

People's Republic of China

Status Index (Democracy: 1.6 / Market economy: 2.6)		4.2	Management Index		4.4
System of government	Autocracy		Population	1,285.2 mill.	
Voter turnout	n. a.		GDP p. c. (\$, PPP)	4,020	
Women in Parliament	21.8 %		Unemployment rate	3.1 % (2000)	
Population growth^a	1.3 %		HDI	0.721	
Largest ethnic minority	n. a.		UN Education Index	0.79	
			Gini Index	40.3 (1998)	
Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Source: UN Human Development Report 2003.					

1. Introduction

The transformation process in the People's Republic of China during the assessment period was characterized by a continuation of economic reforms under less favorable conditions. While the effects of the Asian economic crisis limited the government's scope of action, it conversely resulted in an accelerated pace of reform in China. Measures that had previously been postponed for political reasons were speeded up, even in the difficult area of financial sector development. Political reforms were limited to reorganization within the administrative system and a consolidation of the village elections that were introduced in the 1980s to narrowly defined experiments with competitive elections at the village level and within the Communist Party of China (CPC). Even with the change to a new generation of leaders, the CPC's uncurbed claim to leadership prevents the transformation to a democratic political regime.

The period under consideration coincides roughly with the period between the CPC's 15th and 16th Party Congresses. Modifications in the Party's position and its program show that the CPC continues to try to adapt to evolving economic and social circumstances by including new social groups but that it wishes to follow the path to a market economy while maintaining its claim to leadership. The Party Congress in November 2002 showed signs of giving up core elements of Marxist-Leninist ideology such as the elimination of private property, the obliteration of the private commercial class, the struggle against the "capitalist class," and the dominance of publicly held property. At the same time, the CPC leadership continues to be grounded in Leninist organizational principles, in particular, the personal sovereignty of the party in the cadre system. The Chinese leadership is convinced that it can accomplish the transformation to a globally oriented market

economy and foster a middle-class society while functioning within political institutions that are essentially Leninist.

2. History and characteristics of transformation

The economic transformation process in the People's Republic of China was initiated following the end of the Cultural Revolution in 1976. This period was characterized by a strong desire for consolidation in the economic and political arenas. The economic reforms took place under difficult structural conditions, but reformers were able to build on a number of advantageous existing conditions for reform not present in other transition countries or only present to a limited extent. China was ready for a process of catch-up development and a planned economy that was made possible by, among other things, a high proportion of persons employed in agriculture and a low proportion in the government sector.

On the political level a basic consensus in favor of economic reform had developed; however, it was accompanied by a clear rejection of political liberalization. Bureaucratic resistance to transformation was weaker in China than in the Soviet Union or Russia. Moreover, the People's Republic of China was able to mobilize support from an impressive number of overseas Chinese. Based on these factors China chose a reform strategy that was characterized by gradual and experimental reform measures, a two-track course of action, and decentralized implementation.

In addition, the Chinese reform politicians counted on opening special economic zones for foreign investors and adopted an export-oriented development strategy. The reforms were accompanied by a noticeable improvement in the standard of living for large segments of the population as well as fundamental social pluralization. According to official figures, between 1980 and 2000 China's gross domestic product grew on an average of just under 10 % in conjunction with inflation rates that were stabilizing at a low level.

At the same time, China's admission to the WTO at the end of 2001, which was a result of the successful economic reforms and China's strengthened position in international business and politics, drew attention to persisting problems with the Chinese economic reforms. Recently, there has been a critical assessment of the actual successes and questions as to the sustainability and permanence of these reforms. Moreover, the downside to the economic reforms has been increasing income disparity with concomitant social destabilization as well as corruption, which is undermining existing state institutions and resulting in legitimacy problems for the CPC.

Until now the political institutions have been able to adapt to the new demands of the evolving economic policy, even if a clear distinction between direct state control, active state management, and passive adaptation has been difficult.

