THE CHINESE FUTURE

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PACIFIC COUNCIL ON INTERNATIONAL POLICY
RAND CENTER FOR ASIA-PACIFIC POLICY
INTRODUCTION

How the world evolves in the next generation will depend to a considerable extent on the future of China, the most populous country and one of the fastest growing economies in the world. As China emerges, some influential observers argue that inevitable conflict with the United States lies ahead, while others suggest that China's system is headed for a collapse similar to those of the former Soviet Union and other communist countries. Important decisions for U.S. foreign policy, for the policies of other countries, and for corporations and other private sectors depend on improved analysis of the factors that will shape China's course.

The vital importance for both public and private sectors of better understanding China's likely future led the Pacific Council on International Policy and RAND's Center for Asia-Pacific Policy jointly to organize an in-depth inquiry to examine China's current situation and future prospects. I was pleased and honored to chair this Study Group, which drew together business executives, lawyers, journalists and academic specialists from throughout the western states. We met eight times, for four hours on each occasion, to hear, discuss and debate different perspectives on China's economy, society, politics and international behavior.

What struck me most about our deliberations was the degree of consensus that emerged about the most probable shape of China's future and also about the main implications for U.S. policy. As is more fully developed in this report—prepared for our group by Professors Michel Oksenberg, Michael Swaine, and Daniel Lynch—we do not see China as an inevitable and implacable enemy nor as a country likely to collapse. Rather we would stress the multiple uncertainties resulting from China's transformations, the daunting problems facing China's leaders, and the limits on America's leverage to shape China's future, but also the likelihood that U.S. policies based on a balanced and realistic assessment can help build common interests over time.

On behalf of both the Pacific Council and RAND's CAPP, I am pleased to express our appreciation to the corporate and foundation sponsors of each organization who made this series possible, and especially to ARCO, Toyota Motor Sales USA and Hughes Electronics for the special support that has enabled us to prepare and distribute this report.

Gareth C. C. Chang
Chair
China Study Group
OVERVIEW

More than once in this century, the United States has misunderstood China’s domestic condition. Early in the century, American missionaries dreamed of millions of Chinese Christians, while U.S. businessmen hoped for millions of Chinese consumers. During World War II, Americans considered Chiang K’ai-shek a champion of democracy and a resolute foe of the Japanese invaders, while in fact he oppressed intellectuals and hoarded his resources in preparation for a civil war to eliminate his communist opponents after the United States had defeated Japan.

However, the misestimates of China that occurred in the 1950s and 1960s were more damaging still to American interests. The rhetoric of “who lost China” was as feverish as the analysis that the Chinese communists had triumphed due to support from sympathizers in the State Department was flawed; the same holds for the assertion that the Chinese communists were total puppets of Stalin. On these grounds, the United States chose to delay recognition of the new People’s Republic of China (PRC). Seeking to isolate China, the United States cut off its own contacts, and both sides then made major miscalculations in 1950 in Korea: Mao, that the United States would not respond to an invasion of the South by the North; and the United States, that China would not intervene if the United States pushed to the Chinese border. Better intelligence on both sides might have averted the long and bitter Korean War.

Later, in the early and mid-1960s, the United States failed to appreciate the significance of the Sino-Soviet dispute, partly because it appeared the Soviets and the Chinese were cooperating in “destabilizing” Southeast Asia. With the signing of the Nuclear Test Ban Treaty with the USSR in 1963, the Kennedy administration concluded that China had surpassed the Soviet Union as the greatest threat to world peace, and sponsorship of guerrilla warfare would be its method of aggression. Top officials in Washington interpreted Minister of Defense Lin Biao’s “Long Live the Victory of People’s War” as the “Chinese Mein Kampf.” Fearing, as the Secretary of State put it, “six hundred million Chinese armed with nuclear weapons,” the United States decided that it had to perfect the techniques of counter-insurgency warfare to halt China’s advance into Southeast Asia and that Vietnam—the cork in the bottle—was the place to perfect the art.

History teaches a hard lesson: “Getting China right” is a deadly serious matter. Overestimating the threats that China poses to American interests, underestimating China’s willingness to defend its interests, and harboring illusions about China’s readiness to accept American goods and values: All can lead to disaster for both the United States and China. Ambitious American politicians should place China off-limits as a subject of demagoguery. The United States suffers severely when it fails accurately to understand China and its domestic condition.
History teaches a hard lesson: “Getting China right” is a deadly serious matter.

To be sure, accurate estimates of China do not guarantee a wise China policy. Many other considerations come into play. The Chinese, after all, must also “get the United States right,” and their propensity for failures in understanding is at least as great as ours. For example, Beijing has tended to underestimate the American commitment to Taiwan and to neglect the role of congress in the making of American foreign policy.

The Study Group on the Future of China

To get China right, during the past year a group of thoughtful observers from different sectors—business and finance, the media and professions, academia and “think tanks”—have met regularly at the invitation of the Pacific Council on International Policy and RAND’s Center for Asia-Pacific Policy to analyze the emerging and complex Chinese domestic scene. The group was remarkably varied in its political orientations, experiences in China, and methods of analysis. It invited leading specialists from throughout the United States and abroad to lead seminars on different dimensions of China: the economy, the military, the political succession, social conditions, and China’s regional and global roles. By the end of the series, to our surprise, the diverse group had reached a consensus in assessing Chinese domestic conditions and their general implications for American policy.

Consensus Views

The group rejected a pessimistic opinion about China that is being expressed with increasing frequency in Washington and the American media. Namely, although China has experienced economic reform and rapid growth in the Deng Xiaoping era, its political system has changed little; China remains a totalitarian system, with the world’s worst human rights record; its people are oppressed and march to the commands of its top leaders. Moreover, China is said inevitably to be evolving not just into a major global power, but one with interests that will conflict deeply and extensively with those of the United States. It is asserted that China’s leaders clearly intend to become the dominant power of Asia and possibly the world, and that they have a coherent strategy for attaining their objectives. Indeed, their foreign policy objectives are said to prevail over their domestic concerns, because their primary and immediate purpose is to remain in power, and the major threat to this quest comes from abroad—hence, the leaders’ need, desire, and effort to accrue military might rapidly. In short, China has replaced the Soviet Union as the evil rising empire which will rival the United States in the decades ahead. According to this view, the United States should prepare itself for the coming conflicts with China.
The group also did not join another widely held view: China—far from inevitably rising—is headed for a collapse similar to that of the former Soviet Union or its Eastern European satellites. Marxism-Leninism, the ideology on which the Chinese communists claim their right to rule, is bankrupt. Communist governments simply cannot endure; communist parties are inherently unable to reform themselves in a peaceful and orderly fashion. The process of disintegration in China has already begun, and the people yearn for democracy, as revealed in the spring of 1989. How and when a sudden collapse will occur is uncertain, but these observers claim that China’s communist regime surely is headed for the dustbin of history. Adherents of this view believe that the United States should distance itself from or even hasten the coming calamity.

Nor did the group accept the optimistic forecast of the Chinese future that some analysts offer. Namely, China’s now inevitable economic development and integration into the international economy will necessarily propel it toward political liberalization and ultimately democratization. Proponents of this view state that the United States should be confident that China is headed in America’s direction and facilitate its favorable evolution, especially by assisting its economic growth.

