

**Chapter 3**

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**China**

## **1. Political Stability and Economic Instability**

### **(1) The Jiang Zemin-Zhu Rongji Regime Takes Hold**

Over one year after the death of Deng Xiaoping, a new leadership composed of Jiang Zemin, general secretary of the Communist Party of China (CPC), who concurrently holds the office of the president and the chairman of the Central Military Commission (CMC), and Zhu Rongji, premier of the State Council, was established. During the period, the 15th National Congress of CPC and the First Plenum of the 9th National People's Congress (NPC), or China's legislature were held, at which important policies for the next five years and appointments of people to key posts of the party and the government were approved. On the domestic front, structural problems, such as reforms of state-owned enterprises and an increase in the number of the unemployed, have to be addressed. What is more, impacts of economic crises in Asian countries began to affect the export industry of China. Furthermore, the damage done by a raging flood in the Changjiang (Yangtze) basin and in the Dongbei district (the basin of the Songhuajiang and the Nenjiang), which had continued for more than two months since June 1998, was so devastating that Jiang Zemin had to cancel his plans to visit Russia and Japan. Meanwhile, thanks to the key role played by contingents of the People's Liberation Army (PLA) in controlling flood damage at numerous locations, the PLA's popularity has soared to a level unseen since the second Tiananmen Incident of June 1989. Jiang Zemin characterized the struggle against the flood as "a people's war" and strengthened his leadership by personally directing flood damage control operations on the spot. Even in the face of economic uncertainty, the Jiang Zemin-Zhu Rongji leadership has undertaken a new reform program, and it is fair to say that it has got off to a smooth start at least in the first year.

In September 1997, CPC held the 15th National Congress. Regularly held once every five years in principle, the Congress is a

highest-level congress of CPC, and important policies and appointments to the key posts are, in effect, approved by the congress. As the past three sessions of the Congress held during the years of the “reform and opening-up” were presided over by Deng Xiaoping, the 15th National Congress was the first one that Jiang Zemin, in effect, presided over. It may be said that the congress served to show that Jiang Zemin is capable of effectively handling the affairs of state even in the absence of Deng Xiaoping, and thus to publicly announce the arrival of “the era of Jiang Zemin.”

In a political report delivered at the congress, Jiang Zemin proposed to adopt the “Deng Xiaoping theory” as a guideline for action along with Marxist-Leninism and Maoism, and the Congress amended the party contracts in accordance with his proposal. This reflects a political culture unique to CPC, a culture that enshrines the orthodoxy of its rule by distinguishing an “ideology” or a “political theory” prefixed by the name of a charismatic leader from the personalities of such leaders. This is a device designed to enable succeeding leaders: to put personal influence of their predecessors out of the way; and to at the same time follow lines of policy substantially different from those of their predecessors where necessary by imposing themselves as a successor of the “theories” of their predecessors (thus he monopolizes the right to interpret their theories). Therefore, the incorporation of “the Deng Xiaoping theory” into the party contracts means that by doing so, the Jiang Zemin government has acquired a political free hand to pursue new policies without necessarily being restrained by the Deng Xiaoping theory. The stage of economic development under the reform and opening-up where a small dose of liberalization had boosted the economy, making a majority of its people contented with their lot is over. The Chinese economy has reached a new stage of development where unless the government carries out sweeping structural reforms, it will be difficult even to maintain the forward momentum of its economy. The acquisition of a free hand by Jiang Zemin

at such a critical juncture will make things much easier for him to run the government.

In the area of economic policies, the 15th National Congress of CPC introduced a system of mixed ownership, the first ever. They theorize that public ownership includes not only state- and collectively-owned enterprises but also the state- and collectively-owned elements in the assets of joint ventures formed with foreign companies, and that as long as public assets dominate in the total assets in the society, the “dominance of public ownership” can be maintained. Moreover, the principle approves an isolated exception in which public ownership does not occupy a majority in certain areas or industries. By so stating, they sought political guarantee for promoting a reform of state-owned enterprises based on a stock ownership and across-the-board privatization of small- to medium-size state enterprises. While important policy changes were not approved at the 15th National Congress it did approve the prescriptions for reforming state-owned enterprises were adopted by the Third Plenum of the 14th Central Committee of CPC held in November 1993 despite trials and errors and strong criticism from the ideological standpoint. This suggests that the Jiang Zemin leadership has built a power base strong enough to push a sweeping reform of economic structure through the congress.

At the 15th National Congress and the First Plenum of the 15th CPC Central Committee held immediately thereafter, appointments to key party posts were approved. The number of members of the so-called “Prince Party” (sons of key officials of the party) who were elected as members or alternate members of the Central Committee or as members of the Central Commission for Discipline Inspection was far smaller than initially expected. The number of new faces who were elected as members of the Central Committee of CPC exceeded 50 percent of the total. Especially, the number of key officials close to Jiang Zemin elected to the committee stood out. Among the members of the Standing Committee of

the Political Bureau of the CPC Central Committee, Chairman Qiao Shi of the Standing Committee of NPC (equivalent to the speaker of parliament) and Liu Huaqing, vice chairman of CMC resigned for reasons of old age. In their places, Wei Jianxing, secretary of the Central Commission for Discipline Inspection and Vice Premier Li Lanqing were promoted. Qiao Shi has a lengthier career in the central political stage than Jiang Zemin and had repeatedly made remarks that created an impression of him as a more radical reformist than Jiang Zemin. Therefore, the retirement of a heavyweight like Qiao Shi will directly boost the power of Jiang Zemin. With the retirement of Liu Huaqing, active duty members of PLA have disappeared from the Standing Committee of the Political Bureau of the CPC Central Committee. Liu Huaqing was an elder of the army who was exceptionally appointed by Deng Xiaoping as a member of the Standing Committee of the Political Bureau to assist Jiang Zemin who had no military career. Therefore, his retirement suggests that control of the army by Jiang Zemin has been accomplished smoothly. Appointments of other people to the Political Bureau were made primarily according to their merits. As expected, Jiang Zemin was re-elected as general secretary of the CPC Central Committee and chairman of CMC, and the 15th National Congress helped him demonstrate the secureness of his leadership.

The 15th National Congress was followed by a session of NPC in March 1998. The NPC is the highest organ of the state power which, in principle, meets once a year and has the power to amend the Constitution, enact laws and compile annual budgets. This session was an important one in that it elected key members of the State Council, which it does once every five years. As generally anticipated, Jiang Zemin was re-elected as president of the state with the largest number of votes (97.8 percent of the votes cast). The most watched piece of action at NPC was the choice of premier, to which Zhu Rongji was elected by 98 percent of the votes cast. He was once persecuted by elements of the Anti-Rightist Campaign

and the Great Cultural Revolution, but toward the end of the 1980s, he served as mayor of Shanghai under Jiang Zemin, then secretary of the CPC Shanghai Municipal Committee. As mayor, Zhu Rongji mustered the popular support by cracking down on bureaucratic misdeeds and corruption and succeeded in averting bloodshed in Shanghai during the second Tiananmen Incident in 1989. When he served as vice premier, he had built up a good track record by successfully taming inflation by skillfully handling a macroeconomic policy. It is believed that impressed by his track record, deputies from provinces and of PLA who make up NPC gave strong support to Zhu Rongji who advocated the necessity for carrying out reforms.

Worthy of special mention in this connection was the promotion given to talented young leaders. A case in point is Hu Jintao, a member of the Standing Committee of the Political Bureau of CPC, appointed as vice president, a post that had been characterized in the past as an honorary post. While a considerable number of veteran Cabinet members remained in office, many of those in their 50s have been promoted to key posts of the government. From this, it may be gathered that a change of generation is in progress in the party and government leadership. Li Peng whose course of action after resigning as premier had been closely watched was transferred to the position of the chairman of the Standing Committee of NPC succeeding Qiao Shi. Qian Jichen continues to be in charge of foreign affairs as vice premier, while Tang Jiaxuan, vice minister of foreign affairs was promoted to minister of foreign affairs and the cadre of the country's foreign policy machinery has thus been changed. Tang Jiaxuan had once been posted to Tokyo as minister of the Chinese Embassy in Japan and is considered as an expert on Japan. As a result, together with those appointed by the First Plenum of the 15th CPC Central Committee, third-generation leaders (Jiang Zemin and Zhu Rongji) and fourth-generation leaders (Hu Jintao, Vice Premiers Wu Bangguo and Wen Jiabao) now make up the nucleus of power in the new regime.

At the 15th NPC, Zhu Rongji proposed a set of objectives: “one ensuring, three putting into places and five reforms.” “One ensuring” means ensuring the achievement of 8 percent economic growth, holding the inflation rate below 3 percent and maintaining the existing exchange rate of the renminbi in 1998. “Three putting into places” means reforming state-owned enterprises, the financial system and government institutions. “Five reforms” means reforming: the circulation system for grain; investment and financing systems; housing system; medical care system; and the fiscal and taxation systems. All of these reforms require structural and sweeping solution of problems that have not been solved during the 20 years of the reform and opening-up or those created by successful implementation of such reforms and opening-up policy. And Zhu Rongji declared that they will fully implement these reforms during the next three years or so.

