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1. The dragon wags its tail, Dec. 4, 1988.

The Chinese like to say that some thing big" is bound to happen in the Year of the Dragon. Indeed, that year of the Chinese zodiac calendar 12 years ago, that is 1976, was studded with great happenings in China. In January 1976, Premier Zhou Enlai died, and in April Deng Xiaoping, then a vice premier, once again fell out of official graces in the aftermath of tumultuous riots at Tiananmen Square. The Great Tangshan Earthquake struck in July. Chairman Mao Zedong died in September, and the Gang of Four were arrested before the year was put.

True, this year the Dragon is tame by comparison, and nothing close to events of the magnitude that rocked China 12 years ago has struck yet. Rumbblings, however, are everywhere: skyrocketing inflation, bank runs, drought in the South, flooding in the North, and an M-8 earthquake in Yunnan that killed more than 1,000 people. A shroud of uncertainty has descended on China, and many Chinese are sensing an uneasy portent of the post-Deng era. Panicky buying by a populace haunted by runaway inflation has stopped price reform in its tracks. The Dengist reform and open-up" policy itself is now at the crossroads, its future not at all certain. 10 years of Dengism After being purged for the second time in 1976, Deng made a swift comeback from the political wilderness a year later and emerged as the mainstream at the crucial third plenum of the 11th Communist Party Central Committee in December 1978. After that, his reform and open-up" policy went full steam ahead, plunging boldly into the uncharted waters of China's socialism. As a matter of fact, the Deng line was meant to be a clean break with the Maoist legacy, a complete reversal of the erstwhile directed economy.

Deng kicked off his ambitious reform program from the agricultural sector, by scrapping the people's communes--the very symbol of Maoism--and introducing a contract system for peasants. This policy vastly boosted food production as peasants, unfettered by excessive state intervention under the

collective farming system, started to work hard for their own interest.

The growth in farm output, however, peaked in 1984. That year, China's grain production exceeded 400 million tons for the first time in its history. Yet for the next four years, while the population grew by 50 million, grain output was unable to match the 1984 level. At the level in 1984, China looked as if it might become a net food exporting nation. But by 1987, it was forced to import a net 8.9 million tons of grain from abroad. This year, China is also expected to show a similar shortages in its grain supply. Why this slump in grain production? Bad weather is certainly one reason, this year in particular. However, a more important reason is that these days Chinese peasants tend to stay away from grain crops, which do not yield as much profit as cash crops or other sideline occupations.

In fact, the area of land devoted to grain crops peaked in 1984, accounting for 79.3 percent of all farmland under cultivation in the country. In 1987, this ratio dropped 2.5 percentage points.

What made matters worse is the fact that grain peasants had found it difficult to obtain as much chemical fertilizer and insecticides as they needed to cope with the growth in output. The reason is that the supply of chemicals and other agricultural needs had been diverted to the more profitable cash crop peasants.

Limits of reform This obstacle to grain production is symbolic in one way of the limitations in agricultural reform as a whole. The abolition of the collectivised people's communes has certainly boosted the incentive of Chinese peasants to work hard and increase production. This clearly marks a success of the reform policy. The other, darker side of the coin is that such privatized farming has turned into a small-peasant economy."

Unless authorities can persuade the peasants to shift the cultivation of cash crops back to grain crops, there is not much room for further growth in grain output. As an incentive for peasants, however, the state must increase the price it pays for the purchase of grain, but this will result in an aggravation of the state's fiscal deficit or a greater financial burden on consumers. To Chinese policy-makers, this is a hard choice indeed. What about reform in the industrial and urban sectors? Reform in these areas did not start until 1984. In October of that year, the Party Central Committee adopted a resolution calling for the introduction of a commodity economy" in the cities.

At the heart of this reform of the economic system" lies the reformist policy to expand the autonomy of industrial and business enterprises. In the past, Chinese industrial managers had little power of their own; they were merely a cog in the entire government machine. They could not act on their own; everything had to be done under government decree. But vitality in industrial and business enterprises constitutes the very motive force for economic growth. The Chinese reformers sought to tackle the issue by granting a limited scope of freedom to industrial enterprises. Under this policy, managers were supposed to fulfill first of all a designated production target as determined by the state; for any output in excess of this level they were allowed to sell on their own at a price not more than 20 percent of the state-set price. This meant that state-run enterprises were free to expand output and

do their own business after they had filled the state-assigned requirements.

Two-headed monster

The trouble here is that, as in the case of other socialist economies, the Chinese economy is basically one of short supply. The 20 percent ceiling was broken as soon as it was set, and the upper price limit was left in tatters. In fact, the whole artificial price restriction was formally lifted half a year later, with state-run enterprises now allowed to sell products outside the state plan" at prices determined by the market. This was the origin of the two-tier price system: the planned price and the market price.

Problems promptly arose. Corrupt managers of the state-owned enterprises found that they could generate big profits by juggling the books. All they needed to do was to change the label of planned production" to non-planned production" and thus fetch a higher market price for their illegally labeled goods.

The result is that the market price has willy-nilly become the dominant price-setting mechanism for the whole Chinese economy. By one count, up to three-fourths of all commercial transactions in China are based on market prices: up to 40 to 50 percent in the raw materials trade, 50 to 60 percent in trade among local industries, and 100 percent among small farm businesses. Managers of industrial enterprises have thus plunged into the business of independent marketing even before they were allowed to engage in independent production. Here lies the fountainhead of corruption and a major source of the current economic malaise in China. This is a topic that will be addressed in detail in this space tomorrow.

2. Corruption in China, Dec. 5, 1988.

The Chinese bureaucracy has a big role in abusing the two-tier pricing in China. After all, it is inconceivable that some small-time black marketers alone could cause all the present mess in the Chinese economy.

When speculation touches the higher levels of government, it is a different story altogether. And corruption apparently is permeating the vast bureaucracy in a phenomenon dubbed in the official Chinese press as Guandao," or official speculation.

Senior bureaucrats have been charged with abusing their positions and openly colluding with racketeers to wreck the government's price system. There are charges in the media that they squeeze industrial and business enterprises and divert goods in short supply to the free market through well-organized rackets. Of course, many enterprises are just as ready to oblige.

This business of speculation," as two Xinhua news agency reporters, Qiu Yongsheng and Nie Xiaolin, outlined in a well-documented book published earlier this year, is eroding the Chinese economy from within. According to the Xinhua pair, corruption is running amuck, from small groups that involve just a handful of conspirators to big, well-connected operations. Some corrupt officials flaunt their power openly, others do it behind the scenes. As in a full-fledged distribution system, some

black market goods change hands from one level to another, all through backdoor connections.

Chinese characteristics

Such contradictions, of course, had been anticipated. It is a common enough phenomenon that state-regulated products may end up in the black market once the state relaxes control of the economy. What is peculiarly Chinese perhaps is the very volume of the state-regulated goods which has turned up in the black market. And this can only happen when the bureaucracy is corrupt, when bureaucrats openly abuse their power and work hand-in-hand with the racketeers. In this sense, the sweeping official corruption in China is the main culprit for causing the current messy state of the Chinese economy. The Chinese government has launched a crackdown on official corruption in the name of price inspection." Yet there is fear that the campaign might lead nowhere since a figure of considerable influence inside the central government is said to be protecting the guandao" apparatus.

While the two-tier price system has spawned widespread speculation in official circles, other factors too are at work in the current price spiral. A busy printing press

One of them is the currency printing press. For three years in a row, from 1985 through 1987, the amount of currency issued in China grew at a year-on-year pace of 24.7, 23.4 and 19.5 percent respectively.

Since China's gross national products (GNP) was growing at about 10 percent each year during that period, it is clear how excessive was the volume of currency issuance.

The question one would naturally ask is, why? One reason is that the People's

Bank of China, the central bank, is officially designed to bankroll the government's deficit.

In the nine years between 1979 and 1987 China's state finances were soaked in the red, financed through external borrowing and domestic government bonds. In the two years 1986-1987, the state deficit totaled approximately 50 billion yuan, more than 10 percent of the state revenues.

