

The Economist

A SURVEY OF CHINA

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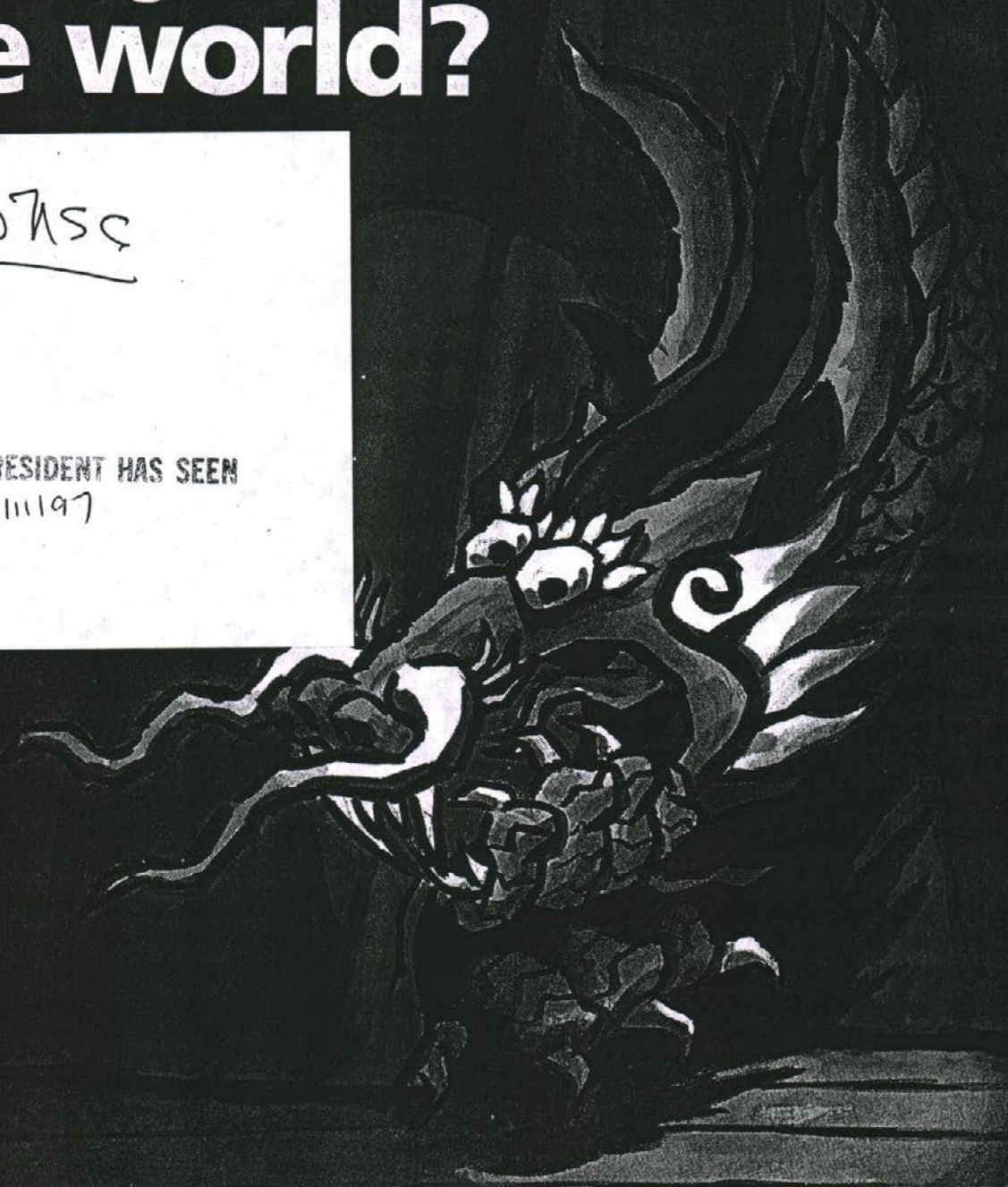


Ready to face the world?

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THE PRESIDENT HAS SEEN

6/11/97



the square. In his book on Tiananmen*, James Miles, a BBC reporter, points out just how many people were closely touched by the killings in Beijing on June 3rd and 4th 1989: "Let us say, very conservatively, that 5,000 civilians were killed or injured that night. If that figure is then multiplied by the number of close relatives and friends, the population profoundly affected by what happened

*The Legacy of Tiananmen: China in Disarray, by James Miles. University of Wisconsin Press, 1996

is already substantial. Add the hundreds of people arrested in Beijing and their friends and relatives as well as the tens of thousands of people... who were out on the streets trying to stop the troops coming in, and the figure is huge."

It is said that revolutions occur when rising expectations are dashed. Deng Xiaoping understood this, which is why, after Tiananmen, he urged that economic development be sped up, not slowed down. That postponed the dashing of expectations for a while. But not necessarily for good.



In search of satisfaction

CHINA faces challenges that a casual observer, looking at the department stores along Shanghai's Nanjing Road, might take too lightly. Its population of 1.2 billion equals that of America, Europe and Russia combined. Up to 310m of that number are now reckoned to live below the international poverty line. China's environmental problems are horrendous. The number of suspended particles in the air is up to ten times higher than what the World Health Organisation deems acceptable. Lung disease accounts for one-quarter of all deaths. In north China, giant water schemes are being devised to bring supplies for farming from central China. One medium-sized city on the north China plateau has announced that it intends to move, lock, stock and barrel, 40km (25 miles) north because its groundwater has become too polluted to live with.

Other projects on an imperial scale are now under way. The Three Gorges Dam being built on the middle reaches of the Yangzi River will create a lake 600 kilometres long, calling for the resettlement of more than 1m people. Another huge dam is being built further north on the Yellow River. The problems such schemes are designed to ease—grain supply, flood control and irrigation—are supposed to be the preoccupations of China's rulers. But consider just a few of the other things the government also has to do. At home, it needs to balance the competing demands of the regions, centralise and get a grip on the tax system, and clean up the mess in the state-enterprise system without creating an army of dispossessed workers.

On the international stage, it has to ensure a smooth transition in Hong Kong. It has yet to become a full member of a world trading order for which it remains ill-equipped. It has to convince America, Japan and its neighbours that it is not bent on expansion, whilst keeping a lid on nationalist pressures within its own borders. And it has to talk Taiwan into believing that the mainland is a nice place to come home to.

Vertically challenged

The structure of the government that has to deal with these challenges is stunningly inadequate. As Mr Lieberthal of the University of Wisconsin puts it, China has many organisations, but no institutions. Co-operation across organisations, and often even within them, is rare. A journalist visiting various subdivisions of the same government department is struck by how few of his colleagues a bureaucrat

knows. Formal lines of communication stretch only vertically through each organisation, and so to the top of the country.

It is at the top that the structure is least adequate of all. Power wielded there is intensely personal, and impervious, indeed hostile, to representations from those outside the structure. The power elite is inscrutable, and accountable only to those within that small peer group. Certainly, there is a Communist *esprit de corps*; talk about the end of ideology in China is exaggerated. But mechanisms for transferring power at the very top simply do not exist.

These uncertainties will be reflected at this autumn's 15th party congress, which will attempt to set the course of China's leadership for the next five years. Deng Xiaoping, even had he lived, would have been too frail to play any part in it. It has been clear for a while that this will be the first congress to lack a super-authority of the stature of a Mao or a Deng who can settle disputes between the party's factions.

So Deng's chosen successor, Jiang Zemin, a man who may be said to have risen to power without trace, will have to establish a robust claim to continue as head of party and state. Li Peng, the dour and unpopular prime minister, will have to stand down from his premiership, having served his term, but will not go quietly. He may look for some other position holding real rather than symbolic power, possibly the state presidency. Yet that means Mr Jiang would have to surrender something from his own package. Others will be coming up behind.

It is possible, though unlikely, that if Mr Jiang establishes his authority, he will push through a widespread liberalisation of China's political system. More likely, though, Mr Jiang may consider that since vision has played little part in bringing him to power, it should not have much of a role in shaping his future either.

In the absence of political reform, America's relations with China may sour. Ever since the Tiananmen massacre, America has shown impatience and disappointment with the Chinese regime. Some members of Congress now threaten to link the renewal of China's most-favoured-nation trade status to the way it behaves in Hong Kong after the handover. But such threats betray an unrealistic assessment in Washington of America's ability to

What China, and others, can do to find it



Jiang's hand, for now



shape events in China, and breed resentment.

On the other hand, western powers, and America in particular, could bring about great change in China if they were to think more about the long haul. They could start by working harder at treating China as a future great power. A China bound by international rules provides a better guarantee of good behaviour than a China blackballed.

Rights and obligations

The first step should be a concerted effort to bring China into the World Trade Organisation, a body that Chinese reformers strongly feel can strengthen their hand back home. "If we are allowed into the system," says Li Zhongzhou, director-general of the trade ministry, "we'll have no choice but to take structural measures to ensure we meet the rules of the system. But now we are outside the system, and we are expected by America and Europe to take obligations without any rights. That won't rub."

There are other international clubs that China should be encouraged to become part of. For instance, although America is concerned about Chinese arms exports to Iran and Pakistan, China is not a member of the Missile Technology Control Regime, which regulates exports of ballistic missiles. As a victor in the second world war, China has a permanent seat in the United Nations' Security Council. Yet it is excluded from the G7 group of rich countries. China does not now deserve a place among the G7. But the West should spell out the conditions that would produce an invitation.

Nor should America underestimate the informal power of a liberal culture. Whereas China's present leaders went to study in Moscow, their children, along with thousands of compatriots, go to Yale, Chicago or the Harvard Business School. Although an anti-American diatribe published last year, "The China That Can Say No", caught the attention of the western press, many Chinese think it was just a piece of dormitory juvenilia. Far more telling is the publication this year of a sympathetic and subtle account of life in America, written by the son of the foreign minister, Qian Qichen. Such a book, speaking frankly about Chinese women's liberation in America, the democracy movement in exile, and freedom from the *danwei*, would not

have been allowed even five years ago—especially if written by a member of a party leader's family.

Meanwhile China is lapping up western technical advice. The World Bank helps the government with reform of state enterprises and the welfare system, the International Monetary Fund with central-bank reform. Foreigners are also involved in reform of the legal system. (There is a long way to go: the justice ministry intends to train 100,000 new lawyers by the turn of the century.) Even a think-tank affiliated to America's Republican Party is working with the government on encouraging democracy at the grass-roots level in the countryside. It is a base on which, many hope, broader political reform might be built in the future.

Relax

Reform, one way or another, will have to come. Perhaps the least painful way would be for the Chinese constitution to be made into something more than a football for the Communist Party to kick around. For example, the constitution states that the National People's Congress, the country's parliament, is the highest body in the land. In practice, it is a snooze chamber that takes its orders from the party, even if there are signs that it is stirring a little. Some reformers suggest that the party factions that now slug it out behind the scenes should go public, forming representative blocks in the National People's Congress. It is hard, though, to imagine the Communist Party waging its battles in the open.

Nor is it easy to imagine democratic Taiwan ever accepting the rule of any Communist Party, open or closed. China has pinned its hopes of reunification on the formula of "one country, two systems", an idea that is meant to give the government in Beijing sovereignty over Taiwan but preserve Taiwan's autonomy. The same formula, in less flexible form, is to be applied to Hong Kong after the handover. Chen Jian, the assistant foreign minister, says that "few countries in the world have adopted such an enlightened policy." To the Taiwanese, it sounds rather like a fox offering to guard the chicken coop.

"One country, two systems" was thought up by Deng Xiaoping, and perhaps now that the paramount leader has gone, his successors will entertain other structures. Certainly a federal structure devolving power to China's regions would make the job of governing China much easier than the present unwieldy, uncertain dictatorship. It would greatly ease tensions in Tibet, for which the Dalai Lama says he is not seeking independence, just self-determination. And it would increase confidence in Hong Kong. Under such conditions, a confederation with Taiwan might, just, prove acceptable. "Breaking up China to make it whole." You go to prison for suggesting less.

A historian, Felipe Fernandez-Armesto, recently summed up the last days of the Qing dynasty at the turn of the 20th century as "an inert system, rolling under its own weight." This is not an accurate description of daily life in Communist China today, but it does summarise the political system at the top. That system badly needs a new impetus. Far better for everybody, and much safer, that this should now be supplied by somebody at the top.

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A budding bourgeois liberal?

The future of warfare

ADVANCES in military technology have often had momentous effects. The invention of the stirrup enabled mounted warriors to put all the force of the horse behind the spears that they had hitherto thrust with only the strength of their arm. The arrival of that technology in Western Europe in the eighth century soon led to the seizure of church lands and the establishment of feudalism among the Franks. Seven centuries later feudalism was undermined by the long-bow, which destroyed the power of horse-owning aristocrats. More recently, the invention of nuclear weapons has brought about a paradoxical peace among superpowers. Now another military revolution is dawning. This one could put the already pre-eminent United States vastly ahead of enemies and allies alike, and thus change the world again.



This latest revolution is based on the application of information technology to weapons. It involves gathering huge amounts of data; processing them so that relevant information is displayed on a screen; and then destroying targets, at much greater distance and with much greater accuracy than was previously possible. These changes favour attack rather than defence: large, easy-to-hit objects—whether military bases, ships, tanks or concentrations of troops—are increasingly vulnerable to weapons such as cruise missiles steered by satellite beams (see pages 21 to 24).

All this is bad news for America's potential foes. Russia, a once and perhaps future rival, has neither the money nor the know-how to imitate the latest American advances. Other countries with more cash to spare may aspire to master enough of the new technology to challenge American power locally. China, for instance, is plainly flexing its muscles in Asia. Iran wants to develop cruise missiles to allow it to keep other countries' ships away from the Gulf. But the Americans' mastery of the new warfare will make it increasingly foolish to take them on in a high-intensity shooting war, as Saddam Hussein did. So if anyone wants to have a go at Uncle Sam, he will probably do so by other methods, such as ballistic missiles, biological weapons or terrorism.

