

Chinese Transformation Policies for 2015 and Beyond: *Quo Vadis?*

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Abstract

The year 1949 witnessed the founding of modern China under the leadership of Mao Zedong and the Communists. The nation was unified after a century of humiliation at the hands of the Western powers and after being divided amongst warlords, Communists and Nationalists. Mao began to develop a Chinese version of Communism while implementing key tenets of Marxist theory. These actions included the nationalization of land and property in order to impose collectivization. These policies failed and towards the end of Mao's reign private property was being allowed in small amounts. Deng Xiaoping was the successor to Mao. He pursued a more pragmatic policy in regard to the economy. Special economic zones were created in order to attract foreign investment. When they proved a success, they were extended to the whole country. Profits were allowed in order to motivate people by serving as an incentive for hard work. The country enjoyed success in reforming and opening itself under Deng. The economy was not entirely market-driven but was still planned in order to limit instability in the economic cycle. This hybrid system was the foundation to which China owes its economic success. By 2010, China was home to over 20 per cent of the world's industrial production. The nation had successfully become a strong trading and manufacturing nation and is now striving to become a leading banking nation. Politically, China has a state-managed

political system by which the Communist Party holds power. This authoritarianism was beneficial in facilitating the development of the nation but it also had some drawbacks. These drawbacks include widespread corruption, nepotism, and the concentration of wealth widening the gaps between the haves and have-nots. Societal unrest is always a fear of Chinese leaders and in recent years there has been an upsurge in the number of protests. The vast majority of people have no way of expressing themselves in the current system meaning that protests are there only means of expressing their dissatisfaction. The pro-democracy movement of 1989 was crushed by the army and the next two leaders of China pursued economic growth while keeping the status quo in the political system. The current president of China, Xi Jinping, has established a ten-year plan for China which will continue to develop the nation, while setting a new direction and fighting corruption. Xi, being new blood in the system, is believed by many to have the potential to successfully carry out reforms in China and consolidate its position as a leader in the world.

Keywords: *modern China, Mao Zedong, Deng Xiaoping, Jiang Zemin, Xi Jinping, socialist-market system*

JEL classification: *F59, H11, N35, O11*

1. Introduction

Traditionally, China has been the leading nation of East Asia due to its size, technological innovations and cultural influence vis-à-vis the surrounding areas. Tributary states were established along the borders of China, ideally voluntarily, but military means were sometimes used. This system worked for thousands of years until the 1840s and the Opium Wars. The Opium Wars saw the British projecting their power across the globe to the coastal waters of China. China suffered a series of defeats and was forced into a series of unequal treaties. European powers began to jostle to establish their own enclaves in China in order to preclude any one nation from dominating China. This served as a shock to China as

the nations of Europe had been viewed as nothing more than another group of far-off barbarians.

The “Century of Humiliation” that followed did not end until 1949 when Mao Zedong 毛泽东 reunified China, save for Taiwan, under the leadership of the Communist Party. The number-one priority became to rebuild China to a preeminent status in East Asia. To this end, he set off the Great Leap Forward and the Cultural Revolution which actually served to retard or even reverse China’s development. Following the death of Mao, a series of more pragmatic leaders came to power. The first such leader was Deng Xiaoping 邓小平. Under him, the Chinese economy was opened up to foreign investors and state controls were loosened. This set China on a course which has transformed the nation in 30 years from an economic backwater into a country possessing the second largest economy in the world. His successors stayed the course of pursuing economic growth over other considerations. The transition of leadership from generation to generation has also become a smoother process as factional fighting has been kept to a minimum. This is in contrast to the struggles following the death of Mao in which the Gang of Four came to power, only to be removed by the more pragmatic leaders in the Chinese Communist Party (CCP).

This paper has four subjects which will be explored in order to better understand where China has been and where it is likely to be heading to. First, it is aimed at reviewing the historical background of China and the current events in China. Next, the political leadership since 1945 and their policies will be reviewed. Furthermore, China’s role in East Asia and the globe will be looked at because as a G2 power, the clout of China in these areas is important to take into consideration. Lastly, the obstacles faced by China as well as its potential to achieve its goals will be examined.

The question on many people’s minds is whether the hybrid system of the economy can be maintained; or if, as many in the West suspect, economic gains will lead to an increasing movement towards democracy.

2. Brief Summary of Chinese Political Leadership since 1945

Geo-politically China is an enormous nation with a wide range of climates and terrains. It has traditionally dominated neighboring nations and forced them into subservient relationships. This, when coupled with the fact that it has one of the longest recorded histories in the world, gave rise to the view within China as it being the center of the world. The Han 漢 Chinese are a proud people and their history is too long to summarize here. Instead, we will briefly look at Chinese leadership since 1945.

The year 1945 witnessed the defeat of Japan and the resumption of the Chinese Civil War. Communist forces quickly gained the upper hand and forced the Nationalists under Chiang Kai-shek 蔣介石 to retreat to Taiwan. Mao, the leader of the Communist Party, inherited a China which was desolated after years of instability, foreign invasions and Civil War. Mao quickly turned to the Union of Soviet Socialist Republics (USSR) for support as he had no choice since the Soviet Union was the preeminent Communist power and China was in desperate need of financial aid and diplomatic support. Despite the Soviet wish for uniformity, Mao changed Communist doctrine by giving it some unique Chinese characteristics.

Under Mao, China underwent a series of trial-and-error projects from 1949 to the 1960s as the nation sought to develop itself. Power was supposedly diffused through individuals and governmental bodies but in reality it was concentrated in the hands of a few key individuals. The economy followed traditional Communist doctrine of being centrally planned while private property was abolished. The result was a primitive social life with a plethora of hungry people and some were even dying from starvation. Despite the situation, Chinese rhetoric mirrored that of the Soviet Union and claimed that China would soon surpass the United States.¹

By the later part of the 1950s and early 1960s, public discontent was beginning to build and directed at Mao due to the failure of his policies. In order to reestablish his position as the preeminent leader of China, he launched the Cultural Revolution in 1966, claiming that revolution was not yet finished and was in danger due to the actions of counter-

revolutionaries. He called upon the youth of the nation to finish the job he had started and to ferret out counter-revolutionaries, capitalists, traditionalists and other enemies of the state. Supposedly classes had been abolished but they were once again coming into being which threatened the revolution. His political opponents were mostly either purged from power or forced to flee abroad. One leader who was purged was Deng Xiaoping. To his supporters, such as Zhou Enlai 周恩来, Mao gave favor, political power and riches. Hua Guofeng 华国锋, a diehard Mao loyalist, was designated as Mao's eventual successor. He helped to remove the Gang of Four from power and initiated some reforms although he maintained Maoist leanings. Hua was later forced aside by Deng Xiaoping who initiated a wider range of reforms than he was willing to implement. One positive outcome of Hua's time as leader was that the losers in power struggles would be stripped of political power but would not be subjected to imprisonment, harassment or torture.

Deng Xiaoping was a close associate of Mao but criticized some aspects of Mao's agenda. This led to his political exile while Mao remained alive. Deng believed that the political leadership should follow Communism but that the economy and social aspects of society should be pursued in a pragmatic fashion. His philosophy was that it mattered not if the cat was white or black as long as it did its job of catching mice. Upon returning from political exile, he pursued a policy of opening up the economy and looking to the West for development, technology, markets and investments. Internally, he promoted anti-corruption while pushing for advancement in healthcare and technology. Lastly, he strove to achieve a balance between the urban and rural forces of the Chinese society. In his eyes, reform was necessary for economic growth which would in turn ensure social stability. The Cultural Revolution had nearly ripped China apart and he had no desire to see a repeat of this. The first step towards a strong China was for it to undergo industrialization.²

China has traditionally viewed itself as the center of the world. The Yellow River was one area in which civilization began with the advent of the domestication of crops. The nation has a long and proud history which prevented it from recognizing its backwardness in the 1800s. The 19th century saw China exploited by Western nations and later saw large

parts of its lands turned into concession zones. In the aftermath of the Second World War and the conclusion of the Civil War, China underwent a period of rebirth. This rebirth was limited in the sense that all of China was not reunified as the forces of Chiang Kai-shek fled to Taiwan and remain a renegade province in the eyes of Communist-led Beijing. Eventually, mainland China came to represent China in international organizations while moving towards the dream that Mao had for China, making the nation a leader in world affairs.

The Great Leap Forward was the initial domestic program launched by Mao. Its aim was to increase the economic output of China but it failed miserably. People were left poor and starving and industrial production in key industries like steel actually decreased. Birds were not allowed to rest and were harassed by the population as they were accused of eating grains which caused starvation in the land. Small steel furnaces were encouraged to be established in the countryside so peasants could manufacture steel but the end product was of very poor quality. The laurels sung by Mao did not correlate with the results of his policy and people began to turn against his leadership.³

In response to this challenge to his leadership, Mao mobilized the young to carry out the Cultural Revolution. The revolution he claimed was in danger, as reactionaries, capitalists and anti-revolutionaries were re-creating classes within society that he had fought to destroy. Some opponents fled, while others like Deng Xiaoping were exiled into the political wilderness. The father of the current president, Xi, was one such victim. Friends and allies of Mao were benefited by being enriched and gaining power.

