

*PEOPLE'S REPUBLIC OF CHINA: A POLITICAL AND  
ECONOMIC ASSESSMENT [1996]*

**Introduction**

This study assesses the political and economic future of the People's Republic of China (PRC) up to the year 1996. The initial discussion following this introduction reviews Chinese history—mostly recent—that is directly relevant to the purpose of this study. The historical review is followed by a consideration of the foreign relations of the PRC that incorporates an assessment of the future global political role of the country. The last of the major discussions presented in this study addresses the economic development of the PRC and the likely impact of the PRC on the global economy in the future.

**Relevant History**

As the official policy of the government of the PRC from its inception was to trade with all countries, whether or not diplomatic relations had been established, business entities from most countries, other than the United States, developed trading arrangements with China in the 1950s and 1960s. During the 1950s, Chinese foreign trade was heavily oriented toward the Soviet Union. By 1959, 48 percent of China's foreign trade was with the Soviets. Political disagreements between the two countries, caused Soviet trade to drop to only 7.5 percent of China's total foreign trade by 1966 (Manatoo, 1990, pp. 63-79).

With the decline in the significance of the China-Soviet trade, there was a dramatic rise in the significance of China-Japan trade. By the end of the 1970s, Japan

was China's leading trade partner; a position it has maintained. By 1988, the PRC's leading trading partners were Japan, Hong Kong, and the United States, in that order. Japan is an important trading partner with respect to both imports and exports, while Hong Kong is more important to China as an outlet for its exports, and the United States is more important as a source of imported products, particularly technology (Manatoo, 1990, pp. 63-79).

The popular uprising in Beijing in 1989 and the PRC government's crushing of that uprising before the television cameras of the world led the Chinese government to temporarily suspend some of its economic readjustments, and to generally slow down the pace of economic reform in the country. For the most part, however, the PRC government wanted to continue its economic interaction with other countries, and, as the events of the summer of 1989 were pushed out of the public mind outside China by the Gulf War of 1991, economic recession, and American and British general elections, the trading climate between the PRC and other countries returned generally to pre-Tienamen conditions. By the fall of 1991, most non-Chinese firms had overcome the fears induced by the suppression of the uprising, and were once again desirous of doing business with China (De Voe, 1991, pp. 51-52).

Concerns of the American government continued, however, to impede the development of US-Chinese trade. Generally, the Administration (first Bush and then Clinton) favored extension of most favored nation status for the PRC, while strong opposition to that designation for the PRC existed in the Congress. Through early-1996, the Administration position has generally prevailed, although to reach accommodation

with the Congress, some governmental restrictions on US-China trade continue (Brauchli & Chang, 1996, p. A14).

In contemporary China, pragmatism has taken precedence over ideology (Gottschang, 1993, pp. 206-276). Where Mao Ze Dung was quoted as saying that it is better to be Red than to be expert, his eventual successor, Deng Xiaoping, was quoted to the effect that it makes no difference whether a cat is white or black, as long as it catches mice. The pragmatic approach of Deng was, in a sense, a return to the pragmatic attitude present in the earliest days of the PRC that was manifested in the country's determination to deal with all countries in foreign trade, regardless of political orientation, so long as bases of equality, mutual benefit, and non interference in one another's domestic affairs were maintained. That attitude continues to prevail (Obi, 1991, pp. 46-48).

From their inception, the PRC's economic readjustments have been made within the framework of a comprehensive plan (Koo, 1990, pp. 797-820). Centralized planning and control is maintained in agriculture, to the extent that minimum production quotas continue to be established, and must still be met. These quotas are designed to insure that basic food supplies continue to be available for Chinese cities (Huang, 1990, p. 43). Once the family quota is met, however, all production from family plots may be sold on the open market, at prices established by the market (Manatoo, 1990, pp. 63-79). Agricultural reform has permitted China to become a net food exporter, as opposed to a net food importer. Agricultural exports, however, are not the PRC's leading export product group (Hunter, 1995, p. 355).

Another action by the PRC government that has boosted foreign trade with countries such as Japan, Australia, the United States, and Canada around the Pacific Rim

involves intellectual property protection. The PRC provides both patent protection and trademark copyrights. Patents will be neither granted nor recognized, however, on foods, beverages, flavorings, pharmaceutical products, chemical substances, animal varieties, or plant varieties, although processes used in the production of such goods may be patented. Trademark copyrights similar to those granted in the western industrialized countries are provided in the PRC. Trademark copyright protection is provided for a 10-year period, and they may be renewed in 10-year increments (Gottschang, 1993, pp. 206-276).