The revolution also has implications for America's friends. By increasing American might, it may encourage the country's unilateralist element to think it can win wars without having to work with troublesome partners. In any event, working with allies will probably become more bothersome: their low-tech armies may be incapable of plugging into American information networks. Moreover, given the increasing vulnerability of military bases to missile attack, America may wish to withdraw its soldiers from Europe and Asia. When necessary, it will be able to strike its enemies with long-range weapons and mobile intervention forces.

Such a retreat inside American frontiers could have dire consequences for Europe. Happily for America's partners, however, there are arguments that may persuade it to share some of the new technologies. The more internationalist among American strategists have long argued that a stronger Europe would be better able to help the United States sort out the world's crises. America could strengthen Europe's military capability by, for instance, giving NATO allies access to cruise missiles and the satellites that steer them (Britain has already bought Tomahawk cruise missiles for its submarines). Sharing could also save money: if America wanted to

cast a missile-defence shield over its troops on a task abroad, why not protect its allies' forces on the same mission and send the bill to their governments? Needless to say, American defence contractors are all for helping allies.

The information umbrella

So long as the internationalists run its foreign policy, America is likely to share at least the less sensitive sorts of equipment. That would reinforce trends that are already visible within NATO, such as role-sharing between America and its European partners. American voters, and some American defence secretaries, are more reluctant than they used to be to risk their servicemen's lives in a fight; some of America's allies, if not all of them, are still a bit readier to accept casualties. So when America wants to intervene abroad it may expect its allies to provide troops, but offer high-tech equipment as a quid pro quo. That is what happened in Bosnia, in 1992-95: American warplanes, satellites and airborne radars supported non-American soldiers. It was not an entirely happy experience. On the evidence of Bosnia, that kind of division is likely to create huge strains within the alliance. But the allies may still prefer it to being completely cut out.

The more advanced America's technology, the more clout it will have. Already, it would be hard for the Europeans to mount a serious military operation without American help. Last year, when NATO agreed to establish European-only task-forces, the Americans promised to lease the Europeans the necessary command, control and communications equipment. But it is unlikely that they would want to sustain an operation they disapproved of. European governments would be free to back an EU foreign policy with armed force—so long as America gave its blessing.

The French appear to be the only Europeans worried by the new technology gap. Trying to keep up, they have launched one spy satellite and want Germany to help pay for others. The Japanese have similar worries, and hopes for similar satellites. But, like the French, they are unlikely to catch up

with America. Europe may not like the idea of an alliance even more dominated by the United States, but it may have to lump it. Better a dominant than a unilateralist America.

The comfort is that, when America uses its gee-whizz new weapons, it will often be in pursuit of objectives that Europe

shares. Many of their fundamental interests are similar. So long as the Americans are prepared to share their discoveries, and so long as the Europeans do not expect just to bask in the Americans' protection come what may, this military revolution could in the end help to tighten transatlantic ties.

Who needs a state pension?



Britain's Tories, staring election defeat in the face, have come up with a startling plan to replace state pensions. A pity they waited so long

PROMISING to privatise the basic state pension just before a general election looks like an act of political suicide. But on March 5th Britain's Conservative government unveiled proposals intended to lead, eventually, to the end of state-pension provision for most people. Perhaps the Tories reckon that, facing humiliation at the polls, they have little to lose. And yet, even if that is so, give them some credit. What they have proposed is bolder than any plan endorsed by any mainstream political party in the industrialised world—including Newt Gingrich's Republican "revolutionaries" of 1994. It also happens to make good sense. Despite being only eight weeks at most from a general election, the Tories have produced a plan that is workable, attractive and takes account of the undoubted difficulties that confront the project.

The response of the Labour Party, clearly caught off-guard, has been feeble. Last year Tony Blair, the party's leader, promised to "think the unthinkable" about the welfare state. But, on reflection, he seems to have decided that the unthinkable is best left unthought. Instead of addressing themselves to the substance of the Tory proposals, the best Labour's spokesmen could do was to decry them as a "chilling prospect".

The basic state pension, first introduced in 1908, is one of the sacred cows of Britain's welfare state. Even Margaret Thatcher regarded it as too holy to slaughter. In one crucial respect, admittedly, the Tories propose retaining a kind of state provision: under their plan for a "basic pension plus", the state would continue to ensure that every elderly person had at least as big a pension in real terms as today's pensioners. But every person entering the workforce after the scheme is introduced would be obliged to take out a privately provided pension. Ultimately, the public purse would top up only pensions that fell short of the real value of today's pensions—mainly affecting those who had been unemployed for long periods or who had spent little time in a paying job.

Even with this guarantee, what the Tories propose would mark a dramatic change. The reforms would transform the provision of pensions from primarily a responsibility of the state into a matter first and foremost for the individual, with the state acting only as a safety net for the genuinely needy.

Such a system would be far superior to the schemes which now operate in Britain and all other rich countries. Lower cost is by no means the most significant advantage, at least in Britain's case. True, pensions are currently the largest single item of British public spending. The Tory proposals would eventually reduce expenditure by around £40 billion (\$65 billion) a year in today's money. However, these savings would not start to appear much before 2040: in the meantime, taxes would need to go up. That is because the Tories propose to

pay everyone forced to invest in a private pension a rebate on their current national insurance contributions; this rebate would be big enough, when invested, to provide at least the real level of the current basic state pension. They might have chosen compulsion without a rebate—something which, given the state of Britain's public finances, a future government may yet have to consider.

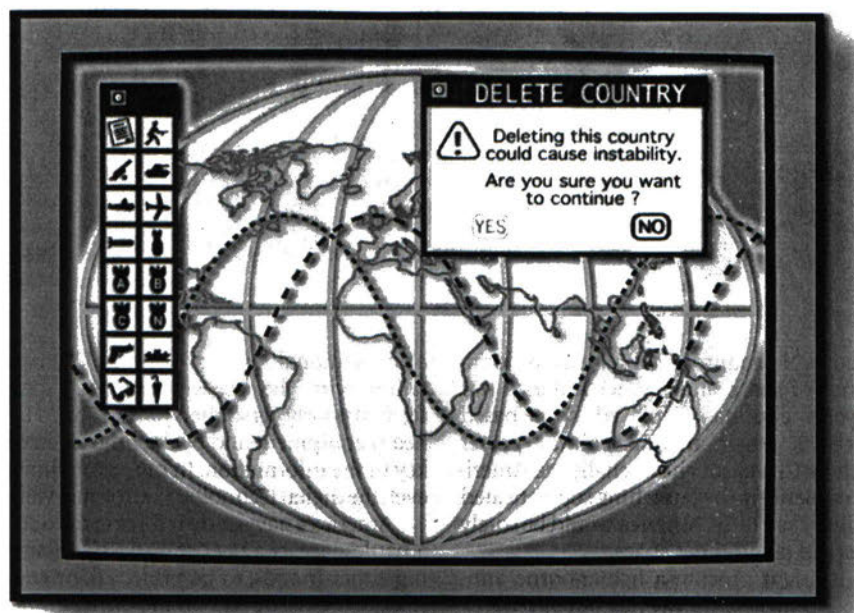
Unlike many other industrialised countries, however, Britain does not in fact face a "pensions time-bomb" next century. As elsewhere, the ratio of retired people to workers is likely to rise sharply. But, thanks to reforms already carried out by the Tories, the proportion of GDP spent on state pensions is forecast to rise only modestly, and then to fall below current levels—which are affordable—during the years to 2045. In America, Germany and Japan during that period, the burden is expected at least to double.

Why private is best

Yet all is not well with Britain's state pension. The reform that defused the pensions time-bomb was the Tories' decision in 1979 to raise the basic pension in line with increases in the rate of inflation, rather than with increases in average earnings, as hitherto. As a result, according to the Institute for Fiscal Studies, a research group, by 2030 the basic state pension will be worth just 8% of average male earnings, compared with 20% in the late 1970s and 15% now. This means that anyone relying entirely on the basic pension in retirement will be far poorer by comparison with most of the population than are today's pensioners. Although most of today's workers are likely to receive in addition an occupational or personal pension—thanks to the government's prodding people in this direction—a large number do stand to receive only the basic payment (see page 63).

Under the Tory proposals the basic pension would be "funded", unlike the current basic pension which is paid for each year out of tax revenues. The funds would be invested, generating what the Tories hope will be a far larger pension than anyone could expect as a result of paying a similar amount to the government. And people with a private, funded pension are likely to feel that they own their own savings, which is desirable in itself, but which should also encourage them to take more interest in planning for their financial future. A realistic hope is that most people would invest far more in their pensions than the compulsory minimum. Independence, choice, and responsibility: all three sound better than sitting back and taking a gamble on the uncertain generosity of future taxpayers.

THE FUTURE OF WARFARE



Select enemy. Delete

Only America is close to mastering the new technologies that are transforming war. That gives it a huge advantage over potential foes—and allies

MILITARY revolutions occur repeatedly throughout history. They are as often based on broader social developments as on military technology; generally they favour offence. Revolutionary France used new ideas such as liberty and patriotism to create huge "citizen armies" which swept all before them for a while. In the 1860s the Prussians in Europe and the northerners in the American civil war exploited the telegraph, railway and rifle to win wars on the basis of superior logistics. In the 1930s, when all the big powers were developing tanks, radios and bombers, Germany found the tactics and organisation that could meld them into *Blitzkrieg*.

The world is in the early stages of a new military revolution. The technologies include digital communications, which allow data to be compressed; a "global positioning system" (GPS) of satellites, which makes more exact guidance and navigation possible; radar-evading "stealth"; and, of course, computer processing.

One of the first people to think about what such changes might mean was Nikolai Ogarkov, the Soviet chief of staff. In 1984

he started worrying that America's long-range cruise missiles would create a "revolution in military affairs". Elements of that revolution have already been glimpsed. In the 1991 Gulf war stealthy F-117 bombers, laser-guided bombs and precisely targeted cruise missiles destroyed many Iraqi installations. And over Bosnia the Americans have deployed JSTARS, a ground-surveillance system in the sky: a single screen can display, in any weather, the position and type of every vehicle within an area 200 kilometres (125 miles) square.

This embryonic revolution, unlike the development of nuclear weapons, has not emerged in response to any particular threat to the United States or its allies. It has come about because it is there—that is, because generals want to play with new technologies in case a future threat emerges. In that it may resemble *Blitzkrieg*, which was based on the technologies of the 1920s, when defence budgets were declining and there seemed little prospect of another world war. "This revolution is just beginning. It's in the phase of thinking, analysis and war games—as if we were in about

1922," says Andrew Marshall, a Pentagon official who has encouraged research on many of the new devices. "In future we'll need to spend money on getting the forces to experiment with new sorts of operation."

No one can be certain where this revolution will end. But a few of the questions that it raises can be posed. How will it affect the way armies fight and are organised? Will it make much difference to "low-intensity" conflicts such as guerrilla warfare? How easily could the new techniques be countered? And will the revolution make America unchallengeable?

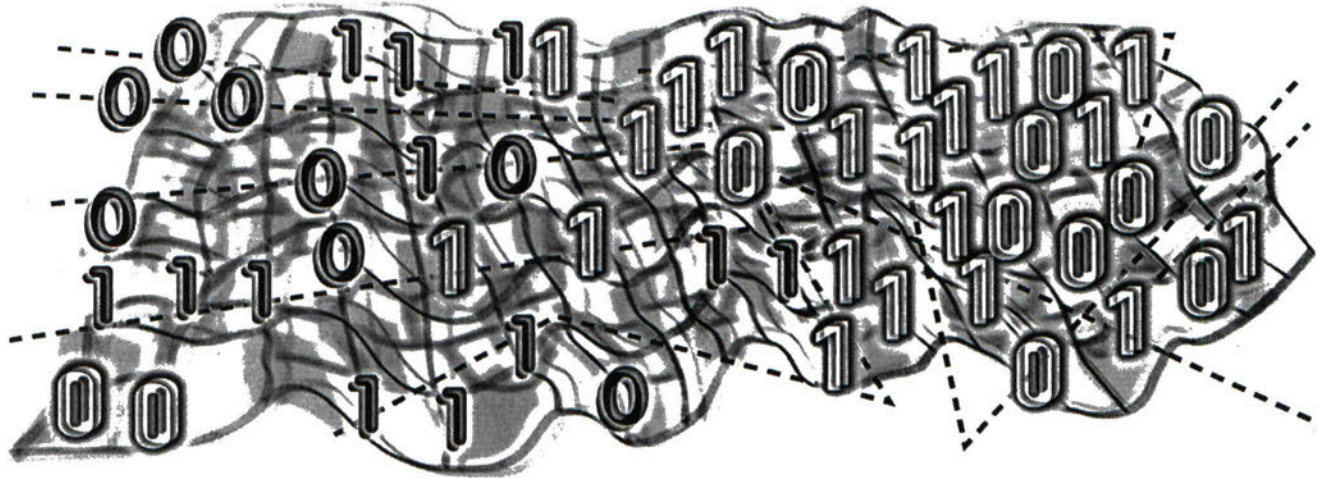
A system of systems

The revolution in military affairs revolves around three advances. The first is in gathering intelligence. Sensors in satellites, aircraft or unmanned aircraft can monitor virtually everything going on in an area. The second is in processing intelligence. Advanced command, control, communication and computing systems, known as C4, make sense of the data gathered by the sensors and display it on-screen. They can then assign particular targets to missiles, tanks or whatever. The third is in acting on all this intelligence—in particular, by using long-range precision strikes to destroy targets. Cruise missiles, guided by satellite, can hit an individual building many hundreds of miles away.

America's armed forces have elements of these new systems already up and running. The navy's "Co-operative Engagement Capability" enables several warships to combine their radars into a single, more powerful one, available to each ship. But America has not yet integrated the advances into a single "system of systems", to use the phrase of Admiral William Owens, until recently vice-chairman of the chiefs of staff. Such a system would allow a commander to watch a screen displaying everything going on in a battle, select targets and destroy them by pressing a button.