Rejecting all these views, our group stressed the uncertainties, openness, and complexities of the Chinese future. The country is in the midst of four major transformations that have carried China into uncharted waters. Its future will be determined by the decisions and behaviors of active, influential people, largely within China but also abroad, affecting and responding to these transformations. Remaining mindful that its influence is limited, the United States should cooperate with China to shape the future in beneficial ways, while undertaking insurance measures in case of failure.

First, China is changing from an overwhelmingly agricultural to an industrial economy and thus from a rural to an urban society. Never in history has this large a nation developed this extensively, this fast. For nearly 20 years, the economy of a nation of nearly 1.3 billion people has been growing at roughly 10 percent per year. Every year roughly one percent of the population—about 12-13 million people—has shifted from primarily agricultural to non-agricultural employment. The full ramifications of such a transformation are yet unknown.

Second, China is shifting from a planned, command economy to a heavily state-regulated, market economy, and from a Leninist political system to some form of authoritarian or eventually possibly even democratic system. The experience of the former Soviet bloc demonstrates the enormous difficulty and uncertainty of these transformations.
Third, rapid economic growth facilitates the development of a large and growing middle class, historically unprecedented in China. The rising disposable income of this class suggests obvious implications for the world economy: China could become, in relatively short order, a major engine of global growth. Politically, if the new Chinese middle class mimics the middle classes of other countries, it will demand participation in political decision-making and stability to protect its gains. Already the new middle class is increasingly armed with information and the communication tools to analyze the political scene and organize political action. What might finally cause it to spring into action?

Finally, China is completing a generational succession. A generation of communist revolutionaries, reared in the early part of this century, ruled China from 1949 to the early 1990s. The successor generation, educated as engineers and technicians and steeped in the mores of Chinese bureaucracy, has now ascended to power. But it is not clear what vision, if any, they have brought with them to power.

Our group also cautioned that modesty was an essential attribute for students of contemporary China. The country is so big, complex, varied, rapidly changing, and with such a long history that it defies understanding. Analysts must offer their judgments with tentativeness. The only consolation available to the China specialist is the realization that participants in the game of Chinese politics—China’s leaders, resident intellectuals, or dissidents residing abroad—find it equally difficult to foresee their country’s future.

A DAUNTING LIST OF PROBLEMS

China’s leaders are preoccupied with a daunting list of domestic concerns and issues, many of which arise from the sheer size and complexity of their country. National security and foreign policy concerns are subordinated to these domestic issues; indeed, foreign policy choices are evaluated primarily in terms of their domestic implications.

Consider these basic imperatives in the governance of China:

• The leaders of China cannot take the unity of their country for granted. The huge nation is geographically and culturally diverse, and disunity and civil war have plagued China through much of its history.

• Never in history has a single government attempted to rule so many people within a single political system. China consists of 31 provinces, 160 prefectures, 2,500 counties and cities, nearly 100,000 townships and urban wards, and over a million rural villages. Seven layers of gov-
ernment separate the rulers at the top from the populace. Bureaucracy is inevitably enormous in such a vast setting, and the loss of information is considerable as data passes through the several layers of government.

• The leaders of China must ultimately bear responsibility for feeding nearly five times the population of the United States on roughly 60 percent of America’s cultivated acreage. And the population is growing, though at substantially slower rates than many other developing countries. Fifteen million additional laborers enter the urban and rural workforce annually. Since 1972 and Nixon’s opening to China, the country’s population has increased by over 400 million people—more than the entire population of North America, or South America, or Africa south of the Sahara, or the Middle East, or the former Soviet bloc. As this number was absorbed into the economy, the absolute number of people living in poverty fell dramatically and employment opportunities for rural dwellers expanded rapidly.

• The leaders must respond to rising expectations for an improved standard of living, greater geographic and social mobility, and increased opportunity to participate in the decisions that affect peoples’ lives. Meanwhile, income disparities are increasing both within and among regions in China, as some benefit more swiftly from the country’s growing involvement in the international economy than others.

• Severe environmental problems press upon the populace. Water and air pollution, soil erosion, and inadequate water supply north of the Yangzi are beginning to pose serious health problems and to constrain growth rates.

• Additional problems are posed by an aging population, by the need to import technology, equipment, petroleum, and agricultural commodities in order to sustain high growth rates and meet popular aspirations, and by the inefficiencies resulting from the many legacies of the previous command, state-controlled and -planned economic system.

• The leaders of China deserve empathy and some respect as they attempt to cope with this complex agenda. Both their accomplishments and deficiencies merit acknowledgement.
POLITICAL CHANGE

Conventional wisdom holds that, during the Deng Xiaoping era (1978-1997), China reformed economically but not politically. Foreign observers frequently contrast Deng’s approach to reform with the Gorbachev-Yeltsin model, which gave pride of place to political reform over economic reform. This “wisdom” is actually incorrect. In fact, China’s political system today differs considerably from that of the late Mao era. To be sure, the rate of political change is slower than the rate of economic change, and the instruments of totalitarian control—the public security apparatus, labor camps, severe limits on the freedom of assembly—remain in place, ready to be activated in case of need. Indeed, since the brutal suppression of the spring 1989 demonstrations, a whole new apparatus of internal control—the People’s Armed Police—has been expanded to quell domestic unrest.

Nonetheless, the change is significant. People are no longer mobilized in an endless series of political campaigns. They need not affirm their adherence to Maoist ideological precepts on a daily basis. They enjoy the right of geographic and occupational mobility—freedoms denied in the Mao era. Individuals can withdraw from political life and pursue private interests—as long as these do not challenge the right of the leaders to rule.

Perhaps even more significant has been the enormous extent of administrative decentralization. Previously, the entire nation had to respond to the dictates of a single individual: Mao Zedong. He literally set the national agenda. And, on most issues, the lower levels of government responded with alacrity to Beijing’s commands. Indeed, many of the nation’s key industries were directly controlled by ministries in Beijing—even if they were located in far off Guangdong or Sichuan provinces.

Today, all that has changed. Authority is dispersed. Provinces, counties, and even townships control significant portions of government revenue. Personnel appointments now reside in the main either within the administrative level or one level above; in the past, all key appointments were made two levels above. Almost every Party, government, or military unit runs its own enterprises and has its own sources of income. Agencies at every level have a sense of entitlement to their revenue, the land under their control, and even the activities for which they are responsible. Authority is fragmented.

This means higher levels have a tough time getting lower levels to obey their orders. Higher levels cajole, bargain, and entice lower levels to obey the directives that emanate from above. Admittedly, some hierarchies—such as the public security system—are more centralized than others. And the top leaders unquestionably retain the capacity to direct lower levels to achieve a limited number of objectives (such as implementation of the family planning program). But in other areas—for example, collecting central government revenue—
revenue—higher-level leaders must exert great effort to secure the compliance they seek. The system is not as efficient and disciplined as communist countries are often imagined to be.

SUCCESSION POLITICS

China’s leaders are in the midst of succession politics. Jiang Zemin, who heads a collective leadership, made significant strides at the September, 1997 Fifteenth Party Congress to become China’s paramount leader, but he continues to face many challenges and obstacles in his quest for pre-eminence. In any case, he is unlikely to emerge with the power that Deng Xiaoping possessed, just as Deng did not enjoy the power Mao held.