### **Foreign Relations: Economic and Political**

Four legal structures govern foreign participation in the contemporary economy of the PRC. The Chinese are intensely interested in joint venture agreements. Joint venture agreements provide the Chinese with access to both foreign technology and foreign capital. The Chinese are also interested in the licensing of technology from foreign countries. The special enterprise zone concept is a procedure by which the Chinese plan to accommodate foreign business entities on Chinese soil. Overall, regardless of the specific form of business ventures involving foreign entities, the Chinese have developed and implemented a countertrade framework within which all foreign trade must be accommodated (Crane, 1990, p. 57).

China's joint venture law became effective in July 1979. In the first month of the law's existence, 100 joint venture agreements with foreign business entities were signed. A Chinese must be chairman of the board of all joint ventures, and a majority of the board members must be citizens of the PRC. It is permissible, however, for the joint venture agreement to be so written that all important issues must be agreed to by two-thirds of the board members. Thus, the rights of both parties to the agreement may be

fully protected. Further, China has stipulated that the investment of a foreign joint venturer will not be expropriated or otherwise confiscated. Joint venture managements are also provided the right to fire employees for cause, regardless of the current status of China's iron rice bowl policy. Profits accruing to a foreign joint venturer may be repatriated (Crane, 1990, p. 63). If profits are repatriated, however, they will be subject to an additional (over and above any Chinese income tax previously imposed) 10 percent tax. Chinese income taxes on joint ventures are in the 30-to-35 percent range. If a foreign joint venturer's profits are not repatriated, the additional tax will not be imposed. Generally speaking, joint venture terms will range from 15-years to 25- years, depending upon the type of industrial activity involved (Crane, 1990, p. 66).

One Chinese goal is the licensing of technology for the modernization of existing industrial facilities, as opposed to the purchase of new turn-key projects (Yenai, 1990, pp. 707-721). Under such licensing arrangements, the Chinese demand complete documentation relevant to the technology to be acquired. American business entities entering into such technology licensing agreements must be aware of (1) this Chinese approach, and (2) to any restrictions on such complete transfer as may be imposed by the United States government or by corporate policy. Several legal disputes between the Chinese and American business entities operating in China have developed as a consequence of the American entities being unable to fulfill their obligations under licensing contracts because of American governmental restrictions (Ye

Further, products imported for use in the operation of the venture, as well as exports from the venture, are exempted from Chinese customs duties (Xu & Li, 1990, pp. 49-69).

China conducts much of its foreign trade under bilateral trade agreements with other countries. These agreements often provide for an exchange of Chinese raw materials for either foreign industrial goods or foreign raw materials. Compensation trade agreements are easier to negotiate than are joint venture agreements. In compensation trade agreements, foreign business entities deal with Chinese license holders, in an arrangement similar to that prevailing in the early years of the twentieth century. While the ease of doing business is advantageous under countertrade agreements, and while the risk exposure of foreigners is generally lower than that associated with joint ventures, the potential rewards may also be much lower. Joint ventures bring technology into China. They are, thus, favored by the Chinese. Countertrade agreements are limited by the government of the PRC to the necessities (Gottschang, 1993, pp. 206-276).

With respect to PRC laws relevant to direct foreign investment, the areas of concern are (1) limitations on local borrowing, (2) restrictions on the repatriation of profits, (3) export policies, (4) pricing policies, (5) rules pertaining to the entry of foreign firms into the economy, and (6) market access. There is little, if any, local capital available to the foreign investor in China (Yenai, 1990, pp. 707-721). The PRC is, in fact, seeking external capital. Through joint venture operations, indigenous capital will flow into projects. Such capital, however, will not be available directly to foreign investors (Yenai, 1990, pp. 707-721).

Profits earned by foreign investors from operations conducted within the PRC may be repatriated. When such profits are repatriated, however, they are subject to an additional tax of 10 percent. This 10 percent tax is in addition to any other Chinese taxes

applied. The 10 per tax is not applicable to profits which are not repatriated (Yenai, 1990, pp. 707-721).

Far from imposing any restrictions on the export of goods produced by foreign operations within China, the government of the PRC encourages production for export by foreign business entities and by joint venture operations. When the foreign controlled operations are sited in one of the special economic zones, no export tariffs are levied by the government of the PRC (Crane, 1990, p. 84). Goods further imported into the PRC are subject to tariffs in some instances. If the imported goods are destined for resale within the PRC, tariffs are imposed. Import tariffs are not a major consideration, however, as they are included in the pricing structure developed through contract negotiations between foreign business entities and their Chinese counterparts. If, however, the imported goods are for used in the production processes of an operation in which there is foreign participation, no import tariffs are imposed (Crane, 1990, p. 87).