Another reason for the excessive money circulation in China was a sudden expansion of credit in business.

All major business transactions in that country are paid through the people's bank, where all companies keep their accounts. Suppose some products sold by one manufacturer turn out to be defective, it would take several months before the purchaser could obtain a refund once the payment is made to the bank. This compulsory banking system, which was fortunately changed recently, enabled manufacturers to amass substantial sums of money, at least temporarily, in their bank accounts.

Excessive money supply and excessive credit notwithstanding, the single biggest reason for the steep inflationary pressure in China today lies in the short supply of goods.

Having been granted their autonomy, industrial and business managers have all rushed to borrow money from banks to finance all sorts of investment projects. Thus, the economy overheats and prices rise as people scramble to buy cement and steel timber.

Inflexibility

Under normal circumstances, an increase in price would automatically trigger a n increase in supply. However, the Chinese economic system lacks such response flexibility and supply does not expand easily to benefit from the higher prices.

Demand, on the other hand, is structurally as rigid as supply. The reason for such rigidity is that demand in China concentrates in what is known as social collective consumption." That is to say, purchasing sprees are usually conducted in the name of companies, and when a company" feels it needs something it will go after that needs, whatever the price.

In this way, the shortage compounds itself, and inflation spreads like wild fire. The current inflation spiral, in fact, can be traced back to the economic boom that swept China since the fall of 1984. The seed of inflation under an overheated economy was never removed, and it sprang to life at the beginning of this year when the reformist camp pushed for price reform." This was immediately perceived by the masses as a policy for inflation, and they reacted accordingly.

Economic malaise politicized

Then inflation turned into an acute political issue when the people panicked and started pulling out savings from their banks and mobbing stores for consumer goods in a desperate attempt to beat rising prices. By now, the reformist leadership's hands were forced. They shelved the price reform program. Economic priorities were readjusted and sweeping measures were taken to tighten the economy.

Where does all this lead China? I think the squeeze is merely a stopgap policy, a sort of antipyretic aimed at cooling down the economic heat. It does not address the fundamental malaise.

For instance, the two-tier price system is still there. This means that the very structure that prompted price increases has remained intact. This structural deficit is bound to haunt the Chinese leadership sooner or later.

Further more, since the Chinese credit-supply system has grown in complexity in recent years, it is doubtful whether a credit squeeze can work as it did in the past when chain of command was clear and easy to control. Maybe the Chinese economy has developed to the stage where policy planners have to grope their way through trial and error while living as best they can with the specter of inflation.

Zhao lies low

How does this economic malaise affect politics, then? Zhao Ziyang, the party general secretary and champion of the reformist camp, has certainly suffered a big blow wuth the shelving of the reform program. Indeed, there is speculation that Zhao might go the same way as Hu Yaobang and lose the party general secretary's post after losing his influence over economic policy.

I don't agree. Zhao, in my view, has learned his lesson from Hu's failure. To be sure, his economic policy is now in a shambles, but Zhao has not cut his own channel of communication to the party elders in the conservative camp. Moreover, he has also tightened his grip on his post as first vice chairman of the military commission both in the party and the state, the very source of power in China. Anyway, since the Chinese Communist Party these days is supposed to stay away from government

administration, Zhao has handed over the management of the economy to Li Peng and Yao Yilin, both members of the Politburo standing committee, so that he can, at least for the time being concentrate on party affairs. Once the economy turns around, Zhao can step forward and hoist his reform banner once more.

Deng bites bullet

On the other hand, Deng Xiaoping, China's current top leader, must have bitten the bullet over the Hu Yaobang affair. If he dismiss Zhao as he once got rid of Hu, the whole Deng fortress might start to crumble. Then, the only epithet he will get from future historians is that he made a mess of China.

The choice for Deng, therefore, are limited. He is, in a way, reduced to backing his own hand-picked party chief. Li Peng, the premier, is still young and does not seem to have the fire, nor the power, to challenge Zhao.

3. Chronology of China turmoil , June 25,1989.

Deng Xiaoping, the man who once fell victim to Mao Zedong's Cultural Revolution, is trying to launch a new cultural revolution" of his own in the last years of his life. Just as Mao did in his own disastrous attempt, Deng has twice dumped the very people--first Hu Yaobang and now Zhao Ziyang--he personally picked as his own successor.

Deng, again like Mao in his late years, may still be the supreme ruler of China. When he disappears from the scene, however, the policy represented by Hu and Zhao is bound to make a comeback. That is the trend of history.

Deng, China's last emperor," unleashed a massacre in the name of protecting the one-party dictatorship of the Communist Party and saving the socialist system" in China. What he tried to save, was not socialism, but the illusion of it, and along with it the vested interests and privileges of a gerontocracy.

The turmoil that swept China over the past month was marked by several distinctive stages. The following is chronology of events that started with a faulty judgment which eventually led to the massacre at Tiananmen Square on June 4. The first obvious misjudgment came on April 24.

On that day Li Ximing, the party boss of Beijing, submitted a report to the top party leadership in which he branded the unfolding student unrest a conspiracy organized and planned for two years to create turmoil aimed at negating the leadership of the Communist Party and negating the socialist system." Li's report was approved by the Politburo standing committee in a meeting held that night.

Though not a member of the highest decision-making Politburo standing committee, Yang Shangkun, the state president, was present at the meeting. At 10 a.m. on the following day, Yang and Li Peng met with Deng and gave him a report on the Politburo

deliberations. It was based on this report that Deng made his April 25 speech." The order he gave was: Oppose and stop the turmoil with a clear stand." He also howled there and then:

Don't be afraid of international consequences." As Deng saw it, the turmoil was taking place because the party had fail to do a through job in the 1983 campaign against spiritual contamination (called off by Hu Yaobang) and the 1987 campaign against bourgeois liberalism (terminated by Zhao). On April 26, the People's Daily published its turmoil" editorial on the basis of the speech Deng delivered the previous day. The Politburo man in charge of overseeing the publication of the editorial was Hu Qili, a member of the Politburo standing committee. The article itself was penned by Xu Weicheng, deputy secretary of the Beijing municipal party committee and the ideologue of the conservative camp. With that, the peaceful student petitions and demonstrations were treated as turmoil" and later escalated into a full-fledged riot."

On May 3, Zhao delivered a speech on behalf of the party leadership to mark the 70th anniversary of the May 4 movement. That speech was drafted by Hu Sheng, president of the China Academy of Social Sciences, and approved by the Politburo. The conservatives pointed out that the speech should contain a reference to opposition to bourgeois liberalism" but Zhao rejected it. Also, Zhao proposed at a Politburo standing committee meeting held on May 3 to scrap the turmoil" editorial. He was voted down four to one. At 10 a.m. on May 4, Zhao met with the foreign delegates who were in Beijing to attend the general meeting of the Asian Development Bank.

It was at this meeting that Zhao issued his appeal to resolve problems through channels of democracy and lawcoolly, rationally, with a spirit of restraint, and in an orderly manner." This Zhao speech was drafted by Bao Tong, Zhao's political secretary. On May 8, the party leadership held a preparatory meeting to pave the way for an enlarged Politburo conference. It was at this preparatory meeting that the Beijing party committee tabled seven documents, including one that refuted Zhao's May 4 speech with an argument based on the turmoil" editorial.

On May 10, an enlarged Politburo conference was held. Participants included provincial-level delegates. Zhao tabled five motions, including one that once again called for the turmoil" editorial. Zhao, however, had only one supporter: Wan Li, chairman of the National People's Congress(NPC). On that afternoon, Wan convened a meeting of the NPC presidium, which decided to call the NPC standing committee into session on June 20.

On May 13, student protesters began a hunger strike in Tiananmen Square that lasted until May 19. On May 17, the Politburo standing committee decided to uphold the turmoil"

editorial. Hu Qili wavered at first but in the end sided with Zhao. After the meeting was adjourned, Zhao asked for an exclusive meeting with Deng. The meeting never materialized. Late on that night, Deng met with all five members of the Politburo standing committee, plus Li Xiannian and Yang Shangkun.

