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CHINA AFTER THE STORM

By Professor Paul T. K. Lin

An outraged world still finds it hard to understand the vicious fury of the June 4 blood-bath on Tiananmen Square. What could possibly have been the perceived threat from non-violent student demonstrations that called for such unbridled brutality?

Deng Xiaoping explained that the government was in fact dealing with a "counter-revolutionary rebellion" manipulated by a "tiny minority of bad people" whose aim was to overthrow the Communist Party and the socialist state.

Unanswered questions

Little direct evidence was produced to support such a grave charge. If the demonstrations were indeed a seditious conspiracy and not a spontaneous, responsible movement to protest widespread injustices within the system, how could it have inspired such a spectacular civilian response? If only a "tiny minority" were the culprits, why mobilize and send hundreds of thousands of heavily-armed troops to the capital with orders to fire indiscriminately at unidentifiable, unarmed civilians? The questions go on ad infinitum.

Yet, the official propaganda did at least bring into focus a central reality — that an unprecedented sense of crisis had emerged within the Chinese Communist Party. The issue was not simply one of restoring order, but one of meeting a direct, popular challenge to the authority of the Party. The

Party had lost the people.

For a patriarchal, authoritarian regime, the solution could only be to use punitive, lethal force to stamp out popular dissent while the government tries to cope in its own way with the colossal problem of regaining credibility. An example of the latter is the directive issued on July 28 by the Party and government to deal with official corruption, entitled "Decision to Expediently Resolve a Few Matters of Public Concern." It listed seven anti-corruption measures whose efficacy in practice is already meeting with skepticism.

Such actions seem to indicate that the regime actually knew that the explosion of protest was inevitable, not because of anyone's sinister conspiracy, but because of pent-up popular fury against corruption and a whole series of serious errors of commission and omission in Party policy. Continued repression of those who are standard-bearers of the people's rights can only further alienate all sectors of the population. Yet, it is certain that the Party's "bottom line" remains its monopoly of control over China. All else is secondary or subserves this prime objective. To bear this in mind is to find clues to China's future development in the short and medium term.

Most telling is the effect on economic policy. Deng has always held to his basic, two-pronged guideline: "Tighten (centralize) political control; loosen (decentralize) economic control" — in effect, go for eco-

nomic reform without political reform. Apart from the crucial question of whether such an approach can actually work in practice, it seems clear that the politics of party hegemony will again dominate and reshape the economics of reform. In his June 9 speech, Deng called for continued economic reform and mused that perhaps the army's triumph over "this bad thing" (the pro-democracy movement) would enable the Party to "go ahead with reform and the open door policy at a steadier or even faster pace." He then singled out "bourgeois liberalization" as the bugbear that must now be fought through intensified political education. Pitting "reform" against "liberalization" (bourgeois or not) may have an inner logic to Deng, but what it will do to such crucial reforms as distancing the Party from government and the government from enterprise management will now be more problematic than ever.

Genuine reform threatened

The precarious balance of policy between what is construed as "reform" and "liberalization" is mirrored by the precarious balance of power which Deng forged in the new Party leadership headed by Jiang Zemin, Deng's choice for General Secretary. The strain between more dogmatic "anti-liberals" and less orthodox "reformers" will sway in favor of more dogmatism, the foe of genuine reform and change.

These issues will become acute as the nation faces an array of problems that are insoluble without structural change.

Inflation threatens to soar well above the 25.5% officially reported rate for the first half of 1989. Acute shortages in key goods and services (steel, fertilizer, coal, building materials, transport, etc.) and a two-tiered pricing system reflecting the bifurcation of the economy be-

of 1989, the outlook for relying on exports to generate foreign exchange has not improved. The tourist industry, which accounted for US\$3 billion of China's hard-currency receipts, has yet to recover from a slump of disastrous proportions. The military crackdown and continuing political purges have dealt a further, devastating blow to the confidence and stability of Hong Kong, the source

for reform and development and for the correction of policy errors, have been stifled, giving way once again to enforced conformity or tacit resistance. The active participation of the citizenry in their own governance — the real key to stability — has wilted under the shroud of a police state.

