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**CHINA'S CHANGING--
FROM ECONOMIC REFORM
TO DEMOCRACY**

BY

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CHINA'S CHANGING -- FROM ECONOMIC REFORM TO DEMOCRACY
AN INDIVIDUAL STUDY PROJECT

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CHINA'S CHANGING -- FROM ECONOMIC REFORM TO DEMOCRACY

I. INTRODUCTION

This is a changing world. In mainland China the change started during the spring of 1989, when a group of brave students were encouraged by the Communist Party's "opening economic policy". With a purely patriotic passion they launched an unprecedented pro-democracy movement at Tiananmen Square. The pro-democracy movement was crushed by the dictatorial communist government's cold-blooded slaughter, temporarily postponing on opposition movement with brutal suppression. The opposition's democratic spirit has inspired people throughout the world in their quest for self-determination.

Incredible democratic triumphs have occurred within the span of two years. The first triumph was the fall of the Berlin wall, followed by the Eastern European people bringing down their communist governments. And the most unbelievable triumph was the breakup of the U.S.S.R.. These changes signified the end of the Cold War. The costly arms race between East and West, lasting more than forty years, is over. The U.S.S.R. disappeared from the world map without a Third World War.

Contributors to this significant victory included former United States' presidents Ronald Reagan and George Bush. They should be nominees for the Nobel Peace Prize. But change has not yet stopped. Even though President Bush was one of the greatest contributors to the U.S.S.R.'s breakup, he has been abandoned by

the American people. The United States has a new president as of January 20, 1993.

At this moment we should look back and think. What factors are the cause of all this unbelievable change? And most important, is the origin of the changing world Red China? It is still under a tyrannical communist dictatorship. What is the future of Red China? Is it going to be toppled and breakup as did the U.S.S.R.'s government? All of this unpredictability concerns the whole world.

II. THE CAUSE OF THE U.S.S.R.'S BREAK UP.

More than twenty years ago the late president of the Republic of China, Chiang Kai-shek, said, "The Communist Party will collapse in the 1990's."¹ It was amazing that he could predict so accurately. But actually Mao Tzu-tung, the late Chairman of Red China, was the first one who predicted the Soviet Revisionist line. He said, "The Soviet Union will deviate from Communism."² Mao's prediction was based on power transition. Sooner or later, once Soviet reform started, absolute power to control the Union would loosen and they would finally lose their power. Chiang's theory is that the Communist system is contrary to human nature and human law. Their theories seem different but the real power that makes change originates from the motivation of economic reform. It will be very clear if we study the Soviet Union's reform process.

The Soviet Union during Gorbachev's era was a country in the midst of a major transition whose scope and outcome remain

uncertain, but one which extended from the composition of its political elite to key economic policies which contributed so critically to the stability of the Soviet system.³ It is obvious that Gorbachev failed to pass this transition to a new economic reform government still under communist control. What motivation made him pursue this radical reform policy? Did he have other alternatives that would have been better?

Look back at the period under Khrushchev and Brezhnev. The Soviet Union enjoyed a rapid rate of economic growth. That made it easier for the Soviet political leadership not only to meet the population's modest expectations for improved living standards but also to ensure security of employment and good public order. Late in the Brezhnev period the Soviet leadership confronted increasingly bleak prospects both in the domestic and international scene. Four factors played a key role in this transformation.

- First and foremost was the growing retardation of the Soviet economy.
- Technological backwardness compounded the problems of the economic slowdown.
- The pressures of external competition were accentuated even further by the deterioration of Soviet - American relations.
- The apparent incapacity of Soviet leadership to address these problems adequately.⁴

All of these factors originated from economic issues. Leonid Brezhnev started an economic reform in 1965 to try to solve this problem. But it failed; routine, inefficiency, red tape and numerous vested interests killed all efforts toward improvement in management and planning. This situation remained

unchanged in Gorbachev's period. According to Gavriil Popov, "The real problem lies rather in an economy driven not by economic laws and consideration, but by a strictly political-administration engine."⁵

III. CHINA'S CURRENT SITUATION

A. The People's Republic of China (PRC).

Deng Xiao-ping, after becoming the chairman of the Chinese Communist Party (CCP), started economic reform in 1978. Since then, the PRC's G.N.P. has grown, on average, more than 9% per year. This change not only improved the people's livelihood, but also brought about structural change in mainland China's economic system and political decentralization. In order to stimulate people to contribute to modernization the Party allowed the people to enjoy more political liberalization. This was the main cause of the Tiananmen Square massacre in June 1989. After the bloody slaughter the CCP abandoned the alleged economic reforms and reassumed tight political control. To most Chinese people's relief however, Deng did not retreat from his policy of economic reform and the policy of "opening-up." The CCP's Fourteenth National Congress further confirmed this policy by declaring that they would establish a " Socialist market economy."⁶ Now prospects for economic reform depend upon the reformers abilities. In the short term, reform will definitely bring progress and a period of stability for Communist China. However, "opening-up" will not only bring in Western influence but also create new demands for political liberation and

democracy. Modernization and political liberalization will then be a dilemma for the CCP's leadership.

B. Hong Kong.

According to the British and Chinese Joint declaration, Hong Kong will return to Red China in 1997. Because of its tangible economic benefit and political influence to the Republic of China Deng has already promised that "the social system and life style and it's position as an international financial center and free port will be kept and remain unchanged for fifty years after 1997."⁷ But the Tiananmen Square massacre has broken Communist credibility on the promise to Hong Kong's future. Now the people in Hong Kong are led by the new Governor, Christopher Patten, the former leader of the conservative Party, who is trying to make it's democratization legitimate. This movement caused a radical reaction from Beijing, which threatened "to scrap the 1984 agreement that promised Hong Kong continued political and economic freedom for 50 years after the colony returns to Chinese control in 1997."⁸ This incident not only escalated the political tensions between China, Britain, and Hong Kong, but also is devastating Hong Kong's economic progress. In December 1992 its stock market dropped from its highest point, 6400 points, to 4978 points. Disputes between Hong Kong and Beijing continue. Governor Patten is trying to get support from the international community. Mainland China is trying to stop the democratization movement. Hong Kong's future is still unknown.⁹

C. The Republic of China (ROC).

In 1949, when the Nationalist government retreated from the mainland to Taiwan, the government faced many serious problems. These problems were national survival threatened by Communist's assault; political and social instability caused by the retreat from the mainland; and the economic crises caused by increasing population, heavy military expenditures, and few natural resources. These difficulties, however, did not deter the ROC government. Forty years of hard work created an economic miracle in Taiwan followed by notable political reform. Its government has successfully transformed itself from a one party monopoly to a multiparty democratic government system.

