The Jiang Zemin Era (1993-2003)

The Principal Actors and Their Main Offices

Deng Xiaoping (1904-1997)

Paramount leader of the People's Republic of China (PRC) December 1978 - November 1989. Chairman of the Central Advisory Commission of the Chinese Communist Party (CCP) 1982-1987. Chairman of the Central Military Commission (CMC) 1981-1989.

Zhao Ziyang (1919-2005)

Premier of the PRC 1980-1987. Vice-Chairman of the CCP 1981-1982. General Secretary of the CCP 1987-1989.

Jiang Zemin (!926 -)

General Secretary of the CCP June 1989 – November 2002. President of the PRC March 1993 – November 2003. Chairman of the CMC 1989 – 2004.

Zhu Rongji (1928 -)

Premier of the PRC March 1998 – March 2003. Member of the CCP Politburo Standing Committee 1992 – 2002.

Yang Shangkun (1907 – 1998)

President of the PRC April 1988 – March 1993.

Brief biographies may be found in the Wikipedia entries.

Jiang Zemin was promoted to the top position in China by Deng Xiaoping, in the aftermath of the Tiananmen Square disaster (June 4, 1989). He replaced Zhao Ziyang, Deng's intended successor, whose preference for dialogue over a military solution cost him his job and his liberty. Jiang vigorously pursued the economic reforms initiated by Deng, following the model characterized by Zhao Ziyang as a "socialist market economy". In this Jiang was ably assisted by his financial lieutenant Zhu Rongji. There was, however, a steep cost paid in environmental degradation. Jiang was also a political reformer, but a rational one, not a radical. He preserved the governing structures, but modernized them. He made the bureaucracy more efficient, and younger. He broadened Party membership to include entrepreneurs and intellectuals, leaving behind the old association with the proletariat. Jiang also modernized and updated the armed forces. He fought corruption, and encouraged civic virtue. He promoted science and technology, and education generally. He cultivated good relations with many countries, particularly the U.S., and took China into the WTO in 2001. By the time Jiang transferred power peacefully to Hu Jintao, he had made a major contribution to the remarkable transformation of his country.

1. Jiang's Appointment; Deng's Position; Political Retrenchment

1.1 *Jiang's appointment, and reshuffling at the top.*

Part of the fallout from the violent end to the demonstrations in Tiananmen Square on June 4 !989 (the "June Fourth Incident") was the termination of Zhou Ziyang's career. He had been Deng's chosen successor, and his exit presented Deng with an urgent need to find a new successor. Since such a momentous decision was not to be carried out hastily or lightly, Deng had given the subject much thought before the enforcement of martial law on May 20 1989. After consulting Chen Yun and Li Xianian, he came to the conclusion that Jiang Zemin, the former mayor of Shanghai and its current party secretary, was an eminently suitable candidate. Since Shanghai was one of a few largest cities governed directly from the centre, Jiang's positions, being equal in rank to provincial governors and party secretaries, were sufficiently high to enable him to be promoted to the highest level of central leadership.

Jiang had served as a younger member of the Politburo since 1987, and was therefore already familiar with the affairs of the central government. Born in 1926, the 63-year-old Jiang was sufficiently young, and as a graduate of Jiaotong University, one of China's top engineering schools, he was intellectually qualified. Being the nephew and adopted son of a revolutionary martyr gave him extra appeal to revolutionary elders, who especially trusted people with such a background. As the party secretary of Shanghai, Jiang had cultivated good relations with Chen Yun and Li Xianian as their host, when the two elders habitually visited the more southernly city in the winter. His other qualifications included a knowledge of science and technology, valuable experience in the 'reform and opening' phase of China's development, and also in foreign affairs and the political supervision of large industrial concerns.

Deng also wanted someone who was political skilful and firm in handling crises. Jiang had demonstrated these qualities in having successfully diffused tension during the 1986 crisis of student agitations in Shanghai, and in shutting down the liberal *World Economic Herald* that had sided with the students. Yet Jiang had played no part in the June 4 crackdown. Li Peng, on the other hand, who might have expected to be promoted to the Party's top position, was too closely identified with that decision, which had undoubtedly incurred public resentment. This was an important reason why Deng did not choose Li.

Jiang's appointment was not announced officially until June 24, after he was formally voted party general secretary at the Fourth Plenum of the 13th Party Congress, which took place from June 23-24, 1989. This plenum also formally removed Zhao Ziyang from the Party General Secretaryship and all his other posts. It affirmed the measures taken to curb the "turmoil", and praised the senior leaders, including Deng, the military, and the police for their firm actions. As regards members of the Politburo Standing Committee, two new names, Song Bing (Director of Organization Department) and Li Ruihuan (the Party Secretary of Tianjin), were added to the existing ones, who were Jiang Zemin, Li Peng, Yao Yilin and Qiao Shi. As a reformer, Li Ruihuan would be placed in charge of propaganda work. He was also a replacement for Hu Qili, who was regarded as been too close to Zhao. Song Bing was chosen for his organizational skills. Having carried out Deng's wishes well, Li Peng would remain as Premier, with Yao Yilin as vice premier. The Fourth Plenum confirmed the above panel of leaders, who already had the backing of the three elders, Deng Xiaoping, Chen Yun and Li Xianian.

Deng had reasons to be pleased with his choice, as Jiang seemed to learn quickly how to establish good relations with the key elders, and he displayed political acumen by bringing his Shanghai subordinate, Zeng Qinghong, a well-connected and astute political networker, to be vice-director of the Organization Department of the Central Committee. Jiang's conservative political policy and outlook appeared to be in tune with those of Deng's generation. Party cells were re-introduced into government ministries, reversing what Zhao Ziyang had done. Jiang and his colleagues carried out vigorously the post-Tiananmen purges of "bourgeois" elements, tightening the party control of its cadres and the media. One million college students were sent to the countryside during the summer of 1989, in Cultural Revolution style, to learn from peasants and workers. Clearly the political mood had swung to retrenchment.

In addition to the top leadership reshuffling above the ministerial level, a mass rectification campaign was conducted among the party / government cadres to eliminate the influence of Zhao Ziyang and his associates. Zhao himself protested, over and over again by letter, the illegality of his removal from his

posts, and his long-term house arrest. All party members were obliged to re-register. Only those who could satisfy the ideological requirement of total devotion to Marxism-Leninism, and the official view of the June 4 incident, were allowed to retain their membership.

1.2 *Jiang and the army (PLA)*

The leadership reshuffling was not just a civilian affair; it also extended to the PLA. Although the military had played a crucial part in ending the student demonstrations in Tiananmen Square, there were dissenting voices among some PLA retired marshals, officers and soldiers regarding the decision to bring in the troops to do the job. The perceived need to forge a PLA more united behind the government, together with Deng's wish to strengthen Jiang's position at the top, were important reasons for reshuffling the military leadership. Lacking the revolutionary credentials of Deng and other elders, the third - generation leaders like Jiang needed the cachet of official positions to buttress their authority.

Deng was still, in practice, China's paramount leader, but the only position of substance he held was the chairman of the Central Military Commission (CMC), a post he had taken over from Mao's heir Hua Guofeng in 1981. Mao had been the CMC chairman from 1936 until his death in 1976. Although the CCP adhered firmly to a policy of subordinating the military to civilian control, its leaders, from Mao to Deng, knew that in the case of societal disorder, accompanied by an important split among top party leaders, such as had occurred during the Cultural Revolution and the June Fourth Incident, the person who controlled the army would have the final say. Deng did not want to repeat the situation in which the party had to rely on a dying and totally incapacitated Mao to make the most important decisions for it. At 85, when he was still relatively healthy and could influence events, Deng decided to pass the pivotal position of chairmanship of the CMC to Jiang Zemin. This would enable Jiang to build a power base of support in the PLA, and unite both the party and military behind him to get things done.

This was an uphill battle, because Jiang had no military experience, and Yang Shangkun, the President of the PRC and Deng's comrade-in-arms, did not approve of Deng's choice. Deng had to work hard to get members of the Central Committee on board, so as to elect Jiang chairman of the CME during the Fifth Plenum of the 13th Central Committee on November 9, 1989.

President Yang Shangkun's opposition to Jiang's getting the top military spot did not prevent Deng from trying to enlist the support, and utilize the experience, of Yang and his younger half-brother General Yang Baiping, by making the former the first vice chairman of the CMC, just below Jiang, and the latter the CMC general secretary, in charge of running the daily affairs of the military establishment. Being in charge of

the General Political Department of the PLA that controlled propaganda and personnel promotion, the Yang brothers could easily out manoeuvre Jiang in military affairs. In order to counterbalance the power of the two Yangs, Deng arranged for the 73-year-old former Second Field Army general, Liu Huaqing, to be the second vice-president of the CMC. The placement of Liu and Jiang on one side, and the Yangs on the other, appeared to strike a rough balance of power in military affairs.

In addition to changes at the top, the party reorganized the leadership of the seven regional military commands by replacing the existing senior commanders and political commissars. Those who were thought to have sympathised with the student movement were removed from their posts, or reprimanded.

Since the People's Armed Police had shown incompetence during the student demonstrations, a rectification drive was carried out amongst its 600,000 members. The whole organization was placed under the control of the CMC instead of the ministry of public security, and its original commanders and political commissars were replaced by new appointees.

During Jiang's initial years as chairman of the CMC, though he had to struggle with the Yang brothers on military matters, he lost no opportunity to win the support of the PLA. In his first two years, Jiang toured over one hundred military installations, showing a lively interest in every aspect of the operation of the military, the strategic thinking of the generals, and the living conditions of the soldiers. Notwithstanding these efforts, Jiang found it very difficult to exercise power as the commander-in-chief of the military, because of the Yang brothers, and because the security of his position depended still on Deng's patronage, and the approval of the key elders, Chen Yun and Li Xianian.

The Plenum of November 9, 1989, marked Deng's official retirement, and his withdrawal from dominating the political scene through framing issues, deciding on policies, and having the final say. Because of the enormous prestige and respect Deng enjoyed among Party leaders, he still retained great influence in the Party. He also decided that he would continue to receive important foreign leaders who had worked with him in the past.

Having set an example by retiring while he could still be active politically, Deng asserted once more the need for a mandatory retirement age, and for proper official retirement procedures to be established for the elderly top officials. He saw the lack of a mandatory retirement age as a "critical weakness" in the Chinese system, ever since imperial times. He directed that at the next (Fourth) Party Congress in 1992, the Central Advisory Committee, which he had created to provide jobs and emolument for the generation of revolutionary elders, should be abolished.

2. Deng's Eagerness for Economic Growth

2.1 *The Collapse of Communist Regimes in USSR and Eastern Europe: its Impact on the CCP*

On November 10, 1989, shortly after Deng officially resigned, the Berlin wall fell. The rapid serial collapse of Communist regimes in Eastern Europe, starting with Poland in the summer of 1989, and ending in December 1991 with the dissolution of the Soviet Union, the leader of the Warsaw Pact, was deeply disturbing to the leaders of the CCP. The state-controlled Chinese media kept much of the developments leading to regime changes in these countries secret from the Chinese public. The Chinese people were kept in the dark about Poland voting for a democratically elected parliament in June 1989, the East Germans' massive protest on the fortieth anniversary of Communist rule in October 1989, the turmoil in Romania when Ceausescu ordered his troops to fire on civilians on December 17, 1989, and the split of the Baltic states, Estonia, Lithuania and Latvia from the Soviet Union, between March and May 1990. The execution of Ceausescu on December 25, 1989, after he and his wife were captured by the rebellious armed forces of that country, was especially upsetting to Deng, who had a long-term warm relationship with the Rumanian leader. But even though the Chinese government was slow in letting its people know about these earth-shaking events, it followed a pragmatic foreign policy approach, by promptly granting recognition to the independent national entities that emerged from this breakup.

Deng and his colleagues had used China's military force to put down successfully what they regarded as a counterrevolutionary "rebellion" against the CCP on June 4, 1989. They now tried to draw lessons from the downfall of other Communist regimes: in particular, to analyse the reasons for the survival of their own rule and the failure of the others. They also tried to anticipate what they must do to forestall such a fate in the future. One strand in their thinking emerged when Jiang addressed Journalists in Hong Kong, in December 1989, in the midst of the Romanian crisis. There was no censorship in the British colony, which was due to revert to China in 1997, and the people there were aware of what was happening in the world. They had been deeply disturbed by the June Fourth Incident, and by the collapse of Communist regimes in Europe. Jiang expounded the CCP's official view on the differences between China and the politically crumbling European Communist states, in order to reassure the Hong Kong residents of China's stability.

Jiang explained to his Hong Kong audience that China's situation was fundamentally different from that of Eastern Europe, which came under Communist control with the Russian occupation after World War II. The founding of the PRC was the result of the victory of China's own army, whereas Eastern Europe and the Baltic States had been "liberated" by foreign armed forces. Geographically, China was not surrounded by capitalist countries like Eastern Europe. Furthermore, China's successful economic reform had already improved the standard of living millions of people, while the economy of the Warsaw block countries had remained stagnant. On the subject of martial law, Jiang asserted that it had been used to preserve order, rather than to crush unruly students. However, to avoid giving the people of Hong Kong false hopes, he declared that democracy was a worthy goal, but its realization in China would depend on the stability of the country.

In spite of the alarming events in the former Soviet bloc, and the Chinese leaders' anxiety about whether their country was going to meet the same fate, they followed Deng's example of keeping a cool exterior, and holding on to their faith in their party and to Deng's Four Cardinal Principles[1]. They tried to convince the world, and the Chinese people, that without the CCP's strong leadership, China would be in chaos. The Chinese people needed the CCP to maintain order and stability. They preached that order and stability were absolutely necessary for China to achieve its fundamental goal of being transformed into a strong, prosperous, and modern country.

The Chinese leaders believed that, being surrounded by richer and more successful Western democracies, the Communist party leaders of Eastern European and the Soviet Union had allowed themselves to be weakened by losing faith in Marxist-Leninist ideology. They had not performed their duty of strengthening their parties' rule. Worse of all, they had neglected to reform their economies for the benefit of their countrymen, while they themselves led highly comfortable and privileged lives.

2.2 *Economic growth is the basis of the Party's legitimacy*

How, then, was China different, and why should the PRC be immune from the same fate that overtook these other countries which were once under Communist party rule? Part of the answer lay in what Jiang had told his Hong Kong audience. But to Deng Xiaoping the most important reason was that when the

[1] Enshrined in China's Constitution in 1982. They are: 1) The principle of upholding the socialist path. 2) The principle of upholding the people's democratic leadership. 2) The principle of upholding the leadership of the CCP. 4) The principle of upholding Mao Zedong Thought and Marxism-Leninism.

policy of economic 'reform and opening' had been followed, despite oscillations between periods of liberalization and retrenchment, it had enabled China's economy to achieve spectacular growth, and had improved the standard of living of very many Chinese people. This, in Deng's view, was what underpinned the legitimacy of the regime, and the people's support for it.

On the matter of losing faith in the founding ideology of the Communist party, the Chinese leaders could not really consider themselves as an exception to this phenomenon. After all, Deng Xiaoping's reform and opening up to the capitalist countries was effectively turning China away from the revolutionary ideals that which had fuelled the disasters of Mao's Great Leap Forward and the Cultural Revolution. Deng's reformers were trying to turn China into a market economy. Learning science, technology and management methods from the developed countries, exporting cheap labour-intensive goods to them, providing opportunities for private capital investment, both Chinese and foreign, were methods they used to achieve their goal. That said, there remained a significant part of the Chinese leadership, which included revolutionary elders, such as Chen Yun and Li Xianian, who retained a strong faith in the Soviet Stalinist type of polity and economy. They kept the planned part of the Chinese economy going, and periodically they put up roadblocks to slow down, or even to halt temporarily, the economic reform managed by Deng's followers, especially when the economy became overheated.

Despite the fact that Deng Xiaoping had embraced the market economy, or had "taken the capitalist road" in his pursuit of the reform and opening, he did not acknowledge it as such. He adopted Zhao Ziyang's form of words, which characterized China's economy during the reform period as one at the "initial stage of socialism", or a "socialist market economy". Conveniently for them, such a period could stretch indefinitely into the future. This verbal sleight of hand enabled Deng and the reformers to unite with the more leftish (i.e. more Maoist) Chinese leaders, to claim China for socialism, albeit a special type with "Chinese characteristics". Although the Chinese leaders' divergent approaches to their economy did often produced tension among them, the reformers and the planners nevertheless succeeded, by and large, in keeping a united front to the Chinese public and to the world.

The economy aside, Deng was politically as conservative as Chen Yun and Li Xianian. After all, one of his Four Cardinal Principles guiding China was Marxism-Leninism and Mao Zedong Thought. Unlike the collapsed Communist regimes in other parts of the world, the CCP leaders did not entirely jettison the founding ideology of their party. They also kept the party centre strong, which enabled them to dominate the regional and local cadres, to control the military, and to keep the Chinese public in line when crises occurred. The fall of their fellow Communist regimes convinced Deng and his cohorts even more that they

had been right to stand firm, and use force to nip a rebellion in the bud, and so avoid the fate of the fallen Communist regimes. On June 16, 1989, talking to leading members of the Central Committee about his coming retirement, Deng expressed his belief that the forceful response on June 4, 1989 had silenced the opposition, enabling China to have a decade or two of stability, the fundamental pre-requisite for economic growth. He also urged them to demonstrate to the world their continuing commitment to the economic reform and opening, and on no account to let the economy slow down.

Throughout the collapse of the European Communist regimes, Deng maintained a steely optimism that the CCP was not only going to survive, but would also triumph over future challenges. His advice to his fellow CCP leaders was: "observe calmly, hold ones' own ground, respond soberly, and get things done" (*lengjing guancha, wenzhu zhenjiao, chenzhou yingfu, yousuo zuowei*). The political retrenchments carried out by Jiang Zemin were measures designed to prolong the life, and strengthen the stability, of China's "socialist" regime.

2.2 *Deng's anxiety over economic stagnation*

While Deng and his fellow party leaders believed that they should remain vigilant against subversion, they had reasons to think that their regime was not in danger of imminent collapse, as long as they could continue to deliver economic growth. Unfortunately, however, since Zhao Ziyang's loss of the economic initiative to the conservatives in September 1988, after the 3rd Plenum of the 13th Party Congress, China was experiencing a period of austerity that was dominated by Chen Yun's approach to the economy. Chen and his supporters still held that the planned economy should have primacy, and that the reform undermined the purity of the Communist ideology. They blamed the quickening of the pace of reform for the failure to control inflation, which they thought was responsible for to the turmoil of June Fourth. Although Chen's policy, supported by Li Peng and other leaders of the Politburo, helped to curb inflation and balance the budget, it also led to lower growth rates than the earlier years when Zhao was in power. Foreign sanctions after June Fourth compounded China's economic woes, and the Chinese economy stagnated during the period from late 1988 to 1992.

This situation was intensely troubling to Deng, who worried that, without the kind of growth of the reform years, the economic slowdown might lead China to experience serious political problems. Deng passionately believed that the conservative economic policy must be halted and rapid growth rekindled, to prevent China from suffering the fate (as he saw it) of Eastern Europe and the Soviet Union. He was

Looking for a strategically located area with the potential to kick start growth, and during his winter vacations in Shanghai in the late 1980s he identified Shanghai's Pudong as the ideal spot for this purpose.

Pudong, meaning east of the Pu (river), referred to a still rural area on the east bank of the Huangpu River, which branched out from the Yangzi delta into the sea. Deng thought that development of Pudong as a new Special Economic Zone (SEZ), could revive Shanghai's former preeminent position as China's commercial and financial centre in the 1930s, when Hong Kong was only a minor trading port. The local leaders of Shanghai had been unhappy with the Party's preference to open the economy of Guangdong and Fujian rather than Shanghai, despite their city's host of advantages over those two areas, such as higher levels of education, science, technology, and industry. They were thrilled by Deng's suggestion. They were delighted to hear that Deng wanted to develop Shanghai through making Pudong into an SEZ. In his exchanges with the high-level Shanghai officials, Deng was especially impressed with Zhu Rongji, Jiang Zemin's replacement as the Shanghai party secretary. Zhu struck him as a rare talent, who combined a sound strategic understanding of how to undertake reform, with strong political leadership. In addition to the enthusiasm of the city's leaders, the people of Shanghai naturally welcomed the economic opportunities such a development would bring them.

Chen Yun, who also spent winter vacations in Shanghai, was opposed to Deng's idea of developing Pudong. Apart from Shanghai's important place in Chen's planned economy, he also feared the return of the "comprador mentality" and the various vices Shanghai had been noted for during its semi-colonial past. After June Fourth, Chen and his Politburo Bureau supporters, Premier Li Peng included, were more afraid of economic overheating than of slow growth. They were determined to reign in the pace of reform. While uttering support for Deng's reform and opening, Jiang Zemin also followed Chen Yun's line, by asserting at the November Party Plenum that China "must not depart from national conditions, exceed its national strength, be anxious for success, or have great ups and downs". Although Chen and Deng avoided criticizing each other's economic stand in public, their respective supporters did so on their behalf.