In 1964, with the aid of the French and the Soviet Union, China detonated its first atomic bomb which highlighted China's military prowess. This was in part done because China was isolated diplomatically in the world. Its rhetoric continually bashed the USA while a split with the Soviet Union had occurred previously. This isolation was eventually ended when the United States and China began a diplomatic rapprochement as they both feared the USSR. The news that these two former enemies had come together was a diplomatic earthquake.⁴

Deng Xiaopeng had become a political outcast during the years of Mao's rule for his criticisms of the leader. He had not wanted Mao's wife to be accumulating power or be active politically. Deng was a supporter of more liberal-minded CCP members, Hu Yaobang 胡耀邦 and Zhao Ziyang 赵紫阳. The death of Hu helped to spark the Tiananmen Square demonstrations as he was remembered in a positive light by many Chinese citizens although he had been stripped of power because of his pro-democracy views shortly before his death. Zhao Ziyang was promoted to General Secretary following Hu's dismissal. He was against the decision to send the army against the Tiananmen Square demonstrators and was prepared to make concessions to the protesters. He felt the nation had advanced enough economically for it to be able to handle the transition to democracy. However, Deng, still the paramount holder of power, caved in to conservative pressures. He felt it was too early for democratic reforms and sent in the army to disperse the protesters. His erstwhile protégés were removed and forced to retire from politics. Despite being removed from history books and wiped out from memories in China, they have not been forgotten as many people in mainland China and the people of Taiwan and Hong Kong still remember them fondly for their pro-democracy views.⁵

Deng believed that continued economic growth was necessary before an experiment with democracy could begin. He viewed democracy as a threat to the progress Chinese society had achieved as it could unleash the forces of chaos. In pursuit of his pragmatic policy, he established special economic zones in the south of China where foreign investors could operate and establish modern factories. These initial zones proved a success and from there they spread to encompass the entire country. As Mao was revered as the father of the country, Deng came to be revered as the father of China's economic miracle.

In 1989, Jiang Zemin 江泽民 became the leader of China. Under his guidance, relations were established with South Korea. South Korea was by then a leading economic power with a modern industrial base which would serve to boost and modernize the Chinese economy. South Korea was attracted to China because of its vast market and in order to gain access, it severed ties with Taiwan with whom it had previously viewed

as the genuine representative of China. Relations with South Korea were viewed by China as being productive and mutually beneficial as compared to relations with North Korea which were seen as parasitic. However, the North did serve a useful purpose as a buffer zone between the American-aligned South Korea and China proper. One of his most successful acts during his time in power were the successful negotiations with Portugal and the United Kingdom over the issue of the eventual return of Macao and Hong Kong to China.⁶

Jiang was largely viewed as a status quo ruler. He lacked big ideas of Deng or Mao but would rather carried out the course of economic development as laid out by Deng. To this end, he sought to maintain close relations with the USA as a means of gaining access to newer technology. Stability was maintained to the best of his abilities in order to encourage economic growth. Problems which did flare up, such as the US bombing of the Chinese embassy in Belgrade, he handled by playing a hard-line to domestic audiences while diplomatically doing very little.⁷

Following his retirement from power, authority passed on to Hu Jintao 胡锦涛 and Wen Jiabao 温家宝. These two men were the leaders of China from 2002-2012. Both men were conservatives and did not wish to chart new courses but rather believed that China should bide its time, increase its power and then throw its weight around when participating in world affairs. An example of throwing its weight around could be seen in China's decision to curtail the exports of rare earth metals which were needed by Japan for the manufacturing process in advanced electronic goods and automobile parts. Under their leadership, the 12th economic plan for China was unveiled. It also placed an emphasis on stability. The Beijing Olympics went off without a hitch on their watch which served as a sort of coming-out party for China to let the world know that China was a key player. Abroad, they supported developing nations as a way to increase China's influence around the world through financial aid. The 2008 Financial Crisis was largely avoided by China and served to upgrade the reputation of China in the world. China emerged unscathed while the Western style of capitalism came to the point of near collapse. Foreign currency reserves were greatly increased during their reign. Territorial issues flared up with

many of China's neighbors over the issue of Chinese claims for sole dominion over large swathes of the South China Sea. The dispute with Japan over the issue of the Senkaku Islands (尖閣諸島), which the Chinese call Diaoyutai (釣魚台列嶼), was particularly intense as China demanded Japan to return the islands. The issue remains contentious but recently diplomatic efforts were made to freeze the situation until a later date.⁸

In 2013, a transfer in power occurred in China as Xi Jinping 习近平 became the new president with his first term to end in 2018. As his predecessors have served two terms before retiring, it is likely that he will do the same and remain in power until 2023. His initial two years in power saw him pursuing an anti-corruption campaign which many saw as a means of purging opponents and consolidating his rule by replacing dismissed opponents with his own supporters. The first two years following President Xi's ascension to power were devoted to anti-corruption efforts. He is now entering the 3rd year of his initial 5-year term and his goal will be to realize his "China Dream".

To this end, he has a series of smaller projects which will help realize this objective. First, those officials who were removed from power for corruption were replaced with his own supporters. Next, a 10-year development plan for China was developed during his first two years in office which will begin to be implemented this year. This plan calls for the transition from extensive to intensive growth which will be in a large part driven by R&D. Domestic consumption will be encouraged instead of simply exporting goods abroad. State-owned companies will be privatized and encouraged to bring in foreign expertise to increase their efficiency. During the period of 10% growth per annum, the income gap in China exploded. As the growth rate slows to a more modest 5-6%, then the income gap will be addressed by the establishment of a social safety net and increasing governmental participation in education, healthcare whereby each citizen will be guaranteed a certain standard of living.⁹

If his domestic policy goals are successful in stabilizing the Chinese economy, then China will be in a position to play a larger role in world affairs. China has had a permanent seat on the UN Security Council

since the organization's inception. Now China is in a position to be active and influential in world affairs because of its economic clout. The paramount position of the United States is not sustainable as China and other nations in the world continue their path of economic development. It will be necessary for the 5 permanent members of the Security Council, and other leading nations, to work together to address global issues in a constructive manner rather than always being on opposite sides of the fence. As China has benefitted greatly in the last few decades, it is necessary for the nation to extend aid forth to other developing nations of the world and help fund aid programs. Developing nations should not be viewed as markets for their products to be dumped in or as simply sources of raw materials. As the largest nation in East Asia, China has a responsibility to resolve its numerous territorial disputes through arbitration and dialogue. Lastly, China should begin to respect human rights and democracy. As a strong rich nation, it is an appropriate time to begin transforming its political system.¹⁰

3. Internal Policies

The years 2012-2013 witnessed the changing of political leadership in China as the reins of power were handed over to President Xi and Prime Minister Li Keqiang 李克强 from the former leaders, President Hu and Prime Minister Wen. Of central importance in this transitioning of power was the peaceful nature of the process. It stood in stark contrast to the fight for power that occurred after the death of Mao. Mao's widow and her associates, the so called "Gang of Four", attempted to hold onto power. However, shortly after the death of Mao they were ousted from power and thrown into jail.