## **(2) Reforms and Their Costs**

The post-Deng government of China led by Jiang Zemin has thus achieved political stability, announced a set of far-reaching policies designed to engineer a sweeping structural reform of its economy and has given a political guarantee to the reforms. And the government has established the machinery for implementing these reforms under the leadership of Premier Zhu Rongji, come up with a series of concrete policies and declared a deadline for accomplishing these reforms. They are ready to carry them out, but putting them in practice will be difficult and entail huge costs.

For one thing, they have to address the problems plaguing state-owned enterprises, which account for 30 percent of the nation’s industrial production. They have been on the decline since the introduction of a “socialist market economy” in the 1990s, and roughly half of them are running deficits. Because of their inability to repay their debts, the bad loans problem of the banks has become increasingly serious with the years. According to Gov. Dai Xianglong of the People’s Bank of China, bad loans held by state-

owned banks accounted for about 25 percent of their total loans outstanding at the end of 1997, and this represents 23 percent of the gross domestic product (GDP) of China for the same year. Almost the entire amount of these bad loans was made to state-owned enterprises, and is not likely to be repaid any time soon. This is why reforms of state-owned enterprises have taken on such a great urgency, but restructuring of their operations and bankruptcies will bring about an increase in unemployment.

The reform of government institutions would entail huge costs. The State Council made a final decision calling for a cut in the legally fixed number of officials of the central government at its plenum held in June 1998. It provided for a 47.5 percent cut in the number of employees of the central government and the abolition of about 200 departments and equivalents (25 percent of the total) by the end of 1998, and the completion of the program for the placement of discharged officials during the next three years, the deadline for the administrative reforms. Initially, many observers expressed considerable skepticism that the proposed privatization of state enterprises would result in a mere change of shingles or in a repetition of cuts and increases in their numbers as had been the case with the past six administration reforms. However, certain ministries and agencies have reportedly completed their reduction programs by the fall of 1998, creating the impression that the reform this time around was for real. However, the government is having difficulties in placing discharged government officials, and there are fears that the reduction of government officials will decrease the efficiency of administrative services, albeit temporarily.

In addition, the Chinese government has been cutting the personnel of PLA by half a million as we will see in detail later. All these reforms spell an increase in unemployment. The question is whether the Chinese economy will grow fast enough to absorb these unemployed workers. Owing to the prolonged restrictive monetary policy enforced since the second half of 1997, deflation — falling prices and an increase in business failures, and unemploy-

ment — have tended to grow more widespread. Official statistics put the number of unemployed urban workers at 5.7 million (which translates into a unemployment rate of 3.1 percent) as of the end of 1997, but this figure did not include those who were laid off temporarily. As those who are temporarily laid off are not included in the statistics on unemployment in China, and as they are seldom rehired by their employers, some economists put the actual number of the unemployed at about 10 million. What is worse, their number is highly likely to increase in coming months. It is estimated that reforms of state-owned enterprises have thrown 3.5 million workers out of their jobs in 1998, and that by the year 2000, state-owned enterprises alone would cut 8 million to 10 million jobs. In 1997, only one-third of laid-off workers had found jobs. Furthermore, the government has been encouraging laid-off workers to find jobs on their own, instead of relying on the government. In other words, the nation's capacity to create new jobs appears to have reached its limit and additional job cuts carry the danger of touching off social unrest.

If the economic growth rate declines substantially below the government target of 8 percent, the unemployment situation will worsen. As the purchasing power of ordinary workers increases only marginally, if at all, the housing reform program has failed to stimulate effective demand. At this point of time, it is not clear what impacts the economic losses caused by last year's floods and increases in demand brought on by the reconstruction efforts would have on achievement of the 8 percent growth the government is targeting.

### **(3) The Impacts of the Asian Economic Crisis**

The economic crisis that had swept through East Asian countries has spilled over to China. In 1997, China ran a trade surplus of more than \$40 billion and the balance of its foreign exchange reserves outstanding at the end of 1997 increased \$35 billion to \$140 billion, second only to Japan. As its balance of payments was ro-

bust, its economy continued to grow rapidly, and as inflation remain quiescent, the Chinese government initially had thought that its economy would not be directly affected by the economic crisis that was raging in neighboring countries. Come 1998, however, its exports and foreign direct investment, which had bolstered its economic growth, began to slow down visibly. According to trade statistics released by the General Administration of Customs of China, exports have been decreasing sharply since July after registering a 7.6 percent increase during the first six months of the year over the same period of a year before, and those for the first nine months as a whole edged a mere 3.9 percent forward, down from 24 percent in the same period of a year before. According to the State Statistical Bureau of China, GDP increased by 7.1 percent in the January-March quarter of 1998 and 7.0 percent in the April-June quarter. These figures indicate that the growth in its GDP has been slowing down since the third quarter of 1997. In the July-September quarter, however, it increased 7.6 percent presumably due to an increase in fixed-asset investment.

Even if China had devalued its currency in step with other Southeast Asian countries, the situation would have gotten worse. If China devalues its renminbi below 8.28 yuan to the dollar, it will touch off a competitive devaluation of the currencies of Southeast Asian countries, and if such a situation comes to pass, it would have a serious impact on the world economy. There is no gainsaying the fact that China, by holding steady the exchange rate of its renminbi while the currencies of Southeast Asian countries fall, stands to reduce its export competitiveness. However, as China depends heavily on the exports of raw materials, on the one hand, and its industries have to import large quantities of machinery and equipment, on the other, a devaluation of its renminbi would not directly boost the competitiveness of its exports. China's primary objective of holding to its exchange rate is to maintain the confidence of foreign investors in its policy and stem the flow of capital out of the country. In recent months, China has been trying on re-

peated occasions to dispel international fears about a change in its exchange-rate policy. However, the fact remains that the Chinese economy will not gain any benefit from devaluation of its currency.

The slowdown in the exports of China is largely blamed on shrinkage in its major export markets. Therefore, an early recovery of its economy through an increase in Chinese exports is not on the cards. Aware of this, the Chinese government announced a policy of boosting domestic demands. They call for an increase in fixed-asset investment which accounts for more than 30 percent of China's GDP, including government investment and investment in plant and equipment. And to help finance these projects, the government has come up with a series of measures to expand domestic demand, such as issuance of additional government bonds which amount to 100 billion yuan and authorization of direct investment by foreign firms, which had been frozen thus far. They included a policy for tightening the foreign exchange control aimed at maintaining the exchange rate of the renminbi. Obviously, these policies entail the payment of huge costs in coming years, but they are costs necessary to ensure 8-percent economic growth and the realization of the various reforms.

#### **(4) Hong Kong after Reversion**

Just like China, Hong Kong shows a combination of stable political, and stagnant economic situations. Contrary to predictions, the political situation in post-reversion Hong Kong has been stable, while its economic situation has become destabilized. The Provisional Legislative Council dominated by pro-Beijing members started enacting laws immediately after the reversion. The Council has tightened control of political activities of the residents of Hong Kong by amending the Public Safety Regulations and the Corporation Regulations, and by toughening the laws and regulations that the now defunct Legislative Council had amended in the last year of British rule. The government of the Hong Kong Special Administrative Region (HKSAR) have newly added appointed

members to the Provisional Urban Council, Provisional Regional Council and District Boards. The number of these members amount to 25 percent of the original legally fixed membership. This elevated the group of pro-Beijing members to a majority in these councils and boards, where pro-democracy groups once held a majority. In addition, the system of members of the Provisional Legislative Council doubling as members of the Executive Council was reinstated with a view to strengthening the superiority of the executive over dissident groups. As a result, pro-democracy forces, save certain radical elements, have been politically neutralized to all intents and purposes. However, as their freedom of speech was assured to a certain extent, the political control has not led to social unrest, and Hong Kong is thus maintaining political stability. It is fair to say that the "democracy in the bird cage" is taking root in Hong Kong.

True to its advocacy of "one country, two systems," China has not given, so far at least, the appearance of interfering in the internal affairs of Hong Kong. At the same, the "one country, two systems" carries the implication that the popular will of Hong Kong residents would not be reflected in political decisions made by the central government. A case in point is elections of deputies from HKSAR to the 9th NPC. Since before the reversion, China had assigned 14 seats of NPC to Hong Kong, and their number was increased to 36 for the 9th NPC. They are supposed to represent the will of the Hong Kong residents as their deputies for a term of five years. However, they are elected not by the residents of Hong Kong but by a 424-man Election Council chosen by the Standing Committee of NPC. Furthermore, candidates are required to have a recommendation from the Election Council even before officially announcing their candidacy, so pro-democracy forces were virtually shut out of the election. And it was the branch manager of Xinhua news agency dispatched by the central government to Hong Kong who received the largest number of votes. Be that as it may, elections of deputies in China follow a formality close to that of a gen-

eral election as we know it, and the residents of Hong Kong do have the right to vote. In other words, the residents of post-reversion Hong Kong are not granted suffrage to participate in the political process comparable to that the mainland residents enjoy, limited as it is. There is a saying in China that “the water of a river does not interfere with the water of a well, and the water of a well does not interfere with the water of a river.” In the present context, it means that China does not interfere with the “internal affairs” of Hong Kong, and Hong Kong does not interfere with the “state affairs” of China. In a sense, China has been true to its “one country, two systems.”