Looking ahead into the twenty-first century, the ROC on Taiwan has embarked on an ambitious mid-term plan for national development, the goals of which are to upgrade the industrial structure, promote balanced regional development, and improve the quality of life. Under the new six-year plan (from 1991 to 1996), the ROC government has committed a total of US\$303 billion for 775 projects. These ambitious projects, combined with political democratization, have attracted the world's attention. The former British Prime Minister, Madam Margaret Thatcher, officially visited Taipei in October 1992. This was the first time a British leader visited Taiwan since 1949. In December 1992, the U.S. sent its Secretary of Commerce, the first time since 1979, to visit Taiwan. These events and more proved the ROC not only has survived but is also progressive and ready to

welcome a new era of political democracy, popular freedom, and free economic competition.

D. The integration of Red China, Hong Kong, and Taiwan.

After the massacre at Tiananmen Square in 1989, the world enacted economic sanctions against the PRC. Red China suffered a lot from this world-wide blockade. This situation worsened when the hard-liners insisted on setting back economic progress in order to reassert control over the country. Soon investment from outside, especially the Chinese people of Taiwan, Hong Kong, and overseas Chinese, replaced the foreign investors, such as Japan, European countries, and the United States.

In recent years, there has been a call for the establishment of a "greater China economic sphere" involving Taiwan, Hong Kong, and Red China.¹⁰ This "greater China economic sphere" is caused by thousands of Chinese capitalists, based all over Asia, forging extensive trade and investment links with the mainland. They are encouraged by Deng's economic reform and "opening-up" policy and acting mainly for their own profit, but at least some of their motivation derives from the desire to contribute to their homeland. No matter what the motivations, this economic integration has begun and is moving forward quicker than either the PRC or ROC expected. The future is still unknown, but this economic integration has attracted the world's attention.

IV. THE PRC'S POLICY AND CONTRADICTIONS.

Because Red China's fascinating economic progress is a contradiction to the general world wide recession, it attracts

many world economic experts, scholars, reporters and businessmen to try to discover the truth and predict the future in order to take actions that may best benefit them. One can pick up almost any newspaper, magazine or report and see articles such as "INSIDE CHINA TODAY," "GREAT CHINA ECONOMIC SPHERE." They are discussions of the future of China, its economic potential, and its influence in world economic progress. But others tell of the PRC's belligerent behavior in support of hard-line communist regimes in North Korea and Vietnam; its arms exports to the third world, such as Pakistan, the Middle East, Latin American, and its import of advanced technical machinery and weapons such as high speed computers, a new generation of jet engine, nuclear submarines, and an aircraft carrier. Those sophisticated technologies are being used to build up and modernize Red China's Armed Forces. Looking at its economic progress combined with its belligerent behavior, the question follows, what is the future of China? How can we be sure China's changing will benefit the Chinese people and the whole world? Factors which may influence Red China's changing include Red China's national policy, the people in China, Republic of China(Taiwan), Hong Kong, economic power and the free world nations.

A. The People's Republic of China's (PRC) policy.

1. The objective of the PRC.

The goal of the Communists is to make an utopian communist world. Red China has adhered to this belief since they took power in China. The leadership of the PRC is trying to build

China as a model communism nation, called "The heaven of Communism." They have never abandoned this belief and still consider Communism is the only and best social system for the future, even after the breakup of the Soviet Union and Eastern Europe. Some of the hard liners insist that it is not Marxism's failure but the influence of the West which toppled the U.S.S.R. Their long term national goal is to have the whole world come under Communist's control, "an utopian Communist world."

In order to accomplish their historical mission the PRC has to fulfill its intermediate national goal, the reunification of China. Its policy for reunification has been changed from "forceful liberation" to "peaceful liberation". Now under "peaceful liberation", Red China has declared "one country, two systems." Deng publicly declared that after the return of Hong Kong, the colony can maintain its system for at least fifty years and that Taiwan can use the same model. But, contradicting its "peaceful liberation", the PRC also declared it may use force to unify China if necessary.

2. Political and economic policy.

In order to achieve their national goal they have to implement economic reform to cure their current problem. The experiences of the Soviet Union and Eastern Europe gave Red China's leadership a lesson. They want to use economic reform as a remedy to cure the Communist disease and avoid being toppled as a consequence of economic reform and Western democratization. So they established a set of political principles for economic

reform called the "four cardinal principles" or "four insistences."

- (1). Insist on leadership by the Communist Party.
- (2). Insist on a People's Democracy Dictatorship.
- (3). Insist on a Socialism Line.
- (4). Insist on Marxism-Leninism and Mao's thought.¹¹

After the CCP's Fourteenth National Congress in October 1992, the General Secretary, Jiang Zemin, declared that Mainland China would establish a "Socialist Market Economy." He said,

The establishment of a sound socialist market economy will depend on: (1) the transformation of the operational mechanisms of state-owned enterprises, especially larger enterprises; (2) the rapid establishment of a market system and the further development of commodity markets, especially markets for the means of production; (3) intensified reform of the distribution and social insurance system; and (4) a more rapid change in government functions.¹²

This report has been agreed upon by both reformers and hard-liners. They even agreed not to allow ideology to hamper economic development. But they will never give up the "four cardinal principles". From Jiang's report it is very clear that Red China is moving to the "capitalist economic" or "free-enterprise" system. And in the meantime, the government system is still under their political cardinal principals.¹³

3. Contradictions caused by reform and demands.

Since 1990, the Chinese Communist leadership has been caught up in a series of contradictions and dilemmas. Notable among them are:

a. Pragmatic economic policy versus orthodox ideology.

What is the Communist "market economic policy?" It is a kind of "market socialism with producers getting some signals from the market but with the government continuing to exercise whatever degree of control it decides is necessary."¹⁴ The problem is that hard-liners can easily block the reforms whenever they consider it necessary. The Communist leadership will limit reform's progress by their own ideology or self-interest. The massacre of Tiananmen Square dramatized their determination to retain control at any cost. In the eyes of many young Chinese the four cardinal principles are a built-in obstacle to the reform program. When reform moves forward to a certain degree it will challenge the legitimacy of the Communist monopoly on political power and the Party's "four principles." The conflict between ideology and pragmatism has created profound confusion among government officials and dampened enthusiasm for economic reform.

b. Central control versus local autonomy.

