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Survey of Recent Developments in China (Mainland and Taiwan), 1985 - 1986
Edited by Hungdah Chiu, with the assistance of Jaw-ling Joanne Chang

School of Law University of Maryland
# SURVEY OF RECENT DEVELOPMENTS IN CHINA (MAINLAND AND TAIWAN), 1985 - 1986

*Edited by Hungdah Chiu,*  
*with the assistance of Jaw-ling Joanne Chang*

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ABOUT THE EDITORS AND CONTRIBUTORS

Hungdah Chiu is Professor of Law at the University of Maryland School of Law at Baltimore and President of the American Association for Chinese Studies (AACS).

Jaw-ling Joanne Chang is Associate Professor of Political Science at the National Taiwan University and research associate in the Institute of American Culture, Academia Sinica in the Republic of China.

* * * * * * *

Thomas J. Bellows is Professor of Political Science at the University of Texas at San Antonio and a member of the Board of Directors of the AACS.

Y. C. Chang is Associate Professor of Political Science at the University of Delaware.

Ray S. Cline is Professor of International Relations at the Georgetown University and a member of the Board of Directors of the AACS.

John F. Copper is Stanley J. Buckman Distinguished Professor of International Studies at Rhodes College and a member of the Board of Directors of the AACS.

June Teufel Dreyer is Director of East Asian Programs and Professor of Politics at the University of Miami in Coral Cables, Florida, and a member of the Board of Directors of the AACS.

John C. H. Fei is Professor of Economics at Yale University.

Harold C. Hinton is Professor of International Affairs at the George Washington University.
Tao-tai Hsia is Chief of Far Eastern Law Division of the Library of Congress and Professional Lecturer at the George Washington University.

Martin L. Lasater is Director of Asian Studies Center at the Heritage Foundation.

Wen Lang Li is Professor of Sociology at the Ohio State University and the Executive Secretary of the AACS.

Jan S. Prybyla is Professor of Economics at the Penn State University and a member of the Board of Directors of the AACS.

Lester Ross is Assistant Professor of Political Science at the Purdue University.

Wen-hui Tsai is Professor of Sociology and Anthropology at the Indian-Purdue University at Fort Wayne, Indiana.
INTRODUCTION

Hungdah Chiu

The rapid development on both Mainland China and in Taiwan have made nearly all publications on China out-of-date almost immediately. In view of this situation, the American Association for Chinese Studies (AACS) organized seven panels to review different aspects of recent developments in China in 1985-86 at its 28th annual meeting held at the Pittsburgh Hilton, October 31 to November 2, 1986. There was an overwhelmingly positive response to these panels and many members, especially those who were unable to attend the annual meeting, suggested that these papers be published promptly to provide an up-to-date survey of the situation in China. As a result, the AACS decided to collect those papers and publish them in a single volume. In the course of the preparation of this publication, some contributors attempted to update their papers to cover all of 1986. Unexpectedly, at the end of 1986, college students in several mainland universities began to demonstrate against the authorities, demanding more freedom and democracy and causing widespread repercussions on the Mainland. Since these events occurred after the Association's annual meeting, none of the members addressed the events; therefore, a separate paper on the subject was added to this volume.

In every country, especially in China, politics is always the most important force in shaping the country's development. Accordingly, this book begins with a survey by Professor Y. C. Chang of the Mainland's political development in 1985-86. According to him, before November 1986, politics on the Mainland were peaceful and uneventful. As a result of the National Conference of Party Delegates, the adoption of the 7th Five-Year Plan, the reorganization of the central leadership and the curtailment of military influence, Deng Xiaoping appeared more capable of accelerating the implementation of his reform policy. However, there was some resistance to Deng's reforms that might have led to the failure of Hu Yaobang, then Deng's heir-apparent, to be appointed to the position of Chairman of the Military Affairs Commission. Despite Deng's efforts to reform, Chang observed that Deng Xiaoping and his contemporaries are rigid, dedicated revolutionaries who have been most reluctant to admit that Marxism-Leninism is a cul de sac. Moreover, when a younger generation of successors finally comes to power, whether they will be more flexible
than their predecessors in making fundamental ideological revisions and drastic policy changes is debatable. In January 1987, Hu Yaobang was forced to resign from his position as General Secretary of the Chinese Communist Party because of his liberal tendency. This event and the purge of other more liberal elements in the Party appear to suggest that any likely successors would be dismissed if they deviate from Marxist-Leninist doctrine. It now seems clear that the politics on the Mainland is moving toward a more conservative, rigid and dictatorial direction.

During the period 1985-86, the political situation in Taiwan went from bad to good, observes Professor John F. Copper in Chapter 2. In the summer of 1985, it appeared that the ruling Nationalist Party (Kuomintang, KMT) was heading for a major defeat in the local (provincial, city and county) elections because of a serious financial scandal, problems with U.S. arms sales, Chinese Communist peace overtures and other problems. However, despite these issues, the Nationalist Party still won the election, but with fewer seats and popular votes. The government followed up its election victory with announcements that it would seek dialogue with opposition leaders. President Chiang Ching-kuo also made it known that neither his relatives nor the military would decide the issue of succession. On September 28, 1986, despite the ban on organizing political parties, some non-KMT politicians announced the formation of the Democratic Progressive Party (DPP).

In October 1986, President Chiang announced that the Martial Law that had been imposed on Taiwan in the last stage of the Civil War between the Nationalists and the Communists in 1950, would be lifted and that the ban on the formation of new political parties subsequently would be removed.

In the December 6, 1986 elections, the DPP candidates won 12 of the 73 seats in the Legislative Yuan and received 21.8 percent of the popular votes, while the Nationalist Party won a total of 59 seats and received 69.87 percent of the popular vote: the remaining two seats were won by independents. Copper concludes that Taiwan now appears to be moving toward a two-party or multiparty system.

Turning to the economic aspect of Mainland development, Professor Jan S. Prybyla observes in Chapter 3 that the marketization and privatization of the Mainland's economic reform was slowed in 1985-86, but not halted. The slowdown during 1985-86 was due to a temporary loss of control over key economic variables, the objective need for those changes carried out to date to take root and the subjective need to accommodate some of the objections raised by the oppositionist
forces within the Chinese Communist Party leadership. Most of the more intractable difficulties experienced by the Chinese system, according to Prybyla, are due to the incomplete implementation of earlier reforms. The Mainland has stagnated in a kind of semi-planned, semi-market economy with the market striving to dominate agriculture and the plan still dominant in industry. This represents an unstable condition in which the many remaining old and new systematic elements work at odds. As a result, the Mainland’s policy makers are facing a fundamental problem that cannot be resolved by systematic half measures, i.e., “adjustments.” On Taiwan, 1986 was the turning point of economic liberalization, notes Professor John C. H. Fei in Chapter 4. After 35 years of high tariff protection, a consensus was reached by the leaders and public in Taiwan that the economy would never grow unless disciplined by the rigor of competition. Fei believes that the tariff wall will crumble in the next 4-6 years: tariffs will fall to a level comparable to that of the industrially advanced countries. Reform also has been achieved in a second area: relaxation of foreign exchange control and the exchange rate. However, Fei observes that the Nationalist Government has been hesitant to implement a third reform, i.e., to mobilize domestic savings for public expenditures rather than for capital exports. With respect to the economic liberalization movement on the Mainland, Fei considers that the resistance to marketization, privatization, decentralization and monetization is due to a cultural vacuum. The Mainland authorities appear now to realize that “spiritual values” can be quite significant for the fate of the economic liberalization movement in the years ahead.

Until recently, most Third World countries, including Mainland China, considered environmental protection and economic development inversely related, with the former considered a luxury affordable at best only by the rich. Mainland China has been notorious for the extent to which economic development has fouled its skies and waters, poisoned the soil and led to deforestation and desalification. In recent years, as Professor Lester Ross observes in Chapter 5, Mainland China has begun to realize the importance of environmental protection in the course of economic and industrial development. However, the authoritarian nature of the Chinese political system severely limits the effective participation of environmentalists in the decision-making process of major construction projects.

There are four chapters on the social development of China. Ever since the Chinese Communist Government began its economic reform in 1980, it has been beset with a rise in crime, especially economic crime. In Chapter 6, Professor Tao-tai Hsia concisely analyzes this
issue. In a conference on economic crimes held in August 1986, it was acknowledged that simply "dealing a blow to economic crime" was not enough; there was a need to reaffirm lost values and uphold a "socialist spiritual civilization." The Chinese Communist Government now acknowledges the problem of reducing economic crime in relation to social reform and regards reliance on severe sentencing alone to be an inadequate deterrent. However, the reduction of economic crimes is inextricably tied to the nature of the outcome of those economic reforms that have engendered the increase in criminal activities. If the reforms are successful, there will be more institutionalized procedures and more laws and regulations that will help prevent economic crimes and lower their current high rate, Hsia concludes.

Despite the Chinese Communist doctrine of creating an egalitarian society, social inequality has been a major problem on the Mainland. Professor Wen Lang Li analyzes in Chapter 7 this vital issue and its relationship to recent social turmoil in Mainland China. The Mainland has been suffering the consequences of economic stagnation and inequality among its people for more than three decades. Ironically, Deng Xiaoping's push for economic liberalization legitimizes the emergence of inter-sectoral inequality. The median family income among rural families is only one-third that of urban families. However, income disparity is more severe within rural areas. Among urban families, the top 25 percent of the rich control roughly 40 percent of urban financial resources. Among the rural families, the top 25 percent control nearly 50 percent. Moreover, previously, poverty was something socially acceptable, if not honorable. Proletariat class members, such as poor peasants and laborers, were glorified and given social privileges to send their children to college. Under such social conditions, most people were content with what they had and there was little feeling of relative deprivation and Mainland society was able to remain stagnant and tranquil. However, under the open-door policy of post-Mao Mainland leadership, people have much more contact with the outside world, their vision is enlarged and they want their living standard to be at least comparable to other Asian countries. Moreover, the tremendous interregional inequality has also compounded the public sense of relative deprivation. This phenomenon naturally led to such formidable social movements as the recent student demonstrations. Students expressed their discontent with slow economic growth, unfair economic privileges, incompetence of Party bureaucrats and lack of democracy and freedom under the present system. Therefore, they pushed for political liberalization on the Main-
land, which, Li concludes, necessarily would undermine the legitimacy of Communist control and erode the foundation of totalitarian rule.

Because of the recent world-wide attention given the student movement on the Mainland, Professor John F. Copper was invited by me to contribute a paper (Chapter 8) on this subject. According to him, there are three possible motivational explanations for the student demonstrations in Anhui, Wuhan, Beijing, Shanghai and other Chinese cities: Deng-initiated demonstrations, opposition-initiated demonstrations and spontaneous demonstrations. He believes these explanations are not mutually exclusive: there may be elements of each present in the student demonstrations. Moreover, these demonstrations cannot be adequately explained without an understanding of the major political factions on the Mainland: Deng and the anti-Deng forces. Copper notes that the Mainland is in a state of flux, and there are forces that want changes to proceed in different directions.

Taiwan's social development in 1985 and 1986 focuses on the emergence of collective social movements and the government's crackdown on serious crime, as described and analyzed by Professor Wen-hui Tsai in Chapter 9. Several opinion polls conducted in 1985-1986 revealed that, while a great majority of the people in Taiwan were satisfied with their overall living conditions and believed they were middle-class members, a large number of them were dissatisfied with social welfare, consumers' rights, pollution control policies of the Nationalist Government, the rising crime rate and the deterioration of the social ethics. Several opinion polls also found that a large portion of the population in Taiwan was dissatisfied with the government's inability and unwillingness to deal with these problems. This frustration prompted the people to undertake "self-help" measures: the phrase "saving ourselves," has become the common theme in all the protest movements during the past two years. There were several large-scale collective movements aimed at protecting consumers' rights, preserving the environment from chemical and waste pollution and resisting the importation of U.S. cigarettes into Taiwan. Tsai observes that the emergence of large-scale collective movements have exerted some important impact on the government's policy makers, especially in the pollution control area, and Taiwan's society has become more and more pluralistic in orientation.

Chapters 10 and 11 deal with the international relations of the Mainland and Taiwan, respectively. Because of the limitations of space, Professor Harold C. Hinton concentrates his study on the historical perspective of Mainland China's relations with its neighbors. While most of Mainland China's neighbors would consider Mainland
China a threat or, at least, a potential threat, Mainland China since 1979 has appeared to have been acting, according to Hinton's study, on the basis of a principle that can be called "economic in command." Various Chinese leaders have said that Mainland China's modernization program can succeed only within an international environment that is peaceful and stable. Therefore, Hinton concludes that Mainland China is likely to behave in the "foreseeable" future in ways that promote, rather than disrupt, international and regional stability.

The delicate international relations of the Republic of China on Taiwan, which is now officially recognized by only twenty-four states but is the 19th trading state in the world, is analyzed by Professor Thomas J. Bellows in Chapter 11. While remaining unchanged in its foreign policy principles, such as anti-communism, no contacts with the Mainland and adherence to the one-China policy, Taiwan's strategy vis-a-vis the Mainland is quite flexible. Thus, in May 1986 Taipei's China Airline entered into negotiations with Beijing's CCAA (China Civil Aviation Administration) for the return of a hijacked 747. Furthermore, while the Nationalist Government declined to attend the Asian Development Bank annual meeting in 1986 because the Bank changed Taiwan's member name to "Taipei, China," Taiwan nevertheless has insisted that it is still a member of the organization and would continue to work on a "fair and reasonable solution" to its Asian Development Bank designation. Despite its foreign policy flexibility, Taiwan also seeks to strengthen its military capability. For example, with respect to U.S. arms sales to Taiwan, the United States has agreed to transfer technology to enable Taiwan to develop a sophisticated high-performance fighter aircraft to meet the threat posed by the Mainland Chinese Communist Government. The most difficult part of Taiwan's international relations is in trade. Taiwan has accumulated a huge trade surplus with the United States and the latter is pressing Taiwan hard to reduce that surplus or face U.S. protectionist measures.

The last three chapters of this book deal with the overall assessment of 1985-86 developments in China and their implications in United States-China relations. According to the comprehensive analysis and assessment of this issue, written by Professor June Teufel Dreyer in Chapter 12, the Mainland's earlier reform movement, which began under Deng Xiaoping, continued in 1985-86, but at a slower pace. It was a time of trial and error, with innovation followed by retrenchment and boldness followed by restraint. Beyond the broad slogan of economic modernization, clear patterns were hard to discern, possibly because differences of opinion within the highest level of
leadership led to discontinuities in policy directions. With respect to
the limits of reform, Dreyer points out that the Chinese Communist
leadership would like to ease the Party's monopoly on economic infor-
mation and allow skilled technocrats to generate new ideas. But this is
not intended to translate into giving ordinary Chinese the right to
speak out against the Party. However, the Chinese Communist lead-
ership has tried before to keep change under control and has failed.
The outbreak of student demonstrations in late 1986 and early 1987
proves that Dreyer's assessment of the situation, made in early No-
vember 1986, was right. In foreign relations, Mainland China has
continued to assert different opinions on various matters with other
countries and its foreign policy has continued to be based on prag-
matic considerations rather on ideological issues.

For Taiwan, 1985-1986 was a time for strengthening economic
and political institutions. The transition to a higher-technology,
knowledge-based economy is being managed well, and the bases of
political participation are steadily broadening. In foreign relations,
the 1985-86 period saw a further erosion of Taiwan's international
political position. Bolivia and Nicaragua withdrew their recognition
of the Republic of China, but relations with the United States re-
mained cordial, despite some friction over the trade imbalance.

With respect to U.S. relations with both the Mainland and Tai-
wanel, Dreyer observes that the United States has downgraded its as-
sessment of the value of Mainland China as a strategic partner.
Nevertheless, Dreyer believes the United States still wishes at a mini-
mum to keep the Mainland from allying with or assisting the Soviet
Union in any Soviet-American confrontation. Taiwan is currently of
great economic importance to the United States and has great poten-
tial strategic value, as well. Therefore, Dreyer concludes that it is in
the best interests of the United States to maintain cordial relations
with both the Mainland and Taiwan.

In Chapter 13, Martin L. Lasater assesses U.S. relations with
both the Mainland and Taiwan in 1985-86 and then discusses the issue
of whether there is a need to change current U.S. policy toward them.
According to him, an overview of trends on the Mainland and in Tai-
wane during 1985-86 appears to indicate that nothing has occurred to
justify a change in current U.S. China policy. That policy is finely
balanced to enable the United States to pursue simultaneously
friendly, cooperative relations with the Mainland and close, non-diplom-
ic ties with Taiwan. However, he also acknowledges that, beneath
the surface of consensus and calm, there are several problem areas that
could change current U.S. China policy. These include a change in
the U.S. grand strategy design to center on China rather than on Japan; an exacerbation of the Taiwan arms sales issue in future; U.S. attempts to pressure Taiwan to negotiate unification with Beijing; and, political instability in Taiwan.

In Chapter 14, Professor Ray S. Cline discusses U.S. China policy in terms of "systemic conflict." He observes that Deng's China is not promoting democracy and capitalism, but rather, is promoting his own updated version of Mao's ideology, i.e., integrating the "universal truth of Marxism with the concrete realities of China." Therefore, Deng's system is still basically a Communist one and the Chinese economy cannot really flourish under such a system. Moreover, the United States should not try to build up the Communist-controlled Mainland in the same way the United States built up the Soviet Union at the end of World War II, only later to regret such folly.

Since the purpose of this book is to provide an up-to-date survey of certain important aspects of China's development in 1985-86, no general conclusions should be drawn from the papers collected here. It is the sincere hope of the editor that readers may find this work useful in their studies of contemporary China.
CHAPTER 1
POLITICS IN THE MAINLAND, 1985-1986

Y. C. Chang

In relative terms, it was quiet and uneventful on the Mainland in 1985. Major political developments which took place included the convocation of a "National Conference of Party Delegates" (NCPD); the adoption of the 7th 5-year Plan; the reorganization of the central leadership; and the curtailment of the military's influence. Besides describing, in a summary fashion, the political significance of these events, this paper also attempts to show how Deng Xiaoping was able to accelerate the implementation of his reform policy adopted by the 3rd Plenum of the 11th Party Congress (PC) and tighten his grip on the political and military organizations of China.

The "National Conference of Party Delegates"

On October 20, 1984, the 3rd Plenum of the 12th PC adopted the "Decision to Convene a National Conference of Party Delegates," to be held in September 1985, for the purpose of discussing the 7th 5-Year Plan and electing new members to the Central Committee (CC). Such a meeting was unusual. Despite Hu Yaobang's claim to the contrary in his opening speech to this conference, Party conferences of this type were not provided by the Party constitution which, strictly speaking, stipulated only that a "National Party Congress" should be convened "once every 5 years."1 The 7th PC, however, did permit such a meeting between two National Party Congresses, although constitutions adopted in the ensuing years eliminated this provision. However, a "National Party Congress" could be convened earlier "if the Central Committee deems it necessary or if more than one-third of the organizations at the provincial level so request,"2

Deng Xiaoping and his supporters reportedly preferred an early convocation of the 13th PC but were confronted with determined opposition from some members of the CC who feared that, if the 13th PC were convened two years before the date it was originally scheduled, their terms would be shortened accordingly.3 In addition, members of

2. Ibid.
the Central Advisory Committee (CAC) and Central Disciplinary Investigation Committee (CDIC) whose terms of office, according to Articles 22 and 43, coincided with those of CC members, were even more reluctant to support such a meeting since they felt they already had made sacrifices by stepping down and were unwilling to compromise again.

The "Decision" was also unusual because delegates to this conference were not popularly elected by Party members but were appointed instead. Delegates were limited to about 1,000; 630 were to come from the ranks of the CC, CAC and CDIC. The remaining positions were allotted to "responsible persons" of local, military and mass organizations as well as to Party members, particularly those who were relatively young and had made, since the 12th Party Congress, outstanding contributions in their respective professional fields. All had the right to vote. In fact, a majority of the delegates were Deng supporters who were in a position to control the outcome of policy decisions made at this conference.

Preparations for this meeting began in May of 1985, when a "Central Work Team" of seven members was established under the leadership of Hu Yaobang. The Central Work Team prepared a list of CC, CAC and CDIC members who should voluntarily retire and a list of acceptable successors. To satisfy procedural requirements, the 4th Plenum of the 12th PC was held on September 16, 1985, after a preparatory conference of four days, during which heated debates must have taken place and differences ironed out. The plenum decided to convene the NCPD on September 18; to approve in principle the draft proposal of the 7th 5-Year Plan; and to accept the "collective resignation" of 64 CC members, 36 CAC members and 31 CDIC members as well as the individual request of Xiao Han, who preferred CC dismissal to resignation. The turnover rate was quite high: 132 members, more than 21 percent, stepped down. The NCPD was formally held September 18-20, 1985, and 992 delegates\(^4\) were in attendance.

The 7th 5-Year Plan

The first item on the agenda at this conference was the 7th 5-Year Plan. Premier Zhao Ziyang explained that only the guidelines, not the plan itself, would be discussed. In accordance with these guidelines, he stated that the State Council would formulate the 7th 5-Year Plan

\(^4\) The 992 delegates were composed of 343 CC regulars and alternates, 161 CAC members, 127 CDIC members, 35 responsible persons of "Mass Organizations" and of provincial-level units and 326 Party delegates from various units.
covering the period 1986-1990 for the consideration of, and adoption by, the 4th Plenum of the 6th NPC, which was to be held from March 25 to April 12, 1986. Zhao listed five objectives: The first was to reform the management systems of the economy, education, science and technology; [and,] to strengthen further the capabilities of enterprises and to develop planned commercial markets. The second objective was to maintain stable economic growth and to sustain an annual growth in GNP of 7 percent for the next five years. The third objective was to concentrate all available resources to eliminate bottlenecks in economic development caused by insufficient energy, transportation and raw materials. The fourth objective was to increase the investment in education and training and to implement gradually nine-year compulsory education. The last objective was to maintain an “open door” policy in an effort to strengthen trade and technological exchange with foreign countries. Zhao concluded by stating that, without economic reform, it would be impossible to sustain stable economic development.5

At this conference, differences between Deng Xiaoping and Chen Yun, who owed his rehabilitation at the 3rd Plenum of the 11th PC in 1978 to Deng, surfaced.6 An admirer of Soviet-style economy and a believer in the economic policies before the Great Leap Forward, Chen blamed Mao’s “extreme radical” policies for the economic stagnation which had long prevailed but favored moderate economic reform as espoused in his “bird cage” theory. He believed in making the work team, not the family, responsible for the fulfillment of assigned quota; in reversing the priority of emphasizing heavy industry and agriculture; and, in decentralizing control and making experts responsible for management. Chen first expressed his disagreements with Deng in June of 1985 and his comments were read at the “National Conference to Exchange Experience on Correcting Party-Style Work” in which he said: “We are drifting away from the ideas of socialism and communism if we do not cultivate socialist spiritual culture and socialist materialistic culture at the same time.”7

In his speech to this conference, Deng pointed out that since he came to power he had accomplished two major objectives: He had repudiated “erroneous” measures contributing to chaos, the most funda-

5. For Zhao’s speech, see Beijing Review (BR), Vol. 28, No. 40 (October, 1985), pp. I-V.
mental of which was his abandonment of the policy emphasizing class struggle and his concentration on the development of the productive forces. "Thorough reform", which gave birth to a policy of building "socialism with Chinese characteristics", was his second accomplishment. Deng admitted, however, that reform had been accompanied by many "negative phenomena" and that it might take another 60 or 70 years before China could approach the standard of living of the developed countries. He also acknowledged that problems could arise from high growth rate of economic development which might "create many problems that would have a negative effect on the reform and on social conduct." Emphasizing that times had changed and that it was necessary to take into consideration present circumstances, Deng urged the study of the fundamental principles and methods of Marxism-Leninism, but not in a doctrinaire way.

Chen Yun also made an important speech at the conference, and criticized the tendency to overstate the results of Deng's economic reform in agriculture, pointing out that "(t)he media have for some time exaggerated the number of 10,000 yuan households. Actually there are not that many. Our media's reports are divorced from reality." Furthermore, Chen claimed that "(s)ome peasants are no longer interested in growing grain," nor "even interested in raising pigs and vegetables." According to Chen, "(f)eeding and clothing a billion people constitutes one of China's major political as well as economic challenges, for grain shortages will lead to social disorder." He insisted that socialist economy must be promoted because, above all else, "(o)ur goal is to build socialism." In an obvious response to Deng's earlier criticism, Chen claimed that "(i)n terms of the country as a whole, the planned economy's primacy and the subordinate role of market regulation are still necessary." 

Chen Yun agreed with the opinion that the newly adopted goal of achieving an annual industrial and agricultural rate of growth of 7 and 6 percent, respectively, was "respectable." He also agreed with Deng's remarks that China's past industrial and agricultural growth was "excessive" and contained "disturbing elements." He nevertheless cautioned:

In the final analysis, we should continue to make steady but

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8. Ibid., p. 16.
9. Ibid.
11. Ibid.
12. Ibid.
13. Ibid.
balanced and systematic progress. This is the only way to achieve the highest growth rate. Otherwise, dislocations will arise, inevitably leading to setbacks and slowing down the progress. As the saying puts it, "More haste, less speed."14

On September 24, Chen Yun, in his role as the director of the CDIC, continued his attack at its 6th Plenum, arguing that many Party members had let down their guard against the "intrusion of decadent capitalist ideology and work style"15 and would do anything for money. There were many "ugly things and bad things" like corruption and bribery which, according to Chen, involved government officials, Party cadres and their children who engaged in all sorts of criminal activities, including speculating on the rise and fall of prices, engaging in illegal trade, offering or taking bribes and trafficking in smuggled goods. They also have resorted to deception, extortion, evading customs duties and selling counterfeit medicine and liquor, which are lethal to human lives, just for ill-gotten gains. The sale of obscene video tapes and seducing women into prostitution are also some of their vices.16

What Chen had in mind could be Shenzhen, the largest special economic zone created to attract foreign investment, which had already been singled out for being "more show than substance" and "an example of what not to do."17 It was bad enough that Shenzhen failed to earn sufficient money from foreign sources as had been hoped and relied on subsidies from Peking to survive. Even worse was the widespread corruption such as "smuggling, fraudulent shipments, bribery and embezzlement"18 and the prevalent belief that "relatives of top Peking officials and retired cadres with influential connections have set up shop in Shenzhen."19

In any event, both Deng and Chen were adamant in their positions and showed little inclination to compromise. In his talk about internal and external issues, Deng made it clear that China will continue to implement the policy of reform and opening up to the outside world. Without the policy of re-

14. Ibid., p. 20. A more appropriate translation of the last sentence should be: "Haste makes waste".
15. BR, No. 41 (October 14, 1985), p. 15.
16. Ibid., p. 16.
18. Ibid., p. 62.
19. Ibid.
form and opening up to the outside world, it will be impossible to realize our strategic objective. Our policy of opening up and economic reform will be carried through to the end. This policy will not change, because a change means that we have no way out.\textsuperscript{20}

In October of 1985 when he received a delegation of American industrialists organized by the Times Company, Deng said:

Our experience of many years in implementing a planned economy has proven that it would straitjacket or limit the development of the production force. To liberate the production force further, we should combine a planned economy with a market economy. . . . In our effort to carry out the ‘four modernizations’ during the past seven years, we also adopted at the same time as we exploited the advantages of socialism some effective measures of capitalism in order to accelerate the development of the production force.\textsuperscript{21}

Chen, on the other hand, never deviated from his earlier philosophy and has become in recent years the effective leader of an opposition group that challenges Deng’s policies of economic reform. It is entirely possible that rivalry between these two men may escalate and intensify in the years to come.

\textbf{Reorganization of Central Leadership}

The second item on the agenda was the reorganization of the Central Committee, the reason given publicly by both Deng and Hu for convening this conference. On July 21, 1985, Deng told Japanese visitors that members of the 12th CC and its Politburo were not “ideal” because they were “too old.”\textsuperscript{22} Hu also told the visiting secretary of the Japan Socialist Party on August 28 that a Party congress would be convened soon to recommend some personnel changes because many members of the CC, CAC and CDIC were “too old and not well-educated.”\textsuperscript{23} The advanced age of CCP leaders had been well-known for many years. The average age of members of the Standing Committee (SC) of the Politburo, for example, was 77, while the average age of the Politburo was 74 and that of the chairman and 4 vice-chairman of the MAC was 83. The average age of the president

\begin{flushright}
\textsuperscript{21} New China News Agency (NCNA), October 23, 1985.
\textsuperscript{22} SOCC, Vol. 20, No. 1 (January, 1986), p. 16.
\textsuperscript{23} SOCC, Vol. 19, No. 9 (September, 1985), p. 9.
\end{flushright}
and vice-presidents of the National People’s Congress was 76; seven of them were over 80 and the oldest was 95. The average age of the 15 premiers, vice-premiers and members of the State Council was 72.

The lack of education on the part of Party members had also been publicly acknowledged. According to *Renmin Ribao*,

of the 40 million members today, only 4% have a college education or its equivalent; 13.8% have a high school education or its equivalent; 42.2% have a primary school education, and 10.1% are illiterate.\(^{24}\)

No one knows to what category the remaining 29.9 percent belong. Party cadres are only slightly better-educated. According to Song Renqiong, the former director of the Organizations Department of the CCP and now a member of the Politburo,

of the 21,000,000 cadres in the nation, 40% have an educational level below that of a primary school. Despite our determined efforts to upgrade the educational level of those leaders at the provincial and *Xiên* levels, only slightly more than 40% now have a college or technical school education. In other words, more than half of the national leaders have an educational level below that of [a] high school.\(^{25}\)

It is no wonder that Deng said in his speech to the “Conference of Cadres above the Rank of Vice-Minister” in November of 1979 that

the problem we are confronted with at the present time is a shortage of young and vigorous cadres with professional training and expertise. It is impossible to carry out successfully the policy of the ‘four modernizations’ without them. We, the old comrades, must clearly see that we cannot procrastinate on selecting successors. Otherwise, to carry out the ‘four modernizations’ will become empty talk.\(^{26}\)

In June 1983, Hu Yaobang had made a specific proposal to select and train younger successors known as the “3rd Echelon.”\(^{27}\) Hu also declared, while visiting Japan in October of 1983, that 1,000 young and middle-aged cadres would be given leadership positions at the ministry and local levels from 1984 onwards in order to create a new generation


\(^{25}\) *Fujian Ribao*, October 18, 1984, p. 2.


of future leaders. The Liaowang further explained that cadres of different ages should perform different roles in a “march of three echelons”: the first echelon, those who joined the Party before 1936, should live a long and quiet life but voluntarily stay out of politics; the second echelon, those who joined the Party between 1937 and 1945, should help the outstanding members of the younger generation to succeed; and, the third echelon, those who joined the Party during the war of liberation between 1946 and 1949, should get ready to take over.

In view of these developments, extensive personnel changes were expected at this conference. What happened, however, was unprecedented, even though the total number of regular members of the CC remained the same at 210 and the alternate members were only reduced by 5 to 133. First, this conference considered and accepted the resignation requests of 55, or 27.6 percent, of the 199 regular members; ten, or 7.4 percent, of the 135 alternates in the CC; 36, or 22.2 percent, of the 162 members of the CAC; and, 31, or 24 percent, of the 129 members of the CDIC. Second, 91 new members (56 regular members and 35 alternates) were elected by secret ballot to the CC. Of these, 27 were promoted from alternate status and 64 (29 regulars and 35 alternates) or 18.6 percent were new. Third, 56 new members of the CAC, or 30 percent, were elected, as well as 31 members, or 24 percent, of the CDIC.

The Politburo originally consisted of 24 regular members and three alternates. Ten regular members, or 41 percent, resigned; all are advanced in age. Ye Jianying at 88 was the oldest, Li Desheng, 69, was the youngest, and their average age was 80. The fact that age was not the only consideration is shown by the fact that four members in their 80’s remained. Some are known to have disagreed with Deng. In 1982, Ye Jianying, Nie Rongzhen and Xu Xiangqian opposed Deng's policy to rejuvenate the Party leadership. All three had refused to retire earlier, and it is not clear how they were enticed to do so this time.

The case of Ye Jianying is particularly intriguing, since on more than one occasion he had promised to “serve his country until death.”

30. The age of Zhang Tingfa is unknown.
31. Li Xiannian is 80; Deng Xiaoping, 81; Peng Zhen, 83; Chen Yun, 80 or 86.
32. FEER, September 26, 1985, p. 18.
33. Of the four octogenarian marshals, Liu Bocheng was the only one who was persuaded to step down at the 12th Party Congress.
One of the reasons could have been the promotion of his son, Ye Xuanping, to the governorship of Guangdong in August 1985.\textsuperscript{34} When questioned about this by a reporter from Hong Kong, Zhu Muzhi, a spokesman for this conference, gave an answer so official that few could totally accept it at face value:

There is not the least bit of nepotism here. This was completely a party decision, and a professional decision. When appointing a cadre to a post, our consistent stand is to appoint people according to their merits and not by favoritism.\textsuperscript{35}

Deng Yingchao's resignation might also be prompted by the elevation of her foster son, Li Peng, to membership in the new Politburo. Xu Xiangqian and Nie Rongzhen might have retired because the former's son, Xu Huizi, was made Army deputy chief-of-staff and the latter's son, Nie Li, the deputy director of the Ministry of Defense Science and Industry Commission. It is easy to list a number of similar promotions for the children of other senior and prominent officials and the CC may indeed become "a party of princes."\textsuperscript{36}

Five new members\textsuperscript{37} or 25 percent were elected and one was promoted from alternate status. All six could be identified as close associates of Deng Xiaoping or Hu Yaobang. The new Politburo had 20 regular members and 2 alternates.\textsuperscript{38} Ye's resignation reduced the membership of its standing committee to five members. It should be noted, however, that Peng Chen succeeded Ye as chairman of the Standing Committee (SC) of the National People's Congress (NPC) but not as a member of the SC of the Politburo, was probably due to the wish of Deng and his proteges to maintain a slim majority.\textsuperscript{39} The previous Secretariat consisted of nine secretaries, two alternate secretaries and the Secretary-General. In the new Secretariat, Hu remained as Secretary-General and five old secretaries stayed on,\textsuperscript{40} two alternate


\textsuperscript{35} \textit{Wen Hui Bao} (Hong Kong), September 19, 1985, in \textit{Inside China Mainland (ICM)}, November 1985, p. 2.

\textsuperscript{36} FEER, September 26, 1985, p. 19.

\textsuperscript{37} They are Tian Jiyun; Li Peng; Wu Xueqian; Qiao Shi; Hu Qili and Yao Yilin. Yao was promoted from alternate status.

\textsuperscript{38} The two alternates are Chen Muhua and Qin Jiwei.


\textsuperscript{40} Those secretaries who stayed on are Wan Li; Deng Liqun; Yu Qiuli; Chen Pixian; and Hu Qili.
secretaries were promoted to regular status,\textsuperscript{41} and only three new ones were elected to replace the three who resigned\textsuperscript{42} and one who died.\textsuperscript{43} Five secretaries, or 55 percent, were new.\textsuperscript{44} The total number of secretaries, including Hu, is now 11. There are no longer any alternate secretaries.

As expected, younger and better-educated cadres were brought in. The average age of those who resigned was about 75 but most of the new members are in their late 50s or early 60s. In the CC, there are now about 80 regular members, or one-third of the total, who belong to the “3rd echelon.” Two-thirds of the alternates, many of whom are sons and relatives of prominent officials, also belong to the “3rd echelon.” Although the election of younger cadres has lowered the average years age substantially in the CC, this is not so at the top. The average age of the five members of the standing committee of the CC is 75.8 years which is, despite the retirement of Ye, older than the average age of 74.8 when they were first elected to the 12th PC. The average age of the members of the Politburo is 79, as compared to an average age of 68.8 years when they were first elected by the same Congress. In the Secretariat, the average age dropped from 63.7 years to 61.1 but five members, or 45 percent of the total, are older than 70. Replacements are also better-educated, since forty-nine, or 76 percent, of the 64 new members of the CC, for example, have a college education or its equivalent.

This policy of “rejuvenation” by absorbing “younger, better-educated, more revolutionary and expert” cadres has been implemented in other government organizations in recent years, as well. According to the New China News Agency,

the average age of the leading cadres of the 81 units of the State Council who are not deputies is 56.6 years which is five years younger than before reallocation; cadres who are below 55 years of age have increased from 10% to 30%. Seventy-one percent of the responsible cadres who are not deputies have a college education or its equivalent, which is an increase of 27.5% than before.\textsuperscript{45}

\textsuperscript{41} They are Hao Jianxiu and Qiao Shi.
\textsuperscript{42} Xi Zhongxun and Yao Yilin were promoted to membership in the Politburo. Gu Mu resigned. Problems in the “Special Zones”, of which he was in charge, may have been the reason for his resignation.
\textsuperscript{43} He was Yang Yong.
\textsuperscript{44} The five new secretaries are Tian Jiyun; Li Peng; Wu Xueqian; Qiao Shi; and Hu Qili.
\textsuperscript{45} \textit{NCNA}, September 13, 1985.
Similar measures were carried out in the military establishment, even though senior officials remained in control at the top. For example, the minister of national defense, Zhang Aiping, and the chief-of-staff, Yang Dezhi, are both 75. The director of the General Political Department, Yu Qiuli, is 71, and the director of the General Logistics Department, Hong Xuezhi, is 72. But all the newly-appointed deputies in the three headquarters are about 42 years on the average and

(t)he youngest deputy director of the General Political Department is 44 and the youngest deputy chief-of-staff in our General Staff Department is only 42. As for their educational background, most of the members of the senior leading groups have received a college education or have taken advanced courses in our military academies. They have relatively abundant experience in doing actual work in our Army and some of them are combat heroes. 46

It should be noted that, although the “rejuvenation” of the central leadership was the official reason given for such a largescale, thorough personnel reshuffling, there was also another valid but seldom mentioned consideration: Deng Xiaoping and his supporters now wanted to be rid of those who were not his devoted followers after he had eliminated earlier opponents, including the so-called “three kinds of people” 47 and “five kinds of people.” 48 At 82, Deng is anxious to make certain that his policies will be followed after his death; to do this, he must put his followers in positions of authority as soon as he can. This may be another reason why he could not wait for the next Party Congress. As a matter of fact, Zhu Muzhi, a spokesman for this meeting, said in a news conference at the Great Hall of the People that to delay reorganization until the 13th Party Congress two years from now would be too long, since

(b)y that time every member would be two years older, and perhaps there may be some changes in some comrades’ state of health. If one was to implement changes at that time, then large scale changes must be made. It would be much


47. The “three kinds of people” refers to those who supported Lin Biao and the “Gang of Four;” those who are seriously inflicted with factionalism; and those who took part in fighting and robbing.

48. In addition to the “three kinds of people” mentioned above, the “five kinds of people” also include those who opposed the central policies since the 3rd Plenum of 11th Party Congress and those who committed serious errors against law and discipline.
better to make gradual changes now.\textsuperscript{49}

\textbf{Curtailment of Military Influence}

As a professional group,\textsuperscript{50} military leaders have always played an important role in the politics of the People’s Republic of China. During the Cultural Revolution, many served concurrently as Party and government “responsible persons,” thus enjoying supreme authority in areas under their jurisdiction. Since his return to power, Deng Xiaoping has gradually curtailed the influence of the military and reduced their representation in the CC. It happened again at this conference as many of the old cadres who were forced to retire belonged to the military. There now will be no representative of the military in the SC of the Politburo after Ye’s retirement. Of the ten Politburo members who retired, seven were military men, including three who were “grand marshals,”\textsuperscript{51} and none of the six newly-elected members belong to the military. Of the 22 members of the new Politburo, only four, instead of ten, members are military men—\textsuperscript{52} a decrease of more than 50 percent. Yang Yong, the only military man who was also a member of the Secretariat, died and no military man has replaced him. Twenty-four of the CC members not re-elected belonged to the military. Of the newly-elected CC regulars and alternates, only 13 are military men. In the CC, there are now only 57 military men as compared to 84 before—a drop from 24.1 percent to 16.6 percent or a decline of more than 50 percent when compared with the 31.1 percent of the 11th PC.

In addition to reducing the influence of the military in the Party, Deng Xiaoping has also tried to reduce the size of the military for many years. As chief-of-staff and a vice-chairman of the MAC, Deng mentioned in January 1975 and at a meeting for cadres above the regi-

\textsuperscript{49} Wen Hui Bao (Hong Kong), September 19, 1985, in Inside China Mainland (November, 1985), p. 1.

\textsuperscript{50} The term “military” used here is defined as those who hold military rank. David S. G. Goodman mentioned in his article, “The National CCP Conference of September 1985 and China’s Leadership Changes,” which appeared in China Quarterly, no. 105 (March, 1986) that as “a spokesman for the CCP pointed out at the conference’s press conference, it is difficult to find cadres from that generation who do not have a military background of some kind, especially before 1949.” (pp. 124-5) It should be pointed out that many of them might have “a military background” but did not hold military rank and should not be considered “military” in the professional sense of the word.

\textsuperscript{51} The three marshals are Ye Jianying, who was also a vice-chairman of MAC; Xu Xiangqian; and Nie Rongzhen. Song Renqiong holds the rank of Army general and Wei Guoqing, major-general. Zhang Tingfa was the commander of the air force and Li Desheng was the commander of the Shenyang MR until recently.

\textsuperscript{52} These men are Yang Shangkun, Yang Dezhi, Yu Qiuli and Qin Jiwei.
ment level in the General Staff Department that “the army is bloated and the number of soldiers should be reduced and cadres reassigned.”\(^{53}\) In July of the same year, an “enlarged Military Affairs Commission (MAC) conference” was held to discuss ways to simplify the organization of the military and reduce personnel. Fierce internal struggles and opposition prevented any concrete results. Since he rose to prominence after the 3rd Plenum of the 11th PC, Deng reiterated in March of 1980 that “the first and most serious problem with the military is its bloated status and it is impossible to direct in times of war and it is not even easy to disperse.”\(^{54}\)

The first stage of simplification and reduction was carried out from 1980 to 1984 when the size of the People’s Liberation Army (PLA) was decreased by a million men. In the ensuing years, conscription was also reduced from a million men a year to less than 800,000 during the past several years. This reduction in personnel was supposed to improve the quality of both officers and men, and the savings in military expenditures could be used to develop and acquire modern weapons. In short, the fighting capability of the PLA would be strengthened in the long run and the ultimate goal to “make the PLA gradually into a simplified and efficient”\(^{55}\) modern army would be accomplished.

According to a decision made by another MAC “enlarged conference” held from May 23 to June 6 of 1985, the second stage of structural reform and the eradication of overstaffing should last from July of 1985 to the end of 1986, during which the PLA should be reduced by another million men. Yang Shangkun, the permanent vice-chairman of the MAC, told NCNA reporters that not only were military organizations bloated and redundant, but also that the ratio between officers and men was not “reasonable and logical.”\(^{56}\) Therefore, officers would constitute 50 percent of the projected reduction.