With the rule of Hong Kong by China having become an accomplished fact, elections of deputies to the first Legislative Council were held in May 1998. As the Basic Law of HKSAR has no provision for a Provisional Legislative Council, doubts were voiced about the legality of its existence. At any rate, as its members were not elected by popular votes, they lacked the legitimacy, and this has raised the necessity for launching a legislative council through an early election. The Legislative Council is a body created pursuant to the Basic Law of HKSAR, and the term of its members runs for four years (two years for those elected for the first session). Of the 60 seats, 30 were to be filled by those elected by functional constituencies (each constituency has one vote), and 10 by those elected by the “Election Committee” consisting of 800 members representing the business community, professionals, workers and politicians (each with one vote). Given the bias built into the electoral system, voters who are pro-Beijing or in the business community are in a favored position. The remaining 20 percent of the seats were to be filled by those elected by direct votes on the basis of proportional representation and multiseat system. In an election held under such a system with a turnout rate of 53.29 percent, pro-democracy forces won 14 seats. Their “election victory in the bird cage” will contribute to the political stability of Hong Kong because “the bird cage” has the effect of putting the brakes on their radical-

ization. As pro-Beijing deputies and those from the business community hold a majority in the Legislative Council, the chances of it passing “anti-Beijing” bills are small. On the other hand, even when pro-democracy deputies cooperate with pro-Beijing deputies on issues relating to consumers and workers — and there were cases of such cooperation — the government of HKSAR can override their opposition under the principle of superiority of the executive provided for in the Basic Law. Therefore, a situation seriously threatening the political stability of Hong Kong is unlikely to develop under the existing system.

In the recent past, there have been unwelcome developments not directly related to the reversion of Hong Kong, such as the panic caused by a new strain of influenza carried by chickens and a massive death of fish caused by a red tide. Its economy has fallen into a serious recession owing to the collapse of economic bubbles, which again is not a direct outcome of the reversion of Hong Kong. When the Asian currency crisis deepened, the government of HKSAR attached top priority to defending its currency and raised its interest rates. As a result, liquidity dried up and the prices of stocks and real estate dropped precipitously. Prices of real estate and stocks started falling — and continued to fall — in August and October 1997, respectively. By July 1998, stock prices had dropped to one half of those that prevailed immediately after the reversion of Hong Kong. As a result, hopes of the Chinese government to increase its capacity of raising funds to finance the reforms of state-owned enterprises by listing their shares on the Hong Kong Stock Exchange have been dashed at least for the time being, and this has dealt a heavy blow to the economic development of China. What is worse, real gross regional product decreased in the first half of 1998 below a year before, the first in 13 years, and the unemployment rate rose above 4 percent. Retail sales shrank sharply and tourism showed no signs of recovery. Chief Executive Tung Chee Hwa announced in July 1998 an emergency package that included an exemption of corporate tax and the freeze of the sale of



government land. In addition, the government of HKSAR started buying up stocks to prop up their prices. This was an unprecedented departure from the laissez-faire policy it had long followed, suggesting that the economic prospects of Hong Kong were clouded with a sense of crisis unknown in the past.

Discontent about the hardships brought on by a worsening recession was registered in various polls, but it did not degenerate into social unrest, nor were there criticisms of the reversion of Hong Kong to China. The suspicion the residents of Hong Kong had entertained initially about the intention of China seems to have faded as China refrained from openly interfering with the internal affairs of Hong Kong. Meanwhile, they directed their anger at Tung Chee Hwa. In a series of polls taken in recent months, the approval rating for Tung has never been higher than that given to Chris Patten, the last colonial governor of Hong Kong. This was largely due to the impression Tung had given to the residents of Hong Kong that he was too conscious of the pleasure of Chinese leaders and the fact that the economy continued to worsen under his administration.

However, except for these changes, the situation in Hong Kong by and large has remained within the scope of what might be considered as normal development. U.S. naval vessels call at Hong Kong continually and the building housing the headquarters of the Hong Kong Garrison of PLA is still called "Prince of Wales Building," and the local agency of Taiwan continues to operate without being harassed. All things considered, the reversion of Hong Kong to China has rewarded China except for the economic woes it has been experiencing.

## **2. External Relations Based on a Policy of Cooperation**

### **(1) Mending Relations with the United States**

In the fall of 1997, China began to change its foreign policy to

one based on a policy of cooperation on all fronts. During the period from late 1997 through early 1998, President Jiang Zemin and President Bill Clinton exchanged visits. These visits significantly restored the U.S.-China relations which had remained strained since the third Taiwan Strait Crisis in March 1996. China's relations with Japan and Taiwan have improved, and its leaders have lately been making conciliatory comments on the issues of human rights and Tibet, and have thus shown a positive attitude to avoid friction with neighboring countries.

China has been making positive efforts to mend its relations with the United States, which had cooled since the third Taiwan Strait Crisis. Actually, China had consistently attached importance to its relations with Washington, but it did not always respond positively to the U.S. policy toward China. Instead, China bluntly refuted U.S. contention about human rights, proliferation of weapons of mass destruction and Taiwan, and at times did not conceal its antagonism toward the United States by criticizing the United States for "peaceful evolution" and "hegemonism."

It is thought that China began to employ a conciliatory policy toward the United States in the fall of 1997. It appears to be a change in its strategy aimed at: first, bringing itself up on a par with the United States and consolidating its status as a "major power" by making concessions to the United States in various areas of contention; second, meeting more frequently with the heads of other governments; and third, winning concessions from the United States through these steps so that its relations with neighboring countries and the question of Taiwan will develop in its favor. Put another way, the strategy is aimed at developing conciliatory relations with the United States while softening the opposition of hardliners against its policy at home.

The trip Jiang Zemin made to the United States in October to November 1997 was the first official visit to Washington ever made by the head of State of China since the Tiananmen Incident of 1989. As the acceptance of Jiang Zemin's official visit to

Washington by the United States signaled a substantial relaxation of the economic sanctions the United States had imposed on China in reaction to the Tiananmen Incident, the visit itself had a great significance for China. A U.S.-China joint statement issued after a summit meeting expressly stated that the two countries agreed to work together toward building a “constructive strategic partnership.” In addition to the “strategic cooperative partnership” and the “overall constructive partnership,” it had agreed to build with Russia and France, respectively, China committed itself to building a partnership with the United States. The two countries agreed on regularizing exchange of visits by the head of state, and on regularizing exchange of visit at ministerial and vice-ministerial levels for consultation on politico-military, security and arms control issues. Thereby, they sought to strengthen dialogue and exchange between themselves.

China gained “collateral benefits” by making concessions to the United States in certain areas or by improving its international image. More specifically, China prevailed upon the United States to lift its freeze of the U.S.-China Agreement for Peaceful Nuclear Cooperation by promising to stop exporting third countries with nuclear and dual-use materials. In the area of human rights, Jiang Zemin announced during his visit to the United States that his government will sign the International Covenant on Economic, Social and Cultural Rights. He stressed during the same visit the importance of finding a “peaceful solution” of the Taiwan question. Although the two countries disagreed on the question of human rights and Taiwan, China at least gave the United States the impression that these two questions will be improved by stages. The Jiang Zemin government, which had strengthened such an impression with a view to realizing a visit by Clinton to China, seems to have succeeded in strengthening its power base within the country.

For starters, China expressed in March 1998 its intention to sign the International Covenant on Civil and Political Rights and paroled Wang Dan, a well-known pro-democracy activist, ostensi-

bly for medical treatment and allowed him, in effect, to exile himself to the United States. In the area of the Taiwan question, China invited Jan Jyh-horng, deputy secretary general of the Straits Exchange Foundation (SEF) of Taiwan to Beijing in April 1998 as a gesture of its willingness to mend relations with Taiwan. In May 1998, however, U.S. Congress intensified its criticism on an alleged illegal campaign contribution to the Democratic Party by a military-related agency of China, and suspected leaks of military-related technologies by American firms, and the atmosphere became so tense for a while that Clinton’s scheduled visit to China seemed to be in jeopardy. However, concessions made by China on human rights and the Taiwan question saved the situation, and its effort was rewarded in the form of an official visit by Clinton to China in June to July 1998.

Clinton’s visit marked the first official visit of a U.S. president to China in nine years since the visit by President George Bush in February 1989. Clinton’s visit gave China a chance to impress the world at large that China is a “major power on a par with” the United States. Indeed, China has enhanced its image as a “major power” by voicing its views, “on a par with” the United States, on the problems of proliferation of nuclear weapons to South Asia and the Asian currency crisis.

In the area of human rights, a speech by Clinton stressing the importance of human rights and democracy was broadcast live throughout China. With respect to the question of Taiwan, China announced its plan to invite Koo Chen-fu, chairman of SEF of Taiwan to China, and this helped impress the United States that China is actively seeking an opportunity for peaceful dialogue with Taiwan. During a meeting with Jiang Zemin, Clinton orally stated the position of the United States on three points — the so-called “three no” policy, namely, don’t support “Taiwan independence,” “two Chinas or one China, one Taiwan,” or “Taiwan’s membership in any organization for which statehood is a requirement.” In an informal conversation he had with Jiang Zemin later during his visit

in Shanghai, Clinton expressed the same view using different expressions. It is to be remembered that Jiang Zemin had been informed of the three no policy during his earlier visit to the United States, and that the three no statement of Clinton was not given in a written form. However, as we will see later, the fact that the statement was made during his visit to China where every word he uttered attracts attention of the outside world was to the advantage of China, which has been trying to lure Taiwan to the negotiating table on which China can get the upper hand. What is more, it is thought that the three no have become a positive factor for Jiang Zemin in strengthening his leadership within the domestic arena.