One of the major goals of reform is to put an end to the practice of excessive central control and over-rigid management by delegating some policy-making power to local authorities. This policy stimulated local enthusiasm; some provinces such as Kwangtung and Fukin took advantage of the new autonomy and achieved a measure of prosperity during the decade 1977-1988. Kwangtung's GNP growth rate averaged 12 percent, the highest in the country. However, the expansion of local economic power

inevitably reduced the power of the central authority. This power transfer starts from the economic standpoint. It will end with more and more political power transferred in order to make economic progress possible. At the Fifth Plenum of the CCP's Thirteen Central Committee in November 1989 a "thirty-nine point plan" was adopted which called for recentralization of economic power. But it caused great local resistance and intensified the conflict between central and local governments.¹⁵

c. Reunification versus political influence and economic interests (economic integrity).

Reunification is Red China's national goal. There is a great urgency for their leadership to fulfill this historical mission. The urgency comes from the old generation, especially Deng Xiao-ping's colleagues. They have a strong historical sense of responsibility for unification and want this mission to be fulfilled in their hands. This sense of unification is extremely critical now because Deng and his colleagues know time is against them.¹⁶ For the younger generation their first priority objective is pursuing economic progress, things people can feel, touch and enjoy. This is the only remedy that can heal the Communist disease.

The goal of national unification - unifying Taiwan and Hong Kong to accomplish their historical mission, and economic integrity - integrating Taiwan and Hong Kong to generate more economic power to heal the Communist disease, has become a real dilemma in their decision making process. The Tiananmen Square

massacre, the threat to Hong Kong's democratization movement, protest of the ROC's arms procurement, all of these irrational reactions are coming from this contradiction. These irrational actions not only hurt their economic reform policy but also strain tensions in this region.

B. Analysis of Red China's current strategy.

1. Two hands stratagem.

The "two hands stratagem" is the oldest and most basic Communist strategy. "If a Communist stretches out his right hand to greet you, beware: he might beat you with his left hand." This is a remark frequently made by those who have experience doing business with the Communists. They have no regard for ethics, but believe in the end justifying the means. It looks like it is an old-fashioned expression. But the old-fashioned strategy can be readjusted to suit the current situation, sometimes even better.¹⁷ Communists are the most flexible, changeable and adjustable when using their means to attain their objectives. During the period of the Cold War their objective was to defeat the alliance of democratic countries. At that time the "two hands stratagem" was two hands of "united front" and "armed struggle." It would be more understandable if we translated it to "negotiation" and "battle struggle." This strategy was successfully used by Chinese Communists to take over Mainland China and by North Vietnam to defeat South Vietnam. Now the situation is different and the current goal for Red China is to use the "market economy system" to heal their disease so they

can be strong enough to achieve their long term goal. For now, their two hands are "economic reform" and the "four cardinal principles": the economic right hand and the political left hand. They have never given up their national goal, to unify China under Communist control and to extend the Communist system to the whole world. The following evidence will assist in understanding this strategy.

2. Strengthen "political left hand."

After the breakup of the Soviet Union, the PRC was very concerned about "peaceful evolution." They were undergoing a non-peaceful evolution movement. The four cardinal principles,

keep to the socialist road and uphold the people's democratic dictatorship, leadership by the Chinese communist party and Marxism-Leninism and Mao Zedong thought, are the foundation of the country. It is these principles that will guarantee the sound development of the reform, the process of opening up and the drive for modernization, which will in return enrich the principles with contemporary.¹⁸

were declared by Jiang Zemin, General secretary of the Central Committee of the CCP, at the 14th National Congress of the Communist Party of China. These words are the will of their leadership and have been clearly demonstrated by governmental actions.

This is not just a saying, it's also backed up with action. According to Mao, "political power comes from the barrel of a gun, Armed Forces." The PRC has increased its defense budget by 52% in the last three years, even though China enjoys the best external peaceful environment in its history and when outside

security threats seem to have all but vanished. In order to make sure that the People's Liberation Army (PLA) will remain an obedient watch dog for the Communist Party a renewed emphasis on political indoctrination of PLA members has taken up 60% to 70% of their training.¹⁹

Look at the bloodless evidence of the Tiananmen Square incident. Rethink the PRC's increasing defense budgets combined with excessive political indoctrination training at a time when their external environment is most favorable and national economic reforms are in extreme need of capital. The expense of modernization and political education of the PLA are obviously needed for internal rather than external threats. They are using the modernized PLA to back up their political goals.

3. Enlarge economic right hand.

Ever since the PRC started economic reforms in 1979, it has shifted its economic policy from a "fully planned economy" to a "planned economy supplemented by market regulation," and then to the "integration of the planned and market sectors and a socialist commodity economy." Now the PRC has come up with a "socialist market economy" in which market forces will play the dominant role.

After the Tiananmen Square incident the hard-liners set their economic reforms back for a while. As soon as the incident ended Deng declared his determination for economic reforms. During an inspection tour of the south coast economic zone his speech recognized their excellent economic achievement. His

confirmation of economic reform was a cardiac ampoule for the economic reform policy. To ensure the reform policy got enough support from the Party's senior leaders, he invited the senior leaders of the PLA to accompany him on his inspection trip or go there by themselves. He wished them to see the "economic miracle" in the southern coast economic zone for themselves.²⁰ His determination was reinforced by Jiang Zemin in his speech to the members of the 14th Central Committee of the Chinese Communist Party. In order to establish a socialist market economy they are going to:

- Push state-owned enterprises into the market so as to increase their vitality and efficiency.
- Accelerate establishment of the market system.
- Deepen reform of the system of distribution and the system of social security.
- Make change in the functions of government.

They promise a more rapid change in government functions in the future to achieve a more thorough economic reform.²¹

All of these efforts are trying to build economic reform credit, so as to absorb more investment from the outside world and to accelerate economic reform.

