China: A country in transition

The following briefings were conducted by staff of the U.S. Embassy. In Beijing, by Tim Neely, First Secretary of the Beijing Economic Section; Stephen J. Anderson, Commercial Attaché, and Ralph Bean, Foreign Services Officer, United States Department of Agriculture. In Shanghai, by Henry A. Levine, U.S. Consul General in Shanghai, and Scott Shaw, Commercial Consul, U.S. Commercial Service.

The view from the capital

China, a huge country with possibilities and problems, continues to deal with major changes in an economic structure that began to crumble in late 1978 when Deng Xiaoping decentralized economic decision making. Now with a market-oriented economy, China tilts West, but its political system is still rooted in the rigid controls laid down by Mao Zedong.

The People's Republic of China is an authoritarian state in which the Chinese Communist Party is the source of power and the Politburo has the ultimate authority. This authority rests on the government's ability to maintain social stability, stimulate nationalism and patriotism, control party personnel and security forces, and continue to improve the living standards of most of the country's citizens.

At the national and regional levels, party members hold most of the top government, police, and military positions. The government is beginning to reform the legal system, including increased transparency and accountability; however, many judges have no legal training.

In some places, a glimmer of democracy shines through. At the non-governmental level, village committees are beginning to have elections, giving citizens choices about grassroots representatives as well as introducing the principle of free elections.

Impressive growth

China's economy has grown at 9 percent to 10 percent over the past 22 years, slowing more recently. The development of non-state owned firms has played a key role in China's economic growth; currently, they account for most of China's industrial output. Foreign investment has also impacted economic growth; foreign funded firms employ over 18 million Chinese workers and account for 16 percent of all industrial and commercial taxes. Most foreign direct investment comes from other Asian countries, with the U.S. accounting for only 8 percent of the total.

A major catalyst for trade will be China's accession to the World Trade Organization. In October 2000, President Clinton signed legislation establishing Permanent Normal Trade Relations for China. In its final accession document China must include the items it agreed to in its talks with the U.S. Forty countries are now in Geneva working on the details of the accession package. Once it is finished, the U.S. president will be able to certify that package to Congress.

Bringing China more fully into the community of nations governed by the rule of law is a way to promote reform in China and stability in Asia. However, the world must recognize that China's membership in the WTO and compliance with its regulations will be a learning process and won't happen overnight.

Banking reforms

China's financial institutions are owned by the state. The principle instruments of fiscal and financial control are the People's Bank of China and the Ministry of Finance, both subject to the authority of the State Council.
China: A country in transition

The People's Bank fulfills many of the functions of Western central and commercial banks. It issues the currency, controls circulation, and plays an important role in disbursing budgetary expenditures. It handles the accounts, payments, and receipts of government organizations and other bodies. It also is responsible for foreign trade and other overseas transactions.

Other important financial institutions include:

- The People's Construction Bank of China, responsible for capitalizing a portion of overall investment and for providing capital funds for certain industrial and construction enterprise
- The Industrial and Commercial Bank of China, which conducts ordinary commercial transactions and acts as a savings bank of the public
- The Agricultural Bank of China, which serves the agricultural sector
- The China Investment Bank, which handles foreign investment.

The role of the newly created central bank will be to establish lending policies for other banks in the country and to establish monetary policy.

On a positive note, China's economic reforms greatly increased the economic role of the banking system. Now for the first time, banks can make loans to businesses and individuals can obtain loans outside the state plan. However, China's banks are still among the world's least profitable. They enjoy hidden subsidies and are technically insolvent. And there is the huge problem of China's state banks and its bad loans; state estimates put the pre-1995, non-performing loans at $1.2 trillion.

A number of foreign banks maintain offices in China's larger cities and special economic zones but they can only deal in foreign currencies. Restrictions will fade with China's accession into the WTO. Within two years of accession, foreign banks will be able to accept deposits from Chinese businesses and also make loans to them.

