resource, planning and industrial ministries – effectively resuscitating the old State Planning Commission – could be down-sized. In Zhu-style it could focus on broad macro-economic policy and not micro-management (command

economics). The environmental bodies and water and forestry resource departments may be merged into a ministry regulating the environment with enhanced coordinating powers.

The science and education ministries could be merged, indicating preparation for a new grade of technology rather than engineering-focused youth. Bureaus of tourism and antiquities will probably be merged into the Culture Ministry.

Remaining state monopolies like the Railroad Ministry will be eliminated as a stand-alone ministry. The railroad operation could be corporatized as a business and the administrative functions merged into a larger transportation administration. This is a major step as the rail system is one of the last bastions of old-style state planning. Even some state news agencies may be corporatized and have to function as businesses. Both are steps that Zhu envisioned but hadn't attempted due to powerbrokers of that period such as Ding Guanggen (who served as railroad and then propaganda minister).

And the central bank could be separated from the State Council to become an independent monetary policy organ along the lines of America's Federal Reserve. This would be the most significant change of all.

Does it sound like something Zhu might do? If so, the new administration will herald the second biggest restructuring of government since 1949.

Yes, a funny thing did happen to me on the way to Tiananmen Square. And by the way, Tsinghua University does deserve to be the Harvard and MIT of the Orient.

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