4. Ingenious use of those two hands.
 - a. Reunification of China (to unify Taiwan).

Beijing's unification policy is divided into three main strategies: (1) the military offensive, (2) the diplomatic offensive, and (3) the "peaceful offensive." Its means of

liberalization has shifted from "bloodless liberation of Taiwan" to "peaceful liberation of Taiwan." Red China first proposed "one country, two systems" in January 1982, by Deng Xiao-ping.²² There were three reasons that led the leadership of the Communists to make the change: The CCP was concentrating on their Four Modernizations strategy; the international environment, notably the establishment of diplomatic relations between Beijing and Washington; and the signing of the Sino-Japanese Peace and Friendship Treaty. One must remember that the time this policy was proposed was after the CCP started their economic reforms.

The concepts of this "one country, two systems" policy are:

- (1). There must be one country, one China, which is the PRC.
- (2). The dominant system is socialism (communism).

This is no different from its political principle "four cardinal principles", and most importantly: China has never given up the option to use force and to maintain its diplomatic offensive (diplomatic blockade).

From prior political actions it's clear they are ingenuous at using the political left hand to create a peaceful appearance in order to build a fertile economic environment to attract investors in China and enlarge its "economic reform." Also the CCP has given special, favorable, treatment to Taiwanese businessmen investing in China. This is a strategy of "kill two birds with one stone." Because Beijing sees the economic exchange as a way of establishing its influence over Taiwan. The

quicker Taiwan becomes economically dependent on the mainland, the sooner Beijing will be able to force unification under her "one country, two systems" concept. Not only can they achieve their unification objective, but prior to unification China can also effectively use Taiwan's capital and technical expertise to heal her economic disease and to increase her modernization efforts.

b. Absorption of Hong Kong (to take over Hong Kong from the British).

The major difference between Hong Kong and Taiwan is that Taiwan has substantial government entities, such as national sovereignty, national defense, a democratic government system, and an official diplomatic relationship with other countries. The only asset under Hong Kong's control is its economic autonomy. The bad record of the Communist Party makes people distrustful of Deng's words "Hong Kong can preserve its capitalism social life at least 50 years." They have to make the best of what has been offered by Red China. The new Hong Kong governor, Mr. Christopher Patten, is working on a plan to legalize the democratic government system for the people of Hong Kong. China strongly opposes this plan and threatens abandonment of the Joint declaration between Beijing and London if Patten doesn't stop his democratic movement.

The reason for Red China's concern is that it is afraid of "peaceful evolution." Red China only wants Hong Kong's tangible economical benefit and its political influence over ROC. China

will not let the nightmare, Hong Kong's assimilation of the mainland after 1997, become true. So the PRC uses its powerful "political left hand" to compel the new Governor and the people to give up their democratic reform movement.

C. Problems posed by the contradictions.

Dr. Sun-yen-shing said, "There are three things no private agency can accomplish as well as the state: provide for national defense, internal order, and an honest currency. Beyond these three essentials, the more responsibilities a state takes on, the less likely it is to do any of them well."²³ Mr. Jefferson also said, "The best government is the one that governs the least." The essential problem for the Communist government is to use its political power to influence and enhance economic progress. But the facts are contrary, the more they impel compliance, the worse the economy becomes. The problems are:

1. Low efficiency will produce inflation.

The PRC had a very high growth rate of G.N.P. after its "opening-up" policy in 1979. But speed of growth depends on both efficiency and input. The growth gained by higher efficiency involves no risks, but that engendered by increased input will produce inflation. As high input and low efficiency have always been the main characteristics of mainland China's economy, a rapid growth should not be regarded as the sign of successful economic reform because inflation will not be far behind.²⁴ The PRC devaluated currency by at least 25% in December 1992.²⁵ Actually the black market had already devalued the currency.

This has not only hampered further investment but also makes the people mistrust the currency.

2. Inconsistent policies will cause great damage.

During the twenty-seven years of Mao's rule, Mainland China underwent a continual process of institutional transformation, ideological indoctrination, and political upheaval. As one campaign succeeded another, the country's economy paid a heavy price. An official source estimated the Great Leap Forward, which Mao launched in 1958-1960, cost Mainland China \$120 billion, while the Cultural Revolution, 1966-1976, cost another \$500 billion. The economic losses of these two campaigns alone are equal to Mainland China's total capital investment between 1949 and 1978. The Tiananmen Square Massacre, June 4, 1989, again demonstrated the Communist's inconsistent characteristics.

The problems for the PRC are the policy making-process and political considerations. In the Communist government system, policy is made by the dictator or the leader of the Party. And the basis of the policy are the political considerations.

But the free market is a vast information system. Left unhampered, it decides with astonishing accuracy and speed the real worth of any good or service - what people will pay for it - anywhere in the world. Decisions based on this information are likely to be correct But the more the state grows and impedes the free exercise of market forces, the more the quality of information deteriorates, and the more likely the decisions based on that information will be wrong.²⁶

The Communist government has an unsuitable economic planning policy combined with an inconsistent political system. Their

outcome is very obviously going to be unsuccessful. In democratic nations this would make the ruling party or the president lose their position. The outcome of the last U.S. presidential election is an excellent example. If that happens in Communist nations, the government will use all its power to preserve its position. The sad thing is that this improper policy happens so easily in Communist countries and is why their economic prosperity has always lagged behind the world.

3. Vested interest groups will block economic reform.

There are several phenomena in China's political-economical system. The first is that Party leaders are interested in economic reform and leave their main job to subordinates. "Party secretaries are involved most intimately with the development of rural collective industry, leaving other matters to their subordinates or to their counterparts in the administrative portion of government."²⁷ The second is that authorized people have special power for their own interests. "The spread of official favoritism, inside deals, often involves the children of communist Party chieftains, and outright bribery."²⁸ "Investment and trade have given enormous power to what we call gatekeepers, officials with the ability to ease or obstruct access to the Chinese economy."²⁹

Absolute power will ruin human nature, especially when political power is combined with economic interest. This phenomena has produced a vested interested group which will not only ruin the people's desire to work but will block foreigners'

investments, as well as create a big obstacle for the reformers. Whenever reformers encounter an economic progress bottle-neck they want to change the current policy in order to maintain economic progress. Vested interest groups will become another group of hard-liners to block the efforts of the reformers. Some may say these groups can also form a major lobby to stop the real hard-liners and set back reform. But these lobbyists are very different from congressional lobbyists in a democracy. Their existence in Red China will be a real dilemma for their leadership.