The occasion was as if the Politburo standing committee had resumed its meeting with three party elders--Deng, Yang and Li--in attendance. The meeting saw a clash between Zhao and Li Peng: Zhao stuck to his position and Li once again refuted him. The meeting then took a vote in the presence of Deng. Yang and Li Xiannian joined in the vote and the result was five to two, with Zhao and Hu Qili in the minority.

Before the meeting was concluded, Deng expressed his support for the majority view. It was now dawn on May 18, and Zhao went to the hospital to visit the student hunger strikers. On the same morning the Politburo standing committee met again and the question of military control was raised.

Zhao expressed his desire to resign, on grounds of ill health, and gave Yang a letter he had written to Deng. Said Yang: We are now facing a powerful enemy. The party center must stand together in order to put the turmoil. Your letter cannot be delivered." Added Li Peng: If you resign now, you are splitting the party center." On the early morning of May 19, Zhao went to Tiananmen Square to urge the student protesters to call off their hunger strike. The students set 9 p.m. as the time to stop their fast. That day, it was said that Deng flew to Wuhan, held an enlarged meeting of the Central Military Commission and set up the Second Commanding Center." But the rumor turned out to be false. That night in Beijing, a meeting of senior cadres of the party, the government and the military was held.

On the same night, Li Peng and his family moved to Zhongnanhai's Building 202 and joined up with Yang Shangkun, Wang Zhen and Yao Yilin. Zhao, meanwhile, was put under house arrest under Wang's orders. At 10 a.m. on May 20, martial law was promulgated in Beijing.

The three principal members of the Martial Law Enforcement Command were: Zhou Yibing, commander of the Beijing military region, Liu Huaqing, deputy secretary-general of the Central Military Commission, and Chen Xitong, Mayor of Beijing.

On May 21, the leading group in charge of central party propaganda work headed by Hu Qili and Rui Xingwen was disbanded and a Martial Law Ideological Leadership Group" was set up under the control of Li Peng. Wang Renzhi was made head of the new group, with Yuan Mu serving as his deputy. Three other members of the group here He Dongchang, Zeng Jianhui and Li Zhijian.

The office was located inside Zhongnanhai's Central Security Bureau. Deng is supposed

to be holed up at the Xishan military camp on the western outskirts of Beijing. On May 24, an urgent enlarged meeting of the Central Military Commission was called into session, and there Yang Shangkun outlined Zhao's crimes.

4 . China's policy will collapse June 26,1989.

The party hardliners faced their biggest challenge in the crackdown on the pro democracy student movement. Martial law troops were blocked by demonstrators and could not move. Also, dissent began to emerge on the hardliners' case against Zhao Ziyang. There were signs that their verdict would not be accepted by the whole Party Central Committee. That Deng Xiaoping was increasingly distressed by a possible defeat was the immediate cause of the Tiananmen tragedy.

The hardliners had concocted a three-stage theory to pin the blame on Zhao. They alleged that the nonviolent student sit-in at Tiananmen Square marked the preparatory stage of turmoil masterminded by the Zhao group. Hence, they jumped to the conclusion that they could substantiate their charge against Zhao if they could trump up charges of turmoil, or at least show that the sit-in protests at Tiananmen Square would lead to turmoil.

The madness of the indiscriminate shooting probably reflected the utter exasperation Deng at the situation in which he found himself. The People's Liberation Army fired at its own people, killing at least 2,600 (according to a Chinese Red Cross Society estimate). This tragedy has left a huge stain on the history of the People's Republic. The massacre has been fiercely condemned by the entire world. In China, the people reacted violently, and hatred filled the nation's heart.

Yet the executioners went unpunished. Indeed, most of them were treated like heroes. This shows the party has become totally blind to public opinion and how the interest of a dictatorship is alienated from the public interest. China has been under Communist rule for 40 years and the total corruption of power is now laid bare in broad daylight. After the bloody suppression, the hardliners once again launched a crackdown to put down all resistance, through strong-arm tactics and the politics of intimidation.

Public opinion, whether from the world outside or from the people at home, was totally ignored. What the hardliners cared about was only one thing: the perpetuation of Communist rule, by force if necessary. The situation in China may appear too complicated to understand easily. The basic issue, however, is simple: The demand for democracy put forth by students and citizens was crushed by tanks.

Where will China go from now?

In the short run, the hardline leadership will probably try to restore a semblance of social order. The democracy movement, however, will be thoroughly crushed. Economically,

the austerity policy will no longer hold. The whole economy itself may contract. Trade will shrink and investments will, at least for the time being, dry up. What the hardliners have done is to temporarily reverse a world trend.

This is apparent from the evidence that has become manifest both inside and outside China. The political turmoil, to begin with, has testified to the solid strength of the popular demand for democracy in China. For the first time ever under Communist rule, the people have dared to speak up and demand democracy and more freedom.

Deng and his gerontocratic colleagues ordered the bloody crackdown in the name of keeping the supremacy of the Communist Party. The result is deepened doubt on one-party rule and growing disillusion with the socialist system itself. In one single blow, the Chinese government swept away the trust and confidence it had built up with the people over years.

The democratic movement in China bears close similarity to the moves in the Soviet Union and Eastern Europe as well as the democratic movements that have swept through Taiwan, South Korea, Burma and the Philippines. With the end of the Cold War, it is only natural that the domestic demand for democracy should rise. China alone cannot hold back this tide.

Also, China cannot accomplish its modernization goal through economic cooperation with the Soviet Union alone. If China decides to halt such cooperation with the West and tip toward the Eastern bloc, the economic gap it has with Taiwan and Hong Kong is bound to widen further. How will the situation develop in the future? So long as the pressure for reform and opening up remains, it will be futile for the hardliners to try to turn back the clock of history.

Once social order returns, the reform policy will make a comeback, whatever the new Chinese leadership may think. As I see it, the objective forces for change are deep-rooted in China. It is, of course, difficult to predict what will happen to China once Deng departs from the scene. Perhaps Zhao will make a political comeback, as Deng did in the past. Perhaps not Zhao in person, but certainly the Zhao line.

The John Acton dictum found on a placard which some Chinese journalists carried during a demonstration before the June 4 massacre sums up the whole situation in China today: "Absolute power corrupts absolutely." Whatever the case, the Beijing winter is likely to be brief. The day of collapse for the hardline policy in China, it seems to me, will not be that far way.

5. After China's Turmoil, November 27, 1989.

Five months after the bloodshed in Tiananmen Square, the political situation in China has somewhat stabilized. But the return to normal is taking more time than expected. The Chinese authorities were,

for instance, unable to lift martial law in Beijing as the nation celebrated the 40th anniversary of the founding of the People's Republic on Oct. 1. Nor did they feel secure enough afterward to do so. It was one whole month after the National Day that the government pulled the troops out of the main streets of Beijing and replaced them with armed police. Still, there was no declaration of an end to martial law. It appears as if martial law is no longer an emergency instrument to forestall the possible resurgence of massive demonstrations. Rather, martial law has become a policy instrument for the Chinese leadership to prop up the tottering socialist system through raw power.

Toward the end of September, the Chinese authorities already began to stress that things were back to normal and called on the West to resume extending fresh loans and boost investments in China. These calls have so far largely fallen on deaf ears. Both the World Bank and the Japanese government are still taking a wait-and-see approach. While both are concerned about the aggravating economic conditions in China, they are reluctant to provide immediate relief because of the harsh reprisals the Chinese authorities took in the wake of the Tiananmen Square incident. It was against this background that the Chinese Communist Party convened two key meetings--a working conference of the politburo from Oct. 30 to Nov. 3, and the 5th plenum of the 13th central committee from Nov. 6-9. The central committee endorsed a two-year retrenchment policy to further consolidate the economy and deepen reforms." Prior to these two meetings the Chinese authorities had repeatedly insisted that the plenum was being held to address economic issues and that it had nothing to do with a leadership reshuffle. In the end came the announcement that Deng Xiaoping had retired.