Since Deng Xiaoping’s death in February, 1997 and indeed before, Jiang’s strategy has encompassed four dimensions:

• To cultivate support in the military;
• To place loyal subordinates in key positions throughout the government and Party bureaucracies;
• To enunciate a vision of the direction he intends to lead the country that is relevant to the Chinese condition and mobilizes support both within the Party and among the populace more generally;
• To demonstrate an ability to shape and move a consensus effectively and to reveal, therefore, that he can energize the authoritarian system to his advantage.

As Chairman of the Military Affairs Commission, Jiang at least nominally presides over the military. He presumably has been involved in the massive changes in command positions of the last few years, thereby generating some sense of obligation toward him among the younger and more professional officer corps. The military has also enjoyed rapid increases in its budget in the past five years, and its voice in the conduct of foreign policy has also increased. Two of its leaders—Minister of Defense Chi Haotian and Vice Chairman of the Military Affairs Commission Zhang Wannian—are on the new Politburo. While it is unclear whether these developments result more from Jiang’s efforts to win support within the military or reflect the military’s ability to extract rewards from him, the net result seems to be that Jiang has made progress in mastering this key dimension of power in Chinese politics. Perhaps as a result, no PLA general was promoted to the Standing Committee of the Politburo. At the same time, the PLA retains its presence on the important Politburo and Secretariat, giving it veto power on critical issues relating to its primary responsibilities.
Since coming to Beijing from Shanghai in June, 1989 and being designated as the leader of the Party “core” under Deng’s tutelage, Jiang has promoted numerous officials who previously served either under him in Shanghai or with him in the several economic ministries where he worked from the 1950’s through the early 1980’s. Indeed, Jiang allegedly has been criticized for promoting too many of his Shanghai group at the cost of having a geographically representative set of leaders on the Politburo.

Jiang remedied this situation at the Party congress by broadening the provincial representation on the Politburo. Moreover, he engineered significant personnel changes at the Party congress. One of his potential rivals for supremacy, Qiao Shi, lost his position on the Standing Committee, Politburo, and Central Committee. Presumably, this signals that he will not be re-elected as Chairman of the National People’s Congress (NPC) Standing Committee when that body next meets in spring of 1998. Qiao had used that position to expand the role of the NPC and to argue that the NPC—not the CCP—was the supreme organization of state. Jiang also appears to have prepared the ground for additional changes: the transfer of Li Peng from the premiership to the NPC Standing Committee chairmanship and the selection of Zhu Rongji as China’s next premier. The new Politburo contains few people who can be easily identified as “liberals” or “hard line ideologues.” The over-all cast of China’s top 25 to 35 leaders now seems to be cautious, pragmatic, centrist in the Chinese political spectrum. The new Politburo members include trained engineers with long careers in the provinces and economic bureaucracies.

Perhaps more noteworthy are the massive changes in the Central Committee, where a wholesale retirement of older officials occurred in favor of younger, better educated bureaucrats. The political significance of this change will become evident in one to three years, as the newcomers begin to influence policy through their semi-annual conclaves and as the top leaders have to elicit support from them. This group, ranging in age from 45 to 55, seems somewhat bolder, more attuned to the outside world, and more eager to undertake political and economic reform than their elders.

Although Jiang made considerable progress on the personnel front, his vision for the Chinese future remains vague. At the Party congress, he did set a national goal of more than doubling the gross national product by the year 2010, a further improvement in the subsequent decade so that the people will enjoy an “even more comfortable life,” and by the mid-21st century, “China will have become a prosperous, strong, democratic, and culturally advanced socialist country.” But he gave little specificity to these terms, especially what he meant by “democratic” or “culturally advanced.”

As he himself stresses, Jiang continues to cling tenaciously to the vision of Deng Xiaoping: China’s overwhelming task is economic development; economic reform and opening to the outside world are necessary for that...
objective; so too is political stability, although some political restructuring is necessary to make the system more honest, efficient, and responsive to the needs of the people.

Jiang envisions Marxist-Leninist ideology to be a flexible doctrine that permits a wide range of practices (such as public ownership of formerly state-owned corporations through sale of stocks). But one aspect of the system must be preserved at all costs: the supremacy of the Chinese Communist Party. Although a China under the rule of law is part of Jiang's articulated vision, he thus far has provided little indication that he understands what this slogan really means. The notion that the Communist Party and its leaders should be subordinate to the law and to an independent judiciary that enforces it is still alien to his thought. As a result, Jiang does not repeat a slogan that his predecessor Zhao Ziyang enunciated at the Thirteenth Party Congress in 1987: "Separate the Party from the government." Jiang advocates an integrated Party-government apparatus, with the army an instrument of the Party charged with helping the Party to remain in power. Even when speaking of the reformed enterprises, he advocates that their Party organizations be their "political nuclei."

This vision may appeal to the Party faithful, but it is unlikely to galvanize the nation. Indeed, Jiang's own assessment of China's current political situation merits repeating:

The work style of the Party and the government, current social behavior, and public order still fall short of the expectations of the people; corruption, extravagance, and waste and other undesirable phenomena are still spreading and growing; and bureaucratic style of work, formalism, and deception constitute serious problems.

Jiang's appraisal also appropriately notes the many positive aspects of the current scene, but his relative lack of attention to the means for remedying this harshly-appraised political situation is noteworthy.

The conclusion of the Fifteenth Party Congress means that the fourth aspect of Jiang's strategy—demonstrating his ability to shape and move a consensus—is now at the forefront. Jiang has announced the agenda for the coming two to three years against which his own performance can be measured—namely a concerted attack upon the inefficient state-owned enterprises. The reasons for assigning priority to this task are outlined below. Jiang's call has been preceded by numerous experiments in transforming the ownership and management systems of these firms, and in some areas of the country, the reforms are well underway. But many problems predictably will arise in the course of these reforms—rising urban unemployment, the need to install effective capital markets, the need for transparency and strengthened regulatory capabilities.

Preserving the supremacy of the Party is Jiang's objective.
If the process goes smoothly, Jiang can claim the credit, as Deng did with agricultural reform even though much of the initiative for those reforms was attributable to local leaders. But if the transformation stalls with a banking crisis or is accompanied by increasing corruption and social disorder, Jiang and the leaders he has gathered to assist him—especially Li Peng and Zhu Rongji—will be in a difficult position. In this sense, Jiang’s quest to become China’s paramount leader and to place China irreversibly on the course of sound, well regulated economic growth has just begun. Whether he can do this without embarking on major political reform remains open to question, as does the success of this new stage in China’s economic reform.

**CONTRADICTORY SOCIAL TRENDS**

Chinese society today is characterized by a bewildering array of contradictions. Its people exist in a spiritual vacuum and succumb to crass materialism, but simultaneously demonstrate a growing interest in Buddhism, Christianity, and Daoism. They both yearn for an involvement with the outside world and are repelled by the foreign influence upon China. Cosmopolitanism and nativism, internationalism and nationalism, and regionalism or localism are all increasingly evident and coexist in an uneasy tension, even within most individuals. The populace is increasingly diverse in its lifestyles, avocations, and aspirations, and yet elements of a new national popular culture are being shaped by television, advertising, and increased geographic mobility.