What are the implications of all this? Much of the thinking about that question—in the Pentagon and in think-tanks such as the Centre for Strategic and Budgetary Assessments—concentrates on what might happen as offence is strengthened against defence. Combat will probably be compressed in time: modern missiles and bombs are so powerful that each side will have a strong incentive to strike first and thus stop the enemy doing anything.

Operations will also expand in space, so that fewer concentrations of soldiers or vehicles are exposed. For centuries, the battlefield has been emptying. In 1815 a divi-



sion (normally 15,000-20,000 men) occupied about three square miles. Today it may take up a space of 25 miles by 25. By 2015 it may require an area of 100 miles by 100. Troops will move rapidly over the battlefield in small groups; there will be nothing resembling a front line.

Since defences against missiles are unlikely to be foolproof, ports and air bases (indeed fixed sites of all kinds) will be increasingly vulnerable. So logistical chains will be harder to sustain, which means that expeditionary forces will need to carry more of their supplies with them. Warriors and their machines will find stealth and mobility more useful than armour.

The new warfare will be "multi-dimensional", meaning not only that air, sea and land operations will be increasingly integrated, but also that information and outer space will be part of modern war. "Information warfare" could mean disabling an enemy by wrecking his computing, financial, telecoms or air-traffic control systems. The relevant weapons might be computer viruses, electro-magnetic pulses, microwave beams, well-placed bombs or anything that can smash a satellite.

Western governments worry that an "information strike" could crash their own computers. America's National Security Agency has recruited hundreds of people to grapple with information warfare. But the decentralisation of modern computer networks, plus the practice of copying databases, makes it unlikely that a single blow could disable a western economy.

On the battlefield the information warrior will aim to create an "information gap" between his side and the foe. He will attack the enemy's information-gathering capacity and try to mislead his systems with decoys. He will seek to stop the enemy from jamming or corrupting his own systems by hopping from one frequency to another and by using encryption.

America depends on satellites to take photos, spot missile launches, eavesdrop, run the GPS and route military communi-

cations. No country yet threatens its dominance of space and neither America nor anyone else has deployed space-based weapons. But if, at some point, a power such as China sought to challenge American superiority by launching sophisticated military satellites, America would be sorely tempted to militarise space.

It might procure a fighter-borne anti-satellite missile that it has already developed. In fact, any country with inter-continental ballistic missiles could use them to knock out satellites. What may come are killer satellites, armed with missiles or lasers; or space mines that approach a target before exploding. As a counter to such threats, valuable satellites may be given armour or made stealthy and manoeuvrable.

The Pentagon already has, or is developing, most of the technologies required for space weapons. For instance it has just awarded a \$1.1 billion contract for an air-borne laser to hit ballistic missiles. If that technology works, it could be adapted for a satellite. The American air force wants a space vehicle that could fly in or out of the atmosphere and deploy or attack satellites.

Abort, retry, fail?

Wait a moment, the sceptics will say. Is this military revolution all that it's cracked up to be? Even if it really does transform what might be called high-intensity conflict, does it have any application to guerrilla wars or to peacekeeping?

Some of the top brass certainly regard many of the claims made for the military revolution as dubious. So when its enthusiasts call, as they do, for less money to be spent on today's weapons, and more on research and development for the future, they meet plenty of opposition. Thus the US air force (whose chiefs are nearly all fighter pilots) is reluctant to replace manned aircraft with unmanned ones.

The army is particularly suspicious of the idea that technology can disperse what Clausewitz called the "fog of war". As an experiment, it set a "digital" battalion against

a conventional force in exercises. The battalion with the gee-whizz gadgets performed poorly, its soldiers handicapped by heavy equipment and by the time taken to key in the information. In other tests, however, the digital technology performed well.

America's navy and air force tend to see a battlespace as a big open space containing either friends, to be protected, or enemies, to be destroyed. To the army, things look different: the terrain is full of trees, houses, hospitals and civilians who could be friends, or foes, or neutrals. "If a tank is beside a hospital, a soldier needs good judgment more than computer gadgets," says one infantry colonel. "No screen can convey perfect information: there is always more to know, like, are the enemy soldiers tired and hungry?"

He has a point. Most current conflicts are festering sores of guerrilla warfare, ethnic hostility or terrorism. As in the Middle Ages, many soldiers fight for local warlords or multinational forces rather than for sovereign states. Even when western powers think a conflict so serious that they must deploy peacekeepers, as in Bosnia, they are reluctant to risk casualties. A soldier who can speak the local language and negotiate patiently may be more useful in these circumstances than a stealthy B-2 bomber.

In Somalia, in 1993, Mohammad Aided humiliated American peacekeepers by shooting them and then hiding. All of America's information-gathering systems could not find him. And the Vietnam war is a reminder that, even in a high-intensity conflict, an enemy who hides in the jungle and will not come out to fight can resist high-tech weapons.

However, those who think that this military revolution really is transforming war argue that, although it began as an attempt to match the Soviet threat, it can also help in low-intensity conflicts. American unmanned aircraft have monitored the compliance of Bosnia's armies with the Dayton agreement. Had NATO decided to arrest indicted war criminals, such as the Bosnian

THE FUTURE OF WARFARE

Serb leader Radovan Karadzic, satellite espionage would have helped. A Russian aircraft blew up Jokar Dudaev, the Chechen leader, after a mobile telephone had revealed his position.

Precision strikes also offer the possibility of destroying military targets without much "collateral" damage. In September 1995 the Pentagon would not have launched cruise missiles against anti-aircraft sites in Banja Luka if it had not—correctly—thought there would be few Bosnian Serb casualties.

The most serious problem for those who espouse "revolutionary" military technology, say its critics, is that enemies could counter or copy its capabilities. Every breakthrough in offensive technology eventually inspires a matching advance in defence. For example, the arrival of artillery in the 15th century led to the *trace italienne*, sloping fortifications resistant to cannon balls. There is already talk of new radars that can detect stealthy aircraft.

How might other countries react? No country wishing to challenge America could now afford to build a "system of systems". And it would probably not want to invest heavily in traditional weapons, such as tanks and aircraft, which would be vulnerable to American technology. A poor country might choose cheap, horrific and hard-to-counter methods such as terrorist bombs, ballistic missiles or chemical or biological weapons. The regime would hope that, if the Americans had no vital interest in its part of the globe, the risk of casualties would deter them from fighting back.

A richer country might attempt to master some new technologies, such as GPS-steered cruise missiles. GPS is available to any yachtsman or missile-maker (although the Americans' military system is more accurate). Satellite photos and much electronic equipment can be bought commercially. The American navy worries that a country which had a mix of cruise missiles, spy satellites and unmanned aircraft could threaten its surface ships in some seas.

America's "system of systems" would not necessarily enable it to overcome such foes painlessly. But it would help the Americans to best any future foe, especially in a high-intensity conflict. And although other countries may pursue particular strands of the military revolution, they could find "systems integration"—the skill of weaving

all the different components and systems together—extremely difficult. Japan might seem to be the country nearest to America in having both the wealth and the technological expertise to master the military revolution. But Japanese firms have been trying to make an advanced fighter for decades and still cannot do so without help from an American partner.

Another big advantage of America and its close allies is the culture of their armed forces. A rogue regime may acquire a "multiple launch rocket system". But will its soldiers be well-enough trained and qualified to use the system effectively and to repair it? The creation of a capable fighting force requires decades of investment and effort. As any company in a competitive market knows, the qualities of a successful rival cannot easily be acquired or copied.

War without people, almost

The speed at which America will pursue this revolution is uncertain; that it will pursue it is not. America's armed forces—and others which imitate them—will have to adapt to the new technologies. Fewer soldiers, sailors and airmen will actually fight. More of them will be specialists in areas like missiles, computers or space warfare; more of them will be women. As Eliot Cohen, a military historian, has written: "The cultural challenge for military organisations will be to maintain a warrior spirit and the intuitive understanding of war that goes with it, even when their leaders are not, in large part, warriors themselves."

The military revolution will allow, in theory, a private to know as much about a battlefield as his (or her) general—if the general lets him have the information. It will also make the general more confident than his forebears of understanding events in the field. And it will enable a defence minister to watch live video footage of a battle.

So the changes could serve either to decentralise or to centralise power in armed forces. The former may be more likely, if only because soldiers who have some leeway to take initiatives will be more effective. The organigrams of today's forces are as pyramidal as in the 1950s; armies must surely follow companies in "layering".

Future armed forces will require different sorts of equipment. Because tanks, ships and aircraft are so vulnerable, many of them are likely to be replaced, in part, by

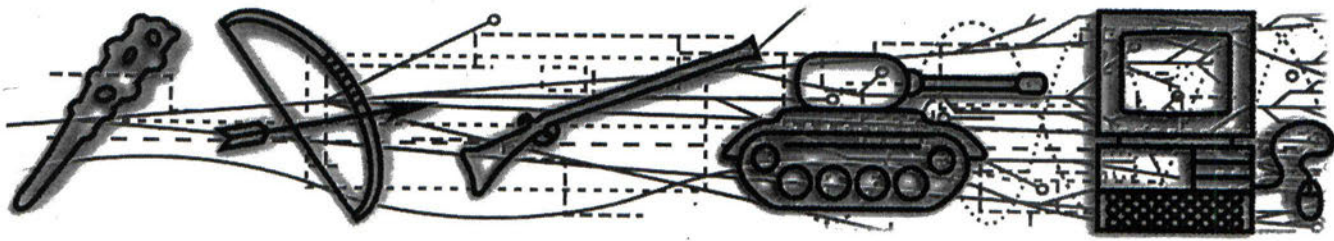
unmanned vehicles. Dispensing with the crew saves money. America's F-22 fighters will cost over \$100m each. The best unmanned aircraft, although currently less capable, cost perhaps \$15m. They are already being fitted with bombs. In the long run, manned fighters may be required for only a limited number of roles, such as shooting down the most advanced enemy aircraft.

Aircraft carriers, like other surface ships, risk being sunk by cruise missiles. Some will be replaced by "arsenal ships", semi-submersible, stealthy barges, carrying hundreds of missiles but few sailors. The Pentagon is developing these ships partly for their cheapness. They would carry no radar or targeting systems: satellites would beam down the relevant information. A large carrier costs \$3.5 billion and has a crew of 5,000; an arsenal ship would cost perhaps \$500m and have a crew of 50.

The sword is America's

So much for the military implications. What about the political ones? This revolution, argues Admiral Owens, offers America a new basis for coalition leadership. "We'll be in a far better position to shape the world, rather than react to it, than at any time since world war two." In the past "the nuclear umbrella provided a co-operative structure, linking the United States in a mutually beneficial way to a wide range of friends, allies and neutral nations." Now an "information umbrella", based on intelligence sharing, could perform a comparable function. If America fails to share the bounty of the military revolution, he says, its allies will try to copy it.

He is probably thinking of France, which, impressed by what American satellites did in the Gulf war, reinforced its own efforts to build spy satellites. But the French have not got the money to develop many of the new systems themselves. Military theorists in Russia and China write copiously about the revolution but neither of those countries' armed forces appear to be doing much about it. So America is likely to maintain its huge lead, at least until and unless a richer China or a revived Russia pushes itself into the competition. America may in the meantime share some of these technologies with its friends; or it may press ahead with them on its own. Either way, the military revolution will greatly expand American power in the years ahead.





No Deng to guide them now

Ready to face the world?

ONE of urban Asia's most peaceful spots is the Protestant Cemetery in Macau. There lies a Scottish ship's boy who died in the early years of the 19th century "from the effects of a fall into the hold," according to his epitaph. "Deeply regretted [sic]," the captain added. Plenty of other foreigners lie buried there too: from Salem, Massachusetts, from Portsmouth in England and Gothenburg in Sweden. The place is a reminder, first, that China's relations with the rest of the world are more deeply rooted than the past few decades of Communist autarky might lead one to suppose. But in an oblique way it also illustrates China's perennial discomfort in joining a world order it has had no part in shaping: the boy died off Macau because foreigners were forbidden to sail up to Canton, in China proper.

By the end of the 1840s the western imperial powers had forced China to open five ports to foreign commerce, taking advantage of the Qing dynasty's weakness. Britain was given, amongst other spoils, the "barren rock" of Hong Kong. More ports were to be forced open two decades later, followed by swathes of land leased "voluntarily" to the imperial powers. Trade with China flourished, and not just in narcotics and other goods. By the 1860s the Pacific Mail Steamship Company was running a monthly service from Hong Kong to San Francisco, using giant paddleships that carried 1,200 passengers; most of those in steerage were coolies who had been kidnapped or indentured. It was a period that did not reflect well on either China or the western powers. The west now affects a blithe amnesia about its rapine past, whereas China's humiliation,

its leaders insist, will be expunged only by Hong Kong's return on July 1st this year—followed, as a codicil, by tiny Macau in December 1999.

