

IDE Spot Survey

China's New Leadership

March, 2003

Edited by Yasuo ONISHI

INSTITUTE OF DEVELOPING ECONOMIES

IDE-JETRO

Contents

Executive Summary

Chapter 1

Yasuo ONISHI

The 16th Congress of the Communist Party of China and Prospects of Market Economy with Chinese Characteristics..... 1

Introduction	1
1.1 The Idea and Reality of a "Socialist Market Economy"	2
1.2 Evaluation of the Zhu Rongji's "Three Major Reforms"	4
1.3 Main Points of the Tenth Five-year Plan	8
1.4 Aiming for Building of a "Well-off Society" in an all-roundway	10
Conclusion.....	12

Chapter 2

Norihito SASAKI

Transfer of Power from Jiang to Hu: The CPC's Transformation..... 15

Introduction	15
2.1 Designation of Officers: Limited Transfer of Powers from Jian Zemin to Hu Jintao	15
2.2 How the Important Thought of the "Three Represents" are Treated.....	19
2.3 Start of Change of the Chinese Communist Party: Growing Away from the "Worker's and Farmer's Party"	20
Conclusion.....	23

Chapter 3

Yoshifumi NAKAI

Foreign Policy of the Post-Jiang Zemin Era..... 25

Introduction	25
3.1 The Formulation of the "16-word Directive"	25
3.2 Jiang Zemin's Foreign Policy.....	30
3.3 Foreign Policy after the 16th Party Congress	35
Conclusion.....	37

Chapter 4

Masayuki KOBAYASHI

Judicial Policies at the 16th National Congress of CPC: Steps toward Constructing a Country under the Rule of Law..... 39

Introduction	39
4.1 Ruling by Law and Ruling by Virtue	39
4.2 Judicial Reform	42
4.3 Reform of the System on Judges	43
Conclusion.....	46

Chapter 5

Ken-ichi IMAI

Privatization of State-owned Enterprises: Prospects after the-Socialist Market Economy..... 49

Introduction 49

5.1 The Tide of Large Enterprise Privatization..... 49

5.2 Agents in Privatization 55

Conclusion..... 62

Epilogue

Yasuo ONISHI

The Communist Party of China and the Future of China:In-Preparation for the 17th National Congress of the CPC 65

6.1 Accomplishments of the 16th National Congress of the CPC 65

6.2 Challenges Facing the New Leadership 67

6.3 Outlook for the 17th National Congress of the CPC..... 69

Tables & Figures

Chapter 1

Figure 1	Changing Rate of Major Economic Indicators (1990 to 2002)	2
Figure 2	Business Conditions of State-owned and State-holding Industrial Enterprises (1996 to 2001)	5
Table 1	Resolution Scheme for Non-performing Loan of Four Major Commercial Banks.....	5
Figure 3	Reorganization of the State Council in 1998	6
Table 2	Major Targets of the Tenth Five-Year Plan (2001 to 2005)	8
Table 3	Compositions of the 16th National Congress Report and the 15th National Congress Report	10

Chapter 2

Table 1	Line-up of Political Bureau of CPC.....	16
---------	---	----

Chapter 3

Table 1	Overview of National Congresses of the Communist Party of China	29
Table 2	Leading Small Groups at the Party Center (as of 2002)	32

Chapter 5

Table 1	Development of Stock Listing and Composition of Stock Types	50
Table 2	Evolution of Policies Related to Allocation of State Capital	52
Table 3	Growing Government Expenditure on Social Security.....	53
Figure 1	Growing Fiscal Deficit	53
Figure 2	Management-Buyout of Tianmu Pharmaceutical	55
Figure 3	Management-Employee Buyout of Dazhong Transportation and Dazhong Technologies	57
Figure 4	Buyout of Changzheng Machine Tool by Top Group.....	58
Figure 5	Ownership Structure of Delong Group (Summary).....	60