In a comment Jiang Zemin made on the question of Tibet during a joint press conference, he stated that as long as the Dalai Lama publicly make a statement and a commitment that “Tibet is an inalienable part of China,” and that “Taiwan as a province of China,” “the door to dialogue and negotiation is open.” On his part, the Dalai Lama has withdrawn his demand for independence for Tibet, and he has never supported independence for Taiwan. However, Jiang’s remark has left an impression that the Dalai Lama was responsible for the failure to start talks, and at the same time has shown to the United States its willingness to have direct dialogue with the Dalai Lama.

China has thus gained considerable “collateral benefits” for the small concession it made to the United States. However, these “collateral benefits” are subject to delivery of its promises: unconditional ratification of and compliance with the International Covenants on Human Rights, and commencement of dialogue with Taiwan and the Dalai Lama. If China ends with a mere gesture of joining the international community, the United States would find it difficult to edge closer to China than it is today. The United States would not tolerate the continuous arrest of “political prisoners” after signing — and in contravention of — the International Covenants on Human Rights. Where the professed change in the

foreign policy of China is a mere tactical ploy to win the United States over or whether it really leads to a structural change in its political, economic and social regimes bears close watch in coming years.

## **(2) Improving Relations with Japan**

Since the beginning of 1997, China’s Japan policy has begun to show signs of change, and as the months rolled on into the fall, the change has become increasingly pronounced. Owing to China’s nuclear tests, the third Taiwan Strait Crisis and China’s territorial claim to the Senkaku Islands, Japan-China relations had soured since 1995. As noted earlier, China directed its major effort to mending its relations with the United States but showed little interest in improving its relations with Japan. With the exchange of visits between Prime Minister Ryutaro Hashimoto of Japan and Prime Minister Li Peng of China in 1997, China began to attach importance to its relations with Japan.

In conversations with Jiang Zemin and Li Peng during his visit to China in September 1997, Hashimoto stressed that the two countries should make efforts toward building a new age of dialogue and cooperation. And it was agreed that the leader of either state should regularly visit the other country to have a summit once a year and that the two countries continuously promote high-level defense exchanges between the defense authorities of the two countries. On that occasion, Hashimoto became the first sitting prime minister of Japan after the World War II to visit the Dongbei district (former Manchuria) and the memorial museum of the Manchurian Incident near Liutiaohu of Shenyang, to impress on the Chinese the keenness of his attention to Japan’s wartime actions against China. His visit was followed by a series of visits of leading figures of the Chinese government to Japan — Prime Minister Li Peng in November 1997, Defense Minister Chi Haotian in February 1998 and Vice Premier Hu Jintao in April the same year.

These Chinese leaders urged their Japanese counterparts in unison to have a “correct understanding of the history of relations between the two countries,” and not to include Taiwan in any circumstances in the scope of Japan-U.S. security cooperation in “situations in areas surrounding Japan” as stipulated in the Guidelines for U.S.-Japan Defense Cooperation (“new Guidelines”). Japanese officials from Prime Minister Hashimoto on down sought their understanding by repeatedly denying that Japan has any aspirations to become a major military power, by explaining that the concept of “situations in areas surrounding Japan” is not geographical but situational and by assuring them that Japan will not support the independence of Taiwan.

Uppermost in their mind was not that Japan and the United States would consider the use of force against Taiwan by China as “a situation in areas surrounding Japan,” but that Taiwan should not be included in geographical areas covered by the new Guidelines. This comment, as explained later, seems to be intended for Taiwan’s consumption. As is well known, China has never ruled out the possibility of using force against Taiwan, but this position is merely designed to make its threat of use of force effective and lure Taiwan into peaceful unification talks from a position of strength. Therefore, it should be interpreted that their pronouncements are aimed at fanning a sense of isolation on the part of Taiwan by advertising that “Taiwan is not included geographically in ‘situations in areas surrounding Japan.’ ”

An official visit of Jiang Zemin to Japan, which had been postponed on account of the devastating floods in China, finally took place in November 1998. This was the first visit to Japan by the president of the People’s Republic of China, an epoch-making event in the history of Japan-China relations. It was hoped that the visit to Japan by President Jiang Zemin would produce a future-oriented action plan to be implemented by the two countries and that the visit would mark a starting point of a new phase of Japan-China relations. At the end of a Japan-China summit meet-

ing, the leaders of the two countries announced a joint declaration committing themselves to “building a partnership of friendship and cooperation for peace and development,” and issued a joint press announcement outlining specific items in which they were going to cooperate. Meanwhile, Jiang Zemin repeatedly stated in no uncertain terms that China still entertains ill feeling toward Japan over how Japan perceives the past. Although Japan confirmed its intention to extend assistance to China for its economic development, it is necessary for Japan to make further efforts to expand multifaceted exchanges with China to deepen mutual understanding between the two countries transcending the differences in the political system and perceptions of history of the relations between them.

### **(3) All-Directions Cooperative Diplomacy and the Asia-Pacific Region**

The all-directions cooperative diplomacy China has been pursuing has accomplished positive results in various areas and helped China strengthen its presence in the international community during the past year. The enhancement of its presence was particularly pronounced in its relations with Russia and Southeast Asian countries.

President Boris Yeltsin of the Russia visited China in November 1997. In a joint statement issued during the visit, the presidents of the two countries declared that the work of demarcating the eastern Sino-Russian border, a long-pending question between the two countries, has been completed. In addition, the two countries signed a memorandum of agreement committing themselves to promoting cooperative relationships in the fields of the economy and science and technology, including the development of natural gas fields in the Irkutsk oblast of Eastern Siberia. Progress they may make in their cooperative ventures for the exploitation of energy resources should be watched closely from the security standpoint of East Asia.

With a view to meeting its growing demand for energy, China has been devoting major efforts to the development of natural resources in Russia and Central Asia. China has become a net importer of oil since 1993, and its dependence on the Middle East for its oil is high. However, discouraged by the strong presence the Majors have already built in the Middle East, China has been prospecting for oil on its own not only in the Tarim Basin in West China but in many countries of the world. Recently, China has shown keen interest in the oil fields in the Caspian Sea and has obtained a concession for drilling oil in the western part of Kazakhstan. In July 1998, China signed with Kazakhstan a final agreement on the demarcation of a boundary following the similar agreements signed in 1994 and 1996, and its friendly relations with Kazakhstan have thus been strengthened. Since the collapse of the Soviet Union, Western countries and Russia have been vying for concessions to develop oil fields in areas bordering on the Caspian Sea. Joining the race as it did at such a juncture, China is expected to have an impact on the energy situation of the world.

With respect to the Korean Peninsula, China has been adopting an increasingly positive posture to stabilize the situation there through the four-party talks by taking advantage of its position of having diplomatic relations with North and South Korea. Since the assumption of the office of general secretary of the Workers' Party of Korea by Kim Jong Il, China has broadened its friendly relations with North Korea and has been trying to maintain its influence as a mediator. However, North Korea test-fired a missile developed based on the Taepo Dong 1 in August 1998 without giving China prior notice. Although China refrained from publicly censuring North Korea, there have appeared signs showing the embarrassment China had suffered.

Jiang Zemin attended an informal summit meeting of the Association of Southeast Asian Nations (ASEAN) held in December 1997, at which he relieved the leaders of ASEAN of their fears for a competitive devaluation of currencies by assuring them that China

will not devalue the renminbi. At the same time, then Foreign Minister Qian Qichen of China who had accompanied Jiang Zemin promised Indonesia that China will extend financial assistance on its own. In a joint statement issued with the ASEAN countries, China agreed to include a passage that "The parties concerned agreed to resolve their disputes in the South China Sea through friendly consultations and negotiations in accordance with universally recognized international law, including the 1982 U.N. Convention on the Law of the Sea." In return, the ASEAN countries agreed to include a statement that "ASEAN member states reaffirmed their continued adherence to the 'one China' policy." Although the financial assistance China promised has been delayed, it is a noteworthy development in that it is the first financial aid China will give any Southeast Asian country.

### 3. Progress in Defense

#### (1) Professionalization of PLA and Party-Military Relations

As part of its modernization program, the work of professionalizing the People's Liberation Army (PLA) — from one highly politicized party's army to a one devoted to national defense — is making steady progress. As with the Communist Party, a generation change of leadership of PLA is gathering pace. Since the enactment of the National Defense Law in 1997, CMC has promulgated the Routine Service Regulations, the Drill Regulations and the Garrison Service Regulations to establish rule of law in the military.

However, this does not mean that the role played by PLA as "a pillar of the Party" has diminished. Although Jiang Zemin has been consolidating the power base of his regime relatively smoothly so far by overcoming a number of important political challenges, the fact remains unchanged that Jiang Zemin still needs the support of the military to maintain and exercise his leadership in the post-Deng political arena in China. The 15th National Congress of

CPC held in September 1997 elected 42 military men to the CPC Central Committee as representatives of the military, and this represents 21.8 percent of its total membership, approximately the same as before.

