the socialist values associated with Mao, the proverbial best of both worlds.

A fourth scenario consists of a civil war breaking out in China, resulting in the breakup of the country. This worst-case scenario is possible only if an intense power struggle between Jiang Zemin and his rivals spins out of control and the ruling coalition and the military split into warring factions, or if the problems between the central government and local authorities intensify with the localities attempting to break away from Beijing's control. This scenario is also possible if Taiwan declares formal independence and China resorts to military force against Taiwan. If the United States defends Taiwan, the ensuing conflict between China and the United States may result in the international community's cut-off of the flow of foreign investments to China, a rapid decline in China's economic growth and then prolonged economic stagnation. Under these conditions, the possibility of civil unrest and chaos breaking out is all too real. Again, while this seems highly improbable at present, it cannot be totally ruled out.

In conclusion, the only thing one can say for certain in the uncertain world of Chinese politics is that the post-Deng era will continue to draw the world's attention as its drama unfolds with all its twists and turns in the years to come.

China in the Asia-Pacific Century: Understanding China's Economic Strategy

Ericson M. Baculinao

We gather here today to discuss the momentous changes in the People's Republic of China, which could have a major impact on our well-being as a nation. These changes are taking place as the world's economic center of gravity is shifting to the Asia-Pacific region.

In the late 70s, North America's trans-Pacific trade surpassed trans-Atlantic trade for the first time, signifying indeed a historic shift of the world's great battlegrounds for trade and economic growth to the Asia-Pacific region. The rise of China as the fastest growing economy and potentially the biggest market in the world, has accelerated that global shift.

China used to be the sick man of Asia. Feudal and colonial depredation kept the country backward, driving generations of Chinese to seek better opportunities overseas, for instance. The Chinese people's unremitting struggles led to the republican revolution of Sun Yat-sen in 1911, and later to the communist-led revolution which won in 1949.

The economic road map taken by the People's Republic of China was a tortuous one. True, the vast mainland China was unified at last, national sovereignty was restored, the hundreds of millions of landless peasants were given land. But the search for the formula of rapid economic success has proved to be a painful, at times tragic, process, as borne by the experience of the Great Leap Forward and later the Cultural Revolution.

When we landed in China in 1971, it seemed we saw the ideal society where everyone was equal. But it was also equality in a sea of poverty and scarcity, we realized, after visiting or working in many people's communes and factories. The model of socialist planned economy borrowed from the Soviet Union insured that China became the leading nation in the world in the production of ration cards, for everything from rice to cooking oil. China's difficulties and limited options then were also caused by Cold War-era embargoes and blockades against China.

Before Mao Zedong and Zhou Enlai died, they propounded in 1975 the strategic goal of realizing the economic modernization of China. But it was only in December 1978, with the return to power of Deng Xiaoping, that a long-needed breakthrough in economic strategy was achieved.

In some ways, the geopolitics of the late 70s aided Deng Xiaoping's open door and reform policies. The de facto Sino-American united front against the Soviet Union,

conceived by Mao, would later help in generating initial enthusiasm and support in the West for Deng's reform and open door policies. The influx of investments and technology from Western countries, interrupted temporarily by the 1989 tragedy at Tiananmen Square, has proved to be an essential part of China's modernization strategy.

The key to understanding China's economic revolution is Deng's concept of socialist market economy, developed according to the realities and characteristics of China after summing up the failures of Soviet-style centrally planned economy. It takes into full account the past failed attempts to leapfrog historical stages of developments in so large a country with a very uneven, weak and relatively backward economic foundation.

This strategy, sometimes referred to as Deng's theory of socialism with Chinese characters, is a product of past struggles and debates.

The P.R.C. of course began with a carbon copy of Stalinist economic strategy. By the late 50s, Mao began to introduce changes to this strategy, by prioritizing the development of agriculture and light industry over heavy and defense industry. He further raised class struggle and mass movements as necessary instruments of economic construction, best exemplified by the Cultural Revolution model.

When Deng launched the initial phase of his reform in the late 70s, he had to contend with a necessary compromise with the central planning school spearheaded by Chen Yun, best known for his "bird cage" theory. Chen and colleagues were decisive allies of Deng in the overthrow of the radical "Gang of Four." Chen believed that the economy, the bird-market, should have freedom but only within the socialist cage.

For a period of time in the early 80s, central planning still remained a dominant factor with the market forces viewed as supplementary. It was only in the late 80s and particularly after Deng's so-called "Southern Sojourn" in 1992, that the clear-cut strategy of socialist market economy was confirmed.

