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China's Fourth Revolution

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China's Future

China's gradual emergence as an economic giant portends a major realignment of relations within and beyond Asia. How will continued economic dynamism combine with halting political reform and a rapidly changing strategic environment to shape China's international role? The three articles that follow examine trends in PRC development and their regional implications.

TREE of LIBERTY
SOCIETY



TREE *of* LIBERTY
SOCIETY

China's Fourth Revolution

Gerrit W. Gong

LIKE THE FAMOUS composite picture of the hag and the young woman (see figure 1), the People's Republic of China (PRC) can appear strikingly different if viewed from the inside out or from the outside in. Views from the outside often focus on China's aggregate superpower potential. This potential is the grist of International Monetary Fund and World Bank analyses based on purchasing power parity equivalents that rank China's economy third in the world—and the world's largest by 2010 if current growth continues. It underlies sobering scenarios in which China converts sustained economic dynamism into assertive definitions of national sovereign interest, defended and advanced by burgeoning power projection capabilities.

In contrast, views from the inside usually focus on China's myriad domestic dilemmas. For example, the 442.5 million metric ton grain harvest of 1992 was China's second largest in history; yet, because of excessive

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Figure 1



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taxes, fees, and paper IOUs, peasant uprisings recently broke out in 11 provinces. Cash-starved members of Beijing University's political science department pursue lingerie production to supplement their own meager incomes; some 16 percent of China's population remain functionally illiterate, 75 percent of them women, largely from rural areas. To take a third example, because of the concentration of homes burning soft coal for cooking and heating, sulphur dioxide (SO₂)

pollution in some Chinese residential areas is worse than in neighboring industrial areas; according to World Health Organization statistics, Beijing exceeds the organization's sulphur dioxide standards 68 days a year, Shenyang 146 days a year.

These are the everyday realities that have belied for years long-term prognostications that China will fully realize its potential. Interlocking difficulties, they are rooted in the challenges inherent in bringing 1,152,428,417 individuals arrayed within 300,388,130 households in 22 provinces, 5 autonomous regions, and 3 special municipalities (each situation different) from the nineteenth century of agriculture into the twentieth and twenty-first centuries of industry and information.

But something new is now apparent. Whether one looks from the outside in or the inside out, a fourth revolution is engulfing China.

The domestic directions this fourth revolution takes will determine whether or not China becomes a regional and global engine of economic growth, a highly competitive producer able with skill and vitality to translate abundant human and natural resources into a stable, leading economy with compounded high rates of annual gross national product (GNP) growth and buoyant domestic demand.

The international directions this fourth revolution takes will also have regional and global ramifications; they will shape the structure of East Asia, as well as the pattern of relations among East Asia, North America, and Europe.

China's Fourth Revolution

This fourth revolution is not the result of dramatic social upheaval, sudden replacement of political system or

leadership, or abrupt change of ideology or approach. In contrast to earlier periods of revolutionary fervor, this fourth period of transformation is marked, not by revolutionary rhetoric and methods, but by gradualist and incremental policy changes. China's Communist party is being pulled into a future it cannot control; the locus of initiative and dynamism in economic and political decisions is shifting to provinces, townships, and individuals determined to chart their own destinies.

This is systemic change brought about by China's increasing conformity, not to the self-proclaimed standards of the Middle Kingdom, but to the patterns of information flow, political and economic decision making, resource allocation, and distribution of authority judged necessary to compete in the modern world. It is characterized by:

- the increasing market orientation of China's significant economic potential, in ownership, production, investment, and demand;
- the decentralization of decision-making structures and processes;
- a shift of legitimacy from ideology to rising standards of living and nationalism;
- the reorientation of some deep-rooted Chinese perceptions and patterns of social organization; and,
- most fundamentally, the unprecedented opening of the world and China to each other, and of China to itself.

These themes are worth briefly elaborating.

Market Orientation. Economically, China's fourth revolution is symbolized by China's increasing market orientation, the spreading as it were of

the capitalist revolution to a fifth of the earth's population. The government's role in the economy is shifting from central administrator toward market regulator; the public sector is shrinking. In 1978, 78 percent of China's industrial output was attributed to state-owned enterprises; by 1992, the non-state sector accounted for 52 percent of gross industrial output and more than 57 percent of non-agricultural employment. Government expenditure as a share of GNP has dropped from 41 percent in 1978 to 20 percent in 1992. In 1980, 80 percent of Guangdong's budget came from Beijing; in 1992, only 2 percent did.

Overall growth reached 12.8 percent in GNP in 1992 and continued at an annual rate of 13.9 percent in the first half of 1993. Trade has burgeoned with investment, as figure 2 illustrates. For example:

- From 1979 to 1982, China's direct foreign investment totaled \$1.17 billion; in 1992 alone, it reached \$11.2 billion.¹
- In 1979, China had signed 36 contracts with two countries, valued at \$51 million; by 1991, the number had grown to 8,438 contracts worth over \$36 billion with 147 countries or regions. In 1992, signed contracts for 48,746 new projects pledged \$57.5 billion in investment.
- Between 1978 and 1992, China's total trade volume rose over eightfold, from \$20.66 billion to \$165.6 billion, ranking China's trade volume eleventh in the world.

