I declare my authorship and full acknowledgement of all sources used in the thesis entitled:

Politics of China's Post-Mao Reforms: From The CCP's 13th Congress To The Dawn Of Beijing Students Demonstrations

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You Ji         August 1989
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## Abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tr>
<td>BR</td>
<td>Beijing Review</td>
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<tr>
<td>CAC</td>
<td>Central Advisory Commission (CCP)</td>
</tr>
<tr>
<td>CASS</td>
<td>Chinese Academy of Social Sciences</td>
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<tr>
<td>CC</td>
<td>Central Committee (CCP)</td>
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<td>CCP</td>
<td>Chinese Communist Party</td>
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<td>CCYL</td>
<td>Chinese Communist Youth League</td>
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<td>CCDI</td>
<td>Central Commission for Discipline Inspection</td>
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<td>CMC</td>
<td>Central Military Commission</td>
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<td>CPCC</td>
<td>Chinese Political Consultative Conference</td>
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<td>CQ</td>
<td>China Quarterly</td>
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<tr>
<td>FER</td>
<td>Far Eastern Economic Review</td>
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<tr>
<td>FELG</td>
<td>Finance and Economics Leadership Group</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GPD</td>
<td>General Political Department (PLA)</td>
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<tr>
<td>KMT</td>
<td>Guomindang</td>
</tr>
<tr>
<td>NIEs</td>
<td>Newly Industrialized Economies</td>
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<tr>
<td>NPC</td>
<td>National People's Congress</td>
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<tr>
<td>PBC</td>
<td>People's Bank of China</td>
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<tr>
<td>PLA</td>
<td>People's Liberation Army</td>
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<tr>
<td>PRC</td>
<td>People's Republic of China</td>
</tr>
<tr>
<td>RMB</td>
<td>Renminbi (Chinese currency)</td>
</tr>
<tr>
<td>RMRB</td>
<td>Renmin Ribao (<em>People's Daily</em>)</td>
</tr>
<tr>
<td>SCER</td>
<td>State Commission of Economic Restructuring</td>
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<td>SPC</td>
<td>State Planning Commission</td>
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Introduction

This thesis is about China's post-Mao reform. Given its very broad themes, the thesis can only concentrate on a small fraction of the whole spectrum. The focus will be placed on the politics of reform, as embodied in the interplay of power and frequent policy changes in the leadership of the Chinese Communist Party. Additionally, as China's reform process have increasingly cut into the framework of its political and economic command system, a large number of intra party policy disagreements has arisen over the scope, strategy and speed of the reform, bringing to light the de facto competition for policy dominance among the leaders. In this regard this thesis will devote considerable attention to the analysis of the twists and turns of the reform course.

The thesis argues that the oscillations in the party's reform policy can be best understood in the light of "the middle course" the party has taken for the country's modernization. The middle course is defined as a controlled path in which the regime hopes to transform in a safe manner a highly centralized system into one more diverse and less repressive. The characteristics of the course lie in the willingness of the CCP to relax control when it feels confident and reassert control when it feels it necessary. While committed to change, the leadership has been subjected to many internal and external constraints that impose limitations upon change. In the economic field, for example, reform and readjustment have in turn held centre stage in the party's agenda. Politically, sporadic official campaigns against "heresies", such as humanism and alienation, have stood as obstacles on the road towards more liberalization. The politics of reform is thus complex not only for the leadership but also the populace, because it is at once a struggle to break away from the past and a continuity of tradition.

China's reform is in the first place a response by the CCP to a widely perceived crisis in its political legitimacy. The crisis originated from the disastrous Cultural Revolution, when state power intruded into every sphere of social life. The overt suppression certainly
alienated the nation. Reform was initiated by the party in the hope that with totalitarian controls relaxed, the people's discontent would be alleviated and their confidence in the regime restored. Yet as shown by the examples of many developing countries, the most dangerous time for a government in strife is when it intends to reform itself. In the process of liberalization, the factor of dissidence, which hitherto may have existed only in its latent forms, surfaced. In China the comparatively relaxed social environment has bred new expectations for further liberalization, which, more often than not, have transcended the party's commitment to liberalize the system. Before the existing difficulties can be overcome, new contradictions are galvanizing the disgruntled people to take action, pressuring the government to listen to their demands.

In the meantime, the logic of reform is generating a domino effect on the changes within Chinese society. Ideologically, the old value system, based on a blend of traditional egalitarianism, Maoist utopianism and sinicized communism, is colliding head-on with the new ideas growing from free-market practices. A transitional vacuum in the national belief system is causing confusion in people's minds and actions. In the economic realm, as the command economy is transformed into a hybrid system operating with semi command and semi marketized processes, the syndromes of the transition model - the loss of macro control and dislocations in the micro activities - have been made manifest in high inflation and overheated industrial growth compared with a sluggish agriculture. The restored confidence of the 'masses' in the reformist leadership, due to the early economic successes, has been greatly eroded. Related to the economic disorder are rampant corruption and an uneven distribution of wealth, which give rise to widespread disillusionment among the people. Confronted with these difficulties, it is understandable that the party is so sensitive to the signs of social unrest and inclined to use forceful control in the management of state affairs, which reflects the hawkish side of the middle course.

Apart from the socio-economic dimensions of reform politics, disagreement over the goals of reform has rekindled the factional strife within the party leadership. China's political and
economic reform is in essence a process of redistribution of power among different social forces and their representatives in the party.\(^3\) Ten years of reform have created in the top leadership a majoritarian group led by Deng Xiaoping and Zhao Ziyang and a number of minority groups loosely revolving around Chen Yun and Li Peng. The majority group is more committed to overhauling the command economic structure, which they see as ill-fitted to healthy development. The Chen-Li groupings, however, while consenting to a broad reform program, do not want to discard the basic elements of the system. The interplay of power between these groups have underlined most policy oscillations in the last decade. Involved in the policy debate over the objectives of the reform are the vested interests both groups represent. These vested interests have not only institutionalized the relationship of power within each camp but also have made the factional activities a permanent phenomenon in the politics of the CCP.

On the other hand, this thesis draws attention to the efforts made by both camps in codifying the rules governing the "game". Generally speaking, the political processes in the reform era (up to the time when the students of Beijing took to the streets in April 1989) could be characterized as the politics of consensus, which regarded a broadly agreed work agenda as imperative to realize the party's interests. Where serious policy discordance emerged, the rules would dictate that all parties involved compromised. Probably this reflected a recognition by most party leaders that uncompromised inner party strife would escalate into another "civil war", reminiscent of the Cultural Revolution. If anything like this were to take place, the party's legitimacy would be further jeopardised and all of the groupings would suffer. The new rules may be viewed as neo-factionalism based on compromise, different from the past desperate "line struggles".

The politics of consensus based on compromise was also a key feature of the middle course. Consensus and compromise jointly helped prevent extremist tendencies of the right and the left. And it was this doctrine of the mean, rooted in Confucian teachings, which served as the major catalyst for policy changes. The consequences of the choice were profound. When
each reform initiative had to consider all the vested interests, it became only a partial reform. Since all the reform initiatives are partial, the whole enterprise was, therefore, endangered. Moreover, because partial reform generated problems in implementation, the consensus could only be transitory. At this moment the reform process seems to be moving in this direction.

So around the middle course of reform, the policies shift constantly from right to left and from left to right. Throughout the process the unbroken thread of factional strife between the various groups in the party leadership can be discerned. This thesis attempts to examine the policy disputes and their social implications since 1978, when the reform commenced. However, events which had occurred since the Party's 13th National Congress in 1987 up to the new student movement in April of 1989 will be dealt with in greater detail. In fact last-minute events occupy a considerable part of the thesis, to shed light on China's most recent political developments.

The thesis consists of two major parts and a background chapter. The first half, Chapters Two and Three, addresses problems of political reform, focusing on the institutional reforms at the party centre. The fact that my scrutiny does not go beyond the top party leadership lies in the limited scope of the reform itself. So far the political reform has been more talked about than implemented. It has been narrowed down from the previously proclaimed goal of separating party and government functions to a division of labor between the party centre and the State Council. Even in this respect, factional considerations seem more relevant than the idea of a rational restructuring of the country's high command. The second part, Chapters Four and Five, looks at the politics of economic reform, with the emphasis on the party's internal disagreements over the subject (Chapter 4). It also explores the political and social dimensions of the reform and their implications for its future course (Chapter 5).

What should be pointed out is a familiar fact: the collection of reliable official data for a
proper quantitative analysis of reform still poses difficulties. This is particularly true as regards Chapters Two and Three, which target the uppermost leadership issues. Where there is no easily accessible literature on the topic, extensive use has to be made of findings from interviews and media reports, such as in Chapter Five, which concentrates on the developments in China's reform since the Third Plenum of the party's 13th CC in September 1988.

Chapter One falls into two parts. The first part discusses the general setting in which the politics of reform is conducted. Its four sections, based on Deng Xiaoping's 'four cardinal principles', deal with ideology, the socio-economic system, the machinery of state control, and Chinese party politics. The second half depicts the factional groupings in the top leadership. It attempts to define the new rules for the post-Mao strife within the CCP, which I call 'neo-factionalism'.

Notes


Chapter One
The Political Background to the Post-Mao Reform

December 1978 should be remembered as epoch-making in modern China. In that month the Third Plenum of the 11th Central Committee of the Chinese Communist Party closed one chapter of a revolution, nearly three-quarters of which had been characterised by political ferment and upheaval. It declared that "the large-scale turbulent class struggles of a mass character have come to an end." Immediately, Deng Xiaoping, newly restored for the third time as a powerful leader, announced that the nation would embark on a new revolution of reform. The ensuing ten years have indeed witnessed a great number of changes which were unimaginable at the time.

If the first revolution was meant to establish a new society, with reconstructed ties between social and political forces, the second has also seen the same reconstruction for a new brave world, as the country explores painfully a path to modernize itself. The differences lie in the means chosen to achieve those ends. While the first revolution brought about the destruction of the traditional political institutions through violent class struggles, the second sought to effect a gradual transformation of the newly erected communist system through non-violent methods. Reform is thus viewed as a moderate course of social change. It is initiated and carried out by the incumbent regime in a voluntary and top-down manner. Limited in depth and width, it is typically a controlled process of amending the existing political and economic order until the point of systemic change has been reached. In the hope of maintaining but improving their rule, the reformist leaders seek to avoid mass mobilization.

Different means for changing society dictate different courses of political development. The initiation of the second revolution points to the fact that the first, which was obsessed by class struggle, had failed to modernize China. The current approach, which aims at promoting liberalization also has yet to provide convincing evidence that it is the right path
for China's resurgence. In the Chinese context, the usage of the word "liberalization" can be misleading. Here it is used:

not in the technical sense of 'moving towards greater public contestation'
which, as used by Rober A. Dahl, rests on a different set of theoretical assumptions and refers to some very specific features of government. It merely means that the regime has become less monolithic and monistic than before.\(^4\)

In the process of reform people have, to a certain degree, been granted more opportunities for internal migration; academic discourse and intellectual activities, more freedom from ideological restrictions. Government functionaries and business managers have enjoyed more autonomy in running the economy and nonpolitical work. On the other hand, there have also been political campaigns during which dissenting views have been suppressed. This constitutes the texture of the middle course of China's political development. Deng set up limits on both the right and left sides of the course - his four cardinal principles to condition relaxation and his Chinese version of \textit{glasnost}, reform and openness to prevent the excessive controls. Paradoxical as it is, he has been successful so far in managing the competing directions, although the room for reconciliation is diminishing.\(^5\)

\textbf{1-1 The Essence of Reform: Relaxation and the Four Cardinal Principles}

On the eve of reform in 1978 the CCP leadership was facing a serious crisis of legitimacy. Although it had survived the Cultural Revolution, it faced the grave problem of dealing with the decline of its authority to command the compliance of the people. In similar situations in Chinese history, rulers usually had two choices: resort to more violent means of control, or alternatively, adopt more benevolent policies to ease the tension. Having concluded that the 'absolute proletarian dictatorship' characteristic of Mao's reign would only further alienate the people, the post-Maoist leadership has relied mainly on the second. This has been viewed as 'enlightened authoritarianism' by many China watchers.\(^6\) To be sure, the changed method of rulership does not mean that it has renounced the use of force, rather this is employed with more care.
Deng's combination of both control and relaxation reflects major aspects of China's political culture. For millennia Chinese society was built on patriarchal authority all the way from the nuclear family to the highest level of state power. The Chinese have been instilled with a sense that without a strong father in the household, family life would be full of disorder and without a strong national leader, the country would fall into chaos. In this tradition it is only natural that the concepts of individual values and human rights have been ignored.

Chinese thinkers have come to realize the defects of such an authoritarian political structure, as the institution of one-man rule has plunged the nation into turmoil a number of times in modern history. They have pointed out that state power is most unstable when the whole system depends on one individual. This phenomenon accounts for the dynastic cycles of feudal China. Even now, 'rule by man' still plays an important part in state affairs, and, as before, has served as a catalyst for the regime's decline. The pattern of corruption in current regime has also been similar to all its predecessors. Its loss of legitimacy is symptomatic of a tendency towards decay, characterised by the bureaucratization of the entire state machine; rampant misconduct by local leaders in defiance of law and finally, the deepening alienation of the ruled from the ruler.

Deng Xiaoping is an acute statesman. While he cannot escape the long influence of a traditional culture centred on strong central government, he sees the need to disperse authority among China's top institutions and leaders as measures to check the abuse of power. His experience of being twice purged was bitter but, interestingly, the lesson he learned has fundamentally affected his leadership of reform. During the Cultural Revolution he fell victim to one man's rule. The state of helplessness of the party in the face of Mao's excessive personal power must have engraved itself deeply in his mind. In the meantime, as the second ranking 'capitalist roader', he was subject to persecution by the 'masses', who, in his eyes, were nothing but uncontrolled mobs. The crossing point in these up-down (Mao's pressure) and down-up (mass mobilization) struggles constituted a
point of departure for his later political judgment, as particularly magnified by his attitudes towards the students' movements in the turn of 1986 and 1987.

So, differing from other leaders in the party, he has tried, in developing political norms for the post-Mao era, to translate his dual feelings about the Cultural Revolution in regard to the party leadership on the one hand and to the people on the other into reform practice. We have two conflicting Dens. One is enlightened, as we read him in his many speeches denouncing the high concentration of power in the hands of the party and, especially, in one person. The other is a Deng with an 'iron hand' who firmly believes Dr. Sun Yat-sen's assertion that the Chinese are as disorganized as a pan of loose sand. Clearly in this double-sided Deng we can trace an important feature of China's transitional politics: the continuity of the past is deeply entangled with the efforts to bring about a new future. Such is the background of Deng's pursuit of reform and his efforts to uphold the 'four cardinal principles'.

Despite the party's acknowledgement that the current reform is a process of redistributing power, it is difficult to foresee a real sharing of power by the ruling communist party with any other social forces. Even though in the long run a partial loosening of the party's direct grip over society might be expected, particularly at the grassroots level, at present the leadership is instead preoccupied with the need to tighten control. This has been manifested by the repeated calls by the top leaders to uphold Deng's four principles. The most recent one was made in September 1988 by Zhao Ziyang in the Third Plenum of the 13th CC in the wake of renewed economic retrenchment. He pointed out that the principles were the foundation upon which the party governed China, and their core - party leadership through the organizational control of society - was the political strength of the state to turn chaos into order. The remarks did not differ from those made by Mao in the past and sent out a signal that the party was compelled to resort to more suppressive use of the state machine.

In reality, the four principles represent a basic contradiction to the general trend of political
development towards relaxation. In many respects they are products of the past, used to inhibit the growth of pluralism in social processes. Sticking to one ideology, one developmental model, one party rule and the interests of one class had resulted in a suffocation of ideas, an authoritarian power structure, poor management of the economy and conflicting social interests. Thus, the principles are at odds with the new forces generated by reform. Vested interests associated with the command political and economic system often use them as a touchstone to question whether new reforms conform to these political principles. One of the serious accusations made against the student demonstrations of 1986 and 1987 was that their actions were not constitutional because they opposed these principles which had been incorporated in the State Constitution.

Politically, these principles are conservative in nature. As indicated in the zig-zag political course during the last decade, the 1979 abolition of the Xidan democratic wall, the criticism of the play, "Bitter Love" in 1981, the drive against Spiritual Pollution in 1983 and the Anti-Bourgeois Liberalism Campaign in 1987, all have been struggles to maintain the status quo in which the party would not lose its privileges as the power holder. Moreover, it seems a rule that whenever the party meets serious challenge from society for more liberalization, the four principles are invoked to justify controls.

Dialectically, the continuity of the authoritarianism of the past served as the starting point for the current reform. The sharp severing of past and present is a job only revolution could accomplish but at the cost of more bloodshed than fundamental change. In China's case, as shown by its history, what grows out of violent revolution is usually another autocratic regime, rather than democracy. In contrast, reform provides continuity with the past because the changes are embodied in a slow evolution from past to present. Yet it also poses a genuine question: whether the reform-initiated transition can overcome through peaceful means powerful resistance from the old system. All the reform attempts in Chinese history resulted in tragedy because the forces for change were much weaker than the vested interests. Even though the reformists chose gradual and nonviolent means for change, the
old forces were always ready to use violence to suppress the reform initiatives when the contradiction between the two systems went beyond control by either camp. By now the Dengist reform has been going on for a decade but it has not broken away from this vicious circle, which engulfed every previous reform in China.

The four cardinal principles embody the past, and, thereby, effectively limit the scope and speed of change. Objectively, the restraints upon change are three-fold: an inadequately institutionalized political process, a weak legal system and a low level of economic development. These prevent the timely erection of an infrastructure in tune with fast sociopolitical change. Further, the forces against change are the powerful conservative groupings within the ruling party. First of all, continuity with the past underpins the legitimacy of the current regime. For instance, General Huang Kecheng's claim that the denial of Mao was noneother than denial of the party itself won wide support in the party at all levels, forcing reformers to reassess their stand on the issue.11 Deng and his reformers knew clearly that without due criticism of Mao's legacy, it was hard for them to embark on a new path of reform. Yet they were also aware that if they pushed too hard in this direction, they would estrange a large proportion of party and army cadres whose career advancement was closely linked with Mao's line. Conditions are still far from ripe for the Deng-Zhao group to move more decisively away from the party's traditional style of rule.

In summary, Chinese reformers have to be pragmatic, a departure from past dogmatic adherence to ideological principles. While the four principles must be continuously "upheld", they have become increasingly obscure in meaning, except on the question of party leadership. Now, at a time when the concept of productive forces is viewed as a most important criterion for truth, ideology imposes few constraints on new economic experiments.12 Yet, as their pragmatism is based at least as much on commitment to real change as on a situational evaluation of practical needs, there are definite limits to its application. When pragmatic reform policies encounter nonpragmatic issues that affect the firmness of party control, restrictions are imposed on further relaxation, resulting in
constant compromises of reform endeavours and even in the adoption of expedient methods of suppression. Under the guidance of the Dengist "cat and mice" thesis, the reform is full of stories that the party formulates contradictory and even irreconcilable policies, such as demanding more forceful political control while still emphasizing greater openness in the economy. The party's pragmatic tolerance for contradictions in dealing with social problems may allow more of a combination of socialistic and capitalistic practices. However it will by no means discard its right of suppression. Preserving the four cardinal principles, therefore, provides more room for the reformers to manoeuvre in the political space between past and present.13

1-1-1 Upholding Marxism-Leninism-Mao Zedong Thought and The "Initial Stage of Socialism"

Marxism-Leninism and Mao Zedong Thought is the official ideology of PRC. In China ideology is important in that it is both a theoretical guideline for action and a practical means of control. The second function is particularly crucial because Chinese political culture is such that most people are comfortable with only one ideology.14 In feudal times, it was Confucianism that comprised the supporting pillar to the edifice of various dynasties.15 In regard to the populace, the traditional values upheld the myth that only obedient citizens were good subjects. For the emperors, the heavenly mandate to rule was built upon this official ideological system that legitimized suppressive control in the name of arresting disorder for the common good.

The traditional value system still exerts enormous influence on China today. The Leninist party-state structure echoes the authoritarian tendency of the unitary imperial empire. Marxist ideas on class struggle fit well with a monistic belief system of egalitarianism inherited by the Chinese people. For them, class struggle was the most effective way to rob the rich to save the poor. During the long process of China's modernization since the last century, all other Western ideas such as parliamentarianism and humanitarianism failed to
find a place to take root and grow in this old soil. What made the traditional state structure superstable in the past still works to reinforce the state structure of today's 'proletarian dictatorship'.

So at the core of both the traditional Confucian ideological system and Sinicised communism is the social function of control, which provides justification for the incumbent government to exercise suppression over people's thoughts. It is believed that ideological pluralism in countries with only monolithic political structures often generates social action against the authorities. Upholding Marxism-Leninism and Mao Thought is meant, therefore, to inculcate in the masses a sense of compliance to official belief and to the regime built on that belief.

Since the Dengist reform was launched, the official ideology has undergone cycles of crisis. The illusion of an ideal communist society shining ahead turned out to be no more than soap bubbles. The suppressive side of the ideology alienated the intellectuals. In the past ideology, as a theoretical guideline for action, led the party to make one mistake after another as the dogmatic interpretation of Marxism-Leninism and Mao Zedong Thought prevailed over the rational understanding of reality. Now it has become quite clear that the future of China hinges heavily on whether the party elite can get rid of the ideological shackles upon them.

The question is, however, whether the leaders and the led likewise can afford to discard the ideology. As mentioned earlier, the core function of an ideology in China is its role of control in promoting national cohesion. Those who lead rely on it to obtain conformity from the led. Those who are led, too, rely on it as something to believe in which provides inspiration in their lives. As it takes time to erect a full-fledged, new ideological system acceptable to society, the task facing the party is to invent something new urgently from within the old, which can play both the role of make-believe for the populace and prop up the legitimacy of the regime. This is what the reformers are doing in the name of
'developing Marxism'.\textsuperscript{16} Certainly this is not an easy task. Lenin was probably right when he commented that without forceful indoctrination, ideology could not be instilled in the mind of the masses. Now the CCP leaders have fallen into a predicament. If they continue to indoctrinate people with the old ideology, which has proved to be false for many Chinese, it will hamper many of their reform initiatives, especially those that are at odds with the legacies of Marx, Lenin and Mao. Hence they do it only perfunctorily. Yet when they cease to indoctrinate, not only does the collapse of the whole ideological system accelerate, its teeth, the control function would also be diminished. As a result, the communist leadership is shaken, and its efforts to construct a new workable ideological system undermined. This is the concern behind Deng's rhetoric that the biggest mistake in the decade of reform was the neglect of education, including ideological indoctrination.\textsuperscript{17}

In the 13th Congress Report Zhao Ziyang posited the thesis of the initial stage of socialism intended to solve the problem of belief crisis. While trying to retain intact the control function of the old ideology, the thesis grafted a large dose of novel elements upon the orthodox ideology. In fact, Zhao has injected into traditional Marxism many ideas that are not Marxist at all. They include the officially sanctioned existence of a private economy alongside the public; gradual replacement of the dominant central planning with dominant market regulation and more integration of a socialist economy with world capitalist economies, to name a few.

Although Zhao justifies these non-Marxist elements in a socialist economy by citing the low level of China's productive forces, he still faces a backlash from the conservative ideologues representing the vested interests created by half a century of indoctrination with Marxism, Leninism and Mao Zedong Thought. Despite the fact that their influence in theoretical circles is waning, their advocacy can gain more currency from a large proportion of the population whose interests are adversely affected by reforms aimed at eliminating egalitarian 'common rice bowl practices'.\textsuperscript{18} In recent years the Chinese leadership has laboured diligently to fill the vacuum in belief. The leaders tried new nationalistic patriotism
and materialism. For instance, they made great use of the heroes from the Sino-Vietnam border wars to boost people's morale. The triumph of the Chinese athletes in the 1984 Olympic Games was unusually propagated as a sign of national strength regained through Dengist reform. Probably it is the imagined damaging effect to these efforts that explained the fury of some party leaders towards *The Elegy of the Yellow River*. They believed that the national nihilism embodied in the T.V. documentary would further erode the control function of the official ideology which incorporates the Confucian ideas of "loving the country is to be loyal to the ruler". As for the encouragement of materialism, the reformers promoted the 10,000 yuan household and fanned a new wave of consumption. It was their hope that through turning the eyes of the average Chinese to a more promising life flowing from the policies of relaxation that the party could restore the lost confidence of the masses. Yet, in retrospect, it is this idealistic expectation that has helped induce high inflation, an overheated economy, and a revolution of expectation. In the wake of widespread elite corruption, almost all the endeavours to promote the party's legitimacy failed to produce the desired results. Apparently, for a long time to come the reformers have to take a middle course in the ideological field as in others. While they make theoretical preparation for a workable ideological system for social change, they have to stick to the old, its nominal and practical function for a safe transition. They are aware that a vacuum of belief would lead to confusion of action, threatening social cohesion, a precondition for further reform.

1-1-2 Upholding the Socialist Road

This principle is concerned with the choice of a model for socio-economic development, which has created enormous political consequences. The socialist road is in essence the direct state control of the economy through nationalization of private property. Within this framework central planning is erected as the main mechanism for the allocation of resources and products. The conventional explanation for the advantages of the model is that, in a country with an underdeveloped economy, strong state control over limited natural resources is an effective way to ensure fast industrialization and to prevent unmanageable
polarization of wealth. Adherents of this view stated that if the state gave up forceful means to effect material redistribution during the process of modernization, it itself could be engulfed by the wealth gap between polarized social strata and the resulting social unrest. They held a somewhat oversimplified idea that KMT took the capitalist road for social change. It was unable to pass the stage of capital accumulation before the peasants were squeezed to the point of revolt. The uneven concentration of wealth in the hands of a small number of landlord-turned-capitalists impoverished the majority of the population, causing a revolution similar to many peasant uprisings of ancient China. Eventually the landlord class was wiped out and its representatives in the KMT regime went with it.

In the Maoist era the Chinese communists seemed to have solved this problem. They put all the material inputs and outputs in the hands of the state and by a rationing system kept the wealth gap a minimum. This was probably what inspired John Fairbank to say that the Chinese revolution was the "best thing that has happened to the Chinese people in many centuries." Yet the Chinese government had problems of other kinds. When they copied the Soviet model of central planning, they violated the law of self-expansion inherent in an economy. As a consequence economic growth was fairly fast but too wasteful, due to the lack of a rational system of regulation for production inputs and outputs. The necessity for efficiency and productivity was lost as there were no profit criteria determined by market values. The local and individual incentives for increased production suffocated because under the central dictatorship there were not enough rewards for producers. The structural defects inherent in the command economic system further worsened the restraints of natural resources. Although the strict rationing system alleviated the visible unevenness of material distribution among the citizens, their general backward living standards magnified the crisis of confidence in the goals of socialism. As the country was reopened to the outside world, the economic failures triggered popular challenge to the communist rule. Most of the Chinese leaders agreed to the reform of China's economic structure because they saw no solution under the old system.
There is, however, no simple answer to the problem. Efficient control must be preserved to guarantee a basically equitable share in the redistribution of wealth among a population which has a long tradition of concern not so much about inadequacy as about inequality. Against this background, state ownership of property is necessary in order for the state sector to remain dominant in the national economic structure for the time being until enough capital is accumulated for the transition towards market economy. Thus central planning has to be used to run state enterprises. Sociopolitical conditions do not allow for quick change in the economic system. Although reform has so far touched only upon the outer layer of the old economic structure, it has already generated loud cries for social fairness and equality. There is no doubt that the social fabric has been so shaken that the reformers have to give more consideration to its consequences.

Here again is a need for a middle course in reform. In developing economies, a stable socio-political environment is a precondition for sustained economic growth. And a society is stable when its members are provided with, firstly, more, and secondly, fairly equal rewards. In China's case the former requires a decentralized economic structure, better employing the invisible hand to regulate production. Yet the latter requires a strong visible hand of state control over the economy. In other words, a strong political structure is needed for effective regulation of confrontation of interests in society induced in the process of economic decentralization. However, an authoritarian regime may also deteriorate the distribution of wealth, for unchecked power spreads corruption, as seen in Marcos's Philippines. In order to reconcile these conflicting directions, unless a new economic development model can be found, the Chinese leadership has to choose either to strengthen central control at the cost of economic efficiency or, vice versa, or to relax at one time and retrench at another. The last has been exactly what the Chinese government has been doing.

Recently some academics have proposed a new model for China's economic development: a fairly decentralized economy under the tight control of a centralized political structure.23
This model has drawn inspiration from the East Asian political-economic experience. Of the 'four small dragons', namely, South Korea, Hong Kong, Singapore and Taiwan, where with the exception of Hong Kong, state power is politically authoritarian. Their tight political control with a dominant one party system has ensured a fairly stable environment for economic takeoff. Elements of social unrest such as excessive expectation of consumption and too uneven distribution of wealth are successfully curbed. A strong government is instrumental to the efficient organization and mobilization of various social forces in fulfilling its economic targets.

However, the desired elements of the NIEs can be translated into the current Chinese command economic structure only when two prerequisites are satisfied: (1) separation of the economy from political management; and (2) a change in the current mode by which the government controls society. The former requires large-scale transformation of the present ownership structure. When state ownership is still dominant in the economic structure, central planning or political management of the economy is indispensible, leaving the precondition (1) unfulfilled. Barring a decisive privatization of state enterprises, the current reform efforts are concentrating on exploring ways to distribute stocks and shares in them. However, it is doubtful that such a reform is practically implementable. There are problems such as: how a system of shares and stocks can be created in the state ownership structure - who represents the state which will own most of the shares; and other than the state, who can afford to buy the rest of the shares?

The second precondition points in the direction of bureaucratic depoliticization. As pointed out by Vogel, the bureaucracy needs to be neutralized. The state economic agencies set up in accordance with specialized management functions should be free of interference from the political party in power and their staff should be basically technical functionaries. Since the 13th Congress, the party has moved its economic management along these lines. Although political whims are still prevailing, the CCP has started a government reform program aimed at changing state economic functions from directly running the economy
through all embracing central planning to indirect macro-supervision based on market levers. The new model so envisaged is called 'the state guiding the market and the market the enterprises', designed to free micro economic activities of the interference from the party and state. To this end, government economic agencies are to be regrouped under the guideline of 'three fix-ups', exercising only macro economic control.\textsuperscript{28}

Yet following the renewed economic retrenchment launched by the Third Plenum in September of 1988, people have increasingly questioned the feasibility of such a model. In fact the readjustment of the last six months has reversed many reform policies based on marketization. The Plenum has proved farsighted a prediction, by Thomas W. Robinson in 1984, that by 1993 as bureaucratism and factionalism combine in an atmosphere of economic crisis, the likelihood of growing instability will force the party to adopt more stern, repressive measures.\textsuperscript{29} Here again the control function is the framework of upholding the socialist road, which directs the economic life line of the populace. Probably, 'Chinese characteristics with some socialism', an annotation of Deng's 'socialism with Chinese characteristics' can be regarded as the soul of this principle. "Chinese characteristics" means the state authoritarian control while "some socialism" means some economic relaxation to meet the pressure of ever-growing social demand.

1-1-3 Upholding the People's Democratic Dictatorship

Immediately after Deng Xiaoping announced the four cardinal principles, one leading academic dissident at the time, Professor Guo Luoji of Beijing University, pointedly compared them with Lin Piao's "four-never-forgets" cited at the beginning of the Cultural Revolution: never forget class struggle; never forget the proletarian dictatorship, never forget party leadership and never forget to hold high the great banner of Marxism-Leninism and Mao Zedong Thought. He was soon criticised and forced to leave Beijing. People still vividly remember that it was through these "never-forgets" that Lin helped extend the Cultural Revolution to the point of national persecution. Unlike Deng, who emphasizes
party leadership most in his four cardinal principles, Lin gave more prominence to proletarian dictatorship as he drew power basically from the PLA, the control machine based on naked force.

Some two decades later, when the concept of class struggle had long been put aside, the people's democratic dictatorship was again gaining currency. At the height of the 1986-1987 student demonstrations, one *Red Flag* commentary had this to say:

Upholding the party leadership, the socialist road, and Marxism-Leninism and Mao Zedong Thought should all be safeguarded and guaranteed by upholding the proletarian dictatorship. But for a time we have not given much emphasis to it. In some localities the means of people's dictatorship have not been forcefully used.....Some of our comrades once again demonstrated unnecessary softness in dealing with the upsurge of bourgeois liberalism. Some even took a *laissez-faire* attitude. Consequently, good people did not receive support they deserved while the bad elements became swollen with arrogance. A small handful of people incited the students to stir up troubles with their wrong and even reactionary rhetorics. This is a grave lesson.\(^3\)

People were astonished when they read the article which sounded like the days of the Cultural Revolution. Although these threatening remarks expressed the ideas of only a small percentage of party leaders and seldom appeared again after the 13th Congress, they did convince many people of what the dictatorship was capable of doing. Despite the general trend towards further relaxation, the state machine can quickly mobilize repressive forces regardless who is in control, conservatives or otherwise.

To many Chinese people, particularly those holding dissenting views, the dictatorship hangs above their heads like a sword that can drop at any time. First of all, there is a fundamental contradiction in its terminology: how can the ward 'democratic' go together with 'dictatorship'? Dictatorship means oppressive control of people's thought, movement and everyday life. In all non-democratic countries, dictatorship based on the extensive use of the military, police and law enforcements by the ruling class represents the core of the political system. In China, apart from the nominal state machinery of control, the dictatorship consists of another formidable form of suppression, namely, the mass
mobilization and political campaigns. During the Cultural Revolution, the masses were manipulated to carry out the struggles against the so-called enemies of the party. A large number of arrests and detentions was made by 'the masses' organizations. In a sense it was really a dictatorship exercised by some people against others. More often than not, having people against people was much more useful than using the naked forces such as the PLA. Even long after the Cultural Revolution, this "magic weapon" was still wielded from time to time in the successive political campaigns, greatly disrupting the efforts to establish a sound legal system. While the West world was shocked by the informants who reported their fugitive relatives to the regime, the ordinary Chinese have long become numb because they had seen so many of them in the mass movements.

Political campaign is another basic ingredient of the people's democratic dictatorship. Since 1949 more than a dazén campaigns have been launched to purge dissidents in and outside the party. They combined the "strength" of both the "masses' fists" and the party's organizational control and made the process a red terror. It was through the coercive indoctrination in the mass education sessions and "inner party life meetings" that enormous invisible but ubiquitous pressure was exerted on the population. The latest example was the purge of Hu Yaobang in the "inner party life meetings" of the politburo. Immediately after Hu's resignation the campaign against bourgeois liberalization was extended to all over the country. Many local party secretaries seized the opportunity to label those they did not like bourgeois liberals as the revenge on reformers. This serves as the major reason why the Chinese people are so fearful about political study sessions, needless to say campaigns. In these meetings one's entire career development may be ruined. The people's dictatorship in form of mass mobilization and political campaigns, together with other forces of state machinery, constitutes the foundation of the people's democratic dictatorship and the communist regime.

Today there is no doubt that social atmosphere has been largely relaxed. The Cultural Revolution song: "East wind is blowing and the drama for action is hit. Now no body in
this world is afraid of anybody else" has become popular again to reflect the new relationship between the regime and the rank and file. This basically points to the reduction of oppression operated by the 'masses' dictatorship. With the general mood of relaxation among people, political study sessions have gradually lost their forcibility. In the name of promoting a fully fledged legal system, it has become difficult for the regime to employ those methods of suppression it was previously so inclined to use, unless as the last resort at times of crisis.

In recent years since 1987, factors of social unrest have multiplied. Indeed a crisis looms large ahead. Loss of control over the rank and file through 'the masses dictatorship' has brought about an anarchic situation at the grassroots. As a result many elements hostile to the CCP believe that the time has never been better to take action. Economic difficulties in the form of high inflation caused by market failures have aligned different social sectors which would otherwise be separated by their different political pursuits.31 Not since the Cultural Revolution have the leaders been so concerned about possible social turmoil. The social problems have reached the point where the authorities have felt obliged to order standby surveillance over events. The apparatus of the dictatorship is ready for oppression that will turn the relaxation process of reform to more strict control.32 The prompt imposition of martial law in Tibet has proved true the suspicion that every major city in China has a contingent plan for exercising martial law. Nevertheless, this has posed a serious challenge to both the party and the people that, while 'the masses dictatorship', still the milder way of control versus the outright use of the military, has become less effectiveness, the call for the use of naked forces will become inevitable, causing even more violent and, thus, unpopular consequences.

1-1-4 Upholding Party Leadership

Deng Xiaoping stated several times that the core of the four cardinal principles was the principle of party leadership:
Without the Communist Party of China, who would organize the socialist economy, politics and military affairs, and who would organize the four modernizations?33

This leadership may spell out the nature of how the party-state is run. In the last four decades it has been through the party's antenna that ideological indoctrination is conducted, the people's democratic dictatorship reinforced and state control of economic development exercised. At no time throughout Chinese history did state power have so complete a grip on the population. For instance, no regime before the PRC set up permanent governments below the county level. This meant that before 1949 the grassroots could still have some autonomy over their own life.34 Of course, the fairly loose state governance at the grassroots then, created other vices, such as the emergence of a cruel local gentry. In China the basic units party committees, albeit theoretically not a level of government body, have had the power to intrude into every aspect of people's activities. In fact they not only served as the basis from which the Maoist mass mobilizations were generated, but filled the gap in control that nominal state power would not normally reach.

It is the CCP's organizational control that has carried politics into all spheres of social life, making the regime authoritarian.35 In the short run, penetration of party control might be necessary to inhibit elements hostile to the regime. This practice was reminiscent of bloody suppression of all the previous dynasties in their early days. The control, however, created new dissidents. As manifested in other non-democratic countries, the tighter the state control, the bigger the potential for anti-government sentiments and thus the deeper the roots of social crisis in the longer term. The CCP is confronted with a crucial choice: whether to loosen control to ease tension between the rulers and the ruled or tighten control to prevent a possible crisis from coming to the surface?

It has become increasingly clear that in a highly centralized political structure characterized by inefficient outside checks and balances, the enormous power the party is holding now will sooner or later transcend its ability to manage its own body, especially at the peripheries. Self decay is inevitable. Since the late 1970's, the acceleration of power
localization and corruption at the grassroots and medium levels has been alarming. Power localization is a hotbed of corruption where, on the basis of a lack of horizontal checks and balances of local power, vertical mechanisms of control are also greatly weakened in the process of devolution-oriented-reform. The situation in which the traditional conflicts between "tiao-tiao" and "kuai-kuai" exacerbate reminds people of the national disintegration which emerges whenever the rise of local power paves the way for warlords as the centre loses authority. The alienation of the populace from the party in power is more evident, forcing the leadership to ruminate seriously on its consequences.

The party proposed political reform to cope with this phenomenon. However, the leadership immediately found itself confronted with many dilemmas. As Zhao acknowledged, China's political reform was in essence a process of redistribution of power, or in other words changing relations between the party and the state and the people. If the party is to further relax its control over society, then it is likely that resulting changes in the social structure will always outpace the changes in the political, economic and ideological structures. Given the fact that China lacks an adequate legal system and due to relaxed party organizational control, tensions between the various social forces presenting pluralistic political and economic demands may shake the foundations of the PRC, upon which social order has been erected. The conflicts between old and new vested interests dictate a strong leadership to lead the process of transition. This constitutes an obstacle to meaningful political reform.

The party has realized that some removal of the power accorded to its lower branches would help slow down the localization of power and, as a corollary, the tendency to corruption and decay. It is certainly in the interests of the party to exercise long-term rule. Probably this recognition underscores the soul of political reform: the party exercising political leadership and separation of party and government functions. Yet if the top leadership really pushes the reform in earnest, it will estrange its own cadres upon whom the party relies for control over society. Resistance from local party elites to thoroughgoing
political reform will make even the most liberal party leaders balk at the unpredictable consequences. Too much would be at stake. Determined reforms might only paralyse a great deal of the state machine.

So the party is facing a vicious choice: 'to be or not to be'. Political reform is designed to reduce excessive state control over society. Relaxation of control may, however, breed tensions between different social forces and the party. Tensions may herald social unrest, compelling party leaders to tighten control again. The process of recontrol will let party cadres at all levels acquire more power, quickening power localization, corruption and self decay. This vicious circle explains well the situation in which political reform has long been talked about rather than practiced.

Partial political reform would produce less satisfactory changes in the party leadership. For instance, the question of how to make a revolutionary party grown strong on the battlefield adapt to the changed conditions of peaceful construction remains unexpectedly difficult to resolve. Since the Third Plenum of 1978, reform-minded leaders have tried to solve this question by recruiting a large contingent of professional elites into the party. They seem to believe that as long as the party is still composed largely of uneducated peasants-turned-revolutionaries, the transition of the CCP's mission in the post-revolution period will never be accomplished. Improvement of the party style of work would then become empty rhetoric. As Mao before them, Deng and his followers have brought an end to the debate of "red or expert" by arbitrary orders, only the result is the other way round. Since the reform the party under Deng-Hu-Zhao has made great strides in elevating intellectuals to lead party units at all levels. Membership of party committees has undergone sweeping change due to pressure from above to induct educated cadres. Secretaries above county level must now have university training. As far as state enterprises are concerned, party secretaries have been relieved of managerial power. According to "The Enterprises Law", party control through ideological indoctrination, mass mobilization and personnel appointment should be superseded by the managers' administration. The progress in
separating party and enterprise functions has been impressive in state factories. Yet within the framework of the existing political system in which one-man rule is the norm, more experts have not improved party leadership. The past pattern of corruption, bureaucracy and arbitrariness remains almost intact, if not worse. The experts are first of all "red experts" and hold vested interests in political power. This fact is counter to the prediction of Richard Lowenthal's model that, in the course of post-revolutionary political change:

- victory of the experts leads, in one form or another, to a major change in the party's composition, and hence in its outlook;.... the ultimate disappearance of revolutionary dynamism leads to a critical change in party's image of its role in the society and therefore to a crisis in its political legitimation.

The fact that changes in the composition of the party leadership have not effected a change in the CCP's outlook and perceptions about its role in society may be due to a time lag, as changing a party's outlook is a long process involving generational factors. Actually, there is some change in the CCP's attitude towards party-society relations, as indicated in the call for the party to exercise only political leadership at its 13th Congress. The difficulty in carrying out such a change arises from resistance from many party leaders, expert or otherwise. The key obstacle impeding the anticipated change lies more in the party's determination to hold on to power rather than simply change the composition of its membership by adding more experts. Unless the ruling party is willing to let go of its monopoly of political power, no substantial change will take place. The Soviet leadership provides with us a good example in point. Although it consists overwhelmingly of 'technocrats', there has been little change in its nature as a party-state.

The ultimate way out of the present predicament might, however, still lie in the continuation of political reforms whose goal is to institutionalize political power. Before an efficient system of external checks and balances, such as an opposition party or a free media, can be erected, political reform must nurture some limited internal control over abuses of power. In a sense the Cultural Revolution was a violent, revolutionary method Mao used to do
away with the political corruption of the 1950s and 60's. It failed because it did not help the institutionalization of power. The mass mobilizations only worsened abuses of power, particularly in the later years of the Maoist era. As mentioned earlier, Deng's political reform is again risky in that its targets are also those in power within the party, and as such is analogous to the Cultural Revolution. The difference in method - its moderate way of unfolding, is mainly through a policy of buying off those affected. As a result, it entails an agonizingly long process of implementation. Deng's emphasis on party leadership in the process of political reform meant an orderly transition, but one subject to limitations. The question posited is that as the institutionalization of political power is long and slow, can the party establish in time a workable political structure to hold back its self decay before the whole regime is brought down?

In summary the cardinal principles and reform program represent two conflicting directions within the dialectic whole of China's post-Mao politics. Strong central control is dictated by the objective need for an orderly transition as the society is faced with unexpected events, and subjectively, it reflects the expedient consideration of the reform leaders to appease the vested interests associated with the past, particularly in the ideological, central economic and military fields. Reform is intended to serve as a bridge taking China into the future. It is through the reform process that the four cardinal principles have been stripped of most of their ideological content. As reform deepens, this symbol of the past will be increasingly reduced to functioning like a brake adjusting the pace of reform. Certainly the party will keep much of its suppressive power. It can be expected to be wielded with more force when the leadership perceives an eminent crisis. Throughout the long transition period crisis situations will recur, accompanying the intra-party debate over whether more control or more relaxation is needed. The Chinese people will have to accept such an environment well into the next century.

1-2. Neo-Factionalism and the Politics of Compromise
Factionalism is a phenomenon of party politics:

The word faction is used frequently in the general sense of internal factions of an organization or group. And textbooks refer to factions in policy disputes, in party politics,...the word mostly connotes political competition and conflict.40

In the CCP factions are not given legitimacy, as the values attached to the concept of factionalism negate democratic centralism, the organizational principle of a Leninist party. Peng Zhen once feverishly denied the existence of any factions in the CCP leadership. He said all the comrades in the party belonged to one faction of Marxism.41 Chen Yun, however, while strongly opposing factionalism, as seen from his many talks about the Cultural Revolution, has encouraged different opinions in regard to the mainstream policy lines in the party. As these opinions often cluster party leaders in different groupings, at least informal groupings are evident in the leadership. The difference between a faction and an informal grouping lies in whether or not they are cohesive and structurally coherent. Informal groupings are more fluid, with the participants changing constantly.42 In the CCP while factions have been severely suppressed, informal groupings have been active throughout party history, largely due to the difficulty of wiping out all different opinions. Therefore at times informal groupings strongly resemble factions and their activities are intimately linked to all of the important political processes.

The factional model has been widely applied to the study of the CCP's development.43 Historically, during the long years of struggle for political power, the CCP as a rebellious force, had been restricted by more powerful enemies to small revolutionary bases, which later provided the organizational framework for fairly cohesive groups with shared political objectives. For instance, political interplay between the field armies always had weight in intra party struggles.44 At the top of the CCP, different opinion groupings often formed, reflecting similar educational backgrounds, work experience, institutional networks, and original home localities. The returned students from the Soviet Union in the early 1930s were organized into a truly structured faction that had profound consequences for party history. The complicated formation of 'mountains' that went hand in hand with
the evolution of the party inspired Mao to make a generalization about party factional politics: It was an imperial idea that there were no factions within the party. And Mao viewed the factional phenomenon inside a party as the cellular equivalents in the body of a person. One of his famous remarks about permanent revolution was that "wherever there exist people, they are people of the left, middle-of-the-roaders and right; It will still be so even after ten thousands of years." Struggle is, therefore, inevitable. Harmony is only transitory.

Hence the word "faction" becomes almost identical in meaning with that of power struggle. The cruelty of wartime inflicted harshness into intra party struggles. A triumph or defeat over one particular policy line might decide the survival or elimination of the CCP. Moreover, control over a policy line was decided by factional strength and the struggle for policy dominance was interwoven with the struggle for factional dominance of the party, further intensifying the cruelty of inner-party struggles. A tradition developed that leaders of defeated groups were not only to be eliminated organizationally, but physically as well. Harrison Salisbury expressed difficulty in imagining how the Red Army could survive the Long March when the party was subject to attack by a powerful enemy from outside and at the same time to a fatal power struggle from within.45

The antagonistic nature of the intra party struggle was carried on into the period of peaceful construction. Among the so-called 'ten big line struggles', four were fought after 1949. Each claimed a large number of victims who did not fall in battle with the class enemy but in the struggle sessions with their own comrades. The Cultural Revolution pushed this pattern of intra-party struggle to a climax and then finally to a new direction. The post-Mao leaders have conducted their policy disputes in a manner clearly different from previous times. The strife still involves the rise and fall of party leaders. For those who have to go, like Hu Yaoyang, it resembles past purges, as far as their emotional feelings are concerned. However, they do not need to worry about vicious political persecution. Indeed they even retain some nonsubstantial jobs.46 This benevolent treatment of defeated leaders has proved
to be a watershed for intra party strife in the post-Mao era. The best example is embodied in General Huang Kecheng's evaluation of Lin Biao. He told writers of the *Military Encyclopaedia* that Lin Biao should be regarded as one of the brilliant generals of the PLA, who contributed a great deal to the revolutionary war leading to the communist takeover of the country. As for his crimes of being "anti-Mao" in the past, apart from his "9.13" treason, Huang viewed them as normal proposals advanced to a party leader. He said others did the same. If these things were not written into their accounts, it was not fair to list them in Lin's.47 It would be virtually inconceivable for anyone to air comments like these about an 'enemy of the party' had the factional strife not become milder after Mao.

Despite the fact that the intra party political process has become more tolerant, the policy disputes still generate different opinion groupings whose interactions can be fierce over certain key issues. Yet a set of rules has appeared governing dispute management. It is distinctive for its emphasis on compromise rather the victory of one view over another by antagonistic confrontation. This change has its historical and personal roots in the horrible experience that most of the powerful party elders went through during the Cultural Revolution. The enormous damage done to the party and to their own personal lives by the line struggle convinced them that uncompromising factional strife, be it for policy domination or simply for more power, could only destroy the rule of the party, upon which hinged their vested interests. The populace have already become fed up with so many inner party struggles that have adversely affected their life. The bitterness of past struggles among the leaders and their unacceptability by the people have greatly reduced the room for factional activities aimed at achieving hegemony by one group over the leadership. Numerous genuine efforts have been made to codify inner party life. At last the past-Mao leadership has endeavoured to establish some structural barriers from the within to prevent any leader from possessing overwhelming power that would allow another Maoist domination of the party.48

The current structure of the distribution of power seems to rule out the possibility of a
paramount leader like Mao who could force obedience from the leaders of all the groups in the CCP. Deng is the most powerful leader of China today, but his power base is not as big as many people supposed. Before the Cultural Revolution, unlike Liu Shaoqi and Zhou Enlai, he did not have an independent power base in the party apparatus or the State Council. He had been basically the top executive of Mao’s faction since he came to the party centre from Sichuan until he was caught in the policy disagreement between Mao and Liu. That he did not get along well with either Liu or Zhou helped him in his first rehabilitation in 1973. In the post-Mao era he became the dominant figure only after he first aligned himself with Chen Yun to oust Hua; then groomed Hu and Zhao to take over the party and government administrations; and lastly, placed generals from his second field army in most key military posts. It took him a fairly long time to form a Deng-Hu-Zhao majority group in the leadership.

Yet it is clear that he is not the only person whose voice carries weight. There are other people capable of exerting enormous counter-weight to Deng’s, which underlines his persistent efforts to keep a balance between the right and the left throughout the decade of reform. Chen Yun’s power base in the central economic and financial control system is one example. Peng Zhen, who took over most of Liu Shaoqi’s followers from "the white area underground party", is another balancer. Even in the PLA resistance to Deng’s discriminatory promotion of cadres from the second field army has been easily felt throughout his command of the military. Then there are also old revolutionaries, such as Zhou’s widow Deng Yingzhao, the two living marshals Nie Rongzhen and Xu Xianqian who do not agree with a number of Deng’s policy advances. Some important party figures like Wang Zhen, Bo Yibo, Yang Shangkun and Zhang Aiping all have an independent role to play in elite politics. Unless there is a crisis, their attitudes are neither concerted, nor clear-cut. The leaders in the ideological and propaganda institutions, represented by Hu Qiaomu and Deng Liqun, are still active. Considering their long tradition of being 'left', and the status that a communist party usually accords to ideology, their potential to be an effective opposition cannot be slighted. These are all informal groupings within the current
leadership that complicate the political process at the very top. To the extent that they all represent the vested interests of the past, they fit well Stephen Cohen's definition of conservatism:

The pivot of conservatism is...a deep reverence for the past; a sentimental defense of existing institutions, routines, and orthodoxies that live on from the past; and an abiding fear of change as the harbinger of disorder and of a future that will be worse than the present as well as a sacrilege of the past. Political conservatism is often little more than the sum total of inertial habit, and vested interests. In fact each of the groupings mentioned above possesses some of the elements listed in the definition. The main flavor was best reflected in Chen Yun's exhortation to the new party leaders elected by the Thirteenth Congress: It is not easy for us to achieve the victory of the revolution. You all have heavy responsibility to see their fruit well preserved.

So on the one hand we have the Deng-Zhao majoritarian group in the top leadership leading the mainstream policy lines which are at present reform-oriented. On the other hand the other various informal groupings formed either through personal connections, or institutional interests or similar opinions on certain issues, play no less a significant role in the political process. What should be pointed out is the fact that although the reformist group has a majority position in the party centre, reformers on the whole are in minority in the CCP because their pursuits have been at odds with most of vested interests which embrace a large membership of the party. At the top Deng's authority has been crucial to the maintenance of the fragile balance. Generally speaking, interaction between reformers led by Deng and other groupings representing a large contingent of party members constitutes the framework of post-Mao CCP politics. As for the nature of their interplays, much of the Western and Hong Kong media has suggested a factional struggle for power between the reformers and conservatives. More serious scholars such as Harry Harding used the term 'radical and moderate reformers'. The former view is too simplistic, as pointed by David Bachman:

Seeing Chinese politics in terms of a bipolar split between reformers and conservatives is fundamentally misleading for a variety of reasons. Simply put, in the context of contemporary Chinese politics, the term conservative' is so
ambiguous and encompasses so many different phenomena that it almost defies definition. To be sure, there are those opposed to some kinds of changes now taking place in China. Sometimes people have slowed the pace of advance, and removed top ranking leaders from office. Nonetheless, Chinese politics in recent years generally has not been characterized by a polarization of the political process. Through careful coalition management, reform-mongering, etc., reform leaders have been able to prevent a conservative opposition from coalescing.55

If the struggle for power between the reformers and conservatives was the true feature of China's post-Mao politics, its pattern of strife would sooner or later involve both sides in an antagonistic confrontation. To be sure, such a possibility indeed exists as the deepening reform process may cause major redistribution of power and confrontation between the two camps. But both sides have tried hard to refrain from such a showdown. Efforts to avoid a political split have been basically successful.

Harding's description is closer to reality. The term 'moderate' carries connotation of a degree of conservatism versus the term 'radical'. Yet the fact that both camps consent to a broad reform program points to common ground and a capacity for accommodating each other to avoid antagonism. This provides also the basis for the politics of consensus, even though each side often has to adjust its policy agenda to go along with the other. After all, most party leaders have agreed that reform of past leftist policies is the only perceivable way for them to remain in power.56 As some of the leaders are more committed to reform than others, even this cluster of reformers has not yet displayed the solid cohesion of a well structured faction. The major reform contingents, such as Hu's Youth League group and Zhao's State Council think-tanks, all have their own vested interests. The interplays of power within the majority group also tend to be elusive. But there is a general harmony of opinions and attitudes on the course to be taken. The same can be said of the minority groupings, as no leaders in these groupings stand outright against Deng's second revolution. Barring a dramatic event such as the one that triggered the Hu Yaobang incident, the structural framework of opposition tends to be loose. At the moment the key to cooperation between the different groupings lies in whether they are able to reach a broadly agreed agenda.
As mentioned earlier, the strife between the Deng-Zhao majoritarian group and the various other informal groupings represent the core of CCP politics today. Deng and Zhao have spearheaded reform and been able to have it accepted by the party despite increasingly evident resistance from the party elders and rank and file. It has been powerful enough to carry out most of its reform programs so far, although many of these constitute just peripheral surgery on the system. This is the main reason why Deng's reforms have visibly changed the outlook of the country. Yet this group is not so powerful as to subdue the resistance of other groupings to certain reform policies. Sometimes the Deng-Zhao group retreats from their announced programs when it finds that their implementation will put too many people at stake. Sometimes the group even stands with the minority groupings to delay certain main thrusts of reform when resistance mounts to an unmanageable level. The complex political manoeuvring is conducted to prevent the development of an alliance of minority groupings strong enough to turn its back upon the entire reform.57

So the Deng-Zhao group, while trying to consolidate a lasting leading position, has to adopt a somewhat tolerant and cooperative stance towards other groupings in the leadership. The situation is close to Andrew Nathan's description:

One faction may for the moment enjoy somewhat greater power than rival factions, but this power will not so much greater that the victorious faction is capable of expunging its rivals and assuring permanent dominance.57

The strength of minority groupings lies in personal factors as well as in the structural make-up of the Leninist political system. Many people in these groupings are revered revolutionary leaders. They have had a legendary career which still attracts cult status from ordinary people. Over long years in office they have also built up a huge network of personal followers who now lead many important power institutions. Some of these leaders like Chen Yun and Peng Zhen have more seniority than Deng; others at least compare with him. Moreover, their reservation against reform may arouse a sympathetic response from middle-level and grassroots cadres, who would likely fall victim with reforms such as the separation of party and government functions.
Most of the minority groupings represent the powerful central institutions which are inherently hostile to reforms favouring decentralization. Even if the Deng-Zhao group can place reform-minded leaders in these institutions, the very nature of the institutions as state organs of control may transform such leaders' attitudes towards reform as they must move to protect their own institutional interests. A classic example is Qiao Shi. These interests are now mostly represented by the central government economic and financial agencies, party ideological and propaganda departments, the state security apparatus and a large section of the military. They are powerful in that they are indispensable parts of the state machinery of control. They resist reform initiatives because relaxation of the state's control over the economy and social life contradicts their institutional doctrines and traditions. Here the reformers encounter difficulties. While relaxing the previous party control based on organizational penetration, they have to rely on these institutions to cope with the unwanted side effects of the social unrest. While pushing reform forward to boost economic growth, they must use these institutions to handle the undesirable result that fast growth gives rise to, such as an unacceptable level of gap in the distribution of wealth. The reformers, therefore, often bent to the demands of these institutions, usually in the form of policy concessions, reserving leading posts for old leaders and removing people in state agencies who are too reform-minded. The contradiction is obvious.

The slow progress in political reform testifies to the predicament of the reformers. In 1987 Deng gave prominence to political reform centred on separating party and government offices as the order of the day. As of 1989, the whole enterprise was reduced to improvement of the CCP's ties with other satellite parties, a sign of the reform's demise.59 Ironically, it is reformers' compromise that has reduced the possibility for the formation of a conservative coalition. It might be that the reformers would like to concentrate on economic reform before tackling political reform, in order to circumvent strong resistance to their ambitious goals.60 Yet, with corruption inside the party and outcry for democracy from society increasing in magnitude, Deng and Zhao will find it more and more difficult to shelve political reform so as to obtain the conservatives' concession for economic reform.
Towards the end of 1988 minority groupings in the leadership seemed to orbit increasingly around the central economic and financial interests under the banner of Chen-Li-Yao. This is mainly because Li Peng and Yao Yilin are the highest party leaders still in first-line posts. With the backing of Chen Yun, who was persuaded by the other party elders to remain as Chairman of the Central Party Advisory Commission, (an obvious check on Deng) Li and Yao will be the leaders of the second generation of minority groupings in the party holding in check the second generation of the majority group represented by Zhao. Since the reformers stepped up control over areas such as ideology and propaganda, the state security and military, the State Council charged with economic affairs has become the front-line stronghold for all the minority groupings.

This is not to suggest that Li Peng and Yao Yilin oppose reform. They also see the need for limited reform. Nonetheless, they have been against reforms in the direction of decentralization as pursued by Zhao. It might be that in the years to come, the more deeply the reform evolves, the more closely the minority groupings in the party and government will unite with the central economic and financial interests. In the long process of economic reform, the policy disagreement between the two camps in designing the final goal and each concrete step for reform has been crystallised in conflicts of interests between the centre, provinces and grassroots. The reformers have placed more hope for China's economic development on the play of market forces. They regard devolution as a necessity to encourage local incentives. The planners on the other end of the political spectrum see a healthy economy in terms of efficiently vertical control. They firmly believe that as soon as planning falls apart, disorder will emerge. Unless the reformers can prove that market mechanisms can work well in China's socialist economy, the planners will always be able to exert pressure on the course of reform. As the reformers cannot, and as they are not ready to engage in a more decisive battle with the central planners to resolve the debate, the central economic and financial interests will likely preserve a great deal of power in the economic management. The Third Plenum of the 13th CC held in September 1988 has indeed paved the way for them to wage a comeback.
One outcome from these circumstances would be the continuation of policy oscillations. The political pendulum will swing through cycles of consensus formulation to its decline. Reviewing the evolution of economic reform, the cycles of reforming the reforms are quite distinguishable. It started with a crisis situation where the economy, particularly in agriculture was moving towards the brink of collapse. Leaders felt the urgency for reform though they still did not have any clear idea as to its direction. In the course of reform, differences in the top leadership came to light over what further steps needed to be taken. This involved the leaders in a de facto factional alignment along the lines of common interests. The actual events, taking high inflation in 1980 for example, intensified the policy divergencies and precipitated a new crisis situation. Not only economic and other problems called for immediate solution, but also a possible leadership split required patching up. It was a time for all involved to compromise for the building up of a new consensus to cope with the crisis. A retrenchment program was the result. However, the cycle of consensus building does not circle back to the original place. It has been moving forward towards the goals of the reformers, although it always stops short of the targets.

Moving two steps forward and then one step back has been the course of economic reform in the last decade. The first economic readjustment between 1980 and 1983 was initiated shortly after the reform program began, in the wake of serious economic disorder caused by the Hua-Deng Western leap forward.\(^6\) It delayed urban economic reform for four years. Then hardly a full year was over, after the industrial reform was put on track, when another retrenchment was launched at the turn of 1985 and 1986 due to the loss of central macro control over the economy. This time it blocked the price reforms deemed essential for a workable market system. Zhao Ziyang's call for opening up the entire Chinese coast line to the international economy in early 1988 injected new vigour into economic reform. Only half a year later the Third Plenum of the 13th CC initiated a general retreat from the loudly pronounced goal of economic reform. Although its implications are still difficult to assess at this stage, there is no doubt that it will roll back years of reform in the direction of
marketization of the command economic structure. With no exception, each of these cycles of reform and retrenchment was driven by a cycle of consensus-policy divergence - new consensus in the face of grave economic problems. Each of the cycles involved a process of recentralizing what had been decentralized, indicating the rise and fall of the power of local interests versus the central planners.

Politically speaking, each of these policy swings constituted a test of strength among different groupings in the leadership. In the process the change of policy orientation provided new opportunities to mobilize political resources, recruit new members and consolidate the gains. This process of consensus building and decline does bear aspects of a struggle for power and thus serves as the fuse for a new crisis.

The post-Mao party leadership has tried to codify the new rules as much as they can. And they have made some progress in institutionalizing the interplay of political power. As differences among leaders arise more often than not because of structural defects rooted in the Leninist principle of party leadership, the question is really how to effect a qualitative change sufficient to channel the brunt of policy disagreement through normalized procedures of leadership? Political reform in the realm of leadership structure proposed by the 13th Congress was designed to address this concern. But a near standstill in the reform following the Congress indicates that there is a long way to go before any real change can be attained in the present political system. Moreover, the necessity for a recentralization of power to carry out the new austerity policies decided by the Third Plenum of September 1988 casts further doubt on the practicability of political reform in a Leninist party state. In the Chinese situation one often wonders whether the gradual growth of new political elements within the ruling class, namely, the democratic forces, can become powerful enough to wage a real challenge to the old. In other words, it is difficult to imagine that the vested interests rooted in the party state would allow the liberal forces to grow that strong through the process of reform. Change and the limitations to change often entail irreconcilable struggles and constitute the dominant theme of these times.
Notes


2. In the countryside, for example, after ten years of reform contract relations between the state and the peasants have superseded authority relations as the principle method of managing the rural economy at the grassroots level. With the farmers having more say to their economic well-being, their political voices also carry increased weight. See for instance Gordon White, "Political Aspects of Rural Economic Reform in China" in *IDS Bulletin*, Vol. 18, No. 3, 1987, Institute of Development Studies, Sussex, pp. 55-61.

3. Even some of the most enthusiastic reform theorists hold that "the concept of the socialist economic system must be strictly distinguished from that of the socialist economic structure." See Yu Guangyuan, "The Socialist Reform in Terms of World and Chinese History", *Social Sciences in China*, Vol. VI, No. 3, September, 1985, p. 26. So the reform effects changes only in the realm of the operational structure of a system instead of the system itself. Yet the experiences of Chinese reform prove that structural changes can lead to a systemic one if the leaders are really willing to follow their logic. Yet it is doubtful if they really are when the redistribution of power put at stake their vested interests as reform deepens. The likely fate for the reform would be a tug of war between change and the status quo.


5. The four cardinal principles: upholding 1, the socialist road; 2, the people's democratic dictatorship; 3, the leadership of the Chinese Communist party and 4, Marxism-Leninism and Mao Zedong Thought.


10. See four commentary articles in *Red Flag* from No. 2 to No. 5, 1987, "On Upholding the People's Democratic Dictatorship", "On Upholding the Party's Leadership", "On
Upholding the Socialist Road", and "On Upholding Marxism-Leninism and Mao Zedong Thought". In the first article "On Upholding the People's Democratic Dictatorship", there are a few sentences which are particularly strong: "Those who were against the four cardinal principles by putting on big and small character posters, disseminating pamphlets and making public speeches and, therefore, violating the criminal codes should be punished in accordance with the Criminal Law, and those opposing the State Constitution and laws in participating the street demonstrations must be dealt with penalties,..."


12. Zhao Ziyang reiterated time and again that at the stage of the initial socialism, the most important task of the communist party in power was developing productive forces. Anything contributing to this should be considered as correct. See, for instance, Zhao's Political Report to the 13th Congress


15 See Jin Guangtao and Liu Qinfeng, "Contemplation of History". They argue that the Confucian ideology was one of the three subsystems that made the Chinese feudal control structure superstable. The other two subsystems are the feudal landlord economy - the economic basis and a bureaucratic state machine - the management of the empire. It was published by The Youth Tribune in 1980 in a book named after the article but stopped from distribution soon after it came out.

16. There have been a large number of articles on developing Marxism since 1978. The earliest one was written by Deng Xiaoping "On the Four Cardinal Principles" in which he says: "We will not, of course, backtrack from scientific socialism to utopian socialism, nor will we allow Marxism to remain arrested at the level of the particular theses arrived as long as a century ago."Selected Works of Deng Xiaoping., Beijing: Foreign Language Press, 1984, p. 187.


18. An unpublished survey carried by Chinese Youth in 1988 revealed that 80% of the interviewees expressed their reservations about reform policies that brought about an irrational social structure of interests characterized by a small number of people going rich at the expense of the majority.

20. Interviews with Chinese scholars in the Chinese Academy of Social Sciences and some universities during my field work in Beijing in 1988.


25. Deng Xiaoping, Zhao Ziyang and Li Peng have reiterated many times that China will not privatize its economy. The recent remarks about the future of China's state enterprises were made by Zhao when he received an American publisher on September 6, 1988. He pointed out that China would preserve the dominance of the public ownership but the contents of it would be changed. He considered that conditions had been ripe for the state enterprises to become share and stock companies.*People's Daily*, September 7, 1988, p.1.


28. The new model 'the state guiding the market and the market the enterprises' is supposed to deal with the three entities in the economic structure: the enterprises, market and government. In this model the state will use more macroeconomic levers to regulate the movement of the market instead of exercising direct control over the producers. More markets will be opened such as markets of labourers, most raw materials, technology and funds. Under the state influence they will lead enterprises to compete in the market. As for enterprises the main objective is to improve their behaviour in market competition. Their
operation track will be enterprises-market-enterprises versus the state planning-enterprises-
the state planning.

Johnson, George Rachard & Alfred D. Wilhelm (eds.) *China Policy For the Next Decade:
33. Deng Xiaoping, "Upholding Four Cardinal Principles", *Selected Works of Deng
34. See Cheng Xichao, *Chinese Local Governments*, Hong Kong: Hong Kong Branch of
35. See Tang Tsou: "Revolution, Reintegration & Crisis in Communist China", Tang
Tsou, *The Cultural Revolution and Post-Mao reform*, Chicago: The University of
36. By power localization I mean the entrenched power relations around certain local strong
men. They are either local party secretaries at the village, township and sometimes, the
county levels or money elites (borrowing a term from Anita Chen, "The Challenge to
emerge from the relaxed reform policies and bribe their way into the local power network.
38. Quoted in Charles Burton,"China's Post-Mao Tradition: The Role of the Party and
39. See Deng Xiaoping, "Some Ideas on the Reform of the Political Structuring",
158-160.
40. See Dennis Beller & Frank Belloni (eds.) *The Studies of Factions in Faction Politics:
Political Parties and Factionalism in Comparative Perspective*, New York: Peter H. Merkl,
1975, p. 3.
41. Peng Zheng's television interview during 1987 session of the NPC. The details were
not published by the Chinese newspapers but widely disseminated outside China.
42. Dennis Beller & Frank Belloni op. cit. p.3.
43. See, for instance, Andrew J. Nathan, "A Factional Model for CCP Politics" *China
Quarterly* No. 53, 1973; and Tang Tsou's comments on Nathan's model, "Prolegomenon
to the Study of Informal Groups in CCP Politics" *China Quarterly* No. 65, 1976.
44. For a fuller description of factions originated from different army formations, see William Whitson: "The Field Army in Chinese Communist Military Politics" China Quarterly, No. 41, 1970.


46. Hua Guofeng, for example, was not totally purged as the foe of the Deng-Chen coalition after the Twelfth Party National Congress. Deng even wanted him to retain a seat in the Politburo. In the 13th Congress he was elected to the CC with top votes. A more recent case is Hu Yaobang. He was still a full member of the Thirteenth Politburo until he died in April 1989.

47. See "Huang Kecheng On The Account Of Lin Biao", Research Institute of the Party History of the CC (ed.) Encyclopaedia of Correspondence on Party History, No. 5 1985, p. 43.

48. It is no secret that most party elders have tried to balance Deng's authority in the party leadership even though they openly acknowledge Deng's supremacy. They first used Ye Jiangying and later Chen Yun and Peng Zhen to restrict Deng's power. The concern of Deng's becoming another Mao stood behind the arrangement of power in the 13th Congress that Chen Yun and Li Xiannian should only semi retire. In order to establish some checks and balances on the next generation of reform-minded leaders in the party, particularly Zhao Ziyang, they remain in power to foster their own successors, such as Li Peng.

49. In fact it was because Zhou's power was increasing too rapidly after Lin Biao's departure that Mao brought Deng back to power. Although Deng's coming back to power coincided with Zhou's efforts to bring back a large number of old cadres, the immediate factor that changed Mao's mind was Deng's self criticism in a letter forwarded to Mao by Wang Zhen. It was not Zhou's political style to raise such a sensitive question to Mao, although he made use of Mao's decision. And at first Deng did follow Mao's instructions wholeheartedly. Examples include, at the instruction of Mao, he criticised the "Feng Qing Ship Incident", which implicated a State Council decision by Zhou.

50. For instance, 10 out of the 17 colonel generals promoted after the restoration of the military ranking system in the PLA, were from either Deng's Division No. 129 or the Second Field Army. The other promotees were either too young to be under the direct command of Deng before 1949 or constituted a symbolic representation of the other field armies.

51. It was tipped that Xiang Shouzhi from the second field army and now commander of Nanjing Military Region would be appointed as the chief of the general staff. But Yang Dezhi, the former chief of the general staff and other military veterans resisted the proposal. They resented the idea that the two most important posts in the army: Minister for National Defence and Chief of the General Staff would fall to Qin Jiwei and Xiang who not only
came from the Second Field Army but also the same army corps- Army No. 15. With the backing of the living Marshals, and probably also with the support of Zhao Ziyang, Chi Haotien from the Third Field Army and a former commander of the 27th Army, eventually got the portfolio.


57. Bachman op. cit. p.22.

58. Andrew Nathan, *supra* note 34, p. 46

59. Chairman Li Xiannian and Secretariat member Yan Mingfu told the chairmen of Provincial People's Political Consultative Conference that the main line of the political reform for 1989 was to improve the relations between the CCP and other democratic parties. *People's Daily*, (Overseas Edition) April 7, 1989, p. 1.

60. Zhao Ziyang told the visiting party leader of Yugoslavia that if political reform was conducted too hastily or divorced from the reality, it would cause social instability. *People's Daily*, April 1, 1989, p.1 In an interview held earlier, he said that the problem with reform was that the leadership had been too hasty in pushing political reform. *People's Daily*, January 26, 1989, p. 1.

61. In China central economic institutions led by Chen-Li-Yao are correctly described by Bachman as one of the five conservative groupings. The others are (1) ideological conservatism; (2) conservatism of vested interests; (3) anti-foreign conservatism; (4) moral conservatism. See Bachman, *supra*, note 47, pp. 26-36.
Chapter Two  
The Reform of the Leadership of the CCP

The 13th National Congress of the CCP in October 1987 was a political test for both the majority and the minority groupings in the party leadership. On the whole, they all gained something from the Congress in accordance with the principles of the politics of consensus and compromise. The majoritarian groupings headed by Deng and Zhao got a reformist Politburo while the others, represented by Chen Yun, had a cautious State Council. The political arrangement was highlighted by the retirement of four party elders and partial retirement of three more, paving the way for a fairly balanced succession of the second-generation party leaders.\(^1\)

Well suited to the factional traditions of the party, the changeover was in a sense not just the succession of the second generation leaders from the first but also reflected a lot of subtle balancing among the second themselves. Yet the succession did not produce a balanced power situation. The whole arrangement basically conformed to the previous power array at the top. With the Deng-Zhao group taking a majority position in the pre-Congress leadership, it remains the most powerful group in the current leadership. This was the chief reason why Chen and Li Xiannian were only semi-retired. They had to ensure that their successors would be safe in the future interplay of power at the very top. As the gerontocratic leaders gradually retreated from the first line posts, a new pattern of political interaction had to be moulded to enable the new leaders to work together. The concern as to whether they would be capable of working it out underlined the political theme of the 13th Congress; that is, to proceed with some party reforms so as to achieve some institutionalization of power in the party leadership structure.

Political reform is the banner of the Deng-Zhao group in leading the overall reform following the Congress. The key problem it intends to tackle is the partial decentralization of power now concentrated in the hands of the party. At the heart of the issue is the separation of party and government functions, institutionalization of political process of different interests within the party and remolding the relations between the party and society. To
achieve these ends, the CCP realized that it must reform its own structure of command from the top-down to go along with the changes induced by economic reforms. Since 1978, there have been many restructurings in the CCP leadership. The 13th Congress initiated some new changes at the centre and approved a plan for the reform of China's political system, which, even if partially implemented, would generate profound changes in China's society.

2-1 An Overview of Leadership Restructuring before the 13th Congress

Party politics is a new thing in modern China. Political parties came into existence only after the downfall of the last dynasty, the Qing. The two most powerful parties in modern China, the Nationalist Party and the Communist Party, were both formed under the influence of Leninist party organizational principles, democratic centralism: a Marxist Weltanschauung, the dominance of society by the polity, of the polity by a single party, and of the party by one "vanguard" group or one person. The principle served Chinese tradition well. For thousands of years each family was supposed to obey one man in the household, each locality one leader and the whole nation the emperor. The Leninist party principle added the organizational discipline to the moral and ideological obedience so that the authoritarian tendency of the country was further reinforced. The CCP in its formative years not only made great efforts to practice the principle but also to construct the party structure in accordance with the Soviet Communist Party model. In many respects even today the CCP shares many similarities with its Soviet counterpart: hierarchically organized, strictly commanded and universally penetrating, to mention a few features.

2-1-1 A Historical Review of the Party's Leadership Structure

In theory the Party's National Congress is the highest power forum of the party. In the history of the CCP each of its national congresses marked a new period of political development and could, therefore, be viewed as a convenient demarcation line for the
examination of the Party's major policy changes. The interval between each congress, a five-year duration stipulated by the Party Constitution but seldom observed, is usually the process in which the top leadership builds up policy consensus. In the thirteen years between the 8th Congress and the 9th, for example, the party experienced its fiercest line struggles. The Ninth congress was postponed several times until the struggle resulted in Mao's complete triumph over his real and imagined enemies in the party. The forced resignation of Hu Yaobang, General Secretary of the Party's 12th CC, cast serious doubt over whether the 13th Congress could be convened as scheduled. These facts reveal one structural defect of CCP politics: the highest body of power lacks efficient authority over its administrative branches. Normally the national congress should be more than just a ritual, for it legitimizes the new party policy lines. Its convention is, however, much dependent on the ability of party leaders to reach a consensus for that policy line. In other words, the congress can be manipulated by the conveners who are able to decide upon its timing, contents and agenda, and win the lion's share of power in the top leadership.

The national congress has another important mission: to elect a new party central committee, which further elects its leaders in the Politburo and its Standing Committee. Here again, as most of the candidates to be elected to these bodies are determined prior to the convention, the congress does not fare much better than an election machine for the leaders who have triumphed over other groups in the preceding jockeying for power. The 13th Congress made some improvement in this respect. By introducing a voting system with multiple candidates, the election results turned out to be not entirely in consonance with what the top leaders expected.

While the national congress is not in session, its authority rests with its central committee. Yet as it meets in plenum only on isolated occasions, mostly for major policy approval, its functions are assumed by the Politburo and its Standing Committee. (At different times in the Party's history, the Secretariat also played a significant role, such as the Secretariats of
the Eighth and the Twelfth CC.) But the Politburo, its Standing Committee and the Secretariat should still be responsible to the CC for their activities. In fact this is not always the case.

The Politburo and its Standing Committee are elected by the CC and thus empowered to run its daily work. For historical reasons, however, their power often outgrows what is entrusted to them to the extent that the electoral body can no longer control the policymaking process of these two organs. This phenomenon has its origin in the wartime when it was difficult for plenary sessions of the CC to be convened. The power and responsibility of the CC existed only in name. This tradition has led to an unconstitutional situation in the present day where the Standing Committee commands the Politburo and the Politburo commands the CC.8 The Politburo's long-standing supremacy probably accounts for the absence of a single veto exercised by the CC over the proposals put forward to it by the Politburo. This phenomenon of high concentration of power in a small number of top leaders has a serious residual impact on CCP politics today. Even after Deng Xiaoping and Chen Yun retired from the Politburo's Standing Committee, they were still able to wield enormous power and influence on the course of national affairs.

Patterned after the Soviet leadership structure, the Politburo has been the core of the highest leadership of the party since the founding of the CCP. Its importance in decision-making has varied at different stages. During the long revolutionary wars, many of its functions were taken by the Central Military Commission, whose chairman usually acquired more power than the nominal CC leader - the chief reason behind the ascendance of Mao following the Zunyi Conference in 1935. After the 7th Congress in 1945, the power of the Politburo was divided into two layers. The upper one was the Secretariat composed of the so-called "five big secretaries" headed by Mao, which was actually the predecessor of the Politburo's Standing Committee.9 The lower layer was the Politburo, which met only to act upon the problems that could not be solved immediately by the Secretariat. Because many of
its members were scattered in different combat areas, it seldom met throughout the Liberation War between 1946 and October 1949.\(^{10}\)

After the PRC was founded, the Politburo reassumed its position as the highest policymaking body. For example, the determination to enter into the Korean War was one of its first major decisions, reached only after a series of heated Politburo meetings.\(^{11}\) The 8th Congress in 1956 saw a large-scale reform at the party centre. The former Secretariat was renamed as the Standing Committee of the Politburo and a new Secretariat set up with a General Secretary as its head. While the Politburo and its Standing Committee decided upon issues of key importance, the daily management of party affairs was transferred to the Secretariat. In the new leadership structure the two-tiered politburo exercise command through three channels: the Secretariat for the party's everyday work, the State Council for the government administration and the CMC for the PLA.

It was stipulated that the responsibility of the Secretariat was to assist the Politburo and especially its Standing Committee to investigate and manage internal party affairs, mass work, and other matters referred by the Politburo and Standing Committee for discussion and handling.\(^{12}\) This open-ended scope of its mission made the Secretariat very powerful because 'other matters', rather than party affairs, were often referred to the Secretariat by Mao as a means of weakening the power of the Premier at first, and later, that of the state president. That Deng was appointed as General Secretary reflected the trust Mao held in him. And for Deng, through his active involvement in the campaigns against the rightists in 1957, the rightist tendency in 1959 and "Socialist Education Movement" in 1964, he lived up to Mao's expectations.

2-1-2 Leadership between Lines and Problems of Political Succession

Parallel to this division of central power was the practice of so-called leadership by "lines", 
whereby the top leadership were divided into first line leaders, who managed the daily affairs of the party, including some policy formulation, and second line leaders, who were only engaged in the decision of major issues. The concept stemmed in part from Mao's concern over the succession and in part as the result of his erroneous leadership during the Great Leap Forward. After the '7,000 cadres conference' in 1962, Liu Shaoqi was designated to preside over the work of the Politburo. Together with Deng, who chaired the Secretariat, they formed the first line leadership. Mao retreated to the second line to 'foster the authority of others' to ensure 'their takeover would not cause much turbulence to society'.

Mao's arrangement for a succession through first and second leadership line duties affected the leadership structure at the top, causing confusion in power relations between various party institutions. It also created an unavoidable dilemma for the successors, which was ably analysed by David Bachman:

"To maintain his position as designated successor, the leader-to-be must maintain the trust of the top leader, the person who anointed him with the title of heir apparent. Yet the successor inevitably lacks some of the resources of the top leader. Thus, the successor must develop power bases independent of the top leader whose patronage obviously disappears when the top leader dies. The dilemma arises from the fact that it is all but impossible for the successor to maintain the trust of the top leader and build an independent power base at the same time".13

The lessons of Liu Shaoqi, Lin Biao, Hua Guofeng and more recently, Hu Yaobang all have vividly illustrated that leadership by lines is not a workable way for the ordered transfer of authority from one paramount leader to another. The process served only to intensify the pattern of uncertainty, instability and major policy shifts commonly associated with the succession period in the socialist states.14 What is more relevant to the concern of this thesis is that this unsolved problem has seriously affected the current round of political succession and the restructuring of the party headquarters.
The reestablishment of the Secretariat at the 5th Plenum of the 12th CC in 1980 was the first structural reform at the party centre after the reform coalition, headed by Deng and Chen, won the battle for power at the Third Plenum. Obviously, the same strategy by which Mao reduced the power of Zhou Enlai in 1956 by setting up the Secretariat was applied to strip the power of then Party Chairman Hua. For instance, Chen Yun told the conference that he:
agreed with Comrade Ye Jianying that the scope of the responsibilities of the Secretariat should be enlarged. It should manage work concerning aspects of the party, government, military and civil affairs.

This gave the Secretariat enormous power in running state affairs and virtually rendered the party chairman powerless.

Another important consideration behind the setting up of the body was again the political succession. In the same speech Chen made it clear:

The establishment of the Secretariat is a matter of great urgent necessity. Now from the CC to the party committees at county level, most of the leaders have turned grey in hair. There is little time for us to select talents. If we wait, time will run out. The problem of succession in our party and elsewhere in the international communist movement had produced bitter lessons. For this, you all know even if I do not point it out. The establishment of the Secretariat is an important decision by the party to solve it.

So the design of the Secretariat pointed in the direction of a collective takeover from the first generation revolutionaries. In the process of this transfer of power, practical opportunities were created for the younger leaders to temper themselves while the old sat behind watching their performance. This was actually a restoration of a Maoist invention of the 1950's. Here the senior leaders concentrated mainly on policymaking in their capacity as leaders of the Politburo and its Standing Committee, the platform of the second-line leadership. And the first-line leaders, the members of the Secretariat and the State Council, were charged to carry out the policy lines set by their patrons. Before long, there emerged a situation reminiscent of Mao's dilemma over succession before and during the Cultural Revolution. The only difference was that the elders did not specify one heir-apparent but a group of promising
younger leaders, a practice that made the question of succession even more elusive.

During the seven years after the establishment of the Secretariat to the Thirteenth Congress the leadership structure at the party centre underwent a great deal of changes. Gradually the Politburo and its Standing Committee ceased to function normally. The chief reason for this was that most of the elders in these two organs, or 56% of the full members of the Politburo, were relieved of their first-line institutional posts. (See Table One) They exercised power on the basis of their personal authority, which was often in conflict with the practical work of the first-line leaders.

Table One: The Second-Line Leaders in the 12th Politburo before the 1985 National Party Delegates Congress

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Post Held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ye Jianying</td>
<td>88</td>
<td>Chair of the NPC Standing Committee</td>
</tr>
<tr>
<td>Deng Xiaoping</td>
<td>81</td>
<td>Chair of CAC &amp; CMC</td>
</tr>
<tr>
<td>Chen Yun</td>
<td>80</td>
<td>Chair of CDIC</td>
</tr>
<tr>
<td>Li Xiannian</td>
<td>80</td>
<td>State President</td>
</tr>
<tr>
<td>Peng Zhen</td>
<td>83</td>
<td>Vice Chair of the NPC Standing Committee</td>
</tr>
<tr>
<td>Deng Yingchiao</td>
<td>81</td>
<td>Chair of CPCC</td>
</tr>
<tr>
<td>Nie Rongzhen</td>
<td>86</td>
<td>Vice Chair of CMC</td>
</tr>
<tr>
<td>Xiu Xiangqian</td>
<td>84</td>
<td>Ibid</td>
</tr>
<tr>
<td>Wu Liangfu</td>
<td>79</td>
<td>Vice Chair of the NPC Standing Committee</td>
</tr>
<tr>
<td>Wang Zhen</td>
<td>77</td>
<td>Ibid</td>
</tr>
<tr>
<td>Wei Gouqing</td>
<td>72</td>
<td>Ibid</td>
</tr>
<tr>
<td>Hu Qiaomu</td>
<td>73</td>
<td>No public post</td>
</tr>
<tr>
<td>Fang Yi</td>
<td>79</td>
<td>State Councillor</td>
</tr>
<tr>
<td>Ni Zhifu</td>
<td>53</td>
<td>President of the National Workers Union</td>
</tr>
</tbody>
</table>

On the other hand, in handling day-to-day administration, the first-line leaders formed a locus
of decision-making under the general command of Deng. As a result, the first-line leaders, particularly Hu representing the Secretariat and Zhao the State Council, significantly enlarged their power bases. This situation, considered as abnormal by many party elders, rendered the Politburo anything but an empty shell, leading eventually to the Hu incident in early 1987 and the restructuring of the party centre at the Thirteenth Congress.

The deviation from the party's traditional leadership structure, in which the Politburo, as the highest policymaking body, deployed power through a tripartite channelling of power to the Secretariat, the State Council and the CMC, had its seeds in the organizational principles of the Secretariat and the enlarged power of the Premier. The broad responsibilities accorded to the Secretariat in the management of party, government, military and civil affairs certainly generated a potential for expansion of power. And this was further compounded by its work procedures, decided by the 5th Plenum at the request of Ye Jianying, that the Secretariat should operate through a system of collective offices. Members from different institutions held regular meetings and made policy together. The General Secretary was responsible for calling these meetings. This principle enhanced the power of the General Secretary, for it was he who presided over the collective office. He thus won access to various important policy areas through this arrangement.

The Secretariat was composed of leading personages of almost all powerful institutions through its role as care-taker of day-to-day party affairs. When it was first set up, for instance, it had members such as Wan Li, in charge of rural work, Yao Yilin, the State Planning Commission, Hu Qiaomu, propaganda and ideology; Peng Chong, representing the NPC Standing Committee; Wang Renzhong, senior vice premier; Gu Mu, the State Commission for Construction; Yang Dezhi, the military and Fang Yi, education, science and technology. At first this collective office was supposed to handle only operational problems arising from these fields, while any decision of overall importance should be taken by the Politburo. In a sense it worked like a filter, through which the key issues must go the highest
leading body, the Politburo, for solution. Yet as the Politburo seldom met, members of the Secretariat, many of whom were also politburo members, brought to the table of this collective office major policy proposals concerning their institutions. Gradually, the Secretariat assumed the decision-making functions of the Politburo.\(^{19}\) (See table 2)

Table Two: The First-Line Leaders of the 12th Politburo before the 1985 National Party Delegates Conference

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Post Held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hu Yaobang</td>
<td>70</td>
<td>General Secretary</td>
</tr>
<tr>
<td>Zhao Ziyang</td>
<td>66</td>
<td>Premier</td>
</tr>
<tr>
<td>Yang Shangkun</td>
<td>78</td>
<td>Permanent Vice Chair of CMC</td>
</tr>
<tr>
<td>Xi Zhongxun</td>
<td>72</td>
<td>Permanent Member of the Secretariat</td>
</tr>
<tr>
<td>Wan Li</td>
<td>69</td>
<td>Senior Vice Premier, Member of Secretariat</td>
</tr>
<tr>
<td>Yang Dezhi</td>
<td>69</td>
<td>Member of the Secretariat, Chief of General Staff</td>
</tr>
<tr>
<td>Yu Qiuli</td>
<td>71</td>
<td>Member of the Secretariat, Director of GPD, PLA</td>
</tr>
<tr>
<td>Li Desheng</td>
<td>69</td>
<td>Commander of Northeast China Military Region</td>
</tr>
<tr>
<td>Zhang Tingfa</td>
<td>67</td>
<td>Commander of the Air Force</td>
</tr>
<tr>
<td>Su Renqiong</td>
<td>76</td>
<td>Director of the CC's Organization Department</td>
</tr>
<tr>
<td>Qin Jiwei*</td>
<td>71</td>
<td>Commander of Beijing Military Region</td>
</tr>
<tr>
<td>Chen Muhua*</td>
<td>64</td>
<td>State Councillor</td>
</tr>
</tbody>
</table>

* Alternate politburo members

Although membership of the Secretariat went through several changes over the next seven years, the policy areas mentioned above always had representatives in the Secretariat. With membership substitutions, Hu Yaobang managed to place his own people from the Youth League in these important institutions. When he built up firm command in the Secretariat, he convened even fewer politburo meetings where he would have had to face more of the second-line leaders. After all, it was within his mission as General Secretary to decide whether to call a politburo meeting.\(^{20}\) Through control of the work agenda and membership of the Secretariat, Hu was able to take into his hands responsibilities for a wide range of
non-party affairs. For instance, the Secretariat created a system of reports from State Council ministries and provincial governors that enabled the Secretariat to penetrate the work of both central and local government.

Consequently, as the Politburo languished, the locus of power shifted to the Secretariat. Such an arrangement left open-ended the personal power of the General Secretary in the handling of his duties. As the spheres of authority between the first and second line leadership were not clearly defined, the expansion of power by the first, particularly in the Secretariat, inevitably encroached on the preserve of the party elders. One typical case worth mentioning was Hu's manipulation of the selection of the third echelon cadres. After the Secretariat was established, it was given a special task to promote a large number of would-be successors to the party leadership at all levels. Hu, in his capacity as the head, had the authority to bring it under his direct control and he did so. Firstly, he appointed his men to be in charge of the CC's Organization Department which was immediately responsible for the selection of the leadership candidates at the ministerial and provincial level. Secondly, he sponsored regular meetings in the Secretariat to allocate leading cadres to key posts in the party, government and military. Through these two measures he successfully brought about fast personnel changes in the central ministries, provinces and the localities. Then, with the changes at the provincial level done, conditions were ripe for a shake up of the Central Committee. As a result, within a short time span of 5 years from 1981 to 1986, the CC completed the most dramatic membership turn-over in its history. At the same time, Hu also promoted a number of his subordinates from the Youth League to the core leadership of the Politburo and Secretariat. Obviously, he made very good use of the call by veteran leaders to arrange an orderly succession of young cadres.

Whether Hu intentionally enlarged his personal power base in preparation for his eventual takeover of Deng's highest authority in the party is still subject to debate. The indisputable fact is that on this highly sensitive issue, Hu's discriminatory promotions favouring people
from the Youth League aroused considerable resentment from both the old cadres, who had lost power after their reluctant retirement, and the young cadres, who did not originate from the League and felt left out in the cold. For instance, the appointment of Wu Xueqian as Foreign Minister upset many senior diplomats. Preferring a professional to lead the Ministry, they, as elite government staff, looked down upon the people from the Youth League in particular.22

As the Secretariat broadened its responsibilities and people from the League filled most of the key posts in the party centre, it seemed that Hu's confidence in playing the role of chief in China's politics grew and eventually got the better of his proper judgment. He tended to step into spheres of influence belonging to other party leaders, thus causing tensions within the leadership. He also made policy announcements, apparently without prior consultations with his colleagues in the Secretariat, even without the consent of other members of the Politburo Standing Committee. Examples included Hu Qili's speech to the China Federation of Literary and Arts Circles in 1986, which conveyed Hu Yaobang's advocacy of freedom of literary creation. The speech inspired great enthusiasm for discussions of political reform but annoyed many party elders who blamed it as a main source for the spread of bourgeois liberalism. In this case Hu talked with only two permanent members of the Secretariat, Hu Qili and Xi Zhongxun, about his new policy initiative. Ignored were Hu Qiaomu, a member of the Politburo and Deng Liqun, a member of the Secretariat, both in charge of the work of propaganda and ideology, including literature and arts.23 Hu's fatal miscalculation was that he did not adequately seek Deng's permission for such a major switch of policy orientation regarding literary creation, a decision that was likely to have serious political repercussions.

In receiving foreign correspondents in 1984 shortly before his tour to Australia, New Zealand and Fiji, Hu made casual remarks that the U.S. warships' visit to China, which was still in the stage of secret negotiations at the technical level, would not take place if the United States did not verify whether they carried nuclear weaponry. These words shocked the
Ministry of Foreign Affairs, and especially angered the military, which was entertaining a hope that the visit would help counterbalance the new Soviet access to the ports of North Korea.24 In a sense, Hu's casual manner of policy initiation reflected the increased power vested in the Secretariat, and probably his belief that he would succeed Deng as the next paramount leader of China.

In the enlarged meeting of the Politburo in January 1987, those attending listed six areas in which Hu touched upon the taboos of Chinese politics: (1) He was inactive in the aborted campaigns against spiritual pollution in 1983 and bourgeois liberalism in late 1986 and early 1987; (2) his advocacy of high consumption and support for '10,000 yuan households fanned the ideological confusion; (3) he ignored the party's principle governing foreign affairs; (4) he deviated from the original goal of the Party Rectification so as to emphasize 'economic results'; and (5) he infringed the party principle of democratic centralism by making decisions of key importance without consulting with other responsible leaders.25

While some of these wrongdoings could be attributed to Hu's style of leadership, they also stemmed from structural defects in the leadership structure. As mentioned earlier, running state affairs through first and second line leadership and the collective office of the Secretariat had broadened the sphere of power of the General Secretary. This may have rekindled the concern of other leaders that after the Deng-Chen generation of old leaders, nobody could hold Hu in check. The tendency ran counter to the idea of abolishing the party chairmanship in the 12th Congress, aimed at reducing the personal authority of the top leader of the party.26 Yet the biggest reason for Hu's disgrace was Deng's loss of confidence in him. For instance, compared with what Zhao disclosed to A. Doak Barnett about the policymaking process at the very top, Hu's talks with Lu Jian, the chief editor of the Hong Kong based journal Pai Hsing, should not have rated as the revelation of state secrets.27 This example well illustrates the vulnerability of the younger leaders in their relations with their mentors. When they are losing out in the process of succession, anything they have done before can be used against
them in order to deseat them. They, therefore, have no choice but toe the line charted by their mentors carefully. But this is not an easy job.

Politically, the downfall of Hu was attributable to his increasing departure from Deng's dialectical politics: the so-called two centres and one basic point: the reform and openness on the one hand, the four cardinal principles on the other. Put in more simple words, the nature of Dengist politics connotes the meaning of 'reform for the sake of better control'. For Deng, any measure can be taken if political necessity warrants it in order to hold the society together, regardless if it is a political campaign or a policy of liberalization. Hu, however, either misjudged the suppressive side of Deng, or deliberately ignored it, as he probably believed that he was doing the right thing. His close contacts with the grassroots convinced him that, as the future leader of the country, he must develop a benevolent image of his own. This required more political tolerance for dissenting views, especially from the intellectuals. The passive reaction of the majority of Chinese to the 1983 campaign against spiritual pollution made him more cautious in using the 'sticks' in the later campaigns. This was one reason why he resisted the suggestion by the ideologues to put more pressure on Liu Binyan, an investigative journalist. In 1986 even when the students were taking to the streets all over the country, he was still reluctant to adopt forceful measures against them.

Hu's indecisive action towards the rising political dissension certainly produced the catalyst for a possible conservative coalition that would most likely grow out of an unfavourable political situation. Ever since the reform started in 1978, there had been different groupings at the party centre holding various reservations against one reform policy or another. It was due to Deng's political skills as well as his authority that they remained always minorities in the leadership. Deng realized that once they aligned into some sort of coalition, many of his reform initiatives would confront stronger resistance. Should a crisis arise, someone against whom the coalition was forged would have to be sacrificed as a compromise and in the interests of the continuation of reform. In January 1987 when it indeed happened, Hu had to
go as a scapegoat.

At the same time when the Secretariat emerged as the most powerful body in the leadership structure, the State Council, too, strengthened its power in the management of economic reforms. The bilateral relations between them became increasingly uneasy. Taking advantage of the infirm second-line leaders, who had dissociated themselves from the daily work of the government, the State Council under Zhao's robust leadership, was actually doing vis-a-vis the economy what the Secretariat did in the political and ideological fields. Initially by going along with Chen Yun's economic ideas and the interests of central planners, Zhao gradually consolidated his authority in the State Council during the period of readjustment between 1979 and 1983, which forcefully emphasized central control versus local initiatives. As soon as he was able to push his way through the complex politics at the party centre, particularly after 1984, when the urban reform was launched, Zhao spared no effort to assert his own economic preferences in the reform.

For example, Zhao adopted the line of thought for economic reform emphasizing decentralization and profit resharing between the centre, provinces and localities.28 This line of thought originated from Zhao's reform experiment in Sichuan when he was its party secretary from 1975 to 1980. He believed that until the grassroots had enough autonomy in doing business, the national economy would not be invigorated. He made it quite clear:

Where can we choose the point of breakthrough for economic restructuring? My opinion is to enlarge local and enterprises' business autonomy under the guidance of the state plan. For the experiment of enterprise reform, the administrative agencies have two roles to play: (1) help and (2) influence. Why I say 'influence' instead of anything else? It is meant less administrative interference. More use should be made of economic levers.29

The essence of these sentences is Zhao's preference of central 'influence' to control. Later experience showed that although his way of reform was the easy one to inject market forces into the rigid planned economy, it also contributed to crippling macroeconomic regulation
and serious dislocations of microeconomic activities. And his push for speedy economic development based on relaxed monetary policies from 1984 to 1988 before the Third Plenum of the 13th CC played an important part in creating the high inflationary pressure on the economy. Chapter 4 and 5 will deal with this point in detail. What is worth mentioning here is that, judging from the manner that Zhao realized these policy shifts, the traditional role of the State Council as an executive arm of the party leadership had undergone an enormous change.

The military also changed its position in the tripartite power structure at the party core. In theory, the CMC should be responsible to the CC and its Politburo in handling the country's military affairs. Since most of the Politburo members had no say in the PLA, particularly after 1985 when the PLA representation in the Politburo was reduced to the record low level, military work was increasingly subject to the personal control of Deng. At a time of rapid social change, the army had fallen behind other institutions in gaining benefit from reform. In one of his instructions to the State Council, Zhao quoted Deng as saying that "the PLA must restrain itself" (from a conflict of interests with other government bodies.) In order to suppress resistance to reform from the military, which was well known for its conservativeness, Deng tightened his grasp on the PLA to prevent it from entering into a coalition with other elements of conservatism in the party. Among all the control measures practiced, the most efficient was his command of personal loyalty of senior officers. After Deng became commander-in-chief of the PLA, he removed from office a large number of veterans who, through their network of long-time service, were capable of opposing his leadership of the military. At the same time, he promoted his own subordinates, mainly from his Division No.129 and the Second Field Army, to key positions. He also created a large contingent of young officers with vested interests in his reforms. Among 1200 new generals, only 12 had general status in the 1950's and 60's. Most of them were professional soldiers with higher education but no experience of war.
At long last the PLA, described as a revolutionary professional army by Huntington, had embarked on the road to derevolutionalization. In the process the CMC seemed to have become further detached from the leadership of the party centre. In fact, the military has the lowest representation in the 13th Politburo. No permanent members of the CMC were accorded military rankings - a gesture of Deng's attempt to place the military firmly under the leadership of civilians. When the overall plan of military reform is put into practice, the party's army may become gradually even less political. The alleged goal of the current military reform envisaged by Zhao might eventually make the State Military Commission an institution with real power. When this goal is attained, civil-military relations will probably develop in the direction of 'objective civilian control'.

Before the 13th Congress an abnormal situation emerged. The Secretariat, by and large, had usurped much of the decision-making power of the Politburo. The State Council had gained more independent power in running the economy and especially economic reform. The PLA had fallen almost completely under the personal command of Deng. The once unified leadership structure, with the Politburo as the core, had split apart as each of the three powerful institutions went its own way, a tendency which, if unchecked, would add new institutional strife to the existing policy disputes among various groupings in the leadership. Ample examples illustrate the existence of structural conflicts stemming from the lack of institutionalized procedures for the coordination of the power possessed by the General Secretary, the Premier and the military leaders. Hu once openly admitted that 'while Comrade Xiaoping needed only one word to have things done in the military, I needed at least three'. Zhao also complained of uneasiness in cooperating with Hu. In the January meetings that dismissed Hu, he was alleged to have said: even when the old generation of revolutionaries was still around, I had already had difficulties working together with Comrade Yaobang. I did not know how to cooperate with him in the future when they were gone. As far as the leadership structure was concerned, the main factor that brought down the General Secretary was the imbalance of power between the Secretariat, which
intended to control more things than it was able, the State Council, which sought uninterrupted authority in carrying out economic reform, and the military, which was strong enough to ignore instructions from anybody except Deng.

The Hu Yaobang incident caused a crisis in the political succession as well as in the leadership structure. More importantly, it was the result of the lack of the institutionalization of power in the party centre. In summary, the arrangement of leadership by lines made the struggles inevitable between those who did not hold specific party portfolios but had real authority, and those dealing with day-to-day work of the party and government, who never had enough power accorded to them by their institutional posts. In such a situation, strife appeared not only as institutional conflicts but involved factional infightings over policy preferences among the first and second line leaders. The dilemma of the leadership by lines is that while it is very difficult for the first-line leaders to please the powerful second, they are hardly happy under the heavy shadow of the latter. The final takeover by the first line leaders from the second hinges on whether they can lay a solid power base with the success of their policy initiatives. Yet if they push too hard in this direction, their efforts might betray that goal, for their own policy initiatives can easily be at odds with the policy limitations set upon them by their mentors.

In the final analysis, the dilemma of political succession would persist and constantly destabilize the top leadership if the competition for power among the party elites is not institutionalized. The prerequisite for this is abolition of "leadership by lines", which in turn depends on the leaders in second line being willing to relinquish much of their power. The positive side of the Hu Yaobang incident lay in the recognition of the gravity of this issue by both the first and second line leaders, though they still could not find an effective solution. Thus the 13th Congress started to tackle this issue and made some limited progress.

2-2 The Leadership Restructuring at the Thirteenth National Congress
The 13th Congress achieved a number of successes. Organizationally, the biggest one was the restoration of the Politburo as the highest decision-making body, although still under heavy shadows of the party elders. From the confident rhetoric of Zhao Ziyang, such as "the Politburo believed, the Politburo agreed, and the Politburo decided," until the Third Plenum in September 1988, people could infer that it was indeed in charge. Yet today a small number of the first generation of revolutionaries still hold the second-line leadership posts, such as CMC Chairman Deng Xiaoping and CAC Chairman Chen Yun. The presence of Deng-Chen and the existence of the 200 advisors in CAC will continue to exert enormous weight from outside the Politburo. After all they have their agents in the Politburo through whom they are able to exercise a changed form of leadership by lines - 'control behind the screens'. Moreover, clashes of institutional and factional interests will hamper coordination within the new tripartite leadership structure: with the Politburo replacing the Secretariat at the top, and the State Council and the CMC as the other components.

2-2-1 A Redefined Role for the Secretariat and Politburo

At the Congress the Secretariat was reduced to a mere administrative agency under the Politburo and its Standing Committee. Its main tasks now include working out agendas for Politburo meetings and attending to the internal affairs of the CC, such as coordination of the work of central departments. It can still be powerful, depending on the authority accorded to it by the General Secretary. Zhao Ziyang will likely try to enlarge its power, as he is still in the process of consolidating his own power at the party centre. The Secretariat can serve as a useful instrument for him to exercise his grip over the party centre. There are signs that the Secretariat has been very forthcoming to Zhao's call. For instance, Hu Qili, who is responsible for its daily work, has used the media, a realm under the monitor of the Secretariat, to support all the reform initiatives masterminded by Zhao. Moreover, the Secretariat has been charged with the task of supervision and investigation in the on-going
party's anti-corruption drive. This indicates that it will grow in influence. Some people wonder if the body has become Zhao's personal agency of secretaries.

Nevertheless, the demotion of the Secretariat was an important reform in the party leadership structure, and it probably helped to effect the political succession of the second-generation. As decisionmaking power was transferred to a politburo mainly composed of leaders holding front line positions, there was less room for the party elders to intervene in the policy-making process. According to the Party Constitution, their former capacity as politburo members allowed them to oversee the work of the Secretariat, but now as members of the CAC, they can only give advice to the Politburo. At least in theory, their "advice" should not be taken as orders. In the months following the Congress the Politburo made a number of important decisions in its working sessions. The new mode of its operation shows that the Politburo has more strength to resist outside interference than did the former Secretariat. More importantly, the leader of the Politburo will be more likely to emerge as the successor to Deng than could Hu as head of the Secretariat. The structural reforms in the party leadership launched by the Congress was viewed as some initial institutionalization of power previously held by powerful individuals.

As far as the make-up of the Politburo is concerned, the consideration of institutional functions preceded that of personnel arrangements. Certainly the composition of the current Politburo and its Standing Committee was the outcome of the factional bargainings between different groupings. Yet attempts were made to confine these factional considerations, often embodied in the personnel arrangement, within the institutionalized process of politicking. Despite the fact that progress in this direction was not as significant as many people claimed, the 13th Congress did put forward some objective rules for the selection of top leaders. These may result eventually in the appointment of senior leaders on criteria not solely based on personal factional affiliation. In other words, their factional identification was relevant when they were chosen to enter the Politburo but, they had also to meet certain objective
standards: (1) representation of a major institution of power; (2) a certain amount of successful work experience; (3) a style of leadership emphasizing particularly a willingness to cooperate and compromise; (4) ability to undertake heavy workloads; (5) a sense of discipline and personal integrity; (6) a fairly high level of education. These criteria, except for the first, tend to be fluid. But with the first in place, a distinction is drawn between the leadership by lines and some progress in the direction of institutionalization of power based on structural functions.

2-2-2 The Politburo and Its Standing Committee

The five seats in the Standing Committee of the Politburo represent five major areas of power. Zhao as the General Secretary takes overall charge. Li Peng is the premier, the representative of the highest government administration. Qiao Shi leads the party's law and security apparatus. Currently he also assists Zhao in attending to everyday party affairs. Hu Qili is in charge of ideological and propaganda work. He, too, as the permanent member of the Secretariat, handles the administrative job of the party centre, including the coordination of its departments. Yao Yilin ranks last in the committee. He represents the interests of central economic and financial institutions. The present Committee is different from the previous one in that the power of each member now basically rests on the one or two subsystems of the party command they represent while that of the previous one related more to the individual's personal authority, reputation and network of followers. The difference can make the Committee more responsive in policymaking. As the interests of both the State Council (by Li Peng and Yao Yilin) and the military (by Zhao Ziyang) are well represented in the leading core, the links within the tripartite power structure tend to be closer. In theory this improvement provides some institutional safeguards to avoid the repetition of another paralysed Standing Committee, such as before the Thirteenth Congress.

On the other side of the picture people can also trace in its composition the features of a balance of power between different groupings. Zhao is the leader of the group which was
formed by Deng and evolved into the mainstream faction essentially around Deng's reform program. Hu Qili belongs to this group and because of the disgrace of his previous mentor, Hu Yaobang, he now has no other choice but to make himself available to the call of the new General Secretary. Zhao, by taking Hu Qili into his own political wing, probably took over the entire camp of the Youth League. The move not only broadened Zhao's power base but also protected a fairly large contingent of cadres committed to the reforms.

Li Peng and Yao Yilin have long been associated with the group of leaders who stress a cautious approach to reform. To be sure, this group with Chen Yun as its head, which Bachmen termed as 'planning and financial conservativism', is not opposed to all reform programs. It nevertheless has a strategy and goals for reform significantly different from those of the Deng-Zhao group. As long-time central planners, it is only natural for them to have their own visions as to how to manage the national economy. At this moment, when more than half of the country's economy still goes through the planned channels, their role in central control cannot be slighted. Their inclusion in the Standing Committee reflected this reality. Politically, there were also other reasons for their promotion. Firstly, it was a price paid for the retirement of Chen Yun and other elderly party leaders, who would not feel at ease if they did not see some of their men still at the top. Chen has been a long time supporter of Li. Eight years ago when Li had problems in getting the portfolio of Water and Electric Power, Chen commented with some dignity:

Promoting young and middle aged cadres may be problematic. I took a look of the candidate list of the ministers in the state Council. The minister for power industry is Li Peng, a child in Yanan, and son of Li Shuoxun. He studied electrical engineering in the Soviet Union. I saw him once in Xiaofengman where he worked after coming back. In the first list (the State Council ministers) prepared by the Organization department, it (minister for the power industry) was not Li Peng. In the second list the name was changed to Li Peng. Why not in the first ?! He is young and an expert on power. Comrade Liu Langpo insisted that (the minister) should be Li Peng and asked me to give attention to the matter. People like him, aged 52 and working as an expert in the power industry for more than twenty years, still cause controversies?

Obviously Chen intervened in the matter. In the discussions about personnel arrangements
for the 13th Congress, Chen kept silent about Deng's forceful replacement of Li Xiannian by Yang Shangkun as state president. Nor did he utter any words about Deng Liqun's disgrace in losing the CC election. Yet he insisted Li Peng and Yao Yilin enter the Standing Committee of the Politburo, which paved the way for them to win firm control over the State Council. This showed Chen's political farsightedness. He adopted a traditional tactic of 'sacrificing generals for the protection of emperors'. Here the word "emperors" does not mean a person like Li Peng but his cause of hard-won revolution. He now has his own successors.

Secondly, it put into practice Chen's idea that there must be a minority in opposition in the top leadership who hold different points of view from the mainstream group. The 13th Congress retired virtually all the members in the previous minority groupings. They somewhat held Deng in check in the policymaking process in the past. The promotions of Li and Yao could be seen as the replacement and continuation of these groupings, holding Deng's successor in balance. They embody interests that do not fit well with Deng's second revolution. They represent the moral conservatism of people like Bo Yibo and Peng Zhen, the 'ossified' ideologues led by Hu Qiaomu and Deng Liqun and, needless to say, the central planners behind Chen Yun.

Qiao Shi is the man widely believed to be the balancing figure in the Standing Committee. This is because his position on reform is not as clear-cut as the other members. Theoretically, he should have close ties with the reformers, for he must owe his fast promotion to the patronage of Hu Yaobang. And it was Zhao Ziyang who made easier his rise to the number three leader of the party. In reality, however, his attitudes are conditioned by the institutional interests he represents, the party discipline and security apparatus which does not want to see much relaxation. This is particularly true of the Central Commission for Discipline and Inspection which, under the leadership of Chen, was not very sympathetic to the innovations induced by the reform. In order to secure good cooperation
from his subordinates, he must try to adapt to their way of thinking, at least before his power base is consolidated. And he must have done this with the acceptance of Chen Yun and Peng Zhen, for they finally agreed to hand over their portfolios to him. On the whole, as politically astute as he is, he will watch carefully the overall balance sheet. For the time being, when the reformers led by Deng Xiaoping still hold sway, there is reason to believe Qiao is inclined more to reformist camp than just sitting on the fence.

In summary, the composition of the Politiburo's Standing Committee reflected some institutionalization of power, as seen from the fact that every member in it has some concrete institutional interest to represent. Their cooperation can make the body more workable in deciding major issues. On the other hand the limitations on progress can also be clearly felt. For instance, the inclusion of Yao Yilin in the Politburo should be viewed as representing a powerful group in the party rather than an institution. As its make-up is a product of compromise characterizing post-Mao politics, the Standing Committee's power is so evenly distributed among the major forces that serious policy divergences could easily paralyse it, and threaten the institutionalization of power. Consequently, in order to prevent a split at the very top, the organ must be further balanced by a larger core of power, namely the Politburo, as decided by the Congress. So at a time of fast policy changes precipitated by a complicated reform environment, the Politburo has dramatically regained importance in the policy formulation processes.

The composition of the Politburo followed a similar organizational principle with which its Standing Committee was formed: representation based on power institutions in the party. Among the membership, five are standing committee members. An equal number comes from the state and government bodies: Wan Li, Chairman of the NPC Standing Committee; Tian Jiyun and Wu Xueqian, Deputy Premiers; Li Tieying, the State Councillor and Minister of the State Education Commission, and Ding Guangen, alternative member of the Politburo and Deputy Minister of the State Planning Commission. Four members come from the
province and municipalities directly under the State Council. They are Li Ximing from Beijing, Jiang Zhemin from Shanghai, Li Ruihuan from Tianjin and Yang Rudai from Sichuan. Representation from the military is limited to two: Yang Shangkun, deputy chairman of the CMC, and Colonel General Qin Jiwei, Minister of National Defence. There is one member, Song Ping, representing the Central Committee's departments. The only Politburo member who does not hold any post of substance is the former General Secretary Hu Yaobang. Obviously, his presence is more symbolic than practical.* (Hu Yaobang died on April 15, 1989.)

A breakdown of the Politburo membership points to several significant features: (1) Most members owed their promotion to their proved commitment to Deng's reform and, therefore, represent a majority group in the Politburo; (2) central decision-making and executive institutions have a dominant place in the body, about 75% of the total; (3) local representation, which has increased, is concentrated heavily on big cities; (4) the influence from the military in the body has declined to its lowest level; Yang Shangkun was elected chiefly for his planned assumption of the state presidency. The fact that Defence Minister Qin was not given a place on the Standing Committee of the CMC indicates that he can only be a transitional figure in the leadership. The low profile of the military in the Politburo may be due to the planned reform to separate further the party and military, a measure to reduce the enormous influence of the military on the party, and as a corollary, a reduction of the power in the hands of the CMC chairman after Deng is gone; (5) there is no representation from the mass organizations, women and minority nationalities - an elimination of the decorative politics characteristic of the Cultural Revolution. (6) A decline of importance accorded to the CC's departments at a time when reform of the central organs is intended to narrow down its intermediate functions, namely, from more policy formulation to more implementation side.

On the whole the formation of the current Politburo is oriented to its functional well-being as
an effective working body rather than a watch-dog. Its fairly even distribution of membership among the party, state and government institutions and a fairly large local representation could be regarded as attempts to integrate the policy decision and implementation process between the party centre and government administration on the one hand and between the party and government centres and the localities on the other. As the representation based on institutions of power may restrict the abuse of personal authority and connections (guanxi), a framework is being constructed for a more meaningful collective leadership.

Apparently, greater strides were made in the Politburo than in its Standing Committee in the direction of institutionalization of power. Yet this is not to state that the deployment of power in the Politburo is fully institutionalized, or free of inherent factional disruptions. The make-up of the Politburo bears out features of the transitional period of China's political development in which political power is still held disproportionately by a few leaders and their followers but gradually becomes less exclusive. The inclusion of new members in the body was based on considerations for a balanced representation of factional groupings. Although the actual representation was far from balanced, as Deng's men took the majority of the membership, other power groupings were also able to have their people elected.

One example is the inclusion of Song Ping, director of the Central Party Organization Department. Song Ping, at the age of 71, is probably the youngest among the first generation revolutionaries. His record shows that he is long-time subordinate of Chen Yun and Peng Zhen. His takeover of the directorship of the Central Organizational Department shortly before the Thirteenth Congress was an important move by the party elders to recapture this stronghold of Hu's Youth League group. It is widely believed that the dominance of central party departments by cadres from the League was mainly due to their dominance in the Organization Department. Since the early 1980's the Department had been entrusted with the mission of promoting a large contingent of the 'third echelon
successors'. It was also responsible for selecting and appointing almost all the leading personnel at the ministerial and provincial level who would form the bulk of the CC. After the Party National Delegates Conference in 1985, it shouldered the task of supervising the selection of the delegates to the 1987 13th Congress. Song's new job to lead the Department was certainly a measure by the party elders to control the personnel arrangements for the Congress. Although his appointment was a bit late, as by then most provinces had completed the selection process for the delegates, he did play an important role in working out the list of top echelon leaders. In his capacity as the Department's Director, he could contact the Acting General Secretary, who headed the personnel group for the Congress, on behalf of the party elders who exerted heavy influence in the matter. He thus saved much potential disputive exchanges between the two sides.

The portfolio of the director of the Central Organizational Department does not necessarily provide entry to the Politburo, but depends on who holds it. Song’s promotion reflected the extent to which the minority groupings in the party leadership were determined to remedy past neglect in organizational matters. As most first-generation leaders will pass from the scene very soon, they must groom a large number of young cadres inclined to their way on reform. Responding to the call from Li and Yao in the Standing Committee, Song may play a pivotal role in the overall make-up of the Politburo. After all, very few people in the Politburo can compare with him in seniority and personal networks.

Parallel with Song’s case is the arrangement of Yang Rudai’s entry to the Politburo. Yang, the party secretary of Sichuan Province, was spotted and picked up personally by Zhao Ziyang when Zhao was serving as Sichuan's first party secretary. He should also owe a lot to Deng's emphasis on working experience at the grassroots as one of the criteria for cadres' promotion. He was among the few governors and ministers Zhao promoted, taking advantage of Deng's remark that after serving as a party county secretary for ten years, a good one can be raised directly to the level of the province or the ministry. Generally
speaking, Zhao has been cautious towards personnel questions which are highly eye-catching. After he came to Beijing, he did not build up his personal power base as conspicuously as did Hu. Before the 13th Congress, the only case that caused gossip was his promotion of Tian Jiyun, his right-hand man in Sichuan and fund raiser for Zhao's economic experiments, to the Politburo and vice premiership. Once transferred to the party centre, he found himself in dire need of trusted comrades. For the time being, he protected and thus took into his camp the core of Hu's people, but in the long run he saw the benefit of filling the central party offices with his own confidants. Since this must be a fairly long process, he proceeded first with recruiting a small number of firm reformers into the current Politburo. Yang Rudai is one of them who can support Zhao's policy initiatives whenever needed. Therefore Yang's promotion, on the contrary to what many people interpreted as representing the biggest province of China, might be designed more for the enhancement of Zhao's voice in the Politburo, especially when serious policy disputes arise which would otherwise silence the normal pro-Zhao groupings. What is worth pointing out is the fact that Zhao's failure to bring in more of his men, like his former secretary Cheng Zunsheng, widely tipped to enter the Politburo but more recently dismissed as Secretary General of the State Council, revealed his limited say in the selection of its membership. Certainly this can also be expounded as efforts made to reduce the personal network of power associated with certain party leaders.  

Given the even distribution of power in the Standing Committee, the importance of the Politburo in balancing controversies is greatly magnified. Its composition became crucial for Zhao, who had to assure that his policy proposals get through this organ when they might be held up in the Standing Committee. What underlined the victory for Zhao in the Thirteenth Congress was that he had a basically reformist Politburo where his policy initiatives could win a majority. This may be the precondition to restore the Politburo as the primary body for major decision-making. Among the 17 politburo members, most owe their quick advancement to reform in general and the personal care of Deng and the new General
Secretary in particular. Yet judging from their diversified origins, nobody except Deng is entirely able to manipulate its operation. This is mainly due to the diversified make-up of the Deng-Zhao reformist camp. For instance, within the majoritarian group there are Deng's own people, such as Yang Shangkun, Wan Li and Qing Jiwei. The former League members still have a large representation in the Politburo. Other new members of the Politburo all have their own independent connections with the party elders. Their basic attitudes towards reform vary considerably. Some are supportive of economic reform but ambiguous about political reform. At least we can identify Li Ximing, Li Tieying, Jiang Zemin and Li Ruihuan in this category of people. Zhao's true followers can be counted by only two, namely, Tian Jiyun and Yang Rudai. Then there is cautious group consisting of Li Peng, Yao Yilin and Song Ping. The pluralist composition of the Politburo leaves little room for the emergence of a strong leader like Mao and, to a lesser extent, Deng. In the interweaving of the conflicting efforts to institutionalize the highest power structure and at the same time factionalize its make-up, the CCP has made some progress in its long struggle for an orderly transfer of power from individuals to a collective.

2-3 New Policy-Making Processes in the New Leadership

In order to consolidate this progress, the 13th Congress stipulated that (1) the Standing Committee should regularly report on its work to the Politburo and the Politburo to the Central Committee; (2) the party centre should convene more CC plenary sessions each year to bear broader collective wisdom on the policy decision process; (3) there should be sound working procedures in the Standing Committee, Politburo and Secretariat in the daily running of party affairs, especially in deciding on policies of far-reaching significance.

Since the 13th Congress, noticeable changes in policymaking processes in the Politburo have been registered as a result of its resumption as the highest leading core of the party. As of April 1989, the Politburo has held sixteen working sessions. Each of them made one or
two important decisions that were made known to the public through the mass media. As for those policies of far-reaching significance where the body could only reach some tentative agreement, the CC plenums were convened to discuss and rectify the policy line put forth by the Politburo. For instance, the Second Plenum approved the appointments of the state leaders nominated by the top leadership and Zhao Ziyang's coastal strategy. The Third Plenum was convened to settle the policy disagreements over the next stage economic reform. It is still not very clear exactly how this new power locus works but, judging from the wording of the communique of each working session, a collective policymaking process could be discerned. The communique of the 16th Politburo Session declared that "through earnest discussions, the meeting agreed in principle the government report (draft) and suggested after further consultation and revision it be delivered to the Second Session of the Seventh National People's Congress". This phrasing contrasted with the emphasis on unanimity commonly found in past communiques and left people wondering if a majority vote had to be arranged to secure a resolution for any matter involving divergences among its members. This has been further proved by the fast policy switches, an indicator that policy preferences of certain leaders were being negated by the collective decision process.

Yet in a situation like this where serious policy disagreements exist, a pre-session exchange of views is regarded as more important than a vote that might intensify differences of opinions. Basically, compromise for maintaining unity at the top is still the hallmark of the current Politburo. If any one leader or a group in the body becomes too assertive in the process, then the basis on which the present-day politics of consensus through compromise rests would be jeopardised. So the conditions are created to make sure that major policy initiatives must be fully discussed and generally agreed upon before a vote is possible.

The controversies at the 1988 Beidaihe meeting prior to the Politburo's resolution on price reform provided clues for an understanding of such a policy formulation process. Towards the end of July, 1988 most of the senior leaders of the party and government gathered in
Beidaihe as usual for the annual discussion of major policy issues of the day and the plans for the coming year. For instance, on July 27, Li Peng received a group of agronomists in Beidaihe. Also present at the reception were most of the other key figures of the party and government. *Dagong Bao* covered the event with the title "China's Political Dignitaries Meet in Beidaihe". Another pro-China newspaper based in Hong Kong, *Wenhui Bao*, also made a commentary on August 1 of what was going on:

The Beidaihe working meeting of the Chinese leaders was concluded on the 28th of July. The leadership consulted the experts concerning the problems of prices, wages, agriculture and the new economic order and discussed solutions advanced by the specialists. It seemed that further studies were necessary. Reports of the final decision were, therefore, not yet heard.49

Two weeks later, however, Zhao defiantly denied that the Politburo had convened a conference in Beidaihe. When receiving Japanese newspaper correspondents, Zhao said: "the alleged conference disruption due to serious policy disagreements by the Western news agencies was sheer nonsense".50 Obviously Zhao was right, as the Politburo working session indeed started only on August 15. But here Zhao was juggling with terms, which in fact sheds light on some aspects of the policy-making process at the party centre.

In Chinese 'kaihui' or having a meeting can mean both meetings and conferences. The difference lies in the fact that a conference is more formal and should usually produce official resolutions while a meeting can be held only for discussions. But this difference is very important for an understanding of the politics of the CCP. Generally speaking, a central conference either in the form of the politburo sessions or in the CC's plenum is designed to make conclusive policy lines. Before that, a series of preparatory meetings are held to build consensus. If this cannot be reached, the conference is postponed until some compromise on a final decision acceptable to all groupings in the leadership is achieved. The history of the CCP is full of such examples. A series of meetings by the leading figures must have taken place in Beidaihe, organized to resolve disagreements over price reform decided by the Politburo's Ninth Session two months earlier. Clearly the meetings
adjourned when they could produce no mutually satisfactory conclusion. The issues being discussed in these meetings had a far-reaching impact on all groupings in the leadership. On the surface it was about the length of the price reform. At heart, however, the whole economic reform was at stake because the duration of the reform brought into question whether a period of readjustment was necessary before tackling this key issue. If it was deemed necessary, it would warrant a reassertion of central control, which might mean a roll-back of many reforms in the last ten years. The bottom line in the pause of the meetings was really whether to continue Zhao's way of reform, or Li and Yao's way of retreat, or a middle course combining ingredients of both.

That Zhao so vehemently denied the existence of a central conference showed the existence of serious differences of opinion within the top leadership. The Beidaihe meetings exposed these differences and thus posed the first political test for the new Politburo. Nevertheless, because they saved a possible split in a formal Politburo session, they were a normal political process leading the body from disputes to compromise and eventually to a qualified consensus. There is no doubt that each side made concessions. Zhao, however, probably gave in more under pressure from both the central planners with the backing of the CAC and the grave economic situation in recent weeks. The evidence was another sharp switch within a matter of two months from the mainline reform policy centred on the price reform set forth by the 9th and 10th Politburo sessions to a two-year reform readjustment proposed by the 12th Session and approved by the Third Plenum of the 13th CC. Many people started to say: the third Third Plenum settled the accounts of the previous two.

The differences in the policymaking process of this Politburo compared to the previous one lie chiefly in its power in formulating the policy with less outside interference. A policy initiative may come from a member of the Standing Committee, most likely from the General Secretary and potentially from the premier in the future. It may be elaborated by the think tanks of each member and have support from a number of other politburo members.
However, it can become policy only when it passes the formal sessions of the Politburo with the majority membership voting for it. In case of grave disagreement, it has to go to a much larger forum, the CC's plenum. These fairly regulated procedures constitute part of the institutionalization of power and decision making. We may draw a distinction in politics of the Mao and post-Mao eras.

2-4 The Living Authority of Deng Xiaoping and Other Party Elders

As mentioned earlier, the present power structure at the top of the pyramid is still far from fully fledged. There remain fatal defects in its operation inherited from its past tradition of rule by man. While no leader is able to command absolute compliance from other politburo members, the distribution of power favours the groups associated with the Deng-Zhao political line. This is the major reason why Zhao had been able to mastermind most of the policy initiatives and see them through the politburo, despite the controversies involved until he failed in his push for price reform towards the end of 1988.51 As General Secretary, it is he who presides over the sessions and reports to the CC on behalf of the Politburo. There is room for him to take advantage of such a position to insert his own policy preferences in the agenda of the Politburo and its reports to the CC.

The Third Plenum in 1988 adopted a resolution very detrimental to Zhao Ziyang's reform strategy, and thus, to his prestige as a capable state administrator. Zhao's power base has been greatly shaken, although not to the degree as many observers suspected. There are some reasons for the assertion. The most profound is Deng's concern to safeguard his second revolution after he is gone. This is not to state that Deng likes what Zhao is doing. Actually much of what Zhao advocates in political and economic restructuring is beyond Deng's blueprint for reform. For instance, Ian Wilson pointed out Deng's silence about Zhao's advocacy of the thesis of the initial stage of socialism.52 It is important to take notice of this policy difference. Obviously, Zhao's interpretation and practice of the thesis has been
at odds with Deng's four cardinal principles and his politics of reform: reform for the better communist control. Their increased difference has presented Deng a dilemma analogous to Mao's succession arrangement before his passing.

The two things that Mao was most proud of were his role in overthrowing the Nationalist government and launching the Cultural Revolution. He knew the latter was very controversial and might be overturned at any time after he departed. That he dismissed Deng, protected the 'gang of four' and picked Hua as his successor were all designed to prevent a roll-back of the Cultural Revolution. He was aware of the untrustworthiness of 'the gang of four', but he needed them. The same interdependence could also be applied to Deng and Zhao's relations. In a sense Deng's post-Mao reform was almost equally controversial. To bring it past the point of no return requires a strong organizational guarantee linked to his succession arrangement. After he dumped Hu, Deng did not have any other choice but Zhao, who was the leader with a clear determination to carry out reform. Nor does he have time to cultivate an alternative. Like Mao before him, he needs Zhao for similar reasons. This is why he deliberately downplayed Zhao's errors in economic decision-making as he attributed the neglect of education to be the biggest fault in the decade of reform, for which Li Peng could also claim a part as the former minister for education.\(^5^3\) A more important example is Deng's support of Zhao's termination of the two political campaigns against (1) Spiritual Pollution in 1983 and (2) Bourgeois Liberalization in 1987. In both cases Deng was alleged to have accepted advice from Deng Pufang, his eldest son, that if the drives continued, they would affect the entire reform camp, thus reducing Deng Xiaoping's own power base. After all, people around Hu-Zhao were his most important levers in dealing with the minority groupings led by Chen Yen.*

* The situation has changed in the wake of Beijing students pro-democratic movement. With their demand, "down with Deng Xiaoping", being loudly heard throughout the world, it is Deng's entire political career that is at stake. Under the circumstances, reform has to be in a place of secondary importance in his mind.
However, the dilemma continues. For similar reasons of safeguarding his second revolution, Deng may eventually have to dump Zhao as he did to Hu. What Deng fears most is a split in the party leadership, followed by his fear of a possible Chinese Gdansk. Hu's fall was attributable to Deng's worry that Hu's style of handling Chinese politics would give rise to both. In many respects Zhao's leadership of reform since the 13th Congress has been as assertive as Hu's. His relations with Premier Li Peng have been very uneasy - a dangerous fact which may stimulate the conservative groupings to coalesce once again. There is a real danger that Zhao would lose Deng's confidence in him.

Whatever is Deng's decision on Zhao, there is no simple solution. After ten years working at the core of the party leadership and as the chief government administrator, Zhao now emerged as the only leader in the second generation capable of resisting the party elders. His command of the party centre can be more efficient than anyone else in the Politburo. Certainly he has competitors but now they are not strong enough to challenge him. For instance, other members in the Standing Committee of the Politburo are either too old, like Yao or, too weak, like Hu Qili and Qiao Shi. Li Peng, a likely rival in the future, is now still in the process of consolidating his power in the State Council. Deng, however, will not have time to wait until Li becomes strong enough to replace Zhao. Even if he had time, he would be dubious about Li's stand on his reform, for obviously, he is the heir-apparent of Deng's own rival - Chen Yun.

So Deng supported Zhao in his takeover of the party and military leadership. At the same time Deng had imposed some checks and balances on Zhao to moderate his reform initiatives deemed deviating too much from the four cardinal principles. This was best reflected by his arrangement that Zhao had to quit the State Council to enter the party centre. It seems that there is still some way to go to the end of the political succession in post-Mao China. In the meanwhile, however, the fatal threat to Zhao's position is not so much from 'internal party opposition' as from crisis in the external political and economic situations
which are bound to affect inner party power strife. Since these two factors seem to be
developing, the future of political succession is far from totally assured and, similarly,
Deng's reform program.

Therefore Deng has to maintain his hold on power. On the one hand he will keep an eye on
Zhao, who is now capable of independently wielding of power. On the other, he has to be
cautious about those who dislike his second revolution. That Chen still keeps an important
post in the party demonstrates a strong commitment by the elders to remain politically active.
Indeed, Chen's presence alone carries enormous political weight and he seems determined
to be present. It is not a question of power for power's sake. Seeing the confusion
generated by reform, he is simply not at ease in handing over all his power. Therefore Chen
is likely to stay until his own trusted men in the top leadership are secure. One of his famous
proverbs reveals his determination: If you work more, you will work less. When you work
less, you will work more - an admonishment to other party elders to keep fit to stay in
power. He certainly knows well that while he is alive, he can serve as the rallying point for
a large number of party cadres. The longer he lives, the longer his course lasts. Deng is also
well aware of this.

The analysis above shows the complex nature of China's politics at a time of rapid social
transition induced by reform. Within the top leadership there is a "cabinet" coping with
front-line affairs. Behind it is a shadow authority that monitors the performance of the
first-line leadership. In both there is a leading figure checked and balanced by groups of
various interests. Their interactions are further complicated by an always elusive economic
and political environment. For the second-generation leaders, Deng's towering presence is
desirable for it can be used to contain the interference from other veterans and to settle
serious policy disagreements among themselves. Yet his presence serves as a reminder of
the practice of leadership by lines, an obstacle to the institutionalization of the leadership
structure.
Objectively speaking, the retreat of Deng and his counterparts from politics does not entirely rest on their personal likings. For instance, Deng enjoys playing bridge more than attending to the headaches caused by the reform problems. Yet he will retire only when he is sure that his reforms are safe. Then he needs to see others who do not favour his way of reforming socialism retire together with him. The others, however, simply refuse to step down because they either do not want to see their life-time revolutionary efforts wasted or their vested interests taken away. It is understandable that Deng has been talking about retirement, the latest being his claim of resigning from the CMC before the end of 1989, but can never fully retire even when he gives up all his official posts. As the transitional period will surpass their life expectancy, only time can solve this question of whether Deng's reforms will outlive him. What is clear is that since the Party's Central Advisory Commission will have only three years to live, everybody in both "lines" will have to make the most of it. The victory of Li and Yao at the Third Plenum will, therefore, exert a significant impact on politics after Deng and his chief colleagues finally surrender their power. In the meanwhile what the party elders wish to happen is a crisis similar to Hu incident through which they can mobilize their "remaining heat" to wipe out the liberal elements in the party leadership. Certainly it is difficult for them to interfere with the politburo's decisions when the transfer of power is smooth.
Notes

1. Four elders are Deng Yingchao, retired for Chairmanship of China's Political Consultative Conference; Peng Zhen, from Chairmanship of the NPC Standing Committee; Nie Rongzhen and Xu Xiangqian, both from the Central Military Commission as vice chairman. Three semi retired are Deng Xiaoping, Chen Yun and Li Xiannian. While all retired from the Party's CC, each of them still keeps one position at the hierarchy. Deng retains chairmanship of the CMC, Chen took the CAC and Li replaced Deng Yingchao as chairman of CPCC.


6. According to the candidate list of the CC prepared by the Central Organization Department, Deng Liquan was a member of the CC and an alternate member of the Politburo. But he lost the election for the CC and, therefore, failed to get the entry into the Politburo. The event was unique because it effectively altered the power array between the different groupings in the top leadership.


8. This is summarised by Huanghai, a party history specialist in the Central Party School. See his article "Reform of the Party Leadership Structure", *Compilation of Data Regarding the Reform of Political Structure in China and Other Countries*, Distributed by Beijing: Association of Scientific Socialism, 1988, p. 7.

9. The other four were Liu Shaoqi, Zhou Enlai, Zhu De and Ren Bishi. They were elected by the Seventh National Party Congress in July 1945. When Ren died in 1951, Chen Yun was elected into the body.


19. Zhao Ziyang disclosed to Barnett that the Politburo seldom met nor did the Standing Committee of the Politburo. From 1982 the decision on major issues was made by the Secretariat and the State Council after some consultation between the two organizations. They then reported it to Deng. See A Doak Barnett, *The Making of Chinese Foreign Policy: Structure and Process*, Boulder, Colorado: Westview, 1985.


22. My interview with a number of retired ambassadors during my field work in China in May and June 1988.

23. This was disclosed by the self-criticisms made by Hu Yaoyang and Hu Qili during the inner party life meetings in the turn of 1986 and 1987 which eventually led to Hu's resignation.


25. Ibid.


30. Guangming Daily, December 17, 1988, p. 3.


33. The State Constitution regulates (Article 93): "The State Military Commission commands the military forces of the nation. Its Chairman is responsible to the Standing Committee of the NPC." Along this line, Zhao Ziyang proposed a controversial plan of the PLA reform during the enlarged meeting of the CMC in March 1988. RMRB covered the story but did not give details. (March 21, 1988) During my field work in Beijing in May 1988, I talked with a number of retired military officers, who were quite disgruntled by the new development.

34. This term 'objective civilian control' and that of 'revolutionary professional army' were borrowed from Samuel Huntington. See The Soldier and the State: the Theory and Politics of Civil- Military Relations, Cambrige: Belknap Press of Harvard University Press, 1957, p. 81.

35. This was widely spread in and outside China. See for instance, Lu Jian, op. cit, 27.


37. See for instance, each Communique of the Politburo sessions.


39. According to Zhao's talks with Gorbachev in Beijing in May 1989, the party elders agreed that after the 13th Congress they would not intervene in the work of the Politburo and that the Standing Committee should be the highest authority in making any important decisions. Actually Zhao made these the precondition for him to accept the post of General Secretary. Zhao said: "Although the agreement is not made public, it is understood by everybody." In fact it were these remarks with which he was accused of revealing state secret.


42. Chen Yun, op. cit. p. 247.
43. See for instance, David Bachman: "Politics & Political Reform in China", Current History, September 1988, p. 251
44. Since Hu Yaobang resigned from the directorship of the CC's Organization Department in 1979, the following directors have been Song Renqiong, Qiao Shi, Cheng Yeping and Wei Jianxing. Except Song the rest all served in the League at some stage of their political careers.
45. For the most of the time between 1949 and 1966, the Department was headed by An Ziwen who was not a Politburo member. When Hu Yaobang just became its head, he was not either, nor were Qiao Shi, Cheng Yeping and Wei Jianxing.
49. Quoted from a summary by Nineties, No. 9, 1988, pp. 16-19.
51. This points mainly to the fact that since the 13th Congress, Zhao had been able to steer economic reform at his own will until the Third Plenum. At the time of writing we saw many of his reform proposals put into practice, particularly his financial responsibility system and coast strategy, which had vested more power to provinces.
Chapter Three  Restructuring the Party Central Organizations

An important part of China's political reform is the restructuring of the operational bodies of the party and government centres. Deng once commented: Organizational reform is also a revolution, ...It is a revolution of the political system.¹ Many people, however, question the real value of the endeavour because such a restructuring is an on-again-and-off-again phenomenon. Since 1949 there have been five large-scale restructurings of the central government and party bodies. Small adjustments have never stopped.² None of them has ever worked to the expectation of their designers. This time the reorganization of the central government ministries may point to some real changes, as the country's economic structures are undergoing a fundamental transition from a command to a mixture of command and market economy. The restructuring of government functions must conform to these changes. Yet as far as the restructuring of party central bodies is concerned, the progress since the 13th Congress has proved to be more a readaptation to the new General Secretary's political manoeuvres than a real reform. Surely, there is rationalization of the institutional functions involved, such as the annulment of the central party departments that overlapped state functions in economic management. Time is, therefore, needed to evaluate its results. This chapter will concentrate on the reorganization of the central party bodies, which comprises an important part in the reform of the party leadership structure. Here the central bodies mean the functional departments directly under the CC and the Politburo.

3-1 The Structure of the Functional Departments at the Party Centre

At the party centre the immediate affiliates before the 13th Congress fell into four categories: (1) the departments which handle the everyday party functions: the General Office, Departments of the organization, Propaganda, United Frat Work and International Liaison; (2) the investigation and research bodies: the Policy Research Centre and the Research Centre for Rural Policies both under the Secretariat; (3) special policymaking and coordination bodies: the Central Political and Law Committee, the Finance and Economics
Leadership Group, the Central Leadership Group for propaganda Work, the Central Leadership Group for Foreign Affairs, the Central Leadership Group for Taiwan Affairs, the Central Leadership Group for the Intake of Foreign Technology and Human Resources, the Central Leadership Group of Cadres' Education and an ad hoc personnel group for the 13th Congress; (4) other institutes: the Central Party School, the Central Compilation and Translation Bureau, the Central Archives, the Commission for Collecting Party Historical Data, Party History Research Centre and Party Literature Research Centre, *Peoples's Daily* and *Red Flag* Magazine; (5) the Office of the Party Central Advisory Commission and the Office of the Party Central Commission for Discipline and Inspection.(See Graph 1)

Shortly after the 13th Congress completed the reshuffling of the Politburo and Secretariat, the reorganization of the party central functional bodies was set in motion by the Politburo's Second Session in December 1987. The main ideas for the enterprise stemmed from the compromises between the different factional groupings as part of the overall organizational and personnel arrangements for the 13th Congress. For example, the removal of the Finance and Economics Leadership Group of the CC headed by the former Premier was obviously one outcome of the transfer of the premiership to Li Peng in the name of separation of party and government functions. The new Secretariat was entrusted with the mission of working out the detailed procedures. By mid-August the reorganization was basically concluded and a new structure of party leadership at the central functional level became operational.

Relatively speaking, the work was done fairly smoothly and quickly. This was because: a) the party central agencies had fewer interlocking ties with specific state social and economic bodies; and b) the agencies and people involved were not great in number. Compared with the composition