It is worth noting that the Tiananmen 1989 crisis presented the most severe test for Deng's strategy. The aftermath of Tiananmen was marked by the biggest campaign against "peaceful evolution," against the bourgeois liberalization of China. For some conservative and "leftist" factions, the campaign was a rare opportunity to target important aspects of Deng's reform. But Deng saw the threat and, almost single-handedly, revived the reform momentum with his 1992 "Southern Sojourn." The rapid recovery and growth of China's economy since 1992 effectively silenced Deng's conservative opponents at home and also proved decisive in breaking up the U.S.-led front to isolate and sanction China after Tiananmen.

Is Deng engaged in capitalism or capitalist restoration? The overall situation in China suggests that such simplistic description does not do justice to the unique development model that has been marked with great sucess.

True enough, China's economic revitalization has necessitated the rapid growth of the private sector, foreign-invested sector and other non-State sectors. But there should be no mistaking that China is not about to give up the overall strategic position of the publicly-owned economy.

The dynamics of China's socialist market economy

hinges precisely on the necessary combination, contradictions, and balancing of these various economic sectors and forces, under the strategic leadership of a political party which has not changed its official name, to say the least. The overriding goal is to accelerate the growth of China's national economic strength and uplift the people's well-being.

While upholding the commanding position of the publicly-owned economy, China's leaders recognize the enormous challenge of boosting its performance. Indeed, as China approaches the next century and the reform advances to a higher stage, China's leaders will devote greater efforts to developing and testing better organic links between public ownership and market economy, and accelerating the market-oriented operational reform of State-owned enterprises. The goal is to deepen, widen and perfect the market mechanism in all industries throughout the country and enable the State sector, led by a select batch of highly efficient and profitable corporate groups, to grow in co-existence and in competition with non-State sectors.

I belabor this point because there may be some misconception about the real or long-range economic strategy of the ruling political party in China. The publicly-owned sector which employs some 100 million workers, controls 80 percent of strategic industries, and yields 65 percent of State revenues, is still held as a crucial economic base of sovereignty and political power. Massive privatization, bankruptcies and unemployment in this sector will erode that power, and with it the ability of the government to steer the economy effectively for the common good. The reform of the State-owned sector, therefore, can only proceed step by step, starting first with small or non-strategic industries, and with emphasis on mergers or takeovers of weaker companies by highly efficient and profitable State-owned companies, while opening opportunities for foreign equity participation and limited privatization.

This is not at all to understate the deep-going market-oriented transformation of China's economy.

When we arrived in China in 1971, all goods, from bicycles to toilet paper, were priced according to a central State plan. Today, over 95 percent of consumer items are priced by market supply and demand.

The once-banned private sector now employs some 30 million people, and there are even over a million millionaires in mainland China now.

The State sector has had its share of total industrial output decline to 43 percent, from over over 80 percent in the 70s.

The semi-private or collective TVEs have sprouted across the land, employing over 140 million, mostly surplus labor from the farms, with one-fourth share of GDP and 40 percent of China's exports.

There are now more than 260,000 foreign-invested enterprises employing 17 million in China, with some US$158 billion in direct foreign investments, representing 42 percent of total capital inflow into Asia; China which takes in some $100 million foreign investments everyday is now the world's biggest recipient of foreign capital after the United States.

Indeed, the growth of the foreign-invested sector, the private sector and the collective sector far outpaces that of the State-owned sector.

The agricultural sector now largely characterized by family farming maintains steady growth so that the country remains basically self-sufficient in grain and other

food supplies.

China's critics may disagree, but, by and large, Deng's formula has been vindicated by the ever rising income and economic boom visible across the country.

The initial beneficiaries of this boom were the coastal areas spearheaded by various Special Economic Zones, which, by design, were first established in southern China in the early 80s. The experience and strategy of Special Economic Zones have already been extended further North, and in particular, China is now building the biggest and most ambitious Special Economic Zone in Shanghai. In this connection, it is said that Deng Xiaoping himself regretted the failure to open up Shanghai a decade earlier. In the next century, Shanghai will serve as the head of a development dragon that will pull along the heartland of China, the inland provinces along the Yangtze River. With richer experience, China's leaders are boldly pushing for the opening up of more areas in the interior, like Xinjiang in the Northwest frontier, so as to spread even wider the benefits of reform and narrow the income gap between the coastal areas and the interior.