Throughout China, secondary and tertiary industries producing higher-value-added, finished goods and services are multiplying.

Disposable income has risen substantially for many and continues to outpace inflation, particularly in prosperous pockets in China's South and

along its coasts. Although concentrated in Zhejiang, Guangdong, and Shandong provinces and in Shanghai municipality, 438 towns and townships across China now each boast 10 million yuan annual revenues (\$1.75 million). Chinese local-currency Visa cardholders quadrupled last year, from 481,600 to 1.9 million; the value of their purchases more than quadrupled, from \$2.15 billion to \$9.3 billion.

New roads, rail lines, telecommunications systems, and other soft and hard infrastructure are proposed not only for the coasts and special economic zones, but increasingly to reach into what has heretofore been China's hinterland. These new infrastructural developments seek to link and unleash the productivity of strategic centers along the coast such as Beijing-Tianjin, Hong Kong-Guangzhou, and Shanghai, with Wuhan and Chengdu in the interior. Better access to interior areas such as Sichuan province, of which Chengdu is the capital, may link the capacities of Sichuan's 110,000,000 people with the outside world, as Guangdong's 65,000,000 population is already.

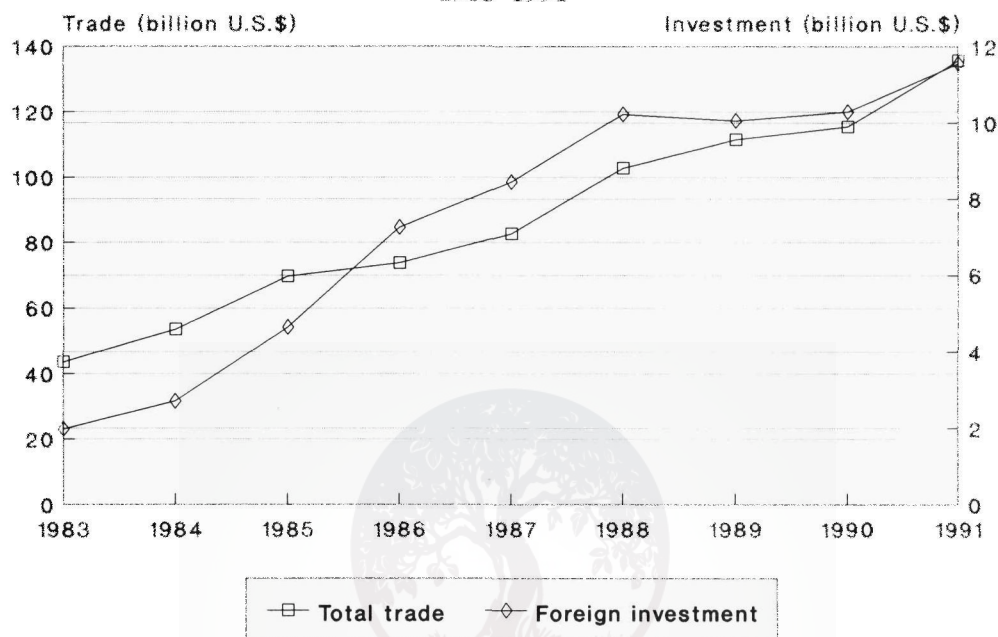
Decentralization and the Shifting Basis of Legitimacy. Depending on whether one emphasizes elements of continuity or change, China's fourth revolution is also its fourth period of structural modernization.

Sun Yat-sen's 1911 revolution was China's first structural modernization following the Opium Wars, which established sustained contact between China and the West. The 1911 revolution ended Qing rule and China's dynastic system. It made China into a constitutional republic.

In 1949, Mao Zedong's revolution transformed China into a people's republic.

In 1978, Deng Xiaoping's de facto

Figure 2
Foreign Investment and Trade
1983–1991



Source: *China Statistical Yearbook 1992* (Beijing: State Statistical Bureau of the PRC, 1992), pp. 575, 588.

Note: Trade and investment are shown with different scales. Trade should be read against the left-hand scale, investment against the right-hand scale.

revolution was dedicated to making the People's Republic of China modern and strong by establishing socialism with Chinese characteristics.

Following the landmark Third Plenum in 1978, Deng established a new social contract. It premised the continued legitimacy of Communist party rule on reversing Cultural Revolution excesses and injustices, restoring order, reestablishing China's international prestige, and jump-starting productivity and thereby improving everyday standards of living, first in the countryside, then in the cities.

Deng's approach represented a far-sighted, far-reaching strategy of reform from inside the party, within a socialist framework. It built less on revolutionary socialist idealism and

more on pocketbook issues and real-politik.