Society clearly enjoys more autonomy vis-à-vis the state than in the past. In many respects, the people keep the “tiger world” of Chinese politics at arm’s length as they seek to earn a living. Increased geographic mobility means that tens of millions of Chinese citizens are no longer enmeshed in the control mechanisms that had been perfected for a stationary populace. Chinese people seek to evade the predatory behavior of police, market regulators, and other officials in the collection of endless fees, fines, and taxes. On balance, the domain of the state is shrinking and that of society is expanding. Voluntary associations are forming, many of them illegal and subject to repression (such as unofficial churches or trade unions). While the state retains tight control over the organization of religion and other non-governmental institutions, the populace enjoys an increased capacity to worship in the officially-sanctioned churches, mosques, and temples. And the number of licensed non-governmental organizations is increasing rapidly. But at the same time, local governments—urban wards, neighborhood committees, villages, townships, and counties—have grown considerably in the past two decades, with local budgets (and personnel ranks) swollen as a result of revenues earned from the enterprises they have spawned and the bank credit at their command.
Leaders at all levels of the hierarchy recognize that the Chinese people seek greater participation in the making of decisions that affect their lives. There is a clear yearning for greater political freedom. But at the same time, the people demand order and security. There is little desire to risk the many gains of the past 20 years. The populace particularly resents the corruption, nepotism, and unaccountability of their leaders. They seek the rule of law, but not necessarily a rapid transition to democracy if the transition were to be accompanied by chaos and economic recession.

These contradictory trends both increase and decrease stability. The benefits that so many people have derived from the rapid growth of the past 20 years mean that they have much more to lose from political experimentation, and most people still remember the chaos, fear, and poverty of the recent past. Yet at the same time, aspirations, income disparities, and discontent with the rapaciousness of high officials are all growing—fueling the demand for political reform.

**THE IMPROVED HUMAN CONDITION**

The horrors of June, 1989—when the leaders ordered the People's Liberation Army (PLA) to occupy Tiananmen Square by force—remain indelibly imprinted in the minds of many Americans, for whom the brave soul who defied the column of invading tanks captured the moment of a regime crushing its own people. With that searing image still so fresh, many Americans are naturally inclined to believe the worst about the Chinese regime and its treatment of the Chinese people.

Yet the fact is that since that tragic moment, the human condition of most Chinese has continued to improve, as it had done from the end of the Mao era in 1976 until 1989. And we are not just speaking about improvements in per capita income and the availability of consumer goods. China's leaders have undertaken a number of measures to expand the political rights of citizens:

- They are attempting to introduce the rule of law. The leaders have instructed local governments to inform the populace about the laws that the national government has enacted and that local agencies are responsible for implementing. When local agencies disregard, exceed, or violate these laws, citizens in some locales are now able to request the local court to annul the action. Lawyers are being trained in modest numbers and law offices are being established to assist plaintiffs to bring suit against the state. However, the courts do not have the right of judicial review to examine whether laws and administrative regulations are in compliance with the constitution. And introduction of the rule of law will be hampered by the wide administrative discretion that
local officials enjoy and the dependence of the courts on these officials for funding and personnel appointments.

- Village elections have been introduced and monitored to enable villagers to participate in the selection of their leaders. Many non-communists have been elected. To be sure, the electoral process in most areas remains firmly under the control of the communist Party, and the village Party organization still plays a major role in running village affairs. But the idea of democracy is being introduced at the grass-roots level.

- Citizens have the right temporarily to migrate without first securing permission of their superiors. Peasants can lease out land that the village has assigned to them and that they choose not to farm themselves.

- The populace clearly enjoys a wider range of choice in the cultural domain. The number of magazines, newspapers, and books being published is increasing dramatically. Even in rural areas, video cassettes of Hong Kong and Taiwan movies, contemporary and classical foreign novels in translation, and traditional Chinese novels are widely available.

Arguably, most Chinese enjoy a greater degree of freedom than at any time in the past century. And yet most Americans would find the human rights situation in China intolerable. Freedom of speech and assembly do not exist. The government's treatment of Tibetan Buddhism is undoubtedly oppressive. Torture, arbitrary arrest, and indiscriminate application of the death penalty are widespread. The state interferes in the most cherished moments of life's passages—birth, marriage, and death, dictating the number of children a couple may have, the age of marriage, and burial practices. High-level officials whom the government-controlled media have identified as guilty of corruption go untried in court, their misdeeds not clearly explained to the public, while lower-level officials convicted of seemingly lesser crimes are sentenced to death. Although in private Chinese are quite willing to express their political views to close friends or foreigners whose discretion they trust, individuals who publish views or undertake actions that oppose the regime or denigrate specific leaders are arrested. The regime does not tolerate organized political dissent.

In short, although China's human rights record is improving, it still is unsatisfactory by most standards, including those held by most Chinese. To improve the human condition and to create a social setting that will truly sustain a regime committed to human rights require the strengthening of such norms as respect for the rule of law, trust in and a sense of obligation toward people outside one's own circle of family and friends, and tolerance of diversity. These will take many years, perhaps decades, to inculcate.
Moreover, the weakness of these norms should not be attributed solely to communist rule, though the past 40 years greatly eroded them. While precedents can be found in the pre-communist past for the rule of law, tolerance, individualism, or a widespread social consciousness, these attributes were not dominant aspects of traditional culture. Certain practices that many foreigners find odious—such as widespread use of the death penalty—are deeply ingrained in Chinese culture. As pre-communist Chinese novels, short stories, and anthropological studies make clear, life for the vast majority of Chinese has long been brutish. As a result, although arbitrary rule and constraints on freedom undoubtedly generate discontent, cynicism, and political apathy, they do not immediately lead to political opposition and rebellion. Rather, the human condition produces widespread grievances toward the regime that people seem willing to endure—unless an opportunity or desperate need arises to act upon them.

**THE POLITICAL QUANDARY**

To varying degrees, top officials realize that their political system is antiquated and lacks broad-based popular support. Their speeches in fact openly discuss the difficulties they face in recruiting and retaining high-quality, active Party members. They know the ideology on which the Party is based lacks popular appeal. They are well aware that the trend in the Asia-Pacific region is toward democracy, and they believe that their populace desires increased opportunity to participate in the decisions that affect their fate. And in private conversations, several of the highest leaders—though with differing degrees of explicitness—acknowledge the many virtues of democratic rule. From the highest levels to the lowest, many officials appear to recognize that their regime can only regain popular support through sweeping political reform: strengthening parliamentary bodies, placing the military and police more firmly under civilian control, relaxing controls over formation of non-governmental organizations, strengthening the judiciary, improving the civil service system, and granting the populace more meaningful avenues of political participation.

But the leaders fear political reform even as, increasingly, they recognize its necessity. They worry that the loosening of control will unleash a sequence of events worse than what occurred with the dissolution of the Soviet Union or Yugoslavia. If the current structure of authority in China were suddenly to collapse, independent national governments at the current provincial levels would not be the result. Nothing in Chinese history would sustain such a notion. Rather, the likely result would be anarchy, chaos, and civil war to determine who would be China’s next unifying ruler. All the leaders fear this chaos. None wishes to put at risk rule by the communist Party, without which they believe China would cease to be unified. Recognizing the need for politi-
cal change, they are deeply divided over the speed and manner in which political reform should be undertaken. Given the consensual decision-making process that exists among the top decision makers, they have only been able to agree on the circumscribed political reforms listed above.