What does this Deng retirement drama signify? Mao Zedong hung on to the chairmanship of the party and the Central Military Commission until his death. Deng seems to have learned his lessons from political upheavals in post-Mao China and decided that he should retire before he dies. Yet there is no telling whether his intentions will come true, until we see the dawn of a true post-Deng era in Beijing. On May 31, just five days before the military crackdown in Tiananmen Square, Deng was said to have summoned Premier Li Peng and Vice Premier Yao Yilin, both members of the politburo standing committee, and gave them a series of guidelines in selecting a successor to Zhao Ziyang, the disgraced party general secretary.

The choice must be made, Deng said, with due regard to public sentiment and not under the spur of emotions. He told them that the new party leadership must rally behind Jiang Zemin. He promised to go into retirement and not interfere with the leadership if the new group of leaders under Jiang could establish itself. Deng asked Li and Yao to relay these instructions to the new leadership group, noting that they should regard this message as his political testament.

In a sense, that Jiang was to become the new party general secretary was already decided there and then. Li was the hardline leader who promulgated martial law and Yao was Li's political mentor. Deng was making it plain to both men that Li was not to become the new party general secretary because "public sentiment" would not tolerate Li's involvement in the military crash down, and that he was

giving the job to Jiang in a two-step seniority jump" for the party secretary from Shanghai.

Furthermore, what is significant in that session Deng had with Li and Yao was his stated determination to retire if the third generation" of leaders under Jiang would establish their public prestige. It was therefore clear that by late May Deng had already decided to confront the students and name Jiang the new party general secretary, an event which came three weeks before Jiang's promotion was formalized at the fourth central committee plenum held June 23-24. On June 16, that is a week before the fourth plenum, Deng summoned the entire top party leadership and told them what he had already told Yao and Li. Those who showed up at the June 16 meeting were:

--Yang Shangkun, politburo member, state president and vice chairman of the Central Military Commission,

--Wan Li, politburo member and chairman of the standing committee of the National People's Congress,

--Jiang Zemin, politburo member and party secretary of Shanghai,

--Li Peng, member of the politburo of standing committee and premier,

--Qiao Shi, member of the politburo of standing committee,

--Yao Yilin, member of the politburo of standing committee, and vice-premier,

--Song Ping, politburo member and director of the party's Central Organization Department,

--Li Ruihuan, politburo member and party secretary of Tianjin.

This actually became the list of the six members of the politburo standing committee elected at the fourth central committee plenum, plus the state president and the National People's Congress chairman. The whole new leadership lineup was decided upon at the June 16 meeting. The approval at the June 23-24 party plenum was a mere formality.

Deng also delivered a homily to the new leadership at the June 16 meeting. The following are key passages, as recorded in my book, *China Crisis Juyo Bunken*"(*China Crisis: Important Documents*"): Every situation has to be considered by weighting one factor another. All things considered,(the party general secretary post) should go to him(Jiang)." As I told Comrades Li Peng and Yao Yilin, once the new leadership gets started, I won't open my mouth and I won't get in the way of what you people do. This represents a hanging over my political duties. Naturally, if you come to see me on business, I won't keep you out but it won't be on the same basis as in the past." It is bad for the country and bad for the party if my role becomes too big. It would be very dangerous one day. What the China policymaker in America are watching for now is, when I will become ill and when I will die. Many other countries are also basing their China policy on my health. I have been aware of this matter for many years. It is extremely unhealthy to put the fate of a whole nation on the prestige of one or two individuals. This is extremely dangerous. It is all right if nothing happens. If something happens, there won't be a way out."

6 . Deng's retirement no surprise, Nov. 28, 1989.

There is clear evidence that the fourth central committee plenum held in Beijing June 23-24 was convened merely to endorse the Chinese Communist Party politburo decision regarding the leadership reshuffle in the wake of the Tiananmen Square incident. Deng Xiaoping, China's supreme leader, had spoken on the issue of succession a week before the plenum, and testimonies given by some party central committee members who attended the plenum reinforced the linkage.

The two most significant points Deng made on June 16 to the top party leadership were: 1) a new party leadership under Jiang Zemin, and

2) his own retirement. At that point, Deng was holding only two major leadership posts: chairman of the party's Central Military Commission. Deng's retirement can only mean one thing: relinquishing the two chairmanships. There was, therefore, only one logical conclusion to be drawn from Deng's June 16 speech.

That is, he will yield the two military commission chairmanships to party secretary-general. Deng has already relinquished the party's military commission chairmanship at the fifth central committee plenum on Nov. 6-9 and, given the Chinese Communists' iron-clad rule that the party controls the military, it is just a matter of time before the formal transfer of the State Central Military Commission chairmanship from Deng to Jiang.

Indeed, Deng had already made his intention to retire clear as early as May 31 in a meeting with Premier Li Peng and Vice Premier Yao Yilin, both members of the politburo standing committee. Deng's retirement announcement at the fifth plenum, therefore, was just a reiteration of what he had already said on these two former occasions. There was no surprise," as some reports had it.

But it is a totally different matter how the Deng retirement proposal was taken up at the politburo conference that preceded the party plenum. There must have been some resistance among the politburo members. There are at least two reasons.

One is Jiang's military background, or rather the lack of it. Hu Yaobang, the late party chief, was a participant in the Long March and yet he was not allowed to get a foothold on the Central Military Commission. Zhao Ziyang got into the military commission in the newly created position as senior vice chairman but never made it to the top. Compared with his two immediate predecessors, Jiang had virtually no military background to speak of.

Therefore, one can only surmise that a lot of persuasion must have taken place before Jiang was accepted as chairman of the Central Military Commission. The other obstacle is the Yang brothers. After the Tiananmen Square incident, the Central Military Commission practically fell into the hands of Yang Shangkun and his brother Yang Baibing, the political commissar of the People's Liberation Army.

In fact, Yang Baibing was the de facto commander of the martial law forces, and in his capacity as

head of the PLA General Political Department, his involvement in the drafting of the martial law declaration and other key martial law proclamations was plain. Since the army was ordered out to deal with unarmed demonstrators, it was a job tailored for the PLA political commissar. Neither the PLA general staff nor the PLA general logistics department--the other two pillars of the Chinese military structure--got a hand in the affair.

Throughout the entire military crackdown, the two Yang brothers and the military hardliners shared their fate, not with Jiang Zemin, but with Li Peng. Hence, it is only logical for the Yang brothers to press for some kind of reward for the party they played in the military suppression. By promoting Yang Shangkun to senior vice chairman of the Central Military Commission and appointing his brother as secretary-general of the commission as well as a member of the party secretariat, a balance of sorts was struck in giving the commission chairmanship to Jiang, the champion of moderation.

To the Yang brothers, the Jiang chairmanship of the military commission is no more than a puppet regime. To the moderates, however, that represents civilian control" over the hardline military leadership.

Another point of significance that has become apparent in the leadership reshuffle is the politburo list itself. Along with Zhao, Hu Qili also was purged from the politburo, and Hu Yaobang died. That created three vacancies, and they have been left unfilled. This situation apparently stems from a shrewd decision by Deng to forestall a potentially bruising battle between the moderates and hardliners to fill the two slots.

Again, the speech Deng made on June 16 was a harbinger of the politburo vacancies. Said he: We must avoid rocking the boat over the question of responsibility. Let's discuss this matter two or three years from now." In other words, comrades, no squabble now.

Why? The reason is obvious: If the matter of responsibility is pursued, Deng would naturally be held responsible for bringing Zhao to the top party leadership. Besides, Wan Li and Qin Jiwei, the defense minister and a member of the politburo, maintained a moderate stance throughout the Tiananmen Square incident, and they too might be implicated.

If that was allowed to happen, they will surely speak up and fight back. The upshot would be a complete split in the Chinese Communist Party between hardliners and moderates. This is a crisis which Deng sought to avoid by appealing to unity and solidarity, by shifting the party's attention to rebuilding the nation's shattered economy.