Today's fourth revolution is now superseding even Deng's de facto transformation of China's system and orientation. This is a fourth revolution for China in part because it is not guided, structured, or conducted from the top. China is tired of revolution; its party is discredited, its Long March generation is fading, its system is bureaucratically feudalized. A popular Chinese expression quips, "Those above propose a policy; those below implement their own" (*shang you zhengce; xia you duice*).

Changes this sweeping cannot easily be said to begin at a specific point in time. Yet, especially to observers on the scene, the period from May 4 to

May 20, 1989, marks a new stage in the openness and interaction of China to and with itself, and to and with the outside world. This period coincides with the anniversary of the 1919 May 4th movement, the meeting in Beijing of the Asian Development Bank, the visit of Mikhail Gorbachev, and the declaration of martial law. It precedes the tragedy at Tiananmen, which history will record as a denouement, albeit a violent one.

May 1989 signals the real turning point. It represents a transition from the period of Deng's 1978 revolution, which still considered practical and legitimate the massive use of force to constrain economic and political change solely within an orthodox socialist system.²

During May 1989, in a dramatic way that endures for China and the world, internal Chinese political, economic, and social developments were self-consciously played on an international stage. And the reactions of a global audience were in some cases, correctly or not, taken as cues. This period was both culmination and cause of a new period of change. It brought together and highlighted the continuing juxtaposition of China's ongoing transformations in the countryside (where 75 percent or 900,000,000 of China's population officially reside), in industry (which experienced nearly 22 percent growth last year), and in information (which will require special adjustments for a nominally socialist country ruled by a single, dominant Communist party). It signaled the emergence of China's fourth revolution.

Social Reorganization. This fourth period of modernizing transformation includes changes that go to the core of China's psyche and its historical patterns of behavior. Always circumspect, as Sun Tzu's *Art of War* teaches, China

has traditionally been a closed society, only loosely horizontally organized, with a penchant for camouflaging weaknesses and for deploying negotiating strategies built on its geopolitical position and past.

Regional satellite broadcasts of STAR TV and a group of literary journalists willing to pursue corruption in Beijing and accounts of cannibalism in Guangxi during the Cultural Revolution now illustrate a basic shift in China's information structure as China deals more forthrightly with the outside and, even more significantly, with itself.

An estimated 100,000,000 people have left China's countryside for its cities; hundreds of millions more are being encouraged to leave the land without leaving their homes (*litu, bu-lixiang*). They remain part of the countryside in name only, employed in light manufacturing and other rural enterprises linked to nearby cities, to more distant markets, and to the economies of the outside world.

Interaction with the World Outside. Finally, at the heart of this fourth period of transformation, and with a pace, scope, and reach unprecedented in its long history, is this change: China, increasingly including its interior, is becoming part of, and more like, the external modern world, which is itself in a continuous process of modernization.

This change includes but transcends cross-border and domestic flows of information by open conversation (progressively more mobile and well informed), telephone, television, satellite broadcast, fax, radio, and readily available printed materials. It reflects the information age reality that, in China as elsewhere, ideology is being superseded by the everyday convergence of the factors necessary

to be competitive in the political, economic, and social arenas.

This current transformation is the consequence of increasing portions of China's extensive interior interacting with global forces larger than even China. Competing on the world's economic terms is now drawing the productive capacities, and perhaps some of the minds and hearts, of growing numbers of China's citizens into a two-way flow of information and influence with the modern world.

This process now permeates China's coasts, cities, and their neighboring areas. It is increasingly penetrating China's interior villages and towns. This interaction of inside and outside is now two-way and irreversible. It recognizes the link between China's domestic social and political stability and its dependence on international trade to maintain current standards of living: in 1992, trade accounted for 37 percent of China's GNP, up from only 10 percent in 1978.

Two tempering caveats:

First, much of China's political, economic, and social continuity remains, even in the geographic areas of greatest change. Whatever their weaknesses, central leaders and institutions retain formidable abilities to determine personnel placement and advancement, to tax, and to favor or retard development.

The state sector remains substantial. It is heavily invested in over 10,000 state enterprises, employing 75 percent of China's urban labor force (some 108 million workers) but accounting for only 50 percent of the country's industrial production—an indicator of pervasive underemployment. In 1992, only one-third of China's state-owned companies were profitable; one-third were insolvent; and another third were suspected of large hidden losses. The 11 percent

(\$7.82 billion) of 1992 governmental expenditures that official subsidies absorbed understate their true costs, which include soft loans state banks have no prospects of recovering.

Whatever the interest in rising standards of living, substantial popular skepticism remains. Many feel their society is changing too quickly in a destabilizing way. For all those eager to interact with the outside, many others remain unaware, uninterested, or hostile to such possibilities.

Second, because there is (increasingly) no single "China," to speak of China's opening is to generalize about different openings of different parts of China to different parts of the outside world.³ Coastal China is opening to the global economy, especially to Hong Kong, Taiwan, and Japan, as well as to China's interior; Xinjiang and the Northwest are opening to pan-Central Asian influences; Yunnan and the Southwest are opening to Southeast Asia, including Thailand and Myanmar.