As a result of reorganization, some officers and cadres were demoted, or “sent down” to the countryside or other remote areas where their families have encountered difficulties finding suitable work, a place to live and schools for their children. Others were given new assignments totally unrelated to their background or beyond their ability to perform satisfactorily. Unhappy and bitter, many have re-

\(^{53}\) Deng Xiaoping Wenxuan, p. 1.
\(^{54}\) Ibid., p. 248.
\(^{56}\) RMRB, July 11, 1985, p. 1.
sorted to ingenious ways of resistance;\textsuperscript{57} some even refused transfers. The problem was so serious that Yu Qiuli, the director of General Political Department of the PLA, told the "Conference on Disciplinary Investigation of the Entire Military" on May 8, 1985, that "troops must obey orders and any disobedience about reassignments must be prevented or corrected." According to the \textit{Far Eastern Economic Review},

a cadre from the Peking military region's logistics department was expelled from the party and dismissed from his job for "his unreasonable refusal (for six years) to leave the unit" for the civilian sector.\textsuperscript{58}

There were also reports of

various forms of nepotism, squandering funds as well as "forcibly taking possession of barrack buildings and furniture, cutting down trees and wrecking barrack construction as well as privately removing or passing on to others documents, files and data."\textsuperscript{59}

Yang Dezhi was indeed prophetic when he said that "this structural reform, streamlining and reorganization is a very arduous and difficult task."\textsuperscript{60}

This conference also revealed some fundamental modifications in the way China viewed the world. The \textit{Liberation Army Daily} saw fit to editorialize that this conference had accomplished "strategic adjustments"\textsuperscript{61} in theory about the world situation. In his speech to the conference, Deng Xiaoping pointed out that

the danger of world war exists. Because of the two superpowers' ongoing arms race, the factors of war will continue to grow; however, the people demand peace and are opposed to war. The growth of the forces for peace in the world will outpace the growth of the forces for war.... It is possible that large-scale world war will not recur for a relatively long time because of the further growth of the forces for peace. There are hopes for safeguarding world peace.\textsuperscript{62}

Deng's view clearly contradicted the persistent position of the CCP in the past that "world war cannot be avoided" and that "it is better to

\textsuperscript{57} See, for example, \textit{S OCC}, Vol. 19, No. 2 (February, 1985), pp. 110-111.
\textsuperscript{58} \textit{FEER}, July 4, 1985, p. 42.
\textsuperscript{59} Ibid.
\textsuperscript{61} \textit{JFJB}, June 13, 1985.
fight early and fight big." This view was not only shared by Mao who, as a true Marxist, believed that "war is the highest form of class struggle and inevitable as long as imperialism exists", but also by many others, such as Xu Xiangqian, who wrote an article in October issue of *Red Flag* in 1979 when he was the minister of national defense and stated:

Our consistent policy is to firmly oppose wars of aggression and defend world peace. However peace cannot be gained by begging and war has to be coped with by the people's struggle. . . . We believe that it is possible to delay the outbreak of war provided the people of the world firmly and vigorously wage a struggle. However, we should not base our plans on war being delayed or not breaking out. Instead, we should be prepared for the outbreak of war and be prepared early to fight both a large-scale war and a nuclear war.63

Probably to counter world-wide criticism and ridicule that China suffered from "war hysteria", Yang Dezhi, the deputy secretary general of the Central Military Commission and PLA chief-of-staff, said during an interview that "(f)or a period of time in the past, we overestimated the extent of the danger and imminency of world wars."64

It was also decided at this conference to reduce the number of Military Regions (MR) from the original eleven to seven.65 Some suspected that this was a policy of "tearing down the temple to drive away the monks;" eight commanders have been dismissed.66 The remaining three commanders were close subordinates of Deng in the old days when they served in the "129th Division of the 2nd Field Army."67 Four are newly appointed.68 Of the seven political commis-

65. The Beijing and Shenyang MRs remained the same. The Nanjing MR now also includes Fujian and Jiangxi which belonged to Fuzhou MR. The Guangzhou MR now also includes Hubei which belonged to Wuhan MR. The other province in the Wuhan MR, Henan, is now incorporated into Jinan MR. Chengdu MR now also includes Guizhou and Yunnan which belonged to Kunming MR. The original Urumqi MR is now incorporated into Lanzhou MR.
66. Those who have been replaced include Li Desheng in Shenyang, Zheng Weishan in Lanzhou, Zheng Sansheng in Jinan and Wang Chenghan in Chengdu. The following commanders' MRs were dissolved: Zhou Shizhong in Wuhan, Zhang Zhixiu in Kunming, Jiang Yonghui in Fuzhou and Xiao Quanfu in Urumqi.
67. The three remaining commanders were Qin Jiwei in Beijing; Xiang Shouzhi in Nanjing; and You Taizhong in Guangzhou.
sars, only two survived\(^{69}\) and five are new.\(^{70}\) In addition to the reduction of MRs, the People’s Militia at the xien and shih levels were to be transferred to local control and Border Defense Troops to local units of public security.\(^{71}\)

The policy of “rejuvenation” was implemented in the reorganization of the MRs as well. As the number of leading cadres was reduced by 50 percent, their average age is now “8 years younger.”\(^{72}\) There are, of course, exceptions. Qin Jiwei, 74, remained, as well as two other commanders, Xiang Shouzhi of the Nanjing MR and You Taizhong of the Guangzhou MR, both over 70. Liu Zhenhua, the political commissar of the Shenyang MR also is over 70. However, a fourth commander, Li Desheng, 69, was replaced, though all four had once served under Deng in the L29th Division. Li’s case, however, is unique and merits closer scrutiny.

The “resignation” of Li Desheng as commander of the Shenyang MR in June and as a member of the CC in September of 1985 was a surprise. Li, once the director of the General Political Department of the PLA, a vice-chairman of the CCP and a member of the standing committee of its Politburo in August 1973, was the commander of the L2th Army stationed in Zhejiang and Jiangxi provinces before the Cultural Revolution. Li pleased both Mao and Lin Biao when he put down local disorders and disturbances in Nanjing in January 1967, while Xu Shiyou, the commander of the Nanjing MR, refused to do so in order to maintain a neutral posture. In April, Li was dispatched again to Anhui and was made the commander of the Anhui Military District (MD) in October 1967.

In April 1968, Li became the chairman of the newly-created Revolutionary Committee (RC) and Mao complimented him for “having made important contributions to the birth of the RC and the Cultural Revolution.” He acquired more support and the confidence of the Leftists by speaking publicly in favor of “Mao’s thoughts.” Elected to the 9th CC in 1969, Li became an alternate member of the Politburo.

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68. Liu Jingsong replaced Li Desheng in the Shenyang MR, Li Jiulong succeeded Rao Shoukun in the Jinan MR, Fu Quanyou replaced Wang Chenghan in the Chengdu MR and Zhao Xianshun replaced Zheng Weishan in the Lanzhou MR.

69. They are Liu Zhenhua in Shenyang MR and Wan Haifeng in Chengdu MR.

70. Yang Baiping, the deputy political commissar, was promoted to replace Fu Chongbi in the Beijing MR; Chi Haojian succeeded Chen Renhong in the Jinan MR; and Fu Kuiqing was the replacement for Guo Linxiang in the Nanjing MR; Zhang Zhongxian replaced Wang Meng in the Fuzhou MR; and, Li Xuanhua succeeded Tan Youlin in the Lanzhou MR.


When Mao decided to purge Lin Biao after the 2nd Plenum of the 9th PC at Lushan, Li, by now a protege of the Gang of Four, was appointed the director of the General Political Department in 1970.

Li rose to new heights in 1973 at the 10th PC when he was elected vice-chairman of the CCP and a member of the Standing Committee of its Politburo. When Deng was rehabilitated in 1973 and reshuffled the commanders of the MRs, Li was appointed the commander of the Shenyang MR, where he served for more than a decade and became so deeply-entrenched that he was regarded as "a nail that cannot be pulled out." In April of 1976, Deng was dismissed because of the Tiananmen Incident and Hua Guofeng was promoted to first vice-chairmanship of the CCP. Reportedly, Li was unhappy with the Gang when Mao Yuanxin was sent to the Shenyang MR as political commissar and Sun Yuego was made the deputy commander in order to monitor Li’s behavior.

When Hua procrastinated on the rehabilitation of Deng, Li organized more than a hundred veteran military leaders to sign a petition urging Deng’s return and even threatened to use force. After Deng’s rehabilitation, Li sought closer ties with Deng and was re-elected as a member of the Politburo at the 11th PC. When Deng attacked Hua’s policy of the “two whatevers” in 1978, Li sided with Deng at this crucial moment and publicly supported Deng’s policy of “practice.” As a result, he was pardoned by many Deng supporters and was again re-elected to the Politburo at the 12th PC. From then on, Li actively supported every policy Deng favored, sometimes quite obviously and excessively. As a result, Li retained his posts during the two reshuffles of the MRs in 1980 and 1982.

When the movement “to negate thoroughly the Cultural Revolution” was launched in March of 1984 and the military began to investigate the “three kinds of people,” Li’s attitude changed. Rumor had it that Liu Zhenhua was sent to Shenyang to watch over him. Since then, Li has not wholeheartedly supported Deng. For example, Deng had originally planned to pass the control of the military to Hu Yaobang, but many old military leaders opposed such a move. Li was one of them. In May of 1984, Li did not accompany Hu when he inspected the troops stationed in Changchun on his return trip to Peking from North Korea.

In the spring of 1985, Li accompanied Hu in an inspection tour of Yunnan and Guizhou. This trip was viewed by many as a conscious

effort at reconciliation. Hu was not successful, however, in convincing Li to accept an offer to become the president of the newly-created Supreme Military College, which would combine the three existing PLA military colleges into one school under the control of MAC for training future high-level military leaders. Typical of those who supported Deng but not Hu, Li may have been ousted because of such an attitude.

Deng has been systematically eliminating his opponents and placing his supporters in as many high-level positions as he possibly can to guarantee that his policies will be pursued after his death. Since 1978, when he first began to consolidate his control on the Mainland, he has gained more strength each year. There remain, however, opponents determined to challenge Deng’s views in the years to come. Deng frankly admits in his speech to the “National Conference on Scientific and Technological Work” that “in recent economic reform, some people have adopted a diabolic attitude saying that if you have a policy, I have a counterpolicy’ and there are indeed many counterpolicies.”

Opposition may have forced Deng to give up his wish to appoint Hu Yaobang as the chairman of the MAC and Hu Qili as the secretary-general in the Secretariat. Wang Heshou, the permanent secretary of the CDIC, also pointed out at one of its meetings that “some people simply ignore the regulations and policies of the CC and the State Council” and “that is at present the most dangerous undesirable tendency.”

“By the end of the year,” according to the most pessimistic interpretation, “perhaps for the first time since reform was launched, the leadership could not be sure that the populace was behind the reform efforts.”

Deng Xiaoping and his contemporaries are rigid, dedicated revolutionaries who have been most reluctant to admit that Marxism-Leninism has proven to be a dead end and that the CCP’s past achievements are not impressive by any standard. Soon a younger generation of successors will come to power in due time, but it is debatable whether they will be more flexible than their predecessors in making fundamental ideological revisions and drastic policy changes in the future. Unless they do, it is very unlikely that the hope of the people to have higher standard of living and a more democratic way of life can be met.

76. RMRB, March 9, 1985, p. 1.
CHAPTER 2

POLITICS IN TAIWAN, 1985-1986: POLITICAL DEVELOPMENT AND ELECTIONS

John F. Copper

INTRODUCTION

Simply put, the political situation in Taiwan during 1985-86—both the mood and the real problems—went from bad to good. The year 1985—at least until near year’s end—was a difficult time. The government and the ruling Nationalist Party, or Kuomintang (KMT), were plagued by various difficulties. In fact, the problems were together sufficiently serious that some referred to a “crisis of confidence” in government. Though the use of this term may have been exaggerated, and it was employed by the opposition to discredit the government and as a campaign tactic, one could certainly sense a mood of frustration, discouragement and problems that defied solution during the first part of the period.

This “down” period seemed to result from a number of factors—political (relating to domestic politics) as well as foreign policy and economic. The Henry Liu case (which will be explained below), a serious financial scandal, problems with the U.S. over arms purchases, lack of innovative policies to deal with overtures by Peking aimed at pushing Taipei into negotiations leading to “reunification,” were among the causes.¹

In the summer of 1985 it appeared that KMT was heading for a major defeat in the fall election. Some said that it was “overdue” because of KMT victories—a chain of them—in recent elections. Others predicted a defeat because many of the nation’s difficulties—cited above—were blamed on the ruling KMT. In any case, late summer 1985 was a period of bad morale in the government and the ruling Party, a time of predicted doom and a time of less public confidence that the country was resolving the problems facing it.

The situation improved in the fall of 1985. By election time, it appeared that the KMT would not suffer badly at the polls. Things seemed to once again be “under control.” In fact, the KMT did as


(27)
well in this election it had been doing previously in terms of holding the support of the electorate. After the election, there was less talk about top officials who needed to resign or to be dismissed. Other problems also seemed less serious.  

The government followed up its election victory with announcements that it would seek talks with opposition leaders on legalizing the tangwai or "outside the Party" politicians, i.e. the opposition. Legal and other political reforms should be undertaken, the President said, including the substitution of national security laws for martial law. Meetings were held, proposals were tabled, and, seemingly, solutions were reached.

The KMT meanwhile demonstrated it was sincere about reform, meaning political change and modernization, when in the spring of 1986 at its plenum meeting, it appointed four new members to the Central Standing Committee of the Party—notably half of them Taiwanese and all younger and better-educated Party stalwarts. Meanwhile President Chiang Ching-kuo made a number of moves to prove that there was no succession "problem" and that neither his relatives nor the military would decide that issue—meaning that it would be accomplished democratically.

In October 1986, President Chiang announced that martial law would be ended soon and that the ban on the formation of new parties would also be lifted. This announcement was praised by the Western media, usually unsympathetic toward Taiwan's allegedly "authoritarian" government. The U.S. State Department and Congress reacted in a similarly positive manner. In the meantime, the opposition, apparently not wanting to be upstaged and seeking to avoid being seen as a party that was the "creation of the KMT" or even from a deal with the KMT, struck out on its own and announced the formation of the new Democratic Progressive Party. Though this was technically illegal and was certainly in defiance of the government, the President and other top KMT officials seemed unflappable. Their reaction was by any measure mild and controlled.

This was the prelude to a national election December 6. The voice of the people (as reflected in public opinion polls taken at this time) said that Taiwan needed party competition in elections to make the system a democracy. But the electorate also sent a word of caution in their vote: Moderate opposition candidates did better at the

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polls than the more radical ones. Many incumbents lost, but experience counted. Issues were important; ideology was not.

In short, 1985-86 were eventful years politically in Taiwan. One might say that the manner in which numerous serious problems were resolved, the pace at which critical decisions to democratize were made and the ability of both sides to compromise, boded well for Taiwan’s future.

EARLY AND MID-1985; "CRISIS OF CONFIDENCE"

In January 1985, it was reported that several top intelligence officials of the Taiwan government had been involved in, i.e. ordered, the murder of writer and businessman Henry Liu in San Francisco in October 1984. According to U.S. and Taiwanese published reports, Liu had written a biography of President Chiang Ching-kuo that was uncomplimentary, thereby providing the reason for his killing—by members of a Chinese gang in San Francisco. But such situations are seldom as simple as they seem at first, and this one was no exception

... In February 1985, Vice Admiral Hsi-ling, head of the Defense Ministry’s Intelligence Bureau, was convicted of the crime along with three members of the Bamboo Union Gang who actually carried out the killing. One of the gang members testified specifically in court that Wang had ordered Liu’s murder. Wang was subsequently given life in prison for masterminding the crime.

The incident caused considerable fallout for the government and especially for the Kuomintang. A number of editorials in U.S. newspapers suggested that other government officials in Taipei were involved. Congressman Stephen Solarz, Chairman of the House Foreign Affairs Committee, Sub-Committee on Asia and the Pacific, called for hearings on the case with the intent of demonstrating that the incident was “typical of Taipei’s behavior,” i.e. intimidating Chinese in the United States. He also sought to link the case to U.S. arms sales to Taiwan, arguing that such arms sales should be cut.

Further investigation, however, revealed that there was little or no logic in the original explanation of Liu’s murder: his negative comments about President Chiang Ching-kuo had been written years earlier and were known or remembered by very few people at the time of his death. Furthermore, it was learned that Liu had served as an agent for Taiwan—providing Taipei intelligence information about the Peo-

people's Republic of China—and had only recently purveyed Taipei with some intimate details on Peking's military preparedness in South China. He had also served in an intelligence capacity for Peking and for the F.B.I. in the United States—making him a triple agent. Some opined he was killed in retaliation—because he had exposed some of Taiwan's agents, resulting in their deaths. Finally, the gang member who testified that Wang had specifically ordered Liu killed changed his testimony during an appeal hearing.

In any event, the attempt to tie the case to arms sales failed as did Mrs. Liu's demand that Admiral Wang and the gang members be extradited to the United States for punishment. (Congressman Gerald Solomon remarked during the hearings that if Mrs. Liu wanted her husband's killers out on parole in a few months, they should be brought to trial in the United States; in Taiwan they would be duly punished.) The affair had other ramifications; most important it underscored the fact that the U.S. did not have an extradition treaty with Taiwan (which allowed criminals from Taiwan to live in the U.S.) and that Taiwan remained an important issue in the United States notwithstanding a China policy that sought to ignore the "Taiwan issue."

Still the case did considerable damage to Taiwan, both in terms of relations with the United States and the credibility of the government locally—notwithstanding the fact that Liu was killed as a result of a decision made by one or two individuals without the knowledge or consent of the President. This seemed to reflect at minimum a breakdown in the chain of command in the government in Taiwan.

Following on the heels of the Liu case, Taiwan suffered its worst financial scandal ever. Runs began on two financial institutions controlled by the Tsai family, whose Cathay Group was the second largest business empire in the country (with 100 companies and assets of up to $3.6 billion). The Ministry of Finance was forced to take control, but not before creditors lost an estimated $320 million.

This time a host of officials in the top ranks of the government were implicated. The Cathay Group had operated under the control of the Ministry of Finance and officers of the Group had close ties with other government ministries and bureaus. Finance Minister Loh Jen-kong immediately resigned, as did Tsang Yen-si, Secretary-General of the KMT. Minister of Economic Affairs Hsu Li-teh (formerly

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Minister of Finance) also resigned. Rumors abounded that others should likewise step down, including Premier Yu Kuо-hua.

An Executive Yuan report in August named fifteen additional Ministry of Finance officials responsible for the collapse of the Cathay group. They either resigned or were demoted, or they received administrative punishment. The government meanwhile revised regulations regarding such institutions to ensure that a similar event could not occur again in the future. Fallout from the Cathay scandal was worsened by several other “incidents”: a mine disaster resulting in several deaths—at the same site where a disaster had occurred the year before; wine produced by the government’s Wine and Tobacco Monopoly found contaminated and poisonous; a fire at one of Taiwan’s nuclear power facilities. More fingers were pointed at the government as the responsible party, further undermining public confidence.

All of these events underscored the problem of succession, an issue the opposition found a good political hook. Tsiang Yen-si had been considered the top candidate to succeed President Chiang, at least in controlling the Party. At a minimum, it was believed he could help maintain stability in the government during a succession crisis or while a new leadership was forming. Chiang’s constitutional successor was Vice President Lee Teng-hui. His stature was questioned, however, because of his relatively lower rank in the Party and the fact that he had not been in office long. In addition, he had no experience in the military or the intelligence services.

Rumors about Chiang’s health, and claims by the opposition that Chiang was grooming his son and that the military was waiting in the wings, made the situation even worse. Even though there was no real evidence to support either claim, uncertainty created by all of the above mentioned problems made both believable to many people.

The economy was also a cause for some alarm. Economic growth, measured by the increase in the gross national product in 1984, was over 10 percent. In 1985 it was less than half that. Foreign trade saw an almost unprecedented decline. In August, the rate of unemployment reached 4.1 percent—the highest it had been in many years. Domestic investment was also down from 1984.7

These problems seemed to be partly the product of the reality of a slower growth period (because Taiwan was already a “developed country” by many standards) and of an economy shifting gears to more capital-intensive and knowledge-intensive industries. Still, the

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6. Ibid.
7. See Copper, supra, note 2, p. 168.
Cathay scandal had a dampening effect on economic growth (at least by affecting investor confidence), as did a lower level of public trust in the government, concern about U.S. protectionism (accounting for nearly half of Taiwan's export market) and the potential for the cessation of trade links with Hong Kong (because of an agreement between London and Peking in 1984 through which Hong Kong would become part of the People's Republic of China in 1997). The question of continued U.S. arms sales to Taiwan also injected another element of uncertainty into the equation: If Taiwan were to remain a secure place for investment (for both domestic and foreign investors) it had to provide better national security.\(^8\)

**THE 1985 ELECTIONS**

Nationwide local elections scheduled for November 16, 1985 were considered by many observers through the summer of 1985 to be a litmus test: for the government and the ruling Nationalist Party (public confidence in both) and political stability in general in Taiwan. Voters were to elect 21 city mayors and county magistrates (5 and 16 respectively), 77 members of the Taiwan Provincial Assembly, 51 members of the Taipei City Council and 42 members of the Kaohsiung City Council. The opposition charged the government and the KMT with misgovernment and incompetence, as well as dishonesty, corruption, authoritarian and dictatorial practices. Some even asserted that the KMT was no longer qualified to rule the country. KMT officials cited the Party's past record and played down most of the problems mentioned above, subsuming them in the categories of bad luck or coincidence.\(^9\)

The election was also another test of a rapidly evolving democratic system in Taiwan whose credibility depended on party competition, or, more specifically, competition between the Party (meaning the Kuomintang) and the tangwai. This election was particularly telling in terms of the working relationship between the two because of the polarization politically in Taiwan caused by the issues cited above. Taiwan's image abroad—as a country evolving toward a Western-style, open, competitive and democratic polity—was also at stake.

In August, a core tangwai group (of candidates) met and formed what it called the "Candidates Aid Group." In doing the tangwai was acting like a political party and seemingly, therefore, committing

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8. Ibid., pp. 168-69.
an act which according to the "temporary provisions" of the Constitution, was illegal (since the formation of new parties was therein banned). The government and the KMT, had closed their eyes to tangwai actions during the national elections in 1980 and elections yearly after that, and did so again. The Candidates Aid Group formulated a "party platform" and sought to find an acceptable way of choosing candidates and preventing tangwai politicians from competing with each other in ways that, in past elections, resulted in a waste of voting strength. They also sought to avoid a polarization between radicals and moderates within their ranks.10

Tangwai candidates, pretty much in unison, attacked the KMT on the issues mentioned earlier. It linked the succession question, the Henry Liu case and other problems to falling economic performance. Tangwai related all these issues to "excessive" KMT authority, penetration of the government by the KMT and the need for more democracy. In addition, the opposition cited "serious" foreign policy failures and unfair election rules favoring KMT candidates.

Public opinion polls, however, suggested that major election issues in terms of public concern were traffic, crime, and other such "practical" issues such as welfare and labor reform, tourism, education, administrative reform, water control, etc.11 The polls as well as the mood of KMT candidates just before the election indicated that the "malaise" or "crisis of confidence" that troubled the KMT and the government had peaked sometime before the campaigning started. By campaign time, there was a slight trend toward public optimism. Many voters opined that the KMT was not to blame directly for many of the country's problems and that, even if the KMT were to blame, it could do better to rectify the situation than the opposition.

During the last days of the campaign, tangwai supporters in Chung Li turned over a car and threw rocks when one of their candidates lost by a very narrow margin. Near Taipei a candidate was almost stabbed. But neither the government nor the opposition tried to exacerbate tensions or take advantage of these incidences and decided instead to resolve any problems in the courts or by appealing to the Election Commission after the election was over.12 In short, the election went off without too many hitches. Again, compromise—even though it didn't look like it—seemed to be working.

The fact that the voter turnout was higher than usual (in fact, it

12. Copper, supra, note 9, p. 36.
reversed a slow ten year decline), suggested that public interest in the
election and its issues was high. 71.7 percent of the electorate voted—
in spite of dreary weather in most of the country.

The division of the popular vote was close to the usual 70-30 split
between the KMT and the opposition, though because a number of
winning candidates could not be identified with either “party”, this is
to some extent a rough estimate. KMT candidates won 146 of the 191
contested seats—or 76.8 percent. The KMT also won 59 of 77 seats in
the Provincial Assembly. The tangwai had targeted six areas for vic-
tory: four counties (Taipei, Hsinchu, Tainan, and Kaohsiung) and
two cities (Hsinchu and Taichung). Of the six they unequivocally won
only in Kaohsiung county, though they returned incumbents in Chiayi
City, Yilan County and Changhua County.13 In addition, they expe-
rienced an unexpected victory in the Taipei City Council race where all
11 of the “Candidates Aid Committee” representatives won—result-
ing in a loss of three seats for the KMT.

Assessing the election in general terms, the KMT legitimately
claimed victory because it had not done as badly as was expected just
weeks before the election. The KMT also did well in some rural areas
that are primarily Taiwanese and considered tangwai strongholds.
Tangwai also claimed victory because it managed to remain more uni-
fied than in recent elections. Also the tangwai surprised the KMT and
the population generally with its performance in the Taipei City Coun-
cil race. (Some said this was because their charges of a “crisis of con-
dence” and the effects of the Cathay scandal were felt more in Taipei.)

Most important seems to be the fact that the election went off
without serious difficulties. Gentlemen’s agreements between the
KMT and the opposition held, and the tangwai became a legitimate
and/or loyal opposition. The KMT was clearly no longer a Mainland
Chinese party; most of its candidates were Taiwanese (over 90 per-
cent) and it won over half of the Taiwanese vote (though it had been
doing this regularly). Clearly ethnic identity was less important—
some noting that, because the KMT was a conservative party, it had
more appeal in the rural areas that were predominantly Taiwanese,
while the tangwai being more progressive had special appeal to the
Mainland Chinese city dwellers. Some observers also noted that
Taiwanese businessmen were suspicious of tangwai candidates because
of their anti-business, “socialist” attitudes. Ideology, however, in
most cases did not seem to attract voters; the same was true for sensa-
tionalism. These and other voting habits seemed to reflect a growing

sophistication of the electorate—a good sign in terms of the continuing democratization of the political process in Taiwan.\textsuperscript{14}

Just before the election, Vice President Lee Teng-hui was awarded Taiwan's highest civilian honor. The award gave him added prestige as a political leader and evoked speculation that he would not only be the formal successor, but that he would wield considerable \textit{de facto} power in the event of Chiang Ching-kuo's death or serious illness. Since Lee is Taiwanese, this event had an especially salutary effect on the Taiwanese population and may have dampened their criticism of the government as the election approached. President Chiang's activities during the election, including timely statements on vital issues and problems, also helped. Clearly it refuted speculation that his health was deteriorating seriously.

Soon after the election was over, President Chiang personally acted to quell a controversy that arose during the election. During the campaign a \textit{taongwai} candidate had charged the President with nepotism and had gone to considerable lengths to use this as a campaign issue. His campaign advertisements included a diagram of the President's family tree and pointed to relatives who might be in line for political office—even as his successor—after his demise. According to Taiwan's' election laws, this was illegal. The Election Commission was about to press charges when President Chiang advised publicly against any such prosecution, saying in essence that he didn't mind personal criticism.

In short, the absence of problems during the election, the fact the KMT performed as well as it had in the past, a positive change in economic forecasts and a better public mood all seemed to reflect that Taiwan had passed through the "down period" and that things were back to normal again. Subsequent events supported this conclusion.

\textbf{POST-ELECTION POLITICAL CHANGE}

In his New Year's Address, President Chiang again moved to clear the air of rumors about succession and his commitment to democracy. There was some suspicion (evoked mostly by comments in opposition magazines) that because of his age he had "turned reactionary" or that he was surrounded by "old hacks" in the Party who

\textsuperscript{14} This seems to have developed several years earlier, but was a bit more pronounced at this time. See John F. Copper with George P. Chen, \textit{Taiwan's Elections: Political Development and Democratization in the Republic of China} (Baltimore: University of Maryland Law School, 1984) for further details.
sought to reverse the political modernization process. In his speech, Chiang said that his successor would be chosen in a constitutional manner. He further declared that it is “not possible” that his successor would be a member of his family. “It cannot happen and will not happen,” he emphasized. He also asserted that the military would play no role in the succession process or in a post-Chiang government. Chang’s assertions on both counts were credible, or were soon to be.

Chiang had earlier quieted rumors regarding the military role in the government when he demoted General Wang Sheng—head of military intelligence and psychological warfare. Wang was assumed, from his Party rank and close ties to the President over many years, to be the President’s logical successor. This had troubled many who wanted to see the system continue to democratize and perceived Wang, because of his military background and his attitude toward political change, to be someone who would not continue that process. General Wang was not only demoted from his positions in the military, but also from those in the Party. He was then sent to Paraguay as Ambassador.

Soon after his January speech, the President dispatched his son—about whom rumors had spread, mainly among unsophisticated political observers, to the effect that he also was in line for succession—to Singapore as the country’s trade representative. That underscored the veracity of his promise that a relative would not follow him as President or as head of the Party.

Both decisions signaled that the “Chiang era” was coming to an end. More important they sent a message: that the President was still in charge and had not lost his enthusiasm for political development.

In March, at the KMT’s third plenary session of the Twelfth Central Committee, President Chiang announced the appointment of a 12-member committee, headed by former President Yen Chia-kan, to study the “most urgent” problems faced by the Republic of China. The two most important were a review of national security matters—including the lifting of martial law, and regulations governing the formation of new civic organizations, including political parties.

A third, reorganizing the three elective branches of government, was also seen to have important implications. Discussions regarding

16. It is uncertain why Wang was demoted. Some said that he tried to become successor. Others contend that it was simply because the President and others felt that military leaders or those identified as being military leaders should not be in line for succession to the presidency or the head of the Party.
the reorganization of the three elective bodies of government included adding representation from Taiwan while reducing the number of members representing districts on the mainland. This carried a serious implication: making the political system more representative of the territory governed by Taipei made it more democratic; but it also gave the impression the government was abandoning a one-China policy.\textsuperscript{17} The decision was apparently intended to help deal with Peking's efforts to force Taipei into negotiations regarding reunification as well as support the continuing political modernization process. Many said democracy meant reunification was less feasible. Still others said it was simple realistic.

The two central issues—abolishing martial law and changing the "Temporary Prohibitions" which blocked the forming of new political parties—were even more sensitive. Both were seen to constitute obstacles to democratization and together to impede democratization even though they have a separate origin.\textsuperscript{18} They had become increasingly linked by those who advocate reform and were the two issues that the foreign media most often cited when pointing to authoritarianism in Taiwan. (Both will be discussed in greater depth below.)

At this same meeting four new members were appointed to the Central Standing Committee of the KMT. Of the four, two were Taiwanese; all four departing members were Mainland Chinese. This brought the percentage of Taiwanese in this high level decision making body to nearly 50 percent—not an insignificant change considering that after the first plenum of the Twelfth Central Committee meeting just five years earlier the ratio of Taiwanese to Mainland Chinese was only slightly more than 1:4.\textsuperscript{19} Opposition politicians often pointed out that the Central Standing Committee was the real locus of decision making power and Taiwanese were not well represented. This charge was obviously no longer valid.

The Central Standing Committee also became younger. After the first plenum there were no members of this body under 50. Now there were two in their forties. In addition, there were more representatives

\textsuperscript{17} The average age of appointed National Assembly and Legislative Yuan appointed delegates is 75. They have been dying at a rate of about one per month. Some argue that the simplest and less provocative (to Peking) solution is simply not to replace them.

\textsuperscript{18} Martial law was declared in 1949 as the Nationalists fled to Taiwan during the Communist victory on the mainland. The "Temporary Provisions" had been added to the Constitutions earlier and were applied to Taiwan. See Thomas B. Gold, \textit{State and Society in the Taiwan Miracle} (Armonk, New York: M.E. Sharpe, Inc., 1986), p. 54.

with higher education, especially graduate degrees from U.S. universities. The new appointment also conspicuously did not include anyone that might be defined as military. Finally, there was no relative of the President serving on the Committee. This gave further weight to his promise of no military involvement and no nepotism in the post-Chiang government.

While there was no successor named and some critics assailed the Party for not replacing one or two Ministers they felt should be replaced, Vice-President Lee Teng-hui's rank in the Central Standing Committee rose from ten to three. (He was fifteenth after the first plenum.) Clearly his star was rising and he looked more and more like Chiang's heir. Although formally speaking, there was no question that Lee would become President in Chiang's absence; but whether he could wield actual political power was another matter. Some argued that because Taiwan had become much more a pluralistic society in recent years and because the democratization process had reached the level it had, less power should be centered in the presidency. Thus, a collective leadership and/or more checks and balances in the decision making process were appropriate. Others opined that it was impossible, to find a successor who could match President Chiang's power and influence, given the fading of the autocratic structure of the past and no top leader with influence and support in the Party, government and the military.

Just two months after this Party meeting, the KMT opened a dialogue with tangwai leaders for the purpose of making the tangwai legal, or at least more official. At nearly the same time it was announced that the tangwai could have offices island-wide—in the form of the Tangwai Research Association for Public Policy (TRAPP)—which would operate other than during campaign periods. TRAPP became for all intents and purposes a national party organization for tangwai.20 These moves seem to suggest that efforts to build a two party system were about to succeed.

A NEW PARTY AND THE END OF MARTIAL LAW

While talks between the KMT and tangwai leaders (which included several noted scholars and statesmen) formally broke down during the summer, behind the scenes negotiations continued. The theme of the meetings and discussions within both the KMT and the tangwai, and indirectly between them, was the full and formal legalization of the tangwai as an opposition party. Naturally many KMT

members opposed according the tangwai legal status. Some argued Taiwan was not ready for more party competition in elections. Others said tangwai politicians were already creating political instability and weakening the unity and morale of the country. A more moderate view was that it was simply a good precautionary move to keep them illegal, while simultaneously allowing them to operate as a de facto competing party.

Ironically some tangwai opposed any deal with the KMT and in essence opposed legalization, because it would undermine the unity of the tangwai (which some thought hinged on their illegality). Other tangwai politicians perceived that their legalization, following discussions with the KMT, or even as a side effect of such a dialogue, would give the impression of a deal that would sully the tangwai's reputation as an opposition party; tangwai, in short, would be seen as an adjunct or outgrowth of the KMT. Most tangwai politicians and supporters certainly wanted to avoid creating this impression.

The final upshot was that, on September 28, 135 opposition leaders unilaterally announced the formation of the Democratic Progressive Party (DPP). Simultaneously they announced 20 candidates for Legislative Yuan seats and 22 candidates for National Assembly seats in the upcoming December 6 election. DPP spokespersons promised that the “party” would hold a “congress” on November 20 to decide on a platform and formal leadership. At the same time, they said that no links would be formed with U.S.-based Taiwan Independence Movement groups.

The “sudden” announcement of the formation of the DPP followed street demonstrations in Taipei resulting from the sentencing by the court of a well-known tangwai politicians on charges of libel and election irregularities. The punishment handed down seemed unduly severe and appeared timed so that he could not enter as a candidate in the December 6 election. KMT officials said they had not influenced the judicial process, while was independent of the ruling party and the other branches of the government. In any event, on September 14 several thousand “marchers” gathered near National Taiwan University and jammed the streets for a short time.

However, judging from the orderliness of the protest and the fact that KMT and tangwai negotiators had not really reached an impasse in their discussions aimed at legalizing the tangwai, the formation of

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the DPP hardly seems the product of street demonstrations or mass "anger" about the sentencing of a tangwai candidate. Rather, the DPP wished to give the appearance of being established as a result of public protest and avoid being cast as a party born out of compromise or KMT "permission." After all, the DPP's base of support consisted mainly of an anti-KMT segment of the electorate; it could not claim the support of regional, class professional or interest groups. DPP leaders also saw the demonstrations as unifying the opposition and strengthening their cause.

Since the announcement of the formation of the DPP technically was illegal, the Minister of Justice immediately filed charges against the DPP for violation of the "Temporary Provisions" prohibiting the formation of new political parties. This indictment, however, turned out to be an empty one when President Chiang announced just days later that he would pursue legislation to abolish martial law and allow the formation of new political parties. Then, on October 7, President Chiang, in an interview with Katherine Graham, owner and head of the Board of Directors of the Washington Post, declared specifically that martial law, in effect since 1949, would soon be lifted and that the ban on the formation of new political parties in the "Temporary Provisions" would be dropped. His conditions were that any new party renounce Communism, swear allegiance to the Constitution, and forewear the Taiwanese Independence Movement and efforts to create two Chinas.23

Although the DPP did not want to agree to any conditions, the conditions were in no way onerous or unacceptable. First, Communism had no appeal in Taiwan among any political faction or the electorate. Since the DPP organized itself for the purpose of winning seats in elected organs of government, it had no real interest in refusing to renounce Communism. Second, since tangwai politicians had long complained that the government was undemocratic because it often circumvented the constitution, it could hardly consider the second condition as unacceptable. Third, since the DPP had already denied links with the Taiwanese Independence Movement, the condition to foewear support for the movement did not seem troublesome either.

Unclear, however, was the advocacy of two Chinas. Many tangwai politicians argued that there were de facto two Chinas (or more) and believed it was already the policy of the government to remain separate (even though it officially denied it). Clearly an over-

whelming portion of the populace (99 percent plus) opposed unification with the People's Republic of China. Thus this condition could hardly be seen as a serious obstacle.

The DPP was impressed by the fact that President Chiang's announcements of ending martial law and allowing new parties to form was so well received in the United States and the Western media. The DPP could hardly deny it was a "momentous" move in changing Taiwan from an authoritarian dictatorship to a democratic republic, even though the democratization process was already well advanced. Most also perceived the move as would make Peking's overtures toward Taipei to negotiate "reunification" less credible while making it less likely that the United States or other Western countries might support Peking's efforts to pressure Taipei to the negotiating table. In short, the DPP could not help but interpret Chiang's promise as meaning that both democracy and local sovereignty were an inalienable part of Taiwan's future.

Both sides—the KMT and the DPP—also had to be influenced by public opinion polls taken at the time. Nearly two-thirds of those questioned by pollsters at this time replied that the formation of a new political party would help promote democracy in Taiwan. Over half said it would help reduce tension between the KMT and the tangwai. Yet less than 40 percent saw it as helping to improve the investment climate or the economy, about 40 percent opposed the formation of a new party for this and other reasons. Thirty percent voiced support for "an opposition party"—about the same as voted for tangwai candidates in recent elections.24

The public seemed to be ready for a new party—but with some reserve and caution. Martial law was seen—again according to polls taken at this time—as creating a bad image for the country, but was not otherwise offensive. Judging from the public reaction to both moves, the public supported President Chiang.

**THE 1986 NATIONAL ELECTION**

On November 21 campaigning began for the December 6 national election for the National Assembly and the legislative Yuan. 169 candidates for 84 seats in the National Assembly entered the race. 137 candidates for 73 seats in the Legislative Yuan registered. Of the 306 candidates, 179 were KMT; 44 were DPP. The rest were independents.

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It was Taiwan's 68th major election in three decades. But many saw it as the most important. It was the first election in which the KMT competed with another political party—although the tangwai had been for all intents and purposes an opposition party and the DPP was yet to receive formal legal status. Nevertheless the DPP regarded itself as the first opposition party and so did the electorate. In other words, formal party competition—which many viewed as the prerequisite for a truly democratic system—was born.

The campaign period lasted for 15 days, split between individual campaigning (eight days) and government-sponsored forums the remaining seven days. Opposition candidates had complained of the short campaign period, but the Election Commission's contention that it was justified by Taiwan's more frequent elections (compared to other nations) and public concern to limit campaign spending and the disruption caused by election campaigns prevailed. In any case many opposition candidates started campaigning ahead of time by holding teas and other parties and by giving "educational or public information talks."25

Polls taken immediately before and during the campaign reflected overriding public concern over traffic, crime and the environment. Most candidates, however, ignored these issues—apparently seeing them as less dramatic and not sufficiently good attention getters. Candidates ranked social welfare, economic freedom and growth, foreign relations and national security as the nation's most important problems. On the "real" issues (as defined by voter polls) the candidates generally took similar or identical positions: for taking action to do something about traffic, crime and the environment, though their proposed solutions differed somewhat.

The candidates split on other issues. KMT candidates generally espoused a more conservative position, supporting the government's record on economic growth and opportunity, while stressing political stability. They advocated incremental progress toward democracy, a cautious foreign policy and a greater need for national security. DPP candidates railed for more press freedom and freedom of speech, fewer restrictions on campaigning (including spending), social welfare and a more aggressive foreign policy that would get Taiwan back into some

25. The DPP drew up a charter before the election and announced party leaders and a slate of candidates. During the campaign it displayed the DPP flag and insignia. Newspapers in Taiwan referred to the DPP as a party and in vote tallying listed the victorious candidates as KMT, DPP and others.

26. For details on the campaign and the election, see John F. Copper, "Taiwan's 1986 National Election," forthcoming.
or many of the international organizations it had been expelled from during the 1970s and early 1980s (though without explaining how this could be done).

The campaign was full of antics. A number of candidates started rumors against their opponents. Some accused other candidates publicly of moral (usually meaning sexual) impropriety, corruption and bribery and even vote fraud. Several launched lawsuits against their opponents prior to or during the campaign. Numerous incidences of disrupting forums with firecrackers, car horns and cutting the electricity (which affected public address systems and lighting) occurred during campaign speeches. Much of this was done by candidates' own workers to provide an excuse for their candidate blaming the opponents. Candidates also reportedly hired gang members to disrupt their opponents' campaigns and employed crowds to cheer their own speeches.27

Two or three DPP female candidates regularly referred to themselves as "Corazons"—referring to President Aquino in the Philippines. Some spoke directly of revolution. Others criticized the government, even referring to President Chiang Ching-kuo as a "pig." Most DPP candidates discussed self-determination, and, implicit in such talk, a two China policy and independence. Some even suggested that all Mainland Chinese (those who came to Taiwan after 1949) should "go home."28

KMT candidates deplored the "nasty" and ungentlemanly conduct of the DPP. They stressed the need for political stability and suggested that opposition candidates, if elected, would engender lawlessness and anarchy. They hit at the immaturity of many DPP candidates and their lack of experience and realism. They also criticized election "tricks"—used more frequently by DPP candidates.

Midway during the campaign dissident Hsu Hsin-liang (who was formerly a county magistrate in Taiwan and in 1979 fled to the U.S. under charges of treason) tried to return to Taiwan. Several airlines in Japan refused to let him on an aircraft, since he lacked a valid passport. Nevertheless supporters went to the airport when they thought he would arrive, seeing another opportunity to unify their supporters and attract attention to their cause.

Conflict broke out between the demonstrators and the police. The resulting violence, including the burning or damaging of police cars and hitting police and tourists with rocks and clubs, was to most

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27. See supra, note 26.
28. Ibid.
observers initiated by the demonstrators. One reporter even videotaped a demonstrator pushing police after which he put animal blood or paint on his face and claimed he was beaten. All of this was grist for KMT candidates that claimed DPP candidates were promoting violence.

The DPP publicly repudiated the violence that had occurred at the airport and rebutted these charges that they had initiated the conflict. Many candidates, including the DPP's top leadership, stated that they did not support Hsu and did not agree with his methods. Others simply stated that they felt the government should not prevent his return.29

Election violence seemed to favor KMT candidates. On the other hand, perhaps because of the newness of the party competition and the excitement of the campaign, it was not turned into a successful campaign issue by KMT candidates. Alternatively the DPP leaders defused the issue by condemning the violence and cautiously distancing themselves from Hsu. They also had videotapes of the airport incident that showed the police using force against the demonstrators without being provoked.

Meanwhile election law violations occurred in large numbers during the campaign. But this was less a cause for alarm than their frequency suggested at this time. A large portion of the population perceived that new election codes had to be rewritten and that minor violations, such as too many placards and flags, didn't really matter. Some saw campaign period as a temporary “free-for-all.” Some said the newness of two party competition made violations of the rules inevitable.

In any event, the DPP came out of the election with 12 seats in the Legislative Yuan and 11 in the National Assembly, an increase of 5 and 8 respectively over what the tangwai had won in the preceding election. The KMT was 59 seats in the Legislative Yuan, a decrease of 3, and 68 seats in the National Assembly, an increase of 7. Two seats in the Legislative Yuan and four in the National Assembly went to independents. The pro-KMT China Democratic Socialist Party won one seat in the National Assembly.30

The DPP claimed victory—certainly not an unreasonable claim. The new party had done better than the “united” opposition in the

29. The airport incident occurred shortly after several newspapers had published some of Hsu's writings advocating violence and killing as a way for the revolution to succeed.
30. For a list of winning candidates and further details on the election issue China Post, December 7, 1986, p.1.
previous national election. The main reason: the DPP did not split as the tangwai had done in the past. Many of the largest vote-getters were DPP; the top four in the Legislative Yuan race were DPP candidates. The DPP also did well in Taipei and several other large cities, suggesting good performance in future elections since the big cities set voting trends.\textsuperscript{31}

The KMT won a somewhat smaller portion of the popular vote and in terms of numbers of victorious candidates, neither gained nor lost: losing three seats in the legislative Yuan and gaining seven in the National Assembly.\textsuperscript{32} The KMT did well considering the fact the opposition did not factionalize as it had in previous elections. In fact, many say its strength in both the National Assembly and the Legislative Yuan before the election was artificially high because of past opposition disunity and poor campaign planning (running competing candidates in many districts). Finally, it performed up to par in spite of running for the first time against a full fledged opposition party.

After the election pundits suggested that the election was not a victory of one party or issues, but a victory for the system. The electorate wanted party competition and got it, while at the same time sending a signal for moderation by voting for more moderate DPP candidates and more progressive KMT candidates. This, they said, meant a two-party system was developing. Others suggested such a conclusion was premature and unjustified. They saw little evidence for a two party system evolving, though it was clear Taiwan would no longer have a one-party system. Several experts said too much was being concluded from the election results. Winning candidates, they said, had charisma and local support. It was a conglomeration of local elections and reflected, they said, issues more than long range political trends.

Clearly it seemed (at the end of 1986) too early to conclude about the implication of the election politics in Taiwan. On the other hand, demarked boundaries of acceptable and unacceptable campaign conduct were apparent. Restraint and the development of loyal opposi-

\textsuperscript{31} See supra, note 26.

\textsuperscript{32} According to the Election Committee the KMT won 67.5\% of the popular vote, and the DPP 28.6\%. Other sources put the figures at close to 65\% and 25\%. Figures vary on the KMT's popular vote in the previous election (from 70 to 73\%).