During the same session, Gen. Liu Huaqing (a member of the Standing Committee of the Political Bureau of the CPC Central Committee and vice chairman of CMC) and Gen. Yang Baibing (a member of the Political Bureau) who had already lost power, retired. In their places, Zhang Wannian and Chi Haotian were promoted. As a result, Zhang Wannian who concurrently holds the position of a member of the CPC Central Committee Secretariat has come to occupy the top position of the military. As to CMC, which has the prerogative of supreme command of the military, Jiang Zemin was elected as its chairman, Zhang Wannian and Chi Haotian (minister of national defense) as its vice chairmen, Gen. Fu Quanyou (chief of General Staff), Gen. Yu Yongbo (director of the General Political Department), Gen. Wang Ke (director of the General Logistics Department), and Gen. Wang Ruilin (deputy director of the General Political Department) as its members. The same lineup was confirmed as members of the State Central Military Commission at the National People's Congress in 1998.

Jiang Zemin who sits at the top of the supreme command has reshuffled the military leadership four times so far with the backing from his guardian Deng Xiaoping. In the process, he has gained clout with the military by replacing second-generation generals with third-generation military men. Today, the top brass who assume command of the services and the military regions are all those handpicked by Jiang Zemin.

Jiang Zemin promoted men of his choice to the rank of general in March 1998 for the first time after the death of Deng Xiaoping. The promotion of seven men to the rank of general Jiang Zemin approved this time seems to be based largely on seniority under the compulsory retirement system which is being established. However, they included young bloods, such as Xing

Shizhong (commandant of the National Defense University) and Yang Guoliang (commander of the Second Artillery Corps). In addition, Yang Guoping, commander of the Chinese People's Armed Police Force was promoted to general. He became the first commander of the force to be a general. This accords with news that the force was elevated to the status of a military region.

## **(2) Troop Reduction and the People's Armed Police Force**

In a report on work of government delivered by Premier Li Peng in March 1998 before the National People's Congress (NPC), he announced a plan to reduce the troop strength by half a million during the next three years. This plan had been made public by General Secretary Jiang Zemin in his report delivered at the outset of the CPC National Congress in September 1997. It was explained that the troop cut was made for the purpose of using the savings in defense funds thus made for the modernization of the combat capability of PLA, primarily made possible by introducing high-tech weapons.

The plan to reduce troops has been in the works since the early 1990s. Meanwhile, Hong Kong was handed over to China smoothly, China's relations with the United States have improved and China has worked out an agreement with Russia to reduce the number of troops deployed along the border between the two countries. Encouraged by these developments, China decided to put the plan into practice. It is thought that the decision was aimed at allaying the fear about "China threat" to peace that is current in the international community. However, an editorial of the January 1, 1998 issue of the Liberation Army Daily called to its readers to carry through the troop cut pursuant to the resolution of the party. As this editorial implies, there still are pockets of resistance in the military that must be persuaded to cooperate with the military leadership. In fact, the proposed force reduction spells a painful adjustment for the military. With the Taiwan question, the situation in the Korean Peninsula and the aftermath of nuclear tests by

India and Pakistan still in the air, the strategic environment of China allows for no optimism when viewed from the perspective of the military. Moreover, discharged military personnel would face difficulties in finding jobs in the current economic climate, so much so that the resistance of the military to the proposed cuts is bound to persist.

Little information is available as to how China will implement reduction. However, given the scale of the proposed cut (about 17 percent of its total strength), China will have to reduce and/or reorganize its combat units. Military regions may not be subject to reorganization, but it is possible that group armies, such as those stationed in the Shenyang and Beijing Military Regions, which had been built up since the Cold War era may undergo reorganization.

No less noteworthy in this connection is the tendency of attaching a growing importance to the People's Armed Police Force (PAPF). In a political report delivered before the CPC National Congress in September 1997, Jiang Zemin stressed "we should continue to strengthen the Chinese People's Armed Police and the public and state security departments." Created in April 1983, PAPF has been put under the jurisdiction of the Ministry of Public Security, and is subordinate to CMC and the State Council. The PAPF has a broad missions ranging from maintaining security and social order (guarding important party and government buildings, and communications and transportation facilities, and protecting foreign diplomatic missions and key figures) to border patrol, defense of border regions, immigration control at ports, harbors and airports. In addition, PAPF performs the functions of fire fighting, traffic control, guarding hydroelectric power stations, and managing forests and gold mines. Under its headquarters, it maintains general units (equivalent to an army or division) at provincial level, task forces (a regiment or battalion) at municipality and prefecture levels, and companies at county level. In peacetime, they perform the functions which are in the middle of the people's police and

PLA units, and in wartime, their role is expanded to cover the duty of guarding battle fields and border areas.

As part of the troop reduction, 14 division-level combat units are expected to be consolidated into PAPF. This will enable PAPF to use highly trained units with heavy equipment flexibly as strategic reserve of PAPF. This will enhance counterinsurgency capability of PAPF in case of an emergency like the second Tiananmen Incident.

### **(3) Defense Modernization: Progress and Challenges**

The 500,000-troop cut started in 1998 is expected to help expedite the defense modernization from one based on quantity to one based on quality. In a report delivered by Li Peng before the National People's Congress in March 1998, defense modernization was characterized as "an important guarantee of our national security and modernization drive." In modernizing its defense, China attaches importance to building a regular-warfare capability primarily aimed at dealing with local wars in which nuclear and high-tech weapons are used frequently. With this in mind, China has been trying to modernize strategic nuclear missiles (replacing the older-generation intercontinental ballistic missiles and intermediate-range ballistic missiles with newer ones), improving facilities related to command, control, communications and information, and the strengthening of conventional forces by introducing new naval vessels and combat aircraft. In terms of operations, importance is attached to building the capability for fighting local wars, to strengthening the defense of interests at sea, including protection of sea lanes of communication, and to improving the efficiency of troops through strengthening instruction and training.

In the area of development and procurement of new weapons, a General Armament Department was established under CMC. It is believed that the department has superseded the Commission of Science, Technology and Industry for National Defense (which had

been responsible for the development, production and management of weapons under the direction of the State Council) and the Armament Department of the General Staff Department (which had been responsible for the procurement and acquisition of weapons). In coming years, the functions of developing, acquiring and managing equipment will be consolidated into the hands of the General Armament Department. Lt. Gen. Cao Gangchuan who had been minister of the Commission of Science, Technology and Industry for National Defense was promoted to general and appointed as director of the department.

Despite the fact that the Commission of Science, Technology and Industry for National Defense had belonged to the State Council, until recently it had also been put under the control of CMC. However, recent appointments suggest that the commission has been detached from CMC and reorganized as an organ of the State Council responsible for managing the defense industry. A civilian has replaced military officer as minister of the Commission of Science, Technology and Industry for National Defense and five of the six people appointed as vice ministers are civilians.

In China, the General Staff Department defines specifications of the performance of weapons it requests, the General Armament Department selects and decides on weapons that meet the specifications, and the defense industry under the jurisdiction of the Commission of Science, Technology and Industry for National Defense manufactures and delivers them to armed forces. Competition will be introduced into weapons procurement and it is interpreted to be a part of state-owned enterprise reform.

With the establishment of the General Armament Department, the central apparatus of PLA has changed into one consisting of four general departments that include, in addition to the General Armament Department, the General Staff Department, the General Logistics Department and the General Political Department. Thus the machinery, which executes the

headquarters functions of CMC as provided by the National Defense Law, has been completed.

In the area of modernization of weapons, for example, licensed production of Su-27 fighter aircraft by Shenyang Aircraft Co. is under way, and the first Su-27 fighter is expected to be rolled out in the near future. The navy has acquired three out of four Kilo-class submarines contracted for import. It is reported that China has contracted to purchase two Sovremenny-class destroyers and 12 Ka-28 helicopters and is building 7,000 ton-class destroyers in Dalian, but the actual situation is not clear. During the past year, the plan for slimming down the overall size of PLA, including the scrapping of outdated weapons, has made some headway. It has imported Russian-made 3M80E Mosquito long-range anti-ship missiles (SS-N-22) and has test fired air-to-air missiles that China has developed. However, no significant change in the size of PLA and its qualitative improvements has been recognized.

China has to contend with a number of limitations in its efforts to modernize equipment of PLA. First, it has limited funds available to finance its defense modernization. In a speech delivered at the National Institute of Defense Studies during his visit to Japan in February 1998, Chi Haotian, minister of national defense, stressed that "national defense construction serves the overall interest of the country's economic construction." This conforms with the data that show that while the defense spending officially announced by the Chinese government has increased by two-digit percentage points for 10 consecutive years, its ratio to the national budget has remained slightly less than 9 percent. This conforms with the claim China made during the 5th Japan-China security meeting held in December 1997 that "(China will) hold down its defense spending to about 1 percent of its gross domestic product." However, it is said that defense appropriations actually made by the Chinese government include, on top of the officially announced defense spending, other defense-related fiscal spending and earn-



ings made by the military through economic activities. As the involvement of the military in business activities has been restricted in recent years, one has to watch to see how rapidly the officially announced “defense spending” will increase in coming years. While the actual appropriations China makes in defense spending are not clear, it seems certain that China will be financially strapped to finance its defense modernization program.