Regardless of province or outside contact, the general trend is significant: few areas of China remain entirely isolated; almost all (including interior provinces establishing representative offices in Hong Kong and the special economic zones) are seeking ways to establish windows and doors to the larger outside, even if that world is initially only a neighboring province with more current ties or connections.

The Tasks Ahead for China

From the inside out, China must decide how to foster a globally competitive, market-oriented economy while retaining central control and governability. From the outside in, the world must consider how to deal with a diverse, independent China partly, but

not fully, integrated into the international system.

Both from the inside out and the outside in, China must negotiate five crucial crossroads:

- promote a "socialist market economy" as a means of seeking stable and balanced economic growth;
- deal with Hong Kong, Taiwan, and the overseas Chinese communities;
- manage the post-Deng Xiaoping, watershed generational leadership succession;
- maintain legitimacy and governability in a political system dominated by a single Communist party;
- define a post-Persian Gulf War, post-cold war international role and identity appropriate for a regional power with global influence.

1. *Promoting a "Socialist Market Economy."* With his country sandwiched historically and geographically between the former Soviet Union and Eastern Europe on the one side, and Japan, South Korea, Taiwan, and the other dynamic East Asian economies on the other, no one understands the dilemmas of simultaneously maintaining political stability and promoting economic growth more acutely than Deng Xiaoping.

In theory, Deng once cited "practice as the sole criterion of truth." China was characterized as entering only "an initial stage of socialism." Today's theoretical task is to define the workings of a "socialist market economy."

In practice, Deng sought to let pragmatic experience establish a balance between the economic dynamism of the four modernizations and the political orthodoxy of the four cardinal principles. This is the dialectic of a large, complex, modernizing country: balancing growth with stability, order with dynamism, change with con-

stancy. Deng tipped the balance once more toward economic momentum by his visit to the South during the 1992 spring festival.

Perhaps it was as he took the endless walks around his garden when he was in exile during the Cultural Revolution and during the subsequent years of implementing his policies that Deng reached three conclusions of strategic importance for directing China's development:

- China must export in order to import the hard-currency-intensive, high technology necessary to modernize;
- a beleaguered Communist party can maintain at least some legitimacy by improving everyday standards of living and appealing to nationalism; therefore,
- China's domestic political stability is now linked to its ability to compete in an always-changing external world.

But there were two blind spots Deng and associates perhaps could neither anticipate nor avoid.

First, he underestimated how much economic improvement would stimulate jealous comparisons of increasing income differential and criticism instead of loyalty to the party. Some criticism reflected the reality that the economic playing field was not level; those with official ties had, made, and took opportunities to get rich first. Also, after essential stability in prices from 1949 to 1983, Deng's price reforms brought inflation. As the popular complaint at the time put it, "Under Mao, a dollar was worth a dollar; under Deng, a dollar is worth a dime."

Second, Deng could not have foreseen that allowing thousands of ordinary Chinese citizens to tie themselves by their own choice to the two-way flow of the world's goods and

services would inescapably link them to the world's modes of competitive production and introduce them to the world's ideas and ideals as well. This tying of China to the modern world establishes expectations and procedures with which Communist doctrine and the governing structure are seemingly finding it difficult to keep pace.

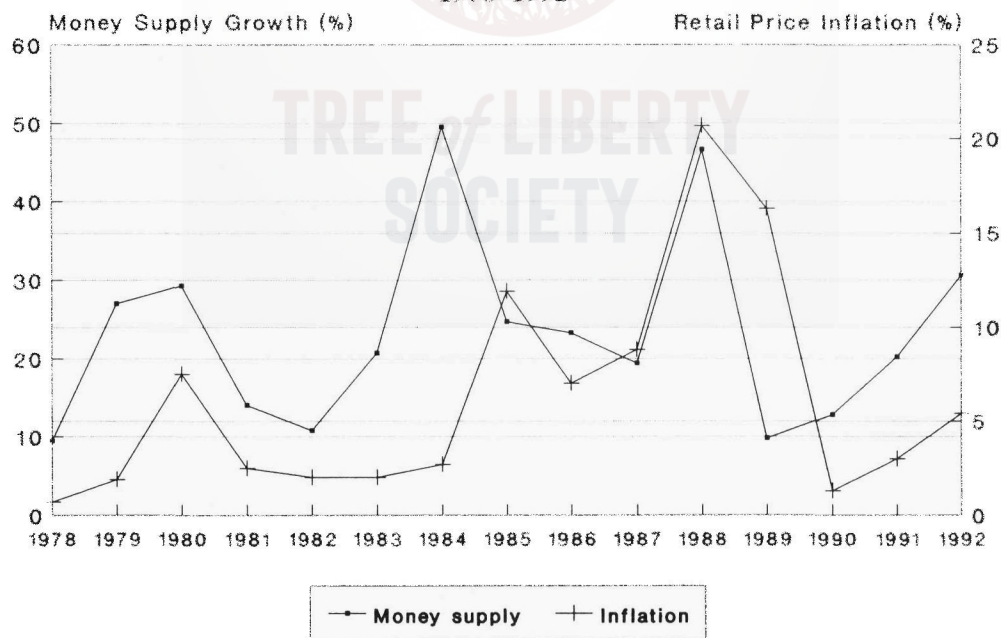
Herein lie China's dilemmas. In recent months, China's leaders have grappled with two contradictory economic imperatives. One is slowing an overheated economy. The other is seizing perceived historical opportunities for accelerated development. Such are the dilemmas inherent in implementing a "socialist market economy."