Under the leadership of President Hu (2002-2012), the economy thrived. He pursued a policy of economic openness in order to attract foreign capital. Their policies were a success in that they maintained a high rate of economic growth, despite the 2008 Global Financial Crisis, but their policies did have some negative side effects. For one, the benefits of economic growth were largely skewed against those at the bottom rungs of Chinese society. Furthermore, those in the hierarchy of

Chinese businesses and the CCP were largely viewed as abusing their privileged positions to enrich themselves via corruption. The number of citizens who were unhappy over a plethora of issues increased. These issues ranged from the price of housing, pollution, schools, high inflation, and more. The end result was an increased amount of unrest and anti-government protests. For these reasons, the 12th five-year economic plan enjoyed mixed results, though still allowed Hu and Wen to hand over power to their successors with no major issues.¹¹

Xi and Li were handed power in March 2013. The two held their own vision for the future of China and began to implement it upon their consolidation of power. Their vision looks forward far into the future to a Great China which will remain under the enlightened leadership of the Communist Party. Despite some who call for democracy, the CCP maintains that democracy in the Western style is unneeded as it would lead to social upheaval. In lieu of democracy, the CCP will continue to exercise control over China for the betterment of all. Diplomatically, China should pursue a course of being friendly with nations all over the world while forgoing the use of the different aspects of its power in relations with smaller nations. To increase its soft power in the world, China will continue to establish Confucian Institutes all over the world. The hope is to spread knowledge of the Chinese language, culture and art. Whether these goals are realized or not depends upon the leadership of China in the coming years. The potential to reach these goals is higher now than 10 years ago. China has reached the position of being number two in the world economically; its military has increased in scope and power while the government has absorbed lessons from the various crises that have rocked the world.¹²

A continuing stumbling block in the realization of the stated goals in the next 10 years is the threat of corruption. Corruption is a major issue in many Asian countries. Due to the size of China, corruption continues to be a prevailing source of discourse within the country. It is serving as a drag on the Chinese economy which until vanquished will serve to prevent the Chinese economy from reaching its full potential. Corruption has become prevalent at every level of the Chinese society, from the lowest levels of local government all the way to the highest echelons,

affecting newly made CCP members as well as the so called “princelings” – children of important CCP members. Xi and Li have promised to tackle the issue without regard of a person’s connections or the scale in which they engaged in corruption. The so-called flies and tigers and everything in between will be pursued in the efforts to stamp out corruption. Many observers, both those within China and those abroad, take these proclaimed efforts with a little bit of doubt. Corruption has become so ingrained within Chinese society that many view this as just an attack on the surface while the underlying root of the problem will be ignored. Only time will tell if the Chinese leadership is genuine in its efforts to stamp out corruption.¹³

Chinese government officials believe that the Chinese economy cannot survive unless the government and people act in unison in pursuing growth while also pursuing the stamping out of corruption. President Xi has enjoyed a wide level of support within Chinese society due to his anti-corruption efforts. He has been true to his word in that he has pursued corruption at all levels of society and around 300 high ranking officials have been sentenced to imprisonment for corruption. Some cynics maintain that the pursuit of corruption charges against high ranking officials is nothing but a self-serving ploy. They maintain that it serves to increase President Xi’s popularity amongst the masses while removing political rivals from the scene and cowing others into subservience due to their fear of facing similar charges.¹⁴

The political leadership understands that today, China faces a different domestic and international environment than a decade previously. The Chinese people believe themselves entitled to the lifestyles of a middle-income country but the country finds itself facing the so-called middle-income trap. Chinese companies, being mainly state-run, find themselves having to evolve in order to be competitive in the world economy. One of the most crucial challenges will be adapting to a lower level of growth which will become the new normal. A decade ago, growth rates of 10% were expected while now a yearly growth rate amounting to 6-7% is anticipated. As an economy grows and develops, the pace of growth will naturally decrease. After three decades of phenomenal growth, the Chinese economy can no longer maintain such

levels. The current 6-7% growth rate will drop further in the coming years. It should be noted that the actual Chinese growth rates have been in dispute as many do not trust figures issued by the government.

The 13th five-year economic plan will commence in 2015 and will end in 2020. The targeted growth rate during this time is between a much more modest 5-6% than has been aimed for in previous plans. According to the plan, increasing efficiency will be a priority along with establishing harmony between the economic and social aspects of society. Furthermore, the economy will continue to be pushed further towards embracing the free market and the creation of a social welfare state. To this end, it is imperative for China to increase its tax rate in order to pay for these programs while ensuring that people are in compliance with tax laws. The Chinese leadership has committed itself to focus on quality growth which will be achieved through the restructuring of the economy. This decision is paving the way for the future growth of the economy to be driven by consumer spending rather than by foreign investments.¹⁵

One burden China is facing comes in regards to its military. As China has become the world's second largest economy, it has become necessary for it to invest and upgrade its military capabilities to safeguard its interests. One of its primary concerns is ensuring the flow of oil to it through the Straits of Malacca. To do so requires a hefty investment in its maritime forces and the expansion of its bases. However, this pursuit of military power has resulted in the neighbors of China becoming weary. In turn, they have begun to invest more to upgrade their own capabilities while also beginning to turn towards America due to their fear of China. This in turn has led to the beginning of an arms race which could ultimately be a drag on the potential growth of the Chinese economy as resources are diverted away from more productive undertakings, although a certain level of military spending can be beneficial as it will create jobs and a strong military will give China certain economic benefits.

The new government leaders are hoping that their anti-corruption policy will succeed over the coming years. Once corruption has been curtailed, further economic reforms can be implemented allowing China

to further advance itself to the levels of America and Western Europe. Corruption has served as hindrance to reaching this level. The “China Dream” can only be achieved if the nation is successful in tackling corruption from the highest levels of government and the military down to the lowest levels of local government. It will be hard to overcome corruption within the whole of society. If China deals with its corruption issue during the 13th five-year economic plan, it will be reborn as a strong nation. The fight against corruption is aided by the slowing down of economic growth. Times of high economic growth serves as a breeding ground for corruption but the stage of 10%+ economic growth is coming to an end. This will be the starting point for sweeping reforms across Chinese society.

If this comes to fruition, JP Morgan analysts have predicted that each 1% decrease in the Chinese growth rate will result in a 0.5% lower growth rate in the global economy. China’s exports account for nearly 20% of worldwide exports meaning that China has a great influence on the world economy. China is in the position to increasingly influence the stock and sets the bond markets. Also, China’s impact on nations around the world is increasing as its people are traveling abroad as tourists with money to spend in ever-growing numbers.

Generally, the new Chinese government has the support of the citizens in its anti-corruption efforts. The people are satisfied with the direction Xi is leading the country and his performance in carrying out his plans. This year the government will conclude and examine its 12th five-year economic plan which ran from 2011 to 2015 while drawing lessons from it for the next 13th five-year economic plan which will run from 2016 to 2020. In this paper we will examine the attempts to change the industrial sector and the financial and capital markets along with taxation, and lastly the social sector.¹⁶

In socialist countries with planned economies such as formerly China, the land, companies, buildings, etc. are all owned by the state. Food products and agricultural goods production are determined by the government. This is true except for small private plots of land which belong to the farmer who is able to determine what he will produce and what to do with whatever is grown. In times of good weather, Chinese

farmers are able to produce enough to supply the whole nation. With the money obtained from their agricultural goods, the farmers turn around and purchase manufactured goods from the cities and from abroad. To central planners this is an ideal situation as the agricultural and industrial sectors are complimenting each other in the nation's efforts to enrich itself. However, the reality is different and history has shown that it is not a viable option in the long term. The weather is beyond human control and oftentimes floods, droughts or extreme temperatures destroy crops before they have matured. Also, before the Chinese economy pursued the reforms of Deng Xiaoping, the agricultural sector lagged far behind more advanced countries. Years of Japanese invasion, civil war and a lack of investment in modern techniques ensured that yields were low compared to the nations that employed modern techniques and machinery. To rectify this situation, the Chinese government urged individual farmers to take steps to increase crop yields. China is home to many so-called home-based agricultural companies. These are farmers who have pooled their resources in order to finance the establishment of small-scale food processing plants. The government encouraged this process with tax breaks, land grants and other incentives. In this way, farmers have become more familiar with businesses and their daily operation.

Industry has been emphasized in China as it is a stronger driver of economic growth than an agriculture-based economy. In socialist countries, heavy industries were initially pushed for in lieu of light industries. These countries felt themselves to be under siege from the capitalist countries. Heavy industry would provide them with the means of manufacturing weapons and having an army capable of deterring foreign attacks. However, this precluded the development of light industries and the accompanying consumer goods. This impacts the living standards for the average person in such countries which were much lower than would otherwise be the case. Also, the system would be unsustainable as the people would not be satisfied due to the lack of consumer goods. To overcome this problem, China introduced foreign capital, technology and management techniques to promote the development of Chinese industries. Foreign companies were attracted to

the vast market represented by China and the accompanying low wages. The creation of jointly owned companies saw the rapid growth of business know-how, the establishment of light industries which had previously been neglected and increased efficiency of heavy industries.

It is my position that Chinese companies that are in state hands should be restructured along the lines of foreign companies in order to remain competitive. By doing so, the companies will learn while also paying taxes and keeping the unemployment rate low. This is crucial for the maintenance of social stability. The final result of foreign investment is that ownership is transferred from state hands to private hands in a gradual process. In this process, the banking, insurance and capital markets are slowly transformed through mergers and acquisitions as they are transferred to private hands but the ultimate power continues to be in state hands.