Contributors

- Yasuo ONISHI** Senior Research Fellow, Area Studies Department I, Institute of Developing Economies, JETRO (Executive Summary, Chapter 1, Epilogue)
- Norihiro SASAKI** Research Fellow, Area Studies Department I, Institute of Developing Economies, JETRO (Chapter 2)
- Yoshifumi NAKAI** Senior Research Fellow, Area Studies Department I, Institute of Developing Economies, JETRO (Chapter 3)
- Masayuki KOBAYASHI** Associate Senior Research Fellow, Economic Cooperation Studies Department, Institute of Developing Economies, JETRO (Chapter 4)
- Ken-ichi IMAI** Research Fellow, Area Studies Department I, Institute of Developing Economies, JETRO (Chapter 5)

Executive Summary

0.1 New Policy Goals and Guiding Principle

The 16th National Congress of the Communist Party of China set forth economic growth and qualitative economic and social goals: the quadrupling of the 2000 GDP by 2020, and "building a well-off society in an all-round way" (fundamental achievement of industrialization, reduction of various socio-economic gaps, establishment of socialist democracy and legal systems, improvement of the people's cultural qualities and health standards, and the building of a society that can achieve sustainable development). In addition, this CPC National Congress also approved the "Three Represents" as the new guiding principle hereafter. This is the idea that the Communist Party represents the development trend of China's advanced productive force, the orientation of China's advanced culture and the fundamental interests of the overwhelming majority of the Chinese people. In actual fact, this principle opened the way for private entrepreneurs to become Communist Party members, as well as revised the Party Constitution.

The expectation is that in the future the Communist Party will be toning down its character of being a political party of ideology and heightening its color of development dictatorship the party in power that represents the interests of wide-ranging strata of society. The political report at the National Congress and the new Party Constitution suggest the changing course of the Communist Party. However, it still cannot be affirmed whether this will be in the direction of "change from a class party to a catch-all party."

0.2 Jiang Zemin's Victory and the Hu Jintao's Leading Group

The National Congress of CPC saw the execution of major personnel reform as a result of the appointment of a new generation of leaders. For example, with the exception Hu Jintao, the Congress replaced all members of the Standing Committee of the Political Bureau of the CPC Central Committee. In divining the balance of power hereafter, attention will focus on whether Jiang Zemin will be able to secure his influence within the Party following his resignation as CPC General Secretary. Jiang will continue as chairman of the CPC Military Commission; in addition, members of his faction obtained five of the nine seats on the Standing Committee of the Political Bureau of the CPC Central Committee. Furthermore, Jiang succeeded in ensuring his authority through such means as having his name mentioned in the Party Constitution as the originator of the thought of "Three Represents". Therefore, the 16th National Congress of the CPC produced a complete victory for Jiang, resulting in only a limited transfer of power to the newly appointed General Secretary, Hu Jintao. It will be difficult to predict when and in what form this transfer of power will become complete.

In the field of politics, Hu's leading group has no choice but to continue the course heretofore of maintaining the system of one-party-rule by the Communist Party, and in the field of economic policy they shall promote the market economy. In order to put forth their own ideas, Hu's leading group shall carry out political reform after Jiang Zemin's complete retirement. However, it is difficult to imagine Hu taking great risks to carry out his own reforms.

0.3 "Promotion of Reforms Under Moderate Growth" Confirmed as the Economic Policy

In the field of economic policy, the course of "Promotion of Reforms Under Moderate Growth" will continue. The Tenth Five-year Plan established this course following Zhu Rongji's "Three Major Reforms" (reform of state-owned enterprises, financial reform and administrative reform). When executing policies, there should be more emphasis than to date placed on consideration for groups left behind, such as those living in inland regions, farmers and the urban poor.