Frustrated by the slow growth and the planners' tight control of the economy, Deng called meetings twice with Jiang Zemin, Li Peng and Yang Shangkun during 1990, one on March 3 and another on December 24, the eve of the meeting of the Seventh Plenum of the Thirteenth Party Congress. During these meetings, he lectured them about the danger of economic stagnation, the need to accelerate growth, and the importance of doubling the economy by 2000. He urged them to heed the Shanghai leaders' plea to develop Pudong, and reminded them that it was vital to be bold and not to be afraid of taking risks. But

his passionate exhortations fell on deaf ears, the Seven Plenum still continued to support Chen Yun's conservative economic line.

In 1991, the eight-six-year-old Deng found that his inability to influence the economic policy at Beijing was compounded by his not being able to publicize his views on developing Pudong, and on the need to push for economic growth, through the *People's Daily*, the central mouthpiece of the Party, which was controlled by Chen Yun's supporters. Instead, Deng succeeded in getting a series of articles published in Shanghai's Liberation Daily under the name of "Huangpu Ping". They took the form of a Commentary from the Huangpu River, which stood for Shanghai. The articles blasted the conservatives' economic policy for equating the use of market mechanisms with capitalism, and planning with socialism. In the commentary, Deng stressed that the use of planning and markets were both just means to the end of developing China's productive forces. He also argued for the opening up of Pudong as an SEZ. Deng's experience had a parallel (but with the ideology reversed) with that of the seventy-one-year-old Mao, who in 1965, fuming at the policies pursued by his "capitalist colleagues", published his views in Shanghai's *Guangming Daily*, when he was unable to do so in the *People's Daily*. Deng's small win in Shanghai did not prevent the Beijing newspapers, as well as Premier Li Peng, from criticizing the Huangpu Ping, in ignorance of the true authorship.

During the same year, Deng was able to gather sufficient support to bring Zhu Rongji, who had impressed him in Shanghai, to Beijing to serve as Vice Premier. But even Zhu made no impact on the conservative's cautious economic approach with Premier Li Peng in charge.

2.3 *A turning point: Deng's momentous "Southern Tour" (Nanfang)*

Like the wrathful Mao in 1966, who took a train south to Hangzhou and Wuhan to set China ablaze and initiate his Cultural Revolution in a political more receptive climate, the deeply frustrated Deng in 1992 also boarded a train south to Wuhan, and thence via Guangzhou and Zhuhai to Shenzhen. In this case, the purpose was the direct opposite of Mao's. Though ostensibly Deng's journey was undertaken for him to have a vacation with members of his extended family, its real purpose was to reignite the drive for China to join the global economic growth, in regions that would welcome it. This momentous southern journey (known in Chinese as *nanxun,* a term referring traditionally to an emperor 's southern travel, or *nanfang*, meaning simply a southern visit) by Deng was his last major political battle, one of immense significance to the future of China. In 1992, China was at a turning point: it could revert back into a predominantly planned economy with a small market element, as Chen Yun and his supporter were aiming to do, or it could continue, or even accelerate, along the path of reform and opening in accordance with the spirit of

the 1978 Third Plenum of the Eleventh Party Congress, as pushed by Deng at that time (not long after the disastrous Cultural Revolution).

Deng was confident that he would not only meet little resistance, but would gain a lot of support from the southern province of Guangdong, and particularly Shenzhen and Zhuhai, the most vibrant of the SEZs. These cities had benefited enormously from the reform and opening policy, and they spurred the prosperity of the entire region around them. They had become showplaces of modern infrastructure and thriving factories, which provided employment opportunities to migrant workers, and spread growth deep into the rural hinterland in the province of Guangdong.

Deng was right. As the purpose for his *nanfang* became apparent to the party chiefs and the people of the south, their support for his message was overwhelming. They were overjoyed that instead of getting the yellow and red light from Beijing on further economic expansion, someone as influential as Deng had come from the capital to urge them to be bold and grow faster, something they deeply desired. Deng confided to them in private saying “the leftist policy could have dire consequences, or even destroy socialism”. Deng believed that China needed to worry more about the influence of the left (Maoists) than that of the right (reformers).

When Deng arrived at Shenzhen on February 19 1992, the local officials there eagerly accompanied him to view the many fruits of the reform and opening policy which he had initiated. They also happily informed Deng that the average annual per capita income of the Shenzhen residents had risen to 2,000 yuan by 1992, from 600 yuan in 1984. Deng urged Shenzhen to catch up with the four “Asian Tigers” - Hong Kong, Singapore, South Korea and Taiwan - within twenty years.

Hearing about Deng’s coming via the grapevine, large crowds of local people appeared as Deng came out of the fifty-three story World Trade Centre, where he had seen vast new constructions from the revolving restaurant at its top. They formed a spontaneous welcoming party for Deng, cheering and clapping with expressions of support and gratitude to the aging reformer, who was in high spirits, and exchanged witty repartee with them.

Since Deng’s trip was billed officially as a family vacation, only one journalist and one photographer accompanied him, and he was not supposed to hold press conferences. However, when the Hong Kong media became aware that Deng’s southern journey was really more of a crusade for faster economic growth than a family vacation, a large number of reporters and photographers rushed across the border into Shenzhen. They followed Deng closely during his visits, straining to catch or record Deng’s every utterance.

On January 22, three days after his arrival at Shenzhen, the Hong Kong newspaper, *Ming bao*, not only broke the news of Deng's visit, but also carried the message of his push for accelerating growth. On January 23, Deng's visit also appeared on Hong Kong television. The Chinese officials in southern Guangdong, who controlled propaganda in favour of the leftists' messages, were unable to prevent millions of people there from seeing Deng's visit to Shenzhen, and its significance.

After Shenzhen, Deng's next stop was Zhuhai, where he held a meeting, with Qiao Shi, a member of the Politburo Standing Committee and Jiang's rival, in the chair. The meeting was represented as one for military planning with the PLA core leaders: Yang Shangkun, Yang Baiping, and Liu Hauqing were all present. However, Jiang Zemin realized that this gathering of heavy-weight supporters for Deng's push to speed up reform and opening was really a way to put pressure on him. Deng had already said to the local leaders during his first stop of his journey in Wuhan: "whoever is against reform must leave office". From a report of Deng's meeting in Zhuhai, Jiang understood that if he did not come out strongly and explicitly for accelerating reform and opening, he might be pushed aside by Deng in favour of Qiao Shi, who had identified himself with Deng's line. And although Deng had already retired, and had yielded the chairmanship of the CMC to Jiang, Jiang's position up to this point was not entirely secured, without Deng's support, because Jiang did not have real control of the military.

Deng's southern journey was a breakthrough for the cause of restarting the reform and opening, despite the initial boycott of the news of his visits to Shenzhen and Zhuhai by those who then controlled the Party centre's media from Beijing. A lot of credit should go to Hong Kong journalists and media, who had no inhibitions about reporting the purpose of Deng's southern tour. After Jiang Zemin felt the threat to his position, and witnessed the impressive support of local officials and the people in Guangdong and Shanghai, as well as the support of the PLA, for Deng's crusade, Jiang fell in line with Deng's position.

Deng returned to Beijing on February 21, 1992, via Shanghai, where his talks in Shenzhen and Zhuhai, which became known as *nanfang tanhua* or southern talks, were summarized by a team of writers. Jiang Zemin and his colleagues began to acclimatize the public to the change from the conservative planners' approach to the economy, to Deng's call for accelerated growth. During the spring, the Beijing media began to report Deng's southern journey, and brought out editorials exhorting people to be more daring in reform and opening. Deng's southern talks were issued by the Party centre as Document No. 2 to members of the Central Committee and selected other groups. The March Politburo meeting approved a summary of these talks as the new guideline for official policy.

3. The second phase of economic reform in China

3.1 *Acceptance of Deng's renewed reform and opening up policy: marketization*

In order to start implementing Deng's policy, in May 1992 the party centre issued Document No. 4. This document was instrumental in the opening of five cities along the Yangzi River, and nine border cities, as well as giving all thirty provincial and prefectural capitals the same privileges as the SEZs.

For several months after Deng's return to Beijing, Deng neither met with Jiang Zemin, nor gave the latter guidance as regards how to carry out and progress the revived reform and opening policy. Jiang felt that he was being tested by Deng, and that his position was still insecure. His position was indeed insecure, because he did not have the power to resist his conservative colleagues' economic retrenchment policy, which Deng had found intolerable by the early 1990s. For this reason, some scholars have characterized the 1989-1992 period for Jiang as the "politics of survival".

Determined to pass Deng's loyalty test, on June 9, 1992, Jiang took the opportunity to address the graduating class of students of the Central Party School, who were senior provincial and ministerial officials, with a speech that highlighted Deng's contribution to China since the Third Plenum in 1978, and contained a comprehensive outline of how best to implement Deng's call for accelerating reform and opening. The speech that bore the title "Deeply Understand and Implement Comrade Deng Xiaoping's Important Spirit, Make Economic Construction, Reform and Opening Go Faster and Better", echoed Deng's southern talks. Jiang stressed his firm support for speeding up the growth rate to as high 9 to 10 percent, even though Li Peng had already presented the official growth target for the current five-year plan as 6%, at the National Party Congress. Jiang summarised the points he made by characterizing China's economy as a "socialist market economy", a term which he knew would resonate well with Deng, as it replaced Chen Yun's call for a "planned socialist market economy".

As a disciplined party member, Chen Yun accepted the unanimous Politburo decision to speed up reform and opening with good grace. In fact, in 1992, after his policy had curbed inflation and helped to make planning run smoothly, exports were rising. The timing to revive growth was right. Chen Yun seemed to have reconsidered his position. He acknowledged, in his eulogy for the passing of his follow conservative colleague, Li Xianian, that with China's economic situation becoming more complex, new methods for

forging new paths were needed. He no longer put all his weight behind planning, and instead gave his vote of confidence to the Politburo's decision

After Jiang's speech, he asked Deng whether the latter liked it. Deng expressed his enthusiasm for it. Deng told Jiang to circulate the speech for internal comment, and if the responses were favourable, use it as the theme for the Fourteenth Party Congress. Jiang duly followed these instructions.

The Fourteenth Party Congress, held from October 12 to October 18, 1992, was a triumph for Deng's policy of reform and opening. It also confirmed Deng's support for Jiang. In his political report, Jiang paid fulsome tribute to Deng as the architect of this policy, without even an aside about the discredited Zhao Ziyang, who had worked extremely hard, in the first phase of the programme, to flesh out the details of this policy and to get them implemented. Besides affirming that Deng's policy had been a success, Jiang declared that it would guide China's development over the next five years. He promoted Deng's ideas on reform into an ideology, dignifying it as the "Deng Theory" (*Deng Xiaopong Lilun*), on a par with Mao Zedong Thought. Although, unlike Mao, Deng avoided any personality cult, and did not stake any claim as an ideologue, Jiang found it useful to have ideological justification to reinforce the pragmatic policies identified with Deng for market expansion. Deng's ideas were incorporated into the party's Constitution as official guidelines for the CCP.

As a compromise with the conservatives, who were obliged to accept the return to greater investment and accelerated growth, Jiang put the future targeted growth rate of the GDP at 8% instead of Deng's proposed 10%. Although he confirmed his support for public ownership as the main form of ownership, efforts would be made to give the state enterprises more independence to manage their own affairs. He repeated Deng's remark that there was no need to label any economic measure that worked well as "capitalist" or "social". From then on, the economy was depoliticized.

After Deng had won this last decisive political intervention on behalf of his economic reform and opening policy, with Jiang tentatively at the helm, there was no longer any possibility of reverting to a predominantly planned economy. Markets for capital, labour, commodities, technology, information, and housing would be comprehensively expanded. Jiang valued science and technology as strongly as Deng, ranking them not merely as productive forces, but as primary productive forces.

Although Deng did not attend this congress until towards its end, Jiang made sure that it was understood to be dedicated to Deng's ideas and messages, and in Deng's honour as the retiring paramount leader. When Deng did finally appear, he stood beside Jiang Zemin for some twenty minutes, to let television

cameras show his solidarity and support for Jiang, who was now confirmed as the “core” of the party’s third generation of leaders.

The Fourteenth Party Congress carried out Deng’s idea for ending lifetime appointments, and for closing down in 1992 the Central Advisory Committee. Having to retire at this point, Chen Yun, the arch planner and Deng’s rival, had to accept a lesser role and a dwindling influence on China’s future economic policy. Form this point onward, most official appointments had term limits.

The slate of Politburo members chosen in 1992 was mainly in accord with Deng’s commitment to speeding up reform, and included supporters of prioritising the further development of the coastal regions. The main concern of Zhao’s political reform, supported by Deng, during the Thirteenth Party Congress in 1988 had been the separation of the party and the government. After June Fourth, the authority and function of the two became more intertwined, with unity and stability as the leaders’ mantra. Jiang Zemin was a prime example, who united in one person the top positions of the party (as its general secretary), the government (as the president of the PRC), and the military (as the chairman of CMC). All Politburo Standing Committee members filled key party/government posts. The concentrated pattern of power, that continues until the present day, was described as “cross leadership”.

While Jiang needed the top official titles and positions to consolidate his power and build a network of supporters, it was generally recognized that Jiang was at the centre, or the “core” of a collective leadership. Despite Deng’s desire to enable Jiang to have the power to settle issues like he himself or Mao, Jiang’s power would never approach anything like that wielded by these two towering revolutionary figures. In order to strengthen Jiang’s position in the military, Deng even pushed his long-term allies, Yang Shangkun and Yang Beijing, Jiang’s rivals in the military, to retire from their military posts, shortly before the Fourteenth Party Congress. Obviously for Deng, personal friendship was far less important than forging a strong and united national leadership. Deng did everything he could to enable Jiang to exercise effective leadership from the centre, and to preside over a stable regime. The youngest man Deng chose for the Politburo Standing Committee was the fifty-year-old Hu Jintao, who later became Jiang’s successor as the leader of the fourth generation of leaders in 2002.

3.2 *The economic leadership of Zhu Rongji*

Sharing power with Jiang in the collective leadership were members of the Politburo Standing Committee. On the political side, the most powerful figure was Li Peng, who remained Premier. Li shared Deng’s conservative instincts. With Li in charge of the State Council, Deng was sure there would be no reversal of

verdict on the June Fourth Incident. In the economic sphere, by contrast, Zhu Rongji, who had been brought by Deng to Beijing in 1991 to manage economic reform, emerged as the most powerful figure in economic policy-making, after he became the head of the newly established Economic and Trade Office in 1992, and First Vice-Premier in 1993. Zhu, who was appointed Premier in 1997, presided over the second period of economic reform during the 1990s, and until he stepped down in 2003. He may rightly be considered the successor to Zhao Ziyang, who was in charge of the first period of economic reform during the 1980s. It may be noted that Zhao had, at the very least, to consider the ideas of powerful conservative elders and colleagues, and fend off their interference, when he was responsible for implementing the economic reforms. In contrast, Zhu had much more of a free hand. Having a strong and decisive personality, Zhu frequently made quick and personal decisions on the economy.

Zhu started economic reform in the early 1990s after the reform measures implemented by Zhao Ziyang had run their course, had to be discarded, or were no longer required. Among these were the dual-track system[2], state allocation of steel, material-balance planning, the orthodox planning system itself, and particular contracts with individual enterprises.

In some cases, it was necessary to do the opposite of what Zhao had done. For example, Zhao had carried out decentralisation in order to introduce markets and incentives into the system. But if Zhao's transitional measures, which decentralised authority and benefits, and released resources controlled by the government to the market place, were to continue indefinitely, it would eventually lead to a serious fiscal crisis for the government. In fact, during more than 15 years of reform from the late 1970s to 1995, China's budgetary revenue declined from 33.8% of the GDP to 10.8% in 1995. This situation compelled Zhu to carry out fiscal reform, which he did in 1994. Zhu broadened the tax base by introducing a 17% VAT and other business taxes, which together were not only lower than the old rates, but also applied uniformly to all business enterprises. The change allowed the enterprises to compete on a more equal footing, creating a more level playing field, as well as reducing the government's scope in the productive sector. It also accomplished its main purpose of increasing the government's budgetary revenue. This revenue increased annually from 1996 through to 2005, reaching 17.5% of the GDP by 2005.

Zhu's tax reform altered the fiscal relationship between the central and local governments, through a process amounting to recentralizing the collection and distribution of revenues. The share of revenue

[2] This referred to the maintenance of both the planned economy and the market economy, with a gradual weakening of the first and strengthening of the second.

collected by the central government, through a new tax agency, more than doubled in 1994, while the local collection decreased by a half. Since the local governments, taken together, had far greater budgetary outlays (more than twice the amount) than the central government, they depended on the central government transferring funds to support their outgoings. This gave the centre more leverage over the local governments, through control of revenue collection and redistribution.

In addition to revamping the fiscal and tax system, Zhu also implemented crucial reforms on banking and finance, corporal governance, and foreign trade. As regards banking, even though the People's Bank of China (PBC) was nominally established as China's central bank in 1983, it did not really operate like one until Zhu restructured it in 1998. At that time, Zhu did away with the its provincial branches, and set up instead nine regional ones similar to those of the U.S. Federal Reserve Board. The reconstituted PBC was able to play an active part in making decisions and implementing monetary policy, with the aid of a newly established monetary policy board.

Only after this step had been taken was China able to treat the enormous problem of lax financial dealings of the China's state banks. In 1999, four asset-management companies (AMCs) were set up, one each to take over some of nonperforming loans of the each of the big four state-owned commercial banks, the total of which reached a staggering $3.5 trillion by 2002. The bad loans were made by these banks to State Owned Enterprises (SOEs), before the large-scale restructuring of these enterprises during the mid-1990s, which we will describe shortly. The AMCs purchased a large part of the nonperforming loans of the Big Four banks, and liquidated them to retrieve what residual value they could. This and other measures helped to restore financial health to these banks, though at huge government cost, and enabled them to operate until the next round of reform.

Like Chen Yun, Zhu was not afraid to enforce macroeconomic austerity whenever he found it necessary to do so, as either a short-term or long-term undertaking to curb inflation and keep prices stable. Three inflationary cycles occurred through the mid-1990s, and shortly afterwards the pressure for deflation became prominent. The first one followed Deng's 1992 Southern Tour, which led to a "gold rush" atmosphere. During 1993 and 1994, a surge of bank credit accelerated inflation.

Zhu's financial crackdown provided less cheap credit to state-owned enterprises, leading to slower growth of the money supply and prices. Zhu's macroeconomic policy successfully kept episodes of hyperinflation brief, and generally maintained the value of household savings. It also helped to allay fears of macroeconomic disruptions in a period of major economic change. After 1996, Zhu adopted a policy of

long-term macroeconomic conservatism, which tamed inflation and stabilized prices. A soft landing was achieved in 1997.

3.3 *Reforming the SOEs*

Let us begin by briefly reviewing the previous SOE restructuring carried out by Zhou Ziyang. His marketization reform began with product markets, and he and his colleagues were loath to take on the politically treacherous road of downsizing overstaffed and unprofitable SOEs, which would create unemployment. Jobs in the state sector might be dull, the wages were by no means ample, and the units were often over-staffed and inefficient. But they did offer many fringe benefits, such as housing, health insurance, schooling for children, retirement pensions, and government-subsidised low-cost food, and other basic necessities. The jobs were usually for life. Under Zhao, the state jobs were not only protected, they were actually extended. In order to make them more profit oriented, Zhao tried to change management incentives, and empowered them to make more decisions aimed at increasing the profitability of their enterprises. In general, Zhao's reforms had begun with improving the livelihood of rural residents, who made gains through the abolition of the collectives, better prices for their agricultural products, and the expansion of their non-agricultural subsidiary activities. For their part, the urban residents still retained their state-provided jobs and privileges, in addition to being able to take advantage of new opportunities created by the growth of the economy. For these reasons Zhao's reform was characterized as "reform without losers." Although the Tiananmen Incident occurred during Zhao's economic reform period, that was not because Zhao's reform was lacking in popularity or public support. The student protesters were demanding political reform, which they had expected to accompany the economic changes.

Although Zhao was deposed in 1989, the consequences of his reforms continued into the early 1990s. One important consequence was that, during the fifteen years from 1978 to 1993, the state sector continued to grow in absolute terms, both in output and employment, even as the planned economy declined and competition from the nonstate sector increased. Many of these state enterprises were very inefficient, and they could not survive the competition with the private sector, without government intervention to provide them with cheap credit and other support. In order to change this situation in a systematic way, Zhu used a legal and regulatory approach. The adoption of Company Law, during the high tide of reform in 1993-1994, enabled the SOEs to change gradually and lawfully into limited-liability corporations (LLCs), or joint-stock companies with their governance more clearly spelt out. These restructured SOEs enabled

the government authorities to gradually cut their ties to them. Some of them became privatized through management buyout, while others were allowed to be listed on the new Chinese stock markets, which came into existence in Shenzhen and Shanghai's Pudong Special Zone in 1991.

