

China, Hong' Kong, Taiwan', Inc.

THE DYNAMICS OF A NEW EMPIRE

Willem van Kemenade

CHINA, HONG KONG, TAIWAN, INC.

WILLEM VAN
KEMENADE

Translated from the Dutch by Diane Webb



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A NOTE ABOUT THE AUTHOR

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A NOTE ON THE TYPE

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CHINA,
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INC.

For Phoenix and Alexander

Preface

Some people with ulterior motives have been spreading the idea that China poses a threat to the world, while it has to export 25 million pairs of shoes to buy one Airbus.

PEOPLE'S DAILY,
December 1995

China, Hong Kong, Taiwan, Inc. is an updated and expanded version of its Dutch precursor, published in Amsterdam in early 1996. It contains substantial new sections on the major external events of 1996, such as the crisis in the Taiwan Strait, Beijing's rapidly advancing preparations for the imminent takeover of Hong Kong, and the unexpected détente in U.S.-China relations resulting from the Clinton administration's shift in China policy from inconsistent zigzagging to comprehensive engagement.

Important domestic developments, such as the further slowdown in state enterprise reform, and the resurgence of Marxist ideology, socialist spiritual civilization, and nationalism, have also been addressed. Less attention has been paid to the succession to the late paramount leader, Deng Xiaoping, and the consequences of his recent death at the age of ninety-two. The current formal party and state hierarchies have been in power since 1989, more or less guided, at least in the years immediately following the Tiananmen crackdown, by the "invisible hand" of Deng Xiaoping. After his last public appearance in 1994, however, Deng's influence receded into mere symbolism. President and party leader Jiang Zemin has assumed Deng's ill-fitting mantle of power, and the important issue now is who will replace Li Peng, whose second constitutional term as premier of the State Council will end in March 1998.

This book portrays and analyzes China's search for a new system, dealing with its transformation from a revolutionary Communist state obsessed with ideology and political struggle to a more conventional developing country, one that is trying to balance the key objectives of economic reform, social stability, and rapid growth. The Chinese people—one-fifth of all mankind—have undeniably made great strides toward eliminating

poverty and backwardness and modernizing their economy. The implementation of measures designed to bring about this transition, however, has caused many contradictions to surface, leading to temporary reversals and undesirable phenomena, particularly all-pervasive corruption.

Since the early 1980s, extensive trade with and investment from Hong Kong—and, since the late 1980s, also Taiwan—as well as the contaminating influence of the social systems and lifestyles of these two “peripheral” Chinese territories, have played a major role in this transformation. In just twenty years, the Chinese people have evolved from “Mao-worshipping blue ants” to “nihilistic, ultra-individualistic, money-worshipping hedonists,” perhaps the newest breed of “economic animals,” as the Japanese were labeled at the peak of their industrial rise in the 1970s.

The relocation to the Chinese mainland of Hong Kong’s and Taiwan’s labor-intensive manufacturing bases, including their management skills and export know-how, has had a synergistic effect on the inexhaustible pool of cheap labor and emerging entrepreneurial talent in those areas. This has enabled the People’s Republic, in less than a decade, to relinquish its impoverished autarky and join the league of major trading powers.

China is now well on its way to becoming the latest “East Asian miracle,” as exemplified by Japan and the “four tigers” (South Korea, Taiwan, Hong Kong, and Singapore). One day, perhaps, it will assume the role of “mother of all tigers.”

On 1 July 1997 China will resume sovereignty over Hong Kong on the basis of the “one country–two systems” formula. Although in economic and financial terms the merger can hardly fail, it is nevertheless beset with political pitfalls. During their final years of colonial rule, the British felt compelled to introduce formal democratic structures that would bolster the rule of law in Hong Kong after the Communist takeover in 1997. China wanted to maintain the status quo and keep Hong Kong a plutocracy ruled primarily by bureaucrats, bankers, and businessmen and only marginally by elected politicians. Beijing successfully mobilized the big-business community to oppose both the British and the Hong Kong Chinese democratic forces. Chinese leaders have stressed repeatedly that Hong Kong should be an “economic city,” a subsidiary of “China, Inc.,” and not a political city from which democracy might spread to the mainland.

The question of reunification with Taiwan is far more complex. Taiwan is a rival, alternative Chinese (sub)nation with a fully elected political system and a strong independence movement. Moreover, unlike the expiring ninety-nine-year lease of Hong Kong, there is no deadline for the return of Taiwan, and the island enjoys the (conditional) support of the United States in opposing Chinese coercion. Nonetheless, with the impending takeover of

Hong Kong, the resolution of the "Taiwan question" is moving to the top of China's national agenda.