However China's attitude toward a political transformation in the form of political liberalization and democratization has remained negative. During the period under consideration, the "third" leadership generation under Jiang Zemin and Zhu Rongji did not introduce a systematic transition to a democratic regime founded upon the rule of law. The democratic movement and political dissidents have been marginalized since the suppression of the 1989 student protests and there is no possibility for effective action in the public arena.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

In the political sphere, the People's Republic of China exhibits great transformation deficits. Serious and persisting human rights violations and the suppression of political opposition detract in no small measure from transformation successes in the economic area and in the reduction of poverty.

3.1.1 Political organization

(1) *Stateness*: In the People's Republic of China there are no state identity problems; the state monopoly on the use of force is for the most part assured. With the significant exception of the "renegade province" Taiwan and the recurring flare-ups of separatist aspirations in Xinjiang and Tibet, defining citizenship and who qualifies as a citizen is not a politically relevant issue. Under the constitution all citizens possess the same citizen rights, and the constitution grants ethnic minorities a limited right of self-government. There is separation of church and state, but it stands in a frequently conflict-ridden relationship as is made clear in the suppression of the Falun Gong movement.

China, in contrast to other developing countries that encompass large geographic areas, has well-developed administrative structures that extend over the entire country. They exhibit a differentiated budget structure, but the conflicts among the various levels of administration permit only a partially efficient collection and allocation of government resources. Given its serious fiscal management problems, there is only limited assurance of the Chinese government's ability to act financially responsibly over the medium and long term. It is doubtful whether the tasks of government can be fulfilled sensibly and to the extent necessary with the resources available. The complicated and problematic mechanism of intergovernmental equalization between the individual Chinese provinces contributes to the problem.

(2) *Political participation*: According to the constitution of 1982, the People's Republic of China is a socialist state under the democratic dictatorship of the people. The formal political organization of its institutions corresponds to the

model of a centralized socialist party dictatorship. In this context, there are no elections on the central government level that fulfill the minimum requirements of a general electoral system or constitute competitive elections. In recent years limited opportunities for participation have developed on the local level. Political rulers are recruited from the CPC, which reflects the organizational principles of a cadre party. The personnel and organization of the CPC continue to be the main pillars for the ruling system of the People's Republic of China. Relevant opposition parties are prohibited.

Freedom of assembly is not guaranteed, and independent groups are unable, or are able only with great difficulty, to develop in the face of the CPC and its subordinate organizations' claim to be the sole legitimate representative. Thus we cannot speak of freedom of association as an independent civil right. Freedom of expression exists only within narrow limits and important media are state-owned or under state control. In the economic arena, however, there are signs of growing latitude for the free and critical expression of opinion. This is juxtaposed with efforts for control of the internet and other new media.

(3) *Rule of law*: In the People's Republic of China the Leninist principle of the concentration of power persists in contrast to a separation of powers. There is no guarantee of civil rights. The position of power and claim to leadership by the CPC and its cadres ensure de facto the right of unlimited intrusion by state actors in legal affairs and even in economic life. In terms of constitutional reality, the CPC stands above the constitution and above the people. Thus there is no binding rule of law upon government powers and no control of the powers in relation to government actors.

In particular, the administration of justice is subject to the influence of state representatives through the supervisory committees of the CPC and through the recruitment process for judges. In accordance with conventional legal views, the courts are primarily charged with maintaining public order and assisting in the enforcement of government power. The common problem of poorly qualified judges is to be remedied through new national examination requirements. A trend toward greater legal certainty and restrained political bias of the judiciary is evident, particularly in the area of commercial law, but these developments are countered by the blatant corruption in the judiciary.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: The questions of stability and the acceptance of democratic institutions cannot be answered meaningfully for the People's Republic of China since democratic institutions have not been established in the country.

(2) *Political and social integration*: Effective and comprehensive integration of interests will not be achieved through the party system. The democratic parties that exist alongside the CPC have no political significance and are controlled by the CPC. Interests are increasingly represented by the authoritarian system of associations and mass organizations. Both the number and variety of associations have increased sharply since the beginning of the economic transformation. However since 1989, their establishment and approval has been increasingly controlled and regulated by the state. Furthermore, influence and control by the government limits the autonomy of the associations depending upon their strategic importance for the political authority of the CPC. The establishment of independent labor unions is prohibited. An increase in social protests and unrest has been noted.