In short, if the leaders could acquire a map charting a safe path for a peaceful transition to an openly competitive political system with the communist Party remaining the dominant or ruling party at the end of the journey, some would probably choose to embark on that path. But no such map exists. And in its absence, the leaders cultivate popular support in other ways: maintaining high economic growth rates and unleashing popular nationalistic aspirations.

THE CHALLENGES TO ECONOMIC GROWTH

Conventional wisdom now holds that the Chinese economy is on a trajectory of rapid growth likely to last for many more years, perhaps decades. Expectations of continued rapid growth undergird the predictions of China as a looming world power and rival to the United States. And, indeed, many underlying factors are likely to continue to propel the Chinese economy forward in robust fashion: a high savings rate; an industrious and entrepreneurial population; a demographic profile conducive to growth; the spread of science and technology that enables the populace to become more productive; the financial, managerial, and technological assistance provided by ethnic Chinese from Hong Kong, Taiwan, Southeast Asia, and North America; a generally propitious external setting that at least tolerates rapidly growing Chinese exports, invests capital, provides technology, and poses no military threat; and a leadership that has repeatedly demonstrated more acumen that the leaders of many other developing countries in guiding the economy well. Lending further credibility to optimistic assessments of China's economic strength has been its extraordinary export performance, its accumulation of over a hundred twenty billion dollars in foreign currency reserves, the low level of domestic government indebtedness, and the maintenance of a foreign debt level (approximately a hundred billion dollars) that can adequately be sustained in light of China's export performance.

Yet China's economy is still only half-reformed: The state-owned banking system dominates the financial sector. Other state-owned enterprises (SOEs) dominate capital-intensive industrial production, and they employ the vast majority of urban workers. The government relies on SOEs to keep the urban peace by providing workers with social benefits such as housing, health care, and pensions because the fiscal system at present is far too inefficient to allow the government itself to fund a large-scale social welfare system. What is needed is a simultaneous reform of China's capital markets, industrial ownership structure, social welfare system, and fiscal system, since each constitutes an integral component of the total political-economic system.
Consider first the reform of the inefficient SOEs. These industrial behemoths employ two-thirds of the urban workforce and consume two-thirds of China's investment resources, but produce only one-third of total societal output. It is, to be sure, an important one-third, consisting of the bulk of capital-intensive production. SOEs thus massively waste China's scarce societal resources. Their liabilities to banks as a percentage of assets increased from 11 percent in 1978 to 95 percent in 1995; many thus technically are insolvent, but are kept afloat by a politicized banking system forced to use the savings of China's hard-working population to fund the low interest rates—because stock and bond markets are underdeveloped. Yet, until recently, the government has permitted only a minuscule number of SOEs to cease their operations and go bankrupt. The leaders cannot abide the thought of tens of millions of urban workers suddenly being tossed out onto the street.

Because SOEs and the banks that prop them up need not face the threat of bankruptcy, they ultimately have very little incentive to use the factors of production efficiently, with the result that, as long as the current system remains in place, scarce societal resources will continue to be wasted on a grand scale. They will be siphoned away from their socially-optimal uses, which in China typically means the uses to which they are put by the private, collective, and foreign-funded sectors. Moreover, partly because the state has historically depended on SOEs to supply it with most of its revenue, the rise of the non-SOE sector and SOEs' great inefficiency have produced a sharp drop in government revenue as a percentage of gross domestic product (GDP), from 31 percent in 1978 to 11 percent in 1995. The resulting political-economic profile is highly inconsistent with the pattern of the typical developing country, and implies that the Chinese government will face a serious shortage of both funds and political support as it tries not only to reform SOEs and the financial system, but also to tackle a set of severe ecological problems.

Environment

China's rapid rate of industrialization has involved a thoroughgoing assault on the environment—air, water, and soil. The Chinese people now live in a dangerously polluted milieu. Their health is at risk on a daily basis. Air quality in most rural areas does not meet minimum World Health Organization standards, for example, and over 80 percent of rivers are seriously polluted. The population is suffering from alarming increases in respiratory ailments in both the big cities and the rapidly-industrializing countryside. Governments at all levels of the political system are now beginning to address this problem, but the primacy of economic development inevitably renders offices charged with environmental protection weak and hamstrung in bureaucratic competition with the more powerful industrial ministries. The result is exceedingly slow progress in cleaning up the environment or, in many cases, no progress at all.
China’s energy resources exacerbate its environmental problems. China’s need for petroleum exceeds its domestic supply; its dependency on petroleum imports—largely from the Middle East—is growing rapidly. Its hydroelectric potential is primarily located in the western regions of the country, far from population centers. Its natural gas reserves are modest. Its nuclear power industry is still in its infancy and still dependent on foreign technology, which is, however, quite accessible from Russian and European suppliers. Alternative energy sources are not available in large quantities. That leaves coal as the main resource to meet China’s rapidly growing energy needs, and coal reserves are available in abundant supply. At present, coal supplies roughly 75% of China’s energy needs; roughly 80% of its electricity comes from coal-fired power plants. These figures will persist long into the future.

China’s coal, however, is not high grade. Most has high sulphur content and contains other impurities. The net result is the emission of sulphur dioxide and acid rain affecting many areas of China and its neighbors. Moreover, China’s increasing use of energy, its reliance on coal, and the inefficiencies in Chinese energy use result in rapid increases in emissions of greenhouse gases. Within a decade or two, China will join the United States as the largest source of carbon dioxide emission. To alleviate these problems will require billions of dollars to increase energy efficiency and reduce emission of pollutants.

Education

China’s economic growth also will be constrained by inadequate human resources. In fact, China has become a major importer of human talent. According to some estimates, as many as 50,000 Hong Kong citizens and 200,000 from Taiwan are serving in managerial, professional, and technical positions on the mainland. In part, this situation reflects Beijing’s inability to attract over 150,000 Chinese graduate students sent abroad who have yet to return home. But China also is now plagued by years of neglect of education at all levels. For decades, China’s per capita expenditures on primary schools have ranked among the lowest in the world, and the dissolution of the communes has inadvertently led to an erosion in school financing and attendance in substantial numbers of villages. Meanwhile, universities have still not fully recovered from the battering their faculty suffered during the Mao years, and as is true of other agencies dependent on government funding, they are now expected to launch their own enterprises and secure foreign support to sustain their educational offerings.

The result is an inadequate supply of technically proficient men and women to serve the nation’s managerial, engineering and scientific needs. The shortages are particularly evident in the brain drain from rural and impoverished areas, where skilled labor is particularly needed but wages and working
conditions are not competitive, and in the difficulty urban firms have in retaining skilled personnel. Eventually, a free labor market and expanded higher education will overcome these difficulties, but for the foreseeable future, China's growth rate will be adversely affected.