4. Elimination of social security will cause instability.

The so-called unbreakable "iron rice bowl" is a major stabilizing factor for Communist society. Half of China's non-farm economy still consists of state-owned enterprises, most of them notorious money losers. In 1990 their combined operating deficits amounted to 5% of national income. One reason is that the payrolls of such companies sustain an estimated thirty million excess workers, or to be more accurate, non-workers. Can the government risk the angry reaction of millions of Chinese workers and take away their guaranteed lifetime employment? If they do not eliminate this policy they must make these state owned factories work. The only solution is to invest more money in these state owned enterprises.³⁰ This becomes inefficient. The more the government supports these factories, the more inefficient they become. It is another dilemma for the government.

5. Economic reform will bring Western influence.

A by-product of economic reform and the "opening-up" policy is that the Chinese people will become more informed about the outside world and Western democratic thought will become widely disseminated. A friend said, "Even now when I show the Tiananmen Square incident video to Chinese students who come out of China for the first time, they refuse to believe it is true. They say it is the propaganda of Western countries." This shows how tight Communist control over the media is. The situation is going to change as Red China implements its "opening-up" policy.

Increasing contact with advanced countries not only brings new technology but also Western ways of thinking, life style, and a democratic ideology. In addition, there are tens of thousands of Red Chinese students studying abroad and millions of overseas Chinese. They also send home information about the outside world. The Western influence will become greater and greater. The so called "peaceful evolution" will be an uncertain alternative for the Communist government.

V. PRC'S ALTERNATIVES.

During the past few years world-wide events have proven democratization is an irresistible world trend. Look at Red China's policy and the problems they have already confronted. The future of Red China will be of interest to the whole world. There are several probable alternative futures for the current leadership of Communist China.

A. "Peaceful change" - a gradual change which will lead Mainland China to democracy.

"Peaceful change" is comprised of several ideas. Ideologically, it advocates Western-style democracy, freedom and the laws of value, in opposition to Marxism-Leninism and Mao Tze-tung's thought. Economically, it advocates the private ownership system and a free market economy in opposition to public ownership and a planned economy. Politically, it advocates pluralism and party politics in opposition to a Communist dictatorship.³¹ If we look at Red China's economic policy after the CCP's Fourteenth Congress it is obvious they are moving in that direction. But this change is considered by the Communists as something aimed at toppling their regime. Understandably, this change is not desired by the Communist Party but is the hope of billions of Chinese people, including those in Mainland China and people outside of China. This change will benefit the world because it will entail the least social cost to Mainland China, will work for the greatest benefit of the Chinese people and will not entail any negative actions for the rest of the world.

B. "A drastic and sudden change" - a sudden change which will lead China to an unknown future.

"A drastic and sudden change" of Mainland China's current system can happen after any one of the following situations: (1) The historical unification mission makes their dictatorship use force to invade the ROC on Taiwan; (2) the tension between their leadership factions deepens, causing a military coup or Party

power struggle; (3) economic reforms encounter an unbreakable bottle neck, causing dissatisfaction among the people which leads to a large scale protest causing the government to topple; (4) central and peripheral tensions may erupt in civil war.

This may follow the model of the Soviet Union and Eastern European countries. The Communist government could be overthrown by the force of the people, a military coup, or some still unknown power. In this case the best ending would be like the break-up of the Soviet Union. The whole country would separate into several independent states. But from a Chinese history point of view it is very possible that China would go back to an endless, painful civil war. It would not only be a Chinese disaster but would cause negative reactions throughout the world.

C. Maintain the "market economic system" under their "four cardinal principles."

This is the best alternative in the mind of the Communists, but is almost an impossibility. As professor Ross Terrill predicts,

The economy can never truly prosper while the Communist Party retains its monopoly of power. The latent imagination, ability and resourcefulness of the Chinese people can only flourish in an atmosphere of political freedom. And whatever gains result from piecemeal economic reform will ultimately merely benefit the Communist by pacifying many critiques.³²

Earlier the contradiction between economic reform and the Communist political system was explored. The political problems

and social problems extend from this contradiction. Thus change is one thing the Communist Party can not control.

VI. ANALYSIS OF THE POTENTIAL TWO MODELS FOR THE FUTURE PRC.

There are two models that can be used as examples for Red China.

A. The first is the U.S.S.R. Both the former Soviet Union and Red China are Communist governments. They started their economic reforms for the same reason, to save their Communist government from bankruptcy. The Soviet Union started in 1960 and Red China started in 1979. At the end of the 1980's they both confronted the same problems and crises, such as military modernization, belief in Communist leadership, social instability, and the pressure for the reallocation of political power. Red China started first with the students' protest for democracy at Tiananmen Square, May through June 1989. The Communist government used the PLA to slaughter the students and compel peaceful revolution. Not long after a Soviet military coup occurred which initiated a nation-wide people's protest to force transfer of political power from the Communist government to the people. This finally ended with the break-up of the Soviet Union. Many experts predict that Red China is going to follow in the steps of the Soviet Union in the near future. There are factors that may make Communist China last longer.

1. The Chinese people are patient.

According to Deng Xio-ping, the reason that Mainland China has been able to maintain stability after the Tiananmen Square

massacre is because most people are satisfied with their well-being following the implementation of reforms and the "opening-up" policy. In his opinion, people will not rebel as long as they have enough food.³³ Why are the Chinese so easy to satisfy with limited economic reform? The first reason is the Chinese have passed through a very long period of unstable social conditions. Even ignoring the wars in the Chin Dynasty, just looking from 1911 to 1979, it would be very difficult to find a peaceful time that lasted more than two years.³⁴ The political movement, especially after Mao Tzu-tung's take over of the mainland, has increased this situation. The second reason is inconvenience of communication and transportation routes caused by the country's geography. This allowed ancient Chinese to enjoy their own liberty no matter who was Emperor. The Liberty Song of ancient Chinese clearly describes this self satisfaction. "When the sun rises, I toil; When the sun sets, I rest; I dig wells for water; I till the fields for food; What has the Emperor's power to do with me?" This self-owned liberty culture makes the Chinese ignore human rights. Their only concern is, "do they have enough food to feed themselves and their families"? These two things make Deng's position reasonable.