This did not mean that the central or local governments no longer owned business enterprises. The central and local governments continued to maintain controlling interests in the restructured enterprises, though the percentage of businesses they controlled declined from 49.6% in 1998 to 38.0% in 2004. The Fifteenth Party Congress in Sseptember 1997 characterized the central government's policy as "grasp the large" while "letting the small go". Its interest was focused on certain strategic sectors, such as telecommunications, energy (petroleum and its refining), metallurgy, electricity, and the defence industry. Companies in these sectors were large and heavily capitalized. In June 2003, the central government set up the State Asset Supervision and Administration Commission (SASAC) to provide oversight over the large firms it controlled.

The restructured SOEs, existing under changed fiscal, banking, macroeconomic and other conditions created by Zhu's reform in these areas, had to compete with each other and with other enterprises having private or collective ownership on a more level playing field. They had to pay VAT and business taxes like other firms, and could not expect to be bailed out by low-interest rate bank loans if their businesses went South. Lastly, they were responsible for their own profits and losses, and faced "hard budget" constraints, just as companies set up by private and foreign capitalists did.

At the start of the restructuring, a majority of the SOEs were "owned" to some extent by the local governments. In 1997, the Fifteenth Party Congress decided to let the local governments carry out the much-needed enterprise reform, in whatever way they could within the new legal framework. As the profitability of the non-competitive industrial enterprises declined (industrial SOE profits were 15% of the GDP in 1978 and fell to 2% of the GDP in 1996-1997), local governments found them less of an asset and more of a liability. The local governments used various methods to detach themselves from unprofitable "zombie" enterprises. They included mergers, sales and auctions, or bankruptcy. The total number of industrial SOEs decreased from 120,000 in the middle of 1990s to 31,750 in 2004. This led to large numbers of former SOE employees losing their jobs. From the mid-1990s, overall employment in state enterprises dropped by 40%. Between 1996 and 2003, the fraction of employment in the state sector shrank from 24% to 9%. By 2003, the private sector employment (urban, rural and foreign) accounted for

80% of the total registered workforce, the largest part of which was the rural household farmers, who accounted for 47% of the total.

3.4 *The impact on urban workers*

In order to deepen marketization after he became the economic czar, Zhu Rongji had to grasp the nettle of letting urban workers lose their "iron rice bowl", the virtually guaranteed lifetime employment, as a large number of urban SOEs were shut down. During the time of enterprise restructuring, the state did put in place various measures to soften the blows to the staggering number, close to 50 million workers, who lost their jobs in the state enterprises. Despite the shortcomings of the social security reforms during the mid-1990s, they did protect the pensions of most of the laid-off workers and retirees of the failing firms, and provided unemployment benefits for those seeking new jobs.

In 1998, the government created a new Ministry of Labour and Social Security, which channelled redundant workers from state enterprises into Reemployment Centres for training, getting interim financial support, and finding new employment. How much support, and for how long, an unemployed worker would be able to receive depended very much on where he was located. In a prosperous city like Shanghai, he might receive help for 5 years; if his city was located in a poor province like Heilongjiang in the northeast, he might get much less support during the transitional period.

Around the time of the enterprise reform, the government adopted a policy of selling apartments of the state units to their employees, who were offered enormous discounts, depending on the workers' seniority, so as to enable the existing occupants of these apartments to purchase their homes. The average purchase price paid by an urban worker for his home was roughly equivalent to his annual income. The occupants were allowed to pay for their apartments over a ten-year period at a zero rate of interest. From the mid-1990s to 1998, 48% of all urban household purchased their homes from their work units. By 2005, urban home ownership reached 80%. After 5 years new owners could sell their homes on the market.

This policy started the private real estate market in China, and stimulated investors and construction companies to build apartments and houses. Before long new buildings were going up in cities all over China, and homes were being bought and sold, often by investors, at a frantic pace.

Despite the government's efforts at helping the laid-off workers, many remained chronically unemployed, although the economic boom years of 2003 to 2005 opened up opportunities for them. A large proportion of laid-off workers joined the informal economic sector of small self-employed, often unlicensed, businesses, such as retailing and the service sector in the cities. Greater labour mobility and job insecurity were among the consequences of Zhu's reforms. Since large groups of city dwellers had to pay a high price in reduced income and living standards, the second phase of reform from the 1900s was characterized as "reform with losers."

3.5 *The impact on rural China*

Rural China also paid a price for the policies and changes brought in by the second phase of reform. The first phase of the reform under Zhao began as a rural and bottom-up phenomenon, with the reformers liberalizing past restrictions and providing more political scope and less economic interference for entrepreneurial villagers, and small-town dwellers, to improve their economic lot. The policy included the creation of new institutions, such as the Township and Village Enterprises (TVEs). The rural economy and the TVEs existed outside the planned economy, thrived in the dual-track system, and contributed to the closing of the rural-urban gap in living standards. It had been Zhao Ziyang's intention to adapt the Rural Household Responsibility System (RHR)[3] to the urban enterprises, before he lost power in 1989.

Zhao's policy of encouraging and empowering indigenous entrepreneurship in the villages and towns of China, was reversed by the third-generation top leaders, Jiang Zemin, Zhu Rongji and others from Shanghai. Their approach to the economy showed a strong anti-rural and pro-urban bias, although the high value they put on foreign investment and trade was not new (see section 3.6).

[3] A system begun in 1979-80, as part of de-collectivization, in which responsibility for profits and losses of a productive unit was contracted down to an individual household.

In contrast to Zhao's bottom-up approach of people-led capitalism of the 1980s, when the state retreated to give more scope for the development of the private sector, the Jiang era adopted a top-down state-led capitalism, from the "commanding-height" of reinvigorated state power. Even though, on the one hand, the state sold off - or allowed a management buy-out - of many small SOEs, on the other hand it invested heavily in, and micromanaged, selective sectors of larger SOEs, which grew even larger in size. The state also channelled a huge amount of resources into rapidly building up infrastructure, and certain chosen urban centres.

Let us take as examples the urban renewal projects in Shanghai during the 1990s, which were later emulated elsewhere in China. In order to make way for planned new construction, the high-handed local government, wielding monopolistic power, demolished neighbourhood blocks with hundreds of thousands of residents within a short space of time, and had them relocated elsewhere. To convert Pudong rapidly into a commercial and financial centre, the government requisitioned 350 square kilometres of farmland from rural households at below market prices, and auctioned it off at the prevailing market prices. This involved relocating and resettling around 1.7 million people. The government used the proceeds from the sale to finance industrial projects and for other purposes, including, most likely, corruption. The Shanghai model of development was emulated elsewhere by provincial and local officials in China from the late 1990s.

These policies, though not motivated by ideology, effectively discriminated against small private urban traders, such as street vendors, whose businesses were regarded as messy and disfiguring to the image of an international modern metropolis like Shanghai. As a result, onerous regulations were introduced to discourage such small private businesses, or to extract rent from them.

The same policies also discriminated against rural entrepreneurs, who were mostly also farmers. The relative economic freedom and political autonomy during the Zhao Ziyang era had been heavily eroded by a policy of fiscal and administrative recentralization. Township officials, who formed the lowest rung of the official party hierarchy, were empowered to govern the villages. While the government increased the number of officials, and generously boosted their salaries on four occasions between 1998 and 2001, it ignored the growing economic hardship of the rural residents, who had to shoulder the financial burden of a growing number of township officials, in addition to heavier taxation.

In spite of the increase in the number of township officials, rural governance declined to the level of crisis. The practice of officials grabbing land and other properties from peasants by force, with little compensation, was not uncommon, and it had the effect of turning more of them into cheap migrant labourers in the cities. There, wages were already low as laid-off workers were also looking for employment. Credit to rural residents became more expensive. As central government increased the rural population's tax burden to finance its other investments, its contribution to rural education and welfare, as well as its investment in agriculture, declined. There was a large increase in illiteracy among country people during the 1990s. The government reacted to increasing rural poverty by lowering the rural poverty line from 640 yuan per person to 635 yuan in 1998, and then to 627 yuan in 2002. China's 800 million or so rural residents were among the losers of the second phase of reform.

3.6 *Liberalization on Foreign Trade*

Not having to cope with criticisms from conservative planners as much as Zhao, Zhu's reformers were more able to attract foreign direct investment (FDI) through building industrial parks, offering special tax breaks, and sidestepping the complex apparatus of import controls. Their policy to free up foreign trade, and discriminate in favour of foreign investors in order to induce them to invest in export processing and high tech projects, produced results. After foreign sanctions subsided, the FDI rose from $4 billion per year between 1989 and 1991 to an average of more than $35 billion thereafter.

Another measure used to increase foreign trade was to further liberalize the regime that originally, under the planned system, confined the right to import and export to the twelve national foreign-trade corporations (FTCs), which therefore monopolized foreign trade. After the opening of Guangdong, Fujian and the creation of the SEZs, liberalization took place in these areas. Other rounds of liberalization allowed local governments and industrial ministries to set up trading companies, and provincial branches of the national FTCs to become independent. By 1988 there were 5,000 FTCs, though all of these were state owned. Around 10,000 manufacturing enterprises were also given the right to import and export, mostly of the raw materials they needed, and the products they made. From that time onwards, the FTCs were no longer controlled by trade plans, financial incentives, foreign-exchange targets, and the system of contracts, and the mechanism that applied to industrial organization now also applied to them. In order to protect the domestic market in lieu of a trade plan, the Chinese government put in, like other

developing countries, a system of nontariff barriers such as quotas, and high tariffs, to protect their domestic industries.

3.7 *Currency reform*

Foreign trade could not flourish without a realistic exchange rate between the Chinese yuan and the U.S. dollar, the internationally used reserve currency. Until 2009 all business transactions between the Chinese and their trading partners were based on U. S. dollars, with the Chinese companies forbidden to hold U.S. dollars, and their foreign counterparts unable to hold Chinese yuan, or renminbi (people's currency). All transactions went through the People's Bank of China (PBC). After a foreign company paid the Chinese party in dollars, the PBC would pass the equivalent amount of *renminbi t*o the Chinese at the official exchange rate. This regime, and the prohibition against export of this currency, protected it from exposure to adverse speculation on the international market.

Before the reform got well underway, China, like most socialist countries, overvalued its own currency. The exchange rate between the Chinese yuan and U.S. dollar was 1.5 yuan to U.S. $1 in 1980, which was good for imports but unprofitable for exports. By 1986, the Chinese currency had drifted down, and traded at 3.5 yuan to U.S.$1 on the market. At this time, the Chinese reformers under Zhao Ziyang implemented a dual-exchange rate system, in which a lightly regulated secondary currency market was allowed to function, permitting exporters in particular to sell their export earnings outside the planned sector, on this market. Further market-driven devaluation of the yuan took place under this regime, making exports profitable and imports more expensive.

In 1994, when the reformers under Zhu Rongji decided to abolish the secondary "swap" market, which they regarded as transitional, the Chinese currency stabilized around 8.3 yuan to U.S. $1. During 1997-1998, the Asian Financial Crisis exerted intense downward pressure on the Chinese currency, but the Chinese resisted further devaluation of the *renminbi*, which was pegged at 8.27 yuan to U.S. $1, from 1997 to 2005.

When Chinese exports started to grow rapidly after 2002, following China's entry into the WTO in 2001 (see the following section), the lack of flexibility, and capital accountability, of the fixed exchange rate was seen as problematic, as the peg was considered to be too low, favouring Chinese exporters at the expense of the exporters of other countries, the U.S.A. included. This issue, among others, created tension between the governments of China and America. In the summer of 2005, the peg was lifted, and the Chinese government permitted the yuan to float, within a narrow margin, inside a basket of world

currencies with occasional upward adjustments. By the middle of 2012, Chinese efforts at strengthening the *renminbi* against the U.S. dollar, and the quantitative easing measures taken by the U.S. Federal Reserve and other major central banks, ameliorated the issue of the *renminbi* being undervalued. By October 2013, the yuan exchange rate against the U.S. dollar came down to about 6 yuan against U.S.$1.

The 2008 world economic crash plunged the U.S. into recession, and the U.S. government seemed unable to resolve the political problem of the debt ceiling. The Chinese government noticed that the *renminbi* was becoming one of the world's most widely traded currencies, and it discerned the possibility of establishing it as another international reserve currency. From the middle of 2009, the Chinese government gradually eased currency restrictions on Chinese trading companies and banks. Between December 2010 and October 2013, China signed agreements with many of its large trading partners, including Russia, Japan, Australia, Brazil, and the United Kingdom, to trade or swap with each other's currencies directly, without first converting these to the U.S. dollar.

3.8 *China's Entry into the World Trade Organization*

On December 11, 2001 China finally became the 143rd member of the WTO, after fifteen years of negotiation since 1986, when China had applied to join the GATT (General Agreement on Tariffs and Trade), the predecessor of the WTO. At that earlier time, China had expected that accession would be easy, because the developed countries were sympathetic to China as a pioneer of market reform. The June 4 Incident, and China's rise as a serious export power with a relatively closed domestic market, lessened support for giving the Chinese greater access to developed markets, without China making serious concessions to allow foreign access to its own domestic market. Following the above-mentioned reform of the FTCs, China finally achieved WTO membership, after rounds of hard bargaining that obliged China to grant foreign companies broader access to its economy, as well as significant lowering, and promises of further reduction, of Chinese tariffs on certain foreign agricultural and industrial imports into China.

Zhu Rongji's reforms, and further liberalization of foreign trade in connection with joining the WTO, led to renewed surges in China's trade in both imports and exports, which increased by over 20% in 2002, and remained high thereafter. In addition to the traditional export of textile products, exports of machinery and electronics increased their share, to occupy over 50% of total exports. While certain industrial exporters benefited from China's entry into the WTO, the price of Chinese agricultural products suffered from having to compete against foreign imports.

3.9 *China's GDP growth*

In terms of GDP, China's economy performed well as a result of the second phase of the reform and opening. In the five years following Deng's southern journey (1992-1997), China's GDP was growing by double digits every year, among the fastest growth rates in the world. The growth of GDP in 1992 and 1993 at 14.2% and 14.0% respectively was especially striking. Even though the growth of GDP fluctuated down to lows of 7.8% and 7.6% during 1998 and 1999 respectively, the other years from 1997 to 2002 supported the 8 to 9 percent growth target, which had been announced by Jiang at the Fourteenth Party Congress in 1992.

During both phases of reform, not only had China as a whole experienced phenomenal growth, some individuals, households and firms had also become enormously wealthy. The pre-reform egalitarian Chinese society (one with small differences in income distribution, apart from the rural urban divide), all but vanished after 1983-1984. Thanks to the rural reforms in the late 1970s and early 1980s, rural income surged at a phenomenal rate of 15% per year between 1978 and 1985, while the urban income growth lagged behind at a nonetheless respectable rate of 7% per year. The reduction of the rural-urban gap helped to make 1983 and 1984 the most egalitarian years in the Chinese society. Thereafter, further economic development was accompanied by the growth of an income gap, not just between the rural and urban populations, but also within each of the two groups, as well as among the nation's population as a whole. We turn to that question next.

3.10 *Growing Inequality as a consequence of the second phase of reform*

We shall make reference to the Gini coefficient, the economists' measurement of income distribution in a given society, which ranges from 0 to 1. (Some writers use the Gini index, which is equivalent to converting the Gini coefficient to a scale running from 0 to 100.) A society with a perfectly equal income distribution would be one in which every individual has the same income. This society would have a Gini coefficient, or Gini index, of 0. A society with a Gini coefficient of 1, or Gini index of 100, would be one that has all income concentrated in the hands of one individual. Clearly, societies have Gini coefficients between these two extremes.

In 1983, when the income distribution in China was fairly equal, its overall Gini coefficient was 0.28, like those of the relatively equal economies of Sweden (0.25), Japan (0.25), and Germany (0.28). Big lower- and middle-income economies, especially ones with a high population and great internal diversity like China, were expected to have higher Gini coefficients relative to the smaller, developed economies mentioned above. China, with a Gini coefficient of 0.28, was therefore unusually equal in 1983. Brazil and Mexico, with Gini coefficients of 0.59 and 0.55 respectively, represented countries with high income inequalities. The global income inequality Gini coefficient in 2005, for all human beings taken together, has been variously estimated to be between 0.61 and 0.68.

During the decades from 1981 to 2001, China's Gini coefficient climbed steadily within both rural (from around 0.25 to 0.37) and urban (from around 0.19 to 0.38) sectors. The inequality was even larger considering the nation as a whole. Because of the increase in the urban-rural gap since 1983, China's Gini coefficient grew from about 0.31 in 1981 to 0.445 in 2001. It was most unusual that in two decades, China had grown from being among the most egalitarian countries, like Japan, to being a highly unequal one, surpassing the inequality in the United States, which had a Gini coefficient of 0.45 in 2007. As time went on, say to 2012, China has become more unequal in terms of the Gini coefficient than the average middle-income countries, such as Malaysia and Turkey, and is about as unequal as the average low-income countries, like Sri Lanka and Ecuador.

What were the factors contributing to such a development in China? There were of course many. First of all, there was the institutionalised rural-urban income gap. As reforms began, this gap was somewhat narrowed, but this did not last beyond the middle of the 1980s, when price inflation eroded the agricultural terms of trade during the late 1980s. Within rural areas, the growth of the TVEs opened up inequality between entrepreneurial individuals and the rest, widening the rural income gap in the countryside. Although massive laying off of urban SOE workers during the second phase of reform created economic hardship for many urban dwellers, poverty still remained largely a rural phenomenon. The trend of widening of the rural-urban income gap from mid-1990 to 2003 continued, until the next generation of leaders.

Despite the fact that inequality was not the intention of the reformers, both phases of reform, especially the second one, increased the income and wealth gap among the Chinese. Deng Xiaoping said at its beginning that some people "will get rich first". But he hoped that those who got there first would pull up the living standards of those left behind. However, China's size and regional diversity limited this trickledown effect. Urban residents, particularly those in the coastal cities, benefitted from the opening

up of further opportunities for those with capital and other advantages, such as good education and access to powerful governing elites. These were the winners of the second phase of reform.

3.11 *Increasing corruption*

Corruption, defined by one scholar as the use of one's public position for private gain, was not a prominent feature under Mao. The tightly planned economy and the dominance of ideology took care of that. In imperial China, this endemic problem was to come extent ameliorated by Confucian ethics and institutional checks. But when society suddenly valued "to get rich is glorious", rather than the selfless provision of service to the people and refusal of private gain, the authorities could no longer use an ideology to curb greed. As the economy expanded with marketization, some people would inevitably be tempted to seize chances to get rich by all possible means, however shady.

It was already a problem when the reform started during the 1980s. During that time, it was often a case of individual malfeasance. However, there is a general consensus that corruption intensified massively in scale, scope, and pervasiveness during the second phase of reform, from the 1990s onwards. In the 1980s, the highest bribery case involving officials at or above the rank of ministers was 16,000 yuan, paid to a vice-governor of Xinjiang province. Between 1990 and 2003, the highest bribe was 40 million yuan, and the second highest was 25 million yuan. During that period, even the lowest amount, at 64,000 yuan, was 4 times that of the highest in the 1980s, or 2 times in inflation adjusted terms.

From the 1990s, corruption manifested itself as a systemic malaise. Policies that sharply increased the state's involvement in economic developments, gave the officials concerned opportunities to favour certain people or groups, in return for a share of their profits. Examples included large-scale urban renewal, infrastructure building, investing in and micromanaging certain key SOEs, the increase in collective TVEs, the granting of licenses for private companies to take part in foreign trade, or in importing and exporting products restricted by quotas. Those who received such favours would willingly reward their official enablers generously, to sustain their mutually beneficial relations. The monopoly of power by one party, the lack of a free press, and the absence of an independent judiciary, meant that there was no third party to check the behaviour of officials who used their power to generate personal wealth.

Under these circumstances, crony capitalism flourished, the extent of underhand deals grew shockingly large, the age of officials engaging in corruption became younger, and many high-level officials took part in embezzlement of public funds, taking bribes and other forms of malpractices. Illicit deals between real estate developers and local government officials were considered the most likely reason for many rural

land grabs and urban evictions. The 2000 'Corruption Perceptions Index of Transparency International' ranked China as 63rd among 90 countries.

A number of local surveys identified corruption as the most serious social problem facing China. It was natural for the people in general to see corruption as patently unfair. It was an important factor behind China's growing inequality, as reflected by China's increasingly high Gini Indices, to which we have already drawn attention. In addition to undermining the CCP's legitimacy to rule the country, it could lead to social instability. Protests in China rose at an alarming rate from the 1990s. Between 1993 and 1997, the total number of demonstrations increased from 8,700 to 32,000. Based on official data from the Ministry of Public Security, the were 58,000 large-scale incidents of unrest in 2003, 74,000 in 2004 and 87,000 in 2005.