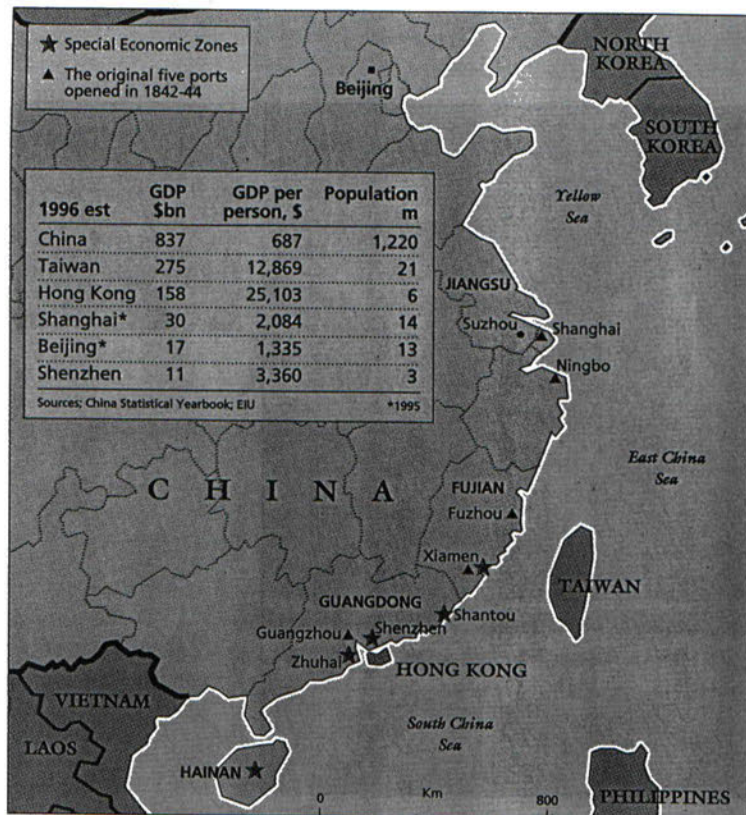
Yet, with hindsight, the mid-19th century was the period in which two potent seeds were planted in the Chinese mind that are now sprouting vigorously. The first of these was a sense of a growing Asia-Pacific identity, typified by the 50,000 Chinese who by 1875 had settled in San Francisco, even though this was vigorously fought by the Qing rulers (and later by the Communists). The second of these seeds was the notion, however vague, of a "Greater China".

To appreciate the strength of the Asia-Pacific idea, look at one small example. In the early 1900s the father of "modern" China, Sun Yat-sen, who himself was educated partly in mid-Pacific, in Hawaii, sought support from the Chinese emigrants in and around Vancouver for the overthrow of the Manchus. Today many thousand members of Hong Kong's middle class have already left the British colony for that same Vancouver—pre-emptive refugees from the economic and political constraints they imagine China will impose when it resumes sovereignty. Vancouver now has an Asian population of nearly half a million, who have transformed its economy, its culture, even its skyline. Its bonds with Hong Kong are still close, and families shuttle back and forth across the Pacific.

As for the notion of "Greater China", it is hard to find anyone who is comfortable with this much-discussed term. For a start, what exactly does it mean? Its political definition is mainland China

Much of the world is alarmed at China's strength, with or without Deng. It should be more alarmed at its weaknesses, writes Dominic Ziegler





plus Taiwan, Hong Kong and Macau. Academic economists first used the term as shorthand for the trade and investment patterns that, over the past decade or so, have tied the rich economies of Hong Kong and Taiwan to the two neighbouring coastal provinces of mainland China, Guangdong and Fujian. But now Hong Kong's and Taiwan's capitalists are spreading their investments further across China: to Shanghai, to coastal regions further north, and even to China's less developed hinterland.

And what is the role of the 50m-odd ethnic Chinese, mainly in South-East Asia, whose wealth is said to equal that of China's own population of 1.2 billion? An extraordinary Singaporean scheme involving both the public and the private sector is under way to replicate the city-state's success in mainland China, on the cleared fields outside Suzhou, west of Shanghai (of which more later). The largest individual investor in China is Robert Kuok, a Chi-

nese Malaysian who owns the Shangri-La hotel chain. This survey will explore how the overseas Chinese are helping to transform the mainland.

To some, "Greater China" is merely a way of summarising the new linkages among the far-flung international Chinese community; to others, as Harry Harding of George Washington University in Washington, DC, puts it, "it is a prescription of the institutions that should govern those ties." This is where the trouble starts. For some of its neighbours, China is great enough as it is. Look at the growth in its military budget while other countries are cutting back on defence. Look, too, at the way the military has recently been used to stake maritime claims in the South China Sea. Add up China's resources and those of Taiwan, Hong Kong and Macau, and you get something monstrously strong, a fourth pillar of the world economy alongside America, Europe and Japan. Its trade volume would rival Japan's. Its military, sitting across the region's most vital sea-lanes, would combine the mainland's brute numbers with Taiwan's technology and training. Even the "Greater China" name tag carries resonances. Remember Grossdeutschland? The Greater East Asia Co-Prosperity Sphere?

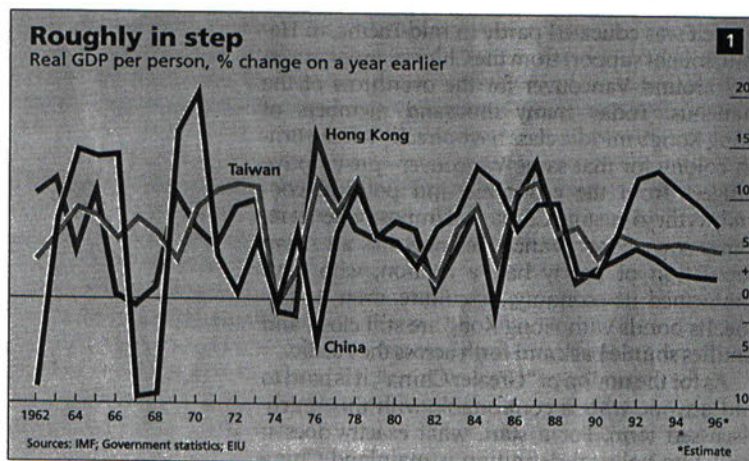
Yet such fears run ahead of a political reality which may in the end prove more alarming for the region. Bad enough that a majority of Hong Kong's people, according to opinion polls, would rather not return to the sovereignty of a state still organised on largely Leninist lines. Worse, almost all of Taiwan's 21m people are adamant that such a fate should not befall them. Taiwan is vigorously seeking independence in fact, if not—yet—in name.

China's leaders, for their part, are passionately committed to reunification. They want to put an end to the division left over from an unfinished civil war. Taiwan, in China's eyes, is worth ten Hong Kongs. The mainland's leaders have recently hinted that although they want reunification by peaceful means, their patience is not boundless. The year 2010 has been mentioned as a deadline. China has sworn to retake Taiwan by force if the Taiwanese declare independence, if foreign forces intervene there, if the island develops nuclear weapons or if it takes too long to come back into the fold. But will Taiwan, with modern weaponry, a democratic sense of local identity and many fans in the west, be cowed?

Testing Taiwan's resolve

China insists that Taiwan is an "internal" matter, and bristles at any suggestion of mediation, even by an impartial, largely ethnic-Chinese state such as Singapore. In 1995-96 China lobbed live missiles into the sea around Taiwan, within 15 miles of the island's main ports. President Lee Teng-hui's "informal" visit to America in 1995, and the prospect of democratic elections for Taiwan's presidency last year, had convinced the mainlanders that the island was moving, bit by bit, towards independence. The use of greater force in the future cannot be ruled out.

That might have unthinkable international consequences. A war across the Taiwan Strait, even an embargo of Taiwan, would threaten what the World Bank has called the "East Asian miracle". It could also bring China's military eyeball to eyeball



not just with America—which would probably defend Taiwan under most circumstances short of a declaration of independence—but also with Japan, which would lose its economic lifeblood if it were denied access to the South China Sea. A China “contained” by America and its allies would be a dismal admission that the 21st century was not going to be, as many now cheerfully predict, the “Pacific century”.

America has made it plain that, while it acknowledges that there is only one China, Taiwan is no internal issue. China's neighbours in South-East Asia agree. They cheered—if somewhat timidly—when a year ago the United States answered China's missile tests in the Taiwan Strait by sending two aircraft-carrier battle groups near the area.

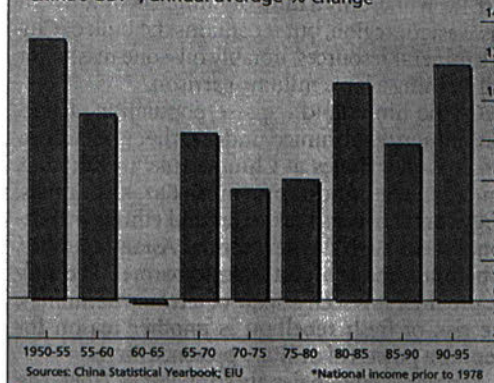
Tensions in the region have eased fairly quickly since, as one Washington official put it, “both sides stared into the abyss.” Taiwanese investment in China continues apace. China's sovereign neighbours have been quietly assured that territorial disputes will never be settled by force. Policymakers in Beijing, once as gung-ho about China's economic growth as western commentators, now sound a more measured note. They want to scotch the idea that China's rise will upset the international order.

An assistant foreign minister, Chen Jian, recently chided *The Economist* for “in the past exaggerating China's economic development, saying that in a very short period of time China would be the second biggest economic power in the world, and then the biggest. These predictions are unfounded, and they have led people to conclude that the rise of China will inevitably unbalance the region. Such arguments don't hold water. China is not a superpower. It is not at present. And it will not be one in the future.”

Don't celebrate yet

Moreover, relations between China and America, after a disastrous few years, have taken a lurch for the better. Bill Clinton's second administration has confirmed that it will make stable Sino-American relations a priority. Trade tensions have eased. And the two presidents are planning an exchange of state visits later this year, a first for both Mr Clinton and Jiang Zemin. This survey will slightly spoil the party, partly because there is little to suggest that Sino-American relations have reached a permanently higher plateau. “I am afraid we're falling prey to excessive expectations again,” sighs a Washington official. But the main reason for pessimism is that areas of weakness within China's body politic are becoming more apparent.

Onwards, ever upwards?
China's GDP*, annual average % change



The economy, for instance, may well not carry on at the fast pace (8-10% a year, till kingdom come) predicted by China's boosters, nor even at the steadier rate (7-8%, for the time being) that Mr Chen would prefer. One reason is that China's growth rates are anyway overstated by the official statistics. Another is that foreign investment no longer looks like the panacea it was made out to be. A third is that China's domestic economy is much less homogeneous than outsiders think. Talk about the economy of a Greater China is premature when the mainland's economy remains highly fragmented as well as over-regulated; and when a looming crisis in public-sector finances could set back development for years.

China's harsh, outdated and impracticable political arrangements are no help. Even in ordinary times the Communist apparatus is monstrously hard to handle. But 1997 will be no ordinary year, for several reasons. The immediately obvious one is the death on February 19th of Deng Xiaoping, the 92-year-old paramount leader, raising uncertainties of succession. Next, Hong Kong returns to China in mid-year. Further ahead, the 15th Communist Party congress in the autumn is expected to set the tone, and determine the leadership, for the next five years. Insiders think it will be one of the party's most crucial congresses ever.

Any one of these events might spark a popular challenge to the leadership in Beijing, even from inside the party. Such popular protests also have the potential to destroy the party's unity, as very nearly happened with the 1989 Tiananmen Square protests. Never mind the toasts, the fireworks and the displays of patriotism on July 1st: for China, this is not going to be an easy year.

Through China's eyes

PUT yourself into the polyester suit and behind the thick-rimmed spectacles of a Communist Party cadre, and take a look at the world as seen from Beijing.

China is a huge land, roughly the size of the United States, and vulnerable. It cannot be defended by brute military force alone, and not just because internal threats tie up so much of that force.

China's People's Liberation Army (PLA) may be the world's largest, yet it is outnumbered by two to one when the armies of its seven biggest neighbours are added together, to say nothing of America's huge Pacific presence. And China's military technology is put in the shade by most of its neighbours'.

Four-fifths of China is rugged and inhospitable, yet it is through these western frontierlands that

It looks scary out there





five invasions of nomads have arrived to conquer part or all of the Chinese state, most recently until 1911. Even now only a third of China's people live in this western region, but it contains the bulk of China's mineral resources, notably oil—one reason for maintaining a large military garrison.

Of the hinterland's sparse population, a fractious minority subsumed under earlier imperial expansion now chafes at Chinese rule. In Xinjiang, China's westernmost province, Kazakhs, Tajiks, Kyrgyz and Uighurs seek to rebuild ethnic and nationalist ties with the new central Asian republics, sometimes under a pan-Islamic banner. Recently the province has seen a spate of terrorist bombings. The risk of fresh rebellion is another reason for keeping a powerful military presence there.

Separatist tendencies are strongest in Tibet. The government in Beijing has tried to counter them with a blend of economic development and suppression of support for the Dalai Lama. That support grew stronger as it was forced underground. Over the past decade, large numbers of ethnic (Han) Chinese have moved in to seek a new living in Tibet's larger towns, but this has failed to quell Tibetan longing for independence. Even in Inner Mongolia, where Hans now outnumber Mongols sixfold, Mongolian nationalism still has to be kept down by tough government measures.

The least fractious two-thirds of China's population, about 800m, live on the eastern one-fifth of its land. This is an area roughly the size of America's eastern seaboard—plus Alabama, West Virginia and Pennsylvania—but with nearly six times the population. Sheer numbers do not necessarily bring security: for a start, the region's economy remains predominantly rural, and so harder to de-

fend. A rural campaign against the cities was, after all, how the Communists got to power.

Nor is the coastal plain easy to defend. In the 19th century western imperial powers had no trouble invading it. Earlier this century Japan managed to wreak breathtaking brutality on this region. Today the region remains vulnerable to attack. It would be devastated by the air superiority alone of Taiwan, with which China is technically still at war. America's military strategists can allow themselves the luxury of discounting any future conflict with another power on continental American soil; China's equivalents have to assume that any such conflict would take place on their home ground.

What of China's neighbours, of which it has no fewer than 14 with shared land borders? At least four of those borders—with Russia, North Korea, Tajikistan and India—are disputed. In addition, China has sea claims overlapping with Vietnam, the Philippines, Brunei, Malaysia, Indonesia, South Korea and Japan. China also lays claim to three territories not yet under its jurisdiction: Hong Kong, Macau and Taiwan. And then there is its "sphere-of-influence boundary" across the Pacific with America, outlined by two American political scientists, Andrew Nathan and Robert Ross, in a new book* on Chinese security concerns, which this section draws on. By the authors' count, therefore, "China's territorial interests overlap with those of 24 other governments." China has this century been in military conflict with no fewer than seven: Russia, India, Japan, Vietnam, South Korea, Taiwan and America.