2. The overseas Chinese have tremendous economic power.

There are 51 million overseas Chinese, including the people in Taiwan and Hong Kong. According to one estimate, the floating assets in the hands of those overseas Chinese are from 1500 billion to 2000 billion US dollars.³⁵ It is their investments

that helped Red China overcome the world's sanctions after the Tiananmen Square incident. Movement of this Chinese owned currency is very swift. Instead of control by politicians and policy, it is controlled by personal relationships. Resources are moved to the places that can make the best profit. That is why, right now, foreign investors in China have been replaced by Chinese.

B. The second model is "Taiwan." Forty-four years ago the Communists took over the mainland and the ROC withdrew to Taiwan. Besides the contradiction of ideology there were no differences between Mainland and Taiwan. After forty years, the Republic of China not only created an economic miracle but also successfully transformed their political structure to democracy. Its success has become the Third World model. Many Chinese experts, mainland and overseas intellectuals, think the "Taiwan experience" is an excellent model for Communist China. Their theories are: both sides are the same people using the same language with the same cultural background. If Taiwan can make it, the Mainland can do it too. Red China has copied a lot of economic projects from Taiwan. Until now she has been doing very well. But, they should notice there are four factors that contribute to the success of the "Taiwan experience". These factors are:

1. The will of the leadership.

Before the 1980's the ROC was viewed by most democratic countries as a centralized government. In their views, aside from ideology, the ROC and PRC were not much different. But this

view neglected the will of the leadership and their pursuit of the democratic government system. This pursuit has been shared by all the people in Taiwan. It is the prime force which led the country to create an economic miracle and build a democratic system unprecedented in Chinese history.³⁶

2. The prudent leaders.

During the past forty-four years the ROC has confronted many crises, both economic and political. The leaders have always made the right decisions to lead people to overcome crises. Not only to overcome crises but also leading to another turning point and bringing the country to another level of progress.

3. Maintain both social and political stability.

A stable society provides a favorable environment for a country to realize its modernization programs, as no country can achieve that goal in the midst of chaos. Singapore's former premier, Lee Kuan-yew, said "the political instability resulting from the government's loss of control will be the greatest obstacle to economic development." This stability and economic progress forms a good cause and effect relationship. Taiwan can successfully fulfill its political transition because she has that solid economic foundation.

4. Well educated and diligent people.

Taiwan is a small island nation with few natural resources and an overabundance of people. In most developing countries overpopulation is their biggest burden. Because of their education and diligence the people of Taiwan are no longer a

burden to the government; they have become its best asset. It is their efforts that have made the country a success.

From the above analysis we can clearly see there is good news and bad news for Red China. Can they move out from their ideological shadow? Should we just let Communist China move in its own way and stand aside to watch? Do we have the luxury to watch? The answer is absolutely "no!" We should keep in mind that democratization is the trend of the world. We must do something to make China move in this direction. What should be done?

C. The importance of change for the PRC.

Why is change from Communism to democracy so important for the United States and the whole world? The vision of the world to which the United States aspires is one of freedom, respect for human rights, free markets, and the rule of law. The strategies are:

- Global and regional stability which encourages peaceful change and progress.
- Open, democratic and representative political systems worldwide.
- An open international trading and economic system which benefits all participants.
- An enduring faith in America - that it can and will lead in a collective response to the world's crises.³⁷

The key issue for United States' national security interests and objectives is creating a stable global and regional environment in which an open, democratic and representative political system can be planned and developed.

1. From a national security point of view.

The PRC has always been a major power in Asia. Its vast land mass, large population, wealth of natural resources, large industrial base and strategic location give it the raw materials from which national power has traditionally been constructed. If its Communist monopoly remains unchanged and it succeeds in economic reform, in the year 2010 China will very probably be another of the world's superpowers, a superpower under Communist dictatorship. No country in the world would like to see another Communist superpower which could pull the world back to another cold war nightmare. As a democratic nation it could be a good ally and a regional peacekeeper.

2. From the economic point of view.

In the post-cold war period the dominant paradigm of international relations has shifted from security affairs to economics. Almost every country is suffering from the world-wide economic recession and every government is struggling to boost economic progress. Red China and its neighbors, Taiwan, Hong Kong, and South Korea, are exceptions to the world-wide economic trend, especially the PRC, since its economic growth rate has stayed as high as 9% for almost nine years. Major factor for the last couple of years that make these countries' economic growth is due to China's growth. If China continues its program of economic reform and ultimately opens its doors to free and fair competition, the 1.2 billion Chinese people's consumption needs will make them the most lucrative market in the world, dwarfing a

United Europe or the United States. But, as Professor Ross Terrill said, "The economy can never truly prosper while the Communist party retains its monopoly of power."³⁸ The Communists will not only block economic progress but also probably reignite turmoil in China, possibly civil war as in the 1930s. The solution remains unchanged. It is democracy.

3. From a historical point of view.

The people of the United States and the Chinese have had a long, lasting friendship and mutual interests. In the 1890's, when European powers were attempting to partition China and appropriate parts for their exclusive use, the United States government advocated the "open door policy", equal rights for all and territorial and administrative integrity of China.³⁹ The people of the United States donated huge amounts of money to support missionaries to China. During World War II, the United States and China fought together to defeat Japan. After World War II the United States government, for national security reasons, shuttled its diplomacy between the ROC and the PRC, finally turning its back on the ROC to recognize the PRC in 1978. This unfriendly attitude was eased by passage of the Taiwan Relations Act.⁴⁰ This act shows that the people of America care for the well being of the Chinese people.

No matter which side the U.S. government supports, the other will complain. Even so, both the PRC and ROC consider the U.S. attitude on reunification of China very important. Both are trying to maintain good relations with the U.S. This enables

Washington to have friendly, cooperative relations with the PRC and close, nondiplomatic ties with Taiwan. This strategy allows America to maintain both strategic and business interests on the Mainland and in Taiwan.

In Sino-American history there was only one major period of hostility, the Korean War. The cause of the Korean war was conflict between democracy and communism. The Tiananmen Square massacre, the break up of U.S.S.R., the economic miracle and political reform in the ROC have demonstrated the supremacy of democracy. Looking to the future, the only hope for the Chinese people is "peaceful evolution." This change will also seal the future of Sino-American relations. Not only will it support a key U.S. objective, economic access, but will also create a lasting alliance.