It is difficult to assess the popular vote by party because both the KMT and the tang wai have had candidates run, and win, without party endorsement. In addition, independents may be one party or the other, but do not claim party affiliation. See Lien-ho Pao (\textit{United Daily News}), Int'l ed., December 8, 1986, p. 1 and Chung-yang Jih-pao (\textit{Central Daily News}), Int'l ed., December 8, 1986, p. 1.
tion could be seen, notwithstanding an election that on the surface seemed chaotic and disorderly. The fact it was the third election (after 1980 and 1983) in which there was party competition and the first for a formal opposition party recognized by both sides as well as the electorate, seems to suggest that democratization had gone a long way and that the election was both orderly and significant in view of these things.

CONCLUSIONS

The years 1985-86 will go down in Taiwan’s political history as a period of rapid, if not historic, change. Political modernization proceeded at a rate faster than ever—perhaps faster than any other nation in the world. Clearly, it seems no longer valid to speak of a “gap” between economic and political development in Taiwan—if, in fact, there ever was such a gap.

The difficulties Taiwan witnessed throughout most of 1985 and the way they were handled, suggests, as does Taiwan’s recent history, that the country thrives on challenge. Alternatively, Taiwan has had so much difficulty that perhaps it is simply able to cope better than other nations and better than most outside observers expect. One might apply the cliche “When the going gets tough, the tough get going” to Taiwan.

On the other hand, one may interpret the events of late 1986—the formation of the Democratic Progressive Party, President Chiang’s announcement that martial law would be ended, the lifting of the ban on new political parties and what appeared to be the formalization of a two party system—as the culmination of a two to three decade process of political modernization. Taiwan’s political development model had always placed security first or at least as a precondition to democratization. And this has worked—if one assumes that the changes announced by President Chiang were not out of desperation, but were a natural consequence of political change.

Taiwan is obviously evolving toward a pluralistic system. Yet one may doubt whether a two party system is developing, in spite of the impressions one gleans from what has been happening. The KMT certainly is accepting party competition, but most evidence suggests it is not losing voter support. Thus, it seems that Taiwan may be evolving into a political system like Japan’s: a system that has a dominant party with several opposition parties that do not seriously bid for control of the government.

If there was any desperation in recent decisions by Chiang Ching-kuo, and some say there was, it was to democratize in order to fend off
foreign criticism of Taiwan and to improve Taiwan’s image abroad. In the context of Peking’s efforts to induce the United States and other Western countries to pressure Taipei to negotiate reunification this is vitally important. Taipei apparently has other ideas about its future—namely the status quo, i.e. continued independence and sovereignty. To prevent Peking’s efforts from being successful, Taipei perceives that it had to demonstrate its worthiness. The way to do that was to democratize quickly and more visibly.

Notwithstanding the shift to the right and the progressive changes in China, over the last several years (though there have been reversals recently) Taiwan is still politically decades ahead of the People’s Republic of China. Moreover it is moving ahead so quickly that Peking won’t catch up, at least not in the foreseeable future. An official in Taipei recently remarked: “Taipei can not compete with Peking militarily or economically, but can politically.” Clearly democratization and unification are contradictions, at least for now; and Taipei wishes to make this clear.
PART II ECONOMIC DEVELOPMENTS IN THE MAINLAND

CHAPTER 3

ECONOMIC DEVELOPMENTS IN THE MAINLAND

Jan S. Prybyla

My review of economic developments in the People’s Republic of China (PRC) covers roughly the second half of 1985 and the first half of 1986, but in a longer-term context of achieved and contemplated economic changes. It takes into account both quantitative performance and the qualitative issues behind that performance, with emphasis on the latter. The focus is on agriculture, industry and foreign trade.

ASSUMPTION

In evaluating the qualitative issues in agriculture and industry, the assumption is that the contemplated direction of economic changes remains what it has been in the past several years (i.e., since the 3rd Central Committee Plenum of December 1978), that is, toward a “socialist commodity economy” (greater resort to market information, coordination and motivation) and away from “the petrified economic structure characterized by excessive and rigid control” (meaning less central administrative command planning, and more “guidance” planning, using “economic levers”).\(^1\) The “socialist” element in the proposed socialist commodity economy consists, we are told, in the preservation of public ownership of the means of production (as well as distribution “according to work,” and “control”). However, public ownership need not be of the “higher” (centralized state) type. On the contrary, substantial latitude with respect to the use of publicly-owned assets is to be given to the actual users of the assets (\textit{de facto} privatization of property rights) whether the users are private persons (e.g., peasant families, urban self-employed) or social

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(49)
entities (state and collective firms), and experimentation with various property forms is to be encouraged. In short, the qualitative issues of China's economy in 1985-86 revolve around the continuing search for a workable balance of plan and market, public and private property—or (commodity) "socialism with Chinese characteristics." This involves a redefinition of real socialism (socialism as it has actually been practiced), identified until now with Stalinism and neo-Stalinism, and a more enlightening explanation than is now available of what is meant by "Chinese" (as in: "Chinese characteristics").

For compelling reasons (to be examined presently), 1986 was designated by Premier Zhao Ziyang as a year in which to "consolidate, digest, supplement, and improve" what had been achieved earlier in the way of economic changes, and at the same time to make preparations for further steps in the next two years. In other words, in 1986 the reformist movement was to take a rest, with the promise of bigger and better things to come.

AGRICULTURE

The major events of 1985-86 in agriculture were five in number. The first three fall into a "reformist" category in the sense that they promote the development of a rural market-oriented ("commodity" or "law of value") economy. The remaining two look anti-reformist: they either now restrict the operation of the (still quite imperfect) market mechanism in the Chinese countryside, or conceivably could do so in the future. The five events are:

1. the phasing-out of state monopoly ("unified purchase") of grains, cotton, vegetable oil and other staple products and of the state monopoly in disposing of ("marketing") these products.
2. Deregulation of nonstaple food prices in urban areas.
3. Continued restructuring of agricultural production and employment in response to market signals (cash crops versus grain; surge in rural industries).
4. The high-level grain-growing controversy and its impact on rural decision-making.
5. Emergence of new-born socialist things (cooperative arrangements) in the newly partly marketized and privatized countryside.

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Let us briefly examine these events in turn.

The decision to gradually dismantle the system of the state as the exclusive purchaser and marketer of staple products (grain in the lead) was contained in a State Council Decision, commonly referred to as "1985 Document No. 1." It is said to represent the second wave of rural reforms, the first having been the introduction and popularization after 1979 of the household production responsibility system, or baogan daohu, that is, of family tenant farming (decollectivization).5

The decision, if fully implemented, does indeed represent movement toward systemic reform, for it extends market pricing to key agricultural commodities, albeit slowly and with caveats. By the same token, it enlarges the family producers' realm of autonomous, voluntary decision-making. The step was taken in the context of a vastly improved supply situation (relative abundance of staple foods for the first time in PRC history)—itself a product, in large part, of marketization and privatization changes symbolized by baogan daohu. Under the new arrangement the state contracts with peasant producers to purchase given quantities of staple products, but not all that may be produced. Once the contractual amounts are sold to the state, the peasants sell the rest on the open market. In the case of grain—to prevent a precipitous drop in output—the state guarantees a minimum price at which it will buy the grain if the market price falls below this floor price. The new contractual arrangement with respect to grain has been expertly described by Jean C. Oi.6 She correctly notes that the reform significance of the measure will depend on how in practice the cadres handle the contracts. On this score the record to-date is not reassuring: administrative command procedures persist under a veneer of markets.

Zhao admits that "the second change [the system of contracts for grain and other staples] initiated last year [1985] is not yet perfect and needs to be further substantiated, but still it is being carried out in all rural areas."7

In 1985, prices of pork, lamb, beef, poultry, eggs, fish, vegetables, and some 1,800 other nonstaple perishable foods were decontrolled

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(marketized). This led to a rapid expansion of free marketing and a sharp increase in the prices of nonstaple foods on the free markets, which, in turn, stimulated production. Between 1984 and mid-1986 the number of authorized free markets in Beijing rose from 200 to 600, with many more unauthorized ones doing brisk business. In Hebei (1986), free markets accounted for 81 percent of lamb sales, 57 percent of beef, 68 percent of eggs, and 66 percent of vegetables. The rise of food prices—which apparently moderated in 1986—helped raise urban consumer prices by 9 percent (official count) in 1985, but certainly much more for deregulated foods (20-30 percent).

The increase in nonstaple food prices on urban free markets combined with the contractual (controlled) prices of grain (20 percent of total marketed grain), altered the relative profitability of agricultural products and resulted in a restructuring of farm production more in conformity with market demand. The area sown to grain was reduced in 1985 by more than 4 million hectares, while that sown to cash crops increased by more than 3 million hectares. Grain production fell 7 percent compared with 1984 (to 380 million tons), and the production of cash crops increased: 6.5 percent for fruit, 25 percent for sugar, 29 percent for tobacco, 30 percent for oil-bearing crops, and 129 percent for jute and kenaf. If marketization-privatization reform is the aim,

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11. Stephen Dowdie, "A Success Story So Far, But New Efforts Are Needed," Far Eastern Economic Review (FEER), March 20, 1986, p. 99. However, during the first half of 1986—due to the 1985 drop in grain output—the average price of grain sold on free markets increased 34 percent to 34 yuan a pound, Asian Wall Street Journal Weekly (AWSJW), September 1, 1986, p. 17. In a county in Jiangsu province the relative profitabilities of different kinds of farm activities may be gleaned from the following table:

<table>
<thead>
<tr>
<th>Net Income per Mou,¹ 1985 (yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain</td>
</tr>
<tr>
<td>Cotton</td>
</tr>
<tr>
<td>Mulberry trees</td>
</tr>
<tr>
<td>Tree saplings</td>
</tr>
</tbody>
</table>

¹ 1 mou = 0.0667 hectares; 0.1647 acres
15 mou = 1 hectare; 2.4711 acres
these developments are as they should be.

Another byproduct of the rural marketization-privatization process (via increased labor productivity) has been the movement of farm labor into rapidly expanding rural (village and township) industries. Rural industrial output in 1985 rose 35 percent compared with the year before, and employed 60 million workers. Rural industrial production in 1985 represented close to 20 percent of China's gross domestic product (GDP) compared with 13 percent in 1983. Per capita earnings of workers in these labor-intensive, but technologically poorly advanced rural industries were 2-3 times the per capita income derived from field work. It is proposed to set aside a part of the taxes levied on these industries and use them to subsidize agricultural production, especially grain production. The blossoming of rural industries has been accompanied by experimentation with a variety of ownership forms, most of them tending toward privatization.

The 1985 reduction in grain production, the migration of peasants from farm work to rural industry (with mounting pressures on the large cities as rural migrants begin to pour in, with or without permission), and rising agricultural prices, produced a conservative backlash exemplified by Chen Yun's blistering speech to the Communist Party's National Conference in September 1985. The critics insist that more attention be paid to grain production ("grain shortages will lead to social chaos"), thereby slowing down the exodus of peasants from farming ("they [the peasants] are not even interested in raising pigs and vegetables, because in their opinion there can be 'no prosperity without engaging in industry'" ) and bringing to account those people ("including some Party members, who . . . have become rich by unlawful means such as speculation and swindle, graft and acceptance of bribes.")

But unless the party learns that corruption is often a signal from the price mechanism about where resources should go—and that it is often therefore the rules that need a closer look, not those breaking them—then the reform programme, and the Dengist bid for a new kind of communism, could be dead.

The conservative counterattack slowed down marketization and privatization in the countryside in 1986. It increased the level of ad-

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ministrative interference in the still vulnerable rural market mechanism, and reduced the peasants' choice-making discretion through the increase of direct orders to sow specific areas to grain and the linking of chemical fertilizer sales (at preferential prices) to grain contracts. Eleven thousand price inspectors descended on Beijing's free markets. Aggrieved customers are encouraged to denounce greedy sellers by phone on a consumer hot line. Marketization and privatization of property have a dynamic inner logic. The process must move forward and expand. When it stops, it regresses and eventually dies.

Rural marketization and privatization have been accompanied by some negative phenomena, eagerly seized upon by opponents of systemic reform. These include loss of arable area to industrial sprawl and private housebuilding, abusive and imbalanced chemicalization of the soil (due in part to the peasants' quest for quick profits and shortages of the requisite chemical fertilizers), deterioration of infrastructural investments in the countryside (such as irrigation and drainage works) and arrested mechanization (due in part to the excessive parcelization of land, which makes the use of all but the smallest machines very difficult).

To counter these phenomena and fill the void created by the dissolution of collective organization, new cooperative arrangements are being introduced. By the end of 1985 there were nearly 500,000 such "economic associations" of households designed, among other things, to take advantage of economies of scale. These associations are supposed to be voluntary. However, historical precedent teaches that they can easily serve as bases for involuntary collectivization. They should be watched carefully for their commandist potential.

INDUSTRY

Industrial changes that touch the core of the system of central administrative command planning have lagged well behind such changes in agriculture. The key reason is that industrial reform affects the state sector (compared with the collective sector in agriculture) and, therefore, has to contend with more and more powerfully entrenched bureaucrats and privileged workers who, by and large, are adversely affected by the changes. Important changes—bordering on

14. James Sterba, WSI, supra note 9, p. 39. "Whatever politicians condemn is profiteering, and whatever they praise is reasonable. Whatever they say nothing about is risky but worth trying." Ibid.


ECONOMIC DEVELOPMENTS IN THE MAINLAND

reform—in the industrial sphere were envisaged by the October 20, 1984 Decision of the Central Committee.¹⁷

Shortly after the promulgation of the Decision (fourth quarter 1984), the central authorities lost control of investment (especially that part of it outside the plan), industrial growth (especially rural industries), consumption funds (wage and, especially, bonus payments), currency and credit issue, imports (especially of consumer goods), balance of trade, foreign exchange reserves and cadre discipline.¹⁸ The government’s aim in 1985 and in the first three quarters of 1986 was, therefore, to regain control of the economy and to cool the economy off. While measures to bring this about were taken, reform projects were put on the backburner. Consequently, 1985 and the first three quarters of 1986 were notable for the absence of basic reform measures. By the third quarter 1986 the worst was over, and thoughts turned again to reform.¹⁹

The overheating of the industrial economy and the central authorities’ loss of control over events can be explained by a combination of old systemic defects, the application of truncated markets and restricted decentralized property rights, the unfamiliarity of industrial decision-makers (newly emancipated local governments and enterprise managers) with market techniques and the market ethic, the near-absence or imperfect functioning of monetary and fiscal macro-control instruments (e.g., an effective corporate tax system is yet to be developed) in the setting of a surrealistic industrial price system and the basic incompatibility of plan and market institutions.


¹⁹. However, in the first seven months of 1986, investment in capital construction was 7.3 percent above that in the equivalent period of 1985 (it had risen by 39 percent in the first nine months of 1985 over the equivalent period of 1984). Investment in equipment renewal and technological transfers was up 45.1 percent in the first seven months of 1986 compared with the first seven months of 1985. Extra-budgetary investment in capital construction projects (first seven months 1986)—the main culprit—represented 10 percent of budgeted projects and rising. “Runaway Spending on Building Work Forces State Trim,” CD, August 27, 1986, p. 1. In August 1986 construction was underway on more than 100,000 buildings and improvement projects with a great deal of wasteful duplication. AWS/JW, September 1, 1986, p. 17.
The major events in the industrial economy in 1985-86 were as follows:

1. Changes in some relative prices and continued interest in reform (marketization) of the industrial price system.
2. Nation-wide introduction of a labor contract system.
3. Experimentation with various property forms.
4. Extension of capital goods markets and experimentation with financial capital markets.
5. Extension and perfection of macroeconomic control levers, including industrial and commercial taxes.
6. Improvement in the domestic conditions for foreign investment.

The first to fall victim to the events of 1984-85 was the proposed reform (gradual marketization) of the industrial price system, which the October 20, 1984 Decision pinpointed as the foundation of everything else: “no major steps,” declared Zhao, “will be taken [in 1986] in price and wage reform. We will only do some consolidating and supplementary work” (primarily, it would seem, in the area of relative price and wage disparities).20 It was proposed instead, to raise the “too low” prices of energy, raw materials, and semifinished materials during the current Five-Year Plan (1986-90), in which the year 1987 would see the beginning of the end of state distribution of most raw materials. Already in the second half of 1986, the prices of some raw materials began to be partly decontrolled, resulting in the emergence of a three-tier price system for those materials, as a portion of the materials began to be traded on relatively open markets outside the state rationed supply network.21

What is now known as a ‘block-double-track’ system of pricing has come into being, unique [sic] to China. This means that each product has a ‘block’ or a group of prices assigned to it, a planned fixed price, a floating price, and a free market price. ‘Double-track’ means that the planned production quota of a commodity is subject to a fixed price, while above-quota production is subject to market prices . . . Planned

20. BR, February 3, 1986, pp. 6-7. Another reason for the freeze on price marketization is that the subject of the “correct” price formation in a socialist economy is still being hotly debated by Chinese economists. See below.

21. Asiaweek, August 31, 1986, p. 51. In January 1985 Tian Jiyan said that the prices of all major industrial commodities would be decontrolled within three years, i.e., by end 1987 at the latest. Prices of bicycles, black-and-white television sets, cassette recorders, washing machines, refrigerators, electric fans, watches, and some textile products were decontrolled in September 1986. CD, October 1, 1986, p. 1 (Business Weekly).
fixed prices cover a greater proportion of output than . . . market prices making it hardly possible for the system to truly reflect changes in supply and demand. Moreover, because of the extremely large differences between planned prices and market prices, some goods intended to be sold at fixed prices are now sold at the high market prices, much to the benefit of speculators . . . This existing pattern has not . . . managed to make a real break with the traditional fixed prices system.\textsuperscript{22}

A clean break with the traditional fixed (cost-plus) industrial price system in China, as in other state socialist economies, is obstructed by two economic problems (and several noneconomic ones). These are: (a) fear of inflation as planner-set prices are decontrolled ("the general level of price rises—a factor directly related to society's capacity to bear them—is an important restraint on the price reform")\textsuperscript{23} and, (b) uncertainty as to what elements should enter into price formation, a problem created by the Marxist labor theory of value ("because the true basis for price is value, a correct price should reflect both the relation between supply and demand and the value of a product. [This] view seems more adaptable to China's reality and is, therefore, preferable" to the one that "holds that a reasonable price is one that simply reflects the relation between supply and demand").\textsuperscript{24} The combination of the two obstacles—one policy based, the other theoretical—does not augur well for marketization of the industrial price system, i.e., the reform needed if allocative waste is to be curbed. "The transitional 'double track' system," says the vice president of the Chinese Academy of Social Sciences, "may last throughout the whole period of economic reform."\textsuperscript{25} As the Soviet Union and the East European countries have demonstrated, in matters of economic reform, especially the crucial price system reform, the "transitional" has a strong tendency to become permanent.

Reform, that is marketization, of the industrial price system necessitates the marketization of the price of labor (wages) and the removal of administrative restrictions on labor (including managerial) mobility. In terms of allocative rationality, markets for goods mean little without factor markets, including prominently a workably competitive market for labor. As in agriculture, there is a long way to go

\textsuperscript{23} \textit{Ibid.}, p. 17.
\textsuperscript{24} \textit{Ibid.}, pp. 16-17.
\textsuperscript{25} \textit{Ibid.}, p. 18.
in Chinese industry before labor is freed from its presently dominant administrative allocation (the notion of the planner-determined danwei, or work unit).

Movement in the direction of labor and wage marketization—that is, the reform movement in this sphere—like the broader marketization of the industrial price system, encounters three major obstacles; two policy obstacles and a theoretical obstacle: (a) the fear of wage inflation (money wage increases outstripping increases in labor productivity, as firms compete for scarce skilled labor) and open urban unemployment (as hitherto underemployed labor is dismissed, lower-skilled labor is displaced by technologically superior production methods, and as production patterns shift in response to allocatively more rational price signals); (b) the scope that contemplated changes provide for “unhealthy” managerial activities; and, (c) the Marxist theoretical problem of treating labor as a “commodity” with the “exploitation” that this implies.

The last problem, while not negligible in an ideologically-based and legitimized society, can be handled by dialectical rationalizations, even if these play into the hands of conservative philosophes and carry the danger of a doctrinal counterattack at a future date, when policy-based wage and employment problems reach a more critical stage. The policy problems (money wage inflation and unemployment, managerial “dirty tricks”) are proximately very persuasive. In 1985 and some immediately preceding years “increases in both . . . consumption funds and . . . total wage allocations . . . surpassed the increase in . . . national income and productivity.” The 1985 money wage leap was caused primarily by bonus payment increases from the equivalent of 2½ to 4 months’ basic wages. “The increase was spurred by new stipulations that require companies and enterprises to pay bonus taxes only when their bonuses are more than four months’ basic wages.”26 Displacement of underemployed workers in the state sector—the breaking of the “iron rice bowl”—has been slowed by resistance from the privileged state sector worker stratum, coming on top of already bothersome youthful labor unemployment problem in the cities, and by the absence of a social insurance scheme, a safety net that would take care, albeit not very well, of the displaced workers.

The fear that marketization of labor and wages (i.e., devolution of decision-making to the level of the worker and manager) will generate “illicit” activities by managers is well founded in the context of an imperfectly marketized price system and the array of conflicting, often

incompatible "success indicators" characteristic of "transitional" systemic arrangements, such as the ones in present-day China. The managers' rush to raise bonus payments irrespective of productivity performance in anticipation of new bonus tax regulations is one of many examples that justify this fear. As noted before, the unlawfulness and immorality of managerial behavior is quite relative, being in essence a rational response to the continued irrationality of the signals transmitted by a system that is neither fully planned nor fully marketed, and by the allocatively nonsensical assumptions underlying the rules of managerial conduct promulgated by the party-state. It is often the rules that need looking into, not those breaking them.

However that may be, the so-called "manager responsibility system" and its key conceptual component the "labor contract system," inaugurated experimentally in the early 1980s, were extended to the whole country with the publication on September 9, 1986 of four State Council regulations governing industrial contracting of labor by enterprise managements.\(^{27}\)

The new regulations give enterprise managers the right to enter into contracts of various durations with workers (rather than workers being assigned to firms by labor bureaus and provided with lifelong employment, which has been the practice until now); to determine the wage (bonuses included) according to the workers' skill levels and performance on the job (but how do you calculate marginal revenue product without opportunity cost prices?) and to dismiss workers for cause. Concurrently, a social insurance system is to be introduced (to which both the firm and the workers will contribute premiums), one which relieves the firm of the hitherto heavy burden of carrying former workers on the enterprise payroll until death do them part (a burden particularly onerous for older firms).\(^ {28}\) Under the new system workers can leave their jobs "when their legitimate rights and interests are infringed or when they cannot give full play to their professional knowledge and skill."\(^{29}\) This sounds promising. If implemented, it would tend toward the voluntarization and lateralization of labor relations, that is, the marketization of labor. Implementation of the new system is to proceed over the current five-year plan (1986-90).

\(^{27}\) "Making a Dint [sic] in the 'Iron Rice Bowl'," interview with Minister of Labor and Personnel, He Guang, \textit{BR}, September 15, 1986, pp. 16-17.

\(^{28}\) "Qingdao Introduces Social Insurance System," \textit{BR}, October 6, 1986, pp. 7-8; "Pension Fund Set Up in Beijing," \textit{CD}, September 30, 1986, p. 3. Some managers (of newer firms) "complain that the system is a form of economic levelling which is now criticized in China." \textit{Ibid.}

A certain skepticism is in order, not to downgrade the attempted reform, but simply to point to some difficulties which, on past experience, are likely to be encountered in the future. One problem has to do with the reluctance of the communist party to give up its monopolistic control in general; the more so in a sensitive area such as labor allocation. An editorialist of Jingji Ribao (Economic Daily) put his finger on the sensitive spot: the principle “that the party is in charge of cadres [nomenklatura] cannot be questioned.”

The party can mandate professional examinations for candidate managers, but the worth of that exercise is lessened by the party remaining in charge—and only the party. The vertical appointment of managers will sit poorly with the intent to make manager-worker relations more inclined toward the horizontal. Moreover, at the firm operational plane the party secretary is apparently still very much in charge of essentially managerial decisions: “everything has to be decided personally by the secretary of the party committee.”

So to abolish the nomenklatura system (i.e., to marketize labor) at the level of the worker is not enough. The whole nomenklatura has to go if enterprise “autonomy” with regard to labor is to have a “reform” meaning. Additionally, the governmental (as distinct from the party) bureaucracy at above-firm supervisory echelons (departments, bureaus, etc.) has been faulted for intervening in what, under the new arrangement, should be the sphere of competence of firm managements. Frequently the subministries and other administrative-supervisory formations have simply renamed themselves “companies” (which sounds more commercial and business-like), but have continued to guard their former prerogatives:

According to regulations, enterprises have the right to employ workers and set up institutions, but we can’t do so at all. It’s difficult to expel a few workers by ourselves, let alone recruit workers in large numbers... When it comes to reality, all the mothers-in-law (the authorities) come along, leaving enterprises with little power in the end.

The harmful effects of the nomenklatura and of capricious party committee intervention in the affairs of the enterprise are supposed to be diluted by workers’ representative congresses which, too, are given su-

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31. Renmin Ribao (People’s Daily), March 17, 1986, in Robert Delfs, id., p. 64; Gongren Ribao (Worker’s Daily), June 6, 1986, in ICM, September 1986, pp. 11-12.

Economic Developments in the Mainland 61

pervisory rights over management. But the practical effectiveness of such congresses (where they exist) in curbing the party’s mandate may be doubted. These are political considerations. The main economic inconvenience, of course, is that so long as the industrial price system as a whole remains unrepresentative of relative social costs and utilities in the economy, giving enterprise managers greater powers of decision can hardly make things allocatively better, and is likely to make them worse.

One more thing: to harden what Hungarian economist János Kornai calls the state firms’ “soft budget constraint” (i.e., remove the firms’ immunity from bankruptcy), state sector firms in China are henceforth to shut down if they do not hack it financially. One widely publicized bankruptcy (of a small cooperative business) has actually occurred—the first one in over thirty years! But the bankruptcy measure is unlikely to take hold at the present time, for three reasons. First, if applied to the letter, it would force anywhere from one-fifth to one-third of China’s state firms (some of them very big) out of business right away—protected though these firms are from competition. Second, it is difficult to introduce competition into a highly concentrated state industrial sector. Even though 99 percent of China’s state industrial enterprises are small, the 1 percent of large firms accounts for 45 percent of the country’s total industrial output value. Third, to gun for the bankruptcy of money-losing state firms now is to put the cart before the water buffalo, since the present constellation of industrial prices is so utterly unrepresentative of relative scarcities in the economy that profit or loss bear no relationship to a firm’s efficiency of operations.

Making a loss in China, therefore, remains a multiple choice question: the firm suffering losses may be (a) inefficient; (b) efficient; (c) both; (d) neither. No wonder that in such circumstances the state acts like a big paternalistic papa, and “state-owned enterprises are now only responsible for their profits, not their losses.”

One of the more seminal developments in the Hungarian New Economic Mechanism (NEM) has been the multiplication of formal and informal property forms between centralized state and decentralized private property. This has permitted a far-reaching de facto

privatization of property rights to assets which, in turn, has contributed to the partial marketization of the economy's information, coordination and motivation, and hence to improved allocative efficiency.

Marxist theory regards the question of property in capital as the central systemic issue. Although it is less than that, the institution of property is certainly of strategic significance to any reformist movement. It is, as they say, a "hot" issue, which, given its doctrinal and practical importance, has to be handled with care and discretion. It is not enough to just privatize property to make the economy work better. In the Marxist setting there is need to propitiate the ground with metaphysical arguments. Such has been the task of reformist Chinese economists, including people like Liu Guoguang, Rong Jingben, Tong Dalin, Li Luoli, Hua Sheng, Qian Jiaju and Li Yining.35

The basic idea is to diversify capital ownership, to reverse the "leftist" drift toward a single form of ownership by the state, and this for three reasons. First, a unitary form of ownership by the state results in overcentralization and bureaucratization of property, hence in rigidities, delays, and ossifications of the decision-making process. Second, in the present state of China's development "one can find modern large-scale production alongside obsolete small-scale production, and mechanized production next to heavy manual labor . . . Multiple forms of productive forces call for the diversification of ownership. . . ."36 Third, the development of diversified forms of property in capital (various "capital management responsibility systems") is necessary to bring property into congruence with other emerging responsibility systems: the production responsibility system of households in the countryside (baogan daohu), the manager responsibility system and the labor contract system in industry.

Three modalities are presently on the books, with several subdivisions. First, destatization of state firms and their de facto collectivization (or recollectivization), a change which aims at less direct and less detailed state intervention in the affairs of the firm, the intent being—as we have seen—to get government departments, bureaus and "companies" out of the business of running business. This has involved: (a) returning formerly collective enterprises (especially in light industry and services) to collective ownership; (b) contracting, leasing, or selling small state-owned enterprises to groups (collectives) which manage these businesses independently and are responsible for their own profits and losses (self-accounting); and, (c) experimenting with

issuing stocks and bonds to the enterprises' workers, and state and eventually to the public at large.\textsuperscript{37} These are bold experiments conceptually, especially those under (c), even though they are presently limited in scope and hedged by many restrictions (e.g., the state's equity share has been set at about 70 percent, there are ceilings on the total value of shares that can be held by individuals and bond issues are more common than the issue of stock).

Second, new property combinations, or transregional and transdepartmental property "clusters," are being tried. These include the following ownership combinations: state-state (among state enterprises), state-collective, collective-collective (among collective enterprises), state-private, collective-private and state-foreign private (various forms of foreign joint ventures, coproduction agreements, and compensation trade arrangements). The real issue here is not the precise property combination, but the voluntariness of it, as well as the voluntariness and/or "democracy" of each partner in the combination. A joint state-collective arrangement, for example, does not mean much in a systemic reform sense if the marriage is forced, the collective is involuntary and the state remains dictatorial and unaccountable even unto itself.

Third, expansion of outright private ownership has occurred. While spectacular compared with its almost absent Maoist past, the private sector is quantitatively quite subsidiary (although it is welfare-intensive, i.e., much appreciated by consumers). In 1984, the urban domestic private sector (mainly retail trade and services) consisted of 2.6 million households—24 times more than in 1978. However, the share of total business transacted by this sector is still very small; probably below what it had been in 1957. The contrasting and leasing arrangements referred to under the second modality apply also to the contracting or leasing of (small) state firms to private individuals.

As in agriculture, privatization has been accompanied by the formation of overarching cooperative-collective arrangements, which could conceivably in time devour the property revolution. Over the

\textsuperscript{37} "China Unleashes a New Wave," \textit{supra} note 35, pp. 49-51; Victor Fung, "China's State Firms Will Experiment with Stock Issues," \textit{AWSJW}, March 24, 1986, ppl. 21; \textit{Faxue Zazhi} (Law Journal, No. 6, 1986, in \textit{ICM}, September 1986), pp. 16-17; \textit{Lilun Yu Shijian} (Theory and Practice), No. 12, 1986, in \textit{ICM}, October 1986, pp. 23-24. In 1985-86 all firms with fixed assets of less than 1.5 mil yuan ($500,000) and annual profits of under 200,000 yuan were to be contracted out or leased to cooperatives or individuals for periods of up to five years. The leased firms are required to pay rent and taxes to the state. Firms operating under the leasing arrangement are allowed to avoid restrictions on the hiring of labor applicable to private sector enterprises.
next several years it is proposed to extend lateral ties between various firms—which is fine—and to gradually establish lateral associations of firms—which may not be fine. Unless carefully managed, this could lead to Hungarian-type (or, for that matter, Soviet-type) administrative amalgamations (ob'edineniia) and a reduction rather than an increase in enterprise decision-making latitude and interfirm competition.

There has also emerged a considerable but not easily measured amount of semilegal and illegal business activity and ownership. The official attitude toward these shadowy formations and appropriations by individuals and groups of social current inputs, assets and time (stealing) fluctuates between reluctant tolerance and ruthless suppression. Unlike Hungary, which has coopted the black market and recognized stealing as an inherent and indispensable part of socialist construction, China has not quite come to terms with this phenomenon yet.

One of the more important innovations of the Hungarian NEM has been the dismantling of the material-technical supply network which centrally allocates key commodities and materials in accordance with physical-technical criteria. The network is one of the mainstays of the orthodox neo-Stalinist centrally planned administrative command economy, and its abolition is prima facie evidence of movement toward systemic reform, that is, the marketization of Lenin’s old “strategic heights.” Among the “key” commodities, capital goods play a central role. In 1985-86, China continued to move in the direction of partial capital goods marketization. A portion of producer goods—the “above-plan” portion—has been placed outside the state’s material-technical supply network and distributed at producer goods fairs in a number of large cities (e.g., Shanghai). At these fairs, above-quota capital goods are bought and sold at negotiated prices subject to state-set maxima limits. (Materials trading centers and industrial consumer goods fairs have also developed in imitation of the producer goods fairs).

Four comments may be of interest. First, the fairs contribute to the phenomenon of multi-tier pricing already mentioned, which is not an unmixed blessing: for one thing, supplier behavior is distorted; the better goods go to market, the substandard ones are kept for the plan. Second, the state does actively intervene in price formation on the fairs—sometimes more, sometimes less; more for this good, less for that. So the markets are quite imperfect and their contribution to improving the quality of information in the economy (economic calculation) is less than it might be. Third, the markets are periodic, like
medieval fairs. Periodic fairs are not the best or most modern institutional form for markets. Fourth, the volume of transactions on the producer goods fairs is small relative to the total. The largest fair, that held in Shanghai, had a turnover of 311 million yuan at its peak in 1980, while the total volume of capital goods transactions in the country was around 6 billion yuan.  

A more recent development has been the experimentation with financial capital markets. As the Chinese economy becomes more “commoditized,” it is reasonable to try and improve its simplistic financial system, which in the past has proved to be an obstacle to modernization and systemic reform. A boost has been given to this effort since 1984 by the government’s attempt to slow down the economy’s headlong expansionary drive through among other things, a credit clampdown. This spurred firms to seek funds by means of stock and bond issues. Such measures dovetail into the already discussed diversification of property forms, a happy conjunction that has reduced the amount of ideological flack and institutional resistance to financial marketization.

Canton leads the way in financial innovation. In 1984 collective enterprises in that city were allowed to raise capital by stock and bond issues (mainly the latter). By early 1986 more than 200 million yuan was so raised. At that time three state-owned enterprises were allowed to issue stock, subject to several restrictions (only 30 percent of equity; no individual could buy more than 50,000 yuan’s worth of shares; annual dividend limited to 12 percent). In response to the bank credit crunch, the Industrial and Commercial Bank of China (ICBC) and the Agricultural Bank began issuing bonds in 1985. By the end of the year ICBC bonds amounted to 500 million yuan, with an expected issue of 1.5 billion yuan in 1986. The ICBC’s Shanghai Trust and Investment Company opened a “stock market” in Shanghai—a modest over-the-counter affair—in September 1986 dealing in the stocks of two cor-

38. William Byrd, “The Shanghai Market for the means of Production: A Case Study of Reform in China’s Material Supply System,” Comparative Economic Studies, Vol. 27, No. 4, Winter 1985, p. 8. The State Bureau of Supplies, the central agency in charge of the material-technical supply (rationing) system allocated 23 categories of materials in 1986 (e.g., steel, cement, timber) compared with 286 previously. “Many enterprises are facing the problem of increasing prices for their [deregulated] raw materials while they have no power to adjust the prices of their products accordingly, as they are still controlled by the state.” “Paper Seeks Reform of Supply System,” CD, October 4, 1985, p. 4.


porations: Yangzhong Industrial Corporation (10,000 shares in all, totaling 500,000 yuan [$130,000] face value, and 700 shares traded) and Feile Acoustics Corporation (8,720 shares in all, totaling 436,000 yuan [$118,000], 350 shares traded). In addition, more than 700 collective Shanghai enterprises raised funds by issuing bonds, and one state firm (Shanghai Vacuum Electric Engineering Company) has issued stock.\textsuperscript{41}

An interbank market has been created in Shanghai and has begun to be established in four other cities: all the specialized banks in the designated cities are permitted to trade funds with each other without resort to their superiors in Peking; to trade funds directly ("horizontally") with banks in other cities; and, to trade foreign exchange deposits on behalf of the Bank of China and keep the handling fee. Individuals are to be allowed to deposit money in banks of their choice instead of being told which bank to deposit the money in; insurance companies will be permitted to invest in and lend to factories; and, banks in the experimental cities will be allowed to set up brokerage firms for stock and bond issues and trade these issues for clients (as has already happened in the case of the Shanghai branch of the ICBC).\textsuperscript{42}

Special economic zones (SEZs) in Guangdong Province can permit the establishment of Sino-foreign companies to issue stocks and bonds domestically and abroad.\textsuperscript{43} Township enterprises (formerly commune industries) have begun experimenting with cash and "dry" stock issues. Cash stock can be purchased by people both inside and outside the enterprise, with annual dividends not exceeding 15 percent; dry shares are distributed only to members of cooperative enterprises (usually agricultural ones) without charge. They cannot be sold, can be inherited, pay no dividends, but entitle the holder to participate in major management decisions, including hiring and firing, profit distribution and wage determination.\textsuperscript{44} To supplement state-run banks, several independent financial institutions (savings and loan banks) have been set up in Shanghai. They offer higher interest rates on deposits than state banks and provide loans to industry and construction.\textsuperscript{45}

Although their scope remains modest and restrictions on them

\textsuperscript{41} "First Stock Market Open in Shanghai," \textit{CD}, September 27, 1986, p. 2
\textsuperscript{45} "Banking Industry Diversifies in Shanghai," \textit{CD}, September 6, 1986, p. 2
are stringent, these experiments with the marketization of financial
capital are important, not least for breaking new ground (or perhaps
digging up old pre-1949 sod), moving in the right, that is reformist,
direction and doing so with a laudable economy of ideological fallout.
Of course, on this as on other urban-industrial fronts, marketization
remains peripheral, subsidiary and subordinate to the still dominant
role of the willful state.46

Steps taken toward greater marketization and privatization of the
economy call for the development and installation of macroeconomic
controls to which the state can resort as it sheds its administrative
means of control. Among these “economic levers” is taxation. A
great deal of work has been done in China since the early 1980s on
restructuring the tax system to take account of the changes that have
been made in property forms, structure of decision-making and in-
come levels. Much innovative thought has gone into this remaking of
the tax system.47 However, because of the continuing price system
distortions, the industrial tax system in China today leaves much to be
desired in terms of the distribution of burdens, enforcement and moti-
vation of agents. Work on taxes continued in 1985-86, especially with
regard to personal income taxes, taxes on foreign joint ventures and
the reformulation of enterprise taxes into three basic taxes: a products
tax, value added tax and operations tax.48 Ultimately, economic levers
are only as good as the underlying price relationships they are ex-
pected to lever. Since not much was done in 1985-86 to reform the
industrial price system, progress on the tax front (using taxes as control
levers) could not be but limited.

Foreign investors and traders in China have been increasingly vo-
cal in their complaints about the erratic, high-handed, arbitrary treat-
ment they have been getting in China and the worsening business

46. “As for individuals who buy stock, their dividends are not exploitation of employ-
ees, but rather rewards for supporting the country’s economic construction. But most im-
portantly, the bulk of shares—hence effective control—remains in the hands of the state in
either state-owned or collectively-owned enterprises. This is the deciding factor in making
enterprises socialist.” “Stock Sales Can Spur Productivity, Preserve Socialism,” CD, Sep-
tember 8, 1986, p. 4. This is just another example of how dialectical logic can be used to
explain anything.

47. On this, see Christine Wong, “The Second Phase of Economic Reform in China,”
Current History, September 1985, pp. 260-263; Barry Naughton, “False Starts and Second
Wind: Financial Reform in China’s Industrial System,” in Elizabeth J. Perry and Christine
Wong (eds.), The Political Economy of Reform in Post-Mao China (Cambridge, Mass.: Har-
vard University Press, 1985).

48. Robert Delfs, “Collective Efforts Are Overwhelming State Enterprise,” FEER,
March 20, 1986, p. 78.
climate there as far as they are concerned. The list of complaints (which I discuss at greater length elsewhere)\textsuperscript{49} has included overcharging on just about everything (especially basic infrastructural services of indifferent quality); legal tangles and uncertainties; secrecy; access to local market; taxation; foreign transfer and repatriation of exchange earnings; bureaucratism; equity problems involved in joint ventures; and, cyclical-systemic uncertainty (periodic tightening-up and relaxation of policies on foreign trade and investment).

Sensitive to these criticisms and apprehensive lest the muted threats by some big foreign investors to pull out actually materialize, the Chinese government in 1986 embarked on a program of improving the conditions for foreign traders and investors in the country. The program covers foreign-invested enterprises the products of which are destined primarily for export, and technologically advanced enterprises. These are to be exempt from payment of all subsidies that the state pays to workers and employees except contributions to social insurance funds, welfare costs and housing subsidies; the provision of fixed rents and development fees, except for enterprises located in downtown areas of large cities; priority in the supply of water, electricity, transportation and telecommunications services; the securing of loans for short-term working funds; an exemption from income tax on profits remitted by the two kinds of firms to their stockholders abroad; an exemption from the consolidated industrial and commercial tax of export products produced by the enterprises, except crude and refined petroleum, and other products subject to special state regulations; faster depreciation rates; the right to hire and dismiss workers; and, the right of the two kinds of foreign-invested enterprises to adjust their foreign exchange surpluses and deficiencies among themselves under the supervision of China's foreign exchange control departments. It remains to be seen whether these paper improvements are translated into practice without serious distortion by the many-layered bureaucracy, and whether they address themselves sufficiently to the foreign investors' growing concern and disappointment with profit-making opportunities in China.\textsuperscript{50}


FOREIGN TRADE

Only the briefest mention can be made of developments on this front.

The 1984-85 loss of central control over consumption funds and outside-plan investments following the October 20, 1984 decision on industrial changes, led to a rapid rise in imports (including imports of consumer goods used to dampen domestic inflationary pressures), a deterioration in the balance of payments and a decline in foreign exchange reserves. These events, in turn, led to a moratorium on marketization privatization-tending industrial changes in 1986, and some recentralization of import, export and foreign exchange controls. The clampdown on imports has been severe. Exports are promoted by (a) devaluation of the yuan—down 13 percent against the U.S. dollar between the first quarter of 1985 and 1986, and (b) price cutting above and beyond this. Tables 1 and 2 show the trade and foreign exchange situations.

Table 1
China's Exports and Imports
(US $ billion)

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>January-September 1986</th>
<th>% Change on January-September 1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>26.5</td>
<td>21.4</td>
<td>14.8</td>
</tr>
<tr>
<td>Imports</td>
<td>40.2</td>
<td>30.4</td>
<td>5.1</td>
</tr>
<tr>
<td>Total</td>
<td>66.7</td>
<td>51.8</td>
<td></td>
</tr>
<tr>
<td>Balance</td>
<td>−13.7</td>
<td>−9.0</td>
<td>−15.1</td>
</tr>
</tbody>
</table>

*$14.9 billion according to CD, October 20, 1986, p. 1.

Despite a significant easing of rules on technology exports to China, by the U.S.-sponsored Coordinating Committee of the Industrial Export Control System (COCOM), China has taken strong exception to what it alleges to be “protectionist” U.S. trade policy,

"representative offices [of foreign firms] must employ personnel recommended by the Chinese organizations which provide services for foreign businesses ... No representatives can seek employees without such recommendations. Employees must be registered with the Beijing administration." These are all sore points with foreign investors.
especially the U.S. stance on textile imports into the United States. At the time of the signing of the new Multi-fiber Agreement in July 1986, China reserved its position on whether to abide by the extension of the agreement to include ramie. China's sensitivity to restrictions on its exports of textiles is understandable in view of the uncompetitiveness on hard currency markets of most of China's industrial exports. Over the longer term, China's trade deficit with convertible currency partners (Table 3) encourages the resurgence of xenophobic sentiments in China and threatens the policy of the Open Door.

Table 3
China's 1985 Trade Deficits
(US $ billion)

<table>
<thead>
<tr>
<th></th>
<th>US $ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>-2.86</td>
</tr>
<tr>
<td>Japan</td>
<td>-4.31</td>
</tr>
<tr>
<td>European</td>
<td>-3.04</td>
</tr>
</tbody>
</table>


In addition, during the period China joined the International Monetary Fund and the Asian Development Bank.

CONCLUSIONS

During 1985-86, reform—that is, marketization and privatiza-
tion—of China's economic system was slowed but not halted. The slowdown was in response to three sets of obstacles encountered during the period: temporary loss of control over key economic variables; the "objective" need for the changes carried out so far to settle down and take root; the "subjective" need to accommodate some, at least, of the objections to the reformist thrust of the changes raised by powerful oppositionist forces within the leadership. These oppositionist forces reflect, no doubt, unease experienced by sections of the population adversely affected by the changes, as well as ideological misgivings.