There are no reliable empirical studies on the attitude of society toward democracy. Sociopolitical factors, such as the absence of liberal constitutional traditions and the lack of positive experiences in dealing with political competition give rise to public skepticism. With respect to existing social capital, China profits from the existence of strong loyalties within large families and from family-based entrepreneurial, social and business structures. Outside the family boundaries in the cities there are growing numbers of self-help and neighborhood assistance organizations, initiatives, and collaborations that are devoid of a primary political objective.

3.2 Market economy

The People's Republic of China has made considerable progress in its transformation to a market economy. Moreover, the reforms accompany vigorous economic growth. However, significant risks remain that could call into question the transformation achievements that have already been realized.

3.2.1 Level of socioeconomic development

The development of key economic indicators demonstrates that China has realized great development successes, although significant inequities in the distribution of income and assets have arisen. Large segments of the population are precluded from participating in economic life and the fruits of the economic reforms due to poverty and educational deficits. In particular the disparities in regional and urban versus rural development have grown more severe in recent years and demand decisive political countermeasures. At this time there is already substantial movement of population within China between urban and rural areas.

3.2.2 Market structures and competition

The establishment of equally competitive opportunities and a uniform market structure has made significant headway relative to the previous centralized economy. However, distortions and delays continue due to selective liberalization measures, and fundamental deficits still remain. For example, there is no assurance of equal treatment for different business structures: Government-owned enterprises, private companies, and companies with foreign investment may all encounter different regulation with respect to management practice, taxation and banking. These areas in particular reflect the incomplete privatization and commercialization of state-owned businesses. There is no uniform competition policy to provide clear objectives and industries that are important nationally are exempted from the principles of general industrial policy.

Significant standardization is expected to take place in connection with adaptation to WTO principles. In the meantime, prices are almost without exception created by the market. However, access to essential input factors, most notably capital, is still somewhat subject to government control. This results in significant distortions of competitive positions. Interest rates are largely determined administratively. The financial system holds great systemic risks for the stability of the Chinese economy and is in need of further reform.

Most recently, the state banks that did not meet international standards of prudent regulation were released from their bad loans through the creation of asset management companies. Up to now there has not been an efficient allocation of financial resources regulated by free market criteria. The tentative and inconsistent actions by the government during the period under consideration reflect the highly explosive nature and complexity of reforms in the financial sector. The question remains whether and to what extent political consensus can be achieved regarding the configuration of competitive market reforms.

The integration of China into the international economy through foreign trade and direct foreign investment will continue to play an essential role for the country's development. With additional liberalization measures that are anticipated in the process of implementing the WTO regulations, the Chinese government has exposed itself to a greater pressure to act, which is expected to increase the pace of growth and reform.

3.2.3 Stability of currency and prices

In recent years China's economy has been struggling against deflationary tendencies in conjunction with continuing high, but decelerated growth between 1998 and 2000. In this climate, the government has pursued an expansive, growth-oriented fiscal policy, which has intensified the government's budget deficit problems. Nevertheless, there is generally a consistent effort to maintain

macroeconomic stability. The Central Bank cannot be deemed politically independent. The currency is not freely convertible. In recent times the Chinese Yuan has come under pressure for an upward revaluation; however, to date the Chinese government has rejected major modifications in the fixed exchange rate with respect to the US dollar.

3.2.4 Private property

Private property rights enjoy increasing respect through policy and administration, however protection by legal statute and court decisions continues to be inadequate. The privatization of state property is progressing. The long-term goal of property reform is to permit a number of forms of ownership to exist side-by-side. While private companies are contributing substantially to growth and the creation of jobs, they are not being treated equally with government-owned businesses with respect to private property rights.