In the short term, the passing of Deng Xiaoping will be the signal for another major change of players in the top echelons of power. If no charismatic leader emerges from the power struggle, the resulting configuration will probably reflect the balance of power among military factions providing support for the new regime.

If the foregoing analysis is correct, it would seem to point to considerable economic and political risk in doing business with the present Chinese government. The environment for trade and investment may have a short life span if a government's stability depends only on political repression backed by military force. In the short term, the current regime might provide many incentives to resume "business as usual,"

suggest that politics can be separated from business in the present context will hardly convince anyone in China.

Business jeopardized

The economic risks are more obvious. Shortage of capital, combined with the government's retrenchment program, will severely constrain the scope of trade and investment in China, although some sectors such as infrastructure and raw materials will still offer strong prospects. The political control of intellectuals and professionals, and the outflow of trained personnel, has both a psychological and technological effect on the process of modernization, ultimately affecting the quality and competitiveness of Chinese products in the world market.

Inevitably, businessmen with large investments in China will return to protect them. But new investments will not be forthcoming without careful consideration of the risks involved.

Despite the lapse in the pace of China's progress as a consequence of the tragic events of

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tween the planned and market sectors, inflict partial paralysis on production and provide opportunities for official and corporate profiteering which exacerbate the price spiral.

Deficiency of capital becomes more critical as industrial efficiency remains low and agricultural growth, tenuously based on small household economies, falters.

Farmers are paid for their grain deliveries with IOUs while urban wages rise, though never catching up with the soaring rate of inflation. Meanwhile, the government mint makes its own contribution to inflation by printing money to meet the government's obligations.

As the 90s approach, China nears the crest of its repayment schedules on both its internal and external debts. These are estimated at US\$38 billion and US\$42 billion respectively. As interest rates rise, internal debt servicing becomes a more and more costly way to finance the budget deficit which may reach \$10 billion by year's end. New foreign loans, vital for modernization projects, become available as a consequence of the loss of confidence engendered by the recent events.

With foreign trade registering an adverse balance of US\$5.7 billion in the first half

of over 40% of China's earnings of foreign exchange.

The solution of these enormous problems requires corrective measures that will not at the same time cripple the reform. Such measures must include incentives that encourage productivity without widening income disparities to socially intolerable proportions and a much stronger regulatory regime which stresses independent judicial and auditing institutions. Unfortunately, some of the specialists best equipped to fashion such measures are already victims of the political purges. In such circumstances, there will be strong pressures to rely once again on the principles and practice of the "command economy," which would be so comfortably familiar to the practitioners of the "command policy." Such a regression would create more problems than it can solve.

Stifling criticism

In the final analysis, the critical new factor in the situation is this: When the government turned its guns on its own people, it transformed its relations with them into one of confrontation and antagonism. Their innovation and responsible criticism, so much needed

" An unprecedented sense of crisis had emerged within the Chinese Communist Party. "

but in the medium term, a future government born of factional struggle, might find it expedient to change the rules. In the long term, a more democratic government might question the moral responsibility of foreign corporations that too eagerly engaged in dealings with a government that had just perpetrated a massacre of its own people.

Of course, it can be justifiably argued that many projects are intended to benefit China's development, not to strengthen any regime that happens to be in power. But to

the last few months, she remains a huge force, irresistibly on the road to balanced economic development and democratic life. Her needs are so vast, her people so determined and resourceful, that she will have much to offer humanity once the Chinese become masters of their own destiny.

Every country that helps the Chinese people to spur that process by standing firmly by their side today, is likely to reap great rewards of moral integrity, economic gain, and firm bonds of friendship with one fifth of humanity. ■