

IAC Intelligence Report 191/87.
China: Reform To Proceed
with Caution.

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INTELLIGENCE
REPORT

BULLETIN DE
RENSEIGNEMENTS

CHINA: REFORM TO PROCEED WITH CAUTION

CHINE: DES RÉFORMES MARQUÉES AU COIN DE LA PRUDENCE

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RESERVÉ AUX ÉTATS SUIVANTS: CDA, AUST, ROYU, E.-U.

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CHINA: REFORM TO PROCEED WITH CAUTION

Highlights

- ° Viewed in the light of the conservative backlash which followed student demonstrations earlier this year, the recently held Thirteenth Communist Party Congress marks an advance for the Party's progressive wing. Deng Xiaoping has succeeded in placing the reins of power into the hands of a pragmatic and capable group of younger politicians. (C)
- ° The Congress endorsed the loosening of Party control over the economy and the day-to-day administration of China's affairs. Secretary-General Zhao's report to the Congress proposed sweeping renovations to the political structure and the continuation of controversial economic reforms, while at the same time calling for a more balanced and cautious approach. (C)
- ° Conservative influences will persist. Zhao has acknowledged that progress will be slow and difficult and that the reforms could last into the next century. (C)
- ° Although the progressive movement will remain vulnerable to periodic attacks from ideologues, the stage is set for further experimentation. (C)
- ° Economic modernization will not be attained quickly. Progress will continue to be uneven. Periodic setbacks are likely to occur. (C)
- ° Should the reforms be even moderately successful, differences in wealth and privilege will become increasingly more apparent. China's leaders must now carefully monitor the emergence of a less egalitarian society. (C)

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CHINE: DES RÉFORMES MARQUÉES AU COIN DE LA PRUDENCE

Points saillants

- ° Vu par rapport à la réaction brutale des éléments conservateurs aux manifestations étudiantes tenues plus tôt cette année, le 13^e congrès du Parti communiste marque un progrès pour l'aile progressiste. Deng Xiaoping a réussi à mettre les rênes du pouvoir entre les mains d'un groupe d'hommes politiques plus jeunes à la fois pratiques et compétents. (C)
- ° Le congrès a avalisé le relâchement de l'emprise du parti sur l'économie et l'administration quotidienne des affaires de la Chine. Dans son rapport au congrès, le secrétaire général Zhao a proposé des réformes en profondeur de la structure politique et la poursuite des réformes économiques controversées, tout en lançant en même temps en faveur d'une démarche plus équilibrée et prudente. (C)
- ° L'influence des éléments conservateurs continuera à se faire sentir. Zhao a admis que les progrès seraient lents et difficiles et que les réformes ne seront peut-être achevées qu'au XXI^e siècle. (C)
- ° Le mouvement progressiste continuera d'être la cible d'attaques périodiques des idéologues, mais tout est en place pour la tenue de nouvelles expériences. (C)
- ° La modernisation de l'économie se fera au ralenti. Les progrès continueront d'être inégaux. Des reculs sont à prévoir de temps à temps. (C)
- ° Pour peu que les réformes aboutissent, l'écart existant au niveau des richesses et des privilèges deviendra de plus en plus apparent. Les dirigeants de la Chine doivent maintenant suivre attentivement la venue d'une société moins égalitaire. (C)

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1. The departure from the Politburo of hardline ideologues and conservative military leaders at the recently held Thirteenth Communist Party Congress heralds a potentially historic advance in China's modernization program. Viewed in the light of the conservative backlash which followed student demonstrations earlier this year, the Congress marks a victory for the Party's progressive wing. Deng Xiaoping has succeeded in placing the reins of power into the hands of a pragmatic and capable group of younger politicians. (C)

2. In the first half of 1987, a resurgence of conservative ideology seemed to threaten the reform movement, forcing the resignation of the reformist Secretary-General Hu Yaobang, Deng's protégé, and the launching of a heavy-handed campaign against "bourgeois liberalization". Nevertheless the Congress last week appointed new members to key Party organs and formally endorsed Secretary-General Zhao Ziyang's program to provide a badly needed framework for reconciling socialist objectives with economic pragmatism. (C)

3. The Congress endorsed the loosening of Party control over the economy and the day-to-day administration of China's affairs. Zhao's report to the Congress proposes sweeping renovations to the political structure and the continuation of controversial economic reforms, while at the same time calling for a more balanced and cautious approach. Modernization remains a top priority, but the duration of the adjustment period and details of plans to implement the proposed changes remain sketchy. The present orientation of China's foreign policy is unlikely to change as a result of the Congress. (C)