The industrial development of China began at the lower rung of textiles and footwear. From there it branched upwards to radios, televisions, telephones and more. It has reached the point where China is manufacturing cars, steel, ships, iron, satellites and other advanced products. Now, China is world-renowned for its manufacturing process of everything from computers to satellites, from rifles to missiles. The speed at which China jumped from manufacturing textiles to missiles was a truly stunning achievement. This achievement was in a large part due to industrial espionage abroad and amongst companies that established facilities within China. The new government in China is trying to develop information communication technologies which are applicable to every industry across the spectrum. China's dream is to reach such a level of development that other countries will not be able to follow in its footsteps. Therefore, China is focusing many of its resources and personnel on achieving the goals laid down in the 13th economic plan. China needs its people to reach their full potential for it to have a shot.¹⁷

The initial basis for economic growth is agricultural. Once agriculture is established and operating efficiently, it becomes necessary to tax it in order to finance industrialization. China has done this but part of its agricultural system remains in state hands. The state should

continue to devolve the land and decision-making powers to farmers who can run the lands as they see fit. In such a way, farmers will modernize their agricultural techniques as they will have a monetary incentive to do so.¹⁸

Large industries and banks within China are in the hands of the state. Such industries owned by the state include automobiles, steel, energy and more. The state provides labor and materials and in turn the company runs the production. Tycoons affiliated with the Communist Party run these companies and in turn enrich themselves via the company. Usually, there are no profits but rather deficits which the government must cover. Individuals have no incentive to work hard or make the company profitable as they know the government will bail them out. Whatever profits made are seized by the government as a form of tax leaving such companies little incentive to be productive. Medium-sized companies are also partly owned by the state. Deficits like for banks and large companies are covered by the local banks which in turn borrow from the Central Bank. In this way, banks and companies have no way of improving themselves or ever being competitive in the world market.¹⁹

The banking sector is likewise a mixture of private and state ownership. There is no efficiency in the decision-making process and banks are reliant upon the government in times of need. Loans are provided to people with *guanxi* 关系 or connections rather than on a needs and merit basis. Rich people and companies are colluding with bank workers in an effort to make money. This is being done through the charging of higher interest rates to average people. Those companies or individuals who take large amounts of loans on a regular basis are able to secure a more favorable interest rate at the expense of the casual loan user. Due to the inability of many regular people to obtain loans from banks, they must turn to private individuals. Such individuals charge exorbitant rates of interest making it difficult for these people to come out of debt. The people find themselves in such a cycle of poverty that they give up the will to work as they work hard but have nothing to show for it. In turn, they turn anti-government and demand the government to reform the banking system in order to protect themselves

and people in similar situations. The government has so far begun to reform the banking sector. The goal is to ease the process by which regular people can use the banking system instead of turning to illegal money lenders. Interest rates should be able to be lowered as corruption and the inefficiency that causes high rates will have been tackled. Financial technologies should also be introduced which will further increase efficiency and lower costs for all. President Xi should clamp down on these illegitimate banking practices.²⁰

The government needs to exit from the banking industry by gradually lowering its percentages of ownership in banks. Once banks are more in private hands, the greater the chance they will have for turning a profit as loans will be provided on a merit and needs basis rather than on connections. When banks are profitable, they will be able to contribute to Chinese state coffers instead of being a drain. The economy will benefit when banks and businesses operate according to market principles and react to the market. When they are operating smoothly, foreign investors will be attracted who will bring along the most up-to-date technologies and modern management techniques. As companies grow and expand, they will in turn require more workers who will receive pay. This pay will be taxed, spent and invested in companies via stock which is a boon for all.

Banks and industries that have partnered with Western firms have seen a significant development. They pay taxes instead of receiving subsidies which allows the government to pay off the national debt. Management should be open-minded to adopting foreign management techniques while encouraging their workers to be creative in how they approach problems. The Chinese people are innovative and with privatization, their creativity can be released. When all this is done, the Chinese people can enhance their banking and other industries as a key source of government income. Central and local governments will plan the next year's budgets and projects based on this year's revenues. The development and strengthening of the state is dependent upon many things, namely the military, improved education, the creation of a social safety net, economic development and more. The cost to cover these should be obtained from taxes on the newly privatized banks, companies

and farmers. Expenditures and income should be balanced as reforms take hold. The future development of China is contingent upon this.²¹

The monetary policy of China is directed by the Central Bank. It also creates and enforces rules and regulations that apply to the banking system at large. The Central Bank also has control over the money supply which flows to the five major state-owned banks. These five banks include trade, agriculture, construction, industry and people's banks. These banks in turns loan money out to the smaller commercial banks that focus on the similar field. In general, the Chinese government is supporting all efforts to modernize, increase efficiency and allow its citizens greater access to banking services. Ultimately, the goal is to drive out business loan sharks by making banking services easily accessible. When the Chinese banking system is modernized, it will attract foreigners who will encourage partnerships with foreign banks while also giving the Chinese people lower interest rates.

Once the banking system is functioning more smoothly domestically, it is natural for the Chinese renminbi 人民币 (RMB) to stabilize in relation to other currencies. In the early days of its modernization, China fixed its currency to the US dollar. With the explosion of Chinese exports and the influx of dollars into China, it became no longer viable to peg the RMB to the dollar. The RMB became the world's 5th largest trade currency. This, when coupled with American pressures to let the RMB float freely, saw the Chinese allowing the RMB more room to float against the dollar according to what the markets dictate. The more China obtains money from exports and foreign investments, it will result in the appreciation of the RMB. Ten years ago, RMB 8.1 yuan 元 was equivalent to USD 1 while now it is RMB 6.1 yuan to the dollar. However, it is doubtful whether the RMB will ever float freely as an artificially low RMB ensures China a favorable trade surplus.²²

China has run a large trade surplus for many years which is in a large part due to the artificially low rate it has kept the RMB. These surpluses have been used by China in a number of ways. For one, China has invested in high-tech manufacturing in order to move towards the top tier of manufacturing while leaving the lower end to the other

developing countries. Western nations have demanded that China allow the RMB to rise in value against their currencies as they believe the RMB to have been kept valued at an artificially low rate. In 2001, China joined the World Trade Organization (WTO) and was no longer in a position to completely ignore demands for its currency to appreciate. The RMB remains pegged to the dollar and it is underappreciated in value. As a token gesture, the RMB has been given small amounts of room to appreciate against the dollar. However, at the end of the day the RMB remains artificially low and still pegged to the dollar. As long as China continues to buy US Treasury Bonds, the RMB will remain low.

In 2005, China began to gradually allow some fluctuation in the exchange system. Central to this effort was the so called multi-currency basket system. In this system, the major trading partners of China had their currencies in RMB. Foreign currencies were allowed to fluctuate at rates between 1 to 2% against the RMB providing China with a more stable currency and placating its critics. In May of 2007, a greater range in the area of 0.3-0.5% was given to the RMB to float against foreign currencies. April 2012 saw this further increased with another 0.5-1.0% bump.²³

Despite these increases in value, China still runs a large trade surplus along with its accumulated foreign reserves. In 2012, it ran a trade surplus of over one trillion dollars. To use these funds, China began to lend money to developing nations that were running trade deficits. By doing so, China increased its influence in these countries while also keeping the RMB from rising too high too fast. Also, it has sought to increase its stake in international organizations like the International Monetary Fund (IMF) and the Asian Development Bank (ABD). Once it has higher stakes in the said organizations, it will have a larger influence in world affairs. The USA and other Western nations have opposed China in these endeavors. Western nations continue to demand that the market be allowed to play the determining role in identifying the RMB's value against their own currencies. The gradual rise favored by China will only placate its critics for only so long.²⁴

President Xi introduced the 13th five-year economic plan for China shortly after coming to office. He has deemed reform necessary to

establish China as a strong financial nation, comparable to that of the United States. If the plan fails, the Chinese economy will slow and be accompanied by high inflation. The CCP would fear this situation as it could become the new normal which would threaten the social stability that the CCP values so much. A transformation of the economy in China is dependent upon its political leaders and any hope for a Hong Kong-style democracy in the future is reliant upon this successful transition. The international economic environment is looking conducive to China's economic plan as the US economy appears to be gaining steam while the worst of the EU debt crisis appears to have been left behind. If and when China succeeds in this 13th economic plan of modernizing its financial sector and implementing economic reforms, it will set the way for the effective future development of the Chinese economy to the next level.