All of this suggests that the Chinese economy has many vulnerabilities. Recent economic difficulties in Japan, Korea, Malaysia, and Thailand are reminders that the Asian strategies for rapid growth—strong states guiding the economy, pursuing export-led growth, and encouraging high rates of capital investment—have their vulnerabilities. Straight-line projections that China will continue to grow at nearly 10 percent a year are unwarranted. Yet the factors stimulating growth are probably sufficiently powerful to sustain it at rates substantially higher than those prevailing in most other developing countries. An annual growth rate of 6-8 percent seems attainable to most experts for the foreseeable future if the leaders can implement their plans to reform the SOE and financial sectors. (On the other hand, failure to implement these reforms could cut the growth rate in half.) If China could sustain a growth rate of 6-8 percent for three or four decades, the country would emerge with one of the world's largest economies, although per capita income would still be well below the average in developed countries. But a 6-8 percent growth rate is substantially less than that achieved in the last two decades and may not be sufficient to meet the aspirations of the populace for employment opportunities and a rapidly improving standard of living. And the leaders have generated support for their rule by fulfilling these expectations.

POPULAR NATIONALISM

China's opening to the outside world, along with the telecommunications and transportation revolutions, has enabled "public opinions" to form outside state control. The leaders must struggle both to manage and to satisfy these opinions as they seek to maintain political stability and effective governance. Satisfying popular demands is one reason that the government encourages the proliferation of radio and television "hotline" programs, letters-to-editors in newspapers, and public opinion polling.

Nationalistic sentiments also rally the people behind the rulers. Popular nationalism has been evident in anti-foreign demonstrations following victories over foreign sports teams, the resentment over not being awarded the Olympic Games, and the popularity of the anti-American diatribe China Can Say "No". Chinese attribute China's current predicaments and poverty to its century of invasion and exploitation by the Western powers and Japan. Many still harbor bitter memories toward Japan as a result of the atrocities it committed during its brutal occupation of Manchuria and large parts of core China from 1931 to 1945. All this contributes to a sense of grievance toward the outside world.
The leaders have clearly decided to appeal to these nationalistic sentiments in the absence of a convincing ideology. Nor is the use of nationalism simply an exercise in cynical manipulation of popular opinion. Most of the leaders clearly share these sentiments themselves. The deliberate use of the return of Hong Kong as an occasion for a national celebration exemplified this somewhat contrived but genuinely felt national pride and patriotism. Clearly, a nation that had been humiliated and scorned seems to be regaining its rightful place in the world. But the leaders can overplay their hand, arousing or unleashing anti-Japanese or anti-American sentiment that could engender a backlash in Tokyo or Washington. After all, in the final analysis, China needs Japan and the United States to fulfill its developmental plans.

Nowhere are the dilemmas posed by a resurgent Chinese nationalism more evident than in Beijing’s policies toward Taiwan, Tibet, and Hong Kong. The essence of the leaders’ nationalistic—some would say patriotic—appeal at home is that they are restoring China’s greatness. And in the minds of most Chinese, the moments of greatness coincide with the moments of maximum unity, strength, and national territorial integrity. The great leaders in Chinese history are those who brought all the rightful parts of the domain back into the fold. The despised rulers are those who contributed to China’s fragmentation and penetration by foreign powers.

From Beijing taxicab drivers to Shandong farmers to Sichuan intellectuals, the refrain is the same: Taiwan, Tibet, and Hong Kong are all parts of China. They can enjoy considerable autonomy within a Chinese framework, but the residents of those places cannot deny their heritage any more than a family member can deny his ancestors. As one Shandong county official explained his sentiment: “If Taiwan tries to deny it is part of China, we will have to kick their butt.” And as a Beijing taxicab driver put it, after expressing deep disenchantment with China’s top rulers: “Look how incompetent they are! Over 40 years have passed and still they haven’t gotten that little island of Taiwan back. Why do they deserve all the money they are getting?” This is not official rhetoric artificially implanted in the minds of the populace. It is popular opinion with which the leaders must reckon now that their other tools for managing the populace—the household registration system, total control over the media, and a high level of bureaucratic discipline—are breaking down.

In short, public opinion somewhat constrains China’s leaders in their approaches toward Taiwan, Tibet, and Hong Kong. The leaders believe they would be condemned in some fashion if they were seen as surrendering Chinese territory. But it is by no means clear that the Chinese public demands the sometimes hard line policies that the rulers have adopted toward these locales. For example, it is doubtful that popular nationalistic sentiments demanded the 1995-96 outcry over Taiwan President Lee Teng-hui’s foreign travels, the opposition to the 1994-95 Dalai Lama’s involvement in identifi-
ing the reincarnation of the Panchen Lama, or the strict limits Beijing placed upon the number of Hong Kong’s Legislative Council members to be democratically elected.

In these and other instances, it appears that China’s leaders deliberately sought to convey a nationalistic message. Through rhetoric and public posturing, China’s leaders have stimulated emotions among their people in their dispute with Taiwan, their handling of their territorial claims in the East and South China Seas, and their policies toward Tibet. They have castigated the Dalai Lama, President Lee Teng-hui of Taiwan and the leader of Hong Kong democratic forces, Martin Lee, for allegedly seeking to “split” China and serving the interests of foreign powers. This rhetorical nationalism is a two-edged sword. The use of nationalistic appeals appears to rally the populace behind the leaders. But it makes the leaders captive of the sentiments they have cultivated, probably reduces their own flexibility on these issues, and surely alienates the objects of their wrath.

The net affect is to reduce the prospects for resolution of these issues in ways that accommodate the desires of the local populace.

THE MILITARY

Eight years ago, before the PLA’s quashing of the Beijing demonstrations, the United States was in the midst of selling military equipment to China: an advanced avionics package to the air force for its jet fighters, improved artillery shells to the army, and advanced turbine engines to the navy for its destroyers. Following the Tiananmen tragedy, the United States halted those sales, and ever since, America’s contacts with the PLA have been sporadic at best and always viewed skeptically by the U.S. Congress. Many Americans view the PLA as a prop for the dying communist regime; the source of China’s disturbing supply of advanced weaponry and technology to Pakistan and Iran; a prime source of corruption through its economic activities at home and abroad; and the prime force behind China’s muscular behavior in the South China Sea and Taiwan Strait. According to this negative view of the PLA, the military has successfully pressured the civilian leaders to pursue an assertive foreign policy and rapidly to increase defense expenditures. In short, adherents of this view consider the PLA to be malevolent and increasingly important in Chinese domestic politics, with the inevitable consequence that China will pose a military threat to the United States in a relatively short period of time.

This view cannot be dismissed, but it is misleading:

• The PLA was not the instigator of the June, 1989 suppression. Civilian leaders, including several Party elders, were the chief architects of the debacle. Substantial evidence exists that many retired PLA
marshals and generals opposed the dispatch of the PLA into the streets of Beijing, and many of those who obeyed the commands of their Party chieftains initially did so without enthusiasm.

- The PLA as a whole is not the source of Chinese xenophobia. Elements of the officer corps have been at the forefront in seeking increased contact with the outside world, in part to secure the technology necessary for military modernization.

- Chinese military expenditures, although growing, have not been skyrocketing upward. The Chinese defense budget is one of the most opaque aspects of the Chinese scene, but even the highest of the well-founded estimates of Chinese defense expenditures judge the defense budget to be about equal to Japan’s defense spending. Indeed, China’s military expenditures as a percentage of total defense expenditures by all Asian countries have been decreasing steadily since the mid-1970s.