Political Reform

4. Zhao's plan is to move the Chinese Communist Party (CCP) into the role of philosophical arbiter. To the surprise of many Western observers, crucial political reforms form the centrepiece of his report. Largely reform-minded technocrats have been appointed to the Politburo and to the powerful Politburo Standing Committee, underscoring China's return to a mandarin-like "meritocracy". Among the new appointees is a new acting premier, Li Peng, the adopted son of former Premier Zhou Enlai. Educated in Moscow and familiar with the West, Li is linked to cautious thinkers in the Party and his appointment will reassure conservative voices. Although Li will certainly pay attention to the concerns of the aging conservatives, he is unlikely to subvert the program for ideological reasons. (C)

Military Influence Ebbs

5. Deng Xiaoping retains his position as head of the Central Military Commission. This comes as no surprise as he is the only reformist to enjoy the army's unquestioning support. The People's

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Liberation Army (PLA) is not well represented in the Politburo. Demobilization and the erosion of the PLA's former status as a prestigious national institution have affected morale adversely. Zhao Ziyang's appointment as the army's first civilian vice-chairman introduces civilian links between the government and the PLA. Zhao's new contacts with the PLA will allow him to consolidate his working relationship with the army. (C)

Economic Reforms

6. The report delivered to the Party Congress by Zhao Ziyang focussed on establishing ideological support for further economic reforms. Specific details were largely absent on the more difficult and contentious issue of how the economic reforms would be implemented. The separation of ownership from managerial authority was described as the major task in improving enterprise efficiency, with the goal to cut down on the current widespread Party interference in the decision-making process. Support was also given for: a limited expansion of private ownership, although public ownership is still to dominate; a greater role for market forces in regulating demand and supply; more emphasis on indirect macroeconomic control; and the expansion of stock and bond issues. An endorsement of further limited price decontrol was also given, although it was emphasized that prices of some essentials would remain fixed in the near term. Notably absent from this list of reform issues was the bankruptcy law, which indicates continued difficulties in reaching a consensus on this important reform. (C)

7. In justifying the need for further economic reform, the report argues that market oriented policies are not unique to capitalist systems, but they are also part of the "primary stage of socialism". Despite the fact that this argument appears to Western observers to contain basic contradictions, it is being used successfully to give the reform program greater credibility. By convincing Party Congress members to endorse this argument, the reformists are hoping to set the stage for the smoother introduction of further economic reforms. (C)

8. Numerous obstacles to the successful implementation of the economic reform program remain. It remains unclear how the leadership proposes to tackle the economic problems that are arising out of urban reforms. The economy is again overheating, with industrial output growth in the first nine months of this year at 15.2 percent. Price inflation is officially just over 8 percent, but in some urban centres it has reached double digits. The government has been unable to regain control over fixed investment, and rapid unplanned investment growth continues to deplete China's scarce resources. (C)

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9. Price reforms, the imperatives of modern management and the new emphasis on professionalism will profoundly affect all Chinese. Urban dwellers likely regard the reforms positively, but they maintain a nervous scepticism, largely because of the threat of further inflation. The popular reformist mayors of Shanghai and Tianjin have won appointments to the Politburo. These appointments are a reward for their successes in revitalizing these two important urban centres as well as a sign of the seriousness the Party attaches to improving life in China's cities. (C)

Outlook

10. Given the government's inexperience in using monetary and fiscal controls, continued experimentation with reforms is likely to result in further fluctuations in growth rates in the foreseeable future. Progress will continue to be uneven, and periodic setbacks are likely to occur. The Chinese people will have to be more willing to accept the short term costs of reforms, such as increases in many prices that have remained at unrealistically low levels for decades. At the same time, it undoubtedly will be difficult for the authorities to resist reverting periodically to greater centralized control over the economy when difficulties arise. If the reforms are even moderately successful, differences in wealth and privilege will become increasingly apparent. China's leaders must now carefully monitor the emergence of a less egalitarian society. If, as expected, the reforms favour accelerated growth along the industrialized coast, the gap between rich and poor provinces will widen, leaving the reformists vulnerable to charges of creating two Chinas. (C)

11. Conservative influences will persist. Indeed, Zhao has acknowledged that progress will be slow and difficult, and that the reforms could last into the next century. Although the movement will remain vulnerable to periodic attacks from ideologues and from the less adventurous, who are unsettled by the prospect of a more competitive society, the stage is set for further, bolder experimentation. (C)

12. Political reforms will erode party members' and organizers' privileges, status and influence. We expect that conservative-minded Party organizers will be reluctant to step aside. But rural peasants have done well by the earlier reforms and many are resentful of the sometimes arbitrary and peremptory directives of local party bosses. Zhao should find considerable support at the grassroots level for the reform program. The Party leaders' endorsement for the new program is in itself clear acknowledgement of the urgent need for reform and flexibility in directing China's future. The endorsement is also a measure of the leadership's confidence that China's people are pleased with the earlier reforms and ready to accept further innovations. (C)

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