When the Chinese foreign exchange market is functioning smoothly, the Chinese capital market will have a strong foundation on which to develop. The capital market is the combination of the banking and financial institutions coupled with the foreign exchange and stock market. When more companies issue stocks and the government issues more bonds, investors will have a chance to earn money through the buying and selling of stocks and bonds. The volume of the Chinese capital market will increase in this manner. This will provide a better chance for investors and for companies to obtain funding. The Chinese government has supported the Chinese market as it has expanded and linked to other world markets. The capital market cannot develop unless the money and foreign exchange markets are working together in tandem in a mutually supporting fashion. Traditionally money markets are simple but they have become increasingly complex in recent times due to the advent of the financial technology systems. These systems were pioneered in advanced nations but the rest of the world is following behind and imitating these advances.²⁵

4. Foreign Policy

China is one of the largest countries in the world with a multitude of different peoples, religions and languages. China is dominated by the Han majority who account for over 90% of the population. There are many minorities within China but the two notable ones are the Uighurs – a Muslim Turkic people inhabiting the far western province of Xinjiang – and the Tibetan people who are Buddhists. The French President G. Pompidou visited Mao during the 1970s. During the course of the visit, the French leader lamented that it was difficult to lead France as there were more than 200 different types of local cheeses. Mao replied that it was much more difficult to govern China with its population approaching one billion people. However, despite the difficulties, the Chinese leadership believed that they would succeed as they were responsive to the wishes of the Chinese people. Mao saw his role as building up within China a common system of values – a premise of governing which became known as Maoism.²⁶

The minority groups within China inhabit poorer regions and have not benefited as much from China's explosive economic growth. The government has attempted to buy the loyalty, or at least acquiescence of minority groups by being very generous with financial aid. Furthermore, these remote areas inhabited by minorities have been flooded with Han Chinese in an attempt by the government to put a very loyal people into zones of questionable loyalty. As China succeeded in making the Mongol people a minority in Inner Mongolia, so now it is trying in Xinjiang and Tibet respectively. One assimilation technique being used in Xinjiang is the providing of financial incentives to encourage intermarriage between Uighurs and Han Chinese.

Another special case in current Chinese affairs is the issue of Taiwan. Taiwan did not become a part of China until the Ch'ing (Qing) 清 Dynasty in the late 1600s before it was seized by Japan in the 1890s. It remained a part of Japan until the end of the Second World War at which point it became a refuge for the retreating armies of Chiang Kai-shek and the Nationalists. Following this, the US positioned its 7th Fleet to prevent the invasion of Taiwan by mainland China. Ever since, the issue has served as a hindrance to relations between China and the USA.

The USA insists that there is one China but two different systems. It holds that the issue between Taiwan and mainland China should be settled through dialogue and not force. If mainland China were to use force to incorporate Taiwan, then the USA would oppose such a move militarily. In the following paragraph, we will look at the parts of China that were recently returned after being seized during colonial times, namely Macau and Hong Kong.²⁷

During the 1990s Macau and Hong Kong were returned to China after being ruled by Portugal and the United Kingdom respectively. The United Kingdom returned Hong Kong to China with certain strings attached (and the return of Macau followed more or less the same formula). For one, Beijing must give Hong Kong a 50-year period of autonomy. The people of Hong Kong would have the right to have free elections where they could choose their own leaders. However, the Chinese leaders in Beijing fear this and have begun to infringe upon these elections. Candidates for the leadership position in Hong Kong must be pre-approved by the Beijing government because it is Chinese territory and they have no wish to see the idea of full-fledged democracy operating within China for fear it might gain attraction throughout the country.²⁸

4.1. China, Russia and the SCO

After the death of Mao and the overthrow of the Gang of Four, Deng Xiaoping came to power. He had a vision for China that consisted of two principles. Firstly, China should focus on building up its strength and becoming rich. Secondly, China would be in a position to play a more significant role in world affairs, once the first goal was achieved through a gradual process. With its strong economic base being the second largest economy in the world, China is now strengthening its military.

China and Russia, two continent-sized countries, are working together again as in the 1950s before they had a falling out. Together, they created the Shanghai Cooperation Organization (SCO), after the fall of the Soviet Union, which includes the former Soviet Central Asian states as members. Besides China and Russia, two of the most significant states related to this are Iran and India although they are not

full members but rather observers. The organization serves as a counterweight to the Western power which increased greatly after the fall of the Soviet Union. The organization cooperates on a large number of issues, such as resources, infrastructure, and technological, military and civil issues etc.²⁹

China, Russia and many of the former Soviet states in Central Asia formed this SCO in 1996. After the dissolution of the Soviet Union, 15 smaller nations emerged from the rubble. While some nations joined the European Union (EU) and the North Atlantic Treaty Organization (NATO), some others joined with Russia and China in creating the SCO which was opposed to Western preponderance. The SCO aimed to build up the strength of member nations while encouraging cooperation in terms of defense, energy, etc.³⁰

4.2. China-ASEAN Relations

After the Second World War, America found itself in a dominant position in Southeast Asia. It sought to limit Communist influence in the area and became involved militarily, politically and economically by doing so. Due to the growth of the Chinese economy, China now finds itself in a position to play a bigger role throughout surrounding regions. Now we turn to examine the relationship between China and the members of the Association of Southeast Asian Nations (ASEAN). Historically, these nations were under the shadow of the Chinese empire while they have also been host to sizeable communities of overseas Chinese. ASEAN was originally founded by 6 nations in the early 1960s. Later, four nations joined giving us the 10 ASEAN members we know today. When originally the members of ASEAN were limited to six, the organization had an anti-Communist streak. Then, following the end of the Vietnam War, this stance was dropped and Vietnam along with Cambodia, Laos and Burma were allowed to enter ASEAN. These latecomers were mostly rather underdeveloped as compared to the founding members. Despite the differences in development, the commitment amongst the nations to cooperation remains strong and this commitment is evident in the large number of diverse issues the nations have agreed on to jointly act upon. In 2005, the members of ASEAN agreed to build up the Asian

Economic Community by 2015. The plan called for the elimination of tariffs, increased trade, joint infrastructural development and more. This year ASEAN will come to be under the leadership of Prime Minister Najib of Malaysia who will examine the results of the past decade and create a new plan for the following decade. The next decade will see the widening and deepening of cooperation that has already been established.³¹

The model provided by the integration of the EU is unattractive for these Southeast Asian nations which instead have preferred to follow their own unique path, the ASEAN way. The group will forge its own path as it steps into the future. The primary concern amongst the members is that of sovereignty. There is a fear that one nation might come to dominate ASEAN so each nation is keen on keeping its own currency, flag and the right to make important decisions on its own. The ideal situation would be one where the group maintains strong bonds and links with each other while retaining their unique separate identities.³²

The 1997 Financial Crisis had a great impact within the nations of ASEAN and nearby areas. To prevent or curtail the effects of another crisis in the future, the members of ASEAN increased cooperation in regard to monetary issues with the nations of Northeast Asia: Japan, South Korea and China. These three nations now attend ASEAN meetings and observe while participating albeit not as full members. One product of this increased cooperation was the establishment of currency swap agreements. These agreements see the rich nations of Northeast Asia cover the deficits of ASEAN members when they are in need of foreign currency. Another area of cooperation between ASEAN and the nations of Northeast Asia is trade. ASEAN as a whole has successfully negotiated symbolic free trade agreements with Japan, China and South Korea as a show of unity. However, for practical purposes, it is necessary for the members of ASEAN to negotiate bilaterally with the nations of Northeast Asia to establish free trade agreements. Trade volume has been increasing steadily and investments have been flowing from Northeast Asia to the members of ASEAN.³³

The Asia-Pacific area is the most dynamic economic zone on the planet due to its size, resources and population. Its wealth is attractive to

both the United States and China. The two nations find themselves battling for influence within the region via competing free trade zones, investments along with capital and technological movement. The Chinese free trade zone is named the Regional Comprehensive Economic Partnership (RCEP) and currently consists of 16 members. The US initiative is named the Trans-Pacific Partnership or TPP for short and has 4 current members and six more nations are in negotiations to join. To be eligible for membership, a country must respect human rights while this is not the case for the RCEP to which China is a member. In principal, Japan has agreed to join the TPP but there are roadblocks in the negotiating process. Japan does not wish to see itself forced to accept American agricultural products while it is also against South Korean membership in the pact. Japan views South Korea as an economic rival and would rather be the manufacturing supplier for the rest of the TPP members instead of competing for business against South Korea. Despite Japanese opposition, America has encouraged the aspirations of South Korea to join the TPP. Negotiations with both countries are ongoing and a final decision has yet to be reached.³⁴

China is a large country and wishes to keep the South China Sea as its exclusive zone regardless of other nations bordering the sea and their competing claims. For example, Japan claims the Senkaku (Diaoyutai) Islands which are located between China and Japan. In the south, China finds itself in disputes with Vietnam, the Philippines and other countries. These disputes were initiated by China as it grew more assertive and sought the establishment of military bases in the region. The idea being that these bases would allow China to break the American encirclement, the so-called first and second island chains.

