Most discussions of potential changes within China since Deng Tsiaoping’s demise focus on possible political and leadership changes that may ensue in the next several years. Yet these dimensions of China’s landscape are probably less prone to change, and more likely to exhibit continuity, than some others.

To be sure, Jiang Zemin did not ascend to the peak of China’s hierarchy with nearly as strong prior credentials—notably those relating to close associations and high formal military rank in the PLA—as did Deng and Mao. Nevertheless, this difference can be overdrawn. In the half-dozen years that Jiang has been chairman of the Central Military Commission, he has so enhanced his support among the top military leaders that one among them, General Chi Haotian, China’s defense minister, has been quoted as placing Jiang on a par with Deng and Mao in having made “unique contributions to the PLA.”

In addition to the strong base Jiang has acquired in the military, his entrenchment in the party is apparently as solid and secure as the arcane world of intramural Chinese politics permits. So, China’s political landscape is likely to continue its brand of strong authoritarian, perhaps gradually liberalizing, centralism, led by Jiang as president, party chairman, and chairman of the Central Military Commission.

Major changes within China are therefore more likely to ensue in the next decade in two other dimensions rather than in China’s politics.

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or leadership, namely, slower economic growth, and rising military spending (especially spending on military procurement and military research and development).

In the past two decades, China’s economy has grown at an extraordinarily high average rate of 9–10 percent annually, propelled by the combined effects of market reforms (first in agriculture, then in other sectors), high rates of interest, new industries, and expanded exports. These rates are likely to be reduced by half, during the next decade. (Growth rates between 3 and 6 percent have been estimated in a recently published RAND study covering this period, although it should also be mentioned that forecasts by such other sources as the World Bank have been considerably higher.)

Five principal reasons account for this prospective slowing in China’s rate of growth:

First, China’s economy has more than doubled in the past decade—it is now the world’s second largest—so any specified percentage rate of growth requires larger absolute increments of GDP. (As a share of GDP, China’s rate of investment is likely to decline somewhat because the economy’s marginal savings rate will probably be less than the 30–35 percent average savings rate of the past decade.)

Second, foreign capital inflows, while continuing to be substantial, will probably decline modestly in the future. In recent years, annual long term inflows of private direct, and portfolio investment in China have been about $35–40 billion annually, two-thirds of which have come from “overseas” Chinese, especially overseas Chinese in Taiwan, Hong Kong, and Southeast Asia. This particular source of foreign capital, and the technology and management associated with it, is likely to diminish as alternative, lucrative investment opportunities expand elsewhere in Southeast Asia.

Third, China’s policymakers are embarking on a plan to reduce the wide income disparities created by Deng’s “socialist market economy” between the rapidly growing coastal provinces and the rural western ones. Statistical studies done by the Chinese Academy of Sciences have highlighted these disparities by quantifying and publishing them. To redress these disparities, or at least to mitigate them, China’s fiscal policies will be adapted to transfer wealth from richer urban to poorer rural areas. Whatever the social and political
merits of this policy, the result is likely to dampen China’s aggregate economic growth if these resource transfers raise consumption rather than investment.

Fourth, resources are likely to be absorbed by the need to reverse, or at least reduce, the environmental damage (notably of urban water supplies, and atmospheric pollution) caused by rapid industrialization, and especially the massive burning of coal. (Whether reform of inefficient state-owned enterprises might free resources to partly offset these rising environmental needs is conceivable, but not likely.)

Finally, China’s military spending is likely to rise, to some extent at the expense of the rest of the economy. The 12.7 percent increase in officially announced military outlays for 1997, though commensurate with other governmental expenditure increases, is one indication of this trend.

Besides its effect on economic growth, substantially increased military spending—especially spending on procurement of modern weapons and on military research and development, is likely to be a distinguishing feature of the next decade, compared to the preceding one. Most of China’s spending on military equipment and military R&D is financed through the budgets of the cognizant technical ministries (aeronautics and astronautics, marine and shipping, transportation, telecommunications, and the State Commission on Science, Technology, and Industry—COSTIND), rather than the official budget of the defense ministry itself. Consequently, it is generally acknowledged by analysts outside China that the officially reported budget of the defense ministry is only a fraction of total military spending—a characteristic that, incidentally, was derived from and precisely replicates that of the Soviet Union in bygone days.

From the point of view of China’s top leaders, significant increases in defense spending should be viewed by the outside world as normal, overdue and non-threatening. Underlying this view is their keen awareness that China has a 10,000 mile land border and 3,000 miles of coastline that warrant enhanced protection against some neighbors that have not always been friendly to China in the past. Moreover, military modernization was fourth on the list of Deng Tsiaoping’s well-known “four modernizations” (after agriculture, industry, and technology), and its active pursuit has hitherto been deferred.
Catch-up investment in this form of modernization therefore appears to the leadership as overdue. (That the PLA’s influence in the matrix of Chinese politics has increased lends added force to this stance.)

There is a final element that both reinforces these views, and in turn is reinforced by them. In the eyes of China’s policymakers, and many of its intellectuals as well, peace and stability in the Asia-Pacific region will be enhanced by a better balance of power among the United States, Japan, and China. Currently, in Chinese eyes, this balance is impaired because China is relatively weak in this triangular relationship. Consequently, strengthening its military power, along with its enhanced economic strength, is viewed as contributing to regional stability, rather than disturbing it.

In sum, the principal changes impending in China in the coming decade are a slower pace of economic growth, and a rising scale of military spending. Fitting China into the global economic environment may be facilitated by the former change. Fitting it into the global security environment may become more difficult and challenging due to the latter one.

China’s expanding linkages and engagement in international private investment and trade transactions, as well as its participation in multilateral institutions like the recently initiated G-6 meeting in Tokyo on financial and currency matters, and prospectively in the WTO, can contribute to smoothing China’s global economic role. And institutions like the ASEAN Regional Forum (ARF), as well as regularized bilateral and trilateral interactions among China, the United States, and Japan, can facilitate an appropriate role for China in the international security environment.

Postaudit

My forecast that Jiang Zemin’s tenure would experience slower growth and rising military spending compared to that of Deng Tsiaoping was on the mark.