In addition to protests, residents anywhere in China traditionally had the option of addressing petitions in writing or in person to the central authorities - the emperor in imperial China - against injustices perpetrated by local officials against them. The PRC continued this imperial (shangfang) tradition. According to Professor Li Shuguang, a vice dean at the graduate school at the Chinese University of Politics and Law, Chinese citizens sent annually around 20,000 petitions to the central government, asking it to address various grievances, between 1979 and 1982; whereas in 2005 alone, the government received 30 million such petitions.

Corruption of Chinese officials was policed by none other than the very same officials themselves. Recognizing corruption as a problem serious enough to potentially topple their regime, the CCP set up institutions, such as the Central Commission for Discipline Inspection, established laws, and conducted periodic campaigns against it. The CCP also meted out heavy punishments against officials convicted of having embezzled large amounts of government funds, or having taken huge bribes. Officials at the highest levels were not immune from being caught and punished severely for rent-seeking. Chen Xitong, Beijing's one-time mayor, who had accused the student demonstrators in the June 4th Incident of being anti-Communists rebels, was a prominent example. Cases of corruption handled by the party numbered 1.1 million between 1990 and 1998, with over 500,000 placed on file for investigation and prosecution, yet this was probably only tip of the iceberg. In spite of the CCP's anti-corruption measures and periodic draconian crackdowns, the problem became even more severe in the twenty-first century.

Premier Zhao Ziyang, who had to deal with rising corruption as his reforms got underway, recommended a number of ways to control and eradicate corruption. Foremost among these was deepening of the reform of the political system 'to separate government and enterprise, to hand down power currently

held by the government to administrators of the industries, and to resolve the issue of monopolies or the overconcentration of power [by the government]'. He thought it was important to have better institutions that operated in a transparent way, that would allow public opinion and the "building of democratic politics" to exercise checks on the behaviour of government officials. He also pointed out that it was essential to have an independent judiciary, and the rule of law.

Zou Keyuan, who wrote "Why China's Rampant Corruption Cannot Be Checked by Law Alone" echoed Zhao's views that only fundamental changes in the power structure, and the building of stronger institutions, could cure or effectively treat this malaise. Although it is a pressing national interest of China and its people to eliminate or control corruption, the CCP has developed a monumental vested interest in keeping its monopoly of power, and the freedom to exercise it as it saw fit. CCP officials, members of their family, and their friends have made enormous fortunes from the existing system which allowed corruption to flourish. Can the same party be expected to make fundamental political changes, so as to share power with other groups in the society, and curb its own appetite for wealth?

Besides increasing corruption in the Chinese society, the second phase of reform was associated with accelerated damage to China's environment, a problem to which we now turn.

4. Environmental Consequences

4.1 *Air Pollution*

The growing use of China's abundant coal with high sulfur content for generating electricity led to rampant air pollution by harmful dust particles and acid rain. In 2002, China's State Environmental Protection Agency (SEPA) investigated the air quality of 300 Chinese cities, and discovered that almost two-thirds of them did not meet the World Health Organization's standard for acceptable levels of total suspended particulates (TSP). AS China entered the twenty first century, growing prosperity resulted in increasing private ownership of cars, and their use in big cities increased air pollution, and added to China's carbon footprint.

Breathing air with a high concentration of these particulates is harmful to human health. Acid rain poisoned China's fisheries, destroyed its crops and forests, and eroded buildings, besides damaging human health. Elizabeth Economy quoted a *China Daily* estimate that acid rain caused almost $13.3 billion yuan worth of damage to human health, farms and forests in China annually. The Chinese recognized the seriousness of the damage caused by using coal and other fossil fuels, which led to the production of sulfur

dioxide (SO_2) in connection with acid rain, and carbon dioxide (CO_2) in connection with climate change. They understood the part China's rapid industrialization played in polluting the atmosphere. They also pointed out that the increase of man-made CO_2 emissions into the air had already started to build up during the Industrial Revolution that began in the West during the nineteenth century. London, Los Angeles, and many Japanese cities had experienced prolonged periods of being blanketed with smog. Acid rain was already troubling Western developed countries before China started to industrialize. They realized that atmospheric pollution was now a global problem, beyond national boundaries, and a serious threat to humanity's wellbeing, if not existence. This and other types of damage to the earth's ecology has led to the extinction of many species. Environmental scholars in China have exhorted the government to face the reality squarely, and be deeply worried. China should also think again about its economic activities and development strategy.

4.2 *Water pollution*

China's rapid economic growth has been exerting great pressure on its available water resource, even though its national fresh water supply, at 2,500 cubic metres of water per capita, could not be classed as a water-scare country, the definition of which provided by the World Bank was 2,000 cubic metres per capita. However, the distribution of water in China is highly uneven: average rainfall in the southeast, at 1,800 millimetres (mm) is about nine times that in the northwest, at 200 mm. The store of ground water in the south is about four times higher than that in the north. The dry climate of northern China leads to a high level of demand of water for its agriculture: 85% of its cropland requires irrigation, as compared to about 10% in the U.S. apart from California, which uses 80% of its state's water for agriculture. As the economy developed during the reform period, there were increasing demands for water, not only from the agricultural sector, which took up about 70% of China's water, but also from urban dwellers and industries, which grew rapidly.

One method the Chinese government used to remedy the shortage of water of certain northern cities was to divert water from rivers in southern China to supply them. There were a number of such projects, both large and small. A prominent example was the $58 billion South-North Water Transfer Project, that would bring water from the Yangtze River to supply the cities of Beijing and Tianjin.

Despite these costly projects, China's growing thirst for fresh, clean water in most parts of the country is difficult to meet. At the beginning of the PRC, China's total amount of water usage was around 1,030 x 10^8 m^3. By 1997 the amount had grown more than five times, to 5,623 x 10^8 m^3.

Knowledgeable Chinese people knew that this situation could be improved, to some extent, if the Chinese wasted less water, especially in agriculture, and carried out more industrial water recycling. The use of water by Chinese agriculture has been far less efficient (about 20 to 30 percent) than that of developed countries. Chinese efforts at recycling industrial waste water (between 25 to 49 per cent) are also much poorer than those of developed countries (between 70 to 90 per cent.) To translate this knowledge into improved utilization of water would require proper government leadership, in implementing policies that educate, guide and encourage farmers to waste less and industries to recycle more water.

An equally intractable problem was water pollution. Excessive use of poor quality fertilizers led to considerable runoff of nutrients, which contributed to the serious pollution of many of China's most important lakes, causing them to be covered with oxygen depleting algae. During the reform period, China's use of chemical fertilizers more than quadrupled, from 8,84,000 tons in 1978 to 42,538,000 tons in 2001. Many beautiful lakes which had displayed clear and transparent water during the 1960s, by 2002 were polluted to such an extent that a high percentage of the stations that monitored their water quality classed it as grade V, suitable only for irrigation or worse. In addition to the lakes, China's rivers and underground water have also been heavily polluted.

SEPA reported in 2002 that the quality of over 70% of the water of five out of the seven of China's major river systems (the Yellow, Huai, Hai, Liao, and Songhua) was grade IV or worse, not suitable for human contact. During a short period of one year, from 2001 to 2002, the fraction of water of the Yangtze which was not suitable for human contact doubled to 48.5%.

Climate change, and various kinds of environmental degradation which disturbed the ecological balance, appeared to be behind increasing flooding of rivers in southern China, coupled with lengthening periods of drought in northern China. An example was the serious flooding of the Yangtze, Songhua and other rivers during the summer of 1998.

Although inadequate treatment of liquid waste from large cities contributed to soiling of ground water, the rise of the TVEs led to the widespread increase of rural and suburban pollution, as tanneries, pulp and paper-making, chemical and fertilizer-producing factories, small coal-fired power plants, makers of bricks, tiles, pottery and porcelain, all dumped their untreated wastes directly into streams, rivers, canals, and coastal waters. According to one estimate, the TVEs were responsible for more than 50% of industrial wastewater discharged in China.

China's globalization that fuelled its economic growth had a grave environmental downside. Its weaker environmental laws induced some foreign FTCs, with the collusion of local Chinese officials, to relocate

some of their most environmentally polluting industries, such as petrochemical plants, semiconductor factories, and strip mining, to China.

4.3 *Soil pollution, deforestation and desertification*

In addition to fouling the air and water, other forms of China's environmental degradation, such as the exhaustion of forest reserves and desertification, also accelerated since the start of the reform. Although excessive felling of trees leading to soil erosion occurred in imperial China, the startling rate of exhaustion of China's forest reserves happened much more recently. From 1978 to 1986 logging increased by 25%, as local officials, responding to the economic incentives, allowed businesses unbridled exploitation of the timber resources of their localities. International and domestic demands for timber products, such as furniture, paper and chopsticks, skyrocketed during the 1980s and 1990s. In addition to China's own legal and illegal logging activities, foreign multinationals from Japan and Taiwan also joined the fray. By the mid-1990s, the forest reserves of 25 of China's 140 forest bureaus had been exhausted, and 61 had reported an unsustainable rate of trees being felled. China's forest coverage was 16.5%, according to SEPA's 2001 *State of the Environment Report*. This does not compare well with the world coverage of 27% and the U.S. coverage of 24.7%. Intensive logging has also occurred in other countries, and has had negative consequences for the environment. Large-scale deforestation will lead to climate change and the alteration of ecological systems.

In addition to losing a huge amount of its forests, China's grassland has also been seriously degraded since the early years of the PRC. Overgrazing, and conversion into cropland through irrigation, were major causes of the damage. The grassland that once accounted for 40% of China's territory is mostly located in its western part: Tibet, Inner Mongolia, Qinghai, and Xinjiang. Since the 1950s, degradation had reduced the amount of grassland by 30-50 percent. Of the approximately 400 million hectares of natural grassland that remains, more than 90% have suffered moderate to severe degradation.

Among the most serious consequences of deforestation, loss of grassland, and over cultivation of cropland, was desertification. The result was an increasing number of sandstorms, that blew sediments of sand thousands of miles through north China to Beijing and beyond, even as far as the west coast of American. While there were fewer than twenty sandstorms in the 1970s, by the late 1990s north China was devastated by an average of thirty-five sandstorms annually. In 2000, eleven sandstorms hit China's capital, reducing visibility so much that there were more traffic jams and airport closures. Desert now covers one-quarter of China. The pace of desertification has been increasing alarmingly in China's

northwest: from 1,560 square kilometres per year in the 1970s to 3,436 square kilometres annually in the latter part of the 1990s, driving farmers and herders elsewhere in China.

China's economic miracle is matched by the rapidity and scale of China's environment degradation, which is its obverse side. If the cost of the damage to China's environment, or the investment needed to repair it, were factored into China's rate of growth in GDP, the net figure of the GDP growth would not have been so impressive. The World Bank in 1997 estimated the total cost of air and water pollution at U.S. $54 billion, or 8'% of China's GDP. Adding resource scarcity, such as water, experts reached a figure of 12 percent of the GDP, as the total cost of environmental degradation. In addition to the economic downside, the negative effects of inhaling polluted air, and drinking contaminated water, to human health are incalculable. Then there is also the social cost of popular unrest, evidenced by an alarming increase of confrontational protests in connection with environmental degradation.

Because of the serious damage to their environment, the Chinese people as a whole have been, and still are, paying a high price for industrialization in order to become a modern economy, even before reaching their goal of becoming a moderately prosperous society (*xiao kang she hui*). What have they or their government done to arrest, if not reverse the trend of rapid environmental degradation?

4.4 *Early government efforts on environmental protection*

Even before Deng's reform and opening up, China was facing a deteriorating environment, which the Chinese leaders could not ignore. They made moves to address the problems that arose during, and even before, the reform period by setting up institutions, drafting laws, and carrying out large-scale programmes to protect the environment. In 1972, two ecological disasters that resulted in the death of millions of pounds of fish in north China, and China's participation in the United Nations Conference on the Human Environment (UNCHE), led Premier Zhou Enlai to organize China's first National Conference on Environmental Protection in 1973, and then to establish an inter-ministerial Environmental Leading Group under the State Council, to study environmental protection issues. In addition, authorities on the provincial, municipal, autonomous region levels were also required to set up organizations for environmental monitoring, research, and control. Unfortunately, the Leading Group only met twice in 9 years, and was later absorbed into a ministry of construction. In fact, the local environmental organization had little bureaucratic authority on environmental matters. The chaos of the Cultural Revolution sabotaged any real advance in this area until after Deng Xiaoping took power in 1978

Deng and his supporters recognized the facts as reported by the Environmental Leading Group, namely that environmental pollution was spreading to such an extent in China that "people's work, study and life have been affected", and that "it also jeopardises people's health as well as industrial and agricultural development". The report stressed how important it was "to eliminate pollution and protect the environment", and to combine construction and protection at the same time. It exhorted China "not follow a zigzag path of construction first, control second." The Chinese constitution had been amended in 1978 to acknowledge the state's responsibility to protect the environment, and to prevent pollution; laws for environmental protection were later enacted; a National Conference on Environmental Protection took place in 1984; and an independent National Environmental Protection Agency was set up in 1988. Nevertheless, China entered the 1990s demonstrably failing to bridge the gap between acknowledging the importance of protecting the environment, and acting effectively to meet the challenges of its degradation.

In 1992, China participated in the UN Conference on Environment and Development (UNCED) in Rio de Janeiro, Brazil, an international meeting that was intended to address, among other things, the issue of climate change. At UNCED China took the stand that the developed countries were responsible for global environmental degradation. This was essentially the same position China had taken two decades earlier, at UNCHE. In spite of appearing uncompromising, the Chinese absorbed many valuable lessons from UNCED. The Chinese participants were alerted to the importance of sustainability in their approach to development. They were also deeply influenced by the Western idea that popular participation and nongovernmental organizations (NGO), including Western NGOs, could make a difference in aiding the Chinese government's efforts to clean up the environment. UNCED also familiarized the Chinese with the concept of enlisting market forces, such as raising the prices of resources to reflect their economic value, to support their environmental policy reforms. However, consideration for the survival of the SOEs made them wary about taking this route.

4.5 *China's Environmental Activists and its NGOs*

The dizzying pace of social and economic changes in connection with the economic reforms brought many societal problems to the forefront of people's consciousness. In the year 2000 a poll of three thousand urban Chinese in ten cities revealed that environmental degradation and protection was their number one concern, followed by unemployment, children's education, social stability, crime, corruption, economic growth, and social security. People's concerns spurred the growth of a wide range of nongovernmental organizations, as well as government-organized NGOs. According to the information

provided by the Ministry of Civil Affairs, which oversaw such organizations, there were 230,000 officially registered NGOs by 2002. If the NGOs not registered with the government were taken into account, the number could be as high as 2,000,000. After attending UNCED, and being confronted with the limited accomplishments of its own efforts at addressing China's accelerating environmental degradation, around the middle of the 1990s the government decided to open up political spaces for popular participation to protect China's environment.

China's first environmental NGO, the Friends of Nature, was launched in 1994. Despite the fact that the rulers of China found the NGO movement useful, they did not want it to become too powerful, to dilute or challenge the monopoly of power of the CCP, or even conceivably overthrow the existing regime. The party therefore obliged founders of an NGO to register their organization with the government, and manage it according to official regulations governing NGOs.

Even before the official endorsement of environmental NGOs, there were already powerful voices from environmental activists, mostly intellectuals and journalists, such as Liang Sicheng (the founder of Green Culture Sub-Academy, who was focused on conservation of endangered species, primitive forests, wetlands, and others), He Bochuan (the author of *China on Edge*), Tang Xiyang, who found the Green Camp and wrote *A Green World Tou*r, and Dai Qing, whose book, *Yangtse*, *Yangtse*, lobbied strongly that there were political as well as environmental objections to the building of the Three Gorges Dam. From the mid-1980s, the above-mentioned figures inspired and educated the Chinese public, and exerted profound influences on the development of the environmental movement's spreading to the grassroots all over China. Although most of the environmental activists, especially those connected with the NGOs, tried to work within the boundaries set by the government, some, like Tang Xiyang, He Bochuan, and Dai Qing articulated the need for democracy as a condition required to protect China's environment.

Although prominent people took part in the debate both for and against the Three Gorges Dam project, Dai Qing, despite being the daughter of officially proclaimed "revolutionary martyrs", paid for her articulate views against this project by spending ten months in Qincheng, the maximum security prison where Jiang Qing was once locked up.

The resolution for constructing the massive Dam, which was to stand 600 feet tall over a reservoir more than 360 miles long and 175 metres deep, was finally passed by the NPC in 1992. It was to provide energy-hungry China with 18,000 megawatts of energy, represented 10% of China's total need for electricity. The power produced by this dam was not only to serve local needs. It was intended for long distance transmission to places as far north as Beijing, and as far south as Hong Kong. The building of the dam,

which was completed in 2003, led to an enormous problem of relocating millions of residents in the area concerned. There were many protests and demonstrations accompanying the resettlement, with farmers unwilling to move, or believing they were not sufficiently compensated in the exchange of their old home for the new one. The damming of this part of the Yangtse, completed in 2003, created many environmental challenges of its own.

When Hong Kong was returned to China in 1997, it had already developed its own environmental activism. Its NGOs, some of which were branches of the internationally established NGOs, such as Friends of the Earth and the World Wildlife Fund, had been more daring in confronting the Chinese authorities on issues of deep concern to the residents there, such as the PRC Daya Bay Nuclear plant. The cooperation between NGOs in Hong Kong and mainland China, was a positive development in environmental protection against pollution, by Hong Kong businesses located on mainland China.

4.6 *The role of the media in China's environmental protection*

In addition to the NGOs, the Chinese media, which included the state-run radio, TV, and newspapers, and privately supported publications, such as *China Environmental News* and *Green Times*, also played a critical role in educating the public, and even top government officials, on environmental issues, as well as investigating and exposing environmental wrongdoings. People waited in line outside a popular TV program, the Focus, requesting the reporters to investigate various cases of abuse of the environment. Premier Zhu Rongji started a campaign against illegal logging and desertification after he learned about these developments from television reports. Despite government control on environmental reporting, China's seventy newspapers carried 17,555 articles on environmental issues in 1996. By 2000, such articles increased to 47,000.

4.7 *Why the Chinese regime failed to protect its environment*

The Chinese government accepted, with some reservations, the help of the NGOs to protect China's environment, because its own efforts, during the thirty years of economic growth from the rule of Deng Xiaoping, through Jiang Zemin to Hu Jintao, had clearly failed to restrain continued damage to China's environment, let alone stopping or reversing the process. It is possible to point out some of the major reasons for this failure.

Among the most important reasons was that Chinese leaders put industrializing and modernizing China as their top priority, which meant economic development at whatever cost. The central government had

laid the responsibility for environmental protection on the local authorities, but it gave the local officials little incentive to protect their environment, since their promotion were assessed on the basis of how they developed the economy, not on how well they safeguarded their environment. Another important reason was that SEPA, the agent of the central government and its local bureau, the EPB, which was dedicated to environmental protection, simply did not have sufficient power, staff, or financial resources to supervise effectively, or to control polluting industries, particularly those favoured by the local governments. Although some local EPBs had achieved successes using the judiciary to try cases of polluting businesses, they suffered from a shortage of trained staff and environmental lawyers. The dependence of the courts and judges on funding by local governments was an added problem. If the accused polluting firms had the support of powerful local officials, the courts might find it not in their interest to enforce anti-pollution laws against them.

That said, not all local authorities shirked their duties on protecting the environment. The rich industrialised cities of Shanghai, Zhongshan, and Dalian had leaders who strove to keep their cities relatively green, and had achieved results and earned recognition for doing so.

Despite the fact that the central leaders devolved the authority and responsibility for environmental protection to the local governments, they nevertheless intervened by using broad campaigns to pressure local officials on a range macro-environmental threats of nationwide importance and scope, such as water scarcity, deforestation and desertification. An example was Premier Zhu Rongji's ban on logging in seventeen provinces after the disastrous flooding of the Yangtze River in 1998. Because these campaigns placed large financial burdens on the local authorities, which were not consulted in the first place, the lack of follow through from the centre often resulted in their failure to achieve the desired or lasting results.

As China became increasingly integrated into the global community, cooperation and help from international agencies, such as the World Bank, the Asian Development Bank, international nongovernmental organizations (INGOs), and foreign governments already made a substantial impact on China's environmental practices. Further efforts along these lines would improve China's technological and policy capacity for protecting its environment.

5. Military Development Under Jiang Zemin

5.1 *Jiang's position vis a vis the PLA*

As China's economic modernization continued to make progress, pressure on its civilian leaders increased to modernize its military, a matter that had been put on the back burner by Deng. After Deng elevated Jiang Zemin to the top post of the party, with the elders' support in 1989, Deng also passed on to Jiang in 1990 the chairmanship of the Central Military Commission (CMC), the only office Deng held ever since he became the paramount leader. As the organization governing the military, the CMC was on a par in status with the CCP's Central Committee, The State Council., and the Standing Committee of the National People's Congress. This move made Jiang the commander-in-chief of the PLA, nominally at least. Adhering to the principle of the party ruling the army, the CMC had always been headed by a civilian, normally the general secretary of the party. As the first party general secretary to have had no experience in fighting a war or commanding troops, Jiang did not have the military credentials of Mao and Deng. As Jiang's mentor, Deng realized that Jiang needed all the help he could offer, to enable Jiang to gain the authority and respect of an actual commander-in-chief of the military establishment. If Jiang could really command the loyalty and respect of the military chiefs, he would have a vital advantage over any actual or potential political rivals.