Foreign business entities operating within the PRC are subject to two types of taxation. First, a corporate income tax is applied to profits. The corporate income tax ranges from 30-to-35 percent. Additionally, a value added tax is applied to production output at the rate of 1.5 percent. Foreigners residing in the PRC for extended periods are also subject to individual income taxes. Residence in excess of 90 days but less than five years subjects individuals to a graduated income tax on China-source income derived from wages and salaries. The graduated rate structures is from five-to-45 percent. A 20 percent flat rate is applied to all other forms of income. Residence in excess of five years subjects foreign individuals to both the graduated tax and the flat tax on all income, regardless of country source (Yenai, 1990, pp. 707-721).

Lastly, the government of the PRC has pledged not to expropriate or otherwise confiscate foreign investments in China. The risk remains, however, in the form of a political risk (Yenai, 1990, pp. 707-721).

In the 1990s, Chinese commercial law remains limited. In effect, Chinese commercial laws are written and implemented as changing environmental conditions demand. A comprehensive set of commercial law rules does not exist in the PRC. The law governing the formation and operation of joint venture operations is quite detailed. Additionally, Chinese commercial law provides for formal arbitration in the event of dispute between parties in a business transaction. The official Chinese position, however, is that such disputes should be settled through informal consultation whenever possible. Often, the consultation results in changed terms in future contracts, as opposed to some form of compensation on existing contracts (Gottschang, 1993, pp. 206-276).

The PRC also provides both patent protection and trademark copyrights. Patents will be neither granted nor recognized, however, on foods, beverages, flavorings, pharmaceutical products, chemical substances, animal varieties, or plant varieties. Processes used in the production of such goods, however, may be patented. Trademark copyrights similar to those granted in the western industrialized countries are provided in the PRC. Trademark copyright protection is provided for a 10-year period, and they may be renewed in 10-year increments (Yenai, 1990, pp. 707-721).

At the international political level, Qian Qichen, Deputy Prime Minister and Minister for Foreign Affairs of the PRC, said in an address to the United Nations (UN) that elimination of regional hot spots and settlement of international disputes were a common concern of the international community. UN peace-keeping operations should



be undertaken with the consent and cooperation of the parties concerned. No peace-keeping operations or humanitarian aid programs should be permitted to interfere in the internal affairs of any country, still less to use force or become embroiled in a conflict between the parties. A lesson should be drawn from what befell the UN peace-keeping forces in Somalia. He favored a complete ban on nuclear weapons and also wanted a treaty on non-first-use of nuclear weapons. He said that the PRC found it disturbing that the impoverishment of some developing countries had worsened. In the interest of common development, he called for the abolition of protectionism and of discrimination in international economic relations and trade (Meeting, 1995, p. 53).

Scalapino (1995, p. 16) observed, however, the nationalism has indisputably triumphed over internationalism in China, where the country's leaders "pay formal homage to Marxism-Leninism, but the internationalist quotient in both words and actions is dwarfed by the call for national assertiveness in support of China's interests. Increasingly, China behaves like a rising power, with minimal ideological content in its foreign policy. Socialism with Chinese characteristics can certainly be defended as the necessary molding of an abstract doctrine to the realities of a particular society, but those characteristics—partially captured by the phrase 'the Thought of Mao Zedong'—are a far cry from Marxism, or even Leninism."

The Chinese Communists came to power facing "awesome problems but with certain considerable assets. They took over an exhausted society, one close to economic chaos and political anarchy. Their major opponents, the Kuomintang, were in disrepute, leaving an image of failure, misrule, and corruption. The Communists had purpose and

leadership. Theirs was the advantage of having an idealism (as well as a ruthlessness) relatively untarnished by the trappings of office” (Scalapino, 1995, p. 18).

The serious challenges, however, came at a relatively early point in the history of the PRC. The commune system, while having a certain rationality (to make China's vast rural areas as self-sufficient as possible), “was a major mistake, as was later acknowledged. To this was added the primitivism of the Great Leap Forward and the catastrophe of the Cultural Revolution. Perhaps these massive errors served an important purpose. When the Maoist era was over, the survivors of the old elite were ready to undertake far-reaching reforms, especially in the economic realm. In a costly manner, the errors of Maoism prepared the way for a new revolution” (Scalapino, 1995, p. 18).