As in Hong Kong, Beijing has managed to sow discord between the government of Taiwan and the country's capitalists. China's strategy is to lure the Taiwanese business community into making ever-larger investments, at the same time undermining what remains of Taiwan's international position with a policy of pressure and isolation. This policy has its ups and downs but is likely to become increasingly effective. China's threat of military force, aimed at intimidating the independence movement and influencing Taiwan's presidential elections in March 1996, backfired after the United States sent a naval task force to shield Taiwan from possible invasion from the mainland. Political reunification between China and Taiwan remains a long shot, but economically Taiwan is already part of "China, Inc.," with approximately \$20 billion in investment and \$18 billion in indirect trade through Hong Kong, according to 1995 figures.

After the Hong Kong takeover, China's leverage over Taiwan will increase substantially and Taipei may soon have to make major concessions to Beijing and agree to establish direct trade, shipping, and air links.

Following in the footsteps of "Japan, Inc." and the "four tigers," China has become a predominantly "economic" state and is perhaps on its way to becoming a "corporatist" state, in which state conglomerates run by central government bureaucrats will be the pillars of society. "China, Inc." is also highly mercantilistic, building up its industries behind high protective trade barriers. Government officials and businessmen connive in stealing foreign intellectual property and pirating foreign trademarks. At the same time, China is piling up trade surpluses that may soon exceed those of Japan.

"China, Inc." is far from cohesive and homogeneous, however. Economic reform has been incremental and piecemeal; its so-called "socialist market economy" is still a fragile halfway house. There has been no significant privatization yet, as has occurred in the former Soviet Union and Eastern Europe. The essence of Chinese reform has been in conserving the state sector and public ownership as the mainstay of the economy, while encouraging the emergence of other economic sectors, such as the collective sector with mixed ownership, the foreign investment sector including joint ventures, and the small private sector. The last three are the most dynamic and represent the lion's share of China's high economic growth, whereas the state sector is ailing beyond recovery. More than half of all state enterprises suffer losses, and many are beyond recovery. Declaring bankruptcy is out of the question, however, since massive layoffs and the absence of an adequate social safety net could lead to major social unrest.

Economic decision-making has been radically decentralized and dele-

gated to local governments, although this devolution has been based on ad hoc experimentation and not on structured political or legislative reform. China exhibits some of the characteristics of a federation, yet constitutionally it remains a highly centralized state. The power of the central government to balance national and regional interests is limited indeed. Tax collection is extremely ineffective: fiscal revenue as a share of GNP is one of the lowest in the world. The big question is whether China can continue to exist as a unitary state with a strong central government that, in addition to dealing with matters of defense and foreign affairs, also conducts an effective monetary and fiscal policy.

China's own liberal scholars, overseas Chinese, and Western sinologists have written extensively about concepts of governance based on democracy and human rights, as well as expounding more enlightened views of sovereignty based on interdependence, (con)federalism, and transnationalism. The application of these concepts to China's stagnant polity could dramatically improve the prospects both for a solution to the Taiwan question and for long-term stability in the ethnic border regions. China's current leadership forcefully rejects these views, however, blaming the failure of progress in reunification with Taiwan on U.S. "hegemonism" and conspiracies, not on its own inability and unwillingness to reform its archaic, repressive political system.