The second limitation standing in the way of its defense modernization is the poor state of technology available for China. Except for certain areas, such as nuclear missiles, the military technology of China still is at a low level, and its system of research and development, and the scale of its production base are inadequate. When the sanctions imposed on China by the United States in the wake of the second Tiananmen Incident remained in place, China sought to import Russian weapons and technology in lieu of advanced Western military technology. For its part, Russia was not in a position to fully satisfy China’s appetite for high-tech military technology for reasons of its own.

The third limitation is the weakened system of weapons development and production that came about under the reform and opening-up policy. And as skilled workers have left in search of better wages and opportunities, weapons-industry companies have become weaker with the years. Worse yet, skilled personnel engaged in research and development projects are being drained away to private enterprises.

#### **(4) China’s Defense Exchanges**

So far, China has been actively promoting defense exchange with other countries. During his visit to the United States in the fall of 1997, Jiang Zemin agreed with President Clinton to conclude the Maritime Military Consultative Agreement (MMCA). When Clinton visited China in June 1998, the two countries agreed upon some items in the field of security. One of them was an agreement to detarget their respective countries’ nuclear weapons from each

other. As their nuclear missiles can be retargeted in a short time, this agreement has little more than symbolic significance. Nevertheless it marks a step forward in the sense that it has a bearing favorable for containing the danger brought about by the recent nuclear tests conducted in South Asia. In addition, the United States and China issued joint statements on “South Asia,” “Anti-personnel Landmines,” “Biological Weapons Convention” respectively.

However, where export of missile technology, which China has long been suspected of doing, is concerned, China merely said that it would study joining the Missile Technology Control Regime. In October 1997, U.S. Congress expressed concern about alleged flow of missile-guidance technology to China, but Motorola Inc. of the United States had employed a Chinese outfit to launch its satellites three times by May 1998. Given the seriousness of the situation, the United States and China are likely to spar with one another repeatedly over China’s joining MTCR in coming years.

Of all aspects of the U.S.-China relations, defense exchange has been most active. Thanks to the fact, their relations showed remarkable resilience in the face of tension that has erupted on repeated occasions between the two countries. In August 1998, USS Blue Ridge, the U.S. 7th Fleet command ship under the command of Vice Adm. Robart Natter made a port call to Qingdao, China. U.S. naval vessels continuously make port calls at Hong Kong as they had done before its reversion to China. Walter B. Slocombe, undersecretary of defense (policy), met with Lt. Gen. Xiong Guangkai, deputy chief of the General Staff of China, and they held first-ever U.S.-China Defense Consultative Talks in December 1997. When Defense Secretary William Cohen visited China in February 1998, the Maritime Military Consultative Agreement, which had been agreed to between the presidents of the two countries, was signed officially.

China has been pursuing an all-directions cooperative diplomacy and had arranged mutual visits of key military figures with

Russia and other member countries of the Commonwealth of Independent States 14 times so far. It sent eight military missions to 14 countries in Asia including India and Pakistan, among them were Lt. Gen. Liu Shun Yao, air force commander, who visited three Southeast Asian countries, and two missions to North Korea. It had received 17 groups of key military figures from nine Asian countries, including Pakistan. And toward the end of April 1998, Gen. Fu Quanyou, chief of the General Staff of PLA, visited India. In addition, China hosted port calls by U.K., German and Australian naval vessels.

With a view to dispelling the sense of “China threat” to regional peace, China has been seeking to build confidence of its neighbors in its defense policy.

##### **(5) Publication of Defense White Paper**

In July 1998, the Information Office of the State Council released a white paper, China’s National Defense. It is composed of five chapters “The International Security Situation,” “National Defense Policy,” “National Defense Construction,” “International Security Cooperation,” and “Arms Control and Disarmament,” respectively. Back in 1995, China published a white paper China: Arms Control and Disarmament of a similar character, but the latest one is of extreme significance in that its contents are far more substantial than the previous one and contribute to enhancing the transparency of the defense policy of China. Close to one half of the book is devoted to an explanation of activities for “national defense construction” — legislation regarding the military, defense spending and reductions of troops. Obviously, it reflects China’s efforts to dispel fears of “China threat,” which still simmer in the international community.

In passages describing international situation, the white paper echoes the traditional perception of its leadership, which considers “hegemonism” and “power politics” as factors of instability. Worthy of special mention is the fact that the white paper levels

scathing criticism against India and Pakistan for conducting nuclear tests.

In a chapter “National Defense Policy,” it outlines the progress achieved so far in implementing 500,000-troop cut and modernization of PLA, pursuant to the basic principles: “active defense” and “subordinating of national defense work to, and placing it in the service of, the nation’s overall economic construction.” It also stresses defensive nature of China’s defense policy.

In a chapter “National Defense Construction” to which the largest number of pages are devoted, the white paper states in unequivocal terms, it is to be noted, that the armed forces uphold the absolute leadership of CPC. Having stated that, it stipulates the roles and missions in national defense performed by: the National People’s Congress; president; the State Council; and the General Departments and the forces that comprises the armed forces of China, which are subordinate to CMC.

The defense expenditure is divided into three categories — personnel expenses (35.89 percent), those for maintenance of activities (32.66 percent) and those for equipment (31.45 percent). However, these figures represent appropriations made out of the officially released defense budget, and they do not cover defense-related appropriations made from other sources, and earnings made by the military with their economic activities. Therefore, the opaqueness of the actual defense spending still remains. As to troop cut, it gives the figures about how far each services have achieved it: 19 percent for the Army, 11.6 percent for the Navy, and 11 percent for the Air Force. However, subjects and procedure of the reduction are not clear.

Characteristics of PLA distinguishing itself from its counterparts of other countries are the roles it plays in national construction. The white paper covers six areas as civilian operations of PLA including the opening of PLA facilities to civilian uses, and supports rendered to key economic projects and to agriculture, explaining the scale of the activities and the results achieved. In a section

“Stationing a Garrison in Hong Kong,” the white paper characterizes it as “an important symbol of the Chinese government’s resumption of exercise of sovereignty over Hong Kong” and “an important guarantee for the preservation of state sovereignty and security and the maintenance of the Region’s long-term prosperity and stability.”

In a chapter “International Security Cooperation,” the white paper, in addition to the military exchange with other countries noted earlier, describes the active participation of the PLA contingents in the U.N. peacekeeping operations in three countries, including the U.N. Truce Supervision Organization in Palestine. In a chapter “Arms Control and Disarmament,” it stresses the active involvement of China in multilateral arms control and disarmament activities such as those related to the Chemical Weapons Convention.

#### **(6) Japan-China Defense Exchanges Gather Pace**

Since 1970s, there had been defense contacts of unofficial nature between Japan and China. Zhang Aiping, minister of national defense of China, made a visit to Japan, and the administrative vice minister of defense of Japan paid a return visit to China. It was followed by a visit to China made by Defense Minister Yuko Kurihara of Japan in 1987. However defense exchanges between the two countries were suspended on account of the second Tiananmen Incident in 1989. However, as the security environment had undergone a change in the wake of the end of the Cold War, a series of visits to China was made by leading defense figures of Japan (administrative vice minister of defense, chairman of the Joint Staff Council and president of the National Defense Academy) in the second half of the 1990s. In return, the chief of the General Staff of China stopped over in Japan on his return trip from the United States. In 1995, foreign and defense authorities of the two countries held a meeting and such a meeting has been regularly held at bureau director-general level.

In conversations the prime ministers of Japan and China had had during their mutual visits in the fall of 1997, they agreed to keep up security dialogue. In line with this agreement, the director of the Intelligence Department of the General Staff Department of China came to Japan in November 1997, and the director of the Defense Intelligence Headquarters of Japan visited China in January 1998. In February 1998, Chi Haotian made an official visit to Japan in his capacity as minister of national defense for the first time, and in May the same year Minister of Defense Fumio Kyuma visited China. During the interim, Gen. Yuji Fujinawa, chief of staff, Ground Self-Defense Force visited China in March. Research exchanges between the National Institute for Defense Studies (NIDS) of Japan and the National Defense University of China began with the visit to China by the vice president of NIDS in October 1997 and the visit to Japan by the deputy commandant of the National Defense University in January 1998. And these efforts to promote research exchanges have led to an official visit to the National Defense University of China by the president of NIDS in April the same year.

Factors at work behind the expansion of Japan-China defense exchanges are a change in China’s strategy toward Japan since the second half of 1997. The following developments conceivably prompted the change. First, thanks to the reversion of Hong Kong to China in 1997 and the success the Chinese leadership had achieved in pushing its agenda through the National People’s Congress, it was able to dispose of domestic problems smoothly. Second, the visit of Jiang Zemin to the United States had achieved certain positive results in dealing with the most important foreign policy task — improving China’s relations with the United States — and he had a summit with the President of Russia in November 1997, which paved the way for strengthening its ties with Russia. Third, the Chinese leadership rediscovered the importance of its relations with Japan in dealing with the Asian Economic Crises.

During his visit to Japan in February 1998, Chi Haotian,



**Chi Haotian, vice chairman of the Central Military Commission and minister of national defense of China, delivers a speech at NIDS of Japan (February 1998).**

minister of national defense, participated in various events — talks with Defense Minister Kyuma of Japan, a meeting with Prime Minister Hashimoto and Foreign Minister Keizo Obuchi, giving a lecture at NIDS entitled “the Defense Policy of China,” and tours of facilities of the Ground, Maritime, and Air Self-Defense Force.