The experience of 1985-86 shows that one of the first serious challenges to the reformist movement, a challenge composed of temporary and some longer-term problems, and objective as well as subjective factors, has been met with a fair degree of success. Other challenges will present themselves along the way. Most of the more intractable difficulties experienced by the Chinese system are due to the half-way nature of the changes so far. Not unlike Hungary, China has almost arrived at a state of neither plan or market, with the market striving to dominate agriculture and the plan still dominant in industry. This represents an unstable condition in which the many remaining old and new systemic elements work at odds. In other words, China's policy makers are facing a fundamental choice that cannot be avoided by systemic half measures ("adjustments"). The choice is to either move all the way to the market, or to revert fully to administrative command.
CHAPTER 4

ECONOMIC DEVELOPMENTS OF TAIWAN
AND THE MAINLAND: 1986

John C. H. Fei

From an historical perspective, post-War economic development (1950-1985) in both Taiwan and Mainland China has been a transition period from their pre-war heritage of colonial (in the economic sense) agrarianism toward what has been referred to by Professor Simon Kuznets as the epoch of modern economic growth; wherein, the primary growth promotion force is the routinized application of new knowledge of science and technology in production. It is, perhaps, not an accident that sensitivity to the importance of technology change has been sloganized recently in both parts of a politically divided China. In Taiwan, public attention began to turn to such innovation-related matters as "patent rights," "copy-rights" and "trademarks" during the last 4-5 years. On the Mainland, at the heart of the "four modernizations" heralded since the economic reform of 1978 is, in fact, "one" economic modernization. The year 1986 is, indeed, a significant landmark year — or even a turning point — in the development of economic and political institutions in both Taiwan and the Mainland.

During the transition growth process, two aspects of social economic phenomena are usually analyzed prominently. On the one hand, there is a set of statistically measurable phenomenon centered on growth rapidity (e.g., the GNP and population growth rate) and production structural change (e.g., the change in the structure of agriculture vs non-agriculture, or secondary vs tertiary). On the other hand, there is a set of much less measurable phenomenon — e.g., "market perfection" and "liberalization" — which is an essential part of the story of the transition growth process ordinarily referred to as institutional (or organizational) change. I will concentrate on the nonmeasurable aspect that make 1986 a significant landmark year for "liberalization" in both Taiwan and the Mainland.

The Liberalization Movement in Taiwan

From a political standpoint, 1986 is obviously a landmark year. The ruling KMT party announced in October that the Martial Law,
which was imposed in May 1950, would be lifted and that activities of a competing political party (or parties) would be legitimised. The year also marks a turning point of "economic liberalization" i.e. the depoliticization of the economic system, and, the withdrawal of political forces from the operation of the automatic adjustment mechanism of the market system. Although the nature of Taiwan's "liberalization" is different, we cannot help but associate it with the trend of "separation of politics from economics" on the Mainland at the present time. It is well known that the positive value of depoliticization lies in the broadening of the opportunities of direct economic communications, both within and across political boundaries, between human beings who can be responsible for the control of their own economic well-being and destiny, rather than depending on the "collectivism" of government patronage.

In this light, economic liberalization inevitably carries a tone of external orientation as the domestic market system is increasingly integrated with that of the outside world. In recent years, Taiwan and the Mainland apparently have shared a keenly felt need for liberalization and external orientation as essential features of their institutional evolution in the transition growth process.

Economic liberalization in Taiwan has been an ongoing process almost from the very beginning of the transition growth process (1950-1985). The taming of inflation, i.e., through the renunciation of the routinized use of the government monopoly power of "money printing" (or "taxation without consent") was in fact a major form of government monetary non-interference accomplished in Taiwan in the 1950s. Government liberalization of the exchange rate, (i.e., renouncements of the artificial overvaluation of the domestic currency to promote "import substitution") took effect in 1962 — so that the exporters (mainly the farmers) no longer were forced politically to subsidize the importers (mainly the urban entrepreneurs). In this regard, we should know that government intervention always involves politically enforced "income transfers" between social economic groups. Liberalization implies the discontinuation of such "income transfers" strategy.

Export process zones and tariff rebated systems partially liberalized the economic system further after 1962. While "infant industries" were still protected by high tariff walls, under a slogan "to foster exports by internal markets", the Taiwan entrepreneurs were encouraged to take care of themselves through competition in the markets of the industrially advanced countries via the export of labor intensive manufactured products. The success of externally oriented
growth is a well known story not only in Taiwan but also in a region bordering mainland China, i.e., the four dragons (Taiwan, Hong Kong, Singapore and South Korea). Since the “four dragons” share the influences of the cultural values of traditional China, the miracle of the four small dragons may have inspired the “big dragon” on the Mainland to opt for an open-door policy, at least for the coastal provinces, after 1978. With similar cultural and economic geographic background, the organizational error of “socialistic transformation” before 1978 is the only feasible explanation for the per capita parity (8 to 1) between Taiwan and Fukien at the present time.

During the late 1970’s the Taiwan government announced a policy to abandon the public enterprises (many of them money losers), notwithstanding the fact that the glorification of “public enterprises” had been indoctrinized as one of the most sacred teachings of the founding father of the Republic, Dr. Sun Yatsen. When it comes to crucial matters, the Chinese are quite pragmatic (non-ideological) about organization. In the final analysis, the same pragmatism lies at the heart of the experimental spirit of the reformers on the Mainland since 1978. It was in that year that the Marxian dogmatism was brushed aside. The belief now is that “experimentation is the only safe method to discover truth.” It was not difficult for the Party to make such a drastic shift in doctrine because the vast majority of Chinese are essentially pragmatic in nature — believing that to survive and to live prosperously is a major “value.”

Taiwan’s success through externally oriented growth (1962-1980) can be traced to the fact that services of “surplus” and diligent labor force was exported in exchange for the import of technology intensive producer goods. The process logically implies an increase in both real wages (that wiped out the comparative advantage of cheap labor) as well as the domestic technological (innovative) capabilities. By 1980, Taiwan readily entered into a new phase of transition growth, i.e., a technology sensitive stage — that is, indeed, the last stage of “underdevelopment.” The perspective of this short post-war period (1980-1985) provides the background for an examination of the landmark year 1986.

The Year 1986 as a Turning Point of Liberalization

The year 1986 is indeed important for Liberalization. In the summer of this year, a full public consensus emerged that liberalization and external orientation was the only appropriate direction for institutional evolution for the years ahead. At the end of the National Construction Conference in July 1986, the Premier stated explicitly that
for liberalization "we must act now . . . the talking period is over." From then on, the island would look and act like an industrially advanced country. The change of sentiment over liberalization in July and August was so sudden and dramatic that it prompted a U.S. official to remark that "for all my three years of duties in Taipei, I could not believe my own eyes when I read the newspaper editorials in August when I remember what they said in June."

There are basically three issues to be acted upon in the economic arena at the present time. First, the high protective tariff wall (a remnant of the "foresters export though internal market" vintage) must be torn down. After 35 years of high tariff protection, the very existence of the tariff is now recognized as a means of political patronage that has squeezed domestic consumers (a blatant, politically-enforced "income transfer"). The consensus had shifted to the realization that the economy would never grow unless disciplined by the rigor of competition. We can be rest assured that the tariff wall will crumble in the next 4-6 years. The government now talks in terms of the principle of scheduled tariff reduction to bring the wall down quickly to a lower level, comparable to that of the industrially advanced countries. It is, after all, vested ideas (not vested interests) that in the long run, stand in the way of institutional reform and progress, according to Keynes.

The second reform measure that must be acted upon is the artifici-ality of the foreign exchange rate. The rate is now undervalued, (rather than overvalued, as was the case in import substitution days), much as it was in Japan a year ago. While Japan has accepted a 40 percent appreciation in the yen over the course of the last 12 months, Taiwan has, until now, resisted even a 10 percent appreciation. At the present time, the Taiwan populace and the Central Bank have not accepted the notion that, to be a full fledged member of the international economic community of the industrially advanced countries, a country must permit currency appreciation as long as an export surplus persists.

At present time, Taiwan still adheres to the mercantilist idea that government should intervene in the foreign exchange market to maintain "export surplus." Barely three or four years ago, the government was exhorted by newspaper editorials to devalue its currency (based on the so-called "basket of goods theory"), while the country was running a huge export surplus that piled up foreign exchange reserves. In the 1980's, the Taiwan's NT$ was pinned to the U.S. dollar. Hence, the Taiwan NT$ appreciated against the basket of European currencies with the appreciation of the U.S. dollar. The advocates of devaluation argued that the Taiwan exporters could maintain a competitive posi-
tion in the European market even with a hefty overall export surplus. Now, although still resisting severe currency appreciation to retain a competitive position in the foreign markets, the government as well as public opinions at least no longer advocate devaluation.

Given the fact that the island still cherishes an "export surplus," it must, in addition to tariff reduction and exchange rate appreciation, adopt a combination of three corrective measures: 1) encourage capital exports; 2) allow gold bullion imports; and 3) increase government expenditure. The first two are "timid" measures that would serve to integrate the domestic financial market with the rest of the world. What motivates the first two measures is a fear of domestic price inflation induced by export surplus. The policy aim thus is to allow the private citizen to hold assets, (i.e., gold or foreign investment) in any form, except domestic currency. The third corrective measure is dedicated to the principle of compensatory fiscal policies, i.e., to mobilize domestic savings for public expenditures rather than for capital exports. At present, the government seems to pursue the first two corrective measures while remaining hesitant to implement the third — contrary to what most economists would prescribe.

The year 1986 also is a landmark year in that liberalization was formally recognized as the only path for the future. Taiwan must consider the problem of compensatory fiscal policy to compensate for an abundance of savings, or the "shortage of private consumption" component of aggregate demand, that are social issues typical for the industrially advanced countries. It is far from true that the economic institutions of Taiwan are liberalized enough at the present time to label the country an "industrially advanced" one. One of the major obstacles to such a label is that the government still prohibits the establishment of private banks. Moreover, Taiwan's currency is still not freely convertible. New private banks are not allowed for fear that the growth of large financial power in the hands of private bankers will eventually challenge economic power of the government. Free convertibility of currency is traceable to a fear of both "capital flight" and perhaps the possibility of direct currency dealings between individuals in Taiwan and foreigners, to which the government would not be a party; (e.g., a wealthy Taiwan millionaire cannot make a direct contribution to, for example, Yale University or to a political party in the United States unless the government grants him the right to purchase foreign exchange for approved purposes.) To the extent that these market interferences are political, the problem must and will be solved politically in the years ahead.
The Liberalization Movement on the Mainland

In the above discussion, I have stated that economic pragmatism is a cultural trait of the Chinese, and that institutional reform has always proceeded experimentally in Taiwan. Traditional cultural values are comparable to good health, the importance of which is appreciated only when it is missing. It is in this light that we must interpret the current state of liberal reform (i.e., marketization, privatization, decentralization and monetization) on the Mainland that currently has met with resistance as a result of a cultural vacuum. The year 1986 is a significant landmark year for the PRC in that the authorities of the party-state realized that “spiritual value” can be quite significant for the fate of the liberalization movement in the years ahead. As a result, the authorities have come out with “guidelines” (approved by the Central Committee in September 1986) for the reconstruction of spiritual values.

The guidelines recognize that a reconstruction of spiritual value is strategic for economic reform. The spiritual value for the new socialist China is to be a mixture of the West (e.g., science, technology, laws, modern management, democracy and academic freedom), the traditional (historical glory, courtesy, honesty, universal love, peace, diligence, respect for seniors and others) and Marxian (now interpreted almost as a “methodology” of research on social change). The Party and the populace at large are to be united by the guidelines (that, incidentally, also give the Party the legitimacy to rule), which advocate strictly an evolutionary (rather than revolutionary) view of institutional change.

Since the guidelines is a political document for popular consumption, the treatment of traditional cultural values and the prospect and feasibility of the “mixing” of the “mixture” is obviously too casual for serious scholars. However, the guidelines only point out the necessity of the critical inheritance of traditional cultural values. While a lively debate between historians, sociologists and political scientists has been going on outside the Mainland on why traditional Chinese values are so suitable for modern growth — a debate that has been motivated primarily by the miraculous success of the four dragons — the treatment of the same subject on the Mainland before 1978 has been mostly criticism with hatred. When Prince Phillip made the undiplomatic slip of the tongue that Peking was a “dull city,” he was telling the truth in terms of the absence of any lively debate among Chinese intellectuals on spiritual or cultural values. The sympathetic interpretation that I have given to the guidelines is due to my understanding that the political document came out of a capital city saddled with the burden
of a heavy political weight. The "guidelines" were an attempt that all of us welcome as an effort to remove that political weight. However, to believe that an earnest reassessment of cultural values will carry momentum is definitely an optimistic view. It is for this reason that 1986 is a landmark year — and may even be a turning point — for the PRC during the transition growth process toward a modern Chinese socialist society.
CHAPTER 5

ENVIRONMENTAL PROTECTION AND ECONOMIC DEVELOPMENT IN THE MAINLAND

_Lester Ross_

It is often presumed that environmental protection and economic development are inversely related, the former having a negative impact on the latter as economic growth impairs environmental quality. Pollution control and resource conservation are thought to produce only noneconomic benefits while locking up natural resources and imposing expensive and unnecessary pollution controls on industry. This kind of reasoning regards environmental protection as a luxury affordable at best only by the rich, and designed to keep the Third World in a state of perpetual poverty. Such sentiments were frequently expressed in the recent past by Third World leaders like Indian Prime Minister Indira Gandhi. First World environmentalists for their part have been prone to decry all economic development as a threat to environmental quality, and to favor instead zero or low growth strategies.¹

Fortunately, both perspectives have been considerably attenuated in the last several years. The Third World has shown increased recognition of the necessity for incorporating environmental protection in its economic development strategies since the United Nations Conference on Man and the Environment held in Stockholm in 1972.² Among environmentalists, the apocalyptic view has been considerably tempered by a hard-headed willingness to work together with economic and financial interests in behalf of simultaneous progress on both the economic and environmental fronts.

China has been notorious for the extent to which economic development has fouled her skies and waters, poisoned the soil and led to

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deforestation and desertification. In China as elsewhere, however, environmental quality has become a much more salient issue in recent years. Environmental protection expenditures have risen and a large number of laws, regulations and standards have been enacted. While monitoring and enforcement are still lacking, there have been very noticeable gains in implementation, as well.

The progress is attributable to a variety of factors, including the eclipse of the radical left. The radical left tended to falsely exalt the superiority of the communist system, and in any event was uninterested in the unglamorous task of devising and carrying out practical policies. More fundamental is the fact that deficiencies in the planning system as well as the excesses of Maoist campaigns combined to result in wasteful, inefficient outcomes, which aggravated environmental problems while producing economic stagnation.

Notwithstanding the fact that environmental quality has become a more salient concern, there is a need for additional investigation to determine more precisely the extent to which the environment has become a drag on economic development. This is a real consideration in China where the industrial ministries are known to have argued that environmental protection should be held in abeyance until a higher stage of economic development has been attained. Not until the Second National Conference on Environmental Protection Work convened in the winter of 1983-84 was it authoritatively declared that the two should henceforth proceed in tandem, rather than allowing economic development to exceed the capacity for environmental protection.

For this purpose, we shall first estimate the impact of environmental protection on economic performance. In particular, we will examine the effect of changes in environmental protection expenditures, a measure of policy effort, on several macroeconomic variables.

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This is a well-established research procedure in the field of public policy studies although, because of a lack of data, it has rarely been applied to China. The State Statistical Bureau has now made information available that permits this type of research, although the data series are only three years long, still not long enough to construct a truly satisfactory regression equation. The brevity of the time series is in part due to shortcomings in statistical information that affect the environmental sector more than the economy as a whole, but primarily to the fact that environmental protection was not included in the state planning process until the Sixth Five-Year Plan (1981-85). Other problems affecting the statistics include the fact that our data includes only economic investments in the form of capital construction and technological renovation, and thus may not include operating expenditures or investments by regulatory agencies. The data on pollution emissions are also suspect because the monitoring network is far from complete and is subject to technical irregularities. Therefore, data on emissions are presented only for visual inspection and are not subject to analysis. The findings from the statistical procedures conducted on expenditures moreover can be regarded only as indicative of patterns that are unfolding, and should not be considered as definitive at this stage of analysis.

Nevertheless, it is striking that the bivariate regressions performed indicate that environmental protection does not have a negative impact on economic growth. There is at most an extremely modest impact which tends to be in a positive direction i.e., environmental protection tends to enhance economic growth, although it must also be recognized that environmental protection modestly aggravates inflation. Regression coefficients are generally no higher than 0.25, which indicates that environmental protection explains less than 10 percent of the variation in economic performance.

Without forgetting the caution flags hoisted earlier as to the quality of the data, we nevertheless can proceed to ask why environmental protection does not seem to impair economic performance to any sub-

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10. The text of the relevant chapters of the Sixth and Seventh Five-Year Plans are translated in Ross and Silk, supra, note 4.
stantial extent. Clearly this is in part because environmental protection overall comprises a very small sector in terms of the economy as a whole, so its overall impact cannot be expected to be very large. China plans to substantially increase spending on environmental protection in the Seventh Five-Year Plan (1981-85), raising the total to about 1.5 percent of national income although, as I have explained elsewhere, these numbers are subject to considerable imprecision and politically-biased interpretation.11 Nevertheless, the modest size of the influence of environmental protection on the economy is quite consistent with findings from the advanced industrialized countries, which have shown that environmental protection, even at proportionately higher levels of expenditure, does not constitute more a minor determinant of economic performance.12

There are several reasons why environmental protection does not necessarily exert an adverse influence on the economy, and may in fact enhance economic performance, particularly in a developing country like China. The principal reason is that a great deal of pollution is due to waste and inefficiency in the economy, a notorious problem in communist countries plagued by irrational prices and a lack of producer incentives. There are no precise figures in this regard but Chinese officials and scholars estimate that between 30 and 50 percent of all pollution is due to inefficiency. Thus, improvements in economic efficiency help the environment while the installation of pollution control technology raises efficiency by recycling residual energy and materials. Moreover, investment in environmental protection, like any other category of capital construction, stimulates the economy, although one consequence may be a rise in prices.

This does not, of course, mean that any and all expenditures on the environment are justified. To the contrary, as the perceived need for environmental protection rises, there is increasing pressure to devise and adopt more efficient solutions for environmental problems. This is particularly true for big ticket items like stack gas controls for thermal power plants and municipal sewage treatment plants. In these two areas, China is proceeding very cautiously and is eagerly inviting foreign investors to demonstrate their most cost-effective advanced technologies. China is also rapidly expanding the use of innovative implementation instruments like effluent charges and discharge permits to give polluters added incentives to reduce their emissions in

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accordance with the "polluter pays" principle first applied in the market economies of the West. It is hoped that these instruments will raise management's attention with regard to pollution and encourage the adoption of less costly controls at production sites.

Although it can be provisionally concluded that environmental protection exerts a benign impact on the economy in addition to a positive impact on the environment (which should lead to additional indirect positive effects on the economy as a result of improvements in public health, including reductions in respiratory and other disorders), a fuller assessment awaits more detailed data. This includes not only longer time series at the macro level, but also industry and enterprise level data that more precisely permit a determination of how environmental protection affects production, profitability and cost. More data should become available during the Seventh Five-Year Plan. Most prominently, the Ministry of Metallurgical Industry has announced its commitment to spend 1.7 billion yuan in more than 80 enterprises, double the level of the previous five years which seems to be in keeping with commitments for the economy as a whole.\textsuperscript{13} Emissions in this industry and in society as a whole are expected to show significant reductions but, as noted before, the actual magnitudes are very unclear because the base lines themselves are in question.

\textbf{ENVIRONMENTAL PROTECTION AS A DEPENDENT VARIABLE}

The impact of environmental regulation on the economy is but one aspect of their mutual relationship. The obverse involves the impact of economic development on the environment. Some environmentalists have demanded zero or low growth lest natural resources be depleted and environmental quality be degraded. This position slights the potential for technological advances and the efficiency enhancements created by price adjustments in response to scarcity. It is a position that has also been rejected by Chinese officials who deny the fundamental incompatibility between economic development and environmental quality.\textsuperscript{14}

There is also a political aspect which leads to rejection of the hypothesis that economic development and environmental protection are incompatible. That is to say, economic development is related to political change in ways that result in greater concern for the environment.

\textsuperscript{13} \textit{Renmin Ribao}, April 27, 1986, p. 2.

\textsuperscript{14} Qu Geping, \textit{Zhongguo Huanjing Wenti yu Duice} (Environmental Problems and Strategy of China) (Beijing: Zhongguo Huanjing Kexue Chubanshe, 1984).
First, Deng Xiaoping’s modernization strategy is predicated on opening China up to the outside world in terms of foreign trade and investment, tourism and scientific and educational exchange. Reverse eddies directed against “spiritual pollution” have so far been of decidedly secondary importance. These more extensive international linkages have helped the cause of environmental protection by raising China’s familiarity with developments in the advanced industrialized countries, especially in the Western democracies. Some of the first Chinese leaders to go abroad in the post-Mao period reported their astonishment that countries like Japan and Switzerland enjoyed much better environmental conditions than China despite far higher levels of economic activity, political dominance by the bourgeoisie and widely publicized horror stories involving environmental disasters.\(^{15}\) They concluded that it was indeed possible to enjoy the best of both worlds and that China had a great deal to learn from the West.

The broadening of contact with the outside world has also bolstered the position of environmental agencies and scientists who can cite the experience of more advanced countries to justify their positions. For example, China has embarked on a determined effort to upgrade many of its products to international standards to improve efficiency and make Chinese goods more competitive on the world market. Chinese environmental officials have used the same language to justify the adoption of international emissions and ambient standards, despite protests by industrial ministries that the requirements are too demanding for developing economies. In these and other instances, international organizations like the World Health Organization have lent support to environmental agencies. Such support is critical to these agencies, which would otherwise have been greatly disadvantaged by the political clout of production ministries that have been in existence much longer and have bigger budgets and more employees than those agencies. WHO, the International Union for the Conservation of Nature and similar organizations have convened conferences and set international goals which have drawn Chinese support. Pilot projects have been facilitated by seed money from donor agencies. Moreover, the ever growing requirement that internationally funded economic development projects be accompanied by environmental impact studies has strengthened the Chinese commitment to conduct similar studies on domestic projects.\(^{16}\)

From a more explicitly political perspective, Deng’s pragmatic

\(^{15}\) Ross, supra, note 6.

\(^{16}\) Ibid.
philosophy has been based in part upon improving the quality of life of ordinary Chinese citizens. This is manifested principally in terms of the wider availability of consumer goods and housing but also extends to environmental quality. Mayors in cities like Beijing and Shanghai now take more personal interest in environmental quality. The central government has also strongly directed cities across the nation to install gasification and other systems to centralize heating supply and reduce air pollution arising from inefficient household braziers. More stringent environmental regulations in Shenzhen and other economic development zones as well as tourist areas have been enacted in order to prevent deterioration in environmental quality, and because environmental quality is considered a principal attraction for foreign investors and tourists alike.

In this respect, politics can accelerate the universal tendency in which the demand for aesthetic, luxury, nonsumptuary goods like environmental quality rise in response to increases in income levels. This is a phenomenon observable in the United States and other countries where public opinion polls generally reveal that higher income individuals are more supportive of environmental protection. This also appears to be a factor in Taiwan and the newly industrializing countries of East Asia where much higher income levels have provided people with the economic wherewithal, as well as the educational and political skills, to oppose threatening energy development projects and foreign investments. Opposition to projects like the Du Pont titanium dioxide plant in Lukang and Taipower’s nuclear expansion plans have enjoyed remarkable success despite the lack of full-fledged democracy in Taiwan. The power of environmentalists should rise further in the future in response to economic gains, and the same pattern should be observable on the Mainland, albeit to a lesser degree.

CONCLUSIONS

This study has taken issue with the contention that environmental quality and economic development are mutually incompatible. To the contrary, environmental protection need not impair economic development and economic development can promote economic growth. In so concluding, I have not had to resort to moralistic or pseudo-scientific arguments about the virtues of environmental protection. How-

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ever, I do not wish to paint too rosy a picture. On the one hand, the authoritarian nature of the Chinese political system severely limits the opportunities for dissenting views to be expressed the limits public participation in political decision-making. Major controversies like the Three Gorges flood control project are being resolved without benefit of full public participation, and even legislative bodies and the Chinese Academy of Sciences have not been able to get involved except on the periphery and only through extraordinary procedures. This greatly increases the likelihood of poor decisions that may have adverse environmental and perhaps economic consequences, as well.

On the other hand, it should be made clear that a rise in political influence for environmentalists is not an unalloyed blessing. They have their own biases, e.g., in favor of the public ownership of property and stringent limitations on the development of natural resources, which may not always be warranted by economic or scientific factors, or supported by public opinion. It is far preferable to encourage the articulation of a diversity of views in order to enhance the decision-making process, without overriding the legitimate role of private property ownership and the consensus of scientific opinion.
<table>
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<th>YEAR</th>
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<th>OXIDES OF NITROGEN EMISSIONS (thousand tons)</th>
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<th>INDUSTRIAL SOLID WASTES RECOVERY RATE (percent)</th>
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TABLE SOURCES


3. Four times the values reported in variable 2 to account for Chinese plans to increase expenditures on environmental protection to 1.5 percent of national income, which is about four times the values reported in variable 2.


5. Id., p. 530.


8. Id.


10. Ibid.

11. Ibid.

12. Id., p. 243.

13. Ibid.

14. Id., p. 244

15. Ibid.

16. Id., p. 240. The six are mercury, cadmium, hexavalent chromium, arsenic, lead and cyanogens. Phenols were excluded because of their disproportionately large volume.

REGRESSION EQUATIONS

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PART III  SOCIAL DEVELOPMENTS

CHAPTER 6

THE PROBLEM OF ECONOMIC CRIME
IN THE MAINLAND

Tao-tai Hsia

At a conference on economic crime held in August 1986 in Peking, many of the papers presented for discussion touched upon the general features of economic crime in the People's Republic of China (PRC) today. The overall consensus reached was that economic crimes are "duo (many), da (large-scale), and guang (widespread)," that is, there are many cases of economic crime and the number of cases is on the rise. The sheer magnitude of crimes committed is unprecedented, and the extent of individual personnel, government units and localities involved is widespread.1 The seriousness of the problem of economic crime was also addressed by both Zheng Tianxiang, President of the Supreme People's Court, and Yang Yichen, Procurator-General of the Supreme People's Procuratorate, in their annual reports delivered at the Sixth National People's Congress in April 1986. The reports stressed that fighting economic crime had become a top priority. According to Zheng, from 1982 to the end of 1985, the courts handled more than 183,000 cases of economic crime involving corruption, bribery, smuggling, profiteering, fraud and theft of government property, and more than 224,000 persons were sentenced.2 Moreover, there was a 30 percent increase in the number of cases handled in 1985 compared to 1984.3 It seems that major offenders are often those who hold high positions and wield a lot of power. In Canton alone, for example, of 2,500 persons implicated in economic

crimes as of the end of March of 1986, over a third were cadres. Thus, despite the fact that the Standing Committee of the Fifth National People's Congress had, on March 8, 1982, adopted the "Resolution on Severely Punishing Criminals Who Seriously Disrupt the Economy," economic crimes, both major and minor, continue to plague the implementation of the four modernizations in the PRC.

There are two major reasons why the problem has escalated. First, there is an ethical vacuum in present-day China. In traditional China, Confucian ethics provided guidelines for proper behavior; in Maoist China, purist Communist ideology prevailed, and the ethical norm that held sway was embodied in the phrase "to serve the people." As a result of the Cultural Revolution (1966-1976), however, there was widespread disillusionment with Communist ideals, and China has since been faced with the lack of a strong ethничal system.

The second major reason for the dramatic increase in economic crime is the current regime's economic policy, with its central focus on bold economic gains. This factor has several broad implications. The old Maoist dichotomy of redness versus expertise is now weighted in favor of expertise, so that the majority of people are ignoring Communist ideology and ethics and concentrating instead on finding the means to get ahead financially in society. The economic policy under Deng Xiaoping is referred to as: duiwai kaifang he duinei gaohuo jingji de zhengce, that is, "the policy of opening to the outside world and taking flexible measures to invigorate the domestic economy."

The first part of this policy, opening to the outside world, has meant that Chinese now know how other people, especially those from Hong Kong and the West, live. As a result, they want to lead more comfortable lives and possess more material goods. However, the income of the average Chinese, compared to that of the average wage-earner in the West, is pitifully meager, and so some elements in Chinese society believe that the only way for them to attain a comfortable lifestyle is to engage in corruption, smuggling, fraud and the like. In addition, while the open door policy was inaugurated with a view to fulfilling China's need for Western technology, such technology brought various aspects of bourgeois thinking that are viewed as undesirable; in particular, a "money-first" mentality. This attitude has become so prevalent that the Maoist slogan yi qie xiang qian kan, "be idealistic" or "be unselfish" in all things, in which the word qian "ahead" (i.e., "beyond oneself") is used, is now punned by the substi-

4. Ibid., p. 100.
tution of the homophone qian, "money," so that the phrase becomes "be greedy" or "be selfish" or "money first" in all things.

In regard to the second part of Deng's policy, "taking flexible measures to invigorate the domestic economy," the key words are gao huo, "taking flexible measures." At present, China has serious problems with an entrenched bureaucracy. Bureaucratic red tape interferes with the kind of approach that underlies taking flexible measures, namely, being creative and innovative and finding short cuts in order to get things done. Because the PRC has 1) too many unreasonable laws and regulations that hinder economic reforms and 2) too few reasonable laws and regulations that would facilitate the carrying out of economic reforms, some people use ingenious means to cut the red tape, to achieve greater efficiency and to save money. In the process, some of them have, technically speaking, violated certain laws. These individuals are praised by some as "enterprisers decked with laurels" (gua guiguan de chuanyezhe), characterized by a readiness to engage in daring action, a willingness to tackle difficult, complicated, and risky tasks, and, in general, an independent, energetic spirit. They are also referred to as "meritorious persons engaged in invigorating the economy" (gaohuo jingji de gongchen). Others, however, regard such enterprisers as economic criminals (jingji zuifan). The key question is whether the activities engaged in by the enterpriser develop the country's productive forces or disrupt them. Examples of such activities may shed light on the problem.

First, there is the question of the permissibility of unauthorized part-time work, be it a second job or work done on the side for a different work unit, which thus far has not been regulated by law.5 If a person without authorization does additional "moonlighting" work that saves the government money, he would not, technically speaking, be guilty of any crime, since there is no law against doing such extra work. In the past, however, with certain exceptions, someone who did outside work could still be prosecuted on the vague charge of engaging in illegal activities, despite the fact that the law contained no specific provisions against unauthorized work. As a recent example of changing attitudes in regard to unauthorized part-time work, there is the case of an engineer who did some outside work for another government agency. He was paid 15,000 renminbi (rmb) for "expenses," but saved the government money. As a result, he was regarded not as an

economic criminal but as someone who helped advance economic reform.

Another example involves the case of truck repairs carried out by factory workers in Shanghai. For the authorized plant workers to repair two trucks would have taken two to three months and cost the plant 10,000 rmb. Instead, the factory head asked some friends to repair the trucks in their spare time. It took them only about two weeks to do the job and cost a little over 1,000 rmb. According to regulations, a factory is not supposed to pay for unauthorized repairs of this sort, but the judicial organ handling the case determined that the factory head would not be held liable for payment. If the court adhered too rigidly to the rules, it might be viewed as obstructing economic reform.

Yet a third example has to do with a case of falsification of documents. Factory A made an agreement with Factory B to the effect that if Factory A was able to do a certain amount of work above its quota, Factory B would give Factory A a bonus. When Factory B later reneged on the agreement, Factory A somehow obtained documents from Factory B that would secure Factory A its bonus. Falsification of documents, a crime punishable by law, apparently had been carried out by the Factory A workers. Yet the cadres involved were not charged with corruption, because their original aim had been to support the reform effort, and they had succeeded in going beyond the average production quota.

The examples cited would seem to indicate that at present there is a predisposition to regard enterprising activity favorably, even in cases when such activity might have been frowned upon in the past or when it slightly infringes upon the bounds of legality. In curbing serious economic crime, however, there has been a notable lack of success. There are several reasons for this. First, there is a paucity of trained legal personnel properly equipped to handle cases of economic crime. Sometimes the personnel now in place use administrative sanctions, such as fines, as a substitute for criminal sanctions. Supreme Court President Zheng commented on this problem of yi fa dai xing in his 1986 work report:

First, it is necessary to rationally solve the question of ‘substituting the payment of fines for serving time.’ In other words, if we must investigate a person and affix criminal responsibility for his serious economic crime according to law, it is necessary to take him down to judicial organizations for punishment instead of simply imposing a fine on him as a
disciplinary sanction.  

Another reason for the difficulty in stemming economic crime is the lack of judicial independence in the PRC. Zheng Tianxiang also stated in his work report that “We must thoroughly investigate major economic crimes and handle them in a comprehensive manner” and that the party should exercise its leadership over judicial organs in order to insure that offenders are punished.  

However, it appears that in most important cases of economic crime, party members are involved. In these instances, the case must initially be handled by the Communist Party organs for discipline inspection; the courts and procuracy cannot touch the case until this preliminary party investigation has taken place. Thus, the Communist Party’s central and local commissions for discipline inspection are first to handle the economic crime cases involving party members, and only those cases deemed to require court action are turned over to the courts. Judicial organs, moreover, must follow the decisions rendered by the commissions for discipline inspection. As a result, some high party officials and their relatives who are convicted of committing economic crimes receive lighter punishments or no punishment at all.

The participation of party officials or their relatives in economic crime is in itself a third factor that makes prosecution of economic crime difficult. Statistics indicate that a relatively high percentage of economic crimes involve party members and that the number is rising. For example, in the Peking metropolitan area alone, in 1984, 25 percent of the criminal elements involved in economic criminal cases were party members; by the first half of 1985, the number has increased to 41 percent. It has been pointed out that the units or individuals who are supposed to serve as models to others in observing party principles and the law are often the ones who are most corrupt. According to an article in a Chinese legal periodical, Faxue [Jurisprudence Monthly], corruption persists because leadership organs “only swat the flies [buzzing around the tiger], not daring to touch the tiger itself”; because they “have a tiger’s head but a snake’s tail.” What this means is that, even though at first they may try to pursue a case, once they learn that a ‘bigshot’ is involved, they stop pressing the matter and simply let things slide. Moreover, in general they are too easygoing.

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about enforcing Party rules and the law of the land.  

Chinese newspapers have been filled with accounts of the children and relatives of prominent Communist Party officials who have been implicated in economic criminal activities. These include, among others, the daughter of NPC head Peng Zhen, the son of party secretary Hu Qiaomu, the grandson of Marshal Ye Jianying, and the daughter of General Ye Fei, Ye Zhifeng, whose case probably received the greatest attention in the press. Ye Zhifeng, deputy director of the Import and Export Bureau under the State Economic Commission, and Zheng Changsheng, son of a senior army cadre and an employee of the Minority Nationality Economic and Cultural Development Corporation, divulged privileged information about China's automobile imports, especially information on contract negotiations, to foreign and Hong Kong businessmen. They received bribes for their efforts. Although Ye Zhifeng was the principal offender and Zheng her accomplice, she was sentenced to 17 years' imprisonment while Zheng received the death penalty and was executed. The decision gave rise to a wave of public indignation when it was publicized; people even wrote letters of protest to the highest levels of government. Official attempts to explain away the sentencing discrepancies remained unconvincing.

One legal commentator recently addressed the problem of the courts' leniency toward leading officials or their relatives who commit crimes. He noted that such treatment goes against the principle of *you fa bi yi* (when there is a law, it should be followed), for instructions from the party leadership organs often take precedence over legal strictures. Thus, when judicial organs handle serious criminal cases, they frequently receive expressions of "concern" from certain non-judicial leaders or responsible cadres couched in the form of directives or instructions, which makes it that much more difficult for the organs affected to adhere to the law as it is written. For example, in a bribery case that involved a group of leading cadres in a certain locale, the guilty parties should have been sentenced under the law to at least three years' imprisonment. However, an important party official expressed the view that the cadres should just be kept under party observation for a year and that they each should have a demerit entered on their record. The commentator remarked that this sort of instruction

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10. For a description of the case, see FBIS, *DR/C*, Mary 14, 1186, pp. W3-5.
11. See Xu Jingen, "Rectifying Party Spirit in Relation to 'If There Is a Law, It Should Be Followed,'" *Faxue, supra* note 9, p. 31.
was obviously not in accordance with the law, but that the judicial personnel were constrained to follow the Party leader's instructions even against the dictates of conscience.

CONCLUSION

One of the conclusions reached by the August conference on economic crime was that simply ‘dealing a blow to economic crime’ was not enough; there was a need to reaffirm lost values, to uphold a “socialist spiritual civilization.” The government, too, views the problem of reducing economic crime in relation to social reform and regard reliance on severe sentencing alone to be an inadequate deterrent. However, China under Deng has disallowed the use of campaigns, or yundong, as a means of carrying out large-scale reform. As a result, the new movement to create a “socialist spiritual civilization” is being initiated as a small-scale movement that is not actually called a campaign. It may be remembered that the campaign against “spiritual pollution,” launched in 1983 by party ideologue Deng Liqun, was stopped by other Communist Party leaders because it had begun to shake people’s confidence in Deng’s program of economic reform.12 The dilemma, it seems, lies in creating a balance between the current regime’s desire on the one hand to promote a sweeping propaganda effort that will fill in the ethical and ideological vacuum, and on the other to avoid dampening the spirit and momentum of its economic reform program. In order to resolve the dilemma, the Party Central Committee has adopted a resolution on the creation of a socialist spiritual civilization that is designed to provide the ideological justification for the continuance of Deng’s reforms. It may succeed in striking the right balance, but there remains the problem that the non-campaign campaign, being necessarily smaller in scale, may not be very effective. In any event, it will take time for people to develop the new sense of ethics envisioned by Party leaders as the underpinning of the nationwide economic reform program.

Thus, while the PRC is adopting broad measures to combat economic crime, the reduction of such crime is inextricably tied to the nature of the outcome of those very economic reforms that have engendered the increased criminal activity. If the reforms are successful, there will be more institutionalized procedures and more laws and regulations that will help prevent economic crime and lower its current high rate. But it will take time for the PRC to enact the necessary legislation. It will take time to train judicial personnel in the handling

of cases of economic crime and in understanding the new legislation. It will take time to train cadres to respect and obey the law. And it will take an even longer time for China to achieve judicial independence and the separation of party and government.
CHAPTER 7

SOCIAL INEQUALITY AND RECENT SOCIAL DEVELOPMENTS IN THE PEOPLE’S REPUBLIC OF CHINA

Wen Lang Li

INTRODUCTION

The concept of development can mean different things to different people. Most commonly, people tend to equate development with the rise of per capita income. But the sociological approach to the study of development takes a much broader perspective. Sociologists view development as the change of not only economic institutions, but all social institutions. This viewpoint is often not well received by many economists, policy makers, and especially those in power. Their argument is that public resources in developing countries are typically very limited; thus, the limited resources should first be utilized to cope with the most pressing social problem, i.e., how to raise the standard of living. Many may agree that change of the political system is important too, preferably solicited in a slow orderly fashion, with the passing of those who are currently in power. This line of argument is very common in China today.

Since Deng Xiao-ping gained power in 1978, China has launched a vigorous attempt to achieve what are called the “Four Modernizations”. The foremost concern of Deng’s policy is to promote China’s standard of living through scientific and technological development. Undeniably, China’s current living standard ranks among the lowest in the Third World countries. Deng’s ambition is that by the year 2000, China’s per capita income should be “quadrupled” (Fan-liang-fan). However, there are many people who question this possibility. They view development in synchronic terms. Various institutional

components have to be well coordinated in order for an economy to take off. Without concommitant change of the bureaucratic system, China's economic growth is likely to be limited. Thus, they advocate the "political modernization" of China as well. Their argument was forcefully articulated during the so-called "Democracy Wall" (min zhu qiang) movement in 1978. Unfortunately, the movement was dispelled and its leaders, including Wei Jing-shen, were sent to labor camps for "rehabilitation."

Despite the temporary setback of the "Democratic Wall" movement, the ideological dispute between these two schools of development strategists continues to haunt the policymakers in China: should the Communist political system be changed in order to facilitate economic development? or, should the supremacy of the Communist Party remain unchallenged and economic liberalization carried out without many bureaucratic changes? Whether the development process is synchronic or not is thus an important question not only for social scientists and students of Chinese society, but also for the policymakers in China.

The year of 1986 marked another turning point in the history of Chinese Communism. College students in ten provinces filled the streets to demonstrate their dissatisfaction with social conditions in China. Some even challenged the legitimacy of the Communist Party's role in China's contemporary governance. They questioned whether the Party should continue to oversee the university's administration. The students expressed their desire to have the privilege of nominating their own political candidates. They also demanded structural change in the state bureaucracy in order to facilitate economic development.

The student movement had many demands and many underlying structural stimuli. But one thing was clear; the students felt dissatisfied with the status quo in Communist China.

This paper attempts to dissect the underlying social forces that could possibly have promoted the student movement, and to build a theoretical argument that the current social movement is related to the problems of structural inequality prevailing in China today. Because of the prevalence of social inequality, people's sense of relative deprivation has been heightened; thus, their perception of structural block-

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Our arguments are based on two theoretical propositions: first, the functionalist perspective that social inequality is inevitable in any society. There are various functional necessities that contribute to the persistence of social inequality. Policy effort to eliminate one kind of social inequality will, in effect, create another kind of inequality. For example, the Communist attempts to eliminate income inequality through totalitarian means have created a political system with enormous power inequality. We will show that in Mainland China, although income inequality has been somewhat reduced, other types of social inequality have increased. For example, the polarization of the agrarian and industrial sectors has increased to alarming proportions.

The second argument is that the PRC's recent economic liberalization programs may have unintentionally created a new dimension of social inequality. The classical contradiction between growth and equity is apparent. China has been suffering the consequence of economic stagnation for more than three decades. The Marxist ideology was useful in maintaining the status quo, commonly referred to as the "Large Rice Bowl" (ta guo fan) mentality. However, Deng's push for economic liberalization legitimizes the emergence of intersectoral inequality. Many people who have access to power, especially sons and daughters of those who are in power (gao gan zi di), are able to mobilize their resources to become prosperous and opulent. Ironically in a communist society, the classic struggle between the "haves" and the "have-nots" is still evident. The resentment of the have-nots may lead to unrest—following the simple logic of the old Chinese saying, "Inequality creates uproar" (pu ping zhe ming).

In this paper we will use quantitative information to substantiate these two theoretical propositions. We will first describe the nature of social inequality in the PRC, specifically assessing the extent of its economic growth and income inequality. Next, we will focus on the problem of inter-sectorial disparities created by the recent economic liberalization policy. Finally, we will try to relate the statistical findings to the interpretation of the recent student movement in the PRC.

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The Nature of Income Inequality

The fundamental ideological commitment of the Communist regime is to reduce income inequality. Karl Marx theorized that the basic problem of an industrial capitalistic system lies in the uncontrollable intensification of income inequality. The mode of production necessarily polarizes the economic gap between the two social classes, the bourgeoisie and the proletariat. Thus, the new state has to perform the role of social equalizer — to reduce the economic polarization of the social classes.

Since 1949, the Communist regime in Mainland China has attempted to practice this ideology. The state has become the omnipotent landlord. All lands have been nationalized and redistributed. Industries have been centralized and placed under the government's total control. Workers in both the industrial and the service sector must follow a hierarchical system which is parallel to that of the Red Army. In the system there are 30 grades, and the pay difference among the grades has been minimized. The wage differential between the highest and lowest grades has been kept within the 10-to-1 ratio.

Understandably, the income inequality among Chinese workers is very low. The PRC is proud of the fact that its degree of income inequality is one of the lowest in the Third World, although its level of income is relatively low. According to the PRC's latest official report, the per capita income was 530 RMBs per year, which equals roughly 150 U.S. dollars.

For the last 30 years, the Chinese economy has been characterized by both low income and low inequality. This is perhaps typical of a country in a "low equilibrium trap." The Communist regime may be successful in equalizing economic distribution, but it is unable to promote economic productivity. Again, the PRC's official statistical source revealed that the per capita income in 1953 was 102 RMBs. Thirty years later, the comparable figure was 461 RMBs. In other words, the rate of growth was only about 0.5 percent per year, and this did not even take into account the inflation factor (See Table 1).