Jiang lost no time trying to endear himself to the military after he became the head of the CMC. When Deng became virtually incapacitated in 1994, Jiang began to intensify his efforts to gain actual control of the PLA. In 1995, he increased the membership of the CMC by making his strong supporters, General Zhang Wannian and General Chi Haotian, its new vice chairmen. Jiang also tried to use its institutional power and resources to promote younger military leaders to the position of generals, the highest rank in the PLA. From 1994 to 2002, Jiang exercised this power six times and promoted 57 high military officers into generals, while Deng Xiaoping had only appointed 17 generals from 1981 to 1990. Jiang thereby created a pool of military commanders, who were beholden to him and owed him loyalty. He also eagerly enforced the newly introduced retirement system, which set age limits for commanders of different levels. A principle was established whereby high military officers had to be younger than their superiors, or face retirement. Since Jiang held the highest position in the military, all the senior generals, who were older than Jiang, had to go into retirement. This move created vacancies in the upper echelons of the military for Jiang to fill with people loyal to him, other things being equal; and at the same time, it also eliminated

the senior commanders who were more likely to find it difficult to look up to Jiang as a mere civilian, with no battlefield experience, as their commander-in-chief.

Increasing military spending was among the most effective ways Jiang used to win the support of the military. Having put rapid economic growth as a top priority, Jiang's predecessor, Deng, had to keep a tight rein on defence spending in the 1980s. In 1979 and 1980 he cut defence spending by 12.9% and 13.3% respectively – an unthinkable act except by someone with Deng's power over the military. From 1982 to 1988, the average annual increase in the defence budget at 4.5% hardly kept up with inflation. Deng had persuaded the PLA generals that money for military modernization had to be generated by economic modernization. In order to lessen the pain, Deng permitted the PLA to engage in business to supplement the lack of sufficient financial support from the state. By the late 1990s, the commercial and industrial activities of the PLA had proliferated to such an extent that they led to rampant corruption, and the lowering of fighting capacity of China's military forces. This situation prompted Jiang Zemin and his concerned colleagues to adopt the policy of detaching the army from its business activities, and compensating its loss of income from this source by an increase in defence spending.

In keeping with his faith in a political order based on solid institutions and law, Jiang actively promoted the idea of "ruling the army by law" (*yifashijun*). Between 1996 and 2000, he introduced a series of regulations that included *The Law of the People's Republic of China on National Defence* and *The Law of Military Service of the People's Republic of China*.

5.2 *Military Modernization under Jiang Zemin*

When China's coastal economy began to make rapid strides during the 1980s, Deng Xiaoping had introduced a new military doctrine of "limited or partial war", under modern conditions. This was a departure from the doctrine of "people's war" that Mao developed from his experiences of the Sino-Japanese war, and China's civil war. Mao conceived his strategy as a war of attrition involving guerrilla warfare, between a poor and technologically backward country, and a technologically advanced and militarily more powerful enemy. This had been China's situation not just during World War II, but also during the Cold War. In the Cold War era, China was at first a friend of the Soviet Union, but later the relationship cooled. The opposite occurred between China and the United States. Both of these militarily advanced superpowers, had considered attacking, or threatening to attack, China with nuclear weapons at various points during the Cold War. In case of being attacked by one of the superpowers, Mao's idea

was to capitalize on China's large population, and its vast interior, to bog down its adversary in a total war of attrition, from which China would eventually emerge a victor, like a phoenix rising out of the ashes. Perhaps Mao did not appreciate fully the horror a nuclear war would unleash on the Chinese people, or perhaps this was the way he chose to stand up tall, when threatened by, or fighting with, one of the superpowers. Fortunately, his idea had not been put to the test.

In the 1980s, as the likelihood of a total war with either the Soviet Union or the United States receded, Deng Xiaoping began to perceive the foreseeable future as a time for peaceful economic development. He also sensed that if a war occurred, involving China with such technologically advanced adversaries like Japan and the United States, it would be more likely to take place in the contentious regions in the East or South China Seas, in places like Taiwan, Korea, or Vietnam, rather than in mainland China itself. Such a military contest could be brief, relying less on the size of the ground force, and more on the rapidity of deployment and well-coordinated movements of the air, sea and land forces; these could deliver a decisive blow against the forces of the opponent without necessarily destroying them totally. Recognizing the changed circumstances, Jiang embraced Deng's military doctrine of partial war (*Jubu Zhanzheng*) under modern conditions.

But the Chinese military development had remained more or less static from mid-1960s to mid-1980s. In contrast, the industrially advanced nations, the United States in particular, had achieved major technological and other breakthroughs which very greatly increased the power of their military forces. These advances, especially in the application of information technology, enhanced enormously the firepower and lethality of weapons, their stealth, the range and precision of the air strikes, and battlefield mobility. These strides in warfare were clearly demonstrated by the American military in the 1991 Gulf War. The Chinese were so impressed by what they saw that they rated the advances as a "revolution in military affairs". The Chinese saw the key role played by information technology in logistics, airborne early warning, surveillance, coordinated air-land operations, and battlefield command, control, communication, and intelligence (C^3I) capabilities, not to mention sophisticated missile defence systems.

For its part, the PLA possessed an oversized ground infantry force of low mobility, that was armed with obsolete weapons, and staffed by poorly educated officers and soldiers. The outmoded ships and submarines of the PLA Navy (PLAN), with its poor air defence, command and communication systems, and limited amphibious assault and at-sea replenishment capability, was no more than a coastal force. The PLA Airforce (PLAAF) was similarly handicapped by having outdated aircraft, weapons, and avionic design. Such a force obviously did not have the range, the in-flight refuelling, the offensive counter-air, close-air

support, the night-operations, and the early warning and command and communication capabilities of a modern air force. Even China's strategic nuclear force, with its large, stationary, high-yield warheads, was inadequate as a creditable deterrent, because of its vulnerability to destruction by an enemy's first strike. To possess a creditable deterrent to attack against its nuclear arsenal, China would need to have more and better nuclear missiles, bombers and submarines, and also increase its level of attainment in command, control, communication, and intelligence.

Stung by the "revolution in military affairs" made by U.S. and its Western allies, and the realization that China could be fifteen to twenty years behind in many key areas of modern military development, Jiang Zemin responded positively to the PLA leaders' pressure for military modernization without further delay. On January 13, 1993, he promulgated a new military strategy, in line with Deng's vision, that was to guide the modernizing effort of the PLA in the foreseeable future. Although China was not in a position to use military might for power projection, or to fight wars half a world away, like the United States, China would still need to modernize and strengthen its military forces, to enable it not only to defend its sovereignty and territorial integrity, but also to enable it to carry out its updated strategic mission of conducting limited or local wars in modern conditions, against highly sophisticated forces.

After taking stock of China's military backwardness, the Chinese leaders had to consider not only acquiring more up-to-date armaments, military equipment, ships, and planes, but also establishing a more professional officers' corps, with well-educated officers to lead better trained soldiers. Both of these could be in far smaller numbers, for in modern warfare the accent was on quality, rather than quantity, of the fighting force. As the head of CMC, Jiang made a big effort to streamline, upgrade and reorganize the PLA, introducing at the same time rapid-response high-tech combat units. By 2000, after more than a decade under his rule, the percentage of officers with some college education had risen from ten to seventy-five percent. Learning from the U.S. about the important role of non-commissioned officers (NCOs) in training, monitoring, and disciplining the rank and file, the PLA increased the size of its NCOs and the part they played. As the NCOs took over the more routine tasks of supervising the ordinary soldiers, the PLA were able to cut down on the number of the officers' corps. Having trimmed the size and improved the quality of the military personnel, Jiang's government was able to improve the living standard of the soldiers and give higher pay increases to the officers than even their civilian counterparts.

Modernization of the PLA required financial outlay. From 1989, encouraged by the key part the army had played in the Tiananmen crack-down, military leaders expected some payback from – as they saw it - the party they saved. Since that time, the military budget has grown at a double-digit rate annually. It more

than doubled from 1989 to 1998, and again from 1998 to 2003, a year after Jiang stepped down. Because of the rapid expansion of the Chinese economy during the years from 1989 to 2002, the military budget, despite the increases, occupied a smaller percentage (averaging 1.2%) of the GDP during these years, in comparison with the previous twelve years (from 1976 – 1988), which averaged 3.32 %.

At this point in time, much of China's defence budget increases went into building up the PLA Navy. China needed a strong navy to support its claim for Taiwan, as well as to provide security for its increasing global trade, which was mostly ship-borne. During the 1990s, a combination of domestic production and purchases, mostly from Russia, enabled the PLAN to make the transition from a coastal defence force to an ocean-going "blue water" force. Acquisitions included ocean-going vessels, such as frigates and destroyers, as well as submarines which were equipped with advanced weapons such as radar, sensors, and anti-ship and anti-air cruise missiles. In 1998, China purchased from Ukraine the *Varyag*, a disused Soviet-built aircraft carrier, with the intention of upgrading it. After its refurbishment, it was renamed *Liaoning*. Even though the *Liaoning* was not operational, the U.S. Secretary of Defence, Chuck Hagel, requested a visit, which the Chinese granted. On April 7, 2014, he and Max Baucus, the U.S. Ambassador to China, became the first foreigners to have a tour of China's lone aircraft carrier. With an eye on the security of its littoral waters and the possibility of having to land forces on Taiwan, China improved the capabilities of its patrol boats and amphibious ships.

Between 1990 and 2010, the PLA Air Force removed around 3,500 (about 70%) of its outmoded aircraft from service. These aircraft were replaced by purchases from Russia of more advanced and longer-range interceptors and transporters, including helicopter transporters. With foreign assistance (Russian mostly), China not only converted old fighters and bombers, but also went into production of new and more up-to-date ones, which had better weapons and were capable of in-flight refuelling

Although the PLA ground forces also acquired new weapons and equipment, such as new tanks, armoured personnel carriers, infantry fighting vehicles, and multiple rocket launchers, the Chinese gave far greater priority to upgrading the hardware of their Navy and Air Force. The modernization of the ground forces was more focused on better-educated, -motivated, and -trained troops, which could form into rapid reaction combat units, capable of being airborne-dropped and landed amphibiously.

Although China's leaders strove to develop a creditable nuclear deterrent in the long run, their most immediate efforts were focused on increasing China's arsenal of ballistic missiles, both intercontinental ballistic missiles (ICBM) and short-range ones, especially the latter. The possibility of military action over

Taiwan was likely to have prompted them to give priority to increasing the number of short-range ballistic missiles with conventional warheads and improved accuracy and mobility.

5.3 *China's space programme*

In October 1957, the U.S.S.R. dramatically launched an artificial satellite, Sputnik I, to orbit the earth. Then in April 1961, the Soviet Union followed this feat by launching and retrieving a space craft carrying a Russian astronaut. Impressed by the Russian venture into space, Mao decided, from considerations of national security and prestige, that China must not be left behind in the space race.

As an ally of the Soviet Union during the 1950s, China relied at first on Soviet technical help on missile technology. After the Sino-Soviet split in the early 1960s, China proceeded to develop on its own program of ballistic missiles, for delivering nuclear warheads and for launching satellites into space. In the late 1960s, when the U.S. was forging ahead with landing astronauts on the moon, the Chinese began to conceive an ambition for also sending manned spaceships to orbit the earth, and landing astronauts on the moon.

China's space exploration was initially directed by the People's Liberation Army, whereas that of the U.S. was and still is run by a civilian agency, the National Aeronautics and Space Administration (NASA). For decades, dating from the start of the Cultural Revolution in 1966, the space program in China merely coasted along, although it was protected from destructive factional fighting. When progress was later renewed, China launched a 173 kg Dong Fang Hong I (meaning The East is Red I) satellite on April 24, 1970. This was China's first successful satellite launched into space, after a failed attempt a few months earlier.

After Mao's death in 1976, and for several years into the Deng era, space exploration was put on the back burner. It was revitalized after Deng's reform policy improved the Chinese government's financial situation, and in 1986 the Chinese Academy of Sciences proposed a new manned space project as Astronautic Plan 863-2. From that year, the Chinese began to market their commercial satellite launching business. For several decades until the late 1990s, practically all communication satellites that needed commercially available launching were made in the United States. Since these satellites and parts were on the U.S. munitions list, the US. government would alternately grant, suspend, or reinstate export licenses of these products to China, depending on the climate of the political relationship between these two countries.

During the Jiang Zemin era, China's space program gathered a lot of momentum, and it became a cornerstone of the nation's science and technology development effort. In order to inject a strong civilian element into the Chinese space program, in 1993 the Chinese government founded the China National Space Administration (CNSA), or *Guojia Hangtianju,* to manage its space activities and its international relations concerning space. CNSA later came under the joint supervision of both the military- and the civilian-administered Commission of Science and Technology in National Defence. In 2008, this office was reorganized into the State Administration for Science, Technology, and Industry for National Defence (SASTIND). With SASTIND's greater autonomy from the military chain of command, the CNSA established close links with many of China's top universities, and procured from companies like the state-owned China Aerospace Science and Technology Corporation, which behaved more like large aerospace companies in the West.

In 1992, Project 863-2 gave way to Project 921, which was given funding for the *Shenzhou* (divine vessel) manned spaceflight. The first such spaceflight (*Shenzhou* 1) was actually a test flight without an astronaut on board. It was launched and recovered during November 20-21, 1999, the fiftieth anniversary of the founding of the PRC. *Shsenzhou* 1 was followed by 3 other *Shenzhou* test flights during the next few years. On October 5, 2003, China put its first "Taikonaut", Colonel Yang Liwei, in space on Shenzhou V to orbit 14 times before returning him safely to earth. This feat made China the third country to join the exclusive club of countries with a manned spaceflight programme, after Russia and the United States.

China has repeatedly expressed its support for "multilateral international cooperation on the peaceful use of outer space within the framework of the United Nations". China has argued against the militarization of space, or putting weapons into space, in arenas such as the U.N. Conference on Disarmament. The Chinese position has been confirmed by its series of periodic "White Papers" on space activities, which appeared in 2000, 2003, 2006, and 2011. As a member of the United Nations Committee on the Peaceful Uses of Outer Space (COPUOS) since the 1980s, and a signatory of all U.N. treaties and conventions on space, China wants the United Nations to take a leading part in regulating international space activities. Asserting that China adheres to the principle of international cooperation on the basis of equality, mutual benefit, and a code of international law, the Chinese "White Paper" of December 15, 2003 expressed support for the program of the United Nation Office of Outer Space Affairs (OOSA) on outer space applications.

Under Jiang Zemin's leadership, China pursued the development of rockets capable of launching increasingly heavy loads, and placed a variety of satellites into space for remote-sensing, telecommunications, and navigation. The remoting-sensing satellites have a wide range of applications in meteorology, mining, surveying, agriculture, forestry, water conservancy, oceanography, seismology, and even urban planning. Telecommunications satellites are mainly used for TV broadcasting. China has used these to extend the reach of CCTV to vast rural areas, which wireless TV broadcasting cannot normally cover. These satellites have made it possible for millions of Chinese to receive secondary and college education online. Satellites for navigation may be used for land surveying, ship and aircraft navigation, and urban traffic control, among other uses. Besides national prestige, the wide range of applications has made the development of satellite technology highly rewarding in social and economic benefits to China.

6. Foreign Relations Under Jiang Zemin

6.1 *U.S. – China relations*

When Jiang Zemin started to lead China in 1989, the U.S. and the major European countries in the EU had begun to impose economic sanctions against China as a response to the June 4th Incident of that year. Jiang sought to engage diplomatically with the Western countries, to bring the sanctions to an end, and he also endeavoured to promote economic and other ties and exchanges with them, as well as countries in other parts of the world. He summed up China's foreign policy as one that aimed at increasing trust, reducing troubles, developing cooperation, and avoiding confrontation. During his thirteen years at the helm, he made a point of conducting good will tours or state visits to countries large or small in many different regions of the world, to establish or improve diplomatic, economic, and cultural contacts between the PRC and these countries. The list is a long one: India, Pakistan, Japan, South Korea and the Philippines in Asia; Great Britain, France, Russia, Greece, Turkey and the Ukraine in Europe; Israel, Libya, Iran, and Palestine in the Mid-East; South Africa, Ethiopia, Egypt, Namibia, and Zimbabwe in Africa; and the United States, Canada, Cuba, Brazil, Argentina, Chile and Venezuela in the Americas. Considering Sino-American relations as the most challenging and important in China's foreign affairs, Jiang paid several major visits to the U.S., and made special efforts to end the post-Tiananmen estrangement between the two countries, and improve the relationship with the world's dominant power.

In November 1993, four years after the Tiananmen Square Incident, when Sino-American relations were still under a dark cloud, Jiang ventured to the U.S to attend the Asia-Pacific Economic Association (APEC) conference hosted by the U.S. in Seattle, Washington. Calling attention to the economic benefits to America from the growing trade between the two countries, Jiang made a point of stopping at Boeing at the start of his visit, praising the giant U. S. aircraft manufacturer, and telling its three thousand workers that China was Boeing's largest foreign customer. He even took the time to visit a Boeing worker's home. During a brief stopover in San Francisco, he invited American business leaders to "think big", and to take advantage of the growing investment opportunities in China.

A most important business item of Jiang's trip was an informal summit with the newly elected American President Bill Clinton. Since Clinton had taken a 'get-tough with China' stance during his election campaign, Jiang was prepared for some sharp exchanges with him on the human rights issue. Responding to President Clinton's demands on the PRC to make improvements on a range of areas, from carrying out dialogue with the Dalai Lama on Tibet to allowing Chinese dissidents' families to emigrate, Jiang had to tread a fine line. While he wished to appeal to Americans for greater understanding of China's situation, he had to avoid appearing too soft, and yielding to foreign pressure, to his colleagues at home. He asked Americans not to fix their gaze on the exceedingly small number of people who broke their nation's law, and endangered their nation's security. Surely China, like all other countries, had the right to bring them to justice. He pointed out that the more communal-minded societies in Asian gave more weight to the "rights of many rather than the privileges of a few", resulting in divergent views on human rights between the Chinese and Americans. In Jiang's view, the U.S. demands amounted to interference in China's internal affairs. Although Jiang's ninety-minute summit with Clinton made little impression on the U.S. political establishment, Jiang had initiated a dialogue with President Clinton, and secured the latter's agreement to improve U.S.-China relations.

In October 1995, when Jiang went to New York to attend the celebration of the fiftieth anniversary of the U. N., tension flared between China and the U.S. over the visit of President Lee Teng-hui of Taiwan to the U.S. earlier that year. Infuriated by the perceived U.S. violation of the One China principle, in his speech to the U.N. Jiang accused the U.S. of using 'freedom, democracy and human rights' to infringe upon other countries' sovereignty. However, in his private talk with President Clinton, Jiang appeared more conciliatory. Jiang suggested cooperation between the two countries to improve the environment, to

combat international terrorism, and drug trafficking, among other issues. After President Clinton assured Jiang that the U.S. remained committed to the “One China” policy, and that visits of leaders of Taiwan would be “rare and “private” in nature, Sino-American relations returned to normal.

In spite of Jiang’s desire to avoid tension and confrontation with the U. S., there were brief episodes of crisis that had the potential to damage the relationship between the two countries during the period of his rule in China. One was the Third Taiwan Strait crisis between 1995 and 1996. Jiang pointed out to Kissinger that, absent the U.S. intervention, the PRC would have been able to rightfully “liberate” Taiwan long ago. Jiang expected this knotty issue, and the question of U.S. arms sales to Taiwan, to remain a problem after his term of office.

Another crisis of the era was the bombing of the Chinese embassy in Belgrade by American-led NATO forces in May 1999. This event sent furious Chinese student protesters into the streets, berating their leaders for being, of all things, pro-American. Jiang responded by putting up a show of harsh protest to quieten the domestic fury, while diplomatically reassuring the apologetic U.S. that China would take no further action. During the same year, the U.S. Congressional Cox Report accused China of stealing secrets of U.S. nuclear weapons, and named a Chinese-American scientist, Wen Ho Lee, as a Chinese government spy in this matter. The Chinese leaders, denying the allegations, were deeply offended by the report. Blaming it on American racial prejudice, the Chinese Information Minister, Zhao Qizheng, considered it “a great slander against the Chinese nation”. Since no solid evidence was found to support the charges against Lee, he was released with an official apology, after having spent 278 days in solitary confinement.