Before China can take a leading role in world affairs, it must attend to matters in its immediate surroundings. This is why its focus is on Southeast Asia and the members of ASEAN. Many ASEAN countries are host to large Chinese minorities who have lived there for quite some time. These Chinese minorities are usually key players in the economies making these nations an attractive investment zone for China. China has launched an influence campaign aimed at building up the railway system in the Greater Mekong Sub-region. The goal is to send out railway lines

that will connect neighboring nations to China, making it the center of the region as it was in older times. To finance these projects, the Asian Infrastructure Investment Bank is in the process of being founded by China and associated states in the region.³⁵ On the other hand, during 2005 ASEAN decided to build the Asian Economic Community and this dream will be realized this year.³⁶

4.3. Sino-Korean Relations

China and Korea have historically had a long and varied relation. China has had a great influence on Korea due to their close proximity and historical ties. Traditionally, Korea has served as the invasion route of Japan to China and vice versa. With the end of the Cold War, South Korea and China established diplomatic relations for the first time in 1992. During the Cold War, China had acted as benefactor, protector and big brother to North Korea. However, in the post-Cold War era, the dynamic South Korean economy became attractive to China who saw a way to further modernize and develop its economy. Despite these improved relations, China was still weary of the American presence in South Korea and was eager to keep North Korea as a buffer zone.³⁷

The key issue now in Korean relations is the prospect of reunification. It is generally accepted to be only a matter of time before reunification occurs. To have a smooth process, it is necessary for South Korea to gain the acquiescence if not support of the principal parties who would be affected. These nations would be Japan and the USA who are pro-South Korea while Russia and China have traditionally been pro-North Korea. China has provided oil and gas to the North but has recently been cutting back the supplies delivered. Relations between North Korea and China have been strained ever since the ascension of Kim Jong-un 김정은/金正恩 to power. This has caused North Korea to increasingly look towards Russia for support to replace the lack of supplies and political support from China. North Korea is in fear of China for a number of reasons. The Chinese economy has grown hugely in the past decade while that of North Korea has largely been stagnant. The supplies provided by China come at a price and this price is the usage of North Korean ports along the Pacific Ocean which many fear

might become permanent. Also, there is a fear that borderlands between the two will be brought under the control of China.³⁸

While Chinese relations with North Korea have deteriorated, they have improved with South Korea due to economic ties. Furthermore, the South Korean president Park Geun-hye 박근혜/朴槿惠 has sought Chinese permission for the eventual reunification of the two Koreas which will be primarily handled by the Koreans themselves. The US presence in South Korea, which was established permanently after the Korean War would remain in place but would not advance northwards in the event of Korean reunification. President Park has been pressuring China to further curtail its aid shipments to North Korea in order to pressure the North to halt its nuclear program and other provocations. The cost of reunifying the Korean Peninsula would be a staggering sum. The cost would be even greater than that of German reunification as the income discrepancies between North and South Korea are much greater than those between East and West Germany. The North Korean economy should undergo a period of growth in order to narrow the income gap between the two nations which will serve to lessen the burden of reunification in the future.³⁹

South and North Korean relations have been frozen the last few years over the impasse over the sinking of a South Korea naval vessel. The South contends that no dialogue can take place until the North apologizes while the North holds that the sinking had nothing to do with them. North Korea halted the family meetings of those families that have been separated due to the Korean War while the South has suspended economic aid. Tensions have been further raised by the yearly South Korea-US military drills which the North sees as aggressive behavior directed towards them. In retaliation, the North has maintained its military-first policy while flirting with the idea of testing a fourth nuclear bomb with which it threatens to bomb the USA and South Korea.

The South Korean government has proclaimed its intentions to hold dialogue sessions with the North over potential reunification problems. China and neighboring countries know that the eventual reunification of Korea will be a benefit and not a threat. China would gain a dynamic

economy to its south which would be an economic boon instead of an economic drain that China currently faces with North Korea. Bordering regions of China would benefit economically due to their proximity to a newly reunified Korea. When China drops its opposition, South Korea can begin work on reunification in a peaceful environment. A unified Korea would have a much greater economic potential which would be a boom for East Asia and would be amplified throughout the world as East Asia is the leading economic zone of the world. Granted, in the initial period of reunification the nation would actually lose some of its economic power but in the long term the benefits of reunification would become evident. A 21st-Century Silk Road could feasibly be established linking South Korea with Europe. The current environment and its threat of war prevent many companies from investing in North Korea and the region for fear that war would see their investments destroyed. Stability, peace and a construction boom in Northeast Asia is a viable option in the near future in lieu of the current tensions that predominate.⁴⁰

4.4. Sino-Japanese Relations

Japan and China share a long history that has resulted in China having a great influence on Japan culturally. The two nations have alternated between attempts at domination via force to periods of self-imposed isolation. The 1800s saw both nations come into contact with the more advanced nations of the West. Japan opened itself up and began imitating the West which resulted in Japan becoming the preeminent economic and military power in East Asia. On the other hand, China went the opposite route and found solace in its ancient traditions and culture. Japan began a series of wars as it sought domination over East Asia. In 1895 it beat China in a war and seized Taiwan while weakening the Chinese hold on the Korean Peninsula. Into this vacuum moved Russia in the northern part and Japan in the southern part of the peninsula. The Russians rejected a deal offered by Japan to essentially divide the peninsula between the two. The result was the Russo-Japanese War of 1904-1905 which began with a surprise attack by Japan on the Russian fleet in port and an ultimate Japanese victory.⁴¹

The late 1920s saw the Japanese government fall into the hands of militant extremists who began the process of expanding into China. China at the time was in a state of civil war as the Nationalists, Communists and warlords all fought each other. Atrocities were committed regularly by Japanese soldiers against Chinese soldiers and civilians alike. Perhaps the most well-known atrocity was the Rape of Nanking in 1937 where hundreds of thousands of mainly civilians were killed. Such atrocities in China continued until the Japanese were defeated in 1945 at which point the Chinese Civil War resumed in earnest. The Communists won and the Nationalists were forced to flee to Taiwan. At that time Japan recognized the Nationalists in Taiwan due to their new relationship with the United States while refusing to recognize the mainland Communists as the rightful leaders of China. Ever since, relations between the two have been strained. As 2015 marks the 70th anniversary of this war, it is an appropriate time for Japan to apologize again for its past misdeeds. By making a sincere apology, other issues of contention between Japan and China will become easier to solve.⁴²

In a surprise move, President Richard Nixon of the United States established contacts with Mao's China in 1972 although US-China relations were not normalized until 1979. President Nixon's visit to China in February 1972 came as a shock to the Japanese who were upset at not being consulted. Quick to seize the opportunity that was presented, Japan began creating factories and investing in China to take advantage of the low wages and large domestic market. This served to provide Japanese investors with sizable profits. Japanese leaders believed that such a move would not be harmful to their long-term interests as they believed China would be unable to successfully develop itself. This was in part due to the biased view of Japan that the Chinese were lazy and the country was corrupt.

Deng Xiaoping came to power in China in 1978 and instituted a series of changes in the nation. China opened itself up, restructured its economy and began to reform itself in order to help transform the nation into a major power. Money was still the primary interest of Japan so Japan continued to aid in the development of China.⁴³

Hu Jintao became the leader of China in 2007 and his term in office ended in 2012. Hu sought to build up the Chinese economy and military so the nation would be in a strong position to defend itself in any future disputes. He believed China needed to be careful in regard to Japan because of an attack on China's territorial integrity. The event in question was the decision by the Japanese government to purchase the Senkaku Islands. These islands were held by private Japanese citizens but in danger of being bought by the rabidly nationalist mayor of Tokyo. In retaliation to the move, Chinese citizens boycotted Japanese goods while rioters destroyed Japanese products and property. The Chinese government also retaliated by cutting the export to Japan of rare earth metals which were needed by Japanese factories for manufacturing auto parts, lithium ion batteries and other advanced goods. The then Japanese government under Prime Minister Ryūtarō Hashimoto 橋本龍太郎 witnessed relations with China deteriorate and in the latest elections, a nationalist government under Shinzō Abe 安倍晋三 was elected. His focus was the revival of the Japanese economy which would serve to underpin an expanded Japanese military. The new military would be potentially able to conduct missions that were not strictly defensive. The pacifist clause in the Japanese constitution is under attack and might be removed which would free the Japanese military to be more active. Japan's neighbors find such a move alarming as they feel Japan never adequately addressed its behavior during the Second World War.

The 70th anniversary of the Second World War is now approaching. Japan wants to create a new constitution because the current one was forced upon Japan by the occupying military forces of America. It views the constitution as treating Japan as a second-class nation as no other country has pacifist clauses in their constitutions. The history leading up to the Second World War and of the war itself is also being revised by Japanese leaders who are attempting to portray Japan as a hapless victim rather than an aggressor. If the policies of Prime Minister Abe succeed, the Japanese military will become more robust and be able to project power away from the Japanese home islands. In part, this expansion of the Japanese military is due to rising tensions in the area and the continually high military expenditures of China. In response to the

extensive American involvement in the Middle East during the Bush Administration, China began to flex its muscles in East Asia at the expense of its neighbors. The Obama Administration has pivoted USA to Asia and sought to work with the different nations in the region to ensure the status quo.⁴⁴

4.5. Sino-American Relations

America did not begin to have serious relations with China until the 1930s with the onset of Japanese aggression. Previously, its policy had been the so-called Open Door Policy which called for China to be open to business for all powers and that it should not come under the domination of a single colonial power. However, in the 1930s, America began to supply arms to the Nationalist forces as they fought against the Japanese Army and the Communists. The US also began to oppose Japanese military actions diplomatically and economically. With the winding down of the Second World War, President Roosevelt envisioned a larger role for China in world affairs. He believed that China should act as one of the so-called “four policemen” to ensure a peaceful and stable world. However, the ravages of the Japanese conquest and occupation when coupled with the ongoing civil war meant that China was in no position to play such a role. Furthermore, the Communists won the civil war which led to a freezing of relations between America and mainland China as America continued to recognize Kuomintang 國民黨 (Nationalist) government in Taiwan as the rightful ruler of China.