While the rate of economic development in the PRC was practi-

10. Ibid, p. 32.
Table 1: Growth of Per Capital Income in PRC, USA, and ROC, 1953-83

<table>
<thead>
<tr>
<th>Year</th>
<th>PRC (RMB)</th>
<th>USA ($)</th>
<th>ROC (NT$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>58,900</td>
<td>304,700</td>
<td>70,179</td>
</tr>
<tr>
<td>National Income</td>
<td>575.0</td>
<td>160.2</td>
<td>11.9</td>
</tr>
<tr>
<td>Population</td>
<td>102</td>
<td>1,902</td>
<td>5,897</td>
</tr>
<tr>
<td>Per Capita Income</td>
<td>1,902</td>
<td>1,902</td>
<td>5,897</td>
</tr>
<tr>
<td>1983</td>
<td>473,000</td>
<td>2,646,700</td>
<td>1,621,876</td>
</tr>
<tr>
<td>National Income</td>
<td>1025.0</td>
<td>234.5</td>
<td>18.7</td>
</tr>
<tr>
<td>Population</td>
<td>461</td>
<td>11,287</td>
<td>86,731</td>
</tr>
<tr>
<td>Per Capita Income</td>
<td>11,287</td>
<td>1,902</td>
<td>5,897</td>
</tr>
<tr>
<td>Annual Rate of Growth (%)</td>
<td>0.5</td>
<td>5.9</td>
<td>9.0</td>
</tr>
</tbody>
</table>


cally stagnant, it was rising phenomenally in many other parts of the world. In the United States, for example, in 1953 the per capita income was 1,902 dollars, but by 1983 it had increased to 11,287 dollars. The annual rate of growth was about 6 percent. The economic growth rate in Taiwan was even more impressive. In 1953 its per capita income was NT $5,879, or 147 U. S. dollars. Thirty years later it had increased to NT $86,731, or 2,168 dollars. Thus the rate of economic growth was 9 percent per year. Per capita income is the most widely accepted social indicator of living standards. Using this criterion, the pace of economic development in the PRC has obviously been very slow in the last 30 years. Such a low rate of growth is unacceptable to many Chinese, especially when they compare themselves with the outside world. To the proud Chinese, who have a highly nationalistic spirit, their comparatively low standard of living has been a shame and dishonor to their country. This underlying psychological force might

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have contributed to the PRC's enthusiasm in pursuing "The Four Modernization Programs."

With the relaxation of the Chinese centralized economy since the end of the Cultural Revolution, the overall standard of living has apparently improved. The Chinese economy has become more consumer-oriented. Various kinds of consumer goods are now not only available, but also affordable. As mentioned earlier, from 1983 to 1984, the per capita income increased from 461 RMBs to 530 RMBs. In other words, the standard of living increased nearly 14 percent in one year. The ownership of color television, for instance, increased from 0.6 percent among all Chinese families in 1981 to 5.4 percent in 1984. The ownership of refrigerators also drastically increased, from 0.2 percent in 1981 to 3.2 percent in 1984.13

The growth of the Chinese economy has clearly had some sociological effects which have not been consistent with the Communist ideology. As some people began to have refrigerators or color television sets, many others were unable to have these modern amenities. The extent of economic inequality will rise, and this may not be tolerated by the Communists. Thus, those who advocate economic growth may come to be regarded as "zhou zi pai" (Capitalistic Roaders) and could be purged.14 Although the Communists have deliberately attempted to eradicate inequality, the problem is by no means dissipated.

The extent of income inequality in contemporary China, though relatively small, is still a major social problem. The nature of income inequality is different than before the Communist takeover. Prior to 1949, a serious income gap might have been found between the landlords and the tenants, but under the Communist regime, the salient disparity has been between the rural and urban sectors of the economy.

In Table 2 we have gathered scattered income statistics from the PRC's official publications. The figures show that the median family income among rural families in 1984 was only 201 RMBs. The comparable figure for the urban families was 646 RMBs. The difference in income between rural and urban families is quite striking. In general, a typical rural family earns less than one-third of what its urban counterpart earns. To be precise, the rate is 31 percent. Such an enormous difference is not seen in many industrial societies.15 Since the major-

ity of the Chinese population is in the rural sector, the urban families are indeed a privileged few. The gap between the privileged and the unprivileged is relatively large.

Table 2: Rural-Urban Differential in Income Inequality, 1984

<table>
<thead>
<tr>
<th>Per Capita Yearly Income</th>
<th>Midpoint X_i</th>
<th>Families F_i</th>
<th>F_i X_iF_i</th>
<th>X_iF_i</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Families</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 100</td>
<td>66</td>
<td>.182</td>
<td>.182</td>
<td>12.01</td>
</tr>
<tr>
<td>100-150</td>
<td>125</td>
<td>.141</td>
<td>.323</td>
<td>17.62</td>
</tr>
<tr>
<td>150-200</td>
<td>175</td>
<td>.245</td>
<td>.568</td>
<td>42.88</td>
</tr>
<tr>
<td>200-300</td>
<td>250</td>
<td>.292</td>
<td>.860</td>
<td>73.00</td>
</tr>
<tr>
<td>300-400</td>
<td>350</td>
<td>.094</td>
<td>.954</td>
<td>32.90</td>
</tr>
<tr>
<td>400-500</td>
<td>450</td>
<td>.038</td>
<td>.992</td>
<td>17.10</td>
</tr>
<tr>
<td>500+</td>
<td>750</td>
<td>.008</td>
<td>1.000</td>
<td>6.00</td>
</tr>
<tr>
<td>Total</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Urban Families           |              |              |            |        |
| Under 300                | 200          | .017         | .017       | 3.40   | .005  |
| 300-420                  | 360          | .105         | .122       | 37.80  | .064  |
| 420-600                  | 480          | .389         | .511       | 186.72 | .353  |
| 600-720                  | 660          | .227         | .738       | 149.82 | .584  |
| 720-840                  | 780          | .128         | .866       | 99.84  | .739  |
| 840+                     | 1,260        | .134         | 1.000      | 168.84 | 1.000 |
| Total                    | 1.000        |              |            |        |

Source: Calculated from Statistical Yearbook, 1985, p. 565 and p. 572. The incomes of urban families were originally presented in monthly figures. The Gini coefficient is a summary measure of the degree of inequality; see figure 1: the Gini coefficient is calculated as the ratio of the area between the dotted lines and the straight line, and the entire area under the straight line.

The problem of income inequality also exists within both the rural and the urban sector of the Chinese society. Interestingly, income disparity is more severe within the rural area. Among the urban families, the top 25 percent of the rich control roughly 40 percent of the urban financial resources. Among the rural families, the top 25 percent of

the rich control nearly 50 percent. As long as China remains a predominantly agrarian society, income inequality between the sectors will continue.

The picture as shown in Figure 1 clearly presents the finding that income inequality is more severe in rural areas. From the Lorenz curves [cumulated households v. cumulated income] we have computed the Gini coefficient [Table 2] for both rural and urban families. The Gini coefficient is as high as 28 percent in rural areas, while it is only 22 percent in urban areas. This is an interesting finding, in light of the fact that social scientists often disagree as to whether or not urbanization accentuated income inequality in traditional Chinese society.\(^{16}\) Our findings contribute to the argument that urbanization may not accentuate income inequality, for the extent of income inequality could be even less in industrial-urban communities.

*The Increasing Extent of Regional Disparity*

Our statistical data so far have provided two generalizations. First, in communist China there is severe income inequality between the agrarian and industrial workers. Second, the extent of income inequality is less in the urban sector than in the rural sector. Thus, as Chinese society becomes more urbanized, its income inequality may be lessened.

The rural-urban disparity has been an important social problem confronting policymakers in many Third World countries. In China this problem is especially sensitive because traditional political instability has frequently been tied to interregional conflict. The rise of regionalism (*shan tou zhu yi*) inevitably brought down a dynasty in Chinese history.\(^{17}\) As Confucious warned the government officers two thousand years ago: "People are not troubled with fears of poverty, but are troubled with fears of inequality." (*Confucian Analects*, Book XVI, Ch. I) Achieving an equitable distribution has been a guiding principle in Chinese politics. The Communists are especially wary of this problem.

The minimization of interregional differentials is an easier task in a centralized economy. Since the Communists took over China, they have instituted numerous measures to achieve a more equitable re-

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FIGURE 1: RURAL-URBAN DIFFERENTIAL OF INCOME INEQUALITY, PRC, 1984
gional distribution. The so-called "Xia Fang" (Rustication) policy was an attempt to equalize the interregional distribution of human resources. 18 Recently graduated highschool youth were required to serve in remote rural areas for several years. Some have settled in those areas, others have died, and many have since returned to the urban areas. 19 The Rustication policy represents the most ambitious attempt to redistribute human resources in recent history, yet despite rigorous Communist control the policy seems to have achieved little. The latest census reported that the three metropolises, Beijing, Tianjing and Shanghai, still possess the best and most qualified workers. Demographically speaking, these three cities constitute less than 3 percent of China's total population, but their share of the highly educated population, with at least a high school education, is more than 8 percent. Most importantly, China's industrial production is concentrated in these cities.

Table 3: Resource Concentration in Metropolitan Areas

<table>
<thead>
<tr>
<th>City</th>
<th>Population N (1,000)</th>
<th>%</th>
<th>Human Resource N (12+)</th>
<th>%</th>
<th>Industrial Products Y (100m.)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>9,230</td>
<td>0.9</td>
<td>2,078</td>
<td>2.9</td>
<td>281.72</td>
<td>4.0</td>
</tr>
<tr>
<td>Tianjing</td>
<td>7,764</td>
<td>0.7</td>
<td>1,211</td>
<td>1.7</td>
<td>251.49</td>
<td>3.6</td>
</tr>
<tr>
<td>Shanghai</td>
<td>11,860</td>
<td>1.1</td>
<td>2,826</td>
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</tr>
<tr>
<td>Subtotal</td>
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<td>2.7</td>
<td>6,115</td>
<td>8.4</td>
<td>1,277.58</td>
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</tr>
<tr>
<td>Total</td>
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<td>72,566</td>
<td>100.0</td>
<td>7,029.55</td>
<td>100.0</td>
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</table>

Note: Population figures are in 1,000; human resource is measured by amount of population with at least high school education; industrial products are in 100 million yuan. The sources are from 1982 Population Census of China, Table 52 and Statistical Year book 1985, p. 30.

With the continued liberalization of economic policies, China's interregional disparity problems are expected to grow. In order to facilitate international trade, China has opened at least 13 harbor cities and given them special economic privileges. The most celebrated model city is Shenzhen in the Guangdong Province, which is contiguous to Hong Kong. Most of these port cities are located on the southeast coast, and therefore their living standards are generally higher.

than the national average. However, the most recent official statistics reveal a wide disparity in wages among these port cities. Wenzhou in the Zhejiang Province was a prosperous city at the turn of this century; now its average wage is only 800 RMBs per year, ranking lowest among the 13 port cities. On the other hand, Shenzhen and Zhuhai, both in Guangdong Province, have a rather spectacular wage rate, nearly 2000 RMBs per year.

The statistical evidence supports the assertion that the economic liberalization policy in effect since 1978 has increased the extent of interregional disparity. We have found that great wage differentials exist, even among the relatively prosperous port cities. Wages in the highest-income city may be as much as 2.5 times higher than that of the lowest-income cities.

The great extent of interregional inequality has led to much interregional migration. In the past, the PRC has controlled and directed population movement, and governmental approval was required in order for an individual to migrate.\textsuperscript{20} The policy has been successful in controlling interregional population movement. However, it will be very difficult to continue this administrative practice as the volume of rural-urban migration increases. Inevitably, the continuation of this policy could lead to the collapse of the household registration system in China. Many young in-migrants have to hide their identities in the cities, and become the members of the so-called “Black Households” (hei hu) — so-called due to their identification with crime and delinquency.

Official data reveal that despite the deliberate efforts of the policy makers in Peking the problem of interregional disparity is still very serious. Most of the human and physical resources are still concentrated in the three largest metropolises. The youth rustification program does not appear to be effective. Furthermore, the recent economic liberalization program seems to accentuate the extent of interregional disparity. The living standard in some port cities is outrageously higher than that of the average Chinese in the hinterland.

\textit{Relative Deprivation and the Student Movement}

Whereas social inequality has become a major problem in the PRC, undeniably, social inequality was already a serious problem in China before the Communist takeover. Prior to 1949, Western colonization, the Japanese invasion, internal political corruption and war-

Figure 2: Average Annual Wage in 13 Port Cities
lord conflicts compounded problems of poverty and social inequality. The Communists' promise of a stable society and social equality was quite appealing to ordinary Chinese. Under the Communist rule, various programs were implemented. All industrial and agricultural enterprises were nationalized and redistributed. Greater social equity, at least in terms of the workers' pay scale, was apparently achieved. Our data in the previous section show that the Gini Coefficient in the PRC is roughly 27 percent, which is slightly lower than the comparable figures in other East Asian societies.

For several decades the Communists took pride in their achievements. Propaganda in China constantly boasts of the "Superiority of Socialism." (she hui zhu yi de yu yue xing) Their monotonic theme has been that the Chinese standard of living has been drastically improved under the Communist regime. Those who were starving under the Nationalists now have enough to eat; those who were slaves under the Nationalists are now free men. Pre-war Nationalist China is a constant "reference group" employed to sustain the belief that China has improved under Communism.

As the statistical data in the previous section have shown, the standard of living of the Chinese people was almost stagnant from 1953 to 1983; the annual growth rate was only about 0.5 percent. On the other hand, economic progress outside the Iron Curtain has been phenomenal. The increase of the standard of living was as high as 6 percent in the United States. In Taiwan, the annual growth rate was even higher, about 9 percent per year. Since 1976, people in China have been able to see and compare themselves with the outside world. Is Socialism really superior? Why is the economic achievement of Taiwan better than that of the Mainland? Some people have asked further: if Taiwan can improve, why is it that we cannot?

The experience of relative deprivation is a recent phenomenon in Mainland China. Previously, being poor could be something socially accepted, if not honored. The Proletariat class members, such as the poor peasants and laborers, were glorified and given such social privi-


leges as sending their children to college.\textsuperscript{24} Under these social conditions, most people were content with what they had, and the society could remain stagnant and tranquil. However, after 1976 social conditions changed. Two important national goals under Deng Xiao-ping have been to liberalize the internal economy, and to open the economy to other nations. (due nie gao huo; due wai kai fang)\textsuperscript{25} Under the open-door policy people have much more contact with the outside world. Their vision is enlarged, and they want their living standard to be comparable to other Asian countries, if not the Western countries. Taiwan's success in economic growth is undoubtedly an enviable referent.

Most importantly, the tremendous interregional inequality compounded the public sense of relative deprivation. Under the economic liberalization policy, local communities are encouraged to compete and achieve their own economic prosperity. Deng Xiao-ping's ambitious economic target of "quadrupling" per capita income (fan-liang-fan) legitimizes the ruthless pursuit of local economic development. As our statistical data in the previous section have shown, the average worker in Shenzhen is paid about 2,000 RMBs, while that of Wenzhou is only paid 800 RMBs. Worst of all, the average rural worker's income is only about 200 RMBs. (All statistics are based on 1984 values.) Such dramatic economic differences inevitably create social tension. Thus, the reference group of the Chinese people is not only the outside world, but also those rapidly developing economic areas within the PRC. Undoubtedly, the feeling of relative deprivation among the Chinese people is now stronger than before. Ironically, forty years ago the Communists exploited the public sense of relative deprivation in order to gain power, but now their own economic policies contribute to heightening it.

The policies implemented since 1976 and the sense of relative deprivation they have fostered generate rising legitimate expectations and continued structural blockage.\textsuperscript{26} The Communists have not drastically relaxed their totalitarian control of the society. One of the most obvious structural blockages is the restriction of free interregional movement.\textsuperscript{27} If human resources cannot be freely adjusted to the market demand for labor, the economy undoubtedly will become ineffi-

\textsuperscript{24} Kraus, Class Conflict in Chinese Socialism, Chs. 3 and 4.
\textsuperscript{25} See Time Magazine's cover story of "China" on January 6, 1986, Deng Xiao-ping as 1985 Man of the Year.
\textsuperscript{26} Morrison, supra note 22, p. 680.
cient and economic development will encounter a bottleneck. Thus, the freedom of population movement is not the most serious social issue in the PRC today. Rather, the most serious structural blockage is bureaucratic suffocation. Political totalitarian control has never been lessened under Deng’s rule. The so-called “Four Principles” [as enunciated in the 1980 Constitution: Socialism, People’s Democratic Dictatorship, Marxism-Leninism and Mao-Zedong thought and the leadership of the Chinese Communist Party] are still steadfastly upheld. In local communities the Communist cadres’ corruption and paternalistic attitude often agitate the public, which was precisely the reason that students in Chinese Technological University staged their first demonstration on December 5, 1986. What they asked for was simply the freedom to choose the political candidates in their local election of People’s Representatives. For nearly 40 years, the Communists have not permitted free elections — which they, like other Communist governments, have labeled as “bourgeois democracy.” The exact number of candidates in elections of People’s Representatives is chosen by the Party to fill the same number of positions. The people have the right to “approve” the candidates.

The student demonstration became a formidable social movement, spreading to Shanghai, Peking and another ten provinces. The students expressed their discontent with slow economic growth, unfair economic privileges, and the incompetence of the Party bureaucrats. They dubbed China’s current political system as the practice of “eunuch democracy.” Their ultimate concern is to encourage political liberalization in China. But political liberalization is seen as undermining the legitimacy of Communist control, and thus necessarily eroding the foundation of totalitarian rule. The power of the gentlemen in the Politburo would be threatened under a liberalization policy. The Communist leadership steadfastly upholds the Four Principles, claiming the supremacy of the Communist Party and the superiority of Socialism. The Party chief Hu Yao-bang and his friends in the liberal camp were purged. Currently, the internal power struggles inside the PRC may have just begun. So-called “bourgeois liberalism” is under vigorous attack.

28. See Fox Butterfield, China: Alive in the Bitter Sea, supra note 11.
29. For details, see Andrew Nathan, Chinese Democracy, supra note 4.
30. The detailed documentation of the student movement can be found in various issues of China Spring, an official publication of Chinese Alliance for Democracy.
CHAPTER 8

1986 YEAR-END STUDENT DEMONSTRATIONS IN THE MAINLAND: CAUSES AND IMPLICATIONS

John F. Copper

INTRODUCTION

On December 5, 1986, a thousand students at the China Science and Technical University in Anhui Province in south, central China organized a protest demonstration. Four days later students at Hefei University, then in Anhui, then in Wuhan (site of the beginning of the revolution that overthrew the government of imperial China) and Shenzhen (one of China's export processing zones) took to the streets.¹

The demonstrations soon spread to other cities. From December 19 to 22 four days of protest demonstrations in Shanghai brought as many as 50,000 people to the streets. Violence erupted: Cars were overturned and burned and a number of people were injured. The police took action to quell the protest, including making arrests—possibly as many as two hundred.²

The government declared a media blackout during the Shanghai demonstrations to keep them from spreading from other cities. In the meantime, in Beijing, laws were enacted requiring demonstrators to get a permit five days in advance before holding a demonstration. But this didn't stop 3,000 students from marching on December 29, on several university campuses in China's capital.³

At almost the same time pro-democracy demonstration marches were staged in Nanjing, Tianjin and Suzhou. By the end of the year a dozen or more of China's large cities had witnessed protest demonstrations, marches and parades.

The demonstrations started as a protest against the selection procedure of candidates to the Provincial People's Congress in Anhui. Students complained that the process was "undemocratic" and that "without democracy there could be no modernization of China." But

². See "We Will March," Time, January 5, 1987, pp. 50-52.
as the demonstrations spread to other cities they assumed many new forms and objectives. They generally espoused "democracy"—though there did not seem to be a standard definition or understanding of what that meant or how it might be translated into changes in the system. Initially most, perhaps nearly all, of the demonstrators were college and university students. But by the time the demonstrations spread to Shanghai they were clearly no longer just student protests. Others, including workers, joined in.4

When the demonstrations began the government's position was one of leniency. In fact, concessions were made to protesting students. But that soon changed. Police began to carry video-cameras to record on tape the demonstrations, obviously to intimidate participants and to scare away others that might join. Arrests were made. The government issued warnings. Newspapers began to publish comments stressing the dark side of the demonstrations; some compared them to Red Guard activities during the Cultural Revolution.5

By year's end it appeared that a combination of cold weather, examinations, police actions and government warnings had dampened the protest movement. Alternatively the demonstrations had taken their course; or the original purpose (namely democratization) had been distorted thus discouraging students who had been the igniting force from continuing.

The demonstrations were widely reported abroad. Most foreign reporters suggested that the protest might be a signal of where China was going politically. Most saw them as important, but it was difficult to define the implications in specifics because of wide disagreement as to why the demonstrations had started and why they spread. Did Deng Xiaoping start them? Or was it his opposition—to embarrass Deng? Or did they begin spontaneously?

**THE CASE FOR DENG-INITIATED DEMONSTRATIONS**

Deng Xiaoping began his career as a student in France where he learned about student protest and where he helped organize the first Chinese Communist “revolutionary” group outside of China. When he returned to China he helped organize anti-Kuomintang revolution-

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4. According to Public Security sources, workers were posing as students and at least some of the demonstrators were "hooligans with criminal records". See "Chinese Unmask Would-be Students," *Washington Times*, December 29, 1986, p. 1A.

ary activities, including student protest and demonstrations. Thus organizing students was easy for Deng. So too were using demonstration and calls for democracy against his enemies.

In 1956 Deng was Secretary-General of the Party when Mao launched the famous Hundred Flowers Campaign. Deng said later it was a good idea, even though the Party's political enemies abused it. Recently he averred that the crackdown—including his own role—was excessive.\textsuperscript{7}

In the late 1970s when Deng was vying for power with Mao's handpicked successor, Hua Guofeng, he organized a "democratic" movement known as Democracy Wall—named after a wall in Beijing where big character posters were hung calling for more freedoms and democracy. The movement succeeded in throwing Hua off guard, and, according to many analysts, was the beginning of Hua's demise. In short, Deng rose to power in the late 1970s and became Mao's successor using pro-democracy, protest demonstrations.\textsuperscript{8}

Recently Deng has faced serious problems. His modernizations have bogged down, apparently because of opposition within the Party and the government. Because his opposition controlled much of the middle and lower echelons of the Party and government Deng had to try to outflank them. He called for more democracy, including open elections with more than one candidate for each office. But to implement this he needed public support or at least needed to give the impression he had it.

Because Deng had successfully taken steps to rebuild China's education system (after it was decimated during the Cultural Revolution) and had favored students and intellectuals in his modernization efforts, he probably perceived that the could trust the students. Clearly they were pro-West, pro-democracy, pro-trade and supported Deng's "open door policy" (opening China to foreign trade and investment). In short, the students supported reforms. Certainly they were not pro-Maoist or pro-left (Deng's opposition).\textsuperscript{9}

Deng may have also perceived that by not organizing student

\textsuperscript{6} See Chi Hsin, \textit{Teng Hsiao-ping: A Political Biography} (Hong Kong: Cosmos Books, Ltd., 1978), chapters 1 and 2.


\textsuperscript{8} Though Deng also used other means, most scholars believe that Deng took advantage of public protest to undermine Hua's position and to give the appearance of public support for this leadership.

\textsuperscript{9} In fact, the left has accused Deng of going too far with meritocracy and of restoring the ancient system that favored intellectuals.
demonstrations he would surrender an opportunity to the left. Deng’s Maoist opponents had apparently engineered student protests in September 1985 against the Japanese “economic invasion of China.” In December 1985 demonstrations were brewing; Deng suppressed them. In June 1986 two Beijing University students were arrested and sentenced to seven years in prison for “counterrevolutionary” activities (writing a 7,000 character manifesto calling for the overthrow of Chinese Communist Party leaders and the return to “true Marxism”—apparently meaning Maoism).\(^{10}\)

In September the Standing Committee of the 17th National People’s Congress made a decision to hold nationwide local elections in China. That decision encountered strenuous opposition from the left and apparently could not be implemented. Deng, could not get what he wanted working within the system. This, plus the fact the demonstrations began as a protest against the undemocratic means used in selecting delegates to a provincial People’s Congress seems to suggest Deng’s involvement and inspiration.

That the Chinese Communist Party had already scheduled its 13th Congress for October 1987 and political reform was to be a major issue is also telling. It was even reported that a list of Central Committee members—reformists to replace leftists—had been seen.\(^ {11}\)

Clearly more reform was in the offing. The early demonstrations seemed to confirm public support for Deng’s programs. The main themes were democracy and reform. The protests were generally orderly. This and the government’s leniency at first, may be interpreted as support or encouragement from the top for the demonstrations and expectation of more demonstrations.

Alternatively Deng may have engineered the demonstrations as a diversionary tactic. Deng had just established a stock exchange in China, had pushed for bankruptcy laws, called for competitive elections and pushed other political reforms. All of this was heady stuff and engendered uneasiness about the pace of change and what effects it may have. It fostered uncertainty if not opposition. It certainly gave his opponents on the left issues to use against Deng. In short, Deng may have sought to redirect the focus of public attention in China to something else other than his reforms. He may have wanted to confuse the leftists in the Party.

Another possibility is that Deng needed to create the impression of progress toward democracy in China in the Western media. On

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10. See footnote number 1.
December 6 a national election was held in Taiwan following the announcement that martial law would be terminated on the island. A new party had formed and a two party system. In the eyes of many Western journalists guaranteeing democracy, seemed to be evolving. Deng was being upstaged and his hopes of enlisting foreign help in pressuring Taipei to negotiate unification seemed to be evaporating. Moreover, Taiwan had been an issue used by the Maoist against Deng, who exploited Chinese nationalism while downplaying ideology. Thus Deng needed to do something.

THE CASE FOR OPPOSITION-INITIATED DEMONSTRATIONS

Deng’s opposition, the Maoist (or labelled the radical left by Deng) had similarly used student protest and demonstrations as a means to serve their ends in the past. They grew up in the same tradition as Deng in the 1920s and 30s and after 1949 launched numerous demonstrations and movements. The Maoists used student movements to get the Cultural Revolution started in early 1966 in order to weaken or distract the “rightist” and “moderate” factions opposed to Mao. Deng was in a “rightist” faction at the time and was purged.

During the Cultural Revolution the Maoist left witnessed the right infiltrate their demonstrations and the movement as a whole. They also saw Deng in 1978 use the “Democracy Wall” movement against Hua Guofeng. They probably were responsible for instigating the September 1985 anti-Japanese demonstrations in order to embarrass Deng and discredit his reforms.

In December 1986 Deng’s opposition had special reasons for taking actions to block his reforms. Some saw Deng’s reforms as running into difficulties. On the other hand the reforms had entered a second stage of development, i.e. political as well as economic. Thus Deng’s reforms may have been on the verge of a breakthrough in terms of their political impact—an especially ominous situation for the left.

There is further evidence: Anti-Deng Party and government officials had recently engaged in behind-the-scenes activities to discredit the Deng leadership. Several provincial leaders had leaked informa-

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12. Beijing had commented on the elections in Taiwan during the campaign and warned about the opposition calling for self-determination. It is also worthy of note that during the demonstrations it was reported that a plot was uncovered to establish a secret new political party and overthrow the Communist Party and at the same time charged that Taiwan’s agents were involved in the student demonstrations. See Daniel Southerland, “China Claims Secret Party South Power,” Washington Post, January 1, 1987, p. A1.
13. See footnote number 7.
tion on China’s human rights abuses to foreign journalists, publicly describing concentration camps holding political prisoners numbering in the thousands or tens of thousands. Meanwhile, Deng’s head of the Ministry of Public Security went on record as saying that there were no political prisoners in China. Public executions, forbidden by the Constitution, were photographed or video-taped and the pictures and tapes had been given to foreign reporters by Party and government functionaries (obviously anti-Deng ones).14

Maoists in the Party and government also exposed details on the scope of corruption, nepotism and malfeasance in government, blaming it on Dengist policies. And the left engaged in rumormongering about foreign influence in China and the evils of capitalism. Recently the State Auditing Administration, in what some regard as a transparent attempt to discredit Deng’s “open door” policy, gave information to the foreign press documenting over sixty thousand enterprises which had illegally used public funds (totalling nearly $2 billion) during the first nine months of 1986.15

The demonstrations in Shanghai (a Maoist stronghold during the Cultural Revolution) were clearly not exclusively student protest. Judging from foreign journalists’ interviews they were comprised of workers and other non-students (perhaps even Party and government people).16 This plus the size of those marches made it inevitable they would cause difficulty for the government and frighten or alienate the populace. The violence was probably exaggerated and there was at least one false report of violence (done to police).

The fact that many of the demonstrations lacked a defined leadership also suggests anti-Deng influence. Not having a leadership made the demonstrations less coherent, even seeming to suggest anarchy. It also made mass arrests necessary to stop the demonstrations, thereby embarrassing the government since it would appear that they were spontaneous and occurred because of widespread disenchantment with the government’s policies. Finally Deng might have to look for scapegoats among his own supporters if the demonstrations caused problems of embarrassment for the Party.17

Commentary in the press by anti-Deng and Maoist officials also gives the impression the demonstrations embarrassed Deng and under-

16. See footnote number 4.
17. This conclusion certainly seems warranted in retrospect with the purging of several officials for allowing the demonstrations to occur and get out of hand.
mined democratic reform. The left described the protest as a “denial of socialism, supporting capitalism and reflecting a demand for complete Westernization.” They portrayed them as reflecting democratic excesses and creating anarchy and lawlessness.

Several noted anti-Dengist leaders went on television and were quoted in China’s largest newspapers condemning the demonstrations. Deng Liqun, earlier removed from a top government position by Deng Xiaoping, said publicly that “some people are spreading nationalist nihilism and belittling and denying China.” Hu Qiaomu, an anti-Deng member of the politburo, stated publicly that the demonstrations reflect a need for stability and unity.” Bo Yibo described them as a “denial of the socialist system.” These comments seemed to be aimed at Deng’s reforms as much as the demonstrations.

Leftist commentators also described the demonstrators as reflecting “muddled and confused ideas” and the “notion that the democracy can be achieved without the Communist Party.” And they asserted that they were led by “a minority with ulterior motives trying to vilify the system.” The press, probably under the influence of the left, also described some of the demonstrators as vulgar and denying the “four basic principles”: the people’s democratic dictatorship, Party leadership socialism and the thought of Marx and Lenin and the teachings of Mao.

**THE CASE FOR SPONTANEOUS DEMONSTRATION**

A case can also be made that the demonstrations occurred spontaneously. Spontaneous demonstrations are not unknown in Chinese history, and there is certainly some cause to believe they were not planned.

One reason for perceiving there was a potential for protest demonstrations is the fact of economic modernization under Deng has fostered the loosening of controls to make the free market work. This has meant more freedom of movement. Capitalism has likewise stimulated individual initiative, and some of the dynamic forces behind China’s economic growth has spread into politics. Finally political liberties seemed necessary to make the economic system continue to modernize.

The fact that progress in developing a free market and a free

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economy had not been matched with parallel improvements in the political system also created what many saw as a major contradiction in the system: a capitalist economy and a communist, totalitarian polity. This contradiction, it appears, sparked political opposition and pressures to change the political system. Since the system was not adjusting by itself change had to come from outside.

Also suggesting spontaneity is the fact that the Constitution promised the right of the individual to engage in demonstrations. So too the fact that election competition had been promised and the idea of a two party system. There were even hope of genuine democratic institutions as exist in Western democracies. Deng seems to have promised more than he was delivering, or could deliver.21

In addition, the seed for protest seemed to be just below the surface. Western ideas were being disseminated freely (compared to the past) in China. A number of students trained in the West had returned. Others had learned about pluralist democracy, debate, free expression, etc. from a host of sources—including the large number of foreigners in China and visiting tourists. After the demonstrations started students told foreign reporters that information about the demonstrations they had gotten from Voice of America had inspired them.22 Voice of America may well have had some influence on the minds of those who started the demonstrations in the first place.

The fact that China experienced protest demonstrations shortly after similar demonstrations occurred in the Soviet Union and began with a similar kind of protest also seems revealing. Both countries have been undergoing a similar opening up to the West after being closed for many years. Both have faced the dilemma of trying to modernize their economies without appreciably changing their political systems while endeavoring to avoid discrediting the Communist Party (which in large part opposes greater freedoms). The fact that there have been protest demonstrations in both countries suggests spontaneity, or a form of spontaneity—China copying from the Soviet Union or its activists being inspired by what happened in the Soviet Union.23

The fact that the demonstrations began in China during the last day of the election campaign in Taiwan may also be less than coinci-

dence. Genuine democracy seemed to be in place in Taiwan. It was the first instance of a true two-party election involving Chinese people ever. That was to some at least an idea with consequences. The Taiwan election was certainly given a lot of attention in the Western press and many were knowledgeable of it in China.

Spontaneity is also suggested by the fact that the demonstrations began in a somewhat obscure and out of the way place in China. Had they been staged they would have seemingly started in Beijing, Shanghai or some other large or important city. Anhui Province is certainly not the center of China politically or economically.

CONCLUSIONS

All three of the explanations for China’s recent protest demonstrations are plausible. In fact there may be some truth to all of them. They are not mutually exclusive.

It seems highly probable that the case for spontaneous demonstrations at a minimum proves that they were easy to start, by Deng and his supporters or by the anti-Deng Maoists. The conditions were ripe. Both knew that. One or the other, or both, may have also perceived that if they didn’t launch protest demonstrations they would happen anyway, and it would be better that they are led. They may have seen it as an opportunity to take advantage of, lest the other side do it first.

The most likely scenario seems to be that they either started spontaneously and Deng and his supporters saw an opportunity and therefore supported them and guided them; or they were initially planned and carried out by Deng supporters. Certainly the demonstrations supported Deng’s policies in the initial stages. Deng seemed to lack any other means of changing the system. His opposition in the bureaucracy was entrenched and had repeatedly demonstrated its ability to block Dengist reforms and embarrass Deng and his proteges. What else could Deng do?

This being the case, it is likely that the demonstrations were quickly infiltrated, or the opposition launched their own demonstrations—just as happened during the Cultural Revolution (except in reverse, this time it being the left that pursued the right). Deng’s opponents saw an opportunity to expand the scope of the demonstrations—beyond the students that supported Dengist policies. They also saw a chance to radicalize the students to make them look like extremists promoting violence and unrest—in order to alienate the Party, the government and the populace. They also saw the breakdown of the system and law and order as issues they could exploit—Deng being the
one behind reform and change and not tough on crime. Similarly they wanted to rebuild the image and authority of the Party and this provided an opportunity to attack "anti-party elements."

In sum, China's recent protest demonstrations cannot be elucidated without an understanding of major political factions in the People's Republic of China and Deng and strong, latent anti-Deng forces. Likewise it is not possible to know the significance or the meaning of the protest demonstration without some cognizance of the change that had been going on in China, how salient that change was and the strength of the resistance to that change and even how fragile it was.

It seems unlikely that the demonstrations were entirely spontaneous. In the beginning they may have been. But that does not explain the course the demonstrations took. It also seems unlikely that the analogy with similar protest in the Soviet Union is very valid. Even though relations have improved, China is still looking to the West much more than the Soviet Union. Events in Taiwan may or may not have had an effect, but that seems as or more likely than the Soviet factor—Taiwan possibly accounting for both spontaneity and Deng's motives.

What the demonstrations seem to suggest with very little doubt is that China is in a state of unstable transition. But change needs to be sustained lest it falter. And there are forces that want that change to stop or go in a different direction.

John F. Copper is The Stanley J. Buckman Distinguished Professor of International Studies at Rhodes College in Memphis, Tennessee.
CHAPTER 9

TAIWAN'S SOCIAL DEVELOPMENTS, 1985-1986

Wen-Hui Tsai

INTRODUCTION

Much has been said about Taiwan's success during the past thirty-five years. Many Third World nations have tried modernization since the end of World War II, but only a handful of them have been able to succeed. Taiwan is one of the selected few that has succeeded. Not only has Taiwan been able to gain economic prosperity through rapid industrialization and economic growth, but also has been successful in making great improvements in the overall quality of life.

But, social change is an on-going process of transformation in all aspects of society. Taiwan cannot stand still and fall into the laurels of her past achievement; new forces are continually emerging in shaping Taiwan's socio-economic structure. The purpose of this essay is to investigate Taiwan's social development during 1985 and 1986. We will first present a statistical portrait of major social indicators in Taiwan in 1985. Then, we will discuss and analyze significant social developments in Taiwan during the past two years, with the focus on the emergence of collective social movements and the government's crackdown on serious crime. The final section of the essay will be devoted to a discussion of the developmental trend of Taiwanese society in the future.

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(125)
TAIWAN IN 1985: A STATISTICAL PORTRAIT

As statistics for 1986 are not yet available, the following statistics in Table 1 for the year 1985 will be of interest in making a quantitative impression on the social development of Taiwan.

In comparison to past development, one can find a continuous developmental trend in 1985, consistent with the past and compatible with the overall quality of life enjoyed in most of modernized nations today. It is characterized by a long life expectancy, lower unemployment rate, higher educational attainment, better health care, growing per capita GNP and a full enjoyment of modern gadgets.

MAJOR SOCIAL DEVELOPMENTS IN 1985-1986

Professor James C. Hsiung summarized the overall condition of Taiwan in 1985 as full of scandals and setbacks. Hsiung made the following observations on Taiwan in 1985:

An eerie sense of crisis, at the start of the year, hung over the open trials of the principals charged with the murder of Henry Liu, a Chinese American writer in California. Then came the collapse, in tandem, of the Tenth Credit Cooperative, a big-name savings and loan institution, and its sister investment outfit, Cathay Investment and Trust Co. A number of ranking government officials were implicated in the failures, which victimized numerous creditors. These, plus other mishaps like repeats of the coal mine cave-ins and a serious fire at the No. 3 Nuclear Power Plant, generated a momentary aura of doom that plagued almost all aspects of life, including investments and economic performance.3

Hsiung is correct in his assessment that scandals and setbacks have created a feeling of uncertainty and frustration among the people in Taiwan and have offered much food for thought for the Kuomintang’s bewildered leaders. However, subsequent developments in 1986 and a few new events in 1986 have produced far-reaching consequences, which transcend the feeling of uncertainty and frustration observed by Hsiung, in the ROC’s efforts toward building a well-balanced modernized nation. Two major developments are of particular significance: the emergence of large-scale collective movements and the crackdown on serious crimes.

**TAIWAN'S SOCIAL DEVELOPMENT**

**Table 1: Statistical Data for Selected Social Indicators of Taiwan, 1985**

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<td>Total Population</td>
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<td>1.80%</td>
</tr>
<tr>
<td>Crude Death Rate</td>
<td>0.48%</td>
</tr>
<tr>
<td>Life Expectancy</td>
<td>M 70.50/F 75.60</td>
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<tr>
<td>Unemployment Rate</td>
<td>2.91%</td>
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<tr>
<td>Education</td>
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</tr>
<tr>
<td>% of the population enrolled in school</td>
<td>25.6%</td>
</tr>
<tr>
<td>% of school children to school-aged children</td>
<td>99.85%</td>
</tr>
<tr>
<td>% of illiterate at and over age six</td>
<td>8.4%</td>
</tr>
<tr>
<td>Health Care (per 10,000 population)</td>
<td></td>
</tr>
<tr>
<td>Number of medical personnel</td>
<td>34.42</td>
</tr>
<tr>
<td>Number of hospital beds</td>
<td>36.77</td>
</tr>
<tr>
<td>Amenities (per 100 households)</td>
<td></td>
</tr>
<tr>
<td>Color TV sets</td>
<td>97.24</td>
</tr>
<tr>
<td>Refrigerators</td>
<td>98.83</td>
</tr>
<tr>
<td>Telephones</td>
<td>83.27</td>
</tr>
<tr>
<td>Washing Machines</td>
<td>78.48</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>101.58</td>
</tr>
<tr>
<td>Automobiles</td>
<td>12.18</td>
</tr>
<tr>
<td>Tourism (persons visiting abroad)</td>
<td>846,789</td>
</tr>
<tr>
<td>Per Capita GNP (US$)</td>
<td>$3,144</td>
</tr>
<tr>
<td>Ratio of highest fifth’s income to lowest fifth’s</td>
<td>4.40</td>
</tr>
<tr>
<td>Average monthly hours worked by employees of nonagricultural industries</td>
<td>199</td>
</tr>
<tr>
<td>Government Expenditures</td>
<td></td>
</tr>
<tr>
<td>% of expenditures on Education, Science and Culture in total government budget</td>
<td>19.8%</td>
</tr>
<tr>
<td>% of expenditures on social affairs and relief in total government budget</td>
<td>15.7%</td>
</tr>
</tbody>
</table>

*The Free China Journal, September 8, 1986)*
A. Reflections from Public Opinion Polls

A number of public opinion polls were conducted by various public and private agencies during 1985-1986. The results from these opinion polls reflect the attitudes and feelings of the people in Taiwan on various important issues. Five of these public opinion polls are of particular interest to us. The following summaries are arranged in chronological order.

The first is an opinion poll conducted in Taipei and Kaohsiung in July, 1985 by the Central Monthly, a magazine published by the ROC's Kuomintang. The results showed that, among the 300 Taipei residents interviewed by telephone, the urban traffic problem was the most urgent task they felt government must tackle immediately. The second most urgent task was pollution control, followed by crime control, social welfare improvement, health care, streetside flea market control and flood control. The 200 residents interviewed in Kaohsiung ranked pollution control as the most urgent task, followed by urban traffic problems, crime control, health care, social welfare improvement, streetside flea market control, flood control and illegal gambling.4

The second is a large-scale poll conducted by the Research, Development and Evaluation Commission of the Executive Yuan in December of 1985. This was a very extensive opinion poll which included interviews of 4,000 adults throughout Taiwan by trained interviewers on a series of political and social issues. The study found 0.3 percent of the sample ranked themselves as members of the upper class, 8.0 percent as upper middle class, 55.1 percent as middle class, 29.4 percent as lower middle class and 7.1 percent as lower class. The study also asked people to rate their degree of satisfaction on a number of government policies and their overall quality of life. It found 78.7 percent of those interviewed were satisfied with their current overall living conditions, 68.7 percent with the government's labor policy, 64.1 percent with the health care system and policy, 49.1 percent with social welfare policy and 30.7 percent with pollution control. The study clearly demonstrated that, although a great majority of the people in Taiwan were satisfied with their overall living conditions and believed they were middle-class members, a large number of them were dissatisfied with social welfare and pollution control policy.5

The study also asked people what important issues should be fo-

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5. Wei, Yung, "Toward the Road of Stability, Harmony, and Reform," Report
cused on by all candidates seeking public office. In ranking order of significance, they were: (1) protection on labor welfare; (2) improving police capability over crime control; (3) protection for the livelihood of farmers and fishermen; (4) strengthening social welfare policies; (5) tax reform and reducing taxes; (6) improving transportation facilities and traffic problems; (7) protecting the environment from pollution; (8) stopping economic crimes; (9) political reform; and (10) improving the livelihood of government employees, including military and teaching professionals.

The third is a poll conducted by the China Times Weekly at the beginning of 1986. It asked 48 journalists, university professors and officers from law enforcement agencies to select the ten most important domestic social news events during 1985. In ranking order, the ten most important social news events were the collapse of the Tenth Credit Cooperative; the murder of Henry Liu; the sale of cooking oil made from spoiled animal skin endangering public health; three separate incidents that caused the death of three police officers and the injury of another one; the fire at the Third Nuclear Power Plant; the mixture of contaminated corn in rice wine sold by the Provincial Tobacco and Wine Bureau; three separate bank robberies that occurred in April, October, and December; the Communist Chinese pilot’s flight to freedom; the report of the first case of AIDS; and, five suspected arsons in department stores and office buildings.6

The fourth is an opinion poll of 704 college and university faculty members in March of 1986 by the ROC Public Opinion Poll Association which showed more than 70 percent of the respondents felt crime, deterioration of the social ethic; unemployment; and, environmental pollution would be the most serious social problems facing Taiwan in the next five years. Sixty seven percent of the respondents also saw urban traffic problems as serious and 44 percent of the respondents believed that elderly welfare needed to be updated.7

The fifth relevant public opinion poll was conducted by the Times News Weekly of Taiwan in June of 1986. Questionnaires were sent to a random sample of 892 people asking them to rank the ten most urgent tasks facing the ROC government in three spheres of life: economics, politics, and social affairs. For our purposes, the ten most urgent tasks in the sphere of social affairs in ranking order were: (1)

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7. See the report in the International Daily, April 10, 1986, p.7.
crime control; (2) pollution control; (3) increased youth employment; (4) illegal gambling; (5) prostitution and sexual crimes; (6) establishing a nationwide health insurance system; (7) lowering consumption of luxury goods; (8) reforming college entrance examination; (9) establishing an independent judicial system; and, (10) improving the quality of TV programs and TV advertisement.⁸

In all of the public opinion polls conducted during the two-year period, 1985-1986, crime control and environmental pollution problems were mentioned repeatedly as the two most serious social problems in Taiwan which needed immediate attention from the government and the public. Several opinion polls also found that a large portion of the population in Taiwan was dissatisfied with the government’s inability and unwillingness to deal with these two problems. The public’s frustration over the increasing deterioration of the non-economic spheres of the quality of life finally forced it to take the matter into its own hands. Instead of relying on the government to provide solutions for these problems, people found that they had to solve these problems themselves. “Saving Ourselves” has thus become the common theme in all the protest movements during the past two years.