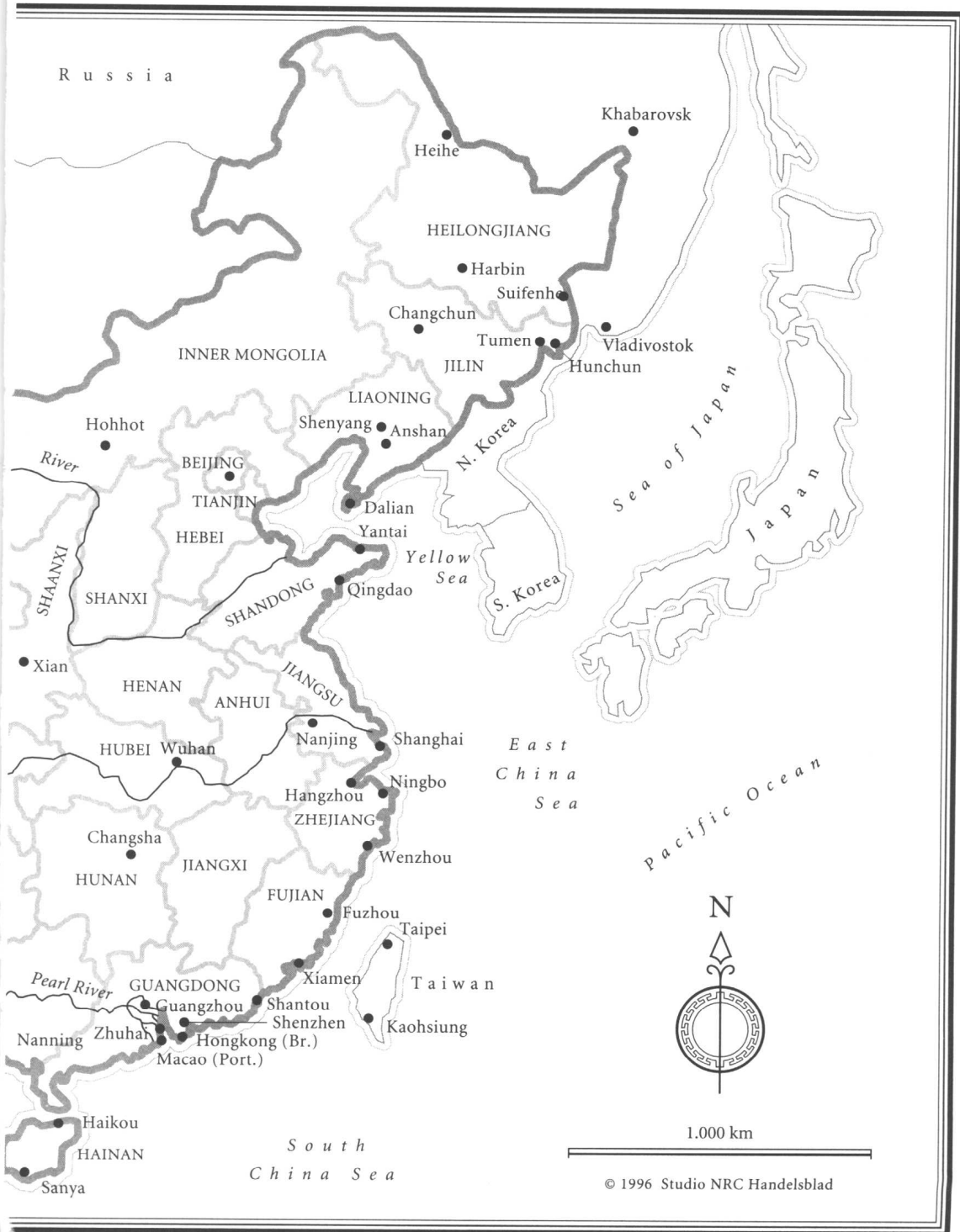
Successful deepening of economic reforms, along with preservation of political and social stability, depends on reform of the political system. The attempts at political reform made during the 1980s were repulsed by aged, orthodox Marxists with whom paramount leader and arbiter Deng Xiaoping reluctantly sided at critical moments. After the student rebellion in 1989 and the ensuing crackdown, political reform was postponed indefinitely. The current (transitional) regime is more concerned with recentralization, strengthening traditional ideological dictatorship, fostering xenophobic neonationalism and so-called "Asian values," and curbing advocates of political change. The prospects for increased political freedom and some degree of democratization are uncertain, although individual freedom, especially in the economic sphere, has grown considerably in recent years. As prosperity increases, with per capita income predicted to reach \$4,000 in major parts of the country by the year 2010, a new middle class may become the vanguard of democratic change, as was the case in Taiwan and South Korea in the late 1980s.

For the foreseeable future, however, Chinese politics seem to be fixed in their Marxist-Leninist ways, which are largely irrelevant to the great majority of the people. At the same time, leading academics are reinventing and

reformulating China's own pre-Communist and premodern Confucian uniqueness and "superiority." China refuses to be lectured to by the United States, an "upstart" country still in its infancy, whose own internal social problems disqualify it from pontification. The (Soviet) Russian empire is gone, England, in China's view, is in irreversible decline, France is only a "mini-superpower," and Germany and Japan are just now reemerging. China, therefore, claims to have all the necessary ingredients to make it at least an equal of the United States and, in the long term, perhaps even "number one."

Willem van Kemenade
Beijing, March 1997





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*Anatomy of the
Three Systems*