Before Jiang stepped down, and soon after George W. Bush became the U.S. president, an untoward incident took place in April 2001 that threatened to derail Sino-American relations. It involved the collision between a U. S. Navy reconnaissance aircraft doing a routine patrol off the Chinese coast to gather electronic data, and a Chinese military aircraft tracking the U.S. spy plane. As a result, the Chinese PLA F-S fighter jet was destroyed and the pilot went missing, while the damaged American aircraft had to perform an emergency landing on China’s Hainan island. With both Beijing and Washington wanting to play down the unfortunate encounter, the episode ended with an American presidential expression of regret over the loss of the Chinese pilot, and the safe return of the American crew and the pieces of the disassembled U.S. plane to America.

Jiang did not allow setbacks in Sino-American relations to deter him from doggedly pursuing friendly dialogue with the U.S. presidents, and presenting China's case to the American public. After Jiang invited Clinton to visit China, Clinton returned the courtesy. When Jiang made a formal state visit to the U.S. in October 1997, the Chinese government was pleased with his American hosts for arranging to receive him with a red carpet, military honour guards, twenty-one-gun salute, gala dinners with luminaries, and other expressions of esteem which the Chinese considered proper for the visit of the head of state of a major foreign country. Jiang's reception reinforced the Chinese perception that the U.S. was once more ready to engage with China. Jiang's visit helped the U.S. and China move forward on economic matters relating to bilateral trade, and on China's accession to the WTO. Another positive outcome was the two countries' reaffirmation of their commitment to nuclear non-proliferation and arms control, particularly after India and Pakistan had recently signalled their entry into the nuclear club through weapons' testing. Having established good personal rapport, the two presidents announced their intention to work towards a "constructive strategic partnership", as well as setting up a "hot line" to facilitate communication between Beijing and Washington.

During this visit, Jiang fully expected joint press conferences with Clinton, as well as interviews and discussions with other leading American political and media personages, during which no issue would off limits. Having prepared himself well for the most controversial of issues, Jiang welcomed these sessions as opportunities to explain China's position to the Americans. When presented with hostile questions on Tibet, Jiang told his American audience that Tibet under the Dalai Lama was a theocracy, which operated an oppressive feudal system under which the majority of its people were serfs. Serfs in Tibet were effectively slaves bonded to their masters, with no human rights to speak of. After China ruled Tibet directly after 1959, it instituted reforms that emancipated some one million serfs.

The dialogue between the two presidents continued with Clinton's state visit to China in June 1998. Media around the world commented favourably on the frank exchanges between Clinton and Jiang on many sensitive issues during their joint press conference in Beijing. Foreign observers were especially impressed by the fact that their free-ranging debate was broadcast live on China's nationwide television, and millions of Chinese people heard Clinton criticizing the Chinese leadership on the Tiananmen crackdown. Jiang defended the regime's response with the official line that the use of force had been necessary, for the security and stability of the Chinese state. Since Jiang understood that Clinton was obliged by domestic political pressure in America to take a hard line, and he made allowances for Clinton's criticisms. Asian

and Australian observers, whose countries feared conflicts between China and the U.S. and the possibility of having to takes sides between the two, were heartened by what they saw as a "new maturity" in U.S.-China relations. They were pleased with the Clinton-Jiang efforts to seek common ground despite their outspoken disagreements. Clinton's statement that China and the United States were strategic partners, not adversaries, boded well for the security and stability in the Asia-Pacific region and beyond.

U.S.-China relations were frequently affected by the vagaries of American domestic politics. In 1999, George W. Bush, the son of Clinton's predecessor, and front-runner of the Republican Party for president, tried to score points by portraying Clinton's stand on China as spineless. Bush told the U.S. media that America needed to be "tough and firm on China", which he viewed as a "strategic rival" rather than a "strategic partner." He went so far as to volunteer that the U.S. would use force to protect Taiwan if China attacked it. The Chinese Ambassador to the U.S., Li Zhaoxing, responded by reminding the Bush administration that Taiwan was a part of China, not Florida, Hawaii or Guam, and that China brooked no foreign intervention in its internal affairs.

After the psychologically devastating Al Qaeda attack on the U.S. in September 11, 2001, the Bush administration "declared war on terror". Suddenly, the challenge of Islamic extremists deflected the U.S. from focusing on the threat of a rising China. In order to gain the PRC's support for U.S. military action against Iraq, and in Afghanistan which bordered China, Bush moderated his stance towards China. Bush was able to start a friendly dialogue with Jiang, after he reaffirmed U.S. support for the "One China policy" with regard to Taiwan. When Bush went to Shanghai to attend the APEC forum in October 2001, he praised the Chinese regime for its unhesitating condemnation of the terrorist attacks against America. In spite of China's normal position of opposing foreign intervention across international borders, Jiang supported the U.S. military action in Iraq, and even the U.S. bombing of Afghanistan, China's neighbour. The two presidents exchanged friendly state visits, and laid emphasis on the major areas of cooperation between China and the U.S. during their summits in 2002, the year when Jiang stepped down.

In addition to the United States, Jiang Zemin also endeavoured to cultivate cordial relations with nations that were China's actual or potential trading partners, and/or political allies, worldwide. Apparently, Jiang's accommodating and non-confrontational approach to foreign relations was conducive to China' growth in economic stature, and political presence internationally, during the period of his rule. Jiang's

government ushered China into the WTO in 2001, won the bid in 2001 for Beijing to host the 2008 Summer Olympic Games, and organized exchange visits between Jiang and many other heads of states.

6.2 *China regains sovereignty over Hong Kong and Macao*

While Jiang Zemin made little progress on the matter of unifying Taiwan with China, always one of Chinese leaders' main preoccupations, his regime enjoyed the kudos of the return of Hong Kong and Macao to China in 1997 and 1999 respectively. The actual negotiations were, however, conducted by Deng Xiaoping. China did not consider the regaining of sovereignty over Macao, a smaller and economically less dynamic city than Hong Kong, as a major issue, largely because Portugal had twice offered to return this gamblers' haven to China, once in 1967 and then in 1974. Since Portugal's lease of Macao was going to expire officially in 1999, China and Portugal had drawn up a prior agreement for the orderly return of Macao to China on the date of the termination of its lease. China kept this agreement a secret, in order not to alarm the capitalistic Hong Kong residents, who thrived under the British colonial rule, and who dreaded the prospect of Hong Kong coming under the control of a regime that had confiscated private property, persecuted capitalists and sponsored the destructive Cultural Revolution.

During the Cold War years from 1949 to 1978, when the PRC was isolated from the West, Hong Kong was Beijing's most important window to the world. China used Hong Kong for earning foreign currency, for the importation of technology, and for information about the world generally. Probably because of Hong Kong's usefulness, and the fact that the lease of the New Territories, the largest part of the British colony in area, had a termination date, Mao had been willing to leave the issue of Hong Kong's return to China to his successors.

After Deng Xiaoping initiated China's reform in 1979, the PRC leaders began to see that Hong Kong could play an important role in the PRC's economic modernization. Hong Kong did not disappoint them, and maintaining Hong Kong's prosperity and stability was very much in accord with China's interest. Deng and his colleagues recognized that the people of Hong Kong, who had prospered in a capitalist economy with the rule of law and a relatively incorrupt government provided by the British, had legitimate doubts and fears about the colony's returning to China. However, because socialist China was itself then in the throes of opening up to the world, and of liberalizing its economy to let market forces play an increasingly important part, the people of Hong Kong had less reasons to worry. Deng lost no time in reassuring the

Hong Kong business community that China would allow the present governmental and business systems in Hong Kong to continue, and would protect the interests of the investors.

Having working out the details of China's policy on Hong Kong's return with Deng and his colleagues, Premier Zhao Ziyang informed the British Foreign Minister, Humphrey Atkins, that China was ready to negotiate. In September of 1982, Prime Minister Margaret Thatcher, flush with confidence after Britain's earlier victory in the Falklands War against Argentina, came to Beijing to try and persuade Deng Xiaoping to agree to her agenda of continuation of British rule over Hong Kong.

The first to meet her was Zhou Enlai, who impressed upon her that China was not going to bargain away Hong Kong's sovereignty. On the morning of September 24, Thatcher the "Iron" Lady", and Deng the "Steel Factory", confronted one another, with their different agendas for the future of Hong Kong. Pointing out that Britain had governed Hong Kong well for nearly 150 years, Thatcher put up a strong case for Hong Kong to remain a British colony, because the prosperity and stability of the place depended on it. She also argued for the validity of the treaties that had ceded to Britain the island of Hong Kong and the Kowloon peninsula north of it, and of the 99-year lease for the New Territories further north. As a patriotic Chinese in the twentieth century, the starting point of the negotiations for Deng had to be the abrogation of the nineteenth century unequal treaties, which had been imposed on China by force, and the recovery of territories lost through such treaties. Brushing aside Thatcher's proposals, Deng declared that China would resume sovereignty of Hong Kong in 1997, the terminal year of the lease of the New Territories. Since Britain would continue to govern Hong Kong before 1997, Deng desired the two countries to work together to avoid major disruptions, and to ensure a smooth transfer of power. Deng assured Thatcher that it was China's intention to preserve Hong Kong's prosperity, through the retention of Hong Kong's current system of government, most of its laws, and its business practices after 1997. He also said that China would hold consultations with the business community of Hong Kong, to preserve the interests of its investors, including British investors.

Deng stood firm on the steps China would take to regain sovereignty over Hong Kong. Should the British seriously resist his proposals, or try to strip Hong Kong of its assets before 1997, he warned that China "would reconsider the timing and the manner of recovery [i.e. of Hong Kong]". He expressed a desire for a negotiated settlement on Hong Kong's future with the British. However, he had a deadline in mind on diplomatic negotiations. If no Anglo-Chinese agreement were made by September 1984 on the handling of the transitional period, China would unilaterally announce its own plan for Hong Kong's future.

After Prime Minister Thatcher emerged from the “abrasive” two-and-a-half-hour session with Deng, Hong Kong TV caught the famous picture of her losing her footing coming down the steps from the Great Hall of the People, and tumbling on her knees. The portentous image of the British Prime Minister in Beijing, kowtowing towards the mausoleum of Chairman Mao at the centre of Tiananmen Square, dominated the evening news of the British colony. Although the two sides agreed to further diplomatic negotiation, Thatcher offended the Chinese by telling the press that she would stick by the three treaties, and that she did not have confidence in concluding a new treaty with a country that wanted to break an old one with which it disagreed. The apparent discord in the Deng-Thatcher talks led to Hong Kong’s Hang Seng Stock Index falling to 772 in late October 1982, from a figure of 1300 in June. However, before Thatcher left Beijing, she made a small concession to her hosts: if satisfactory arrangements could be made regarding Hong Kong’s administration to preserve its prosperity and stability, she might make a recommendation to the British Parliament on the issue of sovereignty.

China’s insistence that the negotiated settlement be premised on the resumption of full Chinese sovereignty after 1997, and Thatcher’s reluctance to accept this condition, delayed the start of the talks to July 12, 1983, around ten months after the Thatcher visit. Deng made a concession to the British by altering the order of the matters to be discussed on the agenda of the talks: the first item would address the question of Hong Kong’s stability and prosperity after 1997; the next, plans before 1997; the matter of sovereignty was left to the last.

As Britain and China negotiated on the future of Hong Kong, China was also making efforts to change its existing organizations in Hong Kong, and to select and train local staff to prepare them for their new role for supervising the Hong Kong government after 1997. Leading officials of the PRC were also liaising with Hong Kong 2business leaders to hear their comments, to calm their fears, and to win their support for the new regime for Hong Kong after 1997.

After several rounds of talks the negotiations floundered on the British insistence that they should continue the administration of Hong Kong, in return for agreeing to Chinese sovereignty. Deng would consider nothing less than full sovereignty, and he knew that he had the upper hand, since China controlled the British colony’s food and water supply. In the unlikely event of Britain sending troops to secure Hong Kong, Deng was also prepared to meet force with force as a last resort.

As a result of the lack of progress of the talks, the Hong Kong dollar plunged to its lowest in history, panic buying cleaned out supermarket shelves, large amounts of capital flew out of the city, and well-to-do

families bought residences abroad as a hedge. Finally, as China's deadline to execute its plan for the recovery of Hong Kong without British cooperation drew ever nearer, Great Britain decided to bow out of Hong Kong gracefully. Following the eighth round on January 25-26, 1984, the talks became more fruitful, and the British officials began to let their Chinese counterparts into the picture of how they governed this complex modern city, in order to ensure that Hong Kong would retain its place among the foremost global financial centres and entrepots after 1997. Beijing's fear that the Britain might strip the colony of its assets, or leave some "poison pills" for its Chinese successors, was allayed by the creation of a Sino-British Liaison Committee to facilitate communication between the two sides.

By September 6, 1984, after twenty-two rounds of negotiations, Great Britain and China completed the document on the Sino-British Joint Declaration on the Question of Hong Kong. Deng Xiaoping, rejoicing over the successful negotiation of a peaceful return of Hong Kong to China, invited Prime Minister Thatcher to sign the agreement, and Queen Elizabeth to visit China, with the remark: "We have concluded that we can trust the British people and the British government."

Announcing the Joint-Declaration to the Hong Kong public, the British Foreign Secretary, Geoffrey Howe, assured them that Hong Kong would remain a free port and international financial centre, with its existing social, economic, and administrative systems remaining unchanged. The people there were relieved at the end of a period of uncertainty. Believing that the agreement provided the basis for a stable and prosperous Hong Kong, they reacted favourably to the news. The stock market in Hong Kong registered its largest one-day gain since the Thatcher visit. Media responses in both London and Hong Kong were overwhelmingly positive.

After the Joint Declaration, work began with a committee of thirty-six people from mainland China and twenty-three from Hong Kong, on drafting the "Basic Law" that would in effect be the constitution of the Hong Kong Special Administrative Region (HKSAR), as well as the defining document on the relationship between Hong Kong and Beijing after 1997. The Hong Kong committee members were chosen by the Chinese authorities from among prominent mainstream residents, representing different constituents and diverse views. It took several years, and nine plenary sessions until February 13, 1990, for members of the drafting committee to take their final vote on all the articles of the Basic Law, which was approved by China's National People's Congress (NPC), and warmly received in both China and Hong Kong.

China was satisfied that the Basic Law empowered Beijing to appoint Hong Kong's chief executive, to decide on issues that affected its foreign affairs and national defence, and to station troops there. It was also significant that the Standing Committee of the NPC had the final authority to interpret the Basic Law. The people of Hong Kong were assured by provisions that allowed Hong Kong to remain a free port, with the right to maintain its own system of government for fifty years. The highly autonomous Hong Kong government, to be administered by the locals, was to have the power to make policies and final decisions on all affairs affecting the city, as long as they did not conflict with China's security and foreign relations concerns. Hong Kong was permitted to issue its own currency, levy its own taxes, and maintain its judicial system and local laws. Its citizens were to enjoy freedom of speech, press, publication, association, assembly, and the freedom to demonstrate, strike, and join and establish unions.

Advocates of full democracy for Hong Kong were disappointed that it was not going to become a full democracy after 1997. The leaders of the PRC who opposed democracy for Hong Kong could easily justify their stance, by pointing out that the British colonial government, headed by a governor appointed by London, had not presided over Hong Kong as a democracy during the 150 years before 1997. Referring to fact that Hong Kong had been operating under a different system from that of Britain and the U.S., Deng Xiaoping said that "it would not be appropriate to adopt a fully Western system with three separate branches of government" for Hong Kong at that point. Some business people in Hong Kong were known to be no more enamoured of democracy than the PRC leaders. Those who supported the Basic Law could argue that as a Special Administrative Region under the Chinese regime of "one country, two systems", Hong Kong had far more autonomy than any central government in the West had ever given to local areas under its control.

Chris Patten, who ruled Hong Kong from 1992 to 1997 as its last British Governor, infuriated the leaders of the PRC by introducing belatedly a democratic reform measure for universal suffrage for half of the Legislative Council in 1994, without consulting them. Beijing denounced him for trying to force China to do what Britain had failed to do during most of the colonial era. How could Hong Kong establish democratic institutions which were not even permitted in China itself? Deng, who did not live to see the return of Hong Kong to China in 1997, limited his vision for Hong Kong's future to remaining as an SAR in China, and his heirs allowed this vision to be realized through the implementation of the Basic Law. On July 1, 1997, Deng's widow, Zhou Lin, and Jiang Zemin presided over the celebration of Hong Kong's return to China with great fanfare which featured a massive fireworks display, watched by two million people

lining its Victoria Harbour. Claiming that individual rights were not as important as order in society, Tung Cheehwa, the new chief executive of Hong Kong, did away with Patten's democratic reform.

Wealthy Hong Kongers who were concerned about their future could and did vote with their feet. After the Tiananmen Square Incident on June 4, 1989, an estimated one million shocked residents of the city took to the streets in protest. Subsequently, thousands of Hong Kongers rushed to purchase foreign property, to send their children to study abroad, and to acquire foreign citizenship. Great Britain became a favourite destination for them, because many were eligible for British citizenship. However, as China's economic modernization gathered pace, and while Hong Kong retained its position as a hub of China's global trade, there was no shortage of people wanting to reside there to take advantage of its employment and business opportunities. Eventually the rise of Shanghai would alter this equation.

Democracy remained an issue. Addressing its people's desire for democracy, Jiang Zemin stated in his speech celebrating the establishment of the HKSAR on July 1, 1997, that the Basic Law provided for gradual and progressive development of democracy, so as to enable the HKSAR to achieve universal suffrage of its chief executive officer and the Legislative Council as an ultimate goal, but how soon this objective would be achieved remained unknown. At first 2007 was chosen as the target date. But 2007 passed without Hong Kong becoming a democracy. Then the target date was shifted to 2012. Hopes for universal suffrage for Hong Kong in 2012 were dashed by the Standing Committee of the National People's Congress (SCNPC), which delayed it to 2017 for the election of the chief executive, and to 2020 for the members of the legislature. The lack of rapid or sufficient progress on this matter led to many protest marches by Hong Kong residents over the years. Starting from 2001, large pro-democracy marches and demonstrations occurred annually on July 1, the anniversary date of the return of Hong Kong to China. How this issue played out under subsequent Chinese regimes belongs elsewhere in this series.

7. Political and Administrative Reforms in the Jiang Era

7.1 *Background: the political philosophies of Zhao Ziyang and of Deng Xiaoping*

Ever since Deng Xiaoping's reform and opening up of China, "reform" had been a dominant concern of the rulers of China, not only economic reform but also political and administrative reform. That had by no

means been the case under Mao, who was concerned with revolution, not reform. Mao was able to take the legitimacy of his regime for granted, partly because like a founder of a new dynasty in premodern China, he had united China by force. It is, in fact, not difficult to discern certain basic similarities in governance between a premodern Chinese regime, and the way China was governed under Mao. He was an autocrat who ruled China in many ways like a traditional Chinese emperor. The Communist ideology and the CCP may be seen as having taken the place of Confucianism and the Confucian officialdom. The Communist cadres were comparable to the premodern gentry. The adoption of Communism by Mao and his cohorts was their solution to the problem of how to make China wealthy and strong. To the true believers in Communism, the ideology itself conferred legitimacy on the regime that adopted it.

After Deng turned away from the economic doctrines of Communism, though without actually admitting the fact, and after his regime had achieved a high degree of economic success by opening China to the Western-style market capitalism, China watchers wondered whether the growing affluent Chinese middle class would become sufficiently empowered politically to turn China into a modern democracy. There is a common belief in the West that capitalism and democracy go hand in hand: a society cannot be fully capitalist without becoming a democracy, and vice versa. The fall of the Communist regimes in Russia and Eastern Europe, not only discredited Communism as an ideology, it also called into question the legitimacy and the viability of the small number of Communist regimes (China, Vietnam, North Korea, Laos, and Cuba) that still remained. At that point, Deng believed that the legitimacy of the Communist party's rule in China, devoid of its ideological buttressing, depended on intensifying the economic reforms to bring greater employment and prosperity to the people of China. In other words, it would be legitimized by results.

To be sure, economic reform from a planned to a market economy would necessarily involve political adjustments and administrative changes. Did China have to transform itself into a Western-style democracy for it to be truly successful in economic reform? What kind of political and administrative reforms were necessary for China? There were strong disagreements among Chinese leaders on the answers to these questions. Hu Yaobang and Zhao Ziyang, the two top leaders entrusted by Deng to carry out the reforms, were open to the influence of modern Western democratic countries. Hu had a generous spirit and, in Zhao's opinion, Hu was strongly inclined towards pushing "China's political reform forward along the path of modernizing the political system and democratization." But overwhelmed by the forces of conservatism that opposed his liberalizing political activities, Hu not only lost the battle but also his job.

Zhao was not a democrat at the beginning of the reforms he implemented, under Deng's leadership. As the economic reforms progressed under his premiership in the 1980s, he began to appreciate many of the positive aspects of a Western style parliamentary democracy, and aspired to introduce political and administrative reforms to incorporate these ideas into the Chinese system. After Zhao succeeded Hu as the General Secretary of the CCP in 1986, he proposed reforms aimed at making the Chinese polity more democratic, as far as Deng and the powerful conservative elders would allow or tolerate.