VII. RECOMMENDATIONS.

A. United States' actions.

1. Review the China policy.

Past United States' anti-Communist strategies went from deterrence, flexible response and containment to aligning with the PRC to check the Soviet Union. The long-term objective was to change Communist countries into democratic countries. The collapse of the Soviet Union was a victory for U.S. strategy. But as long as the other big Communist nation, the PRC, is still there, the threat remains. The situation would be different if U.S. China policy had been adjusted in the 1970s. It might be

hindsight to review China policy, but to do so can provide some idea of how to deal with the PRC.

The U.S. China policy was dramatically changed during the 1970s. The first change was in 1972. President Richard Nixon visited Beijing. The same year Red China got into the U.N., the ROC withdrew from the U.N. but still had diplomatic & defense treaties with the U.S. The main reasons for these changes were:

- Aligning with the PRC to check the Soviet Union.
- Chinese help for the U.S. "to get out of Vietnam with honor."⁴¹

At that time the State Department had a dual China policy. Secretary of State Henry Kissinger deemed it would "raise havoc with our relations with Beijing."⁴² So the U.S. sacrificed both the well-being of the people in Taiwan and key values, democracy and good will of the people, in favor of the PRC.

The second change was in 1978. President Jimmy Carter recognized the PRC and turned his back on the ROC. The only reason for his actions was his re-election.⁴³ What was the outcome?

- President Jimmy Carter was not reelected.
- The United States lost its credibility as a ally.
- This abrupt policy change came without advance notice or consultation with allies or the Congress, causing debate in Congress.⁴⁴
- The only victory came in 1991, the collapse of the Soviet Union.

The interesting thing is that the cause of the collapse of the Soviet Union was not the "China card." It was the Communist system's defects that caused its break up. The collapse of the Soviet Union was a victory for U.S. strategy. But can we win more with a total victory against Communist countries? The answer is definitely yes. The U.S. and free world could do better if they had the foresight. Let bygones be bygones. In the foreseeable future, there is no common adversary for Sino - American strategic alignment. On the contrary, from the idealistic strategic aspect, to change the Communist Chinese government into a democratic system becomes more salient. How can we achieve another triumph of democracy?

2. Really understand the PRC and its condition.

Sun Tzu said, "He who has a thorough knowledge of his own conditions as well as the conditions of the enemy is sure to win in all battles." We should always keep this truth in mind. The conditions of the PRC have been discussed in prior paragraphs. One we must remember: "time" and "world trends" are on the side of democracy. In the current situation the PRC is highly dependent on the U.S. and free world economic support to fuel its economic reform so that she can heal her political problems. On the contrary, the U.S. and the free world are less dependent on China. The things that concern us are China's communist government's notorious behavior, such as human rights abuses, export of weapons to the Third World, and its military modernization. The United States is in a better bargaining

position to compel the PRC to compromise more and make China create a better political environment to allow the emergence and development of democracy.

3. Be patient in dealing with the PRC.

In the quixotic search for a special relationship with China, the U.S. has typically tended toward simplistic, exaggerated and emotional imagines of an extremely complex and often enigmatic country. To cling to these familiar caricatures of China - as ally or adversary, as willing student or as ideological antagonist - will merely doom the U.S. to repeat the cycles of euphoria and disillusionment that have been so costly in the past.⁴⁵

Because of culture and historical background the Orient and the West are quite different in concept and philosophy. China, especially, has some unique characteristics caused by its five thousand year evolution. But even worse, the Communist Chinese are more difficult to understand than China, because their ideology is mixed with the Western Dialectic Logic and Chinese extraordinary philosophy.⁴⁶ To deal with Red China requires a long term goal. While at the negotiating table patiences is required because it is another kind of battle which is more difficult than real fighting.

4. Readjust U.S. China policy.

There are many reasons that the U.S. should readjust its China policy.

- The dominant paradigm of international relations has shifted from security affairs to economics.

- In the foreseeable future there is no common adversary for Sino-American strategic alignment.

- The ROC, economically, has already made itself a "de facto" independent, and its political reform has also won the world's affirmation.

- The "Taiwan Experience" is not a slogan. The ROC, on Taiwan, is not only a lighthouse to lead the PRC's economic reform and democratization movement, but will also serve as a catalyst to stimulate the peaceful evolution in China.

- The U.S. has numerous economic interests in both ROC and Hong Kong.

- It is against U.S. values to ignore the well being of the people of Taiwan and Hong Kong.

Moreover, a reunified China would have strategic implications for both the U.S. and Asia countries. The smaller Asian states would have to deal with a stronger and probably more assertive Communist China, and the U.S. could lose its political leverage, particularly on Taiwan, a place of strategic importance to the U.S.. In the case of the PRC, it is not certain Sino - American relations will improve substantially even if the Taiwan issue is resolved to Beijing's satisfaction. In short, there was gross confusion about the ROC's legal position, making it a unique actor in politics - unlike another nation or political entity in the world. That it could survive, progress and even gain full political democratization is a miracle. Now it is the thirteenth largest trading country in the world. In the

foreseeable future there are no signs of political reunification, even with the economic integration between South PRC, ROC and Hong Kong, the so called "Greater China Sphere." The ROC is a member of the international community. There is no reason to shout her out of the world. The policy should be:

- Under a one China policy, bring the ROC into international organizations, to include the U.N..
- Support the Hong Kong Governor's democratization plan which provides the best possible deal before 1997 for Hong Kong's citizens.
- Use economic ties and cultural exchanges to subvert the Communist government system. This includes:
 - Broadcast more information on freedom and democracy into the PRC.
 - Encourage Chinese students to go back to their country. They will be the next generation's leadership for China.
 - Restrict technology and capital flow to China's state - owned enterprises.
 - Compel the PRC to change its ways on foreign arms sales, human rights and prisoner labor products export.

B. World Community's action.

The United States is the only super power in the world. The world community will follow the U.S. lead. If American strategy dealing with the PRC is right, the world community only need skillfully promote the strategy. The most important things are:

- Abandon the dual human rights standard. Government should protect its people and pursue the well being of the people. Any country, no matter how big or small, which violates this principle should be reprimanded by the world.

- Oppose any kind of dictatorship. It is very clear that the world's turmoil comes from dictatorial governments. Communist dictatorships are the worst. Anti-Communism should be the world's movement until Communism has disappeared from the world.

- Make the world's stand clear. Tell the Chinese people of the PRC the world community supports them against the Communist regime.