Relations between the two remained tense until the early 1970s when President Nixon traveled to China and established relations. The reason for the sudden warming up of relations was the mutual fear both parties had of the Soviet Union. Relations further expanded and took on new significance with the advent of China as an economic power with the economic reforms which have led the country to become the second largest economy in the world. Relations between the two are of the utmost importance in the world. It is necessary for the two nations to work in tandem to tackle global issues and issues concerning the East Asian region. Ideally, issues of conflict between the two will subside as satisfactory resolutions to disputes are found leading the way for global

issues to be tackled. However, the world is far from perfect and issues between the two will always be present. The goal of the two should be to minimize areas of contention while maximizing areas of cooperation.

The working relationship between the two should be based on respect and as equal partners. Ever since the establishment of relations, China has seen rapid progress in developing itself. As long as the relationship is between equals, a prosperous and peaceful future can be built while smaller issues can be addressed as they arise. There are several large issues which remain between the two. These issues include Chinese claims to the South China Sea and who will lead development in the Third World. One issue of minimal contention but strong positive possibilities is the strengthening of the Asian-Pacific Economic Community (APEC). This will increase economic interdependence while all parties involved will benefit economically. This will help ease the tensions arising from other disputes. ASEAN wants to play the role of mediator between the two nations as the large free trade zone it represents provides a promising economic field of economic cooperation for the largest two economies in the world.⁴⁵

Elsewhere, Cuba represents the last bastion of Communism in the Western Hemisphere. It has long had disputes and issues with the United States. Recently, relations began to thaw during the second term of the Obama Administration with the restoration of economic relations beginning in 2014. Burma, formerly ruled by a military junta aligned with China, has begun the process of opening itself economically and diplomatically to the rest of the world. This has served to lessen its dependence upon China and provide it with alternatives to turn for politically and economically. What should be drawn from these events is that although the ideology of various governments may change, relationships should remain and continue without problems.

4.6. Sino-Latin American Relations

In the 1920s and 1930s, Latin America was a semi-industrialized area. Brazil, Argentina and Chile were all doing quite well. Many immigrants from Europe were attracted to these nations due to their attractiveness and the abundance of resources. The area was exporting raw materials

and agricultural goods while importing finished goods in return. In the 1930s, this region was largely leftist in its leanings. The area has traditionally been seen as the backyard of the USA but the 1960s saw Communist-sponsored guerilla movements which made America redouble in its efforts to dominate the region. Not only were there Communist movements that America was against, but also social movements inspired by the Liberation Theology of left-leaning individuals of the Catholic Church who sought social justice for the poor. The region also became anti-US aid as it was seen as being a tool to promote US domination. This view was supported by the widening gap between Latin America and the USA despite the aid provided by the latter. Likewise, much of Asia was not even semi-industrialized and had been ravaged by war but managed to leapfrog past Latin America by pursuing an export-oriented policy in regard to the United States.⁴⁶

China witnessed its economy booming in the 1980s and this growth gave China a voracious appetite for raw materials. Latin America had an abundance of raw materials, oil, beef, timber, metals and more which China imported for consumption in return for finished goods. China financed the construction of railroads and ports, as well as invested in other projects. The relationship between China and Latin America does not seem to be so different from that between the USA and Latin America. Finished goods are shipped there in return for raw materials and agricultural goods. The Chinese dream is to build up an economic presence in South America based in Cuba and Brazil.⁴⁷

4.7. Sino-African Relations

Africa has long been known to the Chinese, at least since the great exploration voyages of Admiral Cheng Ho/Zheng He 鄭和 in the early 1400s. However, there is evidence that trade relations had been established well before that. Currently, relations between Africa and China are undergoing a drastic change as China's economic clout grows in the 21st century.

Both Africa and China suffered at the hands of Western imperialism. China endured its so-called "century of humiliation" (*bainian guochi* 百年國恥) while almost the entirety of Africa was carved up into colonies

ruled by Europeans. The borders in Africa do not necessarily reflect linguistic or ethnic borders but were rather made out of the convenience for the colonial powers. African colonies and inhabitants were viewed as being in need of White rule as the only way to bring “civilization” to the continent. This negative view of Africans led them to being mistreated while their resources were exploited for the gain of the colonial masters. Little industrial development took place in Africa other than the infrastructure needed to facilitate the transport of resources to the industrial centers of Europe. Decolonization swept through Africa after the Second World War and the high tide was reached in the 1960s.⁴⁸

During the 1950s and 1960s when the Japanese economy was beginning to rebound, it viewed Africa as a source of raw materials. However, China, having similarly suffered at the hands of the West, took a different approach. China supported the nations of Africa diplomatically and with weapons in their struggle to gain independence. China was eager to show its solidarity with the emerging nations of the world. China helped finance the construction of ports and railroads in East Africa under the slogan “South-South Cooperation” during the 1960s despite the fact that China was in desperate need of development itself. This aid was given with no expectation of repayment and was a gesture of goodwill.⁴⁹

This gesture by China forced Western nations to respond with increased aid. They could no longer take for granted that Africa remained in their economic sphere and it became necessary for them to push for the development of social overhead capital. In 1980, China made another grand gesture to the African continent by helping to finance the construction the headquarters of the African Union in Ethiopia. This symbolic effort showed that China was eager for Africa to be in control of its own destiny and that China supported the creation of a more integrated Africa. Through unity Africa would be able to make its voice louder in the world.⁵⁰

Despite decades of Western aid, large parts of Africa remain economically backward and in further need of aid. One leading critic of Western aid is Dambisa Moyo, an economist from Zambia. Her criticism of the aid is that it is misappropriated and misused due to corruption.

Ruling regimes or political parties view western aid as a cash cow to be exploited and distributed to supporters, specific tribes or ethnic groups, in order to buy continued support. The aid represents a cash flow that can help perpetuate the rulers' hold on power while disenfranchising other groups. This disenfranchisement leads to resentment and civil war. Moyo has taken a favorable view of Chinese investment in Africa. She sees Chinese aid as a positive transformation and a godsend for Africa. Airports, roads, stadiums, other buildings and infrastructure have been built by the Chinese and these things represent tangible and visible signs when compared to the largely monetary form of Western aid which can so easily be misused.

Despite this positive outlook of one author, there remain critiques of Chinese aid. The infrastructure China develops serves to promote the export of resources to Chinese factories so the Chinese actions do have self-serving purposes. Furthermore, these construction projects are for the most part carried out by Chinese companies that employ Chinese workers in most positions of authority. African labor is largely relegated to menial labor. African workers are not able to develop skills or move up to supervisory roles. Chinese companies are also able to undercut the prices when bidding on contracts because the Chinese government will subsidize these companies. The Chinese government is eager to send Chinese overseas due to the sheer magnitude of people living within China. Infrastructure serves a purpose but the Chinese keep their workers to maintain it. If the Chinese ever leaves, the infrastructure will fall into disrepair as the local labor force will not have been trained in its maintenance. China has been criticized for constructing buildings that look magnificent but serve little practical purpose. Sports stadiums are a good example of looking grand but doing little to address the underlying problems within society.

Many African nations and citizens are weary of China but still receptive of its aid. Many see China as pursuing a 21st-Century policy of economic imperialism which is simply replacing the former direct imperialism of Europe. China should be aware of this and should combat this perception. Having suffered like Africa at the hands of the West, China should be in a position to better understand these feelings of

exploitation while offering effective aid. Time will tell whether Africa is simply being exploited again or if a genuinely mutually beneficial partnership is being established.⁵¹

5. Building Blocks and Obstacles

The first 30 years following the end of the Civil War were a tumultuous time for China. The Great Leap Forward and the Cultural Revolution served to retard rather than promote China's development. After Mao's death and the overthrow of the Gang of Four, Deng Xiaoping began the pursuit of economic development through pragmatic policies from 1978 onwards. This led to a renewed faith amongst the Chinese people that anything could be achieved and once again China would be a strong nation.