The strategists in Beijing will admit that China is probably as strong as it has ever been, and its borders as secure. Relations with India are improving after past bloody conflicts. Sino-Russian relations have gone from strength to strength since the collapse of the Soviet Union; until then, the 4,000-mile border had been the world's most heavily armed, with 1.5m troops massed along it, backed by nuclear weapons. Last year China even signed a border agreement with Vietnam, a communist vassal-turned-foe.

What if

Yet, in Chinese eyes, the keenest vigilance is still called for. A nuclear-arms race might develop on the Korean peninsula, pushing Japan, China's old aggressor, to acquire its own nuclear weapons. North Korea's despot regime might yet try to divert its sullen masses with a full-scale invasion of the south, with frightening consequences for China. Trade and investment between China and South Korea would certainly be hit; and North Korean refugees would probably flood into Manchuria. In the end, though, a Korean unification is likely to be led by South Korea. Then Japan might tempt South Korea under its security umbrella.

Further south, China has little influence over the maritime states of South-East Asia, whose economies look towards America and Japan rather than China. What if they entertain a superpower that is hostile to China? This happened quite recently when tiny Vietnam entertained two powers at once,



Sensitive soul

*"The Great Wall and the Empty Fortress", by Andrew Nathan and Robert Ross. W.W. Norton, 1997

the United States and the Soviet Union. China dreads the risk of superpower encirclement.

In the 1950s America contained China from what Douglas MacArthur called America's "unsinkable aircraft carrier", Taiwan. It was this containment, along with Maoist ideology, that helped push China into its quarter-century of economic isolation. Next, China's Soviet ally turned enemy, tilting for influence in North Korea on one side of China and Vietnam on the other. This helps to explain China's invasion of Vietnam in 1979 and its support for Cambodia's genocidal Pol Pot regime: the Soviet Union was threatening to squeeze China from both her northern and southern flanks. China's warming to America was a cold-war necessity.

For the moment, the cadre notes, Russia lies quiet in Asia, wracked by domestic troubles. Russia and Japan are in dispute over the Kurile Islands, and relations between the two countries are coolish, which suits China just fine. China also welcomes America's defence presence in the Asia-Pacific region to guard against Russian military resurgence. And America's defence pact with Japan is a useful way of preventing a new rise in Japanese militarism. If America were to withdraw from the region, it would be a disaster in China's eyes.

On the other hand, China must keep a sharp watch for signs that America and Japan might be combining to contain or divide it. Both countries have parliamentarians who loudly deny the Chinese government's legitimacy. In this light the strengthened security agreement signed a year ago between Bill Clinton and Ryutaro Hashimoto, Japan's prime minister, looks disturbing to the Chinese. Separately, America has talked about helping Japan build a theatre missile-defence system. Why, asks the cadre, should it do that unless it wants to encircle China?

China's greatest concern is for territorial integrity. Hong Kong and Macau, separated from China since 1841 and 1557 respectively, are at least to return soon. Yet both Britain and America are trying to undermine the future exercise of Chinese sovereignty in Hong Kong by playing the human-rights card. After Hong Kong's return, attention will soon be turned to wooing back Taiwan by peaceful means. Yet that very attention will increase the risk that such a policy might continue to fail, as it has done so far. And if America really believes in "one China", as it says it does, why is it constantly inter-



vening in Taiwan's favour? China cannot afford to give an inch on territorial issues, or else Tibetan separatists, Hong Kong liberals, Taiwanese independents and (who knows?) the man on the Beijing omnibus would take a mile.

Satisfaction not guaranteed

Remove the glasses, and it is clear that China's foreign policy is frantically reactive, dedicated to stopping Taiwan moving towards independence, averting fresh challenges to its territorial claims and preventing new power balances from shaping the region. China lives in dread that new power arrangements amongst China's near-neighbours will threaten its external security. Yet it palpably lacks the power to impose its views on others. So its diplomacy comes in two distinct styles: high principle and pragmatism. Under the first heading, the emphasis is on sovereignty, not open to discussion. Many visitors to Beijing have been treated to the lecture that begins: "The whole world admits there is but one China...", and ends: "Five thousand years of history have proven that anybody who tries to divide China will be cursed for generations."

The second style involves cool calculations of national interest and balance of power. Thomas Christensen of Cornell University calls China the "high church of realpolitik". This, ironically, would have served it very well in dealing with the western imperial powers that knocked down its doors in the 19th century. Today it sets China dangerously at odds with the American-led concept that foreign policy can have legitimate concerns—human rights, self-determination—that transcend national boundaries. For now, the danger remains that China will be, as Messrs Nathan and Ross put it, "not a satisfied power".

The importance of foreign-devil money

THE road to China's future is a muddy track some miles outside the old merchant town of Suzhou, in Jiangsu province. The emptiness of this land, unpeopled and untilled, is remarkable enough in this, the most densely populated countryside in the world. More remarkable still is the plan for the new "super-city" that is about to spring up here in its allotted 70 square kilometres. Over the next few years, if all goes to plan, some \$20 billion will be spent on the prosaically named Suzhou Industrial Park, and 600,000 people will move in.

The colour of the money is important, for it is

Singaporean. The local government intends to fashion the park in Singapore's image, putting aside all that is shoddy about China's development: electricity that flickers on and off, sewage that runs out into ditches, the thicket of bureaucracy and corruption. Singaporean companies are to help build water-treatment and power plants. Developers are building first-world houses. And the Singaporean government is overseeing what it insists on calling the "software transfer": passing on knowledge. Some 220 Chinese officials, for instance, are currently in Singapore learning about public administration,

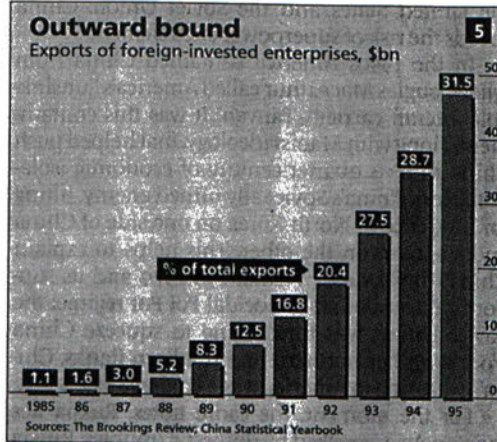
Much—too much—is expected of foreign capital



and will then apply their new-found skills to the industrial park. "Adapt Singapore's experience and develop a first-class China," sing the billboards around the park. Nor is it just Singapore's economic record to which the Chinese aspire. The sales pitch for the park sets great store by Singapore's "balanced social order"—its nanny government and tame population. China's leaders reckon that Singapore's masses have been behaving better than their own, and are keen to learn from the example.

Singapore's park at Suzhou, though, is only the latest and most striking example of the way foreign money is mixing with local to transform the flat countryside in Jiangsu and adjacent coastal provinces. It is a region where, as Paul Theroux wrote in one of his travel books, "yesterday's paddy field is tomorrow's high-rise, and a thousand factories bloom." Suzhou, for instance, has been Shanghai's back garden for much of the history of the People's Republic, shipping quantities of ducks and vegetables down the canals of this watery province. When in the 1980s the central government signalled a more relaxed attitude towards development in the countryside—while still keeping a firm rein on Shanghai—Suzhou became unstoppable. Foreign investment really took off in 1992, and "we are now like a fish back in water," says the mayor, Zhang Xinsheng.

The first and still largest wave of foreign money came from what the Chinese government calls "compatriots" in Taiwan and Hong Kong. These investors often set up joint ventures with so-called township and village enterprises (TVEs, which are loosely-defined local collectives) to produce textiles or simple processed goods for export. Low-wage



businesses are now thinking of moving to poorer parts of the country, victims of their own success.

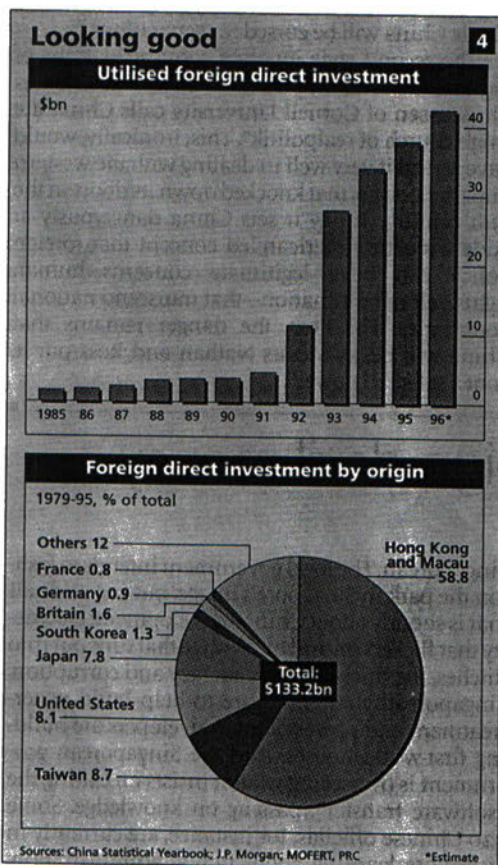
Another country area on the opposite side of Suzhou has also been turned into an industrial zone over the past five years. In 1992 the average annual income in the area was 1,000 yuan (\$180); today it is said to be over 7,000 yuan. Now international companies such as Du Pont, Siemens and L'Oréal are setting up greenfield operations in the zone to make products that demand well-paid skills. For example, three electronics companies, Acer, Philips and Sharp, are building plants that will soon turn out 3m computer monitors a year.

Foreign money is everywhere. Over 200 foreign-funded firms and around 1,000 expatriates have set up in and around Suzhou. The Singaporean international school for expatriate children is only six months old, but the Canadian headmistress is already wondering where to get the flags for her little charges' 17 home countries. The country wit of Jiangsu province has got it taped. "With no farming," runs a ditty, "there's no security. With no industry, no wealth. With no commerce, there's no flexibility. And with no foreign joint ventures, there's no short-cut."

Not all it seems

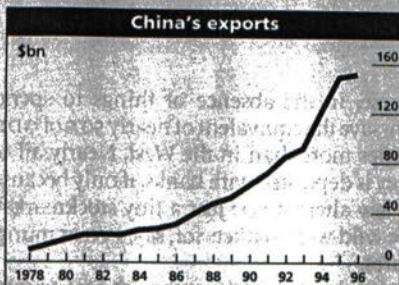
Foreign investment, then, would seem to be China's lifeblood; and all the propaganda welcoming foreigners reinforces that impression. Moreover, since over three-fifths of that foreign money comes from Hong Kong and Taiwan, the idea of a Greater China gets a boost.

But there is less to all this than meets the eye. True, China is easily the developing world's biggest magnet for foreign investment, but then it is a very big and populous country. On a per-head basis, the figures look less impressive. In 1994 China attracted \$26 of foreign investment per head of population—a lot more than India (\$0.9) or Indonesia (\$15), but a lot less than, say, Mexico or Chile, or the ex-communist countries of Poland and Hungary, to say nothing of Malaysia, which attracted \$226 a head. A report* by the Economist Intelligence Unit (a sister company of *The Economist*) points out that "these countries take structural political-economic issues, from judicial transparency to political plu-



*"Multinational Companies in China: Winners and Losers". Economist Intelligence Unit, 1997

That's better



Sources: China Statistical Yearbook; I.P. Morgan



ralism, more seriously than China."

Moreover, China's official figures for foreign-capital flows are exaggerated. Many township enterprises and even government departments siphon money out of the country, usually into Hong Kong, so they can bring it back in as foreign capital. That way it attracts all the tax breaks and other privileges granted to foreign ventures. The best guess is that between a quarter and a third of apparent foreign-capital inflows may be mainland, or "false-foreign-devil", money.

There is no doubt, though, that foreign money has been the engine of China's phenomenal export success, which in less than two decades has lifted the country from autarky into the ranks of the world's ten biggest exporters of manufactured goods. Twelve years ago exports from foreign ventures made up only 1% of all China's exports. Today the figure is about 30%, and growing voraciously.

To put it another way, foreign ventures export about 15 times more than you would expect on the basis of their contribution to China's industrial output. That forces two nagging conclusions. The first is that foreign enterprises, for all their export success, still account for only a tiny proportion of China's economy; and rather a lot of that consists merely of importing components, bolting them together and shipping them out again.

There is a second, more alarming conclusion. It is that any gains in efficiency, management and technology that foreign ventures may be enjoying are not spilling over into the state-owned sector, which the leadership swears will always occupy the "commanding heights" of the Chinese economy.

To anyone with a 100-year memory, this should sound familiar. In the late 19th century China's reformers, the so-called "self-strengtheners", thought they could cherry-pick the best western ideas and technologies and apply them selectively at home. The attempt proved disastrous. China had chosen only superficially from western models. Japan, on the other hand, had borrowed deeply. The difference showed in China's naval rout in 1894-95 which, amongst other things, opened the way for half a century's Japanese colonisation of Taiwan.

A century later, many of China's reformers once again expect foreign technology and management practice to provide a cheap and easily controlled way of modernising China's economy. Instead, the foreign presence has accentuated the shortcomings of a decrepit state. Ten years ago state-owned firms produced two-thirds of all manufactured goods, and accounted for four-fifths of export growth. To-

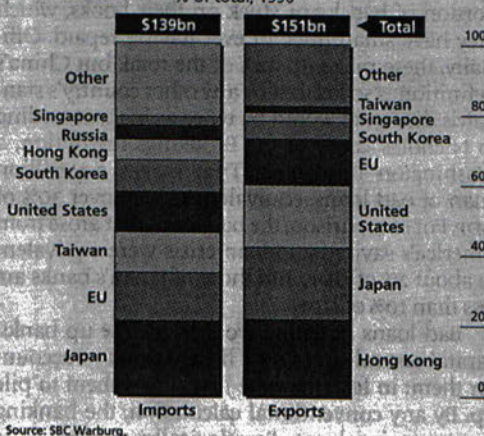
day, propped up with subsidies and hiding behind tariffs and other protection, state firms still account for half of all manufactures, but barely a fifth of the growth in exports. Losses in the state sector, taken together, are now said to exceed profits. About 70% of the 100,000 state enterprises are said to lose money. Under a free-market regime, the state's oil refiners, machine-builders and food-processors, along with many others, would perish.