There had been speculation that two conservative ideologues--Hu Qiaomu, a former politburo member, and Deng Liqun, a former member of the party secretariat--might be appointed to the politburo.

Both men are over 70. Their appointment would have run counter to the party's pledge to get younger blood into the leadership. There were also reports that the reformist camp had wanted to name Ye Xuanping the party secretary of Guangdong Province, and Wang Zhaoguo, the party secretary of Fujian Province, to the politburo. Deng might have decided to hold off their bid lest their membership

in the politburo disturb the delicate power balance in the top party leadership.

In short, the latest power reshuffle had only one aim: to keep top leadership changes to a minimum, in order to smooth the way for Deng's formal retirement. It was now the Chinese Communist Party positioned itself for the post-Deng era. But with the masses disenchanted, a power struggle looming within the party and China isolated in the world, the Jiang regime faces a stormy ride ahead, both in its search for political stability and economic recovery.

The transition in post-Deng China is confusing indeed. By way of contrast, East European countries like Poland, Hungary and East Germany have made surprising strides in reform since the Tiananmen Square incident. The need for reform and the conditions for realizing it are the same in China as in Eastern Europe.

But the Chinese authorities chose a different response, and the result was the loss of many young people's lives and the loss of international support for the government. The future of China, measured at least in midterm prospects, is tied to three major conditions: a smooth post-Deng transition, the shape of the party's power struggle to following a two-to-three-year truce, and the outcome of the newly initiated economic retrenchment program.

7. The grip on China's market, The Japan Times, Monday, April 16, 1990.

The Chinese economy, in the doldrums since 1988, is showing few signs of recovery. The power struggle between the conservative and the reformist camps continues unabated, and the leadership in Beijing appears baffled over how to turn the tumbling economy around. In a policy speech to the National People's Congress last month, for instance, Premier Li Peng made a patently ambivalent remark that the government would ease the economy under a basically tight fiscal and financial policy."

In retrospect, the beginning of the long and persistent stagnation of the Chinese economy can be dated from the third plenum of the 13th party Central Committee held in September 1988.

The price reform proposed by the authorities in spring of that year touched off runaway inflation as the public tried to hoard consumer goods and manufacturers withheld their products from the market. By summer, the economic turmoil had spread to the banking system with a bank run as panicky depositors tried withdraw all their savings.

As a result, the government was forced to abandon price reform and tightened the reins on the economy. By the autumn of 1988, a sense of crisis dominated both the reformist and the conservative camps: The reformists were alarmed by the imminent collapse of their reform program, and the conservatives by the possibility of excessive zeal in reforms, which they thought would threaten Communist Party rule in China.

The conservatives, however, gained the upper hand six months after the government

squeeze on the economy. When the NPC went into session in spring last year, Li Peng delivered a policy speech signaling the intention of the party leadership to scrap the reformist program of focusing China's economic development in coastal areas. That was a project promoted personally by then Party General Secretary Zhao Ziyang, and the dispute over the coastal development policy brought the antagonism between the conservative and reformist camps into the open.

As the economic crisis gathered momentum, a pro-democracy campaign sprang up in Beijing. At first, the movement centered among students and intellectuals, but with the sudden death of Hu Yaobang, it swept the whole country like a prairie fire until it was brought to a sudden halt by the military.

In short, China has been swept from one crisis to another over the past two years: First, a crisis in economic reform precipitated the rise of a pro-democracy campaign that was primarily designed to force a breakthrough in the impasse. Suppression of this pro-democracy campaign triggered a crisis in domestic politics, and this in turn put China in diplomatic isolation from the world. The resulting internal and external crises, in turn, aggravated China's economic woes. It was a case of kinetic effect in political and economic crises, reinforced by the tumultuous changes that were sweeping the Soviet Union and Eastern Europe.

China's external crisis itself contained two dimensions. One was condemnation by the West, which led to the imposition of economic sanctions and a halt in economic cooperation. More serious, in the eyes of the Chinese leadership, were the changes in the Soviet Union and Eastern Europe. At first, the Chinese leaders tried to ignore the democracy movement in Eastern Europe. At one point, official spokesmen in Beijing even suggested that Soviet leader Mikhail Gorbachev was on his way out, taking perestroika with him. Without perestroika, the Chinese reasoned, the democratic movement in Eastern Europe too would fizzle. Such wishful thinking in China was dashed when Gorbachev consolidated his power and was made the first president of the Soviet Union. The leaders in Beijing are desperate to withstand the relentless shock waves from Europe.

Their choice of action is limited. If the Chinese leaders learned any lesson from the past confrontation with Moscow, it should be clear to them that it is no longer feasible to launch an all-out polemic battle against revisionism." Perestroika was branded in China as the Kremlin's capitulation to capitalism," but the argument is hardly convincing because there is little difference between perestroika and Deng Xiaoping's own open-door policy. What is worse, deterioration of bilateral ties would raise tension on the Sino-Soviet border, and this in turn will jeopardize China's own economy.

Domestically, too, the hands of Chinese leaders are tied. First, the leadership faces the daunting political task of regaining the public trust in authority, which was severely compromised as a result of the Tiananmen Square events. Second, China has to cope with an economy that has been battered by inflation and unemployment. Beyond such a short-term, cyclical economic malaise, the Chinese have to address a more fundamental question: how to deepen "economic reform. This involves long-term, structural issues such as how to contain China's population explosion and develop natural resources.

These economic problems have intensified the power struggle between the conservative and reformist camps over policy. On Nov. 3, the authoritative Economic Daily published a commentary in support of the government's belt-tightening policy under the title "Don't forget the lesson of history--is financial retrenchment really a transitional measure?" This unsigned article clearly reflects the conservative Yao Yilin-Li Peng line. What sort of historical lesson" did the Chinese conservative leaders have in mind? To answer this, the Economic Daily commentary cited what it described as "halfhearted" economic retrenchment policies carried out in 1985 and 1987 and called for a more sustained retrenchment policy to fight inflation.

The fact that belt-tightening as advocated by the conservative camp does not have as its goal smoothing out economic cycles was made clear in another Economic Daily commentary published three days later. Under the title "Persist in integrating planned economy and market adjustment mechanism," the article was an exemplary example of the argument for tightening control of the planned economy. The article says it is not enough to divide the economy into separate spheres for command-type planning, guidance-type planning, and the market mechanism. It is necessary, it continues, to 1) augment the sphere and weight" of command-type planning, 2) take effective measures to promote guidance-type planning, and 3) strengthen the guidance of economic activities regulated by the market mechanism. These arguments clearly show that tightening control of the economy gave the conservative camp the necessary opening to reinforce centralized power and re-impose economic planning.

The wishes of the conservative camp, however, did not sit well with local authorities and business enterprises, which had gained new power and economic benefits from the reform program. As the central government tightened its grip on the economy, local authorities and business enterprises made incessant complaints to Beijing about a shortage of operational funds in enterprises, a decline in output caused by a shortage of operational capital, sagging sales, declining profits, and an increase in the number of money-losing businesses. According to a People's Daily article published on Oct. 27 last year, Li Peng had admitted to these problems at a nationwide conference on production. Every time I

see local leaders, they always come up with the same requests: more projects, more investment, more funds," Li reportedly told the conference, noting that he had turned down an investment project presented by the municipal authorities during a visit to Baotou in Inner Mongolia.

That was the picture presented by the central economic planners in Beijing. However, when seen from the perspective of business managers and local authorities, the picture was entirely different.

In fact, enterprises and local authorities had already faced a severe capital crunch and a falling market in the autumn of 1989. The Chinese press was full of reports about so-called three-way loans, multilateral loans and tied-up loans. For instance, a certain company A indebted to company B could not repay its loan because of funds tied up in credits extended to company C. According to the Nov. 23 overseas edition of the People's Daily, the central bank decided in mid-November to extend 100 billion yuan in loans within the year to cover such debts. The weakness of the consumer market even hit south China's Guangdong province, the showcase and standard-bearer of China's economic reform and open-door policy and home to the Shenzhen and Zhuhai special economic zones. According to the *Nanfang Daily*, the official newspaper of the Guangdong Provincial Party Committee, the local economy began to tumble in the third quarter of 1989. The newspaper reported on Nov. 22 that retail sales of consumer goods in September fell below the same month of the previous year. Actually, the aggregate volume of sales in the first nine months of 1989 registered negative growth if the amount is adjusted for inflation. This is something that had never happened before in the province, the newspaper lamented.