3.2.5 Welfare system

The structures to adjust for the social consequences of the market economy introduction are inadequately developed. The establishment of a new social security system to meet evolving needs is progressing very slowly and is concentrated in urban regions. The unsolved challenges include the protection of the rural population through social security and long-term old-age pensions where demographic development is governed by birth control.

The reform policies of the past five years have been unable to establish equal opportunity across regions. Outside of the coastal provinces and in rural areas, access to education, government services, and the social safety net is narrowly restricted. An ambitious new regional policy for infrastructure development is intended to benefit the more rural western provinces.

3.2.6 Strength of the economy

Since the beginning of the reform process the Chinese economy has been growing on a historically exceptional, even if statistically overestimated, scale. With this comes an unemployment rate that is very likely higher than the official 3 % and without a developed social safety net results in significant social hardships.

3.2.7 Sustainability

Environmental protection concerns, which had been a low priority, have enjoyed greater political attention in recent years. However, the process of economic

reform in general, has been based on extensive growth and has resulted in significant new environmental contamination. Environmental protection remains largely subordinated to growth.

Over the last five years, China has significantly increased government commitment to public education as well as its tolerance for private educational institutions. Here, as in the environmental area, a number of international cooperative efforts have developed.

4. Trend

(1) *Democracy*: During the period under consideration no important changes were noted that clearly aim toward democratization in the areas of state identity, political participation, and development of the rule of law. Progressive trends worth mentioning include: the introduction of comprehensive innovations during 2001 and 2002, particularly the judicial system's implementation of judge examinations and court financing. The dialog with foreign countries on the rule of law was expanded. There are indications that economic legislation has increased the government administrative units' adherence to regulations.

Political participation at the local level was strengthened and more recently, broader political reform experiments on the local level are under discussion. However, there is little indication that they will affect the core structures of the political system; rather, they aim to increase administrative efficiency and openness and decrease widespread corruption. Despite repeated campaigns to combat corruption, bribery, including the sale of public office, is a permanent part of the system.

A regressive trend that is working against liberalization and possible democratization is the increased control of internet access and content with measures ranging from the control and closure of internet cafés to agreements for voluntary restraints with international providers such as Google. The co-opting of up-and-coming social groups started by private entrepreneurs into the existing organization of the CPC makes the emergence of independent social organizations and structures seem unlikely. In all, significant reform measures on the part of the government and a clear commitment to democracy are still lacking.

(2) *Market economy*: The basic development indicators demonstrate strong improvement for the period under consideration, particularly the growth of the HDI from 0.681 in 1995 to HDI of 0.726 in 2000. The problem of increasingly unequal wealth distribution is reflected in the Gini coefficients. Overall the basic institutional conditions for free market trade improved during the period. Measured against the development of key macroeconomic figures the pace of the Chinese economy slowed down somewhat, at least between 1998 and 2000. Taking into account the less favorable underlying conditions, most notably the

effects of the Asian economic crisis, it must be said that transformation management was successful in terms of economics. Still to be considered in the overall assessment are the existing risks to the sustainability of the successes, especially in the banking and public finance sectors.

Table: Development of socioeconomic modernization indicators

	HDI	GDI	GDP index	Gini coefficient	UN education index	Political representation of women	GDP per capita (\$, PPP)
1998	0.706	0.700	0.57	45.6	0.79	21.8	3,105
2001	0.721	0.718	0.62	45.8	0.79	21.8	4,020

Sources: Human Development Report 2002 and 2000, Gini coefficient according to NBS, quoted in the China Daily

Table: Development of macroeconomic fundamentals (1998-2002)

	1998	1999	2000	2001	2002 (est.)
Growth of GDP in %	7.8	7.1	8.0	7.3	n. a.
Export growth in %	+0.5	+6.0	+27.9	n. a.	n. a.
Import growth in %	-1.5	+18.2	+35.8	n. a.	n. a.
Inflation in %	-0.8	-1.3	0.4	0.7	n. a.
Unemployment in %*	3.1	3.1	3.1	3.6	n. a.
Budget deficit in % of GDP	-1.2	-2.2	-2.8	-3.0**	n. a.
Current account balance in bn. US\$	n. a.	15.6	20.5	17.4	n. a.