- The United States possesses overwhelming military superiority over China and will do so for decades into the future, providing the United States retains the will to keep its own defense budget at current levels. China remains vulnerable to devastating attack from American forward deployed forces in the western Pacific.

- The Chinese military is complex, and should not be treated as a coherent and integrated whole. There is a core of professional military, consisting of strategic forces, army (with central, regional, and local units), air force, and navy—with their own internecine bureaucratic battles; a military-industrial complex that is converting to production of civilian commodities; and a portion that is engaged in politics.

Retired high-ranking officers and the children of the deceased founding generation of the PLA are, in a sense, considered part of the military family and, as civilians, they trade upon their military connections for personal gain. Part of the revenue of the PLA comes from government appropriations, but part is earned from enterprises under PLA control, many only loosely directed (if at all) from the PLA center. However, these enterprises do not pass all their profits to the PLA; most profits, in fact, are reinvested into the enterprises.

Generalizations are not easy to make about an institution as complicated as the PLA. Portions are corrupt, and others honest; portions are nationalistic, and others seek PLA participation in international peacekeeping efforts; portions are intellectually ill-equipped for the modern world, while others are extremely sophisticated and among the most enlightened people in China; portions are resistant to change, and others progressive.

Thus, as with other aspects of the China scene, a balanced appraisal is required, and historical perspective is needed. The PLA is neither evil incar-
nate nor a knight in shining armor. The foreign invasions and the massive peasant uprisings that affected China from the mid-1800s to the mid-1900s led to the militarization of the polity and society. The military became an important avenue of social mobility and a crucial actor on the political stage. And in many ways, communist rule has not fundamentally de-militarized the polity and society. The military remains an important part of the Chinese state; no person can emerge as the paramount leader against the concerted opposition of the military and leaders must enjoy support from at least a portion of the military. A substantial segment of China's heavy industry has intimate links with the military. A major effort was made in the 1950s to demilitarize the polity, to establish a professional military and to keep them in the barracks, but the military once more assumed civilian roles during the chaos of the Cultural Revolution. The Deng era again saw an effort to create a professional military and to delineate a clear boundary between it and the civilian sector, but that process is far from complete. Further, the PLA is an instrument of the Party; one of its stated tasks is to keep the Party in power and its chain-of-command is from the military Chiefs-of-Staff to the Party's Central Military Commission (CMC) and, ultimately, to the Party Politburo. Under these circumstances, with this historical background, it is difficult to disentangle the military from the rest of the Chinese state, and this condition is likely to persist for the foreseeable future.

However, the influence of the military does not explain China's commitment to military modernization. Modern Chinese history is the relevant factor: China's military weakness invited foreign aggression; its ineffective and fragmented internal security forces yielded disorder and civil wars. And since 1949, partly as a result of their own menacing and seemingly unpredictable behavior, China's leaders have experienced threats of nuclear attack and amassing of awesome might deployed against them. Against this background, the acquisition of military might has been a central objective of China's rulers not only in the communist era, but ever since the Opium War. China's leaders—no matter who they are—will surely seek to build a modern navy, air force, and army as their technology and economic resources permit. The differences among the leaders both in the military and outside it have involved, and will continue to involve, issues of priority and sequence: whether to postpone weapons research and acquisition in favor of constructing a firm, broad-based economic infrastructure; what are the most dangerous threats confronting China; what technologies are most important for acquiring strength; what strategies are appropriate to modern warfare and therefore what the force structure and weapons should be.

Thus, there can be no doubt that as China's economy grows, its technological and scientific resources will expand, and its government budget will increase. And although it is unlikely that the rate of increase will enable China to pose a greatly expanded direct threat to the United States (it currently can strike at U.S. territory with only a small number of ICBMs), almost assuredly
China will accrue greater military strength. But there is considerable doubt as to how rapidly this will occur. And, almost assuredly, China will obtain increasing capability to affect the military balance on its periphery, especially vis-à-vis Taiwan. Indeed, in recent years, as a result of markedly greater tensions over the Taiwan issue, many areas of China's military modernization have become focused precisely on improving the credibility of Beijing's long-standing threat to use force against Taiwan. This new development poses the most serious near-term threat to U.S. regional interests deriving from China's military modernization program.

**Deep Versus Shallow Integration into World Affairs**

Put succinctly, the key question confronting China's leaders is: Do they believe their national interests will be served by a deeper integration into the international and regional security, economic, and value systems? Or do they believe China's interests require limiting the nation's involvement to the relatively shallow extent that has been attained thus far? Certainly they have publicly proclaimed a commitment to deep integration, but will they implement these promises? In no small measure, the answer to these questions will determine whether China emerges as a threat or partner in the region and globally in the years ahead.

In the security realm, on the whole, China has yet to enter into agreements that significantly narrow its foreign policy choices. It has yet to make commitments in the arms control and weapons development areas that constrain its future military development. China's leaders demonstrate particular ambivalence over the existing security arrangements in East Asia that are undergirded by America's alliances with Japan and Korea and its forward military deployments. China's leaders recognize that the U.S.-Japan Security Treaty in some respects contributes to stability in the region by anchoring Japan in an alliance system, but they do not acknowledge that an American military presence in the western Pacific would continue to contribute to regional stability after tensions on the Korean peninsula have ended. In fact, its assertive claims in the South China Sea and its posture toward Taiwan have provoked regional security concerns that, over the long run, China is going to be a troublesome neighbor.

In the economic realm, China has yet to commit itself fully to the opening of its markets and to its full integration into the international financial and commercial systems, though it has applied for admission to the World Trade Organization (WTO) and committed itself to making at least some important adjustments to its domestic economy as a price of membership. The current negotiations over China's entry into the WTO concern precisely
what sorts of adjustments will be made. Is China prepared to restructure its
domestic economy to the deep extent necessary to make it congruent with an
increasingly open international economic system?

And in the realm of culture and values, will the leaders of China continue
to assert that, because of China's distinctiveness, certain internationally-accept-
ed standards of governance are not applicable to China? Clearly, the issues at
stake concern human rights, democratization, and the rule of law. Are China's
leaders prepared to accept the notion that their performance should be judged
by the same standards that are applied to other countries, particularly when
China has pledged to adhere to certain international treaties and agreements?
Do China's leaders somehow intend to wall their people off from international
cultural currents? Is this even possible, given rapid advances in communicati-
ons technologies and their dissemination throughout China?

In all of these areas—security, economy, and culture—both the leaders and
the citizens of China are deeply divided. Some vigorously advocate a deeper
integration into world affairs, arguing that unless China participates fully in
the global system it will be unable to develop economically and attain for its
people the benefits of modernity. Others believe further integration risks loss
of China's cultural heritage and threatens the country's unity. Localities that
are successfully incorporated into global and regional affairs will drift apart
from those less integrated. Thus, deep integration risks the primary achieve-
ment of the communist revolution—the reknitting of China. The vigor of this
debate demonstrates the extent to which China's future orientation toward the
Asia-Pacific region and the world as a whole has yet to be determined.