B. The Emergence of Large-Scale Collective Movements

Perhaps, the most far-reaching and the most significant social development during the 1985-1986 is the emergence of several large-scale collective movements aimed at protecting consumers’ rights, preserving the environment from chemical and waste pollutions and resisting the importation of U.S. cigarettes into Taiwan.

1. The Consumer Protection Movement

The Consumer Protection Movement was inaugurated in November 1980 with the establishment of the ROC Consumer Educational Foundation.⁹ It functioned as an interest group and launched several campaigns for protecting consumers from manufacturers’ abuse and for promoting awareness of consumers’ rights. During the 1985-1986, the ROC Consumer Educational Foundation and several other voluntary associations were actively involved in the following cases:

a) The case of the mixture of spoiled animal skin oil and

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processed cooking oil. The ROC's Investigation Bureau raided three underground cooking oil processing plants in Taipei and confiscated products believed to be hazardous to the public on September 20, 1985. A few days later, the Bureau disclosed a list of fourteen retail outlets which had bought products from these three producers and sold them to the public. The disclosure shocked the public in Taiwan, for the fourteen retail outlets had served 80 percent of the residents in northern Taiwan. The public rallied behind the Consumer Educational Foundation in demanding stiff punishment for those involved, including government health officials who were responsible for food inspection;

b) The boycott of Japan Asia Airways. A Japan Airlines' Boeing 747 jumbo jet crashed near Toyko on August 12, 1985 with 520 casualties. Soon afterward, one of the airplanes serving Japan and Taiwan for Japan Asia Airways, a Japan Airlines outlet, was discovered to have a hairline crack on the fitting joint of the upper rudder. Although the crack was repaired immediately by the airline, a public outcry arose in Taiwan. The Consumer Educational Foundation and other consumer groups charged that Japan Asia Airways' fleet of planes serving Taiwan and Japan were too old to be safe. They demanded the Japanese substitute newer planes for older ones. A public boycott was called by the Consumer Educational Foundation and travellers were urged to fly on other airlines. Sixty groups and organizations responded to the call and joined the boycott. The boycott was successful in forcing Japan Asia Airways to later announce a plan to fly newer planes between Taiwan and Japan;

c) The Consumer Educational Foundation announced test results in July 1986 that the rice wine made by the Provincial Bureau of Tobacco and Wine did not contain 100 percent rice alcohol. The test showed that the rice wine contained 40 percent sugar cane alcohol. The Foundation charged that the Bureau misled consumers with false advertisements and demanded that the Bureau use pure rice to make rice wine; and,

d) In August 1986 after a survey of the prices listed on the menus of most fast-food restaurants, including McDonalds and Wendy's, the Foundation charged that foreign fast-food chains in Taiwan had overcharged their customers. The foundation demanded the price be lowered to that more comparable to cost and that the price be in line with the price charged to American customers in the United States.

2. The Anti-Smoking Movement

The Anti-Smoking Movement is a consumer protection move-
ment with a strong nationalist overtones. The Republic of China and the United States have engaged in talks during 1986 on the ROC's importation of American cigarettes, beer and wine in response to heavy pressure from the United States that Taiwan to balance the volume of international trade between the two nations. Although the ROC has agreed to reduce tariffs on a number of U.S. agricultural and industrial products, to abolish export ratio requirements for car joint ventures and to open markets for insurance and fast-food chains, the United States is still putting heavy pressure on the ROC to permit the sale of American cigarettes, beer and wine.

Throughout the talks, the ROC insisted on maintaining its monopoly system on cigarettes, beer and wine. Under this system, American imports will be subject to the 185 percent monopoly tax, as are locally-made products. The United States sought a lower rate for its cigarettes, a lump sum tax per pack like that for the locally-made Long Life brand. The U.S. delegation also demanded the ROC relax its restrictions on advertising and other promotions for these products, arguing that forthcoming American imports are new entrants in Taiwan and need heavier advertising. The ROC, however, insisted that local advertisement of U.S. tobacco and wine be confined to 7,000 retail outlets, because those commodities are hazardous to consumers' health. The ROC government pointed out to the U.S. delegation that it has never allowed these commodities to be advertised on TV, radio or in printed media.

The U.S. insistence on advertisement and prolonged negotiation throughout 1986 have caused a public outcry in Taiwan. Many see the United States as dumping of cigarettes on Taiwan as an indication of American imperialism, similar to the British dumping of opium in China during the 19th century. According to a public opinion poll, 70 percent of ROC residents are opposed to local advertisement of U.S. cigarettes.

A nationwide anti-smoking campaign was organized and has gained momentum with strong supports from such voluntary associations as the Tung's Foundation, the Rotary Club, the Lion's Club, the ROC Jaycees and the Consumers' Foundation. Several seminars were held to promote anti-smoking consciousness among the people. A plan to launch an "Anti-Smoking Month" is tentatively set to be started on the day of the arrival of American cigarettes. A letter signed by a number of anti-smoking groups was sent to President Ronald Reagan on August 25, 1986, urging him "to stop pushing us to buy cigarettes which are dangerous to our health. Please stop the advertisements which very much tempts teenagers to smoke. Please print
the same warning on every pack of cigarettes as in your country."\textsuperscript{10} The ROC armed forces have announced cigarette rationing coupons will no longer be issued to members of the armed forces, and many office buildings and industrial plants have also banned smoking.

One can clearly see there is a strong sense of nationalism in the current anti-smoking movement, for people are not only conscious about their health, but also resent the U.S. intention of dumping cigarettes, beer and wine in a developing nation like the ROC as a substitute for the shrinking U.S. market. At the time of this writing, further talks between the U.S. and the ROC delegations are being scheduled. Together with other consumer protection movements, the anti-smoking movement has pushed Taiwan into a new age of collective social movements in promoting the awareness of the rights of consumers and of the necessity of a collective movement in protecting those rights. The public is now willing to rally behind a good cause for needed change. Taiwan is thus no longer a haven for manufactures, domestic and foreign, that show no regard for the safety and health of the consumer.

3. Environmental Protection Movements\textsuperscript{11}

As Taiwan has become more industrialized, water, air and land have become increasing and alarmingly polluted by deadly chemicals and industrial wastes. Several cases of hazardous industrial leaks have been reported and scores of people have been injured in recent years. Backed by an economically oriented political leadership, industrialists in Taiwan seldomly have paid attention to environmental protection and constantly have ignored protests from local residents. As people have become frustrated by the nonaction of the government in dealing with environmental pollution problems, they again began to take matters into their own hands. An islandwide "Save Ourselves Movement" is currently gaining momentum, with support not only from area residents affected by industrial pollution, but also from the general population. Street demonstrations, violent attacks at suspected plants and public speeches and written pamphlets have been increasingly used by movement participants against industrial establishments. Confrontations between law enforcement agents and demonstrators frequently were reported on the newspapers. The following two incidents are of


particular interest, for they exemplify the characteristics of these environmental protection movements;

a) The closing of the shan-huang Agricultural Pesticides Factory. The shan-huang Agricultural Pesticides Factory was located in Ta-li village in Taichung County in central Taiwan. Residents living around the factory discovered earlier in 1986 that their well water was contaminated by pesticides leaking from the factory. They first petitioned the local government for immediate improvement, but conditions remained the same. After nearly two hundred petitions to every level of the government with no success, the residents of Ta-li village decided to settle the dispute themselves. They attacked the factory, threatened the factory managers and demonstrated in front of the factory. Factory representatives finally signed an agreement with the residents on June 5, 1986 agreeing to stop the production. On July 31, 1986, the shan-huang Agricultural Pesticides Factory was officially closed permanently. This marked the first time an industrial factory was forced to close in response to demands from local residents;

b) the Anti-DuPont Movement. Perhaps the most far-reaching social movement in Taiwan in 1986 was the anti-DuPont movement set up by the residents of Lu-kang, a fishing township full of historical and cultural significance.

The ROC central government approved DuPont’s application to build an agricultural pesticide plant in the Chang-ping Industrial Zone near Lu-kang in August, 1985. However, the residents of Lu-kang and its nearby villages feared that the construction of a DuPont plant would definitely pollute local water and destroy the area’s seashore beauty and fishery. As one of the oldest communities in Taiwan, Lu-kang has a tremendous collection of cultural and historical treasures. The DuPont plant would have destroyed all of these priceless treasures.

In January 1986, 1,500 signatures were collected to petition the government to reverse its decision to allow construction of the DuPont plant. In April 1986, on the eve of DuPont’s construction of the plant, the residents of Lu-kang presented the authorities with another signed petition and demonstrated against DuPont, shouting such slogans as “We love Lu-kang. We don’t want DuPont;” “There is only one earth, and there is only one Lu-kang;” “Here comes DuPont and here goes Lu-kang;” and “Punish those officials who have taken bribes from DuPont.” In May, several symposiums and public debates were held in Lu-kang on the issue. On June 8, DuPont invited local leadership to view its safety measures at its plants in the United States. However, several local leaders turned down the invitation under heavy pressure
from the residents. A public rally was held on the same day to show the residents' determination in their fight against DuPont.

Lu-kang's anti-Dupont movement has gained nationwide support. People from all over the country joined the movement. Newspapers and magazines have had reports on the movement almost daily since its start, and college students from several universities visited Lu-kang to show their support for the movement. Early in September, DuPont announced that it would build its plant in South Korea, instead of Taiwan.

The Anti-DuPont movement is significant in the following ways. First, it was the first time that people started to block the construction of a potentially hazardous chemical plant before the contamination actually took place; it was a clear case of a preventive protest movement. Second, the movement also has involved the largest number of people working collectively and persistently in achieving a common goal for the interest of a community; no other movement so far has had such a large public participation. Third, the movement has turned successfully an isolated environmental protection movement into a movement calling for the government to shift from its all-economic development policy to a policy for environmental protection. And finally, the tactics used by the anti-DuPont movement have become a blueprint for future collective movements.

C. Crackdown on Major Crime

One of the most serious social problems in Taiwan in recent years has been the steady increase in the crime rate. Studies have shown that the crime rate has been increasing and new crime patterns have also emerged since the early 1970. As a matter of fact, crime has become so severe during the 1980 that the public has demanded immediate action from the government. In every one of the public opinion polls taken during this period on living conditions in Taiwan, fear of crime was consistently mentioned as a threat to Taiwan's modernization. Government statistics showed the crime rate in 1985 was 31.75 per 10,000 population, an increase from 27.64 in 1984. At the same time, the number of persons who committed crime was 30 persons in per 10,000 population in 1985, compared to 26.05 in 1984.

Two types of crime are particularly worsening: economic crimes

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and violent crimes. According to a government report released by the Department of Justice, there were 626 reported economic crime cases in 1985, which included fraud, bribery, smuggling and embezzlement. This is an increase of almost 90 percent from that of 1984. Among those economic crimes, the collapse of the Tenth Credit Cooperative and its sister financial institutions was the worst. The embezzlement and fraud committed by Cooperative officials left several hundred million dollars of debts which involved almost one thousand creditors. The incident also damaged the government's reputation tremendously, as several high ranking government and Kuomintang officials were implicated in the corruption scheme. It created a panic in Taiwan's economic market throughout 1985. The end result was that 15 government officials received various types of administrative sanction for their failure to carry out their fiduciary responsibilities and both the Minister and Vice-Minister of the Department of Finance and the Minister of Economics were forced to resign. In addition, 87 officials and staff from the Tenth Credit Cooperative were indicted for fraud and embezzlement and nearly 2,000 workers lost their jobs after the collapse of the Cooperative. Although there was a call for Prime Minister Yu Kuo-hwa and his cabinet to resign, they were able to remain.

Another crime that has shown a significant increase and has generated considerable public concern is violent crimes. The 1985 statistics showed violent crimes comprised 12 percent of all crimes in Taiwan. During 1985-1986, at least seven major violent crimes were committed. These included the bank robbery of the Fung-shan Credit Cooperative in April of 1985 and the bank robbery of the Land Bank of Taipei in October of 1985. Moreover, a headless female body was found at a Taipei hotel in November of 1985, a police officer was shot to death in Taipei in November of 1985, two police officers were murdered in Hsinchiu in November of 1985, a fourteen year old junior high school boy was kidnapped in Chia-yi in January of 1986 and ten campus security guards at the Chung-san University in Kao-hsuing were arrested in April of 1986.

The extensive use of firearms in these violent crimes and the heavy casualties have prompted the ROC government to give crime control a serious look. In early January 1986, Prime Minister Yu Kuo-hwa ordered the Minister of the Interior and the leaders of law enforcement agencies to develop a plan to control violent crimes. The crackdown on crime showed its first pay-off in May 1986 when the police captured three of the most wanted criminals in Taichung. Prior

to their capture, the three had been responsible for sixteen serious crimes, which included murder, extortion, robbery and aggravated assault. The inability of law enforcement agencies to track down criminals in the past has now given way to a new hope in the mind of the public that violent crimes could be controlled and that all criminals would be punished. Hopefully, the capture of these three criminals will mark the beginning of a new era in Taiwan's criminal annals that would lead to a decline in the crime rate in the future.

LOOKING AHEAD

The mood of public life in Taiwan, as Lucian Pye has described, is “a strange ambivalence in which public anxiety gives way to almost boastful self-assurance but then self doubt resurfaces.”15 Although Pye was describing the political mood, the same self-confidence and self-doubt also can be seen in the social atmosphere. Clearly, there has been evidence of scandals and setbacks, of violence committed in large-scale collective movements and of crimes committed during 1985-1986. Yet, we also see signs of positive development in Taiwan during these two years. We can reasonably expect that Taiwan's economic growth will continue and the average GNP also will be increased; the projection from the ROC Executive Yuan is that per capita GNP will reach US$13,400 by the year 2000. With accumulated national wealth, we can also expect that the overall quality of life for the people in Taiwan will be greatly improved. The final goal in the government's economic and social programmings for the period between now and the year 2000 is to make the ROC on Taiwan an industrialized and modernized nation.

The emergence of large-scale collective movements during the past two years will have even greater impact on the government's policy-making. The call for attention to non-economic development at the heart of these large-scale collective movements can no longer be ignored. The Ministry of Economic Affairs recently announced that a total of US$2.9 billion will be allocated for the installation of anti-pollution equipment in state-run enterprisers over the next six years. The six-year budget triples that of the past six years and is aimed at bringing pollution under control by 1993. Officials further noted that the ROC government will use every means to increase funds needed for anti-pollution measures and environment protection.

We will also see in the future that collective movement strategies

will spread into political movements. Public debate and street demonstrations on public issues, both political and nonpolitical, will be institutionalized. The decision, announced on October 15, 1986, by the Kuomintang to abolish the martial law and to permit the organization of political parties in Taiwan will further encourage public participation in both political and nonpolitical activity. As society becomes more and more pluralistic in orientation, Taiwan will be able to accommodate diversification with a certain degree of stability in the future, even though crime will still be a major problem in Taiwan.

Judging from past achievements and recent development in Taiwan, we are confident that the ROC will be able to move ahead in building a modern nation, characterized by economic well-being and social integration.
PART IV  INTERNATIONAL RELATIONS

CHAPTER 10

CHINA AND ITS NEIGHBORS
CURRENT TRENDS IN A HISTORIC RELATIONSHIP

Harold C. Hinton

China has always been, and always will be, a uniquely important state in East Asia by virtue of its central location, size, population, culture, technology, prestige, power (actual or potential) and recurrent surges of extraterritorial dynamism.

There is probably no thoughtful Asian today who doubts that China will play a major role in the region’s future. This perception, however, is filtered through a variety of emotional prisms. Some of China’s neighbors, especially weaker continental countries such as Mongolia, Vietnam and Burma, tend to fear it as an actual threat; India shares this view to some degree. The offshore states, and even one strong continental neighbor, the Soviet Union, generally consider China a potential or long-term threat, to the extent that its economic modernization program generates projectible power (in the twenty-first century, presumably). In some cases—notably those of Japan, Vietnam, Indonesia and India—a sense of the potential Chinese threat exists to some extent but is allied with or overlaid by a perception of China as a likely long-term rival for regional or subregional influence.

This paper, however, is primarily concerned not with the attitudes and policies of China’s neighbors, but with those of China itself. Because the subject is a complex one, the effort to make it manageable will involve avoidance both of a recapitulation of relatively well known history (including that of the post-1949 period in general) and of immersion in contemporary details that are best followed through current newspapers and periodicals.

SELF-IMAGE

As earlier politically conscious modern Chinese aspired to do, the Communists claim that China since 1949 has “stood up” after a century or so of national humiliation. They also appear to believe that
China should be spared further humiliation and should be at the minimum “more equal” than the other Asian states.

In the modern past, the main single offender against China’s national security and self-respect was by far Japan. Accumulated Chinese resentment is balanced and even overlaid in normal times by a need for good relations with contemporary Japan, mainly for economic reasons, but it can easily surface if provoked, as it has been in recent years by two developments. One is the nearly dominant position that Japan has attained as a supplier of industrial and consumer goods to China, as well as to other Asian countries. The other, more emotive, issue has arisen out of the resurgence of Japanese nationalism, the view of Japan as “Number One,” that began even before Nakasone’s premiership and has expressed itself, for example, in the famous new textbooks whitewashing Japan’s military adventures in China and Korea. It is also well known in Beijing that the centennial of Chiang Kai-shek’s birth will be celebrated in Japan in 1986 by a conservative faction led by former Prime Minister Kishi. It was from these sources, reinforced by Nakasone’s visit to the Yasukuni Shrine on August 15, 1985, that the anti-Japanese student demonstrations arose in China in the fall of that year. The authorities, especially Hu Yaobang, who had been especially active in cultivating good relations with Japan, were considerably embarrassed, but they also appear to have sympathized in private with the demonstrators.

Another serious recent emotional and political problem for Beijing has arisen in the direction of Indochina. Since 1975, the Khmer Rouge has been China’s only true client state or regime in Asia; the fact that Beijing privately disapproves of its notorious genocidal tendencies is a secondary consideration. At the beginning of 1979, Hanoi, having already outraged Beijing by “tilting” strongly toward the Soviets, invaded Cambodia with Soviet support and overran most of it. Beijing has evidently perceived this as an affront to its self-image and to its aspirations for long-term influence in Asian that it cannot afford to ignore. According, it has made a withdrawal of Vietnamese troops from Cambodia the main precondition for any major improvement of its relations not only with Hanoi but with Moscow.

**TERRITORIAL UNIFICATION**

A major objective of strong, active Chinese governments, and an important basis for their claim to legitimacy and popular support, has always been the unification of the territory perceived at a given time as rightfully belonging to the state. In the contemporary context, this means mainly Hong Kong, Macau, Taiwan and the islands of the
South China Sea. In theory, the status of such territories should not have to be negotiated with any foreign power. In practice, of course, negotiations of that kind have been conducted over the first two of the areas just mentioned; one of the reasons why this has been necessary is the fact that both Britain and Portugal are NATO members and therefore allies of the United States, whose goodwill is too important to China's security and development to be endangered under any foreseeable conditions.

The general outline of the recent Hong Kong story is well known. In 1982, the British government, elated over its victory in the Falklands, made the tactical blunder of raising the issue of Hong Kong's future with Beijing, in the hope of gaining its acquiescence in a continuation beyond 1997 of something not too different from the status quo. Beijing's sense of sovereignty and prestige was at least as great as London's, however, and the power it could bring to bear over Hong Kong was incomparably greater. The outcome, in September 1984, was an agreement (according to London) or a joint declaration (according to Beijing) that conceded full sovereignty and administrative jurisdiction over the whole of Hong Kong to China, effective in mid-1997, combined with an unenforceable pledge on Beijing's part to preserve the essentials of the capitalist status quo for fifty years after that.1 A year later, although not necessarily as part of a preconceived plan, Beijing moved rapidly and effectively to assert what it had possessed with respect to Macau for a decade or more: a de facto veto power over any action by the local authorities considered by Beijing to have political significance.2 Beijing wants to have maximum freedom of action with respect to Hong Kong in 1997, and it has shown that it is not prepared to give more than token consideration to the views of Hong Kong residents on the Basic Law (the future constitution) of the Hong Kong Special Administrative Region, as the territory will be called after 1997.

Under these circumstances, the level of general confidence in Hong Kong, including specifically business confidence, about the future of the territory has declined markedly since the relatively euphoric first year that followed the joint declaration. Beijing of course regrets this and keeps urging Hong Kong residents not to worry, because trade and investment in both directions have long since rendered

China and Hong Kong economically indispensable to one another.\(^3\) As in many other areas, Deng Xiaoping and his colleagues want to have things both ways: to act according to their political preferences without having to pay any significant price for doing so. Unfortunately for them, life usually does not work that way.

As long as the future of Hong Kong was undetermined, Macau was shielded to a degree by Beijing’s desire not to disturb the larger territory. This consideration evaporated in September 1984, and Beijing began in mid-1986 to negotiate with Lisbon an agreement that will presumably resemble, without being identical to, its predecessor over Hong Kong.\(^4\)

Taiwan is clearly a special case for several reasons, of which perhaps the most obvious is the fact that its present status reflects, not an act by some “imperialist” power in the more or less remote past, but the continuation of the sixty-year-old civil war between the Nationalists and the Communists. A detailed analysis of this problem here is unnecessary; a few observations must suffice. Beijing cannot significantly improve its slender chances of achieving the unification of Taiwan with the Mainland through political means, as it would like very much to do, simply by making a good job of Hong Kong; making a mess of Hong Kong, on the other hand, would render the reaching of some sort of agreement with and over Taiwan even more difficult than it is now. In real terms, Beijing is not likely to carry out its recurrent threats to blockade or attack Taiwan, or even Quemoy (Kinmen), for at least two reasons: the probable reactions of other powers (especially the United States) and the certain devastating effect on China’s foreign trade and modernization program. A reasonably good (neither unduly close nor hostile) state of relations between China and the United States, such as more or less exists at the present time, tends to promote both Taiwan’s security and its other interests and, paradoxically, also the chances that over the long-term its leaders will try, in spite of their present disclaimers, to negotiate some mutually acceptable arrangement with Beijing. There is no foreseeable likelihood that any future American administration will put serious pressure on Taiwan to enter into such negotiations or alternatively to declare itself “independent” (whatever that would mean in this context) of the Mainland.

There is one, and only one, serious current challenger to Beijing’s claim to sovereignty over the Parcel and Spratly island groups, the

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former of which it has controlled since 1974: Vietnam. Of the two
claimants, China is clearly in a stronger—or less weak—position to
project naval power into the Spratlys. This imbalance would probably
be reversed in Vietnam’s favor if the Soviet Pacific Fleet, especially the
units based at Camranh Bay, gave active support to an effort by Hanoi
to make good its claim to the Paracels or Spratlys.\textsuperscript{5} Given the usual
Soviet reluctance to endanger Moscow’s interests for the sake of its
allies—as shown, for example, in its failure to support effectively Bei-
jing’s various efforts to “liberate” Taiwan—behavior of this kind is not
likely. The most plausible outlook is that the competition for the
South China Sea will follow the general course of Sino-Vietnamese rela-
tions, which at present appear to be entering on an upcurve, as sug-
gested below.

**TERRITORIAL SECURITY**

Another important traditional Chinese foreign policy objective
has been the security of the state’s borders, and therefore of the inte-
rior heartland, as well. The prosecution of this objective has been
markedly constrained in modern times by the emergence of strong,
indeed dangerous, neighbors and the drawing by them of clearcut
though often disputed boundaries across areas where only ambiguous
zones had existed before.

Today China has what may be termed potentially negotiable ter-
ritorial disputes with five of its neighbors: the Soviet Union, North
Korea (over the highest mountain on the common border), Japan
(over the minuscule Diaoyutai or Senkaku Islands near Taiwan, an
issue that is not active at present although it was in the 1970s), Bhutan
(with which negotiations are now in progress) and India. At one time
or another China has settled similar territorial disputes with five other
neighbors (Mongolia, Burma, Nepal, Pakistan and Afghanistan),
mainly in the hope of preventing them from giving support to the two
main problems, the Soviet Union and India.\textsuperscript{5}

The Soviet Union made an unannounced concession in 1970 by
agreeing to the main channel (rather than the Manchurian bank,
which it had claimed until then) as the boundary along the Amur and
Ussuri Rivers; it went public with this shift in Gorbachev’s Vladivos-
tok speech of July 28, 1986. The situation with respect to the other

\textsuperscript{5} Cf. Kim Woodard and Alice A. Davenport, “The Security Dimension of China’s
Offshore Oil Development,” *Journal of Northeast Asian Studies*, vol. 1, no. 3 (September

\textsuperscript{6} Cf. Guy Seals, “Communist China’s Border Policy: Dragon Throne Imperial-
ism?” *Current Scene* (Hong Kong), vol. ii, no. 12 (April 15, 1963).
disputed border region, the Central Asian one between Mongolia and Afghanistan, is much less clear; evidently there is no agreement as yet and negotiations are continuing.

Much more important than this dispute, however, is the fact that the Soviet Union has deployed in Mongolia since 1966, and has assembled in various parts of the border region since 1969, a conglomeration of strategic and conventional military power capable of inflicting serious, perhaps mortal, damage on China and other countries within range (including parts of North America). This situation has not been materially affected, except to some degree in an atmospheric sense, by Gorbachev’s announcement in his Vladivostok speech of possible small troop withdrawals from Mongolia and Afghanistan. Regardless of its intentions, which may not be entirely clear even in Moscow, the Soviet Union remains in terms of its capabilities a serious threat, in fact the only serious threat, to China’s security and survival. Few if any responsible officials in Beijing, and certainly no military planners, are unconscious of this situation. A Sino-Soviet border clash on July 12, 1986, although apparently not very serious, has helped to keep the point clear.

It is the Soviet threat that has been and is overwhelmingly the main reason for the remarkable, although of course by no means total, improvement in Sino-American relations since 1969. Just as the United States was unable to improve that relationship until it took steps (in 1969) to reduce the extent to which it was regarded as a threat to China, so the Soviet Union will have to do the same if it really wants a good relationship with China and is prepared to pay the price; to date, it has not done this, or at most has only begun to do it.

China’s other Communist neighbors appear in Beijing as active threats to the extent, but only to the extent, that they support Soviet strategic activities in Asia.

The most critical case is that of Mongolia, which fears China but in any event has had no choice but to allow Moscow since 1966 to station offensive forces on its soil, from which they pose a serious threat to North China including Beijing itself. Clearly there is little that Beijing can do about this problem except to treat it as an important part of the Soviet threat, to whose management it necessarily devotes a great deal of attention.

Beijing has long wanted, and still wants, Pyongyang to move neither militarily against Seoul nor politically toward Moscow; it therefore tries to combine public wooing of the North Koreans with

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private support, or at least tolerance, of the American military presence in South Korea. Since the early 1980s, the always delicate implementation of this policy has been seriously complicated by two trends, interacting but opposite in direction: the establishment of unofficial relations of various kinds between China and the dynamic authoritarian South Korean state, and a marked “tilt” by the North Koreans toward their Soviet ally. Beijing’s occasional efforts to convince the world that it welcomes the latter trend deserve the comment made to the writer by a senior American official: Anyone who believes that will believe anything. Among the manifestations of this “tilt” are two developments with serious implications for Chinese security. Moscow has acquired (since early 1985) overflight rights across North Korea for its reconnaissance aircraft, which now monitor activities in the Yellow Sea area, many if not most of them in China, on a more or less daily basis. Soviet naval vessels have been granted expanded port call facilities in North Korea, and Moscow is reported to be trying to acquire actual naval facilities or bases on the western (Yellow Sea) coast of North Korea; if this should happen, though it seems rather unlikely under present conditions, the threat to Chinese security and to the military balance in the entire region could be considerable.

Apart from its claims and activities in the Gulf of Tonkin and the South China Sea, Vietnam is not really a threat to China’s security; as with India, the threat is actually in the opposite direction. Notwithstanding arguments occasionally heard to the effect that the Soviet air and naval presence in Vietnam, especially at Camranh Bay, is primarily anti-Chinese in purpose and effect, the reality is quite different. This was clearly indicated by Deng Xiaoping in a television interview of April 17, 1985, in which he said that China would raise no further objection to Vietnam’s Soviet connection, including the presence at Camranh Bay, if Hanoi withdrew its troops from Cambodia. Hanoi is of course a serious threat to the survival of the Khmer Rouge, even though not really to the security of China itself. Beijing has sent aid to the Khmer Rouge and has tried to support it by keeping sufficient pressure on the Sino-Vietnamese border to pin about 200,000 of Hanoi’s best troops to it and thus well away from Cambodia, but this has not been enough to have much effect as yet on Vietnam’s behavior toward Cambodia. Another “lesson,” like the one attempted in 1979, seems out of the question, if only because Moscow barely tolerated the first one.

China’s territorial dispute with India, in significant contrast to the one with the Soviet Union, is not complicated by a direct threat to Chinese security. The only exception was a temporary one occurring
in 1962, when Beijing felt compelled to fight in order to ensure against the cutting of a military highway linking western Tibet with western Xinjiang across the Aksai Chin plateau. Today the threat is in the opposite direction, if anything. There is a possibility, as there was in 1965 and 1971, that if India were to attack Pakistan, China would come to the support of its friendly South Asian neighbor; this possibility appears slight, however, in view of the Soviet Union’s generally strong support for Indian interests, including its tacit recognition of India’s claim to “hegemony” in South Asia.

Rajiv Gandhi’s mother believed that the Chinese attack of 1962 had caused the death of her father, and for this and other reasons New Delhi has never brought itself to accept a Chinese proposal dating back to 1960: a temporary or de facto compromise, under which China would retain control of the main disputed area in the west (principally Aksai Chin) and India would retain control of the disputed area in the east (known to the British as the North East Frontier Agency and now called Arunachal Pradesh), pending an ultimate de jure settlement presumably along the same lines. If only because of competing priorities in New Delhi, there is no convincing reason to expect a settlement of the Sino-Indian territorial dispute in the near future. On the other hand, the hostility of 1962 appears to be fading slowly, Sino-Indian border negotiations are in progress, and another Indo-Pakistani war does not seem likely.

Reflection tends to show that in matters affecting its security, Beijing has interests and policies in East Asia that are reasonably compatible with those of the United States; this refers of course to actual, not declaratory, policy. This compatibility is greatest in Northeast Asia, where the potential costs of instability are highest, and diminishes somewhat as one moves clockwise around the periphery of the Asian continent. The main apparent exception is of course the Taiwan issue, but in that case interests other than security are mainly involved, and the issue is manipulated by Beijing to some extent as a “control rod” to avoid unwanted closeness to the United States, as well as for other purposes. In the Third World beyond Asia, the compatibility nearly evaporates, because Chinese security is generally not involved and Beijing finds it useful to posture as a champion of the South against the North and both the superpowers.

REGIONAL INFLUENCE

The traditional tributary system attempted to institutionalize a Chinese claim to some degree of “hegemony” in East Asia, but its main significance since 1949 is that vague memories of it in other coun-
tries have helped to sensitize them to the possibility, or at least the theoretical possibility, of future attempts by China at regional domination. In reality, there appears to be little danger of such a development, even when China has grown stronger, absolutely and perhaps relatively, than it is today. Generally speaking, the other countries of the region are far from being paper tigers, and the superpowers will undoubtedly continue to combine significant activities of their own within the region with a strong reluctance to see it dominated by China or anyone else.

Still, even if domination or pre-eminent influence is ruled out, there remains room for an active and influential Chinese role. This would fit well with China’s tradition, self-image and likely future capabilities.

Under Mao Zedong, there was a recurrent illusion in Beijing that pre-eminent Chinese influence in Asia, or at least Southeast Asia, could be achieved on the cheap, through the propagation of Chinese-style “people’s wars.” With one important exception, all such efforts were defeated or contained by local governments and armies, with or without external support. The exception was of course Vietnam, but Hanoi prevailed in proportion as its struggle ceased to resemble a self-reliant “people’s war” and became largely a conventional one, heavily supported by the Soviet Union and China. Curiously, the very year (1965) that saw the publication, under Lin Biao’s name, of the most authoritative and enthusiastic of all Chinese expositions of “people’s war” also witnessed the beginning of its decline as a concept and as a strategy. Probably the most important, although not the only, cause of this decline was the huge disaster for China’s interests and those of its local friends (Sukarno and the PKI) that occurred in Indonesia at that time.

Since then, “people’s war” and support for it have been very much on the back burner in Beijing, even though Chinese spokesmen (for example, Deng Xiaoping during this Southeast Asian trip of November 1978) have repeatedly refused to seek favor with local govern-

8. Early landmarks of this attitude are the Chinese Communists’ message of greeting to the Calcutta Youth Conference ("... the people of China have set forth extremely valuable experience for the peoples of the Eastern countries," “Congratulations on the Opening of the Southeast Asia Youth Conference,” New China News Agency dispatch, North Shaanxi, February 16, 1948) and Liu Shaoqi’s well known advocacy of “armed struggle” and the “way of Mao Zedong” (speech at Trade Union Conference of Asian and Australasian Countries, Beijing, November 16, 1949, New China News Agency dispatch, November 23, 1949).

ments to the extent of categorically ruling out a renewal of support for it in the future. This stand is probably to be explained by a combination of principle, Leninist as well as Maoist, and a desire to hold a lever in reserve that could be used to put pressure on other governments in the future if that became desirable. This is one of those respects in which Beijing pays, probably knowingly, a significant price for its insistence on consistency.

Another major problem that has bedeviled Beijing's relations with the countries of southeast Asia is that of the overseas Chinese. The passage of time has long since confirmed the common sense impression that, generally speaking, these people are mainly concerned with surviving and getting ahead as second class citizens in their adopted countries and are in no mood or position to function actively as Beijing's agents. The slaughter of a good many Indonesian Chinese in 1965-1966, on suspicion of having supported the PKI's attempted coup against the army (Gestapu), dramatically demonstrated to all interested parties the dangers of any departure from the norm. As developments in Vietnam since 1978 have also shown, Beijing has little capability for protecting the overseas Chinese against the armies, mobs, police forces and so forth, that assail them from time to time; it is therefore in no position to demand their support and does not do so except in the most general terms. It is probably only in Malaysia, which has proportionally the largest Chinese minority in Southeast Asia, that the possibility of Beijing's intervention on behalf of the overseas Chinese seriously worries the local establishment.

The limited utility of the local Communist Parties and Chinese communities as instruments of Beijing's influence in Southeast Asia is somewhat counterbalanced by respect for China's potential power and its traditional image as the colossus of the north. For obvious geopolitical reasons, this consideration is operative more on the mainland than offshore.

Nevertheless, the post-Ho Chi Minh Vietnamese leadership "tilted" toward the Soviet Union in 1968, even before his death, in the full knowledge that this would exacerbate future difficulties with China that they expected to occur in any event after the "liberation" of South Vietnam. In 1978, Hanoi became a de facto ally of the Soviet Union, invaded Cambodia, and thus precipitated the Chinese "lesson" of February-March 1979. In 1986, however, as part of his effort to improve Sino-Soviet relations, Gorbachev began to urge Hanoi to ease its confrontation with Beijing; the chances of this appeared to increase with the death in the summer of 1986 of the hardline pro-Soviet and anti-Chinese leader Le Duan and the accession of the relatively pro-
Chinese Truong Chinh. Beijing still demands a full Vietnamese withdrawal from Cambodia but will probably have to settle for something less, such as a demilitarization of the Thai-Cambodian border, a coalition government including the pro-Vietnamese Heng Samrin regime and the easing of international pressures on Hanoi, an outcome that seems to be gradually gaining acceptance in Thailand, the front line state. ¹⁰

The Indonesian elite claims to fear Beijing and its own Chinese community, but this is for the most part a pose combining some self-deception with attempted deception of others. Indonesia, large and well protected by geography from external threats, is quite capable of crushing its Chinese community although it is restrained by the need for their economic skills. In reality, China is perceived essentially as a long term rival for influence at the regional or subregional level. Jakarta tends to favor Hanoi’s side of the Sino-Vietnamese dispute, because it views Vietnam as a valuable buffer against Chinese influence in Southeast Asia. Conversely, Jakarta is impatient with Bangkok’s perception of Vietnam as a threat to the Indochinese peninsula and of China as a necessary counterweight.

Beijing’s potential for exercising influence in South Asia is less than in the case of Southeast Asia. Its only effective partner, Pakistan, while by no means a negligible quantity, is threatened not only by India but by the Soviet Union (through Afghanistan) and is strategically very much on the defensive. In spite of its horrendous problems, India appears to be on a slow upcurve of national power and influence and is likely to be able to contain any unwanted Chinese activity south of the Himalayas with reasonable effectiveness.

In Northeast Asia, Beijing’s potential for influence is probably not much greater. Its proximity is balanced by the strength and vigor of the other actors, including the superpowers. Japan of course likes to maintain good working relations with China in order to make money. The Japanese have no intention of assuming unprofitable or burdensome commitments on behalf of China, or anyone else. Japan is not making much of a qualitative contribution to China’s modernization, and few if any Japanese wish to live next door to a modernized and powerful China. Although the South Koreans welcome their emerging unofficial relationship with China, they are certainly not receptive to direct Chinese influence, and they know that Beijing is not in a position to recognize Seoul because of the probable reaction from

Pyongyang. Some South Koreans worry that Beijing may improve its relations with Moscow and/or Pyongyang in such a way as to complicate South Korea's difficult security problem. As for the North Koreans, they are well aware of the limitations, already mentioned, on Beijing's support for their interests and currently regard the Soviets as the more useful of their two allies.

For China as for other powers, the road to influence, to say nothing of predominant influence, in Asia has never been, and almost certainly will never be, an easy one.

MODERNIZATION

For a decade before 1960, the Soviet Union and Eastern Europe were China's most important trading partners and sources of aid, technology and so forth. In the 1960s, this role was divided roughly between Japan and Eastern Europe. In the 1970s, the United States entered the picture and has become by now the most important single source of high technology and other indispensable inputs to China's modernization. China cannot really be "equidistant" between the superpowers, as its leaders, privately—not publicly—claim it to be, as long as the Soviet Union threatens its security and gives little effective support to its modernization, whereas the United States does not threaten its security and contributes indispensably to its modernization.

The importance of Japan, the newly industrializing countries (NICs) of East Asia, and ASEAN to China's modernization, although not qualitatively critical, is great in other ways—raw materials and consumer durables, in particular. China is perceived throughout the region as likely to become a serious competitor as an exporter in a decade or two; on the basis of a visit to the Chinese Export Commodities Fair at Guangzhou in October 1985, the writer regards this expectation as somewhat exaggerated. It tends to earn China respect, but its political effect is more negative than positive.

As already mentioned, Hong Kong is very important to China's modernization program, although not really as a source of high technology. Hong Kong is becoming, even before 1997, a critical de facto part of an economic complex that also includes the Shenzhen Special Economic Zone and Guangzhou and is probably the "key economic area" in China, except perhaps for the Shanghai Economic Zone.

Like most if not all other countries of the region, China will want to be included in whatever may develop in the way of a Pacific Basin Economic Community, if only because being in seems preferable to being out. But whether it will be admitted, and whether if it is, its
economy can interact effectively with those of the non-Communist participants, remains to be seen.

Since about 1979, China can be said to have been acting on the basis of a principle that can be called "economics in command." The entire leadership, differences of view notwithstanding, appears to agree that the Four Modernizations and the "open" policy must continue to be given the highest priority consistent with the ultimate value, the maintenance of Communist Party rule. Various leaders, including Deng, have said, correctly and probably sincerely, that China's modernization can succeed only within an international environment that is peaceful and stable.¹¹ On balance, if not in every respect, Beijing is likely to behave in the "foreseeable" future in ways that promote rather than disrupt international and regional stability. If it becomes the powerful modern state that Deng and others have been predicting for the middle of the twenty-first century, it will be necessary if only on logical grounds to re-examine this proposition.

¹¹ For example, "China's socialist modernization requires an international environment of prolonged peace" (Hua Guofeng, report to the Second Session of the Fifth National People's Congress, June 18, 1979, text released by New China News Agency, June 25, 1979).
CHAPTER 11

TAIWAN'S INTERNATIONAL RELATIONS*

Thomas J. Bellows

A series of diplomatic-political setbacks in the 1970s threatened
the Republic of China (ROC) or Taiwan with political, economic and
-cultural isolation. A nadir of sorts occurred when the ROC walked
out of the U.N. General Assembly on October 25, 1971. A motion to
declare the expulsion of Taiwan an "important question," requiring a
two-thirds vote, failed by a four vote margin (55 to 59, with 15 abstentions).
Taiwan's position was hurt by the fact that Henry Kissinger,
then Assistant to the President for National Security Affairs, was on
his second visit to Peking at the time the General Assembly debated
the China question. With the admission of the People's Republic of
China (PRC) to the United Nations, there were efforts to relegate the
ROC to the status of a non-country. It is no longer included in any
U.N. statistical reports. The most visible reminder of the ROC's ear-
lier membership, a marble plaque carrying a quotation from Confucius
that was a gift from the ROC, was removed in August, 1972. A New
York Times editorial pointedly assessed the absurdity of such actions:

An international statistical summary that ignores this living
reality is diminished in its authority — and so is the agency
that issues it. But the U.N. authorities have even stooped to
the Communist device of trying to rewrite history. At U.N.
headquarters here, a plaque identifying the Republic of
China as donor has been removed . . . Such petty manipulation
cannot erase the substantial contributions of the Repub-
lic of China to a quarter-century of U.N. history!¹

After the start of the Korean War, the United States was not pre-
pared to accept a Communist seizure of Taiwan, and the ROC's mil-
tary security was no longer in doubt. By 1971, however, it was
obvious that the United States had set into motion a process of accom-
modation vis-à-vis the PRC. This was evidenced by the two Kissinger

* Special thanks to my wife, Marilyn Bellows, who diligently helped in the research
and who served as a sounding board and critical reviewer of interpretations.
trips to China and the July 15 announcement that President Richard Nixon would soon visit the PRC.

Another very difficult period ensued in 1979-80, set into motion by President Jimmy Carter's announcement on December 15, 1978, that the United States would formally recognize the PRC on January 1, 1979.²

The subsequent Taiwan Relations Act, drawn up by Congress as a substitute for the weaker Carter Administration proposal, has been described as a "surrogate security treaty between Washington and Taipei."³ Continuing American arms sales and the protective umbrella implied by the Taiwan Relations Act reined in the negative consequences of "derecognition," precluded the possibility of a Taiwan diplomatic collapse, and introduced variables which have compelled Peking to be more malleable on the "Taiwan Question", or as some more correctly note, "the China issue." The ROC's forced departure from the World Bank and the International Monetary Fund in early 1980 reaffirmed that difficult diplomatic times lay ahead. International economic ties and relations, often unofficial, increasingly substituted for earlier formal diplomatic relations. Taiwan's market-oriented economy and its vigorous promotion of unofficial ties brought substantial success. Today the ROC has trade or cultural offices in approximately 40 countries with which she does not have diplomatic relations and over 20 countries have such offices in Taiwan. The apogee of the gray unofficial/official relations area is symbolized by Japan's Interchange Association and the ROC's counterpart Association of East Asia Relations, a model of sorts for the subsequent American Institute in Taiwan and the ROC's Coordination Council for North American Affairs. These unofficial diplomatic ties are reinforced and partly legitimized by official diplomatic ties with over 20 countries.

Despite Taiwan's sustained presence in the international economy, its increased interaction with the United States, and its relatively high visibility among those who are knowledgeable about Asian economic and political developments, a constant major problem is to convince more casual observers that the ROC remains viable and relevant. Following a 1986 visit to Taiwan, a Pulitzer prize winning academic and member of the Kennedy Administration wrote in a national American newspaper:

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Taiwan has long since drifted to the far edge of American attention. Its problems draw few reporters and stimulate even fewer editorials. Its cause, once the acid test for the militant right, is in eclipse, now that the Reagan Administration has chosen geopolitics over ideology and extended the Nixon-Carter policy of strengthening ties with Communist China.  

**Unchanging Principles and Changing Strategy**

Shortly after Chiang Ching-kuo became Premier in May, 1972, he outlined four "unchangeable principles" of foreign policy to the Legislative Yuan on September 29. The unequivocally anti-Communist principles included "national recovery" of the mainland. During 1979, the ROC developed a "three no policy" toward the PRC: no negotiations, no compromise, and no contacts. A year prior to the 1984 London/Peking accord on Hong Kong, President Chiang, declared: "The endless united front tricks played by the Communist bandits are, to us, futile efforts that indicate they are at the end of their tether."  

Sometimes the ROC appears unduly tied to timeworn code phrases. However, the ROC's pragmatism belies this verbal rigidity. For example, the no contacts policy following the May, 1986 hijacking of the China Airline 747 to the mainland precluded CAL from immediately contacting its PRC counterpart for return of the plane and two crewmen. Subsequent negotiations did, in fact, lead to the return of the cargo jet.  