* unofficial estimates show significantly higher figures; **preliminary information.

Sources: National Bureau of Statistics: China Statistical Yearbook 2002, IMF Financial Statistics 2002, ADB, World Bank, Heilmann 2002.

5. Transformation management

5.1 Level of difficulty

From an economic perspective the People's Republic of China had already achieved significant transformation successes in 1998. It was possible to continue building on its development status as a country with medium income and an improved societal level of education, while taking into account the above-mentioned problems of exclusion due to poverty and regional differences in development.

While good general conditions for a successful transformation continued to exist (minimal significant ethnic conflicts for the country overall, well-developed state administration with strength to take action when crises arise, and potential for growth), the level of difficulty of the remaining economic reform measures increased prior to and during the period under consideration and is judged to be high. This includes the reform of the financial sector, particularly the state banks and the closely related reform of the remaining government-owned enterprises. The crisis-prone regional and international economic development has increased the pressure on the Chinese government to take action. This became clear during the phase immediately following the Asian economic crisis, as reform measures that had previously been delayed for political reasons had to be carried out under more difficult economic conditions.

At the same time the level of difficulty also increased because of growing social tensions, manifested in mounting social unrest and decreasing societal respect for the functionary class due to abuse of authority and corruption. Additionally, it remains to be seen to what extent the legitimacy of the CPC has diminished generally, or is threatened to be further diminished, if the social costs of reform for the workers reach government-owned businesses.

5.2 Reliable pursuit of goals

The Chinese government's reliability in achieving its goals while structuring its economic reforms was generally high. This reflects the central government's comparatively strong ability to act and to implement its objectives. In the 1990's the fundamental market economy orientation of the reform policy was no longer questioned even when politically sensitive reform measures were postponed. The government is pursuing long-term development objectives and also formulating them clearly. The most recent example involves setting a target to achieve a four-fold increase in income from 2000 to 2020. In their pace and control of the flow of the reforms, however, it appears that the social adjustment costs and the associated potential for political pressure are taken more into account than the systemic risks.

Most notably, long-term fundamental environmental safeguarding is not a priority compared with the orientation to growth objectives. The implementation of the reforms is taking place comparatively consistently but is associated with high adjustment costs for a number of population groups which in light of the lack of social welfare mechanisms are being compensated inadequately. With its accession to the WTO China strengthened its commitment to a basic market economy system both externally and internally. This was intended to increase the reliability of expectations, not in the least for the sake of foreign investors. However, sources of fierce foreign policy conflict, such as Taiwan, that have elicited the threat of military might are detrimental to this. It remains doubtful

whether the strategy of economic transformation without democratization can succeed over the long term and how serious the associated political risks may be.

5.3 Effective use of resources

The current status of budget policy and the system of fiscal management in the Peoples' Republic of China make the effective use of resources in the reform process to date appear questionable. Strategic decisions in the reform of government property relations have resulted in a substantial uncontrolled outflow of funds. Government funds are frequently distributed according to political considerations.

In the area of lending the state and the economy are still so closely intertwined that it appears virtually impossible to distinguish government debt from the loans of government-owned enterprises and the state banks. An additional alarming sign during this period has been the practice of granting additional loans to government-owned enterprises with dubious financial and entrepreneurial viability and the concomitant amassing of new loans with uncertain likelihood of repayment.

The budget process is complicated and not accessible for public review. It does not permit effective control of expended funds to a degree that can be deemed an efficient use of tax money. The indebtedness of the Chinese state increased significantly during the period under consideration. Stronger fiscal planning capacities and an effective system of auditing controls are in progress. Personnel management in government administration will soon be subject to new reform measures that aim for a leaner administration and higher qualifications for the employees. The structure of the government agencies and ministries also offers the potential for cost reductions and further dismantling of duplicated structures. However, professional streamlining criteria are often subordinated to political considerations or the institutional interest in retaining power.