In Shanghai, the local party newspaper, the *Jiefang Daily*, made a similar observation in an article published on the same day as the *Nanfang Daily's*. "We must avoid new mistakes in the process of rectifying the economy and to this end we should soften the weight and direction of macroeconomic controls," the newspaper said, with the observation that if consumers would have nothing to consume without production, it is also true the other way around: without consumption, there would be no production." In fact, prior to this article the *Jiefang Daily* also featured a series of articles detailing the stagnation in the local economy, noting that small businesses in Shanghai had piled up 1.7 billion yuan worth of unsold goods.

If the two Economic Daily commentaries reflected the thinking of the central government, the series of articles carried by the *Nanfang Daily* and *Jiefang Daily* surely spoke for local authorities in their demand for relaxing the government's iron-fisted control of the economy.

8. Blows to Communist China, *The Japan Times*, April 17, 1990.

It was in the midst of a media proxy war between local and central authorities that the Chinese Communist Party summoned the Central Committee into a plenary session from Nov. 6-9, 1989. According to the *Jingji Daobao* weekly, among the draft resolutions prepared by the State Planning Commission and submitted to the Central Committee for approval was a proposal for two contract systems, one spelling out the contractual obligations of enterprises on the payment of profits to the state and the other outlining the obligations of local authorities to hand over part of their revenues to the state.

To the conservatives, torchbearers of the faith in central economic planning, these two contract systems had been a pain because the power of the central government to manipulate the economy through macroeconomics policies would be diluted if enterprises and local authorities managed to increase their share of the profits. To enterprises and local authorities, on the other hand, divestment of authority to the localities would invigorate the economy by giving greater incentive to production.

There was a heated debate on the pros and cons of the two contract systems, and in the end the conservatives and reformists struck a compromise deal: In return for maintaining the two systems, the reformist agreed to increase the share of enterprise profit and local authority revenues to the state. As *Jingji Daobao* observed in an article on Nov. 6, both the conservatives and reformists got something of what they wanted: an increase in revenues for the central government and divestiture of power for the local authorities.

However, the compromise also indicated that the plenary session of the party Central Committee last November, while seen outwardly as the peak of government control over the economy, actually was a watershed in the policy shift from economic entrenchment to relaxation.

This watershed was also reflected in the price movement, with the pressure of inflation loosening its grip by the end of last year. A look at the inflationary trend over the last five years should make this clear:

1985 — 8.8 percent
1986 — 6.0 percent
1987 — 7.3 percent
1988 — 18.5 percent
1989 — 17.8 percent.

Although still double-digit, the average inflation rate in 1989 fell 0.7 percentage point from 1988, the year which set off the motion which eventually led to the Tiananmen Square troubles. The pattern becomes clearer if we look at the monthly figures. After the year-on-year inflation rate in consumer prices hit 20 percent in August 1988, it continued at the 20-percent level for the 11 months up to June 1989. It declined to 10 percent in the three months from July to September and became single-digit

from October onward.

On the other hand, unemployment became more and more severe as the economy contracted. Observed the Jan. 12 edition of *Economic Daily*: The unemployment rate in the cities has been rising since 1989. More and more enterprises are going out of business, and more workers are losing their jobs. It appears that the unemployment rate in the cities will exceed 4 percent in 1990, and rise further in 1991. The question of unemployment must not be taken lightly."

According to the State Statistics Bureau (as reported by the *People's Daily* on Feb. 21), the employed workforce in China totaled 137.4 million people as of the end of last year. A 4 percent unemployment rate would translate into a jobless figure, of course, is defined in the most narrow sense of unemployment. The figure would rise enormously if the numbers of partially employed and potentially unemployed were included. This hidden unemployment situation in the cities is aggravated by the influx of the so-called *liudong*"(mobile) population. These are the people, mostly peasants, who have moved into the cities without official permission to look for employment as temporary factory workers, housemaids, construction workers or manual transport workers. According to China News Service, the mobile population in China has reached 50 million. This means that one out of every 20 people throughout the country is taking part in this great population movement," the news agency said.

According to a report published by Shanghai's *Jiefang Daily* on Oct. 18, 1988, the 23 big cities in China with populations of more than 1 million have a combined mobile population of more than 10 million, including 1.83 million in Shanghai, 1.15 million in Beijing, and 1.1 million in Guangzhou. In another article published on March 26 last year, *Jiefang* said 15 million of such temporary workers throughout the country became the first lay-off targets because of the government squeeze on the economy.

The problem of mobile population, severe though it already is, becomes more serious when the people from the poor hinterland start pouring into the cities with no specific purposes. These vagrants, or *mangliu*" (blind mobile population) in Chinese, became an enormous headache to the authorities in Guangdong Province when 2.5 million such people flocked into Guangzhou around the Lunar New Year of last year. The influx means that the city, usually with a population of 5 million, suddenly had to feed an extra 2.5 million people. All in all, as inflation is abating in China, the central authorities are easing the clampdown on the economy. However, this does not mean that the health of the Chinese economy has returned to the pre-retrenchment days. The reason is that the changes wrought during the 18 months of economic clampdown have left a huge mark on the Chinese socioeconomic fabric. The aftermath is deep and widespread, and its effect on the nation corrosive.

The biggest problem is the crisis of confidence. The skepticism and doubt of socialism harbored by the Chinese people toward the end of the Maoist era seem to have become more widespread and more serious as the Deng era too draws to a close. The popular myth toward the People's Liberation Army has vanished once and for all with the Tiananmen Square military suppression, and this carries a

decisive meaning in China's body politic.

As measured by GNP per capita, the Chinese economy is no doubt that of a developing nation. But China is no ordinary Third World nation. It is a developing nation with a great past, a country left with a great civilization as well as a dilapidated natural environment. The traditional social values and a world outlook (centered on Chinese philosophy) have been reinforced and expanded in collusion with communist ideology. China is retrogressive when we see how the creative energy of Chinese youth has been bound and suppressed. Like a dying last emperor, the reign of old men in Beijing is symptomatic of the problems faced by China today. Across the border of this gerontocratically ruled and faltering nation there rages unrelentingly the storm of reform, its shock wave hitting the one-party rule in China a deep body blow.

9. Tiananmen haunts Beijing--June 4, 1990, *The Japan Times*

It is just one year since the military suppression of pro-democracy demonstrators at Tiananmen Square in Beijing. The aftereffects are deeper than what the Chinese authorities expected at the time. The aftershock continues: Witness recent reports about the Hong Kong bureau chief of the Xinhua news agency, Xu Jiatusun, seeking asylum in the United States." Xu's political status is higher than that of an ambassador to the United States or the Soviet Union. All the graver is the incident then.

Deng Xiaoping (then chairman of the Central Military Commission), ordered the suppression of the pro-democracy movement without fearing a deterioration of China's image in the international community. It is difficult to believe, however, that he had expected the aftereffects to be so great and serious.

Take China's internal conditions. Economic growth was 3.9 percent last year, a very low figure given the fact that China achieved an annual growth of about 10 percent on average over the past 40 years. The situation has not improved this year. In the first quarter, the volume of industrial production showed no growth at all. Unemployment has increased with the jobless, real and latent, in the rural regions blindly flowing to the cities, raising fears of social unrest.

Prices rose 6.0 percent in 1986, 7.3 percent in 1987, and 17.8 percent in 1989. Prices shot up mainly in the first half of the year. There is now the problem of overkill"(excessive tightening). To be sure, there has been actual financial relaxation. There was an emergency financing of 100 billion yuan in January 1990, which helped enterprises in their account settlements. There was an additional injection of 24.6 billion yuan in March to help enterprises for the first quarter of 1990. Lending rates were also lowered. But industrial production was still slowly.

