How fast has the Chinese economy been growing? Consider this: If each of China's provinces were a country, the 20 fastest growing economies in the world in the last 15 years would all be Chinese. "This is a major achievement," said T.L. Tsim. "The currency strengthened against the U.S. dollar in the last few years at a time when the dollar has been extraordinarily strong against the yen, against the Deutschmark, and practically everybody else." China's economic transformation has been spectacular:

- The economy is growing at the rate of 9.5 percent per year.
- The per capita GNP has zoomed from 200 U.S. dollars in 1979 to 800 U.S. dollars today.
- Inflation is zero.
- China has a foreign exchange reserve of $135 billion (U.S.).

In addition to this economic transformation, there has been a change in the political perspective as China continues its efforts at modernization. Foreign companies are 100 percent owned, there are 50-year leases and private property.

"Today, the state sector, in terms of total industrial production, is down to about 35 percent, almost the same level as France," said Tsim.

Modernized, not Westernized

China's civilization goes back 5,000 years. It is a very proud and homogeneous country, with a unifying language and culture that traditionally have kept it apart from other countries.

The Chinese are a very intelligent, hard-working people, causing one to wonder why their country is not as technologically advanced as Japan, the U.S. and Europe. Tsim said the reason for this is because the country has been in a 5,000 year straitjacket. "This is the only civilization which has survived 5,000 years basically intact."

The language has not changed over the centuries. "Everybody reads Confucius, who wrote 2,200 years ago. That is the good news," said Tsim. "The bad news is that when you read something which was written 2,200 years ago, you attempt to behave as if you live 2,200 years ago."

Previous attempts at modernization have been halfhearted "because China really wanted to modernize without being Westernized."

According to Tsim, China wants Western technology -- the guns, the computers, the engineering superiority -- but it doesn't want Western values like human rights, democracy, freedom and so forth.

"So for 150 years, the Chinese attempts at modernization have all failed."
Political outlook for China: Achievements and problems

T.L. Tsim

Modernization drive

Beginning in 1978, the modernization drive has been somewhat different. "This time China is sending massive numbers of students to the U.S. and to Europe to learn, primarily technology but other subjects as well," said Tsim.

Unlike his predecessors, Deng Xiaoping, China's leader from 1978 to 1997, concluded that neither the United States nor Russia wanted to fight a war with China. He then turned his efforts to economic construction, to the production of material goods rather than preparations for war.

Deng believed that China had nothing to fear from the outside world. It would be in China's best interests to open its doors and invite the outside world to come in and invest its money and transfer its technology. Thus, modernization could be achieved in one to two generations, instead of a longer time frame of several generations if the country remained closed.

- Deng Xiaoping opened China's doors to foreign investment in 1979.
- Communes were dismantled and given back to the peasants, increasing productivity tremendously.
- Material incentives were given to industrial workers. The more you produce, the more you keep, they were told.

Lured to the cities

Regarding social transformation, in 1978, 80 percent of China's population was rural; today maybe 65 percent is rural. That 15 percent has moved into cities and towns, said Tsim.

In China 65 percent of the population still lives without electricity, tap water, and modern conveniences such as flush toilets. But in 1978, that figure was 80 percent.

"The bright lights of the cities, modern facilities, entertainment, draw people into the cities like a magnet," said Tsim.

With all this movement, Chinese cities are bursting at the seams, growing and growing. And between the rural areas and the urban areas, new towns are springing up.

Still Communist

The political transformation is slow. "You could argue that there has been very little change," said Tsim, "but imperceptibly, some changes have started to creep in." Elections now take place within the Central Committee of the Chinese Communist Party. Elections have been introduced at the local level to deal with local issues such as "fish ponds and irrigation schemes."

But it is the change in the ruling political parties that demonstrates whether the system of elections is fair. In the U.S., either the Republicans or Democrats will prevail at election time. In China, one party has retained a lock on the electorate. "China started 1978 with the Communist party in power and is ending 1997 with the Communist party in power."
Political outlook for China: Achievements and problems

T.L. Tsim

Jobs lacking

The cultural transformation has run into some difficulties. Eight million new jobs were created in 1996, a formidable number in any country. But in China's case, it is not enough," said Tsim.

China has a population of 1.2 billion people and a birth rate of 1 percent. "That's 12 million new babies, equivalent to one new Australia every year. So creating 8 million jobs is not good enough; the birth rate must come down."

Unemployment is a large problem, but reliable statistics are hard to come by.

Unbalanced growth

There is also a problem with unbalanced growth in population; the coast is growing at a rate of 1.5 times the rate of the interior. The provinces on the coast, especially those closest to Hong Kong, have good infrastructure and offer higher wages than the provinces in the interior which are growing at only 6 percent, well below the national average.