With respect to Hong Kong, a major question remains to be answered: Will China honor the 1984 Sino-British Joint Declaration or will the PRC introduce regulation into Hong Kong's Western-style economy? Britain's lease on Hong Kong has already expired since midnight on 30 June 1997. In preparation for this event, China and Britain signed the Joint Declaration in 1984, a binding international agreement registered with the United Nations. This agreement guarantees Hong Kong's future, with a high degree of autonomy, for 50 years after 1997. The agreement specifically states that Hong Kong will not become simply another province, municipality or special economic zone in China, but a Special Administrative Region that will continue to function under different laws and policies than other parts of China. Property rights and foreign investment are to be protected by the English Common Law system under an independent judiciary (Fong & Wilson, 1995, p. 60).

Within the PRC, the issue of the allocation of political power must be faced by the government. Leninist-type centralization is no longer feasible because of the political and economic reforms implemented. At present, while China has a one-party dictatorship in prescribed Leninist fashion, “all of its political institutions are fragile and a meaningful federal system has not yet been devised” (Scalapino, 1995, p. 19).

Social and political values also pose a problem in the contemporary PRC. The efforts “at indoctrination go forward—in schools, military installations, bureaucratic branches, and all other organizations. Yet true believers are difficult to find. There is widespread indifference to politics. Among the younger generations, the emphasis is on making money. ... the appeal to nationalism helps to fill the ideological void, but will it suffice? China's current leaders, with Deng as the supreme symbol, have turned materialism loose. But they have not found a new ideological foundation to justify their right to govern. Some observers believe that conditions are ripe for the liberal creed, with its emphasis on genuine political choice, diverse freedoms, and a government of law. But critics insist that down that road lies luan (chaos), given the scale and scope of China's problems. And in this they are joined by a sizable number of citizens, including many intellectuals. The present substitute is a carefully expanded policy of ‘listening to the voice of the people,’ that time-honored pledge of Chinese leaders in the past. The role of legislative and advisory organs has been somewhat strengthened, and more non-party figures have been assigned responsibilities” (Scalapino, 1995, p. 19).

The political policies being pursued in the contemporary PRC do not seem likely to lead to democracy. Rather, these policies appear to be leading toward ... authoritarian pluralism. Politics remains authoritarian, with political choice limited, freedoms

restricted, and law frequently subordinated to the will of the governors. Yet there is a stronger element of uncertainty on the part of those who govern. Hence the frontiers of permissibility can sometimes be advanced. Meanwhile, a civil society apart from the state is allowed to emerge, albeit with limits placed on it, and in the economic realm, the market progressively assumes a dominant role” (Scalapino, 1995, p. 19).

China cannot be considered a monolithic society today, according to Scalapino (1995, p. 19), “whether the measure be economic, social, or political. Indeed, some observers feel that China could revert to the separatism of the past, with autonomy leading to division. Others see the prospect of a tightened authoritarianism in the face of threatened chaos, with the military playing a greater role in governance. These possibilities cannot be ruled out, but the likelihood is the authoritarian pluralism sketched above. Leninism seems destined not to collapse in China the way it did in Eastern Europe and the USSR, but to recede gradually, possibly with some periods of resurgence, in favor of the softer but nonetheless continuing authoritarian order, one recurrently tested by diverse elements within the society.”

### **Economic Assessment**

The estimated population of the People's Republic of China in 1991 approximated 1,110,000,000 (Hunter, 1995, p. 355). The country's population target for 2000 is 1,270,000,000. Females account for 51.6 percent of China's population, males 48.4 percent. In the 1990s, 75.1 percent of China's population resides in rural areas, 24.9 percent in urban areas. Thus, the typical Chinese would be described as a rural dweller. It must be remembered, however, that the urban/rural distribution of the population is changing relatively rapidly. Fifteen years ago, almost 85 percent of the Chinese resided

in rural areas. The typical Chinese is also a relatively young person. Almost one-half (46.07 percent) of the population is under age 20, and almost two-thirds (63.7 percent) are under age 30 (Waddle, 1993, pp. 59-96).

Officially, there are 56 nationality, or ethnic, population groups in the People's Republic of China. In the 55 smaller groups, there are 70 million people (greater than the population of most countries) who are distributed over 60 percent of China's geographic area (Waddle, 1993, pp. 59-76). The country's largest ethnic group—the Han Chinese, however, number in excess of one-billion persons. Therefore, the typical Chinese must be viewed as an ethnic Han. There are great differences, however, within the Han ethnic group. Eight mutually unintelligible language dialects are spoken by the Han, each of which contains several sub-dialects, and differences in cuisine, dress, and custom also characterize the Han residing in different regions of the country. The Han Chinese, however, consider such differences "as minor and superficial" (De Glopper, 1993, pp. 97-150). One great unifying characteristic of the Han Chinese is the written language which does not reflect the differences between the spoken dialects and sub-dialects. Circa 200 A.D., Han ethnic unity was developed by the centralized imperial state of the Han Dynasty. This legacy of a strong central government and of Han unity survives and is significant in contemporary China.