From 1945 to the present, China has been ruled in an authoritarian manner. Now, the country is moving towards the creation of an orderly society reliant upon law and order rather than the coercive power of the government. The new government is adopting an economic plan to transform and improve society. It could well be a gradual move to political democratization as economic development continues. The ideal of a strong and stable society seems within reach but without needed reforms, China will begin to stagnate. The development gaps that have arisen in China need to be addressed as the divides between the rich and poor, elite CCP members and regular people and urban and rural people threaten to destabilize the social order.⁵²

The coming 13th economic development plan aims to further restructure the economy to make it more efficient. Old and inefficient industries remain the majority of industries within China but they should steadily be done away with while new high-tech industries will be nurtured via R&D to replace them. State-owned companies will be reduced in number or eliminated while banks will undergo the same reform. Companies and banks will be liberalized and forced to operate in a market system. No longer will companies be able to operate at a loss and have the government cover these losses. Likewise, profits that would have traditionally been taken by the government will now be kept by the

newly privatized companies. Privatization will mean the issuing of stocks which will be bought up by investors. Companies will have to be responsive to them and efficiency will be encouraged. No longer will high-ranking employees be able to embezzle money. The fact is that if the existing state of affairs was maintained, the embedded inefficiency would present a threat to Chinese economic growth and potential.⁵³

Large companies which are monopolies or near monopolies should be regulated so that they could not squash emerging competition. Smaller companies should be encouraged and protected by the state to create a competitive environment in different businesses which will improve services and products. Such a policy will allow small and medium-sized enterprises (SMEs) to grow and become larger. These expansions will result in the need for more workers who will have been let go by state-owned companies undergoing privatization. As SMEs grow and prosper, profits accumulated will be deposited in banks which will make capital available to those in need of capital. The influx of deposits will force banks to become more efficient and larger. Bank regulators, appointed by the government, should ensure that banks are using deposited money wisely so that in the case of emergency, there will be no run on the banks as people have faith in them. As companies and banks grow, some will offer IPOs as they become publicly traded companies which will in turn help the stock market in China to grow.

The Chinese government now has a strong leader at its helm which will allow it to implement reforms to boost the economy. The number-one goal of such reforms is to keep the masses of its citizens employed and contented so as to preclude social unrest. Furthermore, a steady source of taxation will allow it to provide a social safety net, the establishment of a national healthcare plan and increased educational opportunities. Such measures will provide a solid foundation for the future development of China and today's workers will know that their children will have the possibility of a bright future. The process will be far from easy and is by no means guaranteed to succeed. Such a safety net must be built from the ground up and it goes against the Chinese social tradition. The traditional Chinese mentality has been for a person's family to take care of oneself in old age. Looking to the state

for support when one is infirm is a new concept and it is debatable whether it will take hold.

Over the last 40 years, successive governments of China have claimed that they would end corruption and reform society. People have grown critical of the government for such promises which have yet to be thoroughly carried through. The government of Xi should follow through on its lofty words and take concrete actions to restore the faith of the people in the government. Chinese leaders have ten years in power to build China to their vision. The first two years were a time for Xi to consolidate his power and create his decade-long plan for China. People will be able to observe if the government follows through on its plans this time and achieve the dream of future. The strengthening of the Chinese socioeconomic development will allow his successors a strong basis on which to launch their own plans.

However, there will be obstacles. The regular announcement of reforms every decade serves to confuse the citizens of China. With each new idealistic proclamation, the people become more fatigued. They become numb to the words because there are no concrete actions that follow or last. Planners should communicate directly with the people and investors in clear and concise terms about their plan and what actions will follow. If this is not done, the people will remain disillusioned and indifferent to it. In the most extreme cases of corruption, imposing most severe punishments would serve to show the seriousness of the government.

When Prime Minister Li participated in the World Economic Forum in Davos, Switzerland, in 2015, he presented his plan for China's future to the gathered world and business leaders. His economic policy was based on three parts. These include: stopping the artificial support the Chinese government has provided to the economy, the reduction of national debt, and lastly, structural reforms. These reforms are needed as the economy, having started from such a low point, has experienced rapid economic growth for decades. This high rate of growth is not sustainable in the long run and the economy must be prepared to cope with a rate of growth in the 5-7% range as opposed to the 10%+ of previous decades. If these reforms fail, the economy will be in a shaky

situation which could threaten to release the discontent of 1.3 billion people.⁵⁴

The government has two policies to guide the economic strategy of China in the coming decade. The economy should become content with a lower rate of growth and at the same time transition away from low-end manufactured goods. Instead, higher technological manufacturing processes should be encouraged to produce higher-quality goods that provide a greater value. Secondly, the government's stake in the economy will be decreased as it moves closer to a free market system. Regulations should be created to ensure consumer safety.

The prime minister appealed to attendees at Davos to invest in China as it has a friendly business climate. There is still a desire in China to attract foreign investments and current technologies which will allow China to leapfrog past certain levels of development. Western banks are also being courted with their modern banking techniques and technologies. Insurance and investment companies are similarly being pursued. If attracted, they will help China build a strong capital market which will in turn help China reach its dream of competing with the United States for global leadership. China has the ability to surpass the United States economically but money does not automatically equate to leadership.⁵⁵

When the transition to a market economy is completed, China will be in a position to move towards the levels previously reached by South Korea and Japan. Many Western experts and I myself believe that China can only achieve the development status of Western Europe and the USA if it adopts democracy. The adoption of "democracy with Chinese characteristics" is contingent upon a successful economic reform and the creation of a vibrant financial sector. All of these things have the potential to happen but will not necessarily occur. If any of these reforms or goals fail, China will find itself stumbling and unable to realize its dream.

6. Conclusion

We have summarized the positive and negative aspects of China in its current state. One of the pressing issues for the nation is to ensure that the ethnic minorities can live in harmony with the Han majority. Furthermore, it is necessary for China to close the gap that has arisen between the interior and coastal regions along with the growing divide between urban and rural citizens.

Left unanswered, these problems could serve to derail the train of economic growth in China. However, if all segments of the Chinese society work together, there will be no obstacle that could prevent China from becoming the preeminent economic power in the world.

During his initial two years in office, President Xi has had some positive developments in his reform policies. The successes have allowed him to present himself as a strong reform leader because the average citizen has a positive view of him and his policies. His reforms are concerned with three main priorities. Firstly, party leaders at the provincial level along with the accompanying bureaucracy have been targeted in an effort to reduce and stamp out corruption. Secondly, a similar effort was directed at state banks and other state-owned companies. High ranking bankers, company leaders and the accompanying workers within these companies have also been the targets of anti-corruption efforts. Lastly, the rich have been targeted. Tax evasion is being clamped down on while punishments for bribery are being enforced.

The Chinese government has attempted to restructure the banking, financial markets and industrial sector by transitioning state-owned companies into private hands. When President Xi has achieved success in these endeavors, this will allow China to transition to a democratic society more aligned with world norms concerning human rights and democracy. The year 2021 will be the 100th anniversary of the establishment of the CCP. President Xi hopes that during his reign, the transformation of China will be completed and he can preside over a strong China. In any case, strong leadership will be needed to continue to lead China forward. This leadership should minimize arguments amongst themselves in order to not derail the great progress China has

already made to improve the quality of life for its citizens.

China is a unique case worthy of investigatory research. We have discussed China's model of economic development and political orientation, but discussion on the future direction of China certainly still remains difficult. While there is a lesson from the failure of the USSR model and the new Russia, we have limited understanding on China's sustainability. At most times, it seems that China is capable to resolve its own obstacles and prove its resilience. China hardly falls from external shock and pressure from international watchdogs. In the Cold War time, there were no complicated external shocks yet from the multilateral angle, unlike today's China which faces more obstacles than ever. If in the old days China was safe under the protection of the socialist bloc led by the USSR, now in this era of globalization, this kind of protection no longer exists and it is left in direct confrontation with US power.

China is now in many fields running parallel with US. It is now underway in catching up with the US pace of advancement in technology, capital and human resource and military defense. China should be ready to handle the pressure of criticism on its aggressiveness and assertiveness in world agenda when its impact of advancement is observable and felt by the competing nations around the world.

To conclude this discussion, I think that there is no ideal model for ruling a country and the question remains that which system is better. It depends on the people and the nation as such. In the past, the world was not as integrated as today. In today's world, however, globalization has resulted in a closer relation among nations with increased interdependencies. Anyhow, it is hard to predict what role will today's world superpowers play in the future.

Finally, the progress of China would certainly be dragged by its Communist Party ruling system and practice, and unless more liberalization is granted, China will not be able to achieve the same level as in Western countries in all aspects. If it would be impossible for China to relax its political ideology of Communist one-party rule in the foreseeable future, a certain level of political as well as social freedom must be provided, regardless of the political system.

Notes

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