There are particular deficiencies in establishing uniform access to government social services, as well as in the areas of education and infrastructure. One of the main reasons for the obviously inefficient use of resources is the widespread corruption, which has resulted in a concurrent loss of legitimacy and inability of the government to act. There are no consistent legal regulations and no independent monitoring authorities for combating corruption. As a result there are fundamental deficiencies in open public access to government action.

5.4 Governance capability

The governance capability, flexibility, and ability to learn on the part of the political actors in the Peoples' Republic of China were comparably high during

the reform process and during the period under consideration. Important reform issues were recognized and increasingly taken up as a theme in the context of reform policy. The Party Congress in November 2002 staked out a new position for the CPC in the urgent issue of the growing social and economic inequalities. Previously the development campaign “Developing the West” aimed at giving the western provinces a greater share in growth through comprehensive infrastructure measures. It appears doubtful whether the implementation of the announced reform plans can succeed because the necessary significant transfer of funds to the west seems unavoidable as well as detrimental to the coastal provinces and will involve a long-term redistribution of social costs.

In general the central government possesses the political authority to implement economic policy reforms. However, this authority is diminishing as a result of a greater independence on the part of local administrative units and the informal corruption and patronage networks. The legitimacy of the CPC is based on generating economic growth and societal gains in prosperity. In this respect its legitimacy must be viewed as extraordinarily fragile in the event of economic crises.

In the past the rationale behind economic decisions has often been subordinated to the CPC’s strategic perpetuation of power. The choice and the action plan for the individual reform measures, tools, and strategies are subject not primarily to the criteria of economic efficiency, but to politically motivated rationale. The consequence of this policy has been to permit inefficiencies and politically motivated distortions to continue to exist in the allocation of capital, goods, and employment markets.

5.5 Consensus-building

In the institutional structure of the People’s Republic of China, political consensus regarding reform objectives originates within the CPC leadership, which for the most part is not open or accessible to the outsider. It is the declared goal of the party to set up a socialist market economy, although the notions regarding its practical organization differ. Veto actors have to date been successfully included in the market economy reform process. At present, there is no consensus for setting up a free market democracy, and organized opposition is suppressed. The structures for expressing opinion and establishing interest groups include only a narrowly limited group of actors relevant to the political process.

In the meantime, discussion of the organization of the economic reform policy has become the subject of public debate. However, political decisions are made exclusively in non-public committees of the CPC or the government. Public debate that expresses political opposition does not occur, since such forms of opposition are suppressed. In the past this seems to have contributed to the government’s ability to act and to the long-term arrangement of individual policy

measures. Consequently the CPC should be named as the greatest anti-democratic actor in the Chinese context.

It is uncertain to what extent the CPC will be able to handle the conflicts of a pluralistic society, as new cleavages are emerging or becoming greater. Future economic reforms as well as the stability and viability of the political system depend on the extent to which Chinese reform policy will be able to prevent further drifting apart along social cleavages.

5.6 International cooperation

China's cooperation with external actors on international development collaborations established during the earlier reform years was expanded during the period and includes the IMF, the World Bank, and the Asian Development Bank. There was a close exchange with external actors, particularly in the area of consulting on the transition to a market economy. The Peoples' Republic of China is among the largest recipients of government development funds from ODA. Development cooperation seems to be controlled by Chinese needs and the Chinese government has a strong negotiating position in the context of its cooperative relationships. With a view toward its economic transformation policy, China has for the most part utilized the offered assistance efficiently and been able to profit from the experiences of other countries.

On the other hand, the contribution to the democratization process by external actors in development cooperation has been minimal despite their strong involvement in the organization of village elections and in the reform of the judiciary.

The reliability of expectations with respect to China is growing on the part of other countries and the international public, especially through China's increased inclusion in international treaties and organizations. Recently the Chinese government has presented itself as a reliable partner; however, there continue to be areas of conflict with the international community regarding human rights violations, proliferation issues, and China's policy toward Taiwan.