Hong Kong's role

"The modernization of China this time has gone further than at any other time in the last 150 years," said Tsim, adding that it would not have happened without Hong Kong, where the spark of capitalism is alive and well.

Hong Kong provides a model where British institutions such as the judicial system, common law tradition, freedom of the press, and respect for human rights come together with Chinese virtues -- work ethic, high savings rates, intelligence, commitment to family.

Hong Kong also provides the financial and management support, along with knowledge of world markets to make the model work for China. This fusion of cultures has created a unique place, said Tsim, projecting that Hong Kong will be China's international financial center for the next 10 or 20 years.

"On the 1st of July 1997, the handover of Hong Kong went very smoothly. However, China did put in a legislature which was elected by a body appointed by China. The new legislature started tightening the law on public assembly and demonstration, the law on collective bargaining, and the law on elections. The last change is significant because it changes the way legislative counselors are elected."

Tsim continued: "Investments are continuing in Hong Kong and it appears to be business as usual. It is not life as usual, however. Life is different under the new regime. The new legislature is pro-China, pro-business, pro-law and order; it is not pro-democracy."

Asian currencies

Referring to the current economic problems in southeast Asia, Tsim said: "In Thailand and Indonesia, the currency went down about 35 percent. In Malaysia and the Philippines, about 25 percent; in Singapore, it's down 10 percent, and in Taiwan, 6 to 8 percent.

"However, the Hong Kong dollar will not be devalued in tandem with what's happening in the rest of southeast Asia;"
Political outlook for China: Achievements and problems

T.L. Tsim

Eighty percent of Hong Kong's GDP is in the services sector, which has been growing at 18 percent a year for the last 20 years. Hong Kong does not compete with other Asian countries, where the manufacturing sector is dominant.

"All in all, I see Hong Kong making even more of a contribution to China from here on."

US-Sino relations

Relations between the United States and China have gone from containment to engagement. Now the word is cooperation; both sides want cooperation. "The Chinese would like this last phase to be upgraded to partnership," said Tsim. "Right now relations are going through a period of pride diplomacy, with neither side giving in very much."

Mr. Tsim responds to Board questions...

What do U.S. companies need to understand about doing business in China, given the current state of affairs?

China fails to appreciate that the technological advances of the U.S. are underpinned by freedom. Unless Chinese scientists have the freedom to challenge old ideas, the way people do in the U.S., they will be unable to innovate. Therefore, the U.S. can transfer technology to China, but China cannot improve upon it. And in many cases, the transferred technology is not used because nobody understands how to use it. U.S. companies need to understand that China's middle class is 60 million, about the size of the United States' west coast. These people can buy a lot of things, but they need an entirely different orientation.

Could China eventually go the way of Russia and be fragmented into many different countries?

In Chinese politics we've always had dynasties followed by periods of civil wars. Dynasties last about 300 years. If China is currently in a civil war period rather than in the Communist dynasty, then we could see the breakup of China within our lifetimes.

How stable is China's leadership; is Pres. Jiang really on top for a while?

For years people have doubted Jiang's ability to stay on as a top leader because he isn't a first generation leader. However, he has maneuvered himself into a very good position. The first generation leaders are dying out. In China you have a power pyramid based on age. In 1989 when he came to the politburo, Jiang was 64, and there were people older than him. Mr. Jiang is now the oldest in the politburo, at 71. I think the next five years should be very stable for China.

What can you tell us about the relationship between Taiwan and mainland China?

The United States will not stand in the way of reunification, provided it is not done through the use of force. I think within six to 12 months, the Taiwanese will come to the negotiating table. Initially, there will be a flight of capital out of Taiwan, as there was in Hong Kong, and a depreciation of its currency. Then two years probably will be spent in negotiation. The result will depend on what kind of deal China offers to Taiwan.
Political outlook for China: Achievements and problems

T.L. Tsim

It appears that the military has gained a great deal of power over the last 10 years. Could you comment on this?

The military began manufacturing arms for export to provide financing for its operations. Then it began managing airports, then leasing them out. Then it started running hotels at airports. It is a force in Chinese industry. Politically, its influence has been downgraded. Its military arsenal is very lopsided. Currently, it isn't strong enough to take Taiwan.

How would the computer affect China’s modernization process?

It wouldn’t to any appreciable extent. The computer is difficult for the Chinese. First, there is a need to master a difficult keyboard. Second, they are expensive. Third, the Chinese government wants to control access to the Internet. It will be a long time before computers lead to the kind of free flow of information we see in the U.S.