C. ROC's actions.

Successful economic progress and political democratization on Taiwan have already been recognized by the Chinese people as a model for China's future. Aside from the Communist government's "four cardinal principles" and the "one China" policy, economic and cultural exchange are the only interface between the PRC and the ROC. Failure to renounce the PRC's threatened use of force against Taiwan is a cause of great anxiety. Taiwan's democratic process has generated powerful pressure for a more assertive foreign policy and a more active and respected role in international organizations. This could result in more vocal demands for independence and could even lead to greater political and social instability in Taiwan. Any of these developments could trigger an angry response from the PRC.

We know that "time" and "world trends" are on the side of democracy. The ROC should be patient and be sure that before the Communist government topples she is strong enough to survive.

Some recommendations for the ROC are:

1. Stop the internal political debates on reunification and independence.

2. Use economic power to penetrate the PRC's diplomatic blockade and rejoin the international community's activities.

3. Strengthen the ROC's national defense.

4. Keep economic progress moving forward.

5. Enhance the well-being of the people.

6. Maintain political reforms.

D. PRC people's actions.

The people in Mainland China are the main force. They must understand that there is no such thing as a "free lunch" in the world. If they want to live in a democratic society they have to fight for themselves. Human rights are not born equal but are acquired by the people's own struggle. During the transition period from a Communist dictatorship to a democratic government the people are the main actors. Outside powers can only serve as a catalyst to stimulate the speed of the change process. The only force that can compel the Communist leadership to give up their dictatorship is the people themselves. So they must:

1. Be aware of things that happen in the world.

2. Support the democratic movement.

3. Care more about their own rights.

VIII. CONCLUSION.

George F. Kennan commented on the ending of the cold-war. Collapse of the Soviet Union is one thing he could not know, nor could he know when or how it would be changed. He only knew that change was inevitable and impending.⁴⁷ These words are also suitable for the future of the PRC. Our concern is how China will change, peaceful change or drastic and sudden change. No one will argue with peaceful change. Gradual change leading Mainland China to democracy will benefit everyone and is most preferred. Looking at China's current situation, it seems China has managed to recover from the short period of international sanctions and retain her economic progress and political stability. In the short term, China may no longer be in immediate crises. But the underlying crises which have been pointed out by this paper are going to be the main obstacles. As political succession in China draws nearer, democratization of the ROC on Taiwan has widened the gap between the PRC and the ROC. This will postpone reunification and leadership ties with market economies abroad. All of these are dilemmas.

The international community should work harder and prudently to accelerate China's peaceful change. "No great country has influence on the internal developments of any other one."⁴⁸ The future of China is in its own hands, including the leadership of the CCP and the people. When Chinese people are asked about the PRC the answer is, "I like my country and am proud of being a Chinese but I hate the government."⁴⁹ We do hope the next

generation of the CCP's leadership will have the political wisdom to convert the Chinese people's thinking about their government and make their country a really great country, respected by other nations and loved by her own people.

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⁴. The Gorbachev Era. P. 34-36.

⁵. Gorbachev and Yeltsin. P 217.

⁶.The CCP's fourteen National Congress opened on October 12, 1992. It declared the " Socialist market economy " policy.

⁷.Deng's plan for R.O.C. is some-what similar. From his perspective, R.O.C. and Hong Kong could be treated with the same formula, since both were pending issue in Chinese reunification left over by history.

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¹⁴.A.Doak Barnett, Professor Emeritus at Johns Hopkins University's Paul H, Nitze School of Advanced International Studies. Financial World. Dec 8.1992. " Inside China Today."

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³⁴.CHRONOLOGY from 1839 to 1979. CHINA: The Roots of Madness. Written by Theodore H. White. Produced by Mel Stuart. p 131. And after the Mao's took over in 1949. China was going on a long time of turmoil. It include: Korean war, Great Leap forward, Cultural Revolution, Vietnam war.

³⁵.Central Daily News reprint from the "ECONOMIC SCHOLAR" July 18 1992.

³⁶.Dr. Sun Yat-sen's will "Let all our comrades follow my plans for National Reconstruction, Fundamentals of National Reconstruction, Three Principles of the people, and the Manifesto issued by the First National Convention of our Party, and strive on earnestly for their consummation." Late President Chiang Kai-shek's will "There wasn't a day that I had not devoted myself to the cause of the struggle to eliminate obstacle in the path of realization of the Three principles of the people for the sake of building a democratic and constitutional nation." It will be read silently inside the mind before every formal meeting or convention. The determination of building a democratic and constitutional nation has been shared by all the Chinese people and their leadership.

³⁷.NATIONAL SECURITY STRATEGY OF THE UNITED STATES. The White House January 1993. p-3.What We Seek... Our National Security Interests And Objectives.

³⁸.See endnote 32.

³⁹.American Diplomacy 1900-1950. By George F. Kennan. p 21-38.

⁴⁰.China Diplomacy: The Washington- Taipei- Beijing Triangle. By John F. Copper. Chapter I. U.S. China Policy and the Taiwan Relation Act.

⁴¹.President was elected with a mandate to "get out of Vietnam with honor". U.S. China Policy and Taiwan Relations Act. CHINA DIPLOMACY: The Washington-Taipei-Beijing Triangle by John F. Copper. Westview Press.

⁴².From Bureauratic Politics and National Security: Theory and Practice. chapter 5.2 Of President and bureaucrats: A Look at Bureaucratic politics Through the Eyes of National Security Decision Makers. See the endnote 53.

⁴³.President Carter said (not knowing that he was still on camera) he anticipated there would be "massive applause throughout the nation". This was taken by many to mean that Carter's motive for making the decision was his re-election bid & nothing else mattered. See Endnote 35.

⁴⁴.China Diplomacy: The Washington - Taipei - Beijing triangle. by John f. Copper. The U.S. China Policy and the Taiwan relations Act. p 1-26.

⁴⁵.Financial World. "Inside China Today". Dec 1992. author Harding.

⁴⁶.Extraordinary philosophy means it does not belong to the Chinese traditional philosophy. It is developed by experience which skillful dealt with the human weakness or skillfully created and used the contradiction between/inside the people. This kind of philosophy could not be found in the orthodox book.

⁴⁷.The New York Time OP-ED Wednesday, October 28, 1992 "The G.O.P. Won the Cold War? Ridiculous."

⁴⁸.See endnote 45.

⁴⁹.Central Daily News January 13 1993. An interview with China's businessmen. (Published in Taipei, Taiwan. ROC.)

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