Most Chinese policymakers, and many foreign advisers, remain sanguine about the state sector, pinning their hopes on an endless and confusing stream of "reforms". These include the introduction of "modern management systems", the conversion of enterprises to joint-stock companies, and the involvement of outsiders. In short, anything is possible, bar the privatisation of the dominant companies, for that smacks too much of capitalism. Meanwhile, plenty of hearty pilfering is going on, encouraged by a system in which losses are picked up by the state and gains are pocketed elsewhere.

Some reformers think that the state sector can be left to wither on the vine, choked by the luxuriant growth of private enterprise. Yet that state sector imposes huge costs on the rest of the economy, big enough to throw doubt on the widely-held assumption of a resurgent Greater China, and on the expectation that China will continue to grow in the future as it has done in the recent past. The next section will outline some of the immediate economic dangers, including a looming banking crisis, and suggest ways of averting them.

All over the place

China's trade % of total, 1996



Source: SBC Warburg



The death of gradualism

Time to launch
into bolder reforms

CHINA'S reformers bristle at the idea that Russia's brutally swift and sweeping economic reforms in the mid-1990s might have anything to commend them. China, its officials insist, remains the world champion of the reform process. Over the past 20 years or so it has lifted some 300m people out of poverty, the biggest such shift in history. The key to its reforms remains gradualism, the process Deng Xiaoping called "fording the river by feeling for the stones."

Yet to describe reform in China as gradualist is to rewrite history as it unfolds. The most enriching of China's reforms so far—those that allowed farmers to work for themselves rather than for the collective, and those that made township enterprises possible—did not happen gradually. They spread across the land like bush-fire, not because the central government said they should, but because it chose not to stop the spontaneous entrepreneurialism of its farmers. What the government is really doing is to rush constantly to catch up with the country's natural inclinations.

Now spontaneous reforms have run their course, and those parts of the reform process over which the government has had more control—trade liberalisation, for instance, and better financial accounting in the state industries—have shown up the state's inner contradictions in a harsher light. Those contradictions are immense, and so far show no sign of being resolved. The best start the leadership could make is to declare the death of gradualism, and announce that the state system's ills are to be tolerated no longer.

Bankrupt

State industry owes the state banking system a great deal of money. For a start, the 5 trillion yuan (\$600 billion) of bank loans outstanding in China, nine-tenths of it to state industry, account for an unusually high proportion of all financing, equivalent to about 70% of GDP. China has only one private bank, and no meaningful capital markets, so the job of financing investment rests almost wholly with the state banks.

Those banks also have an unusually high proportion of bad loans stuck on their books, which they have small hope of ever having repaid. Officially, these make up 22% of the total, but China's definition is so lax that by any other country's standards the figure would be twice as high, according to Nicholas Lardy of the Brookings Institution, a Washington think-tank. That makes 2.2 trillion yuan of bad loans, equivalent to well over 30% of GDP. For comparison, the bad loans that arose from America's savings-and-loan crisis were equivalent to about 2% of GDP, and those of Japan's banks are less than 10% of GDP.

Bad loans in China would swallow up banks' capital several times over if banks had to account for them: in fact, the state just allows them to pile up. By any conventional calculation, the banking system is insolvent. Paradoxically, though, it is awash with cash, put there by private households.

The Chinese, in the absence of things to spend money on, save the equivalent of nearly 50% of GDP, several times more than in the West. Nearly all of that money is deposited with banks, if only because there are few alternatives: just a tiny stockmarket, plus some wild-west markets for, say, PVC or mung-bean futures.

But before long, depositors may choose to save less and spend more, for instance on housing, which the government wants to promote. Savers may also find better channels for investment, whether formal or informal, perhaps through newly returned Hong Kong. If and when that happens, the banking system could implode with alarming force.

That fear is reason enough for hurrying along wholesale reform of the banks. But there are other reasons, not least the need to prepare the ground for an independent capital market, for which China has a crying need. Until then, the country's savings are being channelled not even to the poor, but to the undeserving. Nine-tenths of bank loans go to the state sector. Household and corporate savings are drawn off in the prosperous coastal areas and, through the state credit plan, recycled to those parts of the country where state industry looms large: the north-eastern smokestacks built with Soviet help in the 1950s, and (often defence) industries that settled in China's hinterland in the 1960s, this time to escape Soviet attack.

How does private and collective industry, with few formal channels of credit available to it, manage to make any headway at all? One answer must be that state industries are lending on some of the money they know they cannot use themselves. It works, after a fashion, but it is hardly the best way of allocating credit. And since state banks have already proved such poor judges of creditworthiness, state industries seem unlikely to fare much better.

There is a way of cutting the knot in China's financial system, provided it is done soon, without risking years of uncertain growth. Mr Lardy at Brookings suggests that the government should issue government bonds to the value of the banks' bad debts, allowing the banks to write off their dud loans and to recapitalise themselves, on the understanding that from that point on the state would not pick up any further losses. The state-owned enterprises would then have to face competition without subsidy. For many that would mean bankruptcy, which so far the government has allowed to happen only to the smallest firms. Many other en-



Good in parts

Social Indicators	China Hong Kong Taiwan		
	China	Hong Kong	Taiwan
Adult literacy rate, %, 1993	80.0	91.5	92.0
Life expectancy at birth, 1993	68.6	78.7	74.5
Infant mortality per 1,000 births, 1993	44.0	7.0	5.0
TVs per 1,000 pop, 1992	31.0	281.0	312.0

Sources: World Bank; UN

terprises, though, suddenly free of debt, might prove viable.

Issuing bonds worth 40% of GDP would be a huge undertaking. Luckily, China has a low ratio of government debt to GDP: just 12%. A debt-to-GDP ratio of 52% would not be outrageous by international standards. Still, the government would face heavy interest payments on the bonds. At present the central government collects only about 11% of GDP in revenues, an extraordinarily low figure by international standards. Assuming an interest rate

of, say, 10% on the bonds, interest costs alone would amount to about 4% of GDP a year, or more than a third of central-government revenues. However, there are plenty of revenues that accrue to other levels of government, bringing total government revenues to about 35% of GDP, closer to the international norm—if only the financial bureaucrats in Beijing could get their hands on them. Bringing fiscal power back to the centre would be easier if China's constitution were given a thorough overhaul, a subject dealt with in a later section.



City life

THE banking system plays a large part in keeping China's economy fragmented. Credit flows to where the state's credit plan dictates, not to where the highest return can be earned. With that credit, goods are produced that nobody wants to buy. Provinces, cities and counties protect their own enterprises by keeping out products from other places, either by putting up road blocks or, less visibly, by charging arbitrary duties and disrupting distribution channels. Labour mobility, at least in the cities, remains paltry.

If every locality has its washing-machine maker, its steel producer and its textile firm, there is little scope for economies of scale across the country. In China the potential for these economies is vast. The fragmented economy also prevents regions with plenty of potential consumers from generating higher levels of growth from within. Think of America's Atlantic seaboard, where a sophisticated, self-contained economy runs in a ribbon from Boston to Baltimore; or of Japan, where metropolitan sprawls define three largely self-sufficient economies around Tokyo, Nagoya and Osaka-Kobe. In theory, China should be ripe for this "megapolis" model of economic development.

Take the Yangzi delta, including Shanghai, plus Anhui, Jiangsu and Zhejiang provinces. This region has a population and an economic output equivalent to that of Indonesia, itself the world's fourth most populous country. With one-sixth of China's population, the delta accounts for one-third of China's output. Edward Leman, of Chreod, a Canadian consultancy, argues that the delta is a megapolis in the making.

In practice, China has a long way to go. Local protection abounds. At the same time Mao's legacy of central planning is still a force. Much heavy industry has been arbitrarily scattered about the country, far from markets, which means goods have to be shipped arbitrarily from one end of the country to the other, despite its creaking infrastructure. In 1994, according to *China News Analysis*, a newsletter run by European Jesuits, some 34% of the freight carried on China's railways was shipped between regions. Japan's inter-regional traffic adds up to only 15% of the total.

Proponents of the megapolis model argue that it would ease the terrible transport bottlenecks which are slowing down China's development, and that mega-cities are the most efficient way of preserving as much as possible of the 12% of China's

land area made up of fertile plains. However, an expert on urban development in Shanghai, who would rather not have his name published, says those enthusiasts have their priorities all wrong. He thinks it is more important to link together China's disparate coastal successes—Guangdong and Fujian in the south, Shanghai and the Yangzi delta in the middle and the Bohai gulf and Manchuria in the north. Yet main roads along the coast often peter out as they reach provincial borders. Instead, the central government is spending huge sums tying the Yangzi delta economy to the river's distant hinterland.

Back in that hinterland, in the Dickensian city of Chongqing, city officials appear to be gripped by sea-fever and dreams about exports. Yet only 12% of Sichuan's inter-provincial goods traffic moves along the Yangzi; the bulk of it runs along a north-south axis. Cargo from Chongqing takes a full two weeks to travel from the factory door to the mouth of the Yangzi. It is hard to imagine that Chongqing can emulate the coastal provinces' export success. Yet Chongqing's leaders, like those of many inland cities, continue to look seawards.

Urbs in rure

No modern great power is a rural power. China needs to turn into a country of city-dwellers; yet its rate of urbanisation is low. In 1995, it is reckoned,

Heading for megapolis?



Chongqing goes off to sea

Ever more urban

9

Number of cities and towns	1980	1995
Cities total, of which:	223	640
population over 1m	15	32
0.5 - 1.0m	30	43
0.2 - 0.5m	70	192
under 0.2m	108	373
Towns	2,870	16,992

Source: China News Analysis

only 29% of China's population lived in cities, though the figure seems to be growing by half a percentage point a year. Still, much of this urbanisation is a question of, as the government puts it, "leaving the land, not the countryside". The result has been indiscriminate rural industrialisation on a huge scale. Factories are scattered about between vegetable plots; development

zones are drawn up haphazardly, wasting scarce farmland; pollution is overwhelming. Zhejiang province, one of the most prosperous thanks to township enterprises, now has an urbanisation rate of 39%; given the province's current indiscriminate growth, there seems little scope for more. By contrast, South Korea, with a land area and population roughly the same as Zhejiang's, has an urbanisation rate of 81%.

The alternative to rural industrialisation is to allow the big cities to grow and to encourage them to link up with others, much as Boston is linked by

road and rail with Baltimore. China's government, though, is unwilling to see China's biggest cities swell by much. The government in Beijing has always had a horror of country people swamping the city (though recently it has found itself largely powerless to prevent this). It also suspects that large, confident cities might challenge Beijing's cultural and political supremacy. It was not until the early 1990s that Beijing removed the handcuffs that had for so long restrained Shanghai's development.

One way or another, China's cities are making up for lost time. But by international standards they have a long way to go. Only 43% of Chinese city households have modern sewage systems. In booming Shanghai, only three-fifths of households have flushing lavatories; electricity consumption per head is little more than half Taiwan's, and a quarter of America's. The question the leadership should be asking itself is this: at what point will city-dwellers cease to be content with flushing lavatories and start demanding other kinds of luxuries, such as greater government accountability and more freedom of expression?

Living with Big Brother

By getting round him

POWER in China is exercised through the largest coercive apparatus in the world, designed mainly to shape the public conduct of China's citizens, as well as their private behaviour between the bedsheets. A secondary aim is to garner benefits for its insiders, mostly—although not exclusively—of a material kind.

At the top of the apparatus is a very small group of individuals. Kenneth Lieberthal, in a recent book*, plausibly suggests that a mere 25-35 people determine all major policy decisions in this vast country. The executive of this power elite—the standing committee of the politburo, currently seven strong—oversees the main functional areas of power, which are known inside the Communist Party as *kou*, or gateways. The most powerful and centralised of these is the party affairs *kou*. Policies decreed by the *kou* are then implemented by loose groupings of bureaucracies known as *xitong*.

The propaganda and education *xitong*, for instance, uses moral coercion through its current campaign to study "Jiang Zemin Thought". The political and legal affairs *xitong*, which controls the public-security apparatus, runs prisons and "re-education through labour" camps. Harry Wu, whose inside knowledge of China's penal system was acquired the hard way, puts the number of prisoners at 15m-20m. Since they are put to work, they are an important economic resource for the state.

Besides looking after prisons, this particular *xitong* also has plenty of other things to do. Public security requires a large apparatus: one report in 1989 mentioned that the top layer alone of municipi-

pal officials in Beijing and Shanghai numbered 11,500 and 7,100 respectively, not counting lower-level bureaucrats and policemen on the beat. The People's Armed Police is reckoned to have added 200,000 to its rolls since the Tiananmen Square protests of 1989. The apparatus also makes use of a wide network of informers.

Cradle to grave

The *xitong* that have perhaps the most influence on an individual's life are those concerned with organisation and personnel. Every employee of a state-owned company or government bureaucracy is assigned to a work unit, or *dantwei*. The *dantwei*, crucially, control subsidised housing. They also keep files with each individual's life history. A black mark in these files—or the whim of a boss—can hold back someone's career indefinitely, without chance of appeal. And if ever an individual moves jobs, the files, black marks and all, are passed on.

China's repressive control of its urban population is less centralised than its equivalent in the old Soviet Union, giving it a degree of flexibility that may help to explain why the Chinese Communist Party has outlived its Soviet counterpart. But that advantage may not last. Private business is flourishing, whereas state-owned enterprises are starting to shed workers; and private housing is beginning to spring up. This is liberating millions of urban Chinese from much low-level nannying. It has led some foreign scholars[†] to look for the makings of a civil society in urban China, allowing people with common interests to club together and keep the state out of their business.