Zhao clearly saw the monopoly of power by the CCP, with its secret political deliberations and actions, and its tendency to control and interfere with all areas of the society and the lives of the people, as a major flaw in China's governance. He advocated "transparency of the Party and state decision making". He thought that people had the right to know not just the final decision, but also the process in reaching the decisions. He advocated freedom of information, and conducting dialogue with various social groups representing the people, allowing them and other political parties to "enjoy true political participation" and mutual "checks and balances". Knowing that the regime was not ready to allow full press freedom, Zhao would nevertheless have liked to start a controlled process of opening up, to allow non-state-controlled media groups to exist. Zhao wanted to see "rule by men", a weakness of China's governance that lasted from premodern dynasties to the present regime, give way to "rule of law". He called for the implementation of China's Constitution, to realize the "wonderful things" it laid down, on protecting people's rights and freedoms, including among others, freedom of speech, press, association, assembly, and religious belief. In addition, he wanted to curb the party's power to interfere in people's cultural and artistic expressions. Although Zhao knew better than to push a Western-style electoral system on China's conservative old guard, he did advocate expanding the "scope of democratic elections" to enable the representatives of the National People's Congress to fill certain top positions, such as the Chairman of the NPC and the Premier of the State Council, by vote. Acknowledging that the CCP's position of power would not change, Zhao thought it had to change the way it exercised that power in governance.

After Zhao was removed from power in 1989, and having time to think during years of solitary confinement, his political ideas evolved further. He came to the conclusion that Western parliamentary democracy, though imperfect, was a stable, civilized, vital, advanced and relatively mature system that had served countries with a healthy modern market economy well. This was why all developed nations, and some emerging ones, had adopted it. He thought democratization as a world trend was "irrefutable".

However, given the reality of China, Zhao believed it would take a long time before China could be transformed into a parliamentary democracy. During the transition period, Zhao believed that the CCP should maintain its position as the ruling party, with the support of other social forces, to provide the "stability" and leadership for making economic, social, and cultural advancement, and to effect gradual changes or breakthroughs from the top in an orderly way. In Zhao's opinion, introducing democratic procedures for the internal operation of the CCP, and allowing other political parties and a free press to exist, would be welcome breakthroughs. The reform of the legal system to achieve an independent judiciary should also be a priority. Zhao believed that as a democratic country, with rule of law and a free press, China would be in a better position to control the rampant corruption which was a major problem at that time. If Zhao had had the power, which he very nearly did, to introduce these reforms, China might have come close to eventually becoming a Western-style democracy.

The students demonstrating for democracy in Tiananmen Square, whose actions precipitated Zhao's downfall, did not know that, around the beginning of 1989, Deng Xiaoping was considering resigning from the chairmanship of the Central Military Commission, and giving this post to Zhao Ziyang, so as to empower the latter to continue with the reform and opening up. If Zhao had not persuaded Deng to postpone this decision for another year, Zhao would likely have succeeded Deng around that time, with all the power Deng could give him to fend off the conservative elders. This could well have resulted in a decision by Zhao not to send in the troops to end the demonstrations. The irony is that Zhao's career was destroyed by the students' clamour for democracy, before he commanded sufficient power to make far-reaching political reforms in the direction of democratizing China.

But Deng Xiaoping, and other even more politically conservative leaders, were staunchly opposed to political reforms that would lead China to become a Western-style democracy, with its checks and balances and multiple parties vying for power. They did not want any fundamental change in China's political system, with the CCP's one-party rule. Any measure that might curtail the power, and weaken the position or authority, of the CCP would not be acceptable. Deng believed that the big advantage of China's existing system was its overall efficiency, which was the result of the concentrated power in the hands of the decision-makers. On this subject, Deng said: "we get things done as soon as we make up our mind." Deng commented on the difficulty of getting things done by the government of the United States, precisely because of the checks and balances. Having experienced the chaos and disorder of the Cultural Revolution, Deng understandably hated chaos and disorder. To him, the students' pro-democratic

demonstrations represented forces of chaos and disorder. Maintaining stability was all important to Deng, and he believed that an effective dictatorship would be more able to maintain stability in a country like China.

However, Deng did acknowledge certain basic shortcomings or unsoundness in China's political system. One such he called patriarchism, which he considered to be a legacy of China's feudalism. Mao's personal dictatorship and arbitrary exercise of power was a prime example. Related to this was the over concentration of power in the party, whose cadres tended to intrude into the affairs of the government administrative apparatus, creating overlaps of position and function, and bureaucratic confusion to the detriment of both. The unchecked power of the CCP enabled its members to act as a privileged group above the law. Deng believed that a good system must not give unscrupulous people the opportunity to do whatever they wanted. The fact that the system allowed a seriously ailing Mao to exercise absolute personal power, and to die in office, leaving the prospect of a dangerous power struggle between the "Gang of Four" and his other subordinates, was a situation that must not be allowed to recur. Deng also denounced "bureaucratism" which was typically exemplified by an official whose long litany of faults included , amongst others: "standing above the masses; abusing power; divorcing oneself from reality and the masses; indulging in empty talk; sticking to a rigid way of thinking; being hidebound by convention; overstaffing administrative organs; being dilatory; inefficiency and irresponsibility; failing to keep one's word; endlessly circulating documents without solving problems; shifting responsibility to others;…participating in corrupt practices in violation of the law and so on".

Deng believed that these and other weaknesses in the system could be corrected by introducing "political structural reform" (*zhengzhi tizhi gaige*), which involved setting up political and legal institutions within the CCP, to change the style of leadership and to democratize it to some extent. Aided by Hu Yaobang and Zhao Ziyang in the 1980s, Deng addressed the Maoist over-concentration of power in one person, by institutionalizing collegiate power-sharing, or collective leadership, through the restoration of the office of the Central Secretariat, and abolishing the party chairmanship which Mao had held for thirty-one years from 1945 to 1976. Important party meetings, such as the CCP Congress, were to be held regularly once every five years, rather than intermittently depending on Mao's whim. Although the government was always to be subordinate to the CCP, measures were introduced to reduce the over concentration of power in the party, by separating the functions and responsibility of the party and government apparatuses. The CCP was to focus on ideology, on policy-making, and on formulation of developmental

strategy and goals, while controlling the government indirectly through such mechanisms as the nominations to important government posts. The government was to be empowered to carry on day-to-day administration without interference from the party. There was a reduction of party officials holding government posts, and leading cadres of the party were advised not to hold too many concurrent posts. A Central Discipline and Inspection Commission (CDIC) was introduced, to monitor the activities of the party leaders to check corruption and abuse of power.

On such vital subjects as the tenure of senior officials, and the retirement age of all officials, reformist policies were introduced to institutionalize these matters. The new Party Constitution of 1982 abolished life tenure for leaders or cadres of the party/government of all levels. There was to be a fixed ten-year tenure for top leaders, such as the president and vice-president of the PRC, and premier and vice-premier of the PRC. The 1982 CCP's important "Decision Concerning the System of the Retirement for the Old Cadres" ruled that senior party/government officials holding vice-ministerial posts and upward had to retire at 65, and those holding assistant posts had to retire at 60. With exceptions for those with especially high education and much needed skills, 60 became the universal retirement age of most working men, and 55 for most working women. The state provided pensions, housing and medical care to all those retiring from all state owned and operated organizations. In China it included workers in a large number of SOEs, most colleges and schools, in addition to party/government organs. Considering how tenaciously the gerontocratic revolutionary elders wanted to hold on to their power and privileges, special provisions were made to ease them out of their dominant political positions, and into advisory roles.

In parallel with the policy of retiring old cadres, was the drive to recruit well-educated young people into government service, and to select politically reliable and technically competent officials to manage and lead China's modernization. Deng's administrative reform policy of the 1980s progressively and significantly reduced the average age, and increased the educational level, of the senior officials or cadres. For example, a survey showed the lowering of the average age of the ministers and directors in 41 organs of the party/government from 65.7 to 59.5 at the end of 1983. The percentage of college educated ministers was raised from 38% to 50%. As a result, a generation of old revolutionary elites was replaced by a younger technocratic one. Deng's aides also tried to streamline the bureaucracy, which had a tendency to expand in terms of number of organizational establishments, and size of personnel. The trimming carried out between 1982 and 1983 cut 100 ministerial offices to 60, and reduced staff by one-third.

Clearly, the reforms called for under Deng were mostly related to correcting perceived shortcomings in the existing system, and improving its efficiency. Being a pragmatist, he was also in favour of changes that promoted economic modernization. One of these was devolving more power from the centre to the local authorities, to facilitate the adaptation of market-oriented reforms to local conditions. Another was reversing the Maoist mistrust and debasement of the intellectuals, to enlist them in China's modernizing endeavour.

Despite Deng's and the conservatives' fierce resistance to Western style democracy, small steps were taken in this direction. In June 1979, the National Party Congress (NPC) passed a new Election Law that introduced universal multi-candidate popular direct elections at the county level, nationwide. The new Party Constitution of 1982 brought in competitive election, by secret ballet, of party committee members at all levels, and party delegates at higher levels, by party members. Besides elections in the political apparatuses, elections were held in the state-run enterprises and research institutions. Although the Central Committee did not meet regularly, the dates and agenda of its meetings were usually announced some weeks ahead, and communiqués were normally published after the meetings. This was a big improvement from the Mao era: the official press announcements of those irregularly-held important decision-making meetings had often come out after the meetings were long over.

Democracy at the most basic level in China began with the 1982 Constitution, that brought into existence village committees as organizations for self-government in rural China, after the dissolution of the communes. Then in 1987 a *Provisional Organic Law of the Village Committees of the People's Republic of China* was passed by the NPC, to give Chinese peasants the democratic right to elect directly the chairman, vice-chairman and members of their village committees. Starting from June 1, 1988, when this law was to come into effect, the 930,000 villages of China were required to hold village committee elections. Since the "Organic Law" did not specify the method of the election, the Ministry of Civil Affairs (MCA) worked out the ways and means, and conducted trial elections in selected villages to establish an electoral system to be implemented. By 1994, the MCA was ready to provide nationwide guidelines for direct and competitive election for village committees. By the end of 1997, most of rural China had elected village committees.

The village committees were important to the rural residents, because the functions they performed affected their welfare. Their origin was connected to the power vacuum in the countryside after the collapse of the communes, following the introduction of the "Rural Household Responsibility System"

(RHRS) at the beginning of reform and opening up in the 1980s. As a result, rural residents in some areas in China voluntarily set up village committees to maintain security, resolve disputes, and manage public affairs. Endeavouring to re-establish control. the central government soon promoted and institutionalized village committees throughout China. These committees, with their heads selected by the township government, were put in charge of collecting fees and taxes, managing village finances, enforcing birth control, and allocating the community's resources such as land, water, and forests within the boundary of the village. Bringing democracy to rural China was the work of the liberal elder, Peng Zhen, who as Chairman of the National People's Congress made sure that the bill which he introduced for direct election of village committees was passed before he stepped down in 1987.

It appears to be important for the possible development of democracy in China that the CCP accepted the principle of direct elections at the most basic level of China's administrative unit. Whether the elected village committees actually served and protected the interests of the electorate depended on having a sound method of election, and on the leaders and members of the village committees being sufficiently empowered by the local authorities concerned to do so. Otherwise, the village committees would be corralled, like the *bao jia* system in traditional and KMT China, by the higher authorities to serve their interests instead.

These reforms in connection with democratic principles seemed to have been carried out with a view to boosting the regime's legitimacy, improving its image, or releasing political pressures internally or from abroad. From the point of view of Deng and his heirs, all political and administrative reforms were aimed at consolidating the one-party rule, and making its operation more efficient and effective.

7.2 Political *reforms during the Jiang Era*

The start of Jiang Zemin's rule in 1989 was a time of retreat from further marketization of China's economy, as a result of Zhao's "misstep on price reform" which had led to panic buying, and a run on the banks in 1988. After the Tiananmen Incident, Zhao's political reform moves towards liberalization, like his economic reforms, were frozen, if not rolled back. The political climate at the time was repressive. Political structural reform was not mentioned in official pronouncement for a time. But Deng's landmark "Southern Tour", to re-energize his economic reform and opening policy, drove Jiang to pursue marketization and the opening of China's economy to the world with renewed vigour from 1992 onwards.

Political reform, however, continued to be shelved, unless it was closely related to economic marketization. An example was the separation of the SOEs from the government. The managers of the more autonomous SOEs were empowered to run their businesses according to market conditions, and at the same time to take responsibility for the profit and losses of the SOEs. The SOEs that failed the competition test on the free market were allowed to fold, for the first time in CCP-controlled China. Notwithstanding further economic opening to the world, the regime under Jiang remained focused on political stability. Actions by intellectuals to loosen the government's tight rein on the cultural and ideological sphere were promptly suppressed. The regime tried to nip in the bud any well-organized movement that had the potential to oppose it. The Falun Gong was an example.

Jiang continued to pursue administrative reforms initiated during the Deng era by Zhao Ziyang, Deng's chief architect of reform. Zhao endeavoured to separate the functions of the party from the government administration, and slimmed down both by reducing the number of ministries and departments in order to make the system more rational, efficient, and cost-effective in the 1980s. During the 1990s, the phenomenon of a bloated, inefficient and costly bureaucracy that had troubled the party/government in the 1980s reappeared, driven partly by the rapid economic modernization. The organs of the party/government including ministries, commissions, and others grew from 80 in 1988 to 86 in 1993. The number of cadres increased from 5.43 million in 1989, to 9.2 million in the end of 1991. In order to reduce the managerial and administrative overlap of government and enterprises, many economic ministries were abolished, and replaced by industrial or commercial firms. One example was the replacement of the Ministry of Aeronautical Industry by the Aeronautical Industrial Company. Converting the Ministry of Light Industry to the Association of Chinese Light Industry was another. Such changes would reduce government expenditure, because the industrial firms and professional associations were obliged to finance their own support, from offering their products or services on the free market. The 1993 restructuring made significant reductions in the number of working organizations and cadres in the party/government.

After several years of double-digit growth, the problem of cadres over-staffing and administrative overlap of government and enterprise personnel, once more became acute. The regime again resorted to administrative reform measures along the lines of the earlier ones, which included separating the government and enterprises, and trimming and restructuring the bureaucracy to increase efficiency and reduce costs. In 1998 Jiang and his colleagues carried out the most severe and comprehensive organizational streamlining in the history of the PRC. The State Council's ministries and commissions were

reduced from 40 to 29. More than 200 bureaus, or 25% of the total, were eliminated. The total number of employees of the State Council was cut by 47.%. In order to avoid a huge number of people becoming unemployed, the administrative reforms adhered to a personnel policy of retraining and re-deployment of the party/government employees who had been made redundant.

Administrative reforms like these will most likely not to be the last. The Chinese social scientists, Liu Zhifeng, described the cycles of streamlining-swelling-re-streamlining and re-swelling as "historic vicious cycles". The Chinese political scientist, Xie Quingkui, who analysed this phenomenon, attributed the persistence of these "vicious cycles" chiefly to the centralization of power of the CCP.

Jiang continued to consolidate and institutionalize Deng's important initiatives on tenure, succession, and retirement age, to establish a regular system relating to political exit and leadership renewal. During his period at the top, he also used it as a convenient political tool to promote younger leaders of his choice, and to force rivals to step down. During the Fourteenth Central Committee Plenum, presided over by Jiang in 1992 on leadership reshuffling, those high-ranking officials on the levels of central ministers, and provincial governors approaching 65, would have to accept retirement at that age unless they were among the chosen few to move further upward. In 1997, a "gentleman's agreement" was reached at the 15th Party Congress that required members of the Politburo Standing Committee (PSC), China's highest decision-making body, to retire at 70. Five years later, Jiang and five of his eight PSC colleagues were obliged to retired at the 16th Party Congress in 2002, when Jiang's successor, Hu Jintao, became the General Secretary of the CCP. This was the first time when power was transferred smoothly from one generation of leaders to another without dangerous internal upheavals.

China was unusual in fixing upper age limits for senior political leaders. By contrast, in countries where such officials are democratically elected, there is normally no upper age limit. Below the upper echelon of officials, the retirement age from section chief to vice-minister was fixed at 60 before 2000. After that date, a "258" rule was introduced that required section chiefs to "step down" from their posts (*ligan bu tuxiu*) at 52, division chiefs at 55, and bureau chiefs at 58, in order to make way for younger officials to advance. Those who "stepped down" were to have their salaries and other benefits kept intact until age 60, when they would officially retire with the pensions and benefits of retirees.

Since China's opening to the market economy, corruption had grown with economic expansion. Curbing corruption had become an existential challenge to the one-part-state, unless it could eradicate this evil. Under Jiang Zemin, there were various campaigns to strike hard against perpetrators of corruption, with severe sentences meted out to high-level officials who committed serious economic crimes. New reform

measures introduced to combat corruption from 1990s onwards included periodic auditing of all government/party officials to uncover clues of corruption, regular rotation of civil service personnel from one location to another to prevent “local fiefdoms”, and improving the system of management of the cadres.

Each generation of Chinese leaders after Mao, who believed in the traditional “rule of man”, endeavoured to improve China’s legal system in the direction of “rule of law”. In the 1980s under Deng Xiaoping, judicial reform focused mainly on training judges, who were mostly retired military servicemen. During the 1990s under Jiang, a large number of measures were introduced to improve the entire court system, and the procuratorate, which was the state organ for legal supervision of the courts and other security systems. The reforms stressed enhancing the soundness of the adjudication, and efficiency in the handling of cases. It also sought to provide better internal checks, and supervisory mechanisms, to prevent corruption and abuse of power by judicial personnel. Efforts were made to professionalize the judges and other judicial personnel. Between 1998 and 1999, court trials and hearings began to be open to the public, with the exception of those involving minors, issues involving privacy, or state secrets. This represented a giant step towards transparency. Ground work for a jury system was laid through lay assessors, who were lay persons functioning as assistants to judges in making court judgments.

All these moves were positive towards law enforcement. However, there was still a fundamental weakness: the lack of an independent judiciary. According to the Chinese Constitution and the Organic Law of the People’s Courts, China was supposed to have a judicial system that was free from the interference of party/government, but in reality this had not been the case. If the CCP could truly submit itself to the rule of law, China would rid itself of the vestiges of centuries of “rule by men”. The CCP seemed reluctant to give up its power to influence and control the courts, particularly on politically sensitive cases, or on cases related to economic crimes, which were often prejudged by the Discipline and Inspection Committee before they were handed over to the judiciary. The party often treated its own members without reference to the legal process. The rule of law has therefore remained a work in progress.

The subject of the rule of law has often been coupled with democracy, in consideration of China’s political development. Jiang Zemin and his colleagues supported grass-roots democracy at the village level, and they regarded election for village committees as having the form and substance of democracy. In 1998, the Standing Committee of the National People’s Congress revised the organic law to standardize the election procedures and to make democratically elected village committee a permanent institution.

There are a number of reasons why they favoured democracy at this level. They believed that elected mass organizations like the village committees would enhance political stability in rural China, and improve the relationship between the party and the peasantry as a whole. Besides, the autocratic rulers of the PRC from Mao onward had all been fond of using the Chinese translation of the word democracy, which is *min zhu*, meaning literally people-master, in their writings or pronouncements, in such a way as to suggest that they had been ceaselessly striving to apply the principle that the Chinese people are masters of their country, in their political actions and activities. Following this tradition, Jiang and his colleagues were eager to promote the idea of empowering the Chinese villagers to "manage their own affairs" and to be "masters of their own future". Democracy in China's villages was good for the regime's image both inside and outside China. In the Fifteenth CCP Congress in 1997, Jiang remarked: "To extend grass-roots democracy, guarantee the direct exercise of democratic rights, let the people manage their own affairs and create a happy life, are the widest practices of socialist democracy." Having heard much U.S. criticism of his government on issues relating to human rights and democracy, Jiang was pleased to invite Clinton to witness a village election during the American president's 1997 visit to China. The fact that these elected village functionaries cost the government nothing was another attraction. Moreover, elected executive officials at such a low level posed no threat to the formal executive structure of the Chinese political system, or to the power of the CCP itself.

Many people inside and outside China were interested to know whether village committee elections would be a harbinger of upward expansion into township elections, or even further development of democracy in China. After a few townships elections during the late 1990s, Jiang and his colleagues decided not to proceed with this development in 2001. Since the Sixteenth CCP Congress in November 2002 Jiang's successor, Hu Jingtao and his colleagues decided that it was more appropriate to develop intra-party democracy - meaning strengthening the collective leadership and the role of the National Party Congress - than grassroots democracy. This meant that the regime was not interested in extending democratic elections upwards. In fact, the elections of village committees were no better than a half-hearted effort at pursuing democracy, because a host of problems involving the electoral process as well as conflicts between the elected committee members and the local party officials, remained unresolved.

