

Executive Summary

1. The recent Party Congress wrote the pragmatic principles espoused by Deng Xiaoping (the “Banner of Deng Xiaoping Theory”) into the Party Constitution as the guiding theory of the CPC and called for continuation of “socialism with Chinese characteristics” and a “socialist market economy”. For the post-Deng administration of Jiang Zemin, the continuation of economic development is the major condition for political stability. The flexibility and ambiguity underlying the pragmatic principles of Deng Xiaoping has been effective in circumventing the power struggles which plagued past Party Congresses. How effective the principles of Deng Xiaoping will prove in fielding new problems such as the Asian economic crisis and growing globalization is unknown. It is necessary to watch carefully how China’s reform and opening-up policies will unfold.
2. The makeup of the recent Party Congress reflects the desire of the leadership to tackle the problems at hand. The promotion of Zhu Rongji to the number three position for the purpose of dealing with the most serious problem, the reform of state-owned enterprises (SOEs), and the appointment of Wei Jianxing to the Standing Committee of the Political Bureau – suggesting a tough approach to the deepening corruption – are good examples of this. At the same time, however, Jiang Zemin, who hopes to safely ride out his five-year term as General Secretary, has been taking a conservative attitude to stability. The personnel of the Standing Committee of the CPC Central Committee Political Bureau and the rest of the central leadership have been put in place to take charge of tough, individual issues. Of future interest in the area of personnel will be the selection of the Premier and surrounding people at the central government level and the Party Secretary of Guangdong province at the local level.
3. The Chinese government has aggressively followed a policy of “omnidirectional diplomacy” in pursuit of stable relations with surrounding countries and in bilateral and multilateral frameworks so as to achieve its socialist modernization. China scored several successes in 1997 through energetic diplomatic activities – such as the smooth reversion of Hong Kong, improved relations with the United States, and stronger relations with Russia. Further, at the United Nations, it rallied allies to defeat a motion calling for improvement of human rights in China and, in its policy toward Taiwan, the most pressing issue at present, continued to head off Taiwan’s diplomatic initiatives. The current issues facing China on the foreign affairs front are how to deal with the Asian economic crisis, win membership in the World Trade Organization, and gain entry into regional security frameworks.
4. One of the main issues facing the Jiang Zemin leadership – now in a noncharismatic phase – is the modernization of the military. The current leadership believes it essential to maintain modern armed forces of a level commensurate with its international standing in order to ride out the transitional phase and grow to a superpower in the 21st century. Reorganiz-

ing a manpower-based military to a modern military with high tech mobility is not an easy task, however. While there is an abundance of sophisticated technology and weaponry available, modern day China has neither the production capacity nor ability to use high tech weapons. There is little possibility of China becoming a serious military threat to surrounding countries in the short term.

5. The recent Party Congress gave official ratification to the idea of solving the problem of state-run enterprises through diversified ownership which was first floated at the end of 1993. While faithfully following the policies of enterprise reform such as the de facto conversion of large enterprises into joint stock companies and the liberalization of small and medium enterprises, the recent Party Congress gave greater stress to a "strategic reorganization" of SOEs. By treating capital in units of state ownership rather than in units of the enterprises themselves, the ideological foundation is being laid for diversification of ownership through the joint stock system. The Chinese government has however to steer through some difficult shoals in view of the need to maintain social order. The liberalization of small and medium enterprises and the conversion of large enterprises into joint stock companies, however, will proceed steadily. Along with this, the Chinese economy will become increasingly market oriented and will grow into a model of an East Asian market economy where government and business are neither too close together nor too far apart.
6. The Chinese economy has been suffered from severe business cycles caused by investment cycles and inflation at times of superheated investment. Since 1996, however, the previous pattern of business cycles has been broken and, despite inflation being calmed, a growth rate of a high level of 8 to 9 percent has been maintained. This means that the market economic reforms have been successful to a certain extent. There are, however, many elements of uncertainty such as ballooning public debt and massive bad loans to SOEs. To change investment practices in the state-owned sector and prevent the formation of new bad loans, it is necessary to promote financial reforms and encourage greater independence in banks. Further, a strong tax base and an improved investment environment are important in the achievement of stable growth.
7. Today, economic trends do not appear to be fettered in any way. It is just as if there were no authorities both at the national and regional levels. If we assume that trends in social order are closely linked with these economic trends, we only naturally have to consider the question of social order beyond the single region or the state framework. China, which has decided to pursue even further economic growth in its 15th Party Congress, has to learn from the experiences of Hong Kong and Taiwan, which lead it economically, about handling the problem of social order. These experiences show that it is a hard fact that economic development is inevitably accompanied with a growth in social disorder.