So far, scholars have found little evidence of this. For a start, the Communist Party does not brook the idea that groups of people with common interests can make representations to it. Party officials will sometimes go on "inspection tours" of the



*"Governing China", by Kenneth Lieberthal. Norton, 1995

[†]See David Wank, *Australian Journal of Chinese Affairs*, January 1995; Christopher Earle Nevitt, *The China Journal* [formerly *Australian Journal of Chinese Affairs*], July 1996; Jonathan Unger, *The China Quarterly*, September 1996

country, but in essence policy is handed down from above, not passed up from below. That is what "democratic centralism" is all about.

Nor does private enterprise in China operate on the kind of liberal market principles that all the talk about "economic reform" might suggest to outsiders. There is no legal framework that adequately protects property rights and resolves contractual disputes. Entrepreneurs, therefore, need some other guarantee to protect their investment from capricious or predatory forces.

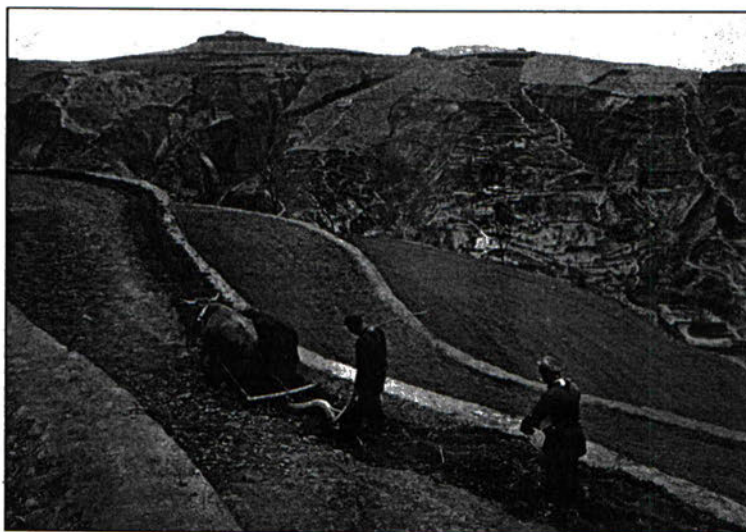
They find such protection in the patronage offered by local government officials. This has sapped power from the central authority, an important consequence of the reforms that bear Deng Xiaoping's name; but it has enhanced the local authorities' power in equal or greater measure. It would be irrational for entrepreneurs to fight the system; instead, they seek a *houtai laoban*, or backstage boss. Recently in a coastal city, over a lunch of escargots and *filet mignon*, a Hong Kong developer patted the Buick-driving mayor on the arm and explained to this correspondent with a grin: "He's my dictator, my benevolent dictator. He dictates, and I build."

Country air makes free

Yet there is one huge area where the state has yielded great freedom to individuals: on the land. Until the late 1970s, farmers were tied down, forced into collectives and made to deliver their rural "surplus" to the government. Then, village by village, farming families started to bribe their way out of the collective. They undertook to grow their share of the grain quota privately, and put the rest of their efforts into chasing other sources of income. The "household responsibility system", meaning decollectivisation and the introduction of markets for rural products, was formally endorsed by the central government in 1978.

One enormous consequence of that relaxation was something none of the leadership had foreseen, as Deng Xiaoping later admitted: the proliferation of township enterprises. Such enterprises now account for two-fifths of China's industrial output, and are largely free of the *danwei* system of civil control. Moreover, farmers generally have their own houses to live in. All this means that the majority of the 800m people who live in China's countryside are largely free of onerous obligations to the state.

Not only that, but the farmers, for their part, have started to undermine the state apparatus. Kate Xiao Zhou, of the University of Hawaii, describes in



No Party up here

a new book* how they have formed independent guilds and even banks, weakening the state's dominance of the financial system. They also circumvent the *danwei* system at state enterprises by moving to the cities and doing the menial jobs that city workers, however underemployed, refuse to do.

Since at any one time over 100m farmers are working away from their home village, China's one-child policy, widely observed in the cities, has proved hard to enforce in the countryside. On the other hand, there are early signs that growth of township enterprises, by making women better off, is doing more for population control than all the state's coercion ever managed.

The farmers' movement, in its sheer anarchic exuberance, is certainly anti-communist by temperament. It is revolutionary in that many farmers have freed themselves from the land to which the Communists had chained them. But that does not make it pro-democratic. Rather, the movement is apolitical, spontaneous, unrepresented.

China faces a multitude of tasks that demand a degree of accountability from government. A legal system has to be developed, a nightmarish level of pollution has to be controlled, scarce resources such as land and credit have to be allocated, disparities between west and east, city and countryside, have to be managed. Yet the Communist Party considers calls for accountability—ie, a representative government—as nothing short of subversion.

*"How Farmers Changed China", by Kate Xiao Zhou. Westview, 1996



Look, no dissidents

THE last flicker of Chinese dissidence was probably snuffed out on October 10th last year, when a Hong Kong newspaper published a brave tract from China. In a country where open political debate is out of the question, historical dates become highly charged; this one more so than most because it is the anniversary of the day in 1911 when a Chinese republic was proclaimed by Sun Yat-sen,

whose mantle today is claimed by both the Communist Party in Beijing and the ruling Kuomintang (KMT) in Taipei. The date also happens to be the anniversary of the 1945 agreement between these two parties to convene a national assembly that would draw up the details of a liberal democracy in China, guaranteeing the principles of equal status for its political parties and freedom of speech, reli-

All critics have been silenced



gion and assembly for its citizens.

The Chinese dissidents' tract published last October called for a return to those principles. It also threw in, for good measure, a call for the impeachment of President Jiang Zemin, who insists on saying that the army is under the control of the party, rather than the state, as China's constitution lays down. One of the two authors, Liu Xiaobo, a literary critic and a force in the 1989 Tiananmen Square protests, was sentenced without trial to three years' "re-education through labour". The other, Wang Xizhe, was already considered a habitual offender, who since 1974 had spent most of his time in jail, and had been calling for more accountable government whenever out of it. On October 11th Mr Wang was spirited out of China through Hong Kong.

What articulate opposition is left in China? Wang Dan had been one of the Tiananmen movement's student leaders. When he came out of jail in the mid-1990s, he was still speaking out in his thin, squeaky voice, so back he disappeared. Late last year he was sentenced to ten years' jail for subversion. Wei Jingsheng, perhaps the Chinese dissident best-known among outsiders, had gone to jail in 1979 for wanting to add to Deng Xiaoping's list of "four modernisations" in industry, science, farming and defence: why not, he had asked, democracy too? He was released in 1993, but rearrested six months later and charged with attempting to overthrow the government. He is now serving a 14-year sentence. When Wang Xizhe passed through Hong Kong last October, he made it clear that opposition in China had been more or less wiped out.

No safety valve

Paradoxically, this ought to cause the regime some concern. At various times in the past the Communist Party has tolerated a degree of open expression, if only because some parts of the leadership have found it useful. No doubt the current leadership thinks that its harsh stand against open political debate helped the regime survive the turmoil of 1989 at home and in Eastern Europe, and the collapse of the Soviet Union in 1991. Yet with every dissident voice in the country silenced, any popular challenge to the leadership that might one day arise becomes more likely to lead to a violent explosion.

Foreign observers, particularly business people who have noted the country's economic strides, often appear to underestimate the potential for large-

scale unrest in China. Not so the country's own leaders. The Communist Party came to power on the back of such turmoil. Many of the current leadership were victims of the Cultural Revolution of 1966-76. Deng Xiaoping gave warning of the international consequences that might follow from unrest in China: for instance, millions of refugees flooding across borders into neighbouring countries, including into Hong Kong. The Communist Party came precariously close to losing its unity during the Tiananmen Square protests. The need for "stability", vaguely defined, is a constant refrain from the political leadership.

One source of challenge to such stability, some think, might be disenfranchised workers. Han Dongfang is a defender of workers' rights who rose to prominence during the Tiananmen protests. Afterwards he nearly died in prison, but was eventually allowed medical treatment abroad. China will not let him back into the country; he now works from Hong Kong on Chinese labour issues. Mr Han does not believe that trade unionists should involve themselves in politics, but he criticises the government and its official trade union for treating any attempt to improve working conditions—asking for a cool-air fan in a furnace-shop, for instance, or setting up an evening school for women migrant workers—as potential subversion.

Mr Han is soft-spoken and not given to hyperbole, but he has a serious message: "I don't want to see the Communist Party lose power through violence. But unfortunately the economics of the state-owned sector and the party's own harsh politics are making that likelier. It's slowly happening already: strikes, violence, rebellions in the countryside. One day, in a year or two, the government is going to use guns against people. That means war, and I'm sure machineguns and tanks are not going to stop that kind of rebellion... Time is running out."

Not forgotten, not forgiven

The memory of the Tiananmen massacre itself is spark enough for a future conflagration. The standard line from party officials, foreign businessmen and many ordinary people is that the Tiananmen events have been forgotten; besides, everybody is too busy making money. But this is wishful thinking. One reason why thousands went to Tiananmen Square was to protest against corruption inside the party. Today corruption is worse than ever, and many people openly resent the party's mix of moralising and money-grubbing.

"There are so many people with grievances," says Wu Guoguang, an academic at the Chinese University in Hong Kong and a former adviser to Zhao Ziyang, Jiang Zemin's predecessor; Mr Zhao was ousted from power at the height of the student protests in 1989. "They'll wait for some public signal, and then they'll come together when they know others will do the same thing." Resentment has turned to popular protest in the past, often catalysed by the death of a political figure. That adds to the uncertainties now that Deng has gone.

The memory of Tiananmen is etched in too many minds to be easily erased. The protests were only the most recent in a long line of student-led demonstrations. Many Beijing residents took to the streets to stop troops advancing on the students in



Han Dongfang sees guns ahead

Daniel J. Barnak
6973 Candlewood Drive
Fayetteville, North Carolina 28314-1605
(910) 868-6190

Currie

'97 JUN 11 PM4:28

Office of the President
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500
(202) 456-2883

*to him for
reply*

Attention:

Ms. Betty W. Currie
Personal Secretary to the President

Please forward accordingly.

The Honorable William J. Clinton
The President of the United States

Mr. President;

Please review the enclosed information regarding Senator Helms investigation of this writer's suggestion for decreasing outgoing mail costs of the U.S. Army; and more importantly the United States government.

Ms. Linda B. Conlin's response to the Senator's inquiry. I am confident, with the enclosed information, one can presume someone within the United States Army Special Operations Command or Fort Bragg expressed a mistruth to Ms. Conlin's office; as well as to the Senator.

We are spending more money than is necessary.

The items of review are:

1. Letter of Response, Senator Helms' office, Ms. Flo Thompson,
dtd: May 23, 1997
2. Letter of Response, Dept Army Office of the Chief of Legislative Liaison,
Ms. Linda B. Conlin, dtd: May 21, 1997
3. Display of postage costs, USASOC and Fort Bragg

Points of contact:

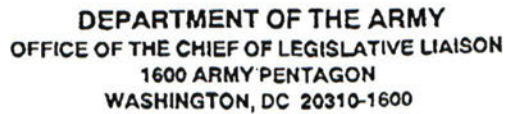
= This writer		(910) 432-4607/3822
= Mr. Brian H. Milson	Metering Clerk, Fort Bragg	(910) 396-4300
= Mr. W.E. Cook	Metering Clerk, USASOC	(910) 432-1711

Sincerely,

Daniel J. Barnak

10 Jun 97

Cover Sheet inclusive of 4 pages



97 MAY 21 1997 FBI ID: 39

Dear Senator Helms:

The suggestion submitted by Mr. Barnak was reviewed by the Deputy Chief of Staff, Information Management, Special Operations Command, Fort Bragg, North Carolina. Mr. Barnak was notified by letter, dated April 17, 1996, that his suggestion was not recommended for adoption because it proposed a procedure already in use at that installation.

I trust this information will be of assistance.

Sincerely,

Linda B. Conlin
Linda B. Conlin
Congressional Coordinator
Congressional Inquiry Division

United States Senate

WASHINGTON, DC 20510-3301

May 23, 1997

Mr. Daniel J. Barnak
6973 Candlewood Drive
Fayetteville, North Carolina 28314

Dear Mr. Barnak:

Enclosed is a copy of the response I received from the Department of the Army.

I hope this letter addresses your concerns. If after you have reviewed it, you still have some questions, please do not hesitate to contact me for further assistance.

Kindest regards.

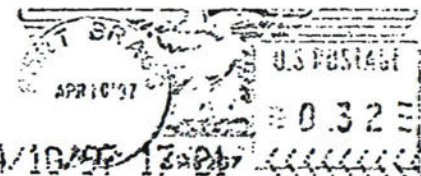
Sincerely,

A handwritten signature in dark ink, appearing to read "Jesse Helms". The signature is fluid and cursive, with the first name "Jesse" and last name "Helms" clearly distinguishable.

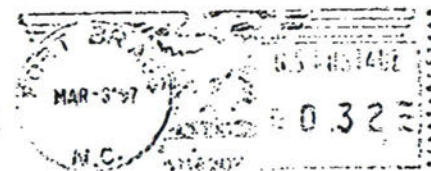
JESSE HELMS:ft

UNITED STATES ARMY SPECIAL OPERATIONS COMMAND
ATTENTION: INFORMATION SERVICES DIVISION
FORT BRAGG, NORTH CAROLINA 28307-5200

FAYETTEVILLE NC 283 #2 04/16/97 17:01



Commander
United States Army Special Operations Command
Attention: Information Services Division
Fort Bragg, North Carolina 28307-5200



DEPARTMENT OF THE ARMY
Directorate of Information Management
ATTN: AFZA-IM-P
Fort Bragg, NC 28307



OFFICIAL BUSINESS

DEPARTMENT OF THE ARMY
Directorate of Information Management
ATTN: AFZA-IM-P
FORT BRAGG NC 28307-5000



FAYETTEVILLE NC 283 #2 04/28/97 16:00

OFFICIAL BUSINESS

Mr. Daniel Barnak
6973 Candlewood Drive
Fayetteville, NC 28314



THE PRESIDENT HAS SEEN

6/11/97

Mrs. Barbara Murad
Director of Student Activities

Baldwin Park High School Associated Student Body

3900 North Puente Avenue Baldwin Park, California 91706

(818)337-0342 • (818)338-4918 • Fax (818)337-1059

Dear Mr. President,

June 9, 1997

Our nation is divided, divided by the color of our skin, the shape of our eyes, or the color of our hair. Because of these differences, the lines of communications are lost. Lack of communication is the building block for ignorance, and ignorance leads to racial tension. In order to resolve to this tension, we, as high school students, have come up with many ideas to help eliminate this problem. Our leadership class has thought of many ideas, but instead of forcing them on you all at once we, as a class, have selected these two proposals.