Since the repudiation of the Cultural Revolution that lasted from 1966-to-1976, the development of the education system in China has been geared particularly to the advancement of economic modernization (Savada & Dolan, 1993, pp. 151-204). Among important efforts taken to improve the country's educational system were the 1984 decision to enact several major laws on education, and a 1985 plan to reform the

educational system. In the reform plan, the government introduced a requirement for nine years of compulsory education.

Since the creation of the People's Republic in 1949, attempts have been made to put an end to academic elitism (Savada & Dolan, 1993, pp. 151-204). Formal efforts to attain this goal were components of both The Great Leap Forward (which lasted from 1958-to-1960) and the Socialist Education Movement (which lasted from 1962-to-1965). Subsequent to the student-led uprising in the summer of 1989, the efforts to end academic elitism have been enhanced.

The post-Mao leadership in China has sought to establish education as the foundation for the Four Modernizations (Savada & Dolan, 1993, pp. 151-204). The Four Modernizations form the core of a development strategy, the goal of which is to transform China into an advanced industrial economy by 2000. The modernizations are agriculture, industry, science and technology, and national defense. The concept was first introduced in the Third Five Year Plan, which covered the time period 1966-1970. Under this approach to education, science and technology have been accorded a priority over the humanities, and vocational and technical skills training have been emphasized. Since 1978, the country's intellectuals, the academic elite, have been encouraged to pursue research in support of the Four Modernizations. The country's academic elite has also been required to comply with the Chinese Communist Party's four cardinal principles, which are to uphold socialism, uphold the dictatorship of the proletariat, uphold the leadership of the Chinese Communist Party, and uphold Marxist-Leninist-Maoist Thought (Savada & Dolan, 1993, pp. 151-204).

Education suffered grievously during the Cultural Revolution, with the result that the country fell behind significantly in the attainment of its long-term goals associated with education. Since 1980, however, policy has accorded a priority to education over most other societal endeavors. Since 1980, achievement has served as the basis for both admission to and advancement in the educational system. Subsequent to 1980, political activism has not been considered as important evidence of academic performance (Savada & Dolan, 1993, pp. 151-204).

The PRC has a vast and varied educational system. There are preschools, kindergartens, schools for the deaf and for the blind, key schools (which are similar to college preparatory high schools), primary schools, secondary schools (which include junior and middle schools, secondary agricultural and vocational schools, ordinary secondary schools, secondary teachers' schools, secondary technical schools, and secondary professional sc

proximately 677 persons in China, and one hospital bed per approximately 438 persons.

Communal living and production was a part of Chinese life long before the arrival of socialist government. The common ownership of land by a village commune is a principal characteristic of the Asiatic mode of production which has been prevalent in China for centuries. With the advent of the People's Republic, communal ownership was formalized into government policy. Extended families in China tend to live within the same household, particularly in the rural areas, but to a great extent also in urban areas. The one child per couple population policy has been relatively successful in the country's urban areas, but far less successful in the rural areas (Hsu, 1994, p. 57). The lack of

success in the rural areas led to the policy revision discussed above, which permits rural couples to have a second child after four years, when the first child is a girl. Thus, while it may be assumed that the typical urban couple in the 25-40 year old age group has one child, it is difficult to make an assumption about rural couples. Certainly, the average is more than one child, although how much more is not known. With the migration from rural to urban areas, however, the population control policy may become more effective.

A key element of Chinese social planning is population control. Population planning is both extensive and specific, with policies dealing with growth, distribution, and other factors. The single-child family policy will likely change the fabric of Chinese society. This policy will also affect the supply of labor in the country, and will quite likely affect the urban-rural dichotomy—through labor competition, if in no other way. The 1979 law limits couples to one child, and is enforced through compulsory abortions and economic sanctions. The law was revised in 1988 to permit peasant couples to have a second child after four years, if first child is a girl. The purpose of the policy change was to combat infanticide involving girl babies (Hsu, 1994, p. 57).

In 1990, the total workforce in the PRC was 528 million, of whom 36.9 percent were female (Gottschang, 1993, pp. 206-272). Of the total workforce, 74.9 percent were employed in rural areas. The unemployment rate in 1992 was 0.5 percent.