The figures are staggering. China's economy has been expanding at an annual rate of about 10 percent in real terms for the past 17 years, or 12 percent in the past five years alone, lifting a nation of one billion people from poverty in just a generation's time. The goal set in 1980 of quadrupling China's GNP by the year 2000 was achieved five years in advance; it doubled in 1988 and doubled again in 1995.

Based on standard exchange rate conversions, China's economy ranked No. 10 in the world last year. But many economists now believe this traditional method grossly underrates the real size of China's economy. They propound the concept of "purchasing power parity" as a more accurate basis for calculation. Based on this criterion, China is now the third largest economy after the United States and Japan. And if the growth differentials between them continues, China is likely to surpass Japan in 10 years and the United States in 15 or 20 years.

The explosive growth of China's economy, the opening up of its vast market, obviously presents enormous opportunities, particularly to its Asian neighbors. Hong Kong and Taiwan investors have taken the lead in exploring these opportunities, but others in Southeast Asia, notably from Singapore, Thailand and Malaysia, are following suit. Even Philippine investors, according to some sources, have more than $1 billion in contracted investments in mainland China. The largest investments in China, in fact, come from overseas Chinese, who account for some 70 percent of total foreign investments in the country.

Hong Kong has a special place in China's economic strategy. Hong Kong is the biggest investor in China, with about $40 billion investments, while China earns nearly 40 percent of its foreign exchange through Hong Kong. China, in turn, is the biggest foreign investor in Hong Kong with stakes exceeding $40 billion. Hong Kong, the world's third biggest financial center and no. 8 trading power, will revert to Chinese rule next year, adding to the overall economic strength of the People's Republic of China. China, however, will maintain Hong Kong's capitalist system for at least 50 years, and has pledged to respect Hong Kong's high degree of autonomy, including fiscal and financial autonomy, under the principle of "one country, two systems". The principle of course prohibits China from exporting its socialist market economy or

socialist political system to Hong Kong, while Hong Kong will not be allowed to export its capitalist system and appurtenant political or ideological system to China.

Some critics of China argue that its economic record has been achieved at the expense of fair trading rules. The United States has been obstructing China's accession to the World Trade Organization supposedly because China rejects the American demand for wider market access. Indeed the U.S. trade deficits with China have been large, with $34 billion recorded last year, second only to Japan's $60 billion, and about $40 billion estimated for this year. On the WTO issue, China has stood firm, defending its status and rights as a developing country, and has engaged the United States in tit-for-tat negotiations. China's firmness is paying off as recent reports indicate a new flexibility and softening in the American position.

Ladies and gentlemen, China is on the march but serious challenges lie ahead. The reform of its vast State-owned sector, the threat of polarization and unemployment, the need for a protective nationwide social security system, the shift from extensive to intensive mode of economic growth to remain competitive, the deficiencies of the legal system, the scourge of corruption, among others, are critical issues facing China's new generation of leaders. We can only wish China stability and success in managing these challenges, for any major setback and instability in China will surely dim the promise of the Asia-Pacific Century.

The Philippines, of course, has the advantage of proximity to China, and it is high time to tap more fully that advantage, all for our common goals of economic emancipation and prosperity. Expanded economic partnership with this neighbor can only multiply our opportunities for development. Before the Western colonizers came, China had been our major commercial partner. Let us relive that past in the golden era of the Asia-Pacific Century.

Let us therefore hope that our discussion on China today may serve as a little contribution to the development of a new Philippine policy that seeks to maximize the benefits of friendship between our two countries, minimize potential conflict and promote the Filipino people's well-being in the family of Asia-Pacific nations.

China's Crisis of Ideology

Jaime FlorCruz

Since Deng Xiaoping declared that "to get rich is glorious," the Chinese are gloriously amassing money. Many are rapaciously doing so, all too often compromising the integrity of society, the state and the ecology. To many Chinese, money-making has become the supreme goal in life.

Deng Xiaoping's Second Revolution has brought about initial progress and prosperity, but it has also robbed China of three important features of statescraft: a strong, charismatic leader, a tight central control and national ideology. China is dying of chronic moral decay. With Confucianism largely discarded and Marxism now discredited, China needs another national ideology to fill the spiritual void. With the widespread egotism, social malaise and lawlessness, China could one day implode unless the current regime can propagate a core of norms and moral values that will define behavior and govern the people's myriad, and often clashing, socio-economic