One of our many ideas that will help ease racial tension, that the government can institute quickly and effectively, is to make an Ethnic Relations class mandatory for a graduation requirement. By doing this, students are able to learn about their peers, cultural backgrounds, which allows them to peacefully interact with different cultures in the real world. Not only do students gain a sense of what other cultures consist of, they also develop a sense of pride in their own culture. Through this we hope to achieve a better sense of the cultural diversity which exist in the United States today.

The racial problems of today are already being fought in some school districts already, through the use of the Spirit program. This program, which is federally funded, should be implemented through schools across America. The Spirit program is made up of students that represent all races in their school, which are then put into homogeneous groups that are asked to identify problems in their school concerning their own race. After the students identify the problems, they are placed into heterogeneous groups which then are made to find certain steps that need to be taken in order to resolve the problem.

These are only a few of the many ideas we had to ease racial tension in schools across America. If we can accomplish these simple tasks, the boundaries that divide us will disappear. It has been said a house divided against itself will not stand, therefore how can a country divided stand?

Sylvia
from K Mayor
who was at the
meeting
need to send
appropriate letter
BC

Sincerely,

Javier E. Vargas
John C. Tran

Javier E. Vargas
John C. Tran
Student Government
Baldwin Park High School

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Matthews
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(Doriskind??)

Dear President Clinton,

How would I solve the racism? Well, I would ask the people if they can get along. Why do we have to hate each other. We can stop this by saying to each other if we can love one another. Everybody is against each other. People died because of this. Or we can just leave it alone until we know how to live with one another.

Sincerely,

Debra

Dear President Clinton,

to stop the racism I think we should show people that everybody is created equal. There is always somebody that is never going to agree with you. That does not make them different from anybody else. The color of your skin or your culture doesn't matter. It's what's inside that counts. So you shouldn't judge anybody for their color of skin you should judge them for what's inside.

Sincerely,

Gabriela Espinosa

10-9-97

Dear President Clinton,

I think the best way to stop racism is to make people understand that people are unique in different ways. They should know that America isn't just for white people, it's for all cultures too. I think they should look in the inside of someone not the outside. Who cares if they are African, Asian, or Hispanic as long as they are a good friend. I think they shouldn't kill people just for their color. They should learn about them instead of judging right away. So I think they should stop the racism.

Sincerely,
Iris A.G.B

Dear President Clinton,

I think the way that we should deal with the problem of racism in beliefs would be by showing an example to other people that we are all the same in our hearts. We all might think that we are weird because we look different or believe in something different but that isn't a real problem because that's what make us unique. So if important people like yourself and other people that we looked up to set an example by respecting our cultures and beliefs because you are the people that we listen to and that can really make a difference.

Sincerely,

Janet Zuniga

Dear President Clinton,

6-9-0

I think we can get rid of the racism by going to church every Sunday, because everyone that I have met that goes to church, is very kind to everyone.

Also I think that every community should have a Community Center, that's if they don't have one already.

And in school all of the students should learn about all kinds of cultures. And then for a fun activity they can draw a picture of what they liked best out of that whole lesson on different cultures.

Thanks for letting me give you some ideas about this.

Sincerely
Julie Duarte



'97 JUN 10 PM6:15

THE WHITE HOUSE
WASHINGTON

June 10, 1997

THE PRESIDENT HAS SEEN

6/11/97

MEMORANDUM TO:

THE PRESIDENT

FROM:

RAHM EMANUEL

SUBJECT:

EDITORIALS FROM MINNESOTA, NORTH
DAKOTA AND SOUTH DAKOTA

I thought you would find the attached editorials interesting.

Copied
Emanuel
Bowles

Horan

HOW'S IT PLAYING I: EDITORIALS FROM THE FLOOD ZONE

A sampling of recent newspaper editorials in Minnesota, North Dakota and South Dakota:

Fargo-Moorhead FORUM (ND) on SD Gov. Bill Janklow's (R) criticism of Republican congressional leaders: "Putting the interests of flood victims ahead of partisan considerations, Janklow refused to sign a letter urging President Clinton to sign the disaster aid bill" (6/10). "Republican leaders in Congress continue to play outrageous political games with the lives and futures of Red River Valley flood victims" (6/8). "Flood survivors...are in no mood to be treated in such a callous manner. Their awful circumstances have been compounded by uncertainty brought on by congressional delays" (6/4).

GRAND FORKS HERALD (ND): "The saga of the disaster bill is a disappointing one. ... Yes, we feel let down" (6/7). "Show me the money. ... But the line isn't funny anymore. In Grand Forks, 'show me the money' has taken on a scary, new meaning" (5/29). "The need is great. ... Although there are jobs, there aren't enough places for people to live. ... Congress let us down [5/23], when the leadership of the House of Representatives decided to recess for Memorial Day before acting on the disaster relief bill. Members clearly didn't understand how serious the situation is here. We need to share our sense of urgency" (5/27).

Minneapolis STAR TRIBUNE: "The people of Minnesota and the Dakotas must be clear about why \$5.6 billion in aid will not flow quickly. ... It is not because President Clinton doesn't keep promises. ... It is because the Republican majority in Congress, including Minnesota's own Sen. Rod Grams, chose to play political games with the disaster-aid bill" (6/10).

MINOT DAILY NEWS (ND): "Congress must act decisively. ... To do less would only add to the garbage that the residents of Grand Forks must already endure" (5/31).

Sioux Falls ARGUS LEADER (SD) on Congress: "Perhaps in the relatively balmy climes of Washington, D.C., lawmakers forget that the construction season is truncated in places such as South Dakota" (5/31). On Rep. John Thune (R): "Demonstrating common sense that seemed to elude some of his colleagues, Thune recommended voting on the budgetary issue as a stand-alone measure" (5/31).

YANKTON PRESS AND DAKOTAN (SD): "Thumbs down to the federal government for continuing to delay passage of the much needed disaster relief bill. ... We can only hope that those legislators who insist upon putting partisan issues before human suffering will find themselves elected out of office the next time they are up for re-election" (6/6).

HOW'S IT PLAYING II: HEADLINES FROM THE FLOOD ZONE

BISMARCK TRIBUNE (ND): "Clinton vetoes flood relief bill: President cites 'extraneous provisions'" (6/10).

DICKINSON PRESS (ND): "Senators to burn midnight oil: Trying to force passage of disaster bill" (6/10).

Fargo-Moorhead FORUM (ND) to Congress: "You are playing with our lives: Flood victims vent frustration at political maneuvering over relief bill" (6/7).

GRAND FORKS HERALD (ND): "Clinton vetoes disaster aid bill. Republican leader [Sen. Trent Lott] says next bill will contain two contentious riders" (6/10). "To Washington, with trepidation: ... mayors and other local leaders head to Capitol

obby for disaster aid bill passage" (6/5) "Blame the GOP leadership for delay in valley flood aid" (6/3). "GF residents tell Congress their tales" (5/29).

HURON PLAINSMAN (SD): "Flood victims losing patience with political bickering in Washington" (6/8).

MADISON DAILY LEADER (SD): "Tom Daschle uses Watertown officials to aid funding fight" (6/6).

Minneapolis STAR TRIBUNE (MN): "Clinton, GOP wrangle over stalled aid for disaster relief: Legislation will be sent to White House next week" (6/7). "Congress OKs flood-relief legislation: But it's caught up in politics, and Clinton says he'll veto it" (6/6). "Flood-relief bill headed for veto: Clinton wants measure without amendments" (6/5).

ST. PAUL PIONEER PRESS (MN): "Relief bill stuck in the muck: Congressional moves postpone flood aid" (6/5).

Pierre CAPITAL JOURNAL (SD): "Janklow won't join governors in urging Clinton to sign bill" (6/6).

RAPID CITY JOURNAL (SD): "Janklow rips GOP: Disaster bill splits governors" (6/7)

Sioux Falls ARGUS LEADER (SD): "Janklow slams GOP on disaster-aid bill" (6/7).

WATERTOWN PUBLIC OPINION (SD): "Right wing blasted for aid impasse" (6/6).

THE WHITE HOUSE
WASHINGTON
June 5, 1997

'97 JUN 6 AM 11:21

MEMORANDUM FOR THE PRESIDENT

FROM:

SYLVIA M. MATHEWS

SUBJECT:

GALLUP POLL

Yesterday, Erskine, Ann Lewis, Carolyn Curiel, Ann Walker, Terry Edmonds, Michael Waldman, Maria Echaveste and I met with the Gallup organization to be briefed on a poll that they will be releasing on June 10. While this information is embargoed, they wanted to brief us (and have offered to brief the Republican Leadership) in order to help us on our initiative.

This poll is limited to black/white issues. We did mention to them that our initiative is broader and encouraged them to broaden their effort.

One of the biggest conclusions that one can draw from Gallup's statistics is the very real difference in perception of treatment that both blacks and whites have. Ann Walker is putting together talking points as to why this poll supports our efforts. There are some elements in the poll that the right wing may misuse. Since the press conference is on Tuesday, June 10 (4 days before your speech), we will try to ensure that the poll be used to support the importance of our initiative.

In case you don't have time to look through the whole attached document, I have marked a few charts (though I found all of them interesting and worthy of time and thought).

Attachment

Copied
Mathews
Bowles

Amazing

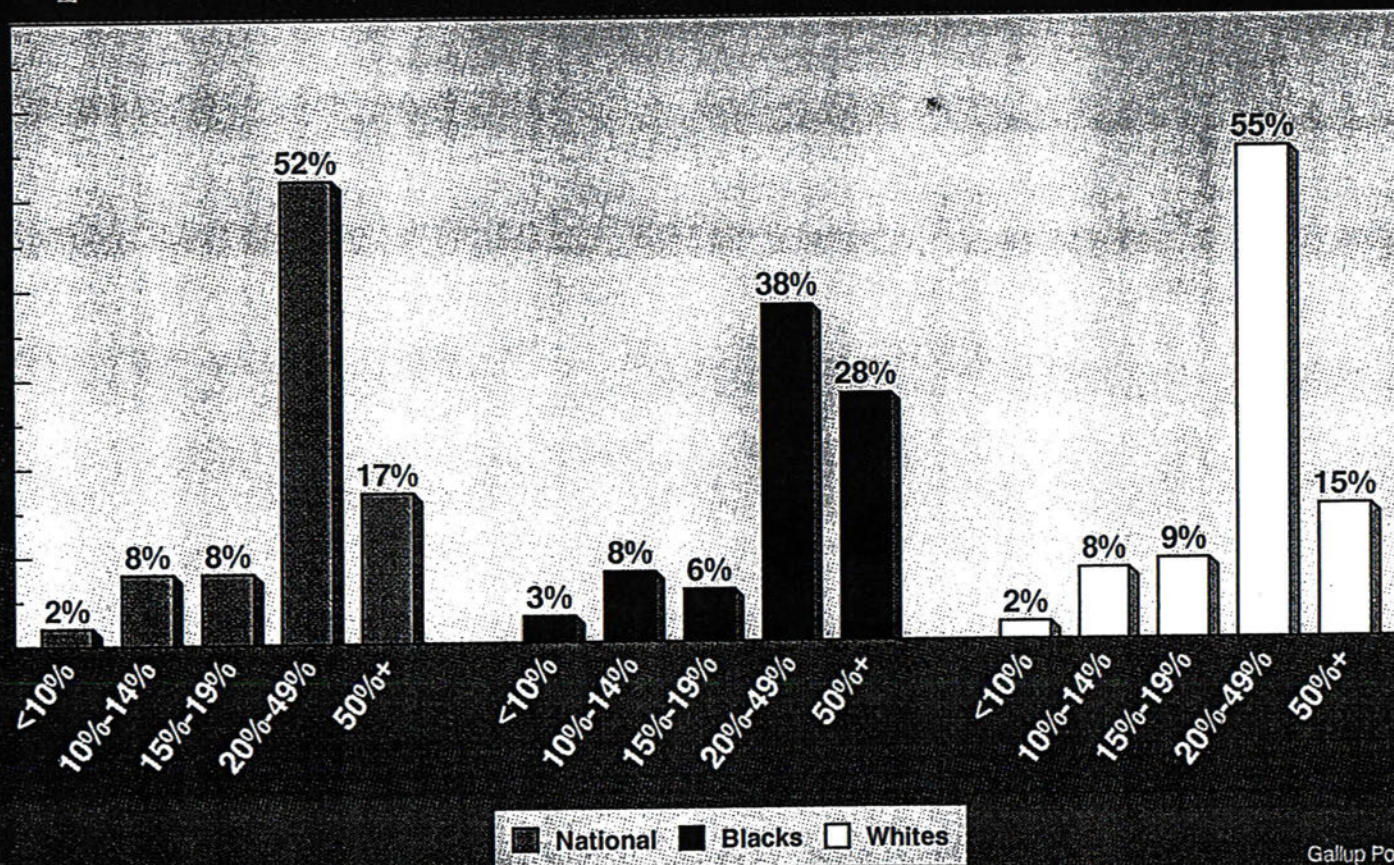
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June 1997

The Gallup Poll Social Audit
Black/White Relations in the U.S.

Perceived Percentage of U.S. Population Which is Black

Just your best guess, what percent of the United States population today would you say is black?



Education
on demographics
looks needed.

THE PRESIDENT HAS SEEN
6/11/97

Andrew