The effects of high population growth dilute economic growth by causing the per capita rate of economic growth to be less than the overall rate of economic growth. This phenomenon is experienced by both developed and developing countries. During the 1970s, as an example the average annual rate of economic growth in the United States was 2.5 percent, while the annual per capita rate of economic growth in the American



economy was only 1.7 percent—just 68 percent of the level of overall economic growth. In Japan, a country with a lower population growth rate than that in the United States, the average annual rate of economic growth during the 1970s was 5.6 percent, while the annual per capita economic growth rate was 4.2 percent—75 percent of the level of overall economic growth. In India, a country with a higher population growth rate than that in the United States, the average annual rate of economic growth during the 1970s was 2.7 percent, while the annual per capita economic growth rate was 0.6 percent—just 22 percent of the level of overall economic growth. India's population growth rate, as opposed to absolute population growth, has been greater than that in China; thus, China has been able to achieve superior economic growth to that in India.

China's massive population is an economic burden for the country (Hsu, 1994, pp. 13-16). Almost equally massive internal migration is exacerbating the economic problems, and is contributing to the development of serious environmental problems (Eichen & Ming, 1992, pp. 20-21). China's booming population is expected to test the earth's natural systems to an extent never before seen (Brown, 1994, pp. 10-19). China's population constitutes approximately one-fifth of the total world population (Fang, 1993, pp. 1319-1323). Thus, adverse environmental outcomes associated with China's massive population will not be isolated to China.

Energy is a major and critical variable in the interaction between environment and overpopulation and population growth in the PRC. Environmental factors play a major role in the selection of energy sources. The most widely used energy sources in China—fossil fuels and nuclear energy—pose significant environmental risks. These risks are associated with damage to the natural environment per se, are harmful to non-human

forms of life, and are threatening to human health and human life. All other factors effectively addressed, it is to be supposed that everyone would favor obtaining energy from sources which were not environmentally harmful. All other factors will likely never be effectively addressed; however, thus difficult decisions involving tradeoffs must be made in the selection of energy sources. Energy from some sources is more expensive than is energy from other sources; thus, an environmentally preferable energy source might be opposed on economic grounds. Massive economic and physical resources are already committed to some forms of energy production. Those whose resources are committed to such production may be expected to oppose any policy which renders their investments worthless, without compensation for their losses, regardless of how environmentally sound an alternative energy source may be, or how environmentally harmful their energy source may be. Many other people would oppose compensation under such circumstances. While economic factors exert an enormous influence on the selection of energy sources, the decisions which must be made with respect to environmental and economic tradeoffs are political in character, because such decisions must be societal in scope.

The primary trading focus of the PRC in the contemporary period is the Pacific Basin or Pacific Rim countries. The most common geographical designation in considerations of trade in the Pacific region is the Pacific Basin (Boyd, 1992, pp. 25-34). While the Pacific Basin is not a strictly defined economic term, the designation is usually defined for economic purposes in a more narrow context geographically than the term Pacific Rim. In an economic sense, the Pacific Basin region is typically considered to extend from a northeast point between the Japanese island of Hokkaido and the southwest

mainland of the Republic of Russia where the city of Vladivostok is situated (Boyd, 1992, pp. 25-34). From this northeast point, the economic boundary of the Pacific Basin extends west to the Indo-Chinese peninsula, covering along the way the PRC, Taiwan, and Hong Kong. Viet Nam, Kampuchea, and Thailand on the Indo-Chinese peninsula are included in the Pacific Basin, as are Malaysia and Singapore on the Malay peninsula. Moving south, the Pacific Basin, in an economic context, includes Indonesia and Australia, and then extends eastward to include New Zealand. From New Zealand, the economic boundary of the Pacific Basin extends northeast to Japan, including New Guinea and the Philippine basin along the way. All of the countries included within these boundaries are economically a part of the Pacific Basin.

When the term Pacific Rim is used to define an economic trading zone, the definition of the Pacific Basin is expanded to include all of the countries situated in North America, Central America, and South America that border the Pacific Ocean (Boyd, 1992, pp. 25-34). Important trading countries among this group are Canada and the United States in North America, and Chile in South America.