Inflation has basically stopped, but it has not been completely overcome. The inflation hedge aimed at holding down excessive purchasing power has increased to 700 billion

yuan. The government fears the burden of interest on savings, while it is concerned at the same time that withdrawals of the money might turn into purchasing power and re-ignite inflation. Battling the China-type stagflation --inflation at the front and unemployment in the rear--demands the greatest care and skill.

Even more serious is the pressure of democratization from Eastern Europe and the Soviet Union. Demonstrations before the Chinese Embassy in East Berlin preceded the crumbling of the Berlin Wall. By criticizing the bloodshed at Tiananmen Square, the citizens of East Germany indirectly criticized their own country's undemocratic regime. It can be said that Tiananmen Square triggered the fall of the Berlin Wall. The circumstances are similar in Hungary. Like it or not, the Tiananmen Square incident reminded the Hungarian people their own rising and bloodshed in 1956 and served as a negative example" to prevent a repeat of the bloodshed.

Thus, the shock caused by the Tiananmen Square crackdown provided an opportunity for peaceful change in both Eastern Europe and the Soviet Union. China, the countries of Eastern Europe and the Soviet Union share common tasks of economic and political reform. Yet China and neighboring Asian socialist countries chose a direction contrary to the global tide.

The pressure came not only from the East but from the countries of the West, too, in the form of economic sanctions or the cessation of economic cooperation. Despite the Japanese government's efforts, voices calling for continued sanctions against China remain strong. On May 13, U.S. President George Bush signed a declaration making Tiananmen Square Incident Memorial Day." The most-favored-nation status for China was narrowly renewed. The case of Chinese astrophysicist Fang Lizhi and his wife, still in asylum in and under protection of the U.S. Embassy in Beijing, remains unresolved.

The world's shock at the Tiananmen Square incident was all the greater because television news cameras caught the army's shooting of unarmed citizens. This raised the question of human rights. The Chinese authorities control news reporting at home. They tried to do the same with the Western news media, which hit back hard.

What should not be overlooked is that the value of the China card has dropped. Both the United States and the Soviet Union smiled at China while the Washington-Moskow cold war was going on. This led to overrating of China's international position and people talked about the U.S.-China-Soviet triangular relationship." But with the U.S. and the Soviet Union now cooperating and trying to become friendlier, China's position is inevitably declining to one more befitting of its stature.

The Chinese leaders are losing their grip. Their leadership is declining, notably that of Deng Xiaoping, who will be 86 on Aug. 22. It is reported that he works only two hours a

day in his office at home. He has resigned as chairman of the State Central Military Commission and from all other official posts. His influence is declining.

Deng's authority also declined with the failure of his having chosen Hu Yaobang and Zhao Ziyang as his successors. As a result, he had to respect the wishes of the senior conservatives Chen Yun and Li Xiannian and accept Jiang Zemin as party chief. Jiang is close to both Chen and Li. Jiang feared he would be tripped up if he pursued reforms and an opening-up policy as vigorously as Hu and Zhao had done. So he carefully watched the elders and conducted himself as if he were walking on thin ice. Obviously he is not standing firmly on his feet.

There is also the question of the power balance among the standing member of the Central Committee's Political Bureau. Three posts still have not been filled one year after Tiananmen Square--those of ousted Zhao Ziyang and Hu Qili, and Hu Yaobang who died. Only Jiang Zemin, Li Ruihuan and Song Ping have been promoted to standing membership. The Politoburo as a whole has not been changed, presumably because such change might destroy the balance. The six standing members are much the same, and Jiang Zemin cannot demonstrate his leadership. Li Peng and his supporter, Yao Yilin, have longer careers than Jiang at the center of power. The two have plenty of close connections. Jiang cannot demonstrate his leadership even if he wishes to do so.

10. One year after Tiananmen, June 5,1990.

The biggest personal question in China's ruling circle at present is whether or not to dismiss Premier Li Peng. Personal changes were frozen at both the plenary session of the Central Committee (March 9-12) and the National People's Congress (March 20-April 4) under the instruction of Deng Xiaoping that stability must come first.

Li's neck was saved for two reasons. One was retirement with honor" than outright dismissal. Promoting" him honorary post such as chairman of the Standing Committee of the National People's Congress and chairman of the People's Political Consultative Conference is being suggested. Firing him would be tantamount to the party Central Committee itself admitting that the military crackdown at Tiananmen Square was a mistake. It would also damage Deng Xiaoping, who ordered the suppression.

Another question is who is to succeed Li Peng if he is relieved of the premier-ship. A number of names have been mentioned: Li Ruihuan, standing committee member of the Political Bureau; Zhurongji, mayor of Shanghai; Zou Jiahua, minister heading the State Planning Commission; and Song Jian, minister in charge of the State Science and Technology Commission.

As a Standing Committee member of the Political Bureau, Li Ruihuan has the best chance

of becoming premier, for he is closest to that post. But Zhu Rongji also has a chance, given his link to Jiang Zemin, who was formerly Shanghai mayor. So has Zou Jiahua, who is actually doing the work of vice premier as head of the State Planning Commission. And so is the stock of Song Jian, a technocrat and expert in cybernetics, rising. How long will Li Peng be able to hang on to his post? The longest is until the 14th party congress in 1992(the term of the present seventh National People's Congress is 1988-92). The sooner his dismissal the better it will be for the people. He has stained his hands, and there is obviously a limit to how much his public image can be improved.

While personnel changes have been frozen outwardly, there is already an intensive power struggle for the post-Deng period. The following four are the key players: Gen. Yang Baibing, director of the People's Liberation Army General Political Department, member of the Central Committee Secretariat; Li Peng, Premier, Political Bureau Standing Committee member; Jiang Zemin, party general secretary, Political Bureau Standing Committee member, former Shanghai mayor; and Li Ruihuan, Political Bureau Standing Committee member in charge of propaganda, former mayor of Tianjin.

Among the four, in the eye of the typhoon, so to speak, is Gen. Yang who initiated the "Lei Feng Spirit" movement. His group of ideologues within the army are using the momentum provided by the Tiananmen Square crackdown and moving ahead recklessly. Lei Feng (1940-1962) was a simple and honest soldier taken as a model of dedication to public service above self. The Lei Feng movement was launched on the eve of the Cultural Revolution.

Shanghai Nanjing Road 8th Company has been added recently as a new model. The army's ideological sector declined in influence as the Deng Xiaoping leadership pursued reforms and an opening policy. Frustrations grew. Modernization of arms was given priority, not ideological education.

The turn of the General Political Department came with Tiananmen Square. The General Political Department, and not the military command, tackled the job of suppressing the unarmed students and citizens.

Party chief Jiang Zemin applied the brakes on the Lei Feng movement. He visited the industrial cities of Changchun, Daqing and Harbin from Feb. 23 to March 1. At the Daqing oil fields, he stressed the importance of the role of enterprises and workers in China's modernization and proposed a study of the "Daqing spirit"(March 3 issue of People's Daily).

The March 5 issue of the same paper said the Liberation Army, too, should study the Daqing spirit. However, the Liberation Daily ignored this instruction personally given by the party chief. This was quite a serious matter. Let's look at another instance supporting

reports that Jiang Zemin and Yang Baibing are at odds. The party head invited a group of Beijing University students for a discussion. According to the March 24 issue of People's Daily, only the Daqing spirit was discussed. The Lei Feng spirit was ignored.

As reports of the discord between Gen. Yang and the party head circulated, Premier Li Peng visited the Nanjing Road 8th Company on April 18. This was a strange move. Li needed to change his image and project a higher profile, yet he visited a unit symbolizing the conservative forces in the army that had spearheaded the criticism of Deng Xiaoping revisionism. This visit can be interpreted as symbolizing a request for Gen. Yang's support by the premier, who was under growing pressure from the Jiang Zemin and Li Ruihuan forces.