In general China was able to improve its relations with neighboring countries during the period, in no small measure through its greater integration in regional organizations. The tensions on the Korean peninsula present China with a foreign policy challenge. The Chinese government is taking advantage of its economic advancement to enhance its international status in general and within international organizations. There is scarcely any area of international policy that can be tackled without the approval and participation of the Chinese leadership.

6. Overall evaluation

This report makes the following final assessment with respect to baseline conditions, transformation status, and evolution during the past five years as well as the actors' performance in political transformation management:

(1) *Baseline conditions:* In the initial years following the commencement of the economic reforms, China pursued catch-up development with the positive effects decreasing during the course of the reform process. During the period under consideration the Chinese government was faced with difficult structural reforms in conjunction with increased pressure to take action. It was able to fall back on largely efficient government structures, but to an increasing degree, it was forced to deal with the negative effects of its own reform strategy. Here its ability to act was hindered by inadequate fiscal management and the erosion of government authority structures. There was no consensus for a democratic transformation within the Chinese leadership, resulting in the implementation of strategy for the transformation to a market economy without democratization.

(2) *Status and evolution:* The evolution of the democratic transformation is extremely short. The political system changed very little during the period under consideration. Positive developments that must be mentioned include the increased stability of the leadership and the mechanism for changing the leadership; and the further development of democratic elements at the local level through the implementation of village elections, although this has not had a noticeable effect on the central government. Reforms oriented to the rule of law and increased social pluralization should be considered steps for the future.

The evolution of the market economy transformation during the period was longer. The decision-makers succeeded in improving a series of structural problems by proceeding tactically and gradually. Most of the quantitative indicators demonstrate successful management even of key macroeconomic indicators. However, the economic restructuring process continues. Problematic reforms remain to be undertaken. The risks to stability arising in the financial sector persist and threaten the sustainability of past reform successes. In addition there are political risks, since it remains unclear whether the political system will continue to support the economic transformation in the future and be able to reconcile the accompanying social cleavages.

(3) *Management:* For the most part the actors involved in economic reform policy are deemed to have performed their management tasks well. As compared with earlier reform measures, the current reform policy requires greater implementation of sensitive reform measures in relation to existing interest groups, as well as the conscious subordination of government discretion to act under its own rules in instances such as in the area of industrial policy. It remains an open question whether the actions of the Chinese government are sufficiently resolute and single-minded, particularly in the reform of the financial sector.

There is no management for the transition to democracy. The government is not succeeding in curbing the rampant corruption. It must be remembered that the predominantly good management in economic reform issues is juxtaposed with persistent human rights violations, the suppression of political opposition, and high social adjustment costs that must be borne by large segments of the population.

7. Outlook

This report expresses reservations regarding euphoric judgments about the successes of the economic transformation in the Peoples' Republic of China. It has become clear that serious structural problems and risks remain in the economic sphere. Moreover the absence of a democratic transformation devalues its economic successes. The solution to key problems in both the economic and political spheres over the medium and long term must be regarded as unsettled and uncertain. This applies particularly for ensuring the government's ability to act and for the further development of the rule of law.

The close connection between the economic and political elites makes it unclear whether there are actors who could both continue to work decisively toward the development of a market economy through the separation of government and economy and at the same time toward possible democratization. As far as political reform is concerned, the change in leadership in November 2002 does not yet suggest a change in direction within the CPC. Reform efforts aim toward increasing administrative efficiency, but not toward democratic checks and balances. In the economic sphere, the key tasks consist of creating uniform access opportunities for all market participants. This includes improved access to public services, particularly in the education and health care systems.

Substantial economic growth over the long term is absolutely necessary in order to avoid the escalation of social tensions, to create a sufficient number of new job opportunities, and to preserve the legitimacy of the CPC's leadership. This substantial growth will have to be achieved under increasingly difficult conditions. For this reason China's transformation process will remain incomplete and uncertain over the long term.