POLICY IMPLICATIONS

American policy toward China cannot be solely a response to China's
domestic scene. The policy must grow out of American interests toward China
and must be integrated into a broader strategy in its foreign policy for the
region as a whole. Moreover, American policy must take into account the
China policies of U.S. allies and other actors in the region. Our survey of
China's domestic condition does not, therefore, provide an adequate foundation
on which to base China policy. Yet at the same time, the Chinese condition
does establish a set of parameters within which the United States must work.
It suggests as much about what the United States should not do and what is
not possible as it does about what should be done. To summarize our findings:

- The Chinese future is open and uncertain. China should not be seen as
  either an inevitable enemy with which the United States is certain to
  come into conflict, or a sure partner that will pose no threat in the future.

- China's future path will be determined largely by its own internal con-
siderations; American leverage is important, but still limited. Certainly at the margins, the United States can influence China’s trajectory, and over the long run, the cumulative impact can be considerable. But in the short run, China’s leaders respond primarily to domestic political and economic imperatives.

• The United States should not, therefore, develop an exaggerated sense of its own importance in Chinese eyes. And when Chinese leaders do not respond to American demands and urgings, or when they appear to slight American interests, the slight may not be deliberate. China’s leaders may simply have more important considerations in mind that are hidden from American view.

• Because of China’s uncertainty, American China policy must be flexible and nimble. Policy must not become tied to the fate of any particular Chinese leaders. Setbacks and reversals to American policy are to be expected. But when these occur, one of the truisms about China must be kept in mind: China is never as good as it appears in its best moments, and never as bad as it appears in its worst moments.

• American policy should not be rooted in the expectation that China can or will soon become a democracy. Although a swift transition to democracy should not be dismissed as a possibility, a commitment by China’s leaders to instituting a gradual process of democratization is perhaps the best the United States can realistically expect, and even that commitment has yet to be credibly voiced. And even in the unlikely case that China experiences a rapid political transformation, the resulting democracy would lack the underpinnings necessary to remain stable and function smoothly: the rule of law, a competitive party system, and a political culture of tolerance and trust.

• One of China’s biggest impediments to sustained economic growth is its inadequate institutions: weak banking and revenue systems; overlapping, ill-defined jurisdictions among the central, provincial, and local governments; a weak legal system; a weak civil service system; and so on. Both China and the United States face the challenges of governance in a new era characterized by rapid technological and demographic change. These challenges offer some of the potentially most fruitful areas of cooperation between China and the United States.

• The United States must remain aware of the Chinese government’s deep and enduring resolve not to permit Taiwanese or Tibetan independence. The majority of the Chinese populace appears to support Beijing’s position on these matters and seems willing to accept the risks involved in using force to prevent either entity from attaining independence. The United States should harbor no illusion: The Taiwan issue is potentially explosive and involves risks of war.

The U.S. can elicit cooperation from Chinese leaders on a limited number of carefully-selected issues of highest priority to the U.S.
• The Chinese government is not fully in control of the society; the central government is not fully in control of the national-level ministries. The United States government should understand that many actions occur contrary to the leaders’ instructions. At the same time, the leaders are strong enough to intervene and enforce their will upon recalcitrant agencies on a limited number of matters of importance of them. Thus, the United States can legitimately expect them to enforce discipline when lower-level officials violate the leaders’ prior commitments—once these violations have been brought to the leaders’ attention. And the United States can elicit cooperation from the leaders on the limited number of carefully-selected issues of highest priority to the United States, provided the United States is consistent, clear, persistent, and genuinely willing to “go to the mat.”

• China’s economy is likely to continue to grow rapidly, but does possess major vulnerabilities. Hence, the China market presents considerable opportunities but also substantial risks. The United States government should not arouse unwarranted expectations among the American business community, nor should the business community approach the China market with romantic illusions. Hard-headed assessments must be made all around.

If the Chinese economy continues to grow for many more years at a rate of 6-8 percent annually, partly on the basis of increased exposure to the outside world through trade and investment, then inevitably China’s “interests” in the global system will expand—especially its interests in the Asia-Pacific and its capability to defend those interests by both military and non-military means. China today thus constitutes a nascent “rising power” that the still-dominant power today— the United States—must find a way to integrate into the global order, to avoid growing Sino-U.S. tensions or even military conflict.

The British peacefully adjusted to the rise of American power during the first half of the 20th century, but neither the British nor the Americans were able peacefully to manage the rise of first German and then Japanese power in the decades prior to World War II. In each of these cases, actions taken by both sides determined whether the appearance of a new major power would be accomplished harmoniously or antagonistically, and the same holds true for the Sino-U.S. relationship today.

Although China’s ultimate emergence as a major regional and global military power is far from a foregone conclusion—environmental disasters or energy shortages could choke off economic growth, for example, or reform of state-owned enterprises could destabilize the political system—the United States and other interested parties cannot afford to adopt an ostrich strategy and simply ignore or reject the possibility that China might become a military competitor, and perhaps even a hostile competitor. The wiser course
The wiser course would be to assume that China will continue to grow economically and militarily, but not necessarily become hostile. The key would then be to devote serious intellectual and diplomatic efforts toward adjusting to the rise of China in a way that minimizes the likelihood of conflict. We have already argued that the first step in this effort would involve declaring China absolutely “off-limits” as a “football” in domestic American politics. But it would also involve diplomatic efforts to achieve a durable strategic understanding with China on critical features of the Asian and global security environments, including the major contours of the international and regional security, economic, and value systems. This, in turn, would require a primary emphasis by both sides on the strategic dimension of Sino-U.S. relations, and a recognition by both countries of the need for compromise.

Not everyone in the United States and China is equally convinced of this logic, however. Occasional displays of (especially) American and Japanese insensitivity to Chinese interests and pride serve to remind both China’s leaders and people of the imperialistic depredations of previous generations of Westerners and Japanese. Chinese perceptions of their security threats and interests are rooted in this history, and cannot easily be influenced by even the best intentioned foreign initiatives. Alternatively, we as Americans need to determine to what extent and in what areas we are willing to compromise with an emerging China in order to reach a durable strategic understanding. For some, such compromise might require a greater level of “equal treatment” toward China than is tolerable. But some level of genuine accommodation of interests will likely be necessary if China’s relative capabilities expand significantly over the decades ahead.

Nevertheless, precisely how China’s leaders will perceive their interests and wield their increasing power will depend to a great extent on the policies adopted by the U.S. and other parties, especially Japan. If these countries greet China’s rise with hostility, it surely will respond in kind. Of course, it would be unreasonable and unfair for China’s leaders to assume, for example, that a United States commitment to maintain or even enhance its military position in the Asia-Pacific region would be inherently hostile, and in this respect China’s leaders must themselves take responsibility for carefully analyzing American and Japanese motives and not automatically assume the worst. Nor should China’s leaders automatically assume that when the United States takes a tough line where American interests (including human rights) are at stake such moves are inherently hostile or “anti-China.” All countries enjoy the right vigorously to pursue their interests, and China will have to adjust its rise to the interests of the United States and Japan, just as Washington and Tokyo must learn to accommodate China.
On balance, China's neighbors and the international community should welcome China into their midst, and work with China to strengthen and support the features of the international system. Then not only will Beijing's range of choice be constrained, but it will also gradually develop an active interest and a greater stake in upholding the stability of the system. It bears repeating, however, that how the outside world treats China is not the only factor of importance. Probably most important will be the perceptions of China's leaders, which are rooted deep in a troubled history and not easily influenced by outside parties.
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