Personnel placements reveal other features in addition to the "rejuvenation" indicated by the generational change to the "fourth generation" of leaders. For one, new leaders are "better educated," meaning that they have higher academic background. Furthermore, they are "more competent professionally," in the sense that individuals producing achievement in the central and regional governments were promoted. This is a plus factor when considering the complexity of the environment surrounding economic management and economic policy both the domestic and foreign sides.

0.4 Does Foreign Policy Continue Along the Deng Xiaoping-Jiang Zemin Line?

In the field of foreign policy, Jiang Zemin faithfully carried on the Deng Xiaoping line: keep good diplomatic relations with all countries, improving the international environment for the sake of economic development and attaching importance to trilateral relations involving Japan, the U.S. and China. Following Deng's death, Jiang assumed control of personnel affairs concerning the CPC's central foreign policy-making organization. He also developed "summit diplomacy" by frequently visiting foreign countries and established new slogans, such as "strategic part-

nership." As a result, China's foreign policy expanded greatly and the country increased its engagement in ASEAN and other regionalism in Asia.

There are doubts, however, as to whether the new leading group will be able to take over and continue these achievements. It is not clear whether the new form of diplomatic relations set forth by Jiang will continue to be effective in the future. In addition, the Jiang era was a time when the Chinese economy grew rapidly, providing a "tail wind" for the country's foreign policy. However, there is no guarantee that the new leaders will be blessed with this type of luck.

0.5 Judicial Policy: The Conflict Between "Rule of Law" and "Rule of Virtue"

As for the field of judicial policy, the CPC's 16th National Congress report confirms the course of the Fifteenth Congress, which advocates the realization of a socialist constitutional state. Furthermore, the report stipulated it as the Merkmål of "building a well-off society in an all-round way". The report took step forward by mentioning "the realization of equity and justice in society" as the objective of a socialist judicial system. This can be praised for presenting a concrete direction for the reform of the judicial system. However, ongoing discussion put "rule of virtue" in the same category with "rule of law", it appears that it will require some time to establish "rule of law" in China. In addition, following the entrance to WTO, it has become urgent that China increase the transparency of its legal system and strictness of its judicial judgments. Therefore, it is required to CPC to make determination for improving the quality of judges and reforming judicial system.

0.6 Reform of State-owned Enterprise Focuses on Privatization of Large SOE

The privatization of large state-owned enterprises commenced in earnest with the Resolution of the Fourth Plenary Session of the Fifteenth Central Committee of the CPC. This proposed the policy of promoting the sale of state-owned stocks of listed companies. The 16th National Congress approval of party membership for private entrepreneurs demonstrated the position that the CPC does not oppose the ownership of capital. This should further accelerate the course of privatizing large enterprises through the sale of state-held stocks.

In 2001 the government decided to promote the sale on the market of listed state-owned stocks in order to procure funds to supplement the pension fund. However, it was compelled to suspend action because of the sharp fall in stock prices. Since promoting privatization by selling on the market will be difficult for some time to come, the government will probably proceed with privatization by selling state-owned stocks individually to persons involved internally, such as the executives and employees of large companies, and parties such as private companies, foreign-affiliated companies and institutional investors. Considering the volume of state assets and the fund procurement capabilities and business abilities of the buyers, it is expected that the process of privatization will extend over a long period of time.

0.7 Issues for the Next National Congress

The greatest focal points leading up to the 2002 Seventeenth National Congress of CPC are:

- (1) When and in what form will power be transferred in substance from Jiang Zemin to Hu Jintao?
- (2) Into what kind of political party will the

CPC advocating the "Three Represents" transform?

Regarding the first, the personnel-related decisions made at the National People's Congress in March 2003 indicated that the transformation of power had not finished. As for the second question, while diminishing the character of the vanguard party of worker class, the CPC has not yet taken steps to abandon Marxism, the Party's founding ideology. Therefore, the effectiveness of the "Three Represents" will depend on whether the CPC will be able to become a political party that coordinates and represents the interests of the various social classes while remaining vague on important issues.

(Yasuo ONISHI)