Most non-Chinese business entities tend to view the foreign trade potential of the PRC in the context of the country's vast population (De Voe, 1991, pp. 51-52). The greatest growth in Chinese foreign trade, however, is not expected to occur in consumer goods (Yenai, 1990, pp. 707-721). Rather, the greatest growth in Chinese foreign trade in the foreseeable future is expected to be in the areas of (1) capital investment goods, and (2) capital because those areas are China's primary interests with respect to foreign trade. Most non-Chinese business entities that have either been disappointed by their China venture or who have experienced legal difficulties with the Chinese have been

those who attempted to pursue consumer marketing agendas, as opposed to providing the technology transfer and capital investment sought by the Chinese (Crane, 1990, p. 111).

In the 1990s, capital goods and technology are the items that the government of the PRC most wants to import. Consumer goods are not high on the desire to import list. If the American government will permit the export of capital goods and technology to the PRC, the Chinese export market will be promising for American exporters. Otherwise, the Chinese pickings for American exporters will likely be slim. Canada, Japan, and Australia, among Pacific Rim countries, are all capable of providing the technology desired by the PRC (Hill & Phillips, 1993, pp. 687-697).

Foreign trade organizations in China are important to the PRC's foreign trade program. These organizations are created under Chinese law, and they are often able to assist foreign commercial interests with respect to Chinese law. The six most important organizations in China with respect to the promotion and conduct of foreign trade are (1) the Planning Commission of the State Council, (2) the Economic Commission of the State Council, (3) the Ministry of Foreign Economic Relations and Trade, (4) the China Council for the Promotion of International Trade, (5) the China International Trust and Investment Corporation, and (6) the Bank of China (Hsiao, 1990, p. 17).

The Planning Commission of the State Council is responsible for the development of long-range economic plans (Hsiao, 1990, p. 19). The Economic Commission of the State Council is responsible for the implementation of the plans developed by the Planning Commission. The Ministry of Foreign Economic Relations and Trade is the operating agency involved in the actual carrying out of the economic plans.

The China Council for the promotion of international trade is charged with the responsibility of promoting international trade with non socialist countries, and with commercial entities within those countries (Starr, 1995, p. 90). The China International Trust and Development Corporation is the specific agency involved in the coordination and control of the joint venture process.

The Bank of China is a quasi-public corporation, which is owned by the People's Bank of China and selected major industrial enterprises within China. Although the industrial enterprises are cooperative ventures, they are considered by the Chinese to be separate from the government apparatus. The Bank of China facilitates and oversees the financial transactions involving foreign trade. In addition to these major organizations, there are separate foreign trading corporations. These smaller organizations may be license holders which are permitted to do business with foreign entities, or they may be the Chinese participants in joint ventures (Starr, 1995, p. 92).

Recent actions by the PRC government to support the country's effort to gain membership in GATT (General Agreement on Tariff and Trade), now the World Trade Organization (WTO) have moderated the power of China's foreign trade organizations (Goldstein, 1992, pp. 48-50). In a major policy change, the PRC is decentralizing much of the country's economic power affecting foreign trade to provide greater decision-making authority to the provinces. This action implies that authorities in many of the new economic zones designed to attract foreign trade and foreign investors will exercise a greater degree of control over China's foreign trade policy (Chan, Li, & Sculli, 1989, 53-61).

Chinese foreign trade does not account for a large proportion of the gross national product (GNP) of the PRC—less than 10 percent. The value of foreign trade to the PRC, however, far exceeds the contribution of foreign trade to the GNP, because it is through foreign trade that the PRC gains most of the new technology required by the country's economy. Further, the PRC is in a strong position to pursue growth in foreign trade, because, unlike most developing countries in the 1980s, the PRC did not amass a huge external debt. Nine-tenths of China's imports from Pacific Rim countries are manufactured products (World Bank, 1995, pp. 206). Of these manufactured import products, approximately 46 percent are machinery and transportation equipment. Almost three-quarters (73 percent) of Chinese exports to Pacific Rim countries are manufactured products. Of these manufactured export products, one-third are textiles and clothing.

In 1984, the PRC experienced a foreign trade deficit, and immediately implemented actions to correct the situation. Imports were curtailed to the dismay of many of the PRC's Pacific Rim trading partners. By 1987, the PRC trade balance was once again in surplus. Opening up to the outside world remains a basic policy of the government of the PRC, and increased foreign trade is a major strategy in this effort (Ziyu, 1992, pp. 763-765). By 1991, the PRC's foreign trade was at the level of US\$135.7 billion.

The PRC maintains a multi-layered system of import restrictions, an import licensing system covering fifty-three broad categories—half of China's imports by value, and trade rules and regulations that lack transparency. The PRC has adopted the harmonized system for customs classification and statistics, reduced duties on 225 items,

and eliminated import taxes. The PRC now has a market economy in food (Pierson, 1994, pp. 1168-1169).