In search of jobs

Major development problems are growing along with the economy: state enterprise reform, unemployment, underemployment, and regional economic disparities. As state run farms and rural enterprises are downsized, tens of millions of peasants leave their homes in search of better jobs and improved living conditions. In 1980, 20 percent of the population lived in urban areas; in 1990 the number was 30 percent.

Urban areas are coping with millions of state workers idled on partial wages or unemployment as a result of industrial reforms. The "floating population," those in transition between places and jobs, is another problem for urban areas. An estimated three million people in Beijing do not have residency permits, a practice tolerated because they are unofficially there until their labor is needed and paid for in cash. This serves as a way to save the better jobs for the local residents.

Even though urban China is increasing in population, rural China still comprises the majority of the people. Currently, less than 50 percent of the population is actively involved in agriculture and it is disproportionately an aged population.

Family planning

The government enforces comprehensive family planning policies through provincial and local regulations. Though the official policy is one child per couple, this does not apply to couples who come from a one-child household, nor to people in rural areas. And the policy is now being
China: A country in transition

relaxed to alleviate the problems of an aging population. In rural areas, couples are generally allowed to have a second child if the first is a girl or if it is disabled. Minorities are also subject to less stringent population controls.

The health of China's citizenry has improved greatly over the past two decades, with average life expectancy near 70. However, health disparities between rich and poor and urban and rural areas have widened.

Pollution in China is a health catastrophe in the making. Eighty percent of China's rivers and streams and 2,800 of its lakes and wetlands are polluted to varying degrees. Most logging has been banned and incentives are in place to convert land to forests.

The internet dilemma

The government appears to be conflicted about Internet usage, wanting to participate in the information revolution and control it at the same time. So it encourages expansion of the Internet and other communications infrastructure while restricting the information that appears on computer screens.

To reinforce its policies, the State Council on Oct. 1 issued new Internet information regulations confirming that subversive activities and slander against the state will not be allowed on the Internet and detailing specific penalties for misconduct. But in a move that points to the government's desire to grow this industry, the State Council issued separate regulations that recognize the right of private entities to operate networks and to provide value-added services.

As unsettling as the government's approach might be, it is nevertheless succeeding. Internet use is growing rapidly, with 15 million users forecast by 2001. Outside of Japan, China is the largest Asian market for computers. This year's growth rate in information technology is 19.2 percent.

Sensitive areas

- Tibet With heavy subsidies from China, the Tibetan economy has grown by an average annual rate of more than 10 percent for the last decade. Tibet also benefits from a wide variety of favorable economic and tax policies. These policies, as well as development projects, have attracted growing numbers of Han and Hui (Muslim) immigrants from other parts of China. This has had the effect of displacing Tibetan enterprises and labor, overwhelming Tibet's traditional culture and diluting Tibetan demographic dominance.

Repressive social and political controls continue to limit the freedoms of Tibetans, even though the government has made efforts in recent years to restore some of the physical structures of Tibetan Buddhism and Tibetan culture damaged or destroyed during the Cultural Revolution.

- Taiwan After World War II, Taiwan was wrested from Japanese control and given back to China. But Taiwan's sovereignty has been contested ever since 1949 when the Communist revolution under Mao Zedong forced Gen. Chiang Kai-shek and his Nationalist Party to retreat to this small island off the southeastern coast of China. Chiang set up a government in exile which claimed legitimacy in its right to rule China, and expressed its intention to re-conquer the mainland. Over time, in the face of overwhelming communist strength, this goal proved unrealistic and it faded away.

In the 1992 amended constitution, the Taiwan government limited its jurisdiction to the island of Taiwan and the tiny islands in the Taiwan Strait: the Pescadores, Matsu and Quemoy.
China: A country in transition

This did nothing to reunify democratic and prosperous Taiwan with the communist mainland, and the issue is a sensitive one in China-U.S. relations. The United States continues to support the one-China principle, as affirmed by Pres. Nixon in 1974, so long as the dispute is resolved peacefully.

Chinese President Jiang Zemin said he is willing to talk directly with Taiwan's leadership provided Taiwan authorities recognize the one-China principle.