On the other hand, Defense Minister Kyuma of Japan, when he visited China in May the same year, had talks with his counterpart Chi Haotian, Premier Zhu Rongji and Foreign Minister Tang Jiaxuan, and delivered a lecture on Japan’s defense policy at the National Defense University of China. In addition, he made a tour of a Jangwei-class missile frigate of the East Sea Fleet moored in Shanghai, the Air-Force Engineering Academy in Xian City and the Third Garrison Division in the suburb of Beijing, and observed a training exercise for its troops.

During their visits, the defense chiefs of the two countries agreed to carry out defense exchanges described below to promote confidence-building between the two countries: the intensification of mutual exchanges in different fields and at different levels — dialogue between the defense chiefs, vice-ministerial policy consultation, mutual visits by chairmen of the Joint Staff Council, research exchanges between NIDS of Japan and the National Defense University of China, exchanges of medical officers and students — and procedural coordination for carrying out mutual port calls by one another’s navy vessels.

The intensification of defense exchanges between the two countries had a special significance in a number of ways. First, it had removed the abnormal situation lacking defense exchanges for

**Chart 5. Military Leaders of China**

Organization	Position	Name	Rank
Central Military Commission	Vice Chairman	☆Zhang Wannian	General
	Vice Chairman	☆Chi Haotian	General
	Member	Fu Quanyou	General
	Member	Yu Yongbo	General
	Member	Wang Ke	General
	Member	Wang Ruilin	General
Commission for Discipline Inspection	Secretary	Zhou Ziyu	General
National Defense University	Commandant	Xing Shizhong	General
	Political Commissar	Wang Maorun	General
Academy of Military Sciences	Commandant	Liu Jingsong	General
	Political Commissar	Zhang Gong	General
Ministry of National Defense	Minister	Chi Haotian	General*
People’s Armed Police Force	Commander	Yang Guobing	General
	Political Commissar	Xu Yongqing	Lt. Gen.
General Staff Department	Chief of the General Staff	Fu Quanyou	General*
	Deputy Chief of General Staff	Kui Fulin	Lt. Gen.
	Deputy Chief of General Staff	Qian Shugen	Lt. Gen.
	Deputy Chief of General Staff		

Organization	Position	Name	Rank
General Political Department	Director	Yu Yongbo	General*
	Deputy Director	Wang Ruilin	General*
	Deputy Director	Zhou Ziyu	General*
	Deputy Director	Tang Tianpia	Lt. Gen.
General Logistics Department	Director	Wang Ke	General*
	Political Commissar	Zhou Kunren	Lt. Gen.
General Armament Department	Director	Cao Gangchuan	General
	Political Commissar	Li Jinai	Lt. Gen.
Second Artillery Corps	Commander	Yang Guoliang	General
	Political Commissar	Sui Mingtai	Lt. Gen.
The Navy	Commander	Shi Yunsheng	Lt. Gen.
	Political Commissar	Yang Huaqing	Lt. Gen.
The Air Force	Commander	Liu Shunyao	Lt. Gen.
	Political Commissar	Ding Wenchang	General
Beijing Military Region	Commander	Li Xinliang	General
	Political Commissar	Du Tiehuan	Lt. Gen.
Shenyang Military Region	Commander	Liang Guanglie	Lt. Gen.
	Political Commissar	Jiang Futang	Lt. Gen.
Nanjing Military Region	Commander	Chen Bingde	Lt. Gen.
	Political Commissar	Fang Zuqi	General
	Deputy Pol. Commissar	Lei Mingqiu	Lt. Gen.
Jinan Military Region	Commander	Qian Guoliang	Lt. Gen.
	Political Commissar	Xu Caihou	Lt. Gen.
Guangzhou Military Region	Commander	Tao Bojun	General
	Political Commissar	Liu Shutian	Lt. Gen.
Chengdu Military Region	Commander	Liao Xilong	Lt. Gen.
	Political Commissar	Zhang Zhijian	General
Lanzhou Military Region	Commander	Guo Boxiong	Lt. Gen.
	Political Commissar	Wen Zongren	Lt. Gen.
Xinjiang Military Region	Commander	Li Lianghui	Maj. Gen.
Weapons Industry Co. of China	President	Zhang Junjiu	

Notes: These are military leaders who were elected as members of the Central Committee for the 15th term at the 15th National Congress of CPC. Those marked with a ☆ are members of the Political Bureau of the CPC Central Committee, and those marked with an \* hold the position concurrently with other positions.

Sources: Compiled on the basis of the data from the relevant issues of the *Liberation Army Daily*, Radiopress, *Shunkan RP Chugoku Naigai Doko*.

more than a quarter of a century after the normalization of relations between Japan and China in spite of deepened political and economic relations between them. Second, it will help accelerate bilateral and multilateral defense exchanges among four countries — Japan, the United States, China and Russia — which share a heavy responsibility for the stability of the Asia-Pacific region. Meanwhile, Japan and the United States have retailored their security arrangements to suit the changed strategic environment after the end of the Cold War. Japan has arranged with Russia mutual visits by their defense chiefs and naval vessels. However, defense exchanges between Japan and China had been stalled, while China had frequent military contacts with those of the United States and Russia. With the start of defense exchanges between Japan and China, security dialogue and confidence building between the two countries are expected to gather pace in coming years.

#### 4. Taiwan at a Turning Point

##### (1) Sign of Change in China-Taiwan Relations

China's Taiwan policy changed in the fall of 1997. Its Taiwan policy is supposedly based on "peaceful unification" and "one country, two systems." The latter represents the form of state Taiwan will take after unification, and the former is the process to realize such a form of state. During the 1980s, China called on leaders of Taiwan to start direct talks for unification, but Taiwan refused to heed the call. As the years rolled on into the 1990s, the Association for Relations Across the Taiwan Straits (ARATS), a point of contact for China, and the Straits Exchange Foundation (SEF), its Taiwan counterpart, had been seeking to establish "indirect contacts" and start "technical talks" on the question of unification, and their efforts culminated in a top-level meeting between them in Singapore in April 1993. China's next objective was to put an end to the state of hostility and start political negotiations on "three direct links":

direct mail; shipping; and trade across the Taiwan Straits. In an “eight-point” proposal made public on January 30, 1995, Jiang Zemin spelled out these “three direct links,” but China-Taiwan relations have remained chilly since the third Taiwan Strait Crisis of March 1996. It appears that in one aspect by conducting a large-scale military exercise during the Taiwan Strait Crisis, China tried to pressure Taiwan into accepting its proposal to start “political negotiations.” And China dared to do it knowing that it would damage its relations with the United States and fan fears about “China threat.” However, as Taiwan remained firm, China changed its tactics. It attempted to create a sense of isolation on the part of Taiwan in 1997, when it repeatedly demanded that Japan and the United States remove the Taiwan Straits from the scope of their security cooperation “in situations in areas surrounding Japan” under the new Guidelines for Japan-U.S. Defense Cooperation.

A change in China’s policy toward Taiwan occurred immediately after the 15th National Congress of CPC in September 1997. Until then, China had been demanding Taiwan to accept the principle of “One China.” After the CPC National Congress, however, it made an about-face on its Taiwan policy and called on Taiwan to start discussions about “procedural affairs for political negotiations.” And the new call was timed to slightly precede Jiang Zemin’s visit to the United States in October–November 1997. It is thought that the overtures were aimed at giving Washington the impression that it was Taiwan, not China, which was dragging its feet in starting dialogue and at persuading the United States to use its influence to bring Taiwan to the negotiating table. As part of its campaign aimed at advertising the change in its Taiwan policy into a flexible one, Chairman Wang Daohan of ARATS stressed in a speech he delivered at an unofficial gathering in November 1997 the flexible approach China was taking by quoting a remark “a not yet unified China,” and “a China headed for unification.”

These new overtures were rebuffed by Taiwan, which, with a view to demonstrating the futility of China’s saber-rattling, had

consistently refused to make concessions to China since 1996 and which demanded resumption of the technical talks between ARATS and SEF unilaterally suspended by China. Meanwhile, Taiwan continued to put restrictions on making large investments in China under “strategy of patience over haste.” And Taiwan refused to compromise with China and has, since the outbreak of the Asian currency crisis, carried out summit diplomacy with Southeast Asian countries with which it has no diplomatic relations. Meanwhile, recognizing a change in the policy of China, Taiwan let it be known that it will not rule out the possibility of conducting discussions on political subjects with China concurrently with technical talks.

Taking a hint from such indications, ARATS invited Deputy Secretary General Jan Jyh-horng of SEF to Beijing in April 1998. However, ARATS characterized it not as the resumption of the technical talks but as a mere visit. It appears that the Chinese side was trying to separate “the resumption of contact” from “the resumption of talks,” with a view to making the former happen first and realizing the latter when the opportunity becomes ripe in favor of China. Even after China advertised with great fanfare the “three no” principle promised by Clinton during his visit to China in June 1998, Taiwan refused to budge. Then, China started using a new term “political dialogue.” This is not “discussion about procedural affairs for political talks” demanded by China nor “the resumption of technical talks” demanded by Taiwan. It is a mechanism for free dialogue unconnected with any of these frameworks.