Li Ruihuan has become noticeably active recently. According to People's Daily, he criticized the Lei Feng campaign at a meeting with domestic reporters on April 28. He said Lei Feng spirit should be propagated but only when it is linked to the realities. He said public service above self is fine but labor should be suitably rewarded. Li said the effect will certainly not be good if the new conditions resulting from 10 years of reform are ignored and backs turned on what is permissible under present policy.

Two days later, People's Daily quoted Li as saying he approved of the leaders learning from Jiao Yulu (1922-64), a county party secretary in Henan Province. He said the "Jiao Yulu spirit" will be more effective in remedying the defects of some of the present leaders. In other words, Li Ruihuan brought up a county secretary against soldier Lei Feng and forged a joint operation with Jiang Zemin. Also of great interest is the debate between Li Ruihuan and Wan Li on the one hand and Li Peng on the other. On March 23, Li Peng joined the debate of the Beijing delegation to the National People's Congress. On the following day, Wan Li also joined the debate and asked the delegation whether they had raised the problem of Beijing's water shortages with the premier. It is said that Wan Li is a protector of Li Ruihuan. Wan Li indicated that the water shortage is more serious than the power shortage and indirectly criticized Li Peng and Li Ximing, both experts on electric power. Li Ruihuan is known widely for solving Tianjin water shortage.

Wan Li implied admiration for Li Ruihuan. Deng Xiaoping's younger daughter supported Wan Li's remark by saying that the water shortage is more serious than the energy shortage in Hebei (*People's Daily*, April 3). The Deng family and Wan Li apparently are close, and Li Ruihuan is also in the group.

The Tianjin group centered on Li Ruihuan showed flexibility by boldly making Hu Qili, former Tianjin city party committee secretary and mayor, attend the National People's Congress. But this had the effect of creating friction between the Tianjin delegation and those responsible for the suppression at Tiananmen Square.

Li Ruihuan, who is in charge of ideology, dug into his resources and issued Chen Yun's old statement (of July 17, 1987) on the first anniversary of the death of Hu Yaobang. He brought out Chen Yun's name to calm the suppressors and justified Hu Qili's attendance at the NPC by using Chen Yun's argument that the opinion of the minority should be recognized.

Back to the big four players who are now splitting into two forces. The situation could erupt under the following conditions: after Deng Xiaoping is gone, a major natural disaster or very bad crops, unrest accompanying rising unemployment, a rebellion by minority peoples (the fire has already been lit in Xinjiang Uygur autonomous region), or mounting tension between the mainland and Taiwan.

The realities one year after the Tiananmen Square crackdown are indeed harsh. The Japan Times, Tuesday, June 5, 1990.

China will protect Hong Kong, Special to The Japan Times, July 1, 1997

With pomp and fanfare Hong Kong' was handed over to China on July 1. To the Chinese, the handover means that Hong Kong has finally returned to the motherland.

It is as if a foster child sent away by a poor parent (China) to a rich one (Britain) after a tragedy (the Opium Wars) grew up and became even richer than the adoptive father and returned to his biological mother.

According to the 1996 statistics, Hong Kong's per capita gross domestic product was more than \$24,000, compared with Britain's \$19,000. But China is still a poor country; its effective purchasing power in dollar terms is puny. In terms of GDP, however, China is already a major economy.

The people of Hong Kong probably have mixed feelings. While feeling proud of being Chinese, they worry that the political and economic gaps between Hong Kong and Beijing might create problems in the future.

Chris Patten, Hong Kong's last governor tried hard during his five-year stint to secure his place in history. He seemed afraid, and with good reason, that he might be reduced to a lame duck unless he put in a good performance.

Patten was appointed to the post five years ago by then British Prime Minister John Major, whose Conservative Party lost to the Labor Party in May's parliamentary elections. It was Major's "sympathy appointment" of a colleague who had lost his own seat in the 1992 election while leading the Conservatives to victory as a party chairman.

However, Patten's attempts almost invariably failed. Now he is about to leave history's center stage like a clown, exiting after a brief appearance. Instead of playing a leading role in the handover drama, he failed to stage-manage an honorable exit. He made a big mistake in reading the current of history. The Channel Four predicted a similar disaster for Patten in a June 22, documentary "Frontline Hong

Kong"(broadcast by NHK satellite TV Dec.11.1996). The critical program, I believe, reflected Britain's enlightened public opinion.

The narrator made this comment: "There is no turning back the clock on Hong Kong's transfer. Those who know China believe London should reach a decent settlement with Beijing rather than take a confrontational approach." But Patten -- a "brash Westminster politician" -- changed everything.

In the words of one commentator, Chris Patten, armed with the withering combination of ignorance and arrogance," demanded a complete reversion of the 1984 Sino-British agreement on Hong Kong's return to Chinese sovereignty.

The coordinator, quoting from a closing remark in "Myself a Mandarin," by Austin Coates, said Downing Street seemed unaware of the implications of the demand and expressed doubt over Major's wisdom in appointing Patten as the last governor of Hong Kong.

It is unclear how London's handing of the handover issue affected the Conservatives' defeat in election. There seems to be no question, however, that confrontation between Britain and China over the issues did not have a positive effect on the voting.

Coates writes that the belief that Westerners or the West as a whole can change China is a fantasy, and that a Westerners visiting that nation-no matter how powerful they are-can do little more than "add a grain of salt to seawater," for "China, like the sea, is adamant and of unchanging substance."

In the case of Patten, according to the narrator, trouble began because he believed, "naively or arrogantly, or with the best of intentions," that he could change the course of events. Patten, invited to make a comment, made a sour face and whispered adamant.

Post-handover Hong Kong comes under the "one country, two systems" arrangement. This is taken to mean that Hong Kong' capitalist economy and China's socialist economy will coexist --across barbed wires-within the single framework of Chinese sovereignty.

This arrangement, or the scheme for maintaining a high degree of autonomy in Hong Kong as a free port, was first proposed by Deng Xiaoping about a decade ago. Prospects for China's free-market reform were clouded at the time, but after a period of 'trial and error the outlook now seems promising. As things stand, China's economy is likely to expand rapidly at least in the next one or two decades as it moves toward greater liberalization. There is little ground to fear that socialist China will sap the vitality of capitalist Hong Kong or kill the goose that lays golden eggs. A Hong Kong without prosperity is just a slum of 6 million unemployed. China would have nothing to gain from such a city. It is assuring that the Chinese leadership under President Jiang Zemin is doing everything it can to ensure the continued prosperity of this vibrant capitalist economy. Travel between Hong Kong and the rest of China, separated by barbed wire, will continue to require visas. Hong Kong will have an independent justice system and its own monetary unit, the Hong Kong dollar. Key officials of Hong Kong's civil service, from Anson Chan on down, will remain in their post under the first chief executive, Tung Chee-hwa. No doubt Beijing intends to maintain administrative stability and

continuity in the former British colony.

As long as these measures are firmly maintained, as seems likely, Hong Kong will remain a world financial center. It is unlikely to be reduced to a local market. In all likelihood, it will continue to function, even under Chinese sovereignty, as a hub of international finance along with other money centers such as New York, London, Tokyo and Singapore.

Hong Kong was once Britain's beachhead in Southeast Asia. Post reversion Hong Kong, however, will be China's southern gateway to the Association of Southeast Asian Nations and to the West.

Economic interdependence between Hong Kong and the Chinese mainland has deepened and broadened remarkably since Beijing adopted a market-oriented policy of reform and openness. Some fear that the Hong Kong economy might be absorbed into the vast Chinese economy. The fact is, the mainland economy is becoming more like Hong Kong, or, more market-oriented.

China, which, has already received nearly \$180 billion in direct foreign investment, is using this enormous capital as the catalyst for further market reforms. Hong Kong accounts for 60 percent of the foreign capital. Indeed, Hong Kong capital is giving the most powerful thrust to Beijing's drive for free-market reform. The barbed wire between Hong Kong and the rest of China symbolizes merely a distance between a developed economy (Hong Kong) and a developing economy (Chinese mainland). That is what the "one country, two systems" is all about. The message of the handover is that the relationship between Hong Kong and continental China is no longer as incompatible as water and oil.

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