In practice, the hard line is implemented through a utilitarian strategy of survival and growth: 1) strengthen existing diplomatic relations; 2) encourage foreign trade and foreign investment in Taiwan; and, 3) engage in "all out" diplomacy, which stresses economic, technical, cultural and educational interaction with other countries, regardless of whether or not they officially recognizes the ROC. This practical strategy has been sustained and consistent since the late 1960s.

More recently, there appears to be a further manifestation of

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5. Two of the four principles clearly implied that the ROC would not become the Republic of Taiwan, and it would not cooperate with the Soviet Union. The four principles are reproduced in Republic of China, *China Yearbook: 1972-1973* (Taipei, China Publishing Co., 1973), p. 9.
ROC political flexibility vis-à-vis the PRC allowing "dual" interaction and memberships. An analyst for the Congressional Research Service visited Taiwan in June, 1986, and spoke with observers who had "close connections to top decision-makers in the Taipei government." He summarized a formula under discussion which would permit the ROC to have official relations with any country or organization that in effect accepted a status quo which did not undermine the concept of a unified China. The three-part formula would facilitate "dual" relations or memberships:

1) It would not require Taiwan to renounce its desire to reunite China;

2) It would not require Taiwan to negotiate with the PRC;

3) It would not require that Taiwan acknowledge permanently Taiwan's separate status from the mainland.7

The hurdle, of course, is to find a designation which does not violate the ROC's sovereignty and is accepted by the PRC.

One should not presume that flexibility necessarily means an accelerated shift in policy. A recent editorial in a Korean newspaper, which appears to be greatly exaggerated, suggests this possibility.

It is against such a backdrop [Gorbachev's new flexibility in East Asia] that President Chiang Ching-kuo of Taipei has reportedly proposed unification talks with Peking. This proposal, if proven true as a Hong Kong magazine reported, marks, undeniably, a major annal in the relations between mainland China and Taiwan. The Nationalists, ever since the Communist takeover of mainland China in 1949, have shied away from any contact, negotiation, or compromise with Peking.

The reported Taipei overture follows Peking's compromise proposals. Mindful of this, the Nationalist six-point offer might be construed as being also intended for a counterbalance. Interestingly, the proposal was reportedly delivered to Chinese leader Deng Xiaoping by Mrs. Anna Chennault, widow of late U.S. Gen. Clair Chennault who led the "flying tigers" against the Japanese in China during World War II. She is also said to have played a role in arranging former President Richard Nixon's visit to Peking in

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1972.8

ROC officials, at the very least, continue making incremental adjustments in Taiwan's foreign policy.

Economic Conditioners

A major factor in the ROC's survival is its economic position and emphasis on international trade. Taiwan is in the highest decile of countries when calculating the percentage of GNP exported. Through 1984, as Table 1 shows, the role of foreign trade in the ROC's economy has grown remarkably. Significant modifications in the interdependence of the ROC and the world economy would require a major reorientation of Taiwan's entire economic structure.

A brief review of the ROC's economy reveals a shift between 1952 (1953 witnessed the first Four-Year economic development plan) and today from a principally agricultural country to diversified agriculture and industry with emphasis on foreign trade. Total foreign trade in 1952 was $303 million; in 1975 the total was $11.261 billion; and, in 1985 the total was $50.823 billion (all dollar amounts in this article are U.S. dollars). Sugar and rice alone accounted for 80 percent of the exports in 1952, while agricultural products and processed agricultural products together constituted 95 percent of 1952 exports. During 1975, industrial products accounted for 83.6 percent of the exports, processed agricultural products were 10.8 percent of the total and agricultural products constituted 5.6 percent; respective 1984 figures are 93.9 percent, 4.5 percent and 1.6 percent.9 By 1985, the ROC was the eleventh highest exporting country in the world, exceeded in Asia only by Japan.

Taiwan's economic progress since 1952 is an example which other new industrializing countries might well review. Taiwan has: (1) stressed labor intensive industry; (2) stressed labor intensive agriculture; (3) geographically dispersed industry; and (4) tied agricultural development in with industrial development, one manifestation being the emergence of a substantial agri-industrial system. 10 Taiwan is a prototype of agricultural, industrial, market and export developments

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10. In 1963, for example, processed agricultural exports totaled $149 million; in 1974 the total was $603.2 million and in 1984 the total was $1.384 billion. Dollar amounts taken
complementing one another and advancing together. The country's export thrust is particularly significant because it has involved so many aspects of the economic system and brings benefits to most elements of the population.

The economic milieu of the mid-1980s, however, poses problems. Much of Taiwan's industrial/export fortunes (unlike South Korea) are composed mostly of small, often family run manufacturing plants, and have come from the labor intensive, low-technology areas such as textiles or lower valued subcontracting and assembling. Earnings and profits have been high, but the very successes in these areas (shoes, textiles, assembly) are being challenged by the newest of the BICs (Beginning to Industrialize Countries) such as the PRC, Indonesia, Malaysia, Sri Lanka, and others.

Table 1. Percentage of GNP Exported

<table>
<thead>
<tr>
<th>Year</th>
<th>ROC</th>
<th>Year</th>
<th>ROC</th>
<th>Comparison — 1983 or 1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>8.5</td>
<td>1972</td>
<td>40.8</td>
<td>U.S.A.</td>
</tr>
<tr>
<td>1958</td>
<td>8.6</td>
<td>1973</td>
<td>47.8</td>
<td>Japan</td>
</tr>
<tr>
<td>1961</td>
<td>11.1</td>
<td>1974</td>
<td>39.8</td>
<td>France</td>
</tr>
<tr>
<td>1967</td>
<td>17.9</td>
<td>1975</td>
<td>35.1</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>1970</td>
<td>27.1</td>
<td>1981</td>
<td>49.68</td>
<td>West Germany</td>
</tr>
<tr>
<td>1971</td>
<td>33.0</td>
<td>1984</td>
<td>52.19</td>
<td>South Korea</td>
</tr>
</tbody>
</table>


The ROC’s export success has caused concern both in Taiwan and among outside analysts. Domestic savings rates are approaching 33 percent. *Commonwealth*, a Taipei business monthly, notes that November, 1985 foreign exchange reserves of $28 billion equalled the combined reserve holdings of ASEAN, Canada, and South Korea, with a combined population 19 times that of the ROC. A hesitancy or

from Board of Foreign Trade, Ministry of Economic Affairs, Foreign Trade Development in the Republic of China, ’74, p. 16; and *Ibid.*, 85, p. 15.
Taiwan's International Relations

conservatism to invest in R&D and a technically higher level of production among domestic investors means, according to the Chinese author, that "so long as willingness to invest remains low, idle capital will continue to clog the pipes." The inevitable restructuring which is in a nascent stage means that in a manufacturing workforce of 2.24 million, there eventually will have to be substantial shifts to new industries among many of the 467,000 employees in textiles and of the 300,000 workers in footwear. More than one-third of the manufacturing workforce was in textiles and footwear in 1985, two of the most internationally challenged, low wage and low technology industries.

The government's push toward high-tech and higher value-added manufacturing is making incremental but slow progress. Savings accumulation or investment in the more traditional, still profitable enterprises (rather than high risk, slower investment return, higher-tech industries) continue to dominate much private economic planning. High-tech means high risk, but more domestic investors gradually are accepting this. Most observers (ROC government, domestic and foreign analysts) agree that major changes must occur within the next ten years if the ROC is to sustain its incredible economic success to date.

Strengthening Official Interactions

During the 1970s and 1980s, the ROC emphasized strengthening diplomatic ties, cultural and educational exchanges, and commercial relations such as trade and foreign policy institutions. The trend of official diplomatic relations has not favored Taiwan. Between 1963 and mid-1975, countries formally recognizing the ROC dropped from 66 to 26 while the number recognizing the PRC went from 50 to 112. As a result of various changes during the past decade, including the recent severing of diplomatic ties with Bolivia and Nicaragua, the ROC has formal diplomatic relations with only 23 countries. Except for Saudi Arabia, South Africa, and South Korea, the countries with

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13. An article in the September 8, 1986 issue of The Asian Wall Street Journal Weekly reveals that Taiwan's average annual GDP growth rate of 7.6 percent between 1976-86 was the second highest in Asia, exceeded only by Hong Kong's 7.8 percent. See Adi Ignatius, "Asia's Boom Economies Face Tough Challenges," Vol. VIII, No. 36, p. 22.
which the ROC has diplomatic ties are of limited international significance.

Maintaining formal ties is not always easy. New governments with different agendas come to power, or existing governments change foreign policy priorities. One example is South Korea, which may have an inclination to establish diplomatic relations with the PRC, but for various reasons has not done so. The September/October, 1986 Asian Games were notable because Peking sent the largest sports delegation ever to participate in the games. It was apparent through various reports in *The Korea Herald* that these unofficial contacts are part of an effort to accelerate interaction between Seoul and Peking. The newspaper noted in one article that “non-political contacts between the two countries which do not have formal diplomatic relations have gained force recently as evidenced by the growing exchanges of sports teams.”

Occasionally the different perspectives of valued friends lead to cross-pressures which must be constantly balanced. Scientific and other useful relations with Israel (with which the ROC has no formal diplomatic ties) must be handled carefully so as not to antagonize the Saudi Arabians.

Official participation in international organizations provides a range of presence which sustains integrity and dignity. The ROC has shown considerable initiative here. These memberships and participation are a means to complement bilateral diplomatic ties and eventually may provide a mechanism to increase the number of such ties. The “Olympic formula” arduously emerged over a period of years but may open possibilities for future dual ROC/PRC memberships, though one analyst sees the Olympics as “low politics” where legitimacy/sovereignty issues were not at stake. "Low politics" formulae might, though, provide a basis for “high politics” formulae. The ROC is now a part of the Olympics as the Chinese Taipei Olympic Committee and is “entitled to participate in future Olympic Games as well as other activities sponsored by the IOC [International Olympic Committee], like every national Olympic committee, with the same status and the same rights.” The academic who studied the Olympic formula in greatest detail believes that at present the workability of this formula depends on PRC willingness. The PRC apparently decides on a case by case basis and is most flexible in the sports area.

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Professor Gerald Chan has done a membership count in the 1984/85 Yearbook of International Organizations (listing nearly 15,000 intergovernmental organizations in 1983) and concludes that the ROC was a member of 499, the PRC held memberships in 424, and as of the end of 1983, there were 132 co-memberships. 17

The ROC’s Foreign Minister Chu Fu-sung recently reiterated “a forthright declaration of an enduring policy,” that is, the ROC “should not and cannot rejoin intergovernmental world organizations by changing its identity.”18 Again, however, the ROC is nurturing mechanisms to maintain sovereign integrity without accepting international isolation. In September 1986, it was reported:

The Olympic Council for Asia (OCA) without much publicity, approved Taiwan’s application to rejoin the OCA, thus enabling it to participate in the 1990 Asian Games in Peking. Taipei’s reappearance in Asian sports will come two decades after it was replaced by mainland China in the 1974 Teheran Asiad. 19

A litmus test of sorts is the Asian Development Bank. The issue emerged in 1985 when the PRC joined the Asian Development Bank, where Taiwan had been represented since it joined in 1966 as the Republic of China. The ROC name was changed to Taipei, China, and the ROC declined to attend the ADB 1986 annual meeting until a “fair and reasonable solution” is worked out. 20 President Reagan reportedly sent an “emissary to urge Taipei to accept a compromise solution bringing China into the Asian Development Bank while allowing Taiwan to remain under the name ‘Taipei, China.’ 21 At the end of 1986, the issue still was not resolved.

U.S./ROC Relations

U.S./ROC diplomatic and military ties are discussed in this section because their quasi-official interactions are very close to being de jure. Continued American recognition once was regarded as a cornerstone of diplomatic viability. Then Premier Chiang Ching-kuo enunciated what he saw as the first practical objective of Taiwan’s foreign

17. Ibid., p. 489.
policy in the 1970s: "We shall do our utmost to maintain bilateral relations with friendly countries and especially to strengthen our alliance with the U.S." 22

Nearly eight years after "derogation," Taipei/Washington relations are sufficiently stable that the ROC leadership need not suspect there will be shifts in policy detrimental to the diplomatic, political, and security needs of Taiwan, at least under the Reagan Administration. The August 17, 1982 Washington/Peking Communiqué was criticized in some quarters as too accommodationist toward the PRC and signaled an American downplaying of Taiwan ties, including a disturbing reduction of arms sales to the ROC. 23

Prior to the 1982 statement, however, Washington notified Taipei of six principles which would be adhered to in negotiations with the PRC:

1. The United States would not agree to setting a date for ending arms sales to Taiwan;
2. American officials would not agree to prior consultation with Peking on arms sales to Taiwan;
3. The United States would not play a mediation role between Taipei and Peking;
4. America would not revise the Taiwan Relations Act;
5. The United States has not changed its position regarding the sovereignty of Taiwan;
6. Washington would not exert pressure on Taiwan to enter negotiations with Peking. 24

These six guarantees are consistently followed by the Reagan Administration and are a valuable underpinning of Taiwan's international relations. Most recently, these principles were reaffirmed at a House of Representatives Foreign Affairs Subcommittee hearing in May 1986.

One year after the 1982 communiqué, a secondary headline in The New York Times stated: "Pentagon Informs Congress of Biggest Such Deal [arms sales to Taiwan] Under Reagan Administration." 25 Arms sales were reported to be $600 million in 1979, the first year of "normalization." Fiscal year 1983 sales were projected at $800 mil-

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22. Free China Review, XXIV:10 (October, 1974), p. 16. This strategy was reiterated in conversations the author had with government officials in Taipei in the mid-1970s.
24. Ibid.
lion (a supposed reduction since 1979 because of inflation). Actual dollar sales have decreased $20 million annually since FY83.

The dollar amounts and reductions are unacceptable to the PRC. The ROC's principal concern is the quality of sales, manifested especially by the F-5E co-produced by Northrup and Taiwan. The United States had announced in January 1982, that it would not sell the ROC aircraft more advanced than the F-5E, a plane that has serious limitations and is progressively less valuable vis-à-vis mainland China. Today, Taiwan (with a critical measure of unofficial American input) is developing a sophisticated, "high-performance fighter aircraft to meet the threat posed by the People's Republic of China."²⁷

The prototype fighter will fly in 1989 and production/delivery of the aircraft will begin in the 1990s. General Dynamics, Garrett Corporation and Lear Siegler International are cooperating in the development of the new plane. The ROC reportedly is spending $350 million a year on this program, much of it in the United States. American officials strive to stay uninvolved and one official explained: "This is not a U.S. program. The U.S. does not manage the program, directly or indirectly."²⁸

The core of formal diplomatic recognition, the continuous, though changing nature of official participation in international organizations, plus the United States and Japanese relationships have sustained the ROC as a viable and significant international entity. Taiwan's diplomatic policies are surprisingly successful despite adverse circumstances.

Trade and Investment

International trade and investment are important in the development of Taiwan's economy. They also are influential in maintaining ties with countries recognizing the ROC and facilitating interaction with countries which do not recognize Taiwan. Taiwan's visibility and sovereignty are relevant to various private groups and organizations throughout the world. Wide trade contacts and substantial international investment should help persuade non-governmental groups and also governments that useful purposes are served if Taiwan maintains its sovereignty.

²⁶. Ibid.
²⁸. Ibid.
Trade

Table 1 indicated the predominant position of foreign trade in Taiwan’s economy, and suggested this degree of dependence was among the highest in the world. Recent increases are phenomenal. Spectacular increases began in 1970 when total trade was $2.952 billion as compared to $12.620 billion in 1974, $39.544 billion in 1980 and $52.416 billion in 1984.29

The oil crises of the early mid-1970s contributed to the largest trade deficit Taiwan ever experienced—$1.327 billion in 1974. The deficit was cut in half by 1975 ($643 million) and since then trade has shown a consistent surplus. A favorable balance peak of $8.497 billion was reached in 1984.30 As a market-oriented, free economic system, Taiwan’s policies and orientations are generally congruent with democratic, industrial societies. This has facilitated its movement in the international system. A ROC official notes that today Taiwan is an “upper middle-income economy, which trades mainly with the industrial economies and maintains a close trade relationship with upper middle-income economies.”31

The ROC’s economic orientation and relationships have allowed it to associate with the “right” countries as well as have caused its economic success. Dependence on exports for economic prosperity has some drawbacks. Over-reliance on foreign trade has concerned top officials for over a decade. Witness then Premier, now President, Chiang Ching-kuo’s 1974 statement that Taiwan’s “economy cannot depend wholly on exports and our domestic market is yet to be developed.”32 A long-time observer of the ROC observes that “under present conditions for Taiwan’s GNP to grow, it is necessary for exports to rise nearly two and one-half times faster.”33 He notes what has been referred to in an earlier section, that there will need to be a higher technology, higher domestic value added product in the future. Currently the heavy importation of intermediate products and raw materials results in a lower unit value-added item being exported. This must change to remain internationally competitive and to nurture a viable

30. Ibid.
domestic economy.\textsuperscript{34}

Sometimes, though, we overlook how rapidly the ROC has entered the international economic area. One example is China Airlines. CAL’s first international flight (Taipei/Saigon) began in 1966. Flights to Honolulu, San Francisco and Los Angeles were initiated only in 1970-71. An around-the-world network was set into motion with flights to Amsterdam and New York in 1983, and completed with the 1984 inauguration of New York/Amsterdam flights. The rise of the ROC’s international presence has been nearly meteoric.

Trade diversification has been a Taipei objective for well over a decade. This would reduce the ROC’s dependence on a few countries. There has been diversification in terms of dollar amounts, but in percentage distribution the data is less encouraging, as shown in Table 2 below. In 1952, Japan and the United States provided 67 percent of Taiwan’s imports (the former 44.7 percent and the latter 22.2 percent) and took 56 percent of its exports (52.6 percent to Japan and 3.5 percent to the United States.)\textsuperscript{35} The percentage share between Japan and the United States has adjusted over the years, but the excessive percentage concentration on the two countries remains. Trade with Europe has increased in dollar amounts, though not in percentage terms, and total trade with Asian countries other than Japan and Hong Kong continues to reflect a percentage decline in exports. Trade with the Middle East, Africa and Latin America, for example, came to 13.6 percent of 1984 trade.

An especially bothersome problem has been export dependence on the United States and the enormous trade surplus with the United States which, taking 1976 as a starting point, has exceeded Taiwan’s total trade surplus each year. In 1965, the United States absorbed approximately 21 percent of Taiwan’s exports; this had climbed to 38 percent twenty years later. Taiwan’s trade surplus in 1985 is almost five times the $2.087 billion surplus generated in 1980. Put in comparative terms, between 1979-83 the Japanese share of American imports increased 24 percent, South Korea’s grew by 42 percent, while the ROC’s rose “a whopping 86 percent”\textsuperscript{36} The distribution of trade also needs to be modified. U.S./ROC trade totaled $19.5 billion in 1984 and Taiwans exports to the United States constituted 76 percent of that trade. For the first seven months of 1986, U.S./ROC trade is up 15 percent over 1985, and ROC exports as a percentage of the total

\textsuperscript{34} Ibid.
\textsuperscript{35} Industry of Free China, Vol. XIX, No. 6 (June, 1963), pp. 110-15.
### Table 2. ROC's Major Trade Areas by Percentage of Total Exports/Imports

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.A.</th>
<th>Japan</th>
<th>Europe</th>
<th>Asia</th>
<th>Total ROC Exports in Billion $</th>
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<tbody>
<tr>
<td>1963</td>
<td>16.4</td>
<td>31.7</td>
<td>8.6</td>
<td>35.9</td>
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<td>1966</td>
<td>21.8</td>
<td>24.0</td>
<td>9.7</td>
<td>34.9</td>
<td>$.54</td>
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<tr>
<td>1969</td>
<td>38.0</td>
<td>15.0</td>
<td>9.9</td>
<td>26.3</td>
<td>1.05</td>
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<tr>
<td>1972</td>
<td>41.8</td>
<td>12.3</td>
<td>11.3</td>
<td>18.9</td>
<td>2.99</td>
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<tr>
<td>1973</td>
<td>37.4</td>
<td>18.4</td>
<td>12.9</td>
<td>17.0</td>
<td>4.48</td>
</tr>
<tr>
<td>1974</td>
<td>36.1</td>
<td>15.0</td>
<td>14.6</td>
<td>17.5</td>
<td>5.64</td>
</tr>
<tr>
<td>1975</td>
<td>34.3</td>
<td>13.1</td>
<td>15.0</td>
<td>19.2</td>
<td>5.31</td>
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<tr>
<td>1980</td>
<td>34.1</td>
<td>11.0</td>
<td>15.8</td>
<td>17.7</td>
<td>19.81</td>
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<tr>
<td>1984</td>
<td>48.8</td>
<td>10.5</td>
<td>10.0</td>
<td>14.6</td>
<td>30.46</td>
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<tr>
<th>Year</th>
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<th>Europe</th>
<th>Asia</th>
<th>Total ROC Exports in Billion $</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>41.7</td>
<td>29.7</td>
<td>7.2</td>
<td>7.7</td>
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<tr>
<td>1966</td>
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<td>9.7</td>
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<td>21.6</td>
<td>41.5</td>
<td>9.1</td>
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<tr>
<td>1973</td>
<td>25.1</td>
<td>37.6</td>
<td>12.3</td>
<td>12.4</td>
<td>3.79</td>
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<td>1984</td>
<td>23.0</td>
<td>29.3</td>
<td>10.8</td>
<td>10.3</td>
<td>21.96</td>
</tr>
</tbody>
</table>

Trade have inched up to 78 percent.\(^{37}\)

There are various reasons preferred for the ROC's trade surplus, some of them a source of friction between the two countries. An American background paper which drew on the American Institute in Taiwan noted that "economic conditions alone are not responsible for our overall trade deficit with Taiwan. Many of Taiwans' trade practices and regulations are restrictive in nature and represent many obsta-

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cles to U.S. exports.”38 A news story 19 months later reported in 1985 that prolonged negotiations between Taipei and Washington “earned Taipei an important respite from U.S. political pressure” to adjust trade policies. Deputy Press Secretary Larry Speakes described Taiwan’s opening market moves as “the kind of response the U.S. would like to see from other countries.”39 Reports in 1986 suggest, however, that all problems are not ironed out. During early 1986 the Reagan Administration began investigating the newly approved Toyota automobile plant to be built in Taiwan. This plant might violate a section of the U.S. Trade Act designed to counter performance requirement abuses. Reportedly Toyota agreed to export 50 percent of its Taiwan output in the 1990s, much supposedly destined for the United States.40 A few months later, another trade problem surfaced. The Commerce Department declared that Taiwan, Japan and Brazil had “dumped carbon steel butt-weld pipe fittings” in the United States.41

An important cause of ROC’s trade success is the fall in the value of the U.S. dollar. Because the NT dollar is tied so closely to the U.S. dollar, depreciation of the American dollar has facilitated exports outside the United States while it has not brought about a cost increase for made-in-Taiwan American imports. Pressures to appreciate the NT dollar vis-à-vis the U.S. dollar are being resisted, although there is some pressure to reduce the American trade imbalance of more than $10 billion. An analysis of various arguments and ROC proposals surrounding the efforts to increase the value of the NT dollar appeared in the Free China Review published in Taipei. The author of that article warned that should the U.S. dollar come “to be quoted at NT $30, as some U.S. interests reportedly demand, an estimated 90 percent of all ROC industry would be shut down.”42

The ROC’s trade successes have brought about problems that did not exist in 1980. These require new solutions and not just fine-tuning old policies that have worked so well in the past. Trade diversification, for example, will require the development of Japanese and Korean style trading companies, an undertaking that has not been very successful to date.

41. Ibid., August 11, 1986, p. 2.
Investment

International investment provides needed economic input, technical skill, and marketing networks. It also is a reason that many private groups have a special interest in Taiwan's sovereignty. Overseas investments from 1952 to 1984 totaled $4.5 billion.\[^{43}\] Overseas Chinese provided less than 30 percent of the total figure, with the balance classified by the ROC as "foreign investment." Over 90 percent of the external investment has come into Taiwan since 1969. Cumulative investment figures through 1985 reveal $1.77 billion has come from the United States and $1.18 billion has been invested by the Japanese.\[^{44}\] External investment in 1975 was slightly over $118 million, with $70.9 million classified as foreign investment and $47.2 million from overseas Chinese sources. American investors provided 58 percent of the total 1975 "foreign investment" and the Japanese share in 1975 dropped sharply to 19.7 percent, as compared to 35.7 percent in 1974. External investment in 1976 was $150 million, 27 percent above 1975. The dollar value of external investment continues to vary year to year, but there is a discernible growth pattern. Overseas Chinese and foreign investment was $403 million in 1983 (Overseas Chinese contributed approximately $30 million) while in 1984 total overseas approved investment climbed to $555 million.\[^{45}\]

The dollar magnitude of the above figures should not suggest that external investment has provided a decisive percentage of Taiwan's domestic investment. One economist concludes that, despite the annual growth in external investment, it accounted for only 2.9 percent of gross domestic capital formation between 1976-81.\[^{46}\]

International investment does, however, facilitate Taiwan's domestic economic development as well as build the distribution and marketing ties that a trading nation like the ROC requires. Such investment also manifests political commitment and confidence by pri-


\[^{44}\] The Asian Wall Street Journal Weekly, September 22, 1986, p. 6. Japan all along has been determined to facilitate and expand the level of commercial transactions between the ROC and Japan. More than two years after Japan recognized the PRC, Foreign Minister Miyazawa explained to the Diet: "There will be no change in our policy of maintaining business-like relations with Taiwan." Japan Report, Vol. XXI, No. 5 (March 1, 1975, Special Supplement), p. 2.


vate groups which contribute to the future political survival of the ROC.

**ROC Relationships with Countries Not Having Diplomatic Ties**

ROC government officials point out that Taipei has economic, cultural, and educational ties with over 110 countries. When President Chiang reaffirmed the ROC’s intentions “to maintain relations with friendly countries,” he did not limit friendly countries to those that had not recognized the PRC. He declared: “more than a hundred countries continue to maintain economic, trade, and cultural relations with us. We shall never permit the Communists to succeed in their sinister designs to isolate us.”

A rank-ordering of Taiwan’s top ten trading partners in 1984 — the United States, Japan, Saudi Arabia, Hong Kong, West Germany, Australia, Canada, Singapore, the United Kingdom, and Kuwait (ranging from $19.909 billion to $875 million total trade) — reveals that only one among the “top ten,” Saudi Arabia, maintains formal diplomatic relations with Taipei. West Germany, for example, recognized the PRC in October 1972, yet this did not curtail ROC/West German commercial interaction. West Germany remains Taiwan’s leading European trading partner. Trade between the two countries tripled between 1972 and 1975, with a trade total of $687.8 million in 1975; Germany enjoyed a favorable balance of $55.3 million. By 1984 total trade came to $1.636 billion, with Taiwan earning a $100 million surplus.

An interesting Asian case is Indonesia, which has recognized the PRC for more than two decades. Following the decimation of the Parti Kommunis Indonesia in 1965-66, links between Jakarta and Taipei began to evolve. Trade climbed from a total of $100,000 in 1963 to $344 million in 1975 to $769 million in 1984. The largest trade increase (78.6 percent) occurred between 1972-73. Most ROC contacts in Indonesia are handled through the Chinese Chamber of Commerce, and the Indonesian Chamber of Commerce to Taipei issues visas. Figures on private ROC business investment in Indonesia are difficult to secure, but are substantial. Many of these investments are joint efforts with Indonesian military/business elites. This latter transnational movement of funds and ventures is a factor which had led some elements in the present Indonesian leadership to oppose re-

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opening ties with Peking, though formally Jakarta still recognizes the PRC.

Japan recognized the PRC in September 1972. Within two months, Taipei and Tokyo staffed organizations in the opposite capitals which were responsible for practically the identical work previously handled through the embassies. Taiwan opened the Association of East Asia Relations in Tokyo and Japan established the Interchange Association in Taipei. Key personnel in both organizations were either retired diplomats or diplomats on leave. Both the total volume of trade and Japanese investment have increased since 1972. Trade between the two countries stood at $9.628 billion in 1984, nearly five times the dollar volume of bilateral trade in 1974. 50

Other than the American case discussed previously, the Japanese case is the most notable example of linkages being sustained despite a political rupture. Appropriate arrangements, for example, have been made with the Philippines and Thailand and with numerous European countries. One study lists eight West European trade representatives established in the ROC between 1979 and 1983. 51 Several Asian and European trade offices or other offices such as the Indonesian Chamber of Commerce to Taipei and the Hellenic Organization for the Promotion of Exports in Taiwan also serve as foreign visa offices.

Taiwan’s energetic foreign relations, which include the active participation of government departments such as the Ministries of Foreign Affairs, Economic Affairs and Education, as well as many private groups, has been remarkably successful to date. Taiwan is not internationally isolated despite diplomatic setbacks.

Taipei/Peking Relations

Over the years, though less frequently today, Peking announced its determination to “liberate Taiwan.” One example is Chou En-lai’s statement during the first session of the Fourth National People’s Congress in January, 1975, when he spoke of “the noble aim of liberating Taiwan and unifying the motherland.” 52

ROC officials must always be alert to political and cultural appeals from the Mainland. Offers of autonomy and the right to retain Taiwan’s socio-economic system, “one country, two systems”, appar-

52. South China Morning Post, July 12, 1975, p. 2.
ently has elicited some interest among a few persons in Taiwan. It is a tactical appeal by Peking that goes back many years. A statement delivered in 1973 to government office-holders by a Ministry of Defense official is one example of efforts by the ROC to educate middle-level government people:

... there are other leftists who have gone even a step further in following the words of Chou En-lai, by spouting off conditions for "unification" such as "Taiwan can be made a special autonomous region, be exempt from taxes a few years, and its industry and business allowed to operate, with a guarantee that present living conditions can be maintained." This is the tune harped on by those off-key Chicom mouthpieces. Look at the autonomous regions on the mainland. Aren't they good examples? And what about that guarantee to continue business and industry? Look at what happened to "national capitalists" who remained on the mainland after the Chinese Communist takeover.53

In the mid-1970s there was an ebb in pressures to enter into negotiations. ROC officials were obviously relieved in late 1974 by earlier statements the late Chou En-lai had made at least twice to visiting Japanese delegations when he commented that the "Taiwan questions" probably would not be settled by his generation of leaders.54 As noted on the preceding page, however, the Prime Minister subsequently threatened to "liberate" Taiwan. Threats continue to be made. Hu Yaobang reportedly said in 1985 that the PRC might use force against the ROC "when its military forces were ready and fully modernized."55

Several excellent analyses of ROC/PRC perspectives on reunification have been published, and there is no need to restate these analyses here.56 Suffice it to say that interaction between citizens of the two

54. Senator Hiram L. Fong (R-Hawaii), who visited both the PRC and the ROC, reported a similar statement by Vice Foreign Minister Chiao Kuan-hua who said that "maybe a hundred years" would pass before a relationship between the PRC and ROC occurred. Congressional Record, Vol. 120, No. 164 (November 24, 1974), p. 519956.
entities has increased. There even may be unofficial “official” contacts between the ROC and the PRC. Professor James Hsiung, a visitor to both the ROC and PRC reported:

Peking knows that while contacts with Taiwan are necessary to keep its reunification scheme alive, they have to be invisible as well as substantive. Thus far Hong Kong has been instrumental in maintaining these links.\footnote{Hsiung, “The Hong Kong Settlement . . .,” \textit{ibid.}, p. 53.}

Trade is an area of contact which continues to expand because of mutual economic benefits. A \textit{Wall Street Journal} article by two staff reporters in August 1985 carried the headline, “Despite Political Differences, China and Taiwan Find Their Markets are Well Suited to One Another.” Indirect trade between the ROC and PRC, via Hong Kong, reached \$840 million through October 1985, up 2 1/4 times over 1984.\footnote{Maria Shao and Adi Ignatius, August 8, 1985, p. 26.} Hong Kong’s Census and Statistics Department indicate Taiwan’s sales to the mainland were 6 times PRC sales to the ROC. These figures do not include “some third-flag vessels which dare to sail directly across the Taiwan Strait to China.”\footnote{“The Taiwan Connection,” \textit{China Trade Report}, Vol. XXIV (February, 1986), p. 1. This two page article is a succinct yet comprehensive overview of many of the issues involved in this trade.} There are innumerable nuances and complexities, both economic and political, to trade flows between the ROC and the Mainland. Suffice it to say that as of this date trade flow is increasing, but probably represents less than 5 percent of Taiwan’s exports. As discussions leading to the return of the CAL 747 cargo plane in May 1986 seemed to show, new things can occur if flexibility benefits both sides.

Hong Kong is not only a trade conduit, it is a precursor of what might happen to Taiwan if it ever considered the Hong Kong “autonomous formula.” Half Communist and half free is unlikely to benefit the latter half of the formula. \textit{The Christian Science Monitor} reported in mid-1986 that Lu Ping, the general secretary of Peking’s Hong Kong and Macau Affairs Office warned that “party politics” would be prohibited once Hong Kong became a Special Administrative Region. He “also suggested that parties may be banned by Hong Kong’s future constitution.”\footnote{\textit{The Christian Science Monitor}, July 14, 1986, p. 12.}

The focus of their [Hong Kong residents] energy has shifted away from earlier attempts to insure that Hong Kong
Taiwan’s International Relations

will be run by local people after 1997 — a goal that pretty much has been abandoned as hopeless — to making sure that the current system doesn’t change before 1997.61

Hong Kong’s impending (probably painful) adjustments offer a warning to those who see the PRC propelling itself toward economic and political pluralism. Taiwan can benefit in the intermediate run, particularly if an anticipated stability for a few years in Hong Kong reverts to a hemorrhage of money and talent out of the colony. Moreover, the ROC could, after accelerating domestic reforms, assume some of the commercial, manufacturing, and educational/intellectual functions now carried out in Hong Kong. The ROC also can point out the need for empirical data (after the Tibet experience) and forego negotiations with the PRC until Taiwan and others can see what the Hong Kong agreement actually means in practice. This, of course, can only be judged by what occurs after 1997.

Underlying the various tactics and perspectives on both sides of the Taiwan Straits is the fact that it is much easier to pluralize a relatively small entity as compared to a large land mass such as the PRC. The considerable distance between the two systems may actually increase in the years ahead as, politically, the ROC becomes more pluralistic and the pluralist, market-oriented features of the ROC’s economic system become even more predominant.

Conclusion

Taiwan’s diplomacy and domestic developments during the 1970s and 1980s have been more successful than many thought possible. The ROC has withstood the Nixon, Ford and Reagan visits to the PRC. The success of its international relations is principally the result of imaginative policies pursued by ROC officials over the past years. Taiwan’s international relations have helped to provide the government and the political system with the confidence and the capacity to confront and solve problems.

There are, however, a number of issues confronting the ROC which will test the country’s skills until the year 2000 or beyond.

First, the PRC’s four economic zones may draw significant foreign investment and, if they begin to succeed, will be economic competitors for the ROC. Similarly, if the Primorskiy region around Vladivostok becomes a free economic region, further economic challenges will ensue. Taiwan’s creative economic policies have spawned

imitators. These imitations can be outdistanced only by moving forward with ever more creative economic responses.

Second, the ROC must strive unremittingly to maintain an important regional and international role for itself, and this is particularly true with reference to the United States. The ROC can be a leading example of free economic development complemented by democratic political development. There is increasing international competition for American attention and interaction and the PRC is a major competitor. The U.S. Ambassador to Peking, Winston Lord, stated in a recent interview:

"The relationship [U.S./PRC] has broadened greatly beyond the geopolitical incentives that brought us together. Now there are growing economic links as well as cultural, educational, scientific, and technological exchanges. Trade has gone from nothing to $8 billion a year. U.S. investment here has gone from zero to $1.5 billion."

Third, the rapid expansion and changes in the world economic system in the past 15 years, which absorbed Taiwan's economic growth, are changing. The world situation may not continue to favor only incremental change on the part of Taiwan.

Fourth, there is a limit to the American market as the principal destination of industrializing countries' exports. The era of nearly unlimited export expansion to the United States is coming to a close.

Fifth, the London/Peking accord over Hong Kong has brought a temporary stability, tentatively, but soon uncertainties will predominate. What eventually will be Hong Kong's role (or what will replace the colony) as a focus of economic and other interaction between the ROC and PRC?

Sixth, if the ROC continues to become more industrialized and living standards improve, a presumed consequence will be lower rates of economic growth.

Seventh, orderly political succession and a continuation of those policies nurturing political pluralism are important in sustaining the ROC's international support and attractiveness to the international economic community.

The ROC's well-deserved accolades over the past 30 years result from constructive responses to problems and setbacks. Problems have been turned into opportunities. There is every reason to assume these

pragmatic, responsive, adaptive policies which have proved so successful will continue.
CHAPTER 12

RECENT DEVELOPMENTS IN CHINA (MAINLAND AND TAIWAN) AND THEIR IMPLICATIONS FOR US-CHINA RELATIONS

June Teufel Dreyer

MAINLAND

In the People’s Republic of China (PRC), 1985-86 continued the reforms begun under Deng Xiaoping, but at a slower pace. It was a time of trial and error, with innovation followed by retrenchment and boldness followed by restraint. Beyond the broad slogan of economic modernization, clear patterns were hard to discern, possibly because differences of opinion within the highest level of leadership led to discontinuities in policy directions.

Economics

In 1985, policies were implemented to expand the influence of market forces on agriculture. Rather than setting mandatory purchase quotas for the peasants, as in the recent past, the state agreed to sign production contracts for grain and cotton with individual peasants. These typically involved smaller amounts than had the previous quotas, with peasants expected to sell any surplus on the free market.

The government ended its commitment to purchase at premium prices all the surplus offered to it, agreeing to purchase excess grain only if the free market price fell below the set procurement price. Nor would the government continue to purchase non-staple products, such as vegetables, fruit and meat. State-owned marketing units in cities were, however, encouraged to sign contracts with peasants to improve supplies of nonstaples in urban areas. Measures were also introduced to absorb some of the excess labor generated by the more efficient agricultural production.

Designed to promote the development of a diversified agricultural sector and encourage peasants to produce higher-quality products and make more efficient use of their land, the policies, ironically, worked so well that they generated new problems. Peasants quickly switched away from growing grain toward producing more profitable crops such as oilseeds and vegetables. The growth of rural industries was spurred by the availability of credit plus strong consumer demand, and
some peasants allowed their land to lie fallow in order to take jobs in industry. The result was a 7 percent drop in grain output.

Coming after three consecutive years of record harvest, the drop was scarcely disastrous. China became a net grain exporter in 1985, shipping out over nine million metric tons, or nearly twice the level of 1984. But the implications of the drop were unsettling to a number of people and touched off a rare public confrontation between Deng and his critics—in this case, in the person of Politburo member and economic planner Chen Yun. The leadership responded by reducing the amount of grain that peasants must provide to the state at low, fixed prices, thus enabling more to be sold at the higher, free-market prices. Peasants again reacted quickly to economic incentives: 1986 grain production is expected to be exceeded only by the record year of 1984.

Industry began 1985 with a 23 percent expansion of output, fuelled by much larger investment spending, increased wages and bonuses for industrial workers, and new policies allowing enterprises to sell overquota production at prices above government-set levels. As in the case of agriculture, progress generated new problems. It also exacerbated some familiar ones. China's foreign exchange reserves fell precipitously as a result of large purchases of materials and equipment from abroad. Energy supplies were strained and the country's outmoded transportation system seriously overburdened. Faced with electricity shortages and delays in shipment of raw materials, factories were sometimes forced to suspend production. Despite these suspensions, there were frequent reports that overuse of equipment was causing it to wear out prematurely, while increasing both occupational hazards and environmental pollution.

Official reports railed against waste, noting that too often high output had not been achieved through gains in efficiency, but rather through the use of massive inputs. Quality control, an ongoing problem for the PRC, became still more difficult, since strong demand for consumer goods and construction materials meant that factories had less incentive to maintain high standards. Not surprisingly, there was substantial inflation, officially measured at 8.8 percent but thought by independent observers to be as high as 12 percent. Party leaders be-

came concerned that rising prices would jeopardize popular support for reforms.

Recognition of the implications of these and other problems led to a central government decision to slow the pace of economic growth. A combination of fiscal and monetary adjustments and administrative controls was utilized. As with earlier decisions regarding agriculture, the policies worked too well: economic growth virtually halted in early 1986. Although officials began loosening controls in April, industrial output rose only 4.9 percent in the first half of 1986—well below the 7.5 percent target set by the latest five-year plan. Problems of waste, quality control, and inefficiency continue, and losses by the PRC's state enterprises rose 58 percent during the first seven months of 1986. Foreign exchange reserves continued to fall, dropping 13 percent in the first quarter of 1986 despite stringent controls designed to stop excessive imports.

Though remaining committed to further economic reform, the Chinese leadership is concerned with avoiding repetitions of the boom-brake cycle that has characterized recent development efforts. Wage-price reforms which would allow market forces to play a role in determining the cost of funds is one obvious solution. However, such reforms are apt to be profoundly destabilizing in the present inflationary economy, and the government will probably not attempt to implement them until it has improved its ability to use indirect levers, such as taxes and interest rates, to regulate the economy.

**Domestic Politics**

Politically, Deng Xiaoping continued with his efforts to separate the formerly interlocking directorates of party, government and army, and to replace those opposed to his views with persons who were more sympathetic to them. While most analysts viewed this as a simple case of Deng forcing his opposition out of power, one experienced China-watcher put forth an alternative hypothesis: that Deng is more concerned with establishing a political system that can accommodate dis-

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6. AWSJW, 6-7 June 1986, p. 7.
agreements within key decision-making bodies without having to resort to convulsive purges. His aim is, therefore, to set up an organizational system that will assure a consensus form of decision-making in which shifting coalitions are allowed, and in which no individual group loses all of the time.9

Whatever Deng's motivation, it is clear that the resignation of ten of the Party Politburo's 24 members and 64 out of its 340-member Central Committee in September 1985 was a major event. Their replacements tended to be both younger and better-educated. Though most analysts interpreted this as a victory for Deng,10 others pointed out that the procedure involved had been quite irregular. The decisions were the results of a Party Conference, whose members are invited at the discretion of the Party leader, rather than of a Party Congress, as required by the Party Constitution. This aroused speculation that Deng felt that he lacked broad consensus within the Party for these changes.11 It was also noted that the appointment of younger technocrats to the Soviet Politburo several decades ago had not in fact brought about the changes Western analysts had hoped for.12 And, although Mao Zedong had created a Politburo dominated by people, several of them quite young, who were sympathetic to his ideological views, both they and his policies were quickly swept aside after Mao's death.13

Deng's allegedly hand-picked "second echelon" successor leadership of Hu Yaobang as head of the Party and Zhao Ziyang as leader of the government appears likely to be supplanted even before his death. Hu Qili has been widely touted to succeed Hu Yaobang and Li Peng to follow Zhao Ziyang. Now, however, there is speculation that a "fourth echelon" may assume office instead. Qiao Shi may succeed to the top Party position,14 and Tian Jiyun's star is also said to be rising.15 Evidently, Deng's efforts to solidify a successor leadership in place before he departs have yet to be crowned with success.

12. Ibid.
However sweeping the changes in Politburo and Central Committee membership, internal political struggles continue. The issues concern not only economic reform, as noted above, but attitudes toward the “Open Door” policy toward the West, the degree to which artists and writers should be allowed to exercise creativity and the tolerance of dissent in general. A New York Times reporter who was arrested and later expelled from China during the summer of 1986 on charges of spying attributed his experience to a disagreement between Deng and the State Security Bureau; he believes that the latter, often opposed to Deng’s modernization program, had chosen to make an issue out of his case.16 And Deng Xiaoping, in a September 1986 interview with CBS reporter Mike Wallace, asserted that “whoever alters the current policies will be overthrown,” thereby reinforcing the views of those who felt that certain Chinese leaders indeed were strongly in favor of significant alterations in these reforms.17

Some of the disagreements among the top leadership may be decided not by fiat from above, but by an increasingly assertive population. Although those arrested in the 1979 crackdown on dissent languish in prison, others continue to test the restrictions, formal and informal, that they live under. In May 1986, several students at Beida, China’s most prestigious university, were arrested as they were preparing to establish a “China Youth Party” opposed to the Communist Party. They had also published leaflets and other literature criticizing the Party, government and specific leaders therein.18

A few weeks later, a crowd estimated at one thousand cornered a police vehicle, jeering at the occupants and threatening to overturn it.19 The rather minor incident that sparked this confrontation—a policeman had slapped a motorcyclist in an argument over a traffic violation—suggested the existence of more serious underlying hostility toward police authority. The 1985-86 period also saw anti-Japanese demonstrations in several cities,20 and Turkic Muslims protesting in Urumqi, Shanghai and Beijing against the use of their province for atomic testing, and demanding a more meaningful interpretation of

the exercise of their right to autonomy.\textsuperscript{21}

While urban-based protest movements are more easily documentable, it cannot be assumed that they do not exist in rural areas as well. The official Peasant Daily confirmed the existence of secret societies. Seemingly the direct descendants of the political-mystical organizations that had been instrumental in the making and unmaking of several imperial dynasties, they are officially described as

\ldots politically reactionary. Some chief and key members of these societies attack socialism and the people's democratic dictatorship, trying to "change the regime." Some of them even went so far as to appoint officials and assign them tasks to plan armed rebellion.\textsuperscript{22}

A resurgence of clan wars indicated the reassertion of yet another traditional institution which often worked against central government interest. The First Party Secretary of Jiangxi province noted recently that 7000 such cases had been reported in his province's rural areas over the past few years.\textsuperscript{23}

Some peasants have also became more sophisticated, bringing their demonstrations to the city where they are more visible. In Shanxi, peasants occupied government building and rioted in protest against the state's requisitioning of their land.\textsuperscript{24} And between two and three thousand peasants brought their economic grievances to Tianjin, staging a three-day demonstration outside government offices there.\textsuperscript{25}

In addition to the problems posed by an increasingly outspoken populace, the regime also attempted to cope with a substantial increase in corruption, much of it facilitated by economic reforms. The most spectacular of those cases publicly disclosed involved officials of Hainan Island who used money siphoned from local banks to finance the import of foreign luxury goods, which were then resold at great profit. Trying to recover the total amount involved—estimated at over $1.5 billion—would have crippled the island's economy. Moreover, not only high officials but also hundreds of lower-ranking staff members of banks, schools, hospitals, day-care centers and peasants associations were involved. In the end, punishments were rather light,\textsuperscript{26} and probably had little disincentive effect on others who were plotting similarly

\textsuperscript{24} AFP (Hong Kong), 19 June 1985, in FBIS-CHI, 21 June 1985, p. T/1.
\textsuperscript{25} AFP (Hong Kong), 20 June 1985, in FBIS-CHI, 21 June 1985, p. R/5.
\textsuperscript{26} Burns, "China Reveals Major Scandal Among Top Island Officials," \textit{NYT}, 1 Au-
deft financial maneuvers. The regime also had to cope with ongoing problems of corruption among the children of higher officials, who seemed able to operate outside the law with impunity. 27

It is unclear which direction future political reform, if any, will take. Clearly, however, democracy is not Deng Xiaoping's intent, and it is even less the goal of his opposition. Deng's actions indicate that he wants to change the way the Party works, not subject it to meaningful elections which would pose the possibility of defeat. His concept of reform appears to involve taking more care in selecting Party officials and allowing them to be more readily subject to the scrutiny of Party members. Socialist democracy, a term often used by official sources, seems to involve an easing of the Party's monopoly on economic information and allowing skilled technocrats to generate new ideas. But it does not mean giving ordinary Chinese the right to speak out against the Party.

However, as noted recently by a commentator for the Economist, China's leadership has tried before to keep change under control and failed. In 1957, Mao Zedong initially fostered the Hundred Flowers movement, then crushed it when criticism became anti-Party. And in 1979, Deng dismantled Democracy Wall after posters appeared denouncing him. 28 It is scarcely surprising that the economic reforms of the past several years have engendered pressures for social and political liberalization. It also is not surprising that leaders harbor apprehension at the consequences of such liberalization. To those charged with responsibility for providing for the welfare of over a billion persons in an economy at a fragile state of development, the thought of unleashing dissent and possible chaos is indeed frightening. What remains to be seen is whether a broader liberalization may gradually emerge, or whether the present efforts to promote change as a way of preserving the Party's authority may again run out of control and be suppressed.

Foreign Relations

China continued to pursue its independent foreign policy; its relations with other states during 1985-86 have been relatively stable. Trade with the United States and the Soviet Union has increased despite China's ongoing disagreements with both states. The Chinese

were pleased with Soviet General Secretary Mikhail Gorbachev’s acceptance of Beijing’s claim that the disputed Amur River border between the two countries be settled using the main channel rather than the Chinese bank for purposes of demarcation. However, they reacted coolly to Gorbachev’s offer to remove Soviet troops from Mongolia and Afghanistan—two of the three prerequisites the Chinese had set forth before PRC-USSR relations could be normalized. Foreign Minister Wu Xueqian noted that they were “still far from the removal of the three major obstacles, and evade in particular the question of withdrawing Vietnamese troops from Cambodia. The Chinese side is not satisfied with this.”

Deng Xiaoping subsequently made the withdrawal of Vietnamese troops a prerequisite for his meeting with Gorbachev.

As for relations with the United States, the PRC continues to protest US arms sales to Taiwan. Hu Yaobang, interviewed in late September 1986, said that he would like to accept a long-standing invitation to visit the United States but “could not do so until he had something to show for it.” This was widely interpreted as the need for a US concession on the issue of Taiwan. However, during US Defense Secretary Caspar Weinberger’s visit less than two weeks later, China formally agreed to allow US warships to make port calls—despite Weinberger’s specific statement that the United States would continue to honor its commitment to sell arms to Taiwan regardless of China’s objections. The PRC’s agreement to accept US ship visits at this time is almost certainly meant to signal the Soviet Union that China is dissatisfied with the progress of Sino-Soviet negotiations.

While tensions remain with Vietnam, levels of violence on the border are below those of previous years. Relations with the noncommunist states of Southeast Asia have been good, with Indonesia and Malaysia both taking cautious steps to improve trade.

As for Japan, there have been official protests on the issue of that country’s efforts to revise its textbooks to show Japan’s conduct in World War II in a better light, and against Prime Minister Nakasone’s paying an official visit to the Yasukuni Shrine, which is widely regarded as a symbol of Japanese militarism. However, the Chinese gov-

ernment has been unwilling to allow either these or the existence of significant anti-Japanese sentiment within the population\textsuperscript{33} to harm its more substantive dealings with Japan. In late September 1986, the PRC suggested a way around its persistent trade deficit with its neighbor: China offered to buy Japanese goods in return for gold rather than in exchange for the Chinese goods which have heretofore proved so difficult for Japanese businesses to sell.\textsuperscript{34}

Trade between the PRC and South Korea has also increased rapidly, although the two states do not have formal diplomatic relations. The PRC established formal diplomatic ties with Bolivia and Nicaragua in 1985, and gained membership in the Asian Development Bank in 1986.\textsuperscript{35}

In sum, although China continued to assert differences of opinion on various matters with other states, its foreign policy continued to be based on pragmatic considerations rather than on ideological issues.

**TAIWAN**

For the Republic of China on Taiwan (ROC), 1985-1986 was a time for strengthening economic and political institutions. Nineteen eighty-five was a year which, for reasons to be discussed, many residents of the ROC would prefer to forget. But the nation rebounded impressively in 1986. The transition to a higher-technology, knowledge-based economy is being managed well, and the bases of political participation are steadily broadening. Despite the existence of several potential problems, the outlook for the near future is good.

*Economics*

Taiwan's normally stable financial system was badly shaken in February 1985, after the disclosure of loan irregularities at the Tenth Credit Cooperative, a banking arm of the island's large Cathay Group, controlled by the Tsai family. The Ministry of Finance suspended the bank's lending operations, starting a wave of panic withdrawals that spread to Tenth Credit's sister institution, Cathay Trust. One of the leaders of the Tsai family was subsequently convicted on several counts of writing bad checks and sentenced to a lengthy prison term. However, creditors lost an estimated $320 million, and there were charges that the government had been negligent in its oversight duties. The Minister of Finance resigned, as did the Minister of Economic

\textsuperscript{33} See note 20 *supra*, describing several anti-Japanese demonstrations.

\textsuperscript{34} "China Reported to Offer Japan Gold for Goods," *IHT*, 30 September 1986, p. 11.

\textsuperscript{35} "China Hails Entry To Asian Bank," *BR*, 12 May 1986, pp. 7-8.
Affairs, to take responsibility. Suspicion also fell on the Prime Minister, since he had been head of the ROC's Central Bank when many of the questionable transactions took place.

More importantly, the Tenth Credit Cooperative incident exposed fundamental weaknesses in the country's banking and financial system. Local banks did little long-term financing and tended to make loans only where collateral was available. Accounting practices were below international standards. Many companies were undercapitalized, expanded too quickly and accumulated too much short-term debt. And, government-imposed interest rates and foreign exchange controls created distortions in financial markets. An Economic Reform Committee, composed of ranking members in the business, government and academic communities, was set up to seek solutions to these problems.

As these and other organs began to undertake reform efforts, other economic problems arose: several coal mine disasters and a fire at one of Taiwan's nuclear power plants. As it had in the credit scandal, the government moved quickly, closing half of the country's 130 coal mines, which had been inefficient in any case but were being subsidized for reasons of national security. An investigation was begun into the cause of the nuclear power plant fire. Critics pointed out that, although there was an overcapacity of 37 percent in electricity production, the government had agreed to build yet another such plant. The new plant was subsequently cancelled, but questions remained about the government's planning system.

The year 1985 was a poor year by recent ROC economic standards, with the economy growing only 4.4 percent. However, since Taiwan's currency is tied to the US dollar, the decline of the dollar in relation to the Japanese yen in 1986 proved a great boon to the ROC's economy. Many of Taiwan's products compete with those of Japan on export markets, and the rise of the yen gave them a significant competitive boost. Low oil prices and interest rates have also helped. Taiwan's exports rose by 24 percent in the first eight months of the year, and the country is likely to achieve inflation-adjusted growth of nearly 10 percent for the year.

In sharp contrast to the PRC's dwindling foreign exchange reserves, the ROC has a different problem: too much money. It is esti-
mated that Taiwan's foreign exchange reserves will reach a record $40 billion by the end of 1986. This high level of reserves plus a huge $15 billion trade surplus with the United States cause concern that there will be a protectionist backlash. During negotiations held during the summer of 1986, the United States accused Taiwan of lacking good faith in opening its markets to imports, and has also pressured the government to appreciate the value of the currency by 20 percent. The ROC government is also concerned that inflation, now under control, could increase markedly because of the large local money supply. Nonetheless, predictions are that the economic vitality of 1986 will persist: an 8 percent growth in GNP is forecast for 1987.

Politics

As on the Mainland, Taiwan's government is confronted with a more assertive population which its own successful economic policies and improvements in education have helped to bring about. Like the Chinese Communist Party (CCP), the Kuomintang (KMT) has ruled virtually without competition from meaningful opposition parties. Both the CCP and the KMT encompass conservative and liberal factions. And each party is headed by a highly popular, strong leader who seems able to guide reforms in the direction he wishes, despite intra-factional disagreement. Since both leaders are elderly, there is speculation that their successors may not be as successful in guiding future changes.

However, since both the degree of freedom and the level of economic development on Taiwan are so much higher than those on the Mainland, meaningful comparisons beyond this level of generalization are difficult to make. Major issues on Taiwan include the development of a viable opposition group to the KMT, the continued existence of emergency decrees (often translated as martial law), human rights violations, and the sharing of power between mainland-born people and native Taiwanese.

As in the economic sphere, 1985 also began inauspiciously from a political point of view. In January, high-ranking military intelligence personnel were implicated in a murder which had taken place in California a few months before. The victim, a Chinese-American who had frequently been critical of the KMT, was murdered by members of the

39. Ibid.
42. AWSJW, 20 October 1986, p. 18.
Bamboo Union Gang. Two of them subsequently fled to Taiwan, where they were apprehended, implicating several members of the country's military intelligence system. Military intelligence chief Wang Hsi-ling was subsequently convicted in a public trial, but certain troubling questions remained. Since both the defense and the prosecution agreed that the victim had been supplying valuable information on mainland China to Taiwan intelligence, it was unclear why Wang wanted him killed. Also, given the intense interest in human rights on Taiwan among certain members of the US Congress, plus the crucial role played by the United States in the defense of Taiwan, some observers felt that Wang was unlikely to have ordered such a potentially dangerous assassination—of an American citizen on American soil—without authorization from a higher authority. This, of course, raised the question of who that person might be.43

The political opposition to the KMT, the tangwai, made strenuous efforts to capitalize on the Liu case, the Tenth Credit Cooperative scandal and the economic downturn in general. Nonetheless, the KMT received about 70 percent of the popular vote in the November 1985 election, little different from its total in the previous election in 1983. KMT candidates won 146 of the 191 posts being contested.44 Contributing factors included the divisions among tangwai members, the KMT's superior organizational machine and the greater interest many voters had in more localized issues than the tangwai campaign addressed. In local elections held during the following February, KMT candidates took 85 percent of the 1,146 seats at stake, reflecting Tangwai's failure to establish a strong presence outside major cities.45

Pressures for liberalization continued. The press is less fettered than in the past, though change has come too slowly for many, and there have been setbacks. The best-publicized of these occurred in September 1985, when the island's Garrison Command arrested in Taiwan the publisher of a California-based Chinese language newspaper. She was accused of abetting communist conspiracies against the ROC in her newspaper.46

In the spring of 1986, with the blessing of President Chiang Ching-kuo, the KMT approved plans to set up local branches of the Tangwai Research Association for Public Policies (TRAPP), so long as it did not use the word "tangwai" in its title. The stipulation was made on the grounds that to do so would violate the longstanding ban

on the formation of new political parties. This, said the opposition, was no real concession, and it proceeded to open eleven such offices throughout Taiwan—in some cases, two in one city to accommodate its various factions—with the name tangwai provocatively displayed. A few arrests were made; KMT critics noted that the eight-month jail sentences meted out to several tangwai leaders would place them conveniently in jail until just after the December 1986 elections.

Later in the summer, there was yet another confrontation between the Tangwai and the government, touched off when the publisher of an opposition journal was sentenced to eighteen months in prison for libel and election irregularities. This began twelve consecutive days of demonstrations on his behalf, including some of the largest number of participants in Taiwan history. But the TRAPP offices remained. And, at the end of September, tangwai leaders announced the formation of a Democratic Progress Party (DPP). Although its existence was technically illegal, no action was taken against the DPP, apparently at the request of President Chiang.

There were also protests against the continued existence of martial law; in the spring of 1986 an estimated 700 persons demonstrated on the anniversary of the proclamation of the emergency decrees. A shoving match ensued with the police, but there was no serious violence and no arrests. In October, again acting on the wishes of President Chiang, the KMT approved plans to end martial law and to allow the formation of new political parties.

While this unquestionably represents a liberalization of the regime, observers are divided on what this will mean for the future of Taiwan's political system. Supporters of the KMT argue that the tangwai has never moved beyond criticism of the government toward formulating an alternative set of policies. They express concern that the tangwai's inexperience and the rather rash pronouncements it has sometimes made with regard to such matters as declarations of independence and negotiations with mainland China could cause the country great harm. tangwai members have themselves admitted that their internal divisions must be overcome before the DPP can mount an effective challenge to the KMT. They also worry that, since there are only six opposition legislators in the 320 seat National Assembly, the National Security Law which is to replace martial law will be unduly

49. Patrick Smith, "As Taiwan Opens Politically, Opposition is Divided, Unsure," IHT, 12 August 1986, p. 6.
restrictive. Experience, they point out, will be gained only if they are granted genuine responsibilities.

Another political concern in the ROC is the question of a successor to the elderly and ailing President Chiang. It is generally assumed that he will be succeeded by Vice-President Lee Teng-hui, a popular and well-educated Taiwanese. Lee, many feel, will be an effective but largely symbolic head of state. He will be supported by a group of technocrats, of both mainlander and Taiwanese ancestry, in whose hands will rest most of the decisionmaking.

Foreign Relations

The 1985-86 period saw a further erosion in the ROC's international political position, with Bolivia and Nicaragua withdrawing diplomatic recognition in favor of formal ties with the PRC. The PRC also gained admission to the Asian Development Bank. Though allowed to remain in the ADB under the description "Taipei China," the ROC has not seen fit to play an active role in the bank since the PRC's admission. However, despite its "Three No" policy on contacts, negotiations, or compromise with the PRC, the government did permit negotiations for the return of a CAL cargo jet and two crewmen unwillingly flown to Canton by a defecting pilot.

Relationships with the United States remained cordial, despite some friction over the trade imbalance and over human rights violations. The US-based newspaper publisher mentioned above was released after a sharp State Department protest describing her arrest as an act of intimidation and harassment directed against individuals in the United States—the precise language of a 1982 congressional amendment banning arms sales to countries indulging in such practices. 50 However, there is every indication that at least the present administration intends to adhere to the Taiwan Relations Act's stipulation on providing the ROC access to defensive weapons: arms sales to Taiwan have been in excess of $700 million during the past several years and a significant quantity of technology has been transferred, as well. The American government has also been responsive to the ROC's concerns on the so-called "six guarantees" not to

1. set a date for ending arms sales to Taiwan;
2. hold prior consultations with the PRC on arms sales to the ROC;
3. play any mediation role between Beijing and Taipei;
4. revise the Taiwan Relations Act;
5. change the US position regarding sovereignty over Taiwan; or

50. FEER, 3 October 1986, p. 21.
6. put pressure on Taiwan to enter into negotiations with the PRC.

**Overall Assessment and Implications for US-China Relations**

Though at dramatically different levels of economic and political development, both the Mainland and Taiwan are experiencing economic reforms and pressures for political liberalization. Both have personally popular and administratively competent leaders who will soon be leaving office; there is no certainty about their successors' ability to continue their policies. Both the PRC and ROC have intelligent and hard-working populations.

It is clearly in the best interests of the United States to maintain cordial relations with both Beijing and Taipei. While the United States has downgraded its assessment of the value of the PRC as a strategic partner, it wishes at a minimum to keep the Mainland from allying with or assisting the Soviet Union in any Soviet-American confrontation. Taiwan is presently of great economic importance to the United States; it has great potential strategic value as well.

To maintain harmonious relations with two governments, each of which maintains that the other is illegitimate, is no simple matter. The United States has attempted to upgrade the PRC's military capabilities against the Soviet Union without substantially increasing the PRC's ability to force reunification with the ROC—which is one-sixtieth its size. It attempts to sell defensive arms to Taiwan without angering the PRC. And it wishes to trade with both without disrupting domestic industries.

The overriding necessity on the Mainland is economic development, with which the United States is both well-suited and well-disposed to help. The overriding necessity on Taiwan is continued support for its independence from Mainland control. Given both its economic and military power and the longstanding American commitment to self-determination, the United States is both physically capable and ethically guided to provide this support. It will thus be in the best interests of both the Mainland and Taiwan not to put the United States in a position of being forced to choose between them.
CHAPTER 13

U.S.-CHINA RELATIONS: AN OVERVIEW

Martin L. Lasater

According to journalists normally close to the scene in Washington, in 1985-1986 there were two major reviews of U.S. policy toward Asia in general and toward China in particular. The first occurred in the wake of the signing of the Hong Kong Agreement between London and Beijing in December 1984. The second took place following Soviet leader Mikhail Gorbachev’s July 28, 1986 speech in Vladivostok.

The key question addressed after the Hong Kong Agreement was Deng Xiaoping’s request to President Reagan “to do something” to further contact between mainland China and Taiwan. After an intensive study of U.S. interests involved, the Reagan Administration decided that it would not change its current policy of non-involvement other than to insist that the resolution of the issue be peaceful.

The critical issue after the Gorbachev speech was whether U.S. policy toward Asia and China was “too complacent.” Extensive analysis by various government agencies concluded that U.S. policy in Asia was strong and should not be changed. This meant that the current dual-track China policy of the United States would remain in place and that U.S. strategy in the Pacific would remain essentially a rimland strategy centered on Japan, rather than a continental strategy centered on China.

Thus, the most impressive feature of U.S. China policy during 1985-1986 was its continuity; there was no essential change. Moreover, a very strong consensus existed among most American policy makers that current U.S. policy was the best under existing circumstances. Those in and out of the government advocating involvement in the reunification issue or a switch toward a China-first strategy were a small, relatively ineffective minority.

One of the key questions in this conference is whether the developments in China and Taiwan over the last two years will lead to a change in U.S. China policy.

Politically, most participants in the conference felt that Deng’s reforms will remain in effect for the foreseeable future. The impact this will have on U.S. policy is a continuation of progressive develop-
ment of friendly relations with the PRC. On Taiwan we have seen most recently significant trends toward political liberalization. This will likely result in a more favorable attitude toward Taiwan by liberal U.S. senators and congressmen, less temptation to get the U.S. involved in reunification and a stronger sense on the part of most Americans that Taiwan has a right to defend itself.

Economically, in 1985-1986 trends toward marketization and privatization on the Mainland have slowed down but not ceased. The impact this will have on U.S. policy is a more cautious assessment of the probabilities of the reforms' success—essentially a subjective evaluation. But until the reforms prove themselves a failure, the United States will continue to be fairly generous to China in terms of technology transfers and encouragement of trade and investment.

In the case of Taiwan, there is a significant liberalization process ongoing as well, reflected especially in the tearing down of protectionist barriers, the rationalization of the exchange rate, the attempts to resolve the trade surplus problem with the United States and the decisions on what to do with the $45-50 billion foreign exchange reserve held by the ROC government. The U.S. reaction to this will be to watch closely the trade liberalization process and to push it forward whenever possible. The result probably will be closer economic ties but more pressure on trade issues from Washington.

In the area of foreign policy, the PRC continues to pursue a foreign policy of economic modernization, pragmatism, peace and independence. Beijing also continues to press on the Taiwan issue. The U.S. perception is that China's foreign policy serves U.S. interests for the most part, but Washington watches very closely the growth of the PRC national power and the direction of its "independence." There is no sentiment for concessions over Taiwan at this time.

ROC foreign policy has remained fairly consistent, but has become more pragmatic in its effort to maintain an identity in the world community. U.S. policy no doubt will remain tied to the Taiwan Relations Act, which means continued friendly but unofficial relations with Taipei.

From this brief overview of trends in both the PRC and ROC during 1985-1986, it is clear that nothing has occurred to justify a change in current U.S. China policy. That policy is finely balanced to enable the United States to pursue simultaneously friendly, cooperative relations with the PRC and close, nondiplomatic ties with Taiwan.

This dual-track approach serves U.S. interests because it allows American businessmen to profit in both Chinas, maintains the useful-
ness of the PRC as a limited strategic counterweight to the Soviet Union, reduces China's threat to U.S. interests in Asia, contributes to regional peace and stability and increases U.S. prestige in Asia. Most of our friends in Asia want the United States both to counter potential Chinese hegemonism and to maintain constructive relations with Beijing.

Because current U.S. China policy serves so many interests, it enjoys wide support in the United States among all segments of the population and political spectrum. China policy was not an issue during the 1984 presidential election and, barring a major flareup during the next two years, is not likely to be a major foreign policy issue in 1988.

Nonetheless, just beneath the surface of consensus and calm, there are several problem areas which could arise to change current U.S. China policy. These include:

(1) The coming into prominence of American strategists of the grand design mode, who might argue effectively that U.S. strategy should be centered on China rather than on Japan and the rimland states;

(2) A blowup of the Taiwan arms sales issue. Earlier this year, the PRC attempted to do this over defense technology transfers from U.S. companies to help Taiwan develop an indigenous fighter. The issue quickly faded, however, because of U.S. insistence that technology was not included in the August 17, 1982 Joint Communique and because the press did not give the issue big play. Nonetheless, since many items in Taiwan's inventory are becoming antiquated and the defensive weapons provisions of the TRA remain the U.S. law of the land, the potential exists in the future for advanced weapons sales, precipitating a major U.S.-PRC political confrontation;

(3) The possibility exists for some future high-ranking American policymaker to decide that national or personal interests would be served by pressuring Taipei into reunification talks with the Mainland; and,

(4) There are a host of event which could occur that might cause a major reexamination of U.S. China policy. That policy is but one of the principal pillars of American policy toward Asia in general, and therefore there is a certain amount of interrelatedness between U.S. China policy and other events in Asia. The probability of each one of these events occurring is fairly remote, but the list is long and broad enough in scope that the probability of at least one of them occurring is higher than what might at first be expected. Some of these events would be:
(a) the loss of U.S. bases in the Philippines;
(b) a significant increase in Soviet military or political influence in the region;
(c) dramatically improved Sino-Soviet relations;
(d) major limitations placed on U.S. bases in Japan;
(e) greatly increased Sino-American military cooperation;
(f) a more militant approach to national reunification on the part of the PRC;
(g) a move toward independence on Taiwan;
(h) political instability on Taiwan; and,
(i) a change in PRC domestic or foreign policies in a direction inimical to U.S. interests.

My conclusion is that current U.S. China policy, despite the inherent contradictions of pursuing friendly relations with both Beijing and Taipei, is strong and resilient. It is not subject to easy change. Nonetheless, that policy is so finely balanced to serve so many interests that certain events or combinations thereof may be sufficient to force some change in the future.

At this point in time, it is impossible to predict which direction a change might take: U.S. policy might lean more in the direction of Taipei, or it might lean more toward Beijing. It depends on the circumstances prompting the change.

If the United States had full control of the situation, I feel confident that it would maintain the status quo. But in a changing world such as we find ourselves, that option may be one which proves impossible.
CHAPTER 14

SYSTEMIC CONFLICT AND THE TWO CHINAS

Ray S. Cline

China always seems to be, in the perceptions of the outside world, more a land of fantasy than fact. That is why meetings of this kind devoted to scholarly information and analysis are so important.

China is still the "Central Kingdom" in the choice of name in the Chinese language by the Chinese people living on both sides of the Taiwan Strait. The fact is, however, despite the vast population and revolutionary turbulence of China for the last hundred years, it has not been at the center of world affairs for a long time. Perhaps it will be in the next century, but it is now important to dispel myths about China by putting it in the broader context of world geopolitics.

The twentieth century world is dominated by strategic conflict between two superpowers, the United States and the Soviet Union, both trying to influence and being influenced by China. In this systemic conflict between the Soviet model of a centrally-controlled socio-economic system and the American model of politically pluralist states with market economies, China is a secondary, not a primary, power. The People's Republic of China (PRC) maneuvers between the two superpowers, leaning one way or another for its own advantage.

The Republic of China (ROC), on the contrary, is firmly aligned with the United States in the voluntary association of free nations resisting encroachment by the Soviet Union and its proxy client states operating on a Soviet-style totalitarian model. It is essential to take these facts of world geopolitics into account in examining U.S. policy toward present-day China.

THE TWO-CHINA MYTH

The first step toward understanding the U.S. China policy dilemma is to puncture the myth that there is only one China. Many people say that there is only one China. I think what they really mean is that there is one Chinese civilization or culture, about 4,000 years old and richly fascinating to sociologists and historians. Actually, in terms of present-day political organization, there are plainly two Chinas, if we mean large groups of people of Chinese ethnic origin living
in territory controlled by their own governments. One has its capital in Peking (Beijing), the other in Taipei.

Each of these governments claims to be by right (de jure) the government of both Chinas but actually (de facto) neither has been able to translate its claim into control of the population or territory of the other since the communist People's Republic of China seized control of mainland China in 1949. For its part the PRC has never controlled the island of Taiwan.

Even the venerated scholar from Harvard, John Fairbank, who often strongly urged the United States to “legitimate” the communist regime in Peking, concluded, nevertheless, in The Atlantic of September 1976 that one China is “not a workable fact.” He observed, accurately: “The one China doctrine is one of those hoary Chinese devices for manipulating the unsophisticated barbarian.” Let us not be so unsophisticated or barbarous as to insist any longer on this myth. In Peking, Taipei and Washington the governments insist there is only one China. I, however, would like to talk honestly about the two Chinas that are before our eyes today.

The reality, as distinct from political fantasy and propaganda, is that the Republic of China has de facto control of Taiwan and the offshore islands of Kinmen, Matsu and Penghu (the Pescadores), an area of nearly 14,000 square miles. Although it is much smaller than the mainland, the ROC very effectively governs nearly 20 million ethnic Chinese, and this puts it among the 40 largest populations of the 170 or so independent countries in the world today. By all the normal legal political, and cultural definitions of the attributes of statehood, the ROC is an independent self-governing nation, with an inherent right of self-defense.

THE SOVIET REALITY

President Ronald Reagan does not always appear to be crystal clear about facts concerning the two Chinas, but he is right in his perception of the Soviet Union. It is, in its political structure, an empire tightly controlling a large number of non-Russian peoples. Whether it is “evil” or not depends on value judgments, but its characteristics are clear. Its dictatorial rulers are hostile and, when circumstances permit, aggressive toward the outside non-communist world. The Soviet Communist Party's centralized totalitarian system is a harsh anachronism in modern society, oppressing its own people to stay in power without opposition. By the tenets of its own political philosophy, the Soviet Union sets itself up as the main strategic adversary of the United States.
Soviet leaders since World War II have built up intimidating military power and extended Soviet influence in East Europe, North Korea, Cuba—and in the 1970s—in Afghanistan, Syria, Yemen, Libya, Ethiopia, Angola, Nicaragua and Vietnam.

In Asia, Moscow's close ties with Pyongyang (North Korea) and Hanoi serve to flank and in a sense encircle communist China, which Mikhail Gorbachev is moving to draw back into a fraternal relationship. While Sino-Soviet antagonisms are still deep, many of the conflicts have been softened by compromise and the two giant communist states are cooperating more and more.

Soviet rulers react to the fact of power, not rhetoric. This is why Gorbachev, present head of the Soviet Communist Party and state, met with Reagan in Geneva in November 1985 and in Reykjavik in October 1986. It is also why he wants to limit Peking's opening to the United States and pressure or cajole the Chinese into a basically pro-Soviet posture.

COMMUNIST CHINA AND THE SOVIET UNION

In examining Sino-Soviet relations, it is also critical in the interests of realism to distinguish between peoples and their governments. The people of the Soviet Union are for the most part not unfriendly toward the United States, but their government is. Similarly in the PRC, the Chinese people are friendly to foreigners when they are treated well. Unfortunately, the Chinese people on the mainland, now numbering over one billion, also live in a totalitarian state and have absolutely no influence on what the 20 million communist cadre bureaucrats or the 40 million Communist Party members do. This vast ruling structure follows orders from a handful of Politburo members (25), at present dominated by one man, 82-year-old Deng Xiaoping, just as it was dominated by one man, Mao Zedong, for 30 years. Deng is more reasonable than Mao, but he is committed to the communist system of totalitarian rule. He is not in any way friendly to democratic processes or democratic societies even though he can be very charming to visiting Americans.

The PRC leaders are moderating their central economic controls, as Lenin did in Russia in the 1920s, in order to milk the Americans of economic favors and use every benefit for leverage to gain strength for the future. Already, American help is giving Peking bargaining leverage it uses to build new bridges to the political system on which the Chinese state is modelled, the communist centralized dictatorship of the Soviet Union.

If U.S. China policy brings the two rival communist behemoths
back close enough together to strengthen each other's economy, it will
tend to undermine the American position in Asia. If in the light of
Gorbachev's aggressive foreign policy, Moscow and Peking go so far
as to join forces to fight Americans without declaring war, as they did
in two Asian wars—one in Korea and the other in Vietnam—it will in
the long run negate what President Reagan and all Americans stand
for—freedom.

The headlong U.S. pursuit of the friendship of the PRC's feisty,
crafty leader, Deng Xiaoping, is positively counterproductive. He
knows how to use language soothing to American capitalist ears, but
he has made no concessions whatsoever to political freedom in China.
The PRC has opposed almost every American foreign policy position
adopted since Deng came to power. Twice he sent Vice-Premier Li
Peng, educated in Moscow, to see Gorbachev to urge improvement in
Sino-Soviet relations, as he said, between "the two great neighbors and
socialist countries."1

Li assured Gorbachev that, contracts with the United States
notwithstanding, Peking "is not aligned with, nor does it establish
strategic relations with other countries."2 In other words, the Penta-
gon myth of strategic benefits from improving relations with Peking is
just a fantasy.

In the meantime, a high-ranking Soviet official visited Peking at
the end of 1984, signed a trade agreement and arranged for pacts coor-
dinating both countries' next five-year economic plans (1986-1990).

In the first ten months of this year, to cement their closer ties, the
road between Peking and Moscow has been traveled by ten high-level
delégations, supplemented by these visits to the PRC by leaders from
the Soviet East European bloc. Gorbachev, during his stay in Vladis-
vostok in July, stressed improving relations with mainland China, say-
ing in a conciliatory manner, "Our children and grandchildren are
destined to live near each other forever and ever."3

The result of this active diplomacy has been a major shift in Sino-
Soviet relations with substantial progress toward rapprochement. In
rapid sequence there have been revealed Soviet concessions on the
Amur River border dispute, the withdrawal of some Soviet military
forces from Mongolia and Afghanistan and Deng's offer to meet with
Gorbachev if even limited progress could be made to resolve the

1985, pp. 10-11.
2. Ibid.
Cambodian conflict. The tide is running toward closing the Moscow-
Peking gap, not toward Peking-Washington friendship.

It is obviously easier for two centrally-planned economies to mesh
than for the United States to get major benefits from exchange with
the state-owned enterprises of the PRC.

MAINLAND CHINA'S ECONOMIC REFORMS

To look at China these days is confusing to most Americans be-
cause of the attempts of Deng Xiaoping's ruling clique to have its
communist political cake and eat it, too, in the form of private incen-
tive reforms. The ensuing semantic obfuscation is extraordinary.
Close study of the facts reveals only a Chinese gamble on benefiting
from American gullibility about a benign new kind of "socialism with
Chinese characteristics."

Deng is staking everything on the concept that a little economic
freedom plus outside money and technology will finally begin to mod-
ernize communist China's long-stagnant economy. He is betting on
American financing and technology to get the process started, but he
is not neglecting increased trade with the USSR and the East Euro-
pean communist nations.

At the beginning of Deng's post-1977 economic reforms, in-
creases in agricultural output were achieved by giving peasants the
chance to farm the land as family units—a kind of share-cropping ar-
range-ment—and to keep some surplus crops if they work hard and
exceed state norms. These incentives have produced higher yields, but
they do not change land ownership from what is basically a landless
tenant system. The state still owns the farms and can adjust policies
whenever Peking bureaucrats decide to curtail the privileges the peas-
ants have always wanted. China's rural families know how to raise
crops if given the opportunity.

In the urban economy, rapid overexpansion in investment has re-
sulted in rampaging inflation. The key industries lack modern tech-
nology and management. The rush to the market has proven to lack
proper preparation. There has been little progress on establishing a
meaningful pricing system. Deng appears to be heading for a mixture
of capitalism and socialism. This is a mixture that cannot survive un-
less the communist political structure changes drastically. That, at the
moment, is not in the offing.

Freedom of small urban industry from direct and complete state
control has proven to be much more complex and susceptible to indi-
vidual abuse or failure than the experiment of letting peasants farm
their land and keep excess profits. Already, there have been massive
scandals of misuse of public funds, notably in Hainan Island, where the whole bureaucracy was found guilty of profit-taking and non-Marxist thinking.

In more than three decades of rule, the communist leaders have made one adjustment after another to overcome political instability, economic crises and ideological disillusionment. All this time they have been initiating successive reforms, mostly thereby creating new problems and never yet attaining their objectives. The most recent Seventh Five Year Plan (1986-1990) is one of consolidating, restructuring and adjusting rather than hastening the process of Deng's goals of modernizing agriculture, industry, national defense and science and technology by the year 2000. These goals seem as far away as ever.

**U.S. MILITARY ASSISTANCE OFFERED TO THE PRC**

The United States, in response to PRC demand for high technology, has taken the lead in offering to sell the PRC more than U.S. $600 million worth of military equipment, including an avionics package, anti-submarine torpedoes, artillery and ammunition. So far, however, the Chinese have made purchases of only U.S. $14 million, although the proposed sales have been accompanied by U.S. technicians to install and train Chinese operators, especially in updating the maneuverability of the Chinese-built F-8 interceptor aircraft and the firepower of Chinese destroyers. When, in October and November 1986, the Secretary of Defense and the Commander-in-Chief of the U.S. Pacific Forces made it clear that they had arms for sale, Deng seemed to be still "window shopping," perhaps hoping for "made-in-China" copies of American weapons.

Why should the U.S. Government be making such generous offers to the Chinese communist officials when they have resolutely refused to renounce the use of military force to recover Taiwan? Deng Xiaoping himself speaks of a possible need to use "military power" to impose a "blockade" of the island to bring it into the communist fold. In discussing the Taiwan issue with the Philippine Vice President in June 1986, Deng is reported to have said, as he often has said before, "When patience runs out and peaceful compromise is refused, there is no other way but force."4

The PRC attempt to bring Taiwan under the flag of communist China, to merge the "two systems" in "one nation"—the communist nation—is an omnipresent threat to the existence of the Republic of China. It is also an indirect threat to the United States because Tai-

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wan has been guaranteed sufficient means of self-defense in the Taiwan Relations Act and because the Republic of China is a beacon of free enterprise and open government in East Asia.

**TAIWAN: A U.S. RELATIONSHIP WORTH PRESERVING**

During the period from 1949 to 1986, while the Mainland has struggled from one disaster to another, the government of the Republic of China on Taiwan has developed a stable and much more open society. Its constitution, adopted in 1946 and put into effect in 1947, has provided for increasingly democratic self-government without interruption.

On the 75th anniversary of the founding of the ROC, President Chiang Ching-kuo spoke in words that give his countrymen and the democratic peoples of the world courage and hope:

- We are untiring, self-reliant warriors;
- We are defatigable champions of our beliefs. We are proud to inherit the benevolent tradition of the Chinese culture;
- The Republic of China has been faithful as an ally. We fulfill our obligations and claim our lawful rights in the light of equality, reciprocity and openmindedness. We also uphold justice and respect treaties in a world full of disturbances;
- The Republic of China is a model of success for the developing countries. We believe that the livelihood of the people is the pivot of history; the welfare of the people comes first in all cases;
- The Republic of China is an uncompromising anticomunist fortress.\(^5\)

These are not empty words; they ring true to many ears of those who are free to listen. It is not surprising that, in a poll taken in February 1985, more than 90 percent of the Chinese people living in Taiwan supported President Chiang, his government and his policies. The President, in addition, has taken steps to assure his nation that the problem of succession can be solved by due process of law when and if he steps down from office.

The Chinese people on Taiwan know their accomplishments and do not intend to retrogress in terms of standard of living or representa-

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tive government. Even in the face of “enemy forces” only ninety miles across the Taiwan Strait, they have marched wholeheartedly down the road in stalwart defense of freedom from communist rule.

TAIWAN AS ECONOMIC PACE SETTER

It is today obvious that the Republic of China on Taiwan is one of the most stable, most prosperous, and most successful societies in East Asia. According to the statistical data released by the ROC in October 1986, the figures are hard to bear. Per capital gross national product (GNP) is U.S. $3,672, six times that of the mainland. (This figure compares with per capita GNP in 1952 of U.S. $52.)

In 1985, exports rose to U.S. $30.7 billion; imports to U.S. $20.1 billion. In that year, the ROC was the sixth largest trading partner of the United States and the seventeenth largest trading nation in the world. Unemployment was 2.91 percent.

A year ago, the U.S. Economic Research Institute placed Taiwan among such economic pace setters as the United States, Canada, the United Kingdom, West Germany, France, Italy, Japan and Australia.

Taiwan’s foreign exchange reserves are higher than any Asian nation except Japan. Its biggest financial problem is that it has too large a surplus in trade with its most important trading partner, the United States. In short, the ROC continues to be the “showcase” for free enterprise its leaders set out to create many years ago.

U.S. MILITARY COOPERATION WITH THE ROC

Relations between the people of the United States and the people of Taiwan, as declared in the Taiwan Relations Act, effective as of January 1, 1979, plainly intended to permit sales of arms to Taiwan for self-defense without regard for the sensibilities of the PRC. The U.S. Government’s fear, however, that such sales would damage the U.S.-PRC relationship resulted in the denial of the ROC’s request for some military weapons. The most outstanding example pertains to the purchase of all-weather aircraft with greater range and more speed than the aging F-5Es, now more than 20 years old.

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As a result, Taiwan decided in November 1985 to launch its own plan to produce a replacement for the F-5Es. The urgency, as explained by ROC officials, was that the PRC would soon be able to erase the superior edge in planes and pilots that the ROC had enjoyed for many years—an edge on which its military defense depends.

In August 1986, the PRC Foreign Ministry informed Washington that sale of a U.S.$260 million avionics package to Taiwan to modernize thirty ROC maritime-surveillance and sub-hunter aircraft (S-2s) was contrary to the Sino-American Communiqué of August 17, 1982. The U.S. Department of State in the case held firm, and the fourth anniversary of the communique passed without further comment from the People’s Republic.

It could be that the U.S. Government is getting back on track in accordance with the Taiwan Relations Act. Just a short time ago, on October 22, 1986, the U.S. Congress passed a bill authorizing the sale of two patrol gunboats of the Tacoma class to the ROC. The U.S. Secretary of the Navy said this sale was “consistent with the U.S. policy of selling defense articles in furtherance of U.S. national security and foreign policy interests,” as well as in accordance with the Taiwan Relations Act.

**POLITICAL REFORMS: A SYSTEMIC TREND**

On December 6, 1986, the Republic of China held extensive island-wide elections, the latest in many electoral contests in recent years with large voter participation. On September 28, 1986, 130 non-Kuomintang (KMT) (“tangwai”) politicians announced they were prepared to form a party and enter these elections in opposition to the ruling KMT. They proposed to call themselves the Taiwan Democratic Progress Party.

The KMT assembled for an urgent meeting late on Sunday evening, September 28, to consider this declaration. At this KMT meeting, the President personally intervened to take a calm and positive position in the discussion, saying:

The world is changing, the environment is changing, and the trends are changing. The ruling party has to initiate reform plans based on constitutional democracy with new ideas and new policies to cope with the changes.11

The president stated that any new party will have to declare that

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it is anti-communist and will have to support the ROC constitution before it is formally accepted as a legal party. On that basis, an opposition party was permitted to compete for votes.

The new attitude reflects a systemic trend toward more democratic processes in political development. It follows a debate of several months over modernizing politics in the Republic of China, begun when President Chiang launched a program of studying “sensitive issues” of political reform in March 1986.

If all goes well with the reform campaign, the way will be clear not only for the formation of new political parties supportive of the constitution, but also for the lifting of martial law, imposed nearly forty years ago to counter the threat of military action or subversion from mainland China. The more liberal trend reveals the trust of the ROC government in its national security and basic social stability.

This evolution contrasts with the situation on the mainland, where the term political reform has been brought up but so far has made no progress. In any case, in Peking there is no breadth of tolerance of an opposition or a break in the one-party communist monopoly of political power.

In the November 16, 1985, elections the KMT received 71 percent of the vote. According to the Far Eastern Economic Review of November 28, even the opposition leaders admitted that the fair and harmonious manner in which the elections were conducted constituted a milestone in the nation’s effort to promote democracy. It is expected that, in 1986, the ROC will soon take one more step in that direction by lifting martial law and permitting a “loyal opposition” party in the legislation.

CONCLUSION

When Deng set China on its present policy course, he made it clear he was promoting his own updated version of Mao’s ideology, integrating the “universal truth of Marxism with the concrete realities of China.”12 He claimed he could blaze a new path to bring prosperity to the party and the socialist cause.

We will “keep to the socialist road,” he said. We do not want capitalism. We want a socialist society with a prosperous economy.13

History does not give much encouragement for success in this combination. In fact, the odds are strongly against economic success.

13. Ibid.
in the PRC so long as the leadership demands, as it does, loyalty to the "Four Basic Principles" of communist propriety. These principles are the socialist road, dictatorship of the proletariat, leadership of the communist party and Marxist-Leninist Mao Zedong Thought.

Deng says he has no intention of abandoning these principles, and his successors are even less likely to do so in the foreseeable future. Under this rigid political system, economic incentives, and even so-called market socialism, cannot really flourish.

In these circumstances, the United States and other democracies should hold out encouragement toward greater freedom for the long-suffering Chinese people rather than patronizing and aiding the present communist regime. The fate of future China is at stake, with the people admiring the Taiwan economic system while the regime on the contrary strengthens ties with Moscow.

It would be tragic if the pro-Peking romantics in Washington undermine the stability of Taiwan by the Carteresque restrictions on full implementation of the Taiwan Relations Act, just as Taiwan is serving as a magnet to pull mainland China toward interchanges with capitalist economies and away from cooperation with the Soviet Union.

Undercutting the defense capability of the government in Taiwan and building up a strong military communist state on the mainland are the wrong moves at this time in history. It would change the world balance-of-power in one of the few regions where, in non-communist nations, market economies and imitation of the American model of society are creating a favorable strategic trend. The trend is contagious even among the mainland Chinese.

Can we possibly want to diffuse this appeal of market economics and political reform in a more democratic direction by building up communist China in the same way we built up communist Russia at the end of World War II, only later to regret our folly? Certainly, the answer should be "no;" not if the values of a free society prevail over a naive trust in cooperation with communist dictatorships against all the evidence of the past six decades.

The best way to keep the pressure on for modernization of China is to encourage the Taiwan model and urge the PRC to emulate it.
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