In September, Taiwan changed its tune. Now it says that if “the institutional channel are restored” (meaning that if the “technical talks” are resumed), it is not “afraid of talking about anything, including political subjects.” But it did not say how soon the technical talks had to be “resumed.” It is thought that the strong support the United States gave to China-Taiwan talks has pressed Taiwan into making a last-ditch decision to go along with China’s proposal. In response, China invited Chairman Koo Chen-fu of SEF

to Shanghai and Beijing where he met Wang Daohan, Qian Qichen and Jiang Zemin. China unilaterally called the meeting “a political dialogue” while Taiwan likewise characterized it as “a constructive dialogue,” and their interpretations of the meeting reminded the world of the huge gap still existing in their approach to the question of unification. Despite the differences, they managed to hammer out a four-point agreement, including expanded exchanges between the two organizations, and SEF invited Wang Daohan to Taiwan. It is certain that China-Taiwan relations thus entered a new stage in the fall of 1998.

## **(2) The Post-Lee Teng-hui Presidential Race**

While China-Taiwan relations are changing, a race for the political leadership in post-Lee Teng-hui Taiwan has begun. As far as one can gather from an article added to the Constitution, “re-election” of President Lee Teng-hui (for a “third term”) is constitutional. However, Lee Teng-hui has denied his intention to run for the presidency again, at least for now. As a result, a race for the presidency among key politicians of the Kuomintang (KMT) has started. The most hopeful is Vice President Lien Chan but he lacks popular appeal. James C. Y. Soong, governor of Taiwan province, enjoys general popularity. However, because he is not a native of Taiwan and has aroused antagonism within KMT over the proposed slimming-down of the provincial government and legislature, his relations with Lee Teng-hui, Lien Chan and Vincent C. Siew, premier have worsened — with the result that chances of James C. Y. Soong being nominated for president are almost nil. Although Vincent C. Siew is popular among the people, his running for the presidency is, somehow, considered to be premature.

On the other hand, Chen Shui-bian, Mayor of Taipei and a leader of the opposition Democratic Progressive Party (DPP) who is immensely popular among the people, is likely to become a powerful contender for the presidency in the next election regardless of the outcome of the mayoral election of Taipei scheduled for

December 1998. In elections for magistracy of counties and mayorship of cities held in November 1997, KMT sustained a crushing defeat and the percentage of votes it got in the elections fell below that of DPP for the first time in its history. If James C. Y. Soong parts company with Lien Chan and Vincent C. Siew forcing KMT to run a split campaign, KMT may be forced out of power in the year 2000. If conversely Lien Chan, Vincent C. Siew and James C. Y. Soong are united against opposition candidates, KMT is highly likely to hold the reins of government continuously. However, some argue that as Lien Chan and James C. Y. Soong have a stronger tilt toward the old KMT ideology than Lee Teng-hui, a unity of these three leaders would dilute Lee Teng-hui’s “Taiwan priority line.” This raises the possibility of Lee Teng-hui running for a “third term” as a compromise to maintain the unity of the three leaders. Lee Teng-hui was re-elected as chairman of KMT at the 15th National Congress of KMT by 93.4 percent of the votes in August 1997. If he decides to run for the presidency, his election for a “third term” may not be entirely impossible.

Will Lee Teng-hui be elected as president for the “third term”? Can leaders of KMT work out an agreement to put up a single candidate? Or will they split KMT and let the opposition DPP run away with an election victory and take the reins of government? One can get a clue to these questions from the outcome of the simultaneous elections of members of the Legislative Yuan, mayors and members of the city councils of Taipei and Kaohsiung all scheduled for December 1998. An election victory of KMT candidate Ma Ying-jeon over incumbent Mayor Chen Shui-bian of Taipei in the mayoral election would put a damper on the spirit of DPP. And such a victory is expected to turn things in favor of Vice President Lien Chan who holds sway over the party organization even if KMT splits up. Conversely, if incumbent Mayor Chen Shui-bian of Taipei wins, KMT will have no chance of staying in power unless it maintain its unity against the opposition parties regardless of the presence or absence of the leadership of Lee Teng-hui. If

KMT loses a majority in the Legislative Yuan as a result of the forthcoming election, there will emerge the possibility of a coalition government.

International concern is focused on the outcome of the post-Lee Teng-hui presidential race because the birth of a DPP government advocating the independence of Taiwan could heighten the tension between China and Taiwan. Meanwhile, demand for independence has lately become less strident in Taiwan thanks to the progress in democratization. What is more, findings of various polls show that close to 80 percent of the inhabitants of Taiwan want to see the status quo maintained in the China-Taiwan relations. Aware of this trend, DPP has come to tone down its demand for the independence of Taiwan. Moreover, the Constitution has to be amended in order to win the independence of Taiwan. Even if a DPP government comes into being, it will be difficult to deliver enough votes to amend the Constitution. Therefore, one should not worry too much. However, the advent of a DPP government or a coalition government that includes DPP would compel China to revise its policy toward Taiwan, and affect U.S.-China relations.

The eyes of observers across the world were focused on the elections held in Taiwan on December 5, 1998. Although there was no particularly substantive issue in the election of the Legislative Yuan, KMT — which was able to fight a united campaign thanks to an increase in the number of seats of the Legislative Yuan that made adjustments of conflicting local interests easier — won a majority, and DPP increased its seats only marginally. In the mayoral election of Taipei, a large number of supporters of new parties deserted their candidates realizing they had no chance of winning and switched to Ma Ying-jeon of KMT. As a result, incumbent Mayor Chen Shui-bian who is highly popular among the natives of Taiwan and enjoys a high approval rating for his administration unexpectedly lost to Ma even though Chen garnered a larger percentage of voting than before. Chen's loss of public office has helped arouse sympathy for him, making him the most popular contender

of DPP for the next presidency. Now, attention is being focused on whether KMT will be able to present a united front against the opposition in the post-Lee Teng-hui presidential race.

### **(3) Progress in Defense Modernization**

Taiwan has changed its military strategy in step with the headway it made in democratizing its political process. According to the National Defense Report, Republic of China of fiscal 1998, Taiwan has adopted a strategic concept of “a strong defense posture and effective deterrence” designed to convince its potential enemies that the use of force against Taiwan does not pay. Taiwan has been making steady progress in modernizing its defense capability, with a goal of “automation, integration, adding missile forces and coordinated joint operations.” In July 1997, its government launched a program of troop reduction and simplification of organizational structure called “Armed Forces Restructuring Program,” which includes, among other things, a reduction of its personnel strength to 400,000. Pursuant to this program, Taiwan has been reorganizing the three services of its armed forces and introducing new weapons at a rapid pace. In the process, a number of corruption cases involving defense-related officials in connection with the introduction of weapons have come to light. And this has raised the necessity of making procurement procedures more transparent.

The Army is reorganizing its divisions into combined-arms brigades with greater firepower and mobility geared to meet tactical situations conceivable on the basis of topographical features of Taiwan — all with a view to repelling amphibious assaults on Taiwan. Lee Teng-hui has already inspected a mechanized infantry brigade (Hsinchu County) and an air mobile brigade (Taoyuan County), both of which were newly reorganized. In addition, Patriot PAC-2 missiles were deployed in the Taipei area in August 1998. That Taiwan has acquired a certain capability of intercepting ballistic missiles is worthy of note.

The Navy has been modernizing its equipment under the



“Kwang Hua Plan.” A total of six licensed Cheng-kung (Oliver Hazard Perry-class) frigates have already been commissioned, and an additional six Kang-ting-class (La Fayette-class) frigates have been commissioned by March 1998. In addition, a plan to build 30 new-type high-speed missile craft was adopted in December 1997, under which some of them have already been commissioned.

The Air Force has been introducing advanced mainstay fighters from the United States and France. As of March 1998, France has delivered 36 Mirage 2000-V fighter aircraft. Following the organization of a tactical fighter wing consisting of indigenous Ching-kuo fighters, a squadron of F-16 fighters was commissioned at the Chayi Air Base in October 1997, and a squadron of Mirage 2000-V fighters was commissioned in December the same year. All of them have been deployed. In November 1997, the U.S. Defense Department announced that it will provide Taiwan with technical assistance in a program of training pilots of, and maintaining, F-16 fighter aircraft, and in June 1998, it made public its plan to sell navigation and targeting pods for F-16 to Taiwan. In addition, Taiwan has been seeking, with the cooperation of the United States, to strengthen relationships with friendly nations (such as Paraguay) by exporting some of the improved F-5E fighter aircraft (which it planned to decommission soon) to them. It is reported that the Ministry of National Defense has started seriously considering joining the Theater Missile Defense program initially advocated mainly by opposition parties.

The government attaches importance to conducting military exercises on a continuing basis to maintain the morale and strength of the troops. In line with this thinking, the armed forces conducted in May 1998 a four-day joint exercise of the Army, the Navy and the Air Force designated the “Hankuang No.14” on the east coast of Taiwan. On the other hand, Taiwan lifted one-third of the emergency military measures it has put in place on Kinmen Island after the exchange of visits between deputy secretary generals of the Association for Relations Across the Taiwan Straits

(China) and the Straits Exchange Foundation (Taiwan). It suspended military exercises that coincided with the visit to China by Clinton and one made by Koo Chen-fu as a sign of goodwill to the United States and China.