As figure 3 illustrates, in 1980, 1984,

and 1988, as is common for developing economies, China moved through three cycles of high growth and high inflation (as indicated by inflated prices and excessive money supply). Under the direction of Vice Premier and Central Bank Governor Zhu Rongji, Beijing is trying to soften the landing and avoid a fourth retrenchment by tightening credit, controlling the money supply, and trying to bring the provinces into line.

Yet, something of the spirit of the Great Leap Forward lives, apparently, for Deng and other senior leaders impatient to make up missed historical opportunities and determined to build an economic momentum that will outlive them. Thus, the argument that the costs of missing economic oppor-

Figure 3
China's Economic Cycles
1978-1992



Source: *China Statistical Yearbook 1992* (Beijing: State Statistical Yearbook of the PRC, 1992), p. 205; *IMF International Financial Statistics* (Washington, D.C., 1989, 1992, July 1993).

Note: Money supply growth and retail price inflation are shown with different scales. Money supply growth should be read against the left-hand scale, retail price inflation against the right-hand scale.

tunity were greater than the costs of an overheated economy contributed to growth-oriented amendments to China's constitution on March 29, 1993, and inspired the upward adjustment of the national target for average annual economic growth from 6 percent to 8 to 9 percent in the Eighth Five-Year Plan (1991–1995).

The difficulties are many.

China's theoretical debate continues. From "economic laws" to "initial stage of socialism" to today's "socialist market economy," the doctrinal and practical arguments continue regarding ownership and means of production, whether in the context of stock markets or agricultural systems.

Structural economic reform can rationalize prices but is inevitably accompanied by increased income differential, "short-term behavior," and the "red-eye disease of jealousy."

Economic growth does not come without a price for a socialist system with a massive population living in a wide diversity of settings. Twenty percent of the earth's population now lives on 7 percent of the planet's territory; and, although China is now the world's second largest country, only 14 percent of its land is arable.

Significant regional disparities highlight differential growth between interior and coasts. For example, Guangdong, fueled by external capital and trade, enjoyed over 22 percent growth last year. Per capita income in rural, coastal Zhejiang was 1,015 yuan in 1991, almost 50 percent again the national rural average of 701 yuan, and almost three times that of a poor hinterland province such as Yunnan (329 yuan). In 1990, 119 of China's counties reported a per capita income of less than \$43; one-fifth of China's peasants are without electricity; one-tenth are not served by public roads.

Particularly in the coastal areas, im-

portant blurring of rural and urban is now occurring. For example, of the 75 percent of collective industrial enterprises located in urban areas, one-half are owned by villages and rural townships. Since 1984, 273 new cities and 9,000 new towns have been established, largely based on a change of name for areas benefiting from expanded production capacities. Guangdong symbolizes this shift in the structure of employment; only 60 percent of its rural population are still engaged in agriculture, down from 90 percent in 1978.

The Chinese know speed of development is not merely a target or percentage; for this reason, China seeks the following economic priorities over the next five years:

- to reach its strategic target of doubling 1980 GNP;
- to see the return of sovereignty over Hong Kong;
- to enter the General Agreement on Tariffs and Trade (GATT);
- to draft more legislation to facilitate development of a socialist market economy.

2. Dealing with Hong Kong, Taiwan, and Overseas Chinese Communities. The spark of China's fourth revolution has come from within, but its fuel has come from East Asia, led by Hong Kong and Taiwan. Some 82 percent of foreign investment in China—\$50 billion by the end of 1992—has come from Asia. According to Chinese statistics, Hong Kong, Macao, and Taiwan account for 67 percent; Japan for 13 percent; Europe and the Western Hemisphere for 13 percent; the countries of the Association of Southeast Asian Nations for 2 percent; others for the remaining 5 percent.

China's economic development has in many ways been driven by businessmen in Hong Kong, Taiwan, and

among the overseas Chinese. Drawing on capital pools that may surpass \$1 to \$1.5 trillion, Chinese investors large and small across the region have driven the China boom for reasons of profit, prestige, and family ties.