While Jiang Zemin and his colleagues showed little inclination to embark on transformative political actions towards democracy from above, there were, however, movements from below. These movements were not led by mainstream intellectuals and students, like the ones who organised pro-democracy demonstrations in the 1970s and in late 1980s. For several years after the June Fourth Incident,

critics of the one-party-state, including intellectuals, were silenced or went underground. After Jiang revitalized economic reform and opening up early in the 1990s, mainstream intellectuals found it relatively easy to capitalize on their knowledge to obtain wealth, fame, status, and power. As active participants and beneficiaries of the process of modernization pushed forward by the government, they had become, with some exceptions, politically more moderate and less critical of the government. When party leaders noticed that the intellectuals were not posing a challenge to the regime, they adopted a more open and less controlling policy toward the intellectuals in late 1990s.

However, there were marginalized intellectuals, many of them agitators in the June Fourth and earlier democracy movements, who had not benefitted from the economic growth through regular gainful employment. They were stuck in the mould of being torch bearers for democracy, and as such they played the role of dissidents watched by the Security Department, if not locked up. While these activists for democracy communicated frequently with each other all over China, and with their fellows overseas, by mail, telephone, fax, and email, they were isolated from most other Chinese people, who might not have wanted to get too close to them anyway. Towards the middle of 1998, they noticed that the CCP declared that China was to sign "The International Convention Concerning the Civilian Rights and Political Rights", and had invited an American president (Clinton) to visit China in June for the first time since the June Fourth Incident. Encouraged by these and other signs of loosening of political control by the CCP, several pro-democracy activists led by Wang Youcai, a Zhejiang veteran of the June Fourth Incident, submitted to their provincial governments "An Open Announcement of the Founding of the Zhejiang Preparatory Committee of China Democratic Party" on June 25, 1998. Their stated objective for this move was to establish a constitutional democratic regime with direct democratic elections, and a mechanism for power sharing. This was the first time since the founding of the PRC that Chinese dissidents had applied to establish an opposition party to the CCP. After President Clinton's visit to China, Wang Youcai was arrested and detained briefly (less than two months) to show the government's disapproval, and then released.

Later, on September 5 1998, before the visit of Mary Robinson, a senior official of the U.N. Human Rights Affairs to China, Xie Wangjun and some other democracy activists declared the founding of the Shandong Preparatory Committee of the China Democratic Party. In order to win the approval of the Shandong provincial authority, they stated in their application that the China Democratic Party recognized the Chinese Communist Party as the ruling party, and that "as a party not in office", it was to take part in political and social activities "within the scope allowed by law and the Constitution". The new party also promised to support Chairman Jiang Zemin as the leader of the country. To the applicants' surprise, the

officials of the Shandong authority concerned met with them, to inform them that according to law a social organization had to have a registered capital of $50,000 and an office, in addition to declaring the backgrounds of those above the level of assistant secretary who ran it; it also needed a membership of over 50 people. They were overjoyed and quickly spread the news that the Chinese government no longer banned the founding of another political party. Soon after, activists in eleven Chinese provinces founded Preparatory Committees of the China Democratic Party in their provinces. Some Chinese abroad also established offices of the Chinese Democratic Party overseas. Before long, the Shandong democracy activists were arrested by the Public Security Department, and released after a brief period of detention. Relative to the regime's past treatment of agitators for democracy, this seemed to show that the CCP had adopted a pattern of response that was moderate and restrained, to the challenge of those who attempted to set up a Chinese Democratic Party in opposition to it. Apparently, Jiang's regime did not want to spoil its relatively open image. The fact that the democracy movements were thus far modest and relatively unaggressive, must have also helped the Chinese government keep to the "limited response" model.

The government temporarily adopted a hard line after another professional democracy activist decided to challenge the one-party rule of the CCP more aggressively. In November 1998, Xu Wenli established The Preparatory Work Team for the National Congress of the China Democracy Party, at the national level with branches in both Beijing and Tianjin. He considered the China Democratic Party he founded to be a "formal organization", that needed no approval by the Chinese government. The new party was to have the objective of becoming a ruling party with its own policies and institutions to run China. He even managed to persuade an activist in Hubei to drop the "Hubei Preparatory Committee" part, and set up the Hubei Branch of the China Democratic Party. Around this time, as the 10th Anniversary of the June Fourth Incident was approaching, Chinese democracy activists overseas started to gather one million signatures to put pressure on the Chinese government to reassess that incident. Since the regime was already hard pressed by a host of intractable social and economic problems that alienated various segments of the population, the CCP leaders were eager to avoid social unrest being stirred up by the radical activists for democracy, both inside and outside China. On November 30, 1998, Xu Wenli was arrested. He was not released shortly afterwards, as had been those more circumspect democracy activists. For his aggressive stance, he was sentenced to thirteen years in prison. Following this case, Jiang Zemin warned against the "destructive activities by rival forces within and outside of China", and Premier Li Peng made it clear that an opposition party was strictly not allowed.

Despite the regime's tightening of control following these attempts to found a China Democratic Party in 1998, Jiang and his colleagues did not want to overreact to these challenges by carrying out mass arrests, sending people to the countryside for reform through labour, or denouncing the culprits as liberal bourgeoisie. They were able to adopt this policy of relative openness to the public, and moderation toward democratic activists, because the regime had been freed from the intervention of the generation of revolutionary elders and old leftist officials, who would have urged a more repressive Maoist line.

7.3 *A new ideology for the CCP, under Jiang*

The rulers of China, from the Confucian scholar gentry to the Communists under Mao Zedong, had always governed their country using a combination of organization and ideology. In spite of the fact that two of Deng's Four Cardinal Principles were Mao Zedong Thought and Marxism-Leninism, Deng had effectively refuted Maoism, and turned his back on Communism, when he pursued the policy of 'reform and opening up'. This left China with an ideological vacuum, and something of a moral crisis. Suddenly a closed autarchic society, whose people were led to uphold the ideal of selfless service to others, and to divest themselves of private property, was to join the world of market capitalism. The marketization did indeed lift millions of Chinese people out of poverty, and raise some into the ranks of the middle class, if not of the super-rich, but – as we have seen - it was accompanied by the negative side-effects of corruption of the cadres of the one-party state, weak law enforcement, and spoliation of the environment. The rise of private property owners made it difficult for the CCP to maintain its ideological orthodoxy to regulate and control the party cadres. Deng's attempt to build a "socialist spiritual civilization" to instil ethical behaviour among the cadres, and fill the ideological vacuum, never got off the ground. Since the 1980s, the Chinese people themselves had pursued many alternative ideologies, including materialism, nationalism, Western-style democracy, and Falun Gong, among other religions or cults. Challenged by many of the alternative ideologies, and by the CCP's inability to curb cadre corruption and other forms of abuse of power, Jiang Zemin endeavoured to reinvigorate the CCP through ideological renewal.

In 1995, Jiang launched a campaign on "Emphasizing Politics" *(jiang zhengzhi,* literally meaning talk politics) to improve the attitude and behaviour of the leading officials and the cadres in general. Senior officials such as ministers, members of the CCP Central Committees, and provincial governors were urged to address their minds to politics, including political stance, point of view, orientation, sensitivity, and discipline, for the purpose of creating a good social and political environment for economic development. From December 1998 and throughout 1999, prompted by egregious corruption scandals, Jiang conducted

the Three Emphases campaign - “emphasize study”, “emphasize politics”, and “emphasize health trends” - to strengthen the party and to rectify its members. Later in 2000, Jiang pronounced his own brand of ideology called the “Three Represents” (*sange daibiao*), meaning that the CCP represented “the most advanced mode of production, the most advanced culture, and the interests of the majority of the people”.

Jiang promoted the “Three Represents” as a creative renewal of Marxism, a modernized Communism that corresponded to the present reality of China. The “First Represent” was related to the party’s effort to build a Marxist “material civilization”, with “advanced productive forces” released judiciously by the party. Then Jiang significantly connected the “advanced productive forces” to the most dynamic strata of the Chinese society: the private entrepreneurs (the official euphemistic term for private business owners or capitalists), and the professional, managerial and technical personnel from the non-state sector of business, who contributed to the creation of wealth and the rapid economic modernization. Having made the connection, Jiang was ready to propose lifting the ban on admitting private business owners to the party, in a speech to commemorate the 80th anniversary of the Chinese Communist Party on July 1, 2001. The “Second Represent” referred to the party’s effort to erect a Chinese “spiritual civilization” that combined high moral standards and civic virtues with an advanced culture. The “Third Represent” reaffirmed the party’s role to serve the fundamental interests of the majority of the people, reaching out beyond the party’s base of workers and peasants, to include the once persecuted intellectuals, who contributed to the creation of knowledge, as well as the private business owners, who created wealth.

Jiang’s endorsement of “private entrepreneurs” was a bold move, considering private capitalists were once vilified as class enemies. Not surprisingly, there were still high-ranking leftists in the CCP who vehemently opposed the admission of capitalists into the party. They regarded such a move as an outright negation of the basic Marxist principles of Marxism, and accused Jiang of trying to curry favour with Western media. They even reminded Jiang that it was he who, in 1989, had taken the position that private business owners, as exploiters of the working class, should be debarred from the CCP, the party of the proletarians.

Notwithstanding the opposition, Jiang’s move received wide party support, because the growth of private enterprises and entrepreneurs was a socio-economic reality that could not be ignored. Besides, many of these enterprises were founded by people who were former government officials and CCP members. The

private sector had already been legitimized by the CCP in 1997, during the Fifteenth Party Congress. In 1978 a constitutional amendment had provided security for private ownership. In addition to individual officials becoming private entrepreneurs, there was widespread networking or collaboration between party officials and private businesses. As already noted, this cozy situation did give rise to opportunities for corruption, defined as using political power to obtain economic benefits.

We now give some examples to illustrate the growth of non-state enterprises, and the number of people employed by these firms, as well as the increases in the gross industrial output of these firms. The Chinese government made a distinction between private companies of fewer than eight people, calling them 'Individually-owned business" (getihu), and those with a higher number of staff. The following examples illustrate the growth in private enterprises with more than eight employees. In 1989, there were 906,000 private enterprises employing 1,600,000 people; a decade later in 1999, the corresponding numbers were 1,508,900 firms employing 202,200,000 people. The growth of "Individually-owned business" went from 12,500,000 companies employing 194,000 people in 1989, to 28,500,000 employing 544,000 people in 1999. In terms of gross industrial output: the non-state-owned enterprises grew from 24% to 73.9%, while the state-owned ones declined from 76% to 24% during the years from 1980 to 1999. Going back to Maoist times, there were only about 160,000 private entrepreneurs in 1956, while in 1999, after two decades of marketization, their number had grown to 20,220,000.

During the 1990s, while the CCP was having difficulty recruiting peasants and workers, its traditional supporters, the private entrepreneurs were eager to join the CCP. Jiang regarded admitting members of the "new social strata", which had made extraordinary contributions to China's economic modernization, into the CCP as a way to revitalize the party, as well as strengthen their support for the party. Jiang's move to include the capitalists in the CCP was welcomed by many as a manifestation of the CCP's abandonment of its old political rigidity, and of its new willingness to accommodate China's rising economic and social groups. Ideologically Jiang's "Three Represents" provided the ideological justification for the CCP's accommodation of the private entrepreneurs.

Since Mao's time, the top leaders of the CCP had adopted a two-pronged approach to revitalizing the party – political reform coupled with ideological renovation. Regarding the "Three Represents" as his unique ideological legacy and contribution to China, Jiang wanted to see it linked with, and elevated to the same level as, Mao Zedong Thought and Deng Xiaoping Theory, both of which were enshrined in the

party Constitution. During the Sixteenth Party Congress in 2002, Jiang succeeded in incorporating his "Three Represents" in the party Constitution.

Jiang promoted the "Three Represents" hand-in-hand with two other concepts, "Rule by Virtue" and "Rule of Law", as ideological tools to educate and indoctrinate the cadres of all levels in order to improve their attitude and behaviour. Rule by virtue meant maintaining a proper work style, living plainly, sacrificing self-interest for public good, and serving the people. Rule by virtue was inherent in the Chinese traditional system of governance, which assumed that dynasty rulers embodied benevolence, and that their officials applied Confucian morality in governing the country. Was it Jiang's intention to revive Confucian values? Interpreters of Jiang's 'rule by virtue' believed Jiang meant to invoke socialist virtues for a modern society. Since the Chinese had grown weary and indifferent to moral indoctrination, after decades of deadly Maoist ideological campaigns, proponents of rule by virtue believed that the government needed to build appropriate institutions to implement these ideals, rather than relying on empty propaganda.

8. Summary: The Legacy of the Jiang Era

Despite the abrupt manner in which he was elevated to the top leadership by Deng after the Tiananmen debacle in 1989, Jiang turned out to be a choice worthy of Deng's trust, because he adhered closely to the key principles Deng had used to run China's affairs, even after the latter's death in 1997. Foremost among these was the requirement to press ahead strongly with the reform and opening up of China's economy - characterized by Deng as a "socialist market economy" - which Jiang, together with Premier Zhu Rongji, managed with signal success. The renewal of the drive to marketize China's economy, following Deng's "Southern Tour", resulted in China's GDP growing at a rate averaging 10.1% per annum from 1991 to 2002. Jiang Zemin and his colleagues persisted with the difficult negotiations with the U.S. and other developed countries for China's entry into the World Trade Organization until 2001, when China succeeded in joining this organization. Although the lowering of tariffs and the further opening of China to the world in connection with this move created winners and losers among producers in China, it also made it possible for China to continue the high average annual double digit growth rate of GDP into the decade that followed.

The extraordinarily rapid growth in China's GDP did bring millions of Chinese out of poverty, but there were also serious negative side effects. The most glaringly harmful was the physical degradation of the environment. In addition, rampant corruption and large economic inequality caused tensions in a society which had once been notably equal, and lacking in opportunities for corruption,

Following the 1989 Tiananmen Incident, political reform was put on hold for a couple of years, and the party tightened control on the polity and society. Lacking Deng's prestige and power base, Jiang had to rule by consensus, a process known as inner-party democracy, meaning that important decisions were made as a result of collective deliberation by the top party, government, and military leaders. As time went on, the collective leadership under Jiang responded to pressure for political reform by streamlining the bureaucracy, promoting administrative regularity, introducing new institutions, and strengthening the rule of law. In order to arrest party decline and acknowledge an existing reality, Jiang permitted capitalists to join the party, despite strongly-voiced opposition from the party's left wing. The regime under Jiang provided greater protection for private property, and facilitated home-ownership.

On the vitally important subject of selection of cadres (defined as leading or responsible officials at various level of the party and government), and their promotion to various offices, the old concept of "red and expert" continued in play. Party documents in the Jiang era increasingly stressed that cadres were supposed to be chosen on the basis of possessing two qualities: virtue (*de*), meaning moral qualities, but now those promoted by the party ideology, rather than by the traditional Confucian ethics; and ability (*cai*), meaning professional competence in job performance. In addition to these criteria, considerations of personal ties, which included coming from the same province, having been to the same university, having worked for the same organization, having networked in terms of exchange of favours, and personal loyalty in patron-client relationships, also played a very significant part in personnel matters. While Mao was in a class of his own, and Deng Xiaoping could afford to brush aside these personal considerations, and focus on professional competence and devotion to his agenda of reform and opening up as the most important criteria in his personnel choice, personal ties involving themselves were important considerations to most officials who exercised the powers of appointment and promotion.

The reform of institutionalizing the retirement age for high-level officials, initiated by Deng, continued in the Jiang era, reducing the average age of leading officials and making age an important factor in Chinese politics. The most striking illustration of this was the peaceful transfer of power from Jiang Zemin to Hu Jintao at the 16th Party Congress in 2002. At this point five others of the seven-member Politburo Standing

Committee, China's top decision-making body, were aged 70 or above, and they all stepped down with Jiang.

Like his predecessor, Jiang made sure that the party dominated the military. Deng held on to the Chairmanship of the Central Military Commission for many years, when first Hu Yaobang and then Zhao Ziyang, each as general secretary of the party, were groomed to succeed him. Deng acted differently with regard to Jiang. In order to strengthen Jiang's hand with the military, Deng ceded the CMC to Jiang in November 1989, soon after Jiang assumed charge of the CCP as its the General Secretary. Three years later, Deng helped Jiang to ease the two brothers Yang Baiping and Yang Shangkun out of their vice chairmanship of the CMC, because of their insubordination to Jiang, and in spite of the fact that Yang Shangkun had been an important long-term supporter and friend of Deng. Jiang increased military spending, and exercised his powers of promotion and appointment to gain the loyalty of generals and commanding military officers. He pursued energetically a policy of upgrading and modernizing China's military forces. During the period of his collective leadership, China strengthened its capacity for space exploration, and the use of technology in the cybersphere. His administration's bold move to detach the military from its multitude of commercial interests in 1998, was a clear indication that "the party commanded the gun".

Deng had warned Jiang that attacks from the Left were more dangerous than ideological deviations from the Right. Although the incessant sniping from the Left had contributed to the fall of Hu Yaobang and Zhao Ziyang, each having been in line to be Deng's successor, by the time of the Jiang era, the power of the Left had waned, largely as the result of the deaths or retirements of the powerful conservative anti-market elders. From the middle of the 1990s, with less pressure from the Left and more cooperation from the mainstream intellectuals, Jiang and his colleagues felt more confident about loosening the post-Tiananmen tight control on Chinese society. Village democracy was further developed. As regards challenges from the liberal Right, the Jiang era bequeathed a model of low-keyed moderate response to the challenge presented by the founding of democratic parties by fringe intellectuals.

During the Jiang era, Hong Kong and Macao returned to the Chinese fold, with the former as a Special Administrative Area under Chinese sovereignty. Like Deng, Jiang did not succeed in wooing Taiwan to reunite with China by offering its rulers exceedingly favourable terms. While avoiding war with the U.S. and Taiwan on the sensitive issue of the status of this island, Jiang staunchly refused to give up the option of using military force in the event of Taiwan declaring independence. His regime watched developments

in Taiwan closely, and tried to discourage any Taiwanese political activities towards independence. As a result, Taiwan continued to exist as a de facto national entity under U.S. protection, with its economy increasingly tied to that of mainland China's.

In foreign relations, Jiang followed closely Deng's post-Tiananmen advice of being actively involved, but keeping a low profile. Like Deng, Jiang recognized the importance of peace and harmony in the world for China to grow its economy, as well as the importance of cultivating good bilateral relations with the U.S. He courted the U.S. assiduously, to persuade reluctant U.S. presidents, who were critical of China after Tiananmen, to become warmer strategic partners, working positively with him on resolving conflicts. His over eagerness in winning the U.S. approval sometimes earned him criticisms for being too soft vis-a-vis the U.S. He also cultivated friendly relationship with many other countries, and thereby raised China's standing in the world.

By the end of the Jiang Zemin era, China had already undergone over two decades of reform and opening up. The change from central planning to market-driven economy impelled Beijing to transfer more decision-making power and control of financial resources to the regional, provincial and local authorities. These developments meant a decentralization of power of the CCP from Beijing. The lower authorities were moved by the same forces to restructure the SOEs into share-holding businesses that gave their CEOs substantive power for decision-making, and held them responsible for the profit and losses of the businesses. Just as significant as the restructuring of the SOEs, was the growth of privately-owned businesses of all different sizes and kinds, in both rural and urban China. The private businesses not only provided livelihoods or enrichment to their owners, but an additional and growing source of employment for the general public. This situation meant that an increasing number of people experienced the empowerment of being able to control their own economic destiny, rather than being dependent on employment by the state. This downward shift of power in the structurally authoritarian one-party state had profound implications towards pluralism.

Rapid economic development, particularly in the coastal cities, attracted massive migration of rural residents into cities, which became progressively modern in appearance as well as in function. Infrastructure expanded to facilitate the movement of people and goods. Economic modernization needed a more educated populace. In 1986, the government passed a law that mandated 9 years of compulsory education for all Chinese children. The number of young people entering into higher education kept on increasing in a steady way from 1978 to 1998, with the number of colleges growing from 598 to 1022, and the number of students rising from 0.86 million to 3.14 million during that period.

The rising middle class stimulated the appearance of more and more newspapers and magazines not sponsored by the state. Expanding home ownership of telephones facilitated communication among the people, and was followed by the growth of ownership of computers, and people sending each other messages by email. When social media burst upon the Chinese scene in the mid-1990s, Chinese people navigated them exuberantly, prompting the government to erect the Great Firewall when public criticisms, and the "Colour Revolution" in the Middle East, alarmed the defenders of the security of the CCP.

With the government focused pragmatically on economic development, rather than on political revolution as had been the case under Mao, people were free to get on with their lives, think their own thoughts, read an increasingly wide range of publications, and say whatever they wished, as long as they did not engage in public denunciation of the regime and anti-government activities, or join outlawed organizations. Increasing affluence led to growing domestic tourism and foreign travel. A less restrictive atmosphere encouraged the spiritually hungry Chinese people to come out to practice their religions in the open, leading to increasing attendance of people in Christian churches, and Buddhist and Daoist temples. All these developments resulted in China becoming a more plural society, with potentially profound political implications, by the end of the Jiang era.

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