The United States and the PRC signed a Memorandum of Understanding on intellectual property rights in 1992, in which the PRC pledged to upgrade its intellectual property rights regime by amending its patent law, joining the Berne Convention, and enacting trade secret legislation (Pierson, 1994, p. 1170).

The PRC does not provide national treatment to foreign investors who are under strong pressure to export, locate in specified areas, and use domestic versus imported components. Further, the PRC generally does not allow foreign firms in the service sector. Most foreign investment in the PRC is in the coastal and urban areas (Pierson, 1994, p. 1170).

A major current policy effort by the government of the PRC is to gain membership in GATT/WTO (Lardy, 1995, pp. 16-17). Approximately 85 percent of China's foreign trade is with GATT/WTO members, and more than 95 percent of the country's Pacific Rim foreign trade is with GATT/WTO members. Both the decentralization of control of the country's foreign trade structure and the elimination of some subsidies to Chinese industry represent efforts to satisfy GATT/WTO criteria. The PRC government views GATT/WTO membership as vital to the country's modernization efforts (Evans, 1995, pp. 63-71). Near-term membership, however, is far from certain.

China's modernization has reached a stage where past policies alone will not suffice. "Speculation of various types has led to heavy losses, especially in real estate. Corruption is extensive despite various efforts to curb it. China is in the curious position of considering itself a Marxist state but having a government that seems too weak to

control macroeconomic policy effectively. It is not surprising that foreign investors, having poured huge sums into China in the recent past, are in some cases showing hesitation at this point. Caution, not pessimism, is in order. China's strengths remain very considerable. But various economic warning signs are up” (Scalapino, 1995, p. 20).

### **Summary and Conclusion**

In the mid-1990s, the PRC is a complex and changing country. Economic growth is among the highest in the world. Industry in particular has scored major gains, and in the years immediately following the restoration of family-tilled plots, agriculture advanced significantly. International trade has advanced to a point where it represents one-fourth of country’s gross domestic product. Foreign investment boomed in the 1990s, and substantial technology transfer to the PRC occurred.

The broad thrust of economic reforms in the PRC appears to be irreversible. Chinese political leaders seek, however, continue to perpetuate an aura of political correctness by referring to the economic policy in the PRC as one of a socialist market economy. While the state ownership continues to play a major role in the economy, however, the trend toward privatization also continues.

Unemployment and under-employment has become a major issue in the contemporary PRC. The number of under-employed and unemployed is estimated at approximately 200 million in the rural areas, and these numbers are expected to increase. One result is that millions of persons migrate into the major cities annually, finding jobs and sending money to families at home. These jobs, and the equally important task of diversifying the countryside economically, require high rates of growth. The recent



economic growth, however, has come at a price—inflation, which has risen to 25 percent or higher in urban centers.

This issue of inflation becomes even more important as the gap between rural and urban incomes continues to widen. Farmers complain of high production costs and low prices, especially for grains. In the urban centers, workers complain about the rising cost of living. Government leaders, thus, are concerned about the potential for social unrest.

The energy situation in the PRC is serious. Sooner rather than later, the country's



e. Deng Xiaoping-ping, as Mao before him, has been a generalist with wide-ranging ties and support in the Communist Party, governmental apparatus, and the Army of the PRC. As long as the country accepted one primary political leader, this arrangement worked. The emerging political leaders in the PRC, however, are not generalists. Rather, these individuals are specialists whose ties and whose support are much more narrowly based than was true of the PRC's earlier leaders. The ability of such leaders to work together to provide a cohesive, coordinated, and directive leadership in the PRC is an unknown. This question is important not only in relation to the internal political and economic environment of the PRC, but also for the PRC's role in the global political and economic sphere.

Foreign entities desiring to invest in China could minimize their exposure to risk by examining the possible scenarios of the country's economic future and developing good relations with the country's political and business leaders. The PRC has become the world's third biggest economy; however, the country's long-term direction is too complex to be predicted. The country could either end up as a loose group of autonomous states, a more rigid centralized economy tightly controlled by the government, a free-trade economy that will be faced with intense international competition, or variants of any of these.

Political considerations, as opposed to economic considerations, likely will determine the PRC's fate with respect to GATT/WTO membership. In the United States, political chauvinists determined to impose the American conception of democracy on all other countries will pressure the American government to attempt to block GATT/WTO

membership for the PRC. The Taiwan issue will fuel the fires of opposition. In the end, however, the United States does not and cannot control GATT/WTO. Thus, in the long-term, the PRC will gain GATT/WTO membership.

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