Hong Kong manufacturers, for example, have invested more than \$10 billion in the PRC, establishing some 25,000 factories in Guangdong province alone. Hong Kong has thus become a center of management and investment capital, employing some 3 million workers (four times its own labor force) across the Chinese border in the production of clothing, toys, and other export goods. The investors include:

- Li Ka-shing, of Hutchison Whampoa, Ltd., reputedly the world's richest Chinese with assets of \$5.8 billion, who has signed deals to build a container port in Shanghai, shopping centers there and in Beijing, and an industrial park and highway in southern China. He also intends to buy a steel plant in Beijing.
- Peter Woo, son-in-law of the late shipping magnate Sir Y. K. Pao, who sees the future growth in the population centers in China's vast interior. Accordingly, he is investing in a \$2 billion industrial park, rail, and port project to make Wuhan a hub in the economic flowering of the Yangtze River area. Woo also wants to build a container port near the mouth of the Yangtze at Ningbo, his father-in-law's home town.
- Gordon Wu, a Princeton-educated engineer and managing director of Hong Kong's Hopewell Holdings, who is forging another kind of tie. He has financed a \$1.2 billion, 122-kilometer superhighway that links Guangzhou, the capital of Guang-

dong, with the special economic zone of Shenzhen, effectively opening more of the interior of already-dynamic Guangdong province to the ready ports and processing zones of the coast.

The economic success of China's fourth revolution may facilitate the transition of Hong Kong's 404 square miles and 5.8 million people from British colony to Special Administrative Region.

Today, leading Hong Kong businessmen stress three points. (1) China's most-favored nation (MFN) trade status is essential for investor confidence in Hong Kong; (2) good, long-term Sino-U.S. relations are vital to the region, particularly as Britain's role changes; and (3) although everyone favors China's democratization, Asian cultural contexts affect human rights standards. In this view, MFN should not be made contingent on Hong Kong's democratization.

Beijing must now balance the impact of Hong Kong's freewheeling lifestyle (South China eagerly tunes in to Hong Kong television) with the economic integration of Hong Kong as part of the Pearl River delta, even as Hong Kong prepares for a unique identity after July 1, 1997, as mandated by the 1984 Sino-British agreement.

With respect to Taiwan, it was to a delegation from the Center for Strategic and International Studies visiting Beijing in February 1984 that Deng Xiaoping first enunciated his formula of "one country, two systems." This idea explicitly recognizes that changes on the Taiwan side of the Taiwan Strait will occur outside the PRC's socialist system. It countenances them so long as China is preserved as one country.

Many developments affecting and

reflecting cross-strait relations will transpire in the upcoming months. Presidential elections are scheduled in Taiwan in 1996, although discussion continues about modalities and dates. A first round of unofficial talks was held in Singapore on April 27–29, 1993, between Chairman Koo Chen-fu of Taipei's Straits Exchange Foundation and Chairman Wang Daohan of Beijing's Association for Relations Across the Taiwan Straits. Preparation for a second is now under way. The 14th Kuomintang Party Congress in Taipei in August 1993 (at which three mainland China reporters participated for the first time) evidenced the political volatility in Taiwan between Taipei's one China policy and its desire for appropriate international recognition, including representation in the United Nations (UN).

Now over 4.2 million visits have taken place from Taiwan to the mainland, with over 40,000 visits the other way. Some 40,000 letters and 13,000 phone calls cross the strait daily. Taiwan-mainland indirect trade between 1987 and 1992 exceeded \$20 billion; in 1992 alone, indirect trade totaled \$6.28 billion, a 35 percent increase over 1991. Official Taiwan investment in the mainland now totals over \$10 billion.

3. *Managing Leadership Succession.* China's rolling leadership succession continues, a watershed change in generational leadership at a time when economic and social directions remain to be charted. It remains impossible to measure, as with Mao, how much power and prestige Deng Xiaoping has held, and holds, until he is no longer there. He has been both check and balance.

A concerted attempt to guarantee leadership stability now gives senior leaders such as Jiang Zemin concur-

rent positions within the party (general secretary), military (chairman of the Central Military Commission), and government (state president). In any case, leadership change will not come all at once by political fiat or sudden actuarial change, but will rather combine elements of Peking opera played out in the sometimes dark corridors of power. It is a continuous play of numberless acts.

The deaths of Wang Zhen and Li Xiannian reduced China's so-called "Eight Old Men" or "Eight Immortals" to six; led by Deng Xiaoping, they include Yang Shangkun, Chen Yun, Peng Zhen, Bo Yibo, and Xi Zhongxun. Their average age is 87.3 years. Yet China's leadership succession entails much more than waiting for the "old men" to pass away. The average age of China's seven-person ruling Politburo standing committee is only 64.7 years. Included in this elite group at the pinnacle of formal power are Jiang Zemin, 67 years old; Li Peng, 65; Qiao Shi, 69; Li Ruihuan, 59; Zhu Rongji, 65; Liu Huaqing, 77; and Hu Jintao, 51. But power and authority will no doubt become more diffuse and bureaucratically fragmented after Deng; no one in this successor generation commands Long March loyalty across the army, party, and government.

China's continued efforts to professionalize and invigorate its leadership are also evidenced by the fact that at 59 years the average age of the 20-member Politburo is even younger than that body's standing committee. Further, 70 percent of the members of the National People's Congress standing committee are new, averaging 64.5 years (2.9 years younger than the previous one), with 76.6 percent having graduated from college. All this argues for a more narrow scope of political debate and, possibly, a relatively

smooth transition after Deng Xiaoping.

Still, tensions are inevitable in collective leadership structures; the "core" leaders around whom consensus is expected to form will face surprises as power shifts generationally and among institutions (including the People's Liberation Army [PLA] and National People's Congress) and among levels and regions.

4. Maintaining Systemic Legitimacy and Stability. Those jockeying for power in China know that legitimacy requires both stability and a renewed motivating momentum. This is why Beijing must harness the potentially legitimizing but sometimes volatile forces of nationalism and ideology. This is why its bid to host the Olympic Games became so politicized.

Ordinary citizens throughout China want signposts for the future. Unbridled economic Darwinism is now manifest in the mad rush to make money in real estate, trading companies, and almost anything else. Alarming numbers of women and children are being bought and sold; the incidence of drug use and AIDS is rising; public security officials are receiving posthumous medals for stopping train robberies.

Some say China's socialist system will collapse from outside pressure, some say it is crumbling from the inside. Others posit it will be maintained and gradually transformed by incremental adjustments. Still others predict it will be overhauled through structural reform and liberalization.

As the popular Chinese expression puts it: "Let go and everything becomes chaos; grasp and it dies" (*yi fang, jiu luan; yi zhua, jiu si*). Oscillations will continue as forces of change shake old patterns and distributions of power, wealth, and opportunity, only to be reined in when they threaten the

core institutions and moral values of modern Chinese society. As in the past, China's governing system endures in part because no one wants chaos, although the future of that system remains full of unpredictable twists and turns.

5. Defining a Post-Gulf, Post-Cold War International Role and Identity. The measure of a country is not only its output of steel or very-large-scale integrated chips, its oil consumption or export volume. The measure of a country also requires an ongoing assessment of its history and culture, its self-concept and identity, and, therefore, the likely proclivities and aspirations of its leaders and people.

In this regard, the nationalism and rising standards of living that are becoming the basis of legitimacy for a fourth-revolution China underscore Beijing's traditional objective: to project global influence while asserting regional great power interests according to the dictates of sober realpolitik.

A noted Chinese strategist, the late Huan Xiang, once characterized Beijing's perspective on the international situation in an elegant 16-character description: "One world, two systems, political and economic multipolarity, competitive coexistence." How Beijing fits itself into this new environment will reflect and direct the regional and global implications of China's fourth revolution.

The post-cold war world suggests Beijing must shift from playing the margins of the power balance in the old bipolar system; it also requires Beijing to adjust to the competitive realities of market economies through the GATT, the Asia-Pacific Economic Cooperation, and other rules and groupings. Beyond the importance of high-tech weaponry, the post-Gulf war era highlights the even more crit-

ical role of advanced command, control, communications, and intelligence, of coordinated lift, logistics, and combined arms operations. It demonstrates the continuing utility of highly maneuverable, lethal military force, as well as the leverage of a permanent seat on the United Nations (UN) Security Council.

Given projected failure of domestic supply to meet overall oil demand, ongoing modernization needs and marketization interests in the PLA, issues of sovereign pride and privilege, and a sophisticated negotiating approach that seeks to maximize every possible asset, Beijing can be expected to take a firm posture regarding its various international interests. These include territorial claims (whether the Spratly Islands or various disputed borders); transfers or sales of weapons or weapons technology; and an expansive international diplomacy (including current ties in East Asia, expanding ties in the Middle East with countries as diverse as Iran and Israel, as well as developing ties in Europe, Latin America, and Africa).

A key issue remains the extent to which Beijing will see its security interests best advanced by abiding by established international rules and regimes, whether the Nuclear Non-Proliferation Treaty or the Missile Technology Control Regime.

Implications for the United States

Whether or not one accepts a shift toward the Pacific in the international center of gravity, current focus on U.S. domestic economic revitalization and thereby on geoeconomics only highlights the importance of U.S. ties to the Asia-Pacific and to China.

Concern for long-term U.S. competitiveness and the potential fragmentation of the world trade system

into competing North American, European, and East Asian trading blocs underlies a recognizable shift by Japan, China, and other East Asian countries toward closer regional cooperation even while they jockey for leadership and position in East Asia. For this reason, U.S. policy toward China is inseparable from U.S. East Asian regional interests and relations.

As has been noted, the coming five years will mark a watershed for China's internal directions and international role. During this period, the attention of the international community's policymakers, including those of the United States, will naturally focus on the intensified interaction of developments and events in the PRC, Taiwan, and Hong Kong.

For example, the pace, scope, and process of Hong Kong's reversion to PRC sovereignty on July 1, 1997, including the "through train" issues of political representation and legal rights, are inextricably tied to the ticking of the actuarial clock for the aged leaders in Zhongnanhai, to China's other interlocking domestic dilemmas, and to Beijing's interaction with the world.

Likewise, Taiwan's ongoing efforts to distribute political and economic power in the second generation and to balance the realities of substantial de facto independence against the risks of pursuing de jure independence are now inseparable from developments in the PRC. Taipei and Beijing share an interest in balancing exchange and cooperation against Taiwan's continued determination to secure an international role and identity. Taipei contends that as a country of 21 million people with a dynamic political system and vibrant economy, with the world's largest foreign exchange reserves (some \$82.3 billion), and as its 14th largest trading entity, Taiwan deserves

international "breathing space." Many in Taiwan feel Taipei is as well or better qualified than many other UN members and that, although nomenclature remains sensitive, Taiwan deserves representation in the United Nations and the UN family of institutions.

These interactions will demand comprehensive U.S. government policies to deal with the whole of China. They underscore the need for calibrated, high-level dialogue (not just visits) with Beijing and Taipei. U.S. policy-level decision makers should see for themselves the internal and interactive dynamics of the whole of China in regional and global context.

Systematic political dialogue with the PRC should include when necessary those at all levels in current leadership positions in Beijing and elsewhere, in the central offices and key ministries of the government, party, and army. This ongoing dialogue should also consciously be broadened to encompass other leaders and groups as a civil society emerges in China, including the National People's Congress, the provinces, and key urban centers.

The complexities of China's interactions also suggest an increasing need to broaden the communication web among actors within the region. Here, because of direct interests and historical ties to the PRC, Taiwan, and Hong Kong, the United States has a special role, as elsewhere in East Asia, as part of a two-track process. Governmental joint liaison, working groups, and commissions all have their contributions to make. In addition, nongovernmental efforts can bring together, in triangular or quadrilateral settings, key policy, business, and (in their private capacities) governmental decision makers to work through current issues and to anticipate future ones.

None of this suggests a shift in the official U.S. role. The United States has wisely eschewed setting negotiating timetables or conditions and has refused to mediate in cross-strait disputes. The nature and complexity of interactions within China, however, require an integrated analytical and policy response, as well as a means to draw on the best thinking, interests, and information from within and beyond government.

This process will remain ongoing. Success in various aspects of U.S. relations with the PRC, Taiwan, and Hong Kong can be expected to raise new challenges, whether in the political, economic, sociocultural, or security spheres.

In the economic arena, for example, the United States should patiently and persistently define and advance its own interests, not making undue concessions on GATT accession, implementation of intellectual property rights agreements, or market access memoranda of understanding. The PRC should not be unfairly singled out for stringent enforcement of bans on prison labor exports, mislabeled or transshipped imports, or dumping. But neither should the PRC be given unwarranted preferential treatment, especially not on the basis of vague future benefits promised to the United States.

As the past three years demonstrate, the broad mix of politics, policy, and philosophy inherent in the debate over China's MFN status demonstrates that it is too blunt an instrument to use for regulating overall U.S.-PRC relations. That is, unless Beijing chooses to violate the carefully developed guidelines the Clinton administration announced on May 27, 1993, which were intended to deal with economic and proliferation issues in alternative channels and thus condition Beijing's con-

tinued MFN status on broad improvement in human rights conditions alone.

Undermining China's socialist system or remaking it according to Washington's concepts should not be a U.S. policy objective. The interaction of global and domestic forces leading to a fourth revolution in China, as elsewhere, is a practical fact of everyday modern life, not of ideology.

Egregious violations of international conventions or law with respect to human rights are not strictly internal matters. Individual human rights cases should continue to be pursued by the public and private means most effective. Regardless of the institutional mechanism chosen to implement Radio Free Asia, U.S. interests are best reflected by the highest standards of professional, not polemical, international broadcasting.

Conclusion

Twin paradoxes remain at the heart of China's fourth revolution. Contrary to conventional wisdom that exchange automatically enhances mutual understanding, increased interchange has in some ways also heightened the realization in Washington and Beijing of how different their political and economic systems and their underlying patterns of organization and values really are.

But the parallel paradox for those in China eager to compete in the world is that they must do so on the world's terms. This represents a shift in the historical debate about whether or not

China can modernize without altering its traditional values and structures. The everyday reality is that it must and is.

Thus, significant divergences between China's realities and those of the outside world still exist. But these are increasingly subject to strong, ongoing forces of modernization that lead toward their convergence. These forces will be noted in China's long and continuing history as part of a fourth period of structural modernization—as part of China's fourth revolution, both from the outside in and the inside out.

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Notes

1. All dollar amounts cited in this article are in current U.S. dollars.
2. Following the Tiananmen tragedy, the world's outrage significantly undermined the will and ability of Russian troops and others to preserve forcefully the Soviet and East European regimes when they began to fragment in the latter part of 1989. For example, in the former East Berlin and Dresden recently, the author was told that the former East German government's public support for the repression at Tiananmen was a significant catalyst in the Honecker regime's own loss of legitimacy and subsequent downfall.
3. Anne Simone Kleinman, CSIS Asian Studies Program, elaborates this theme in a paper entitled "Across China: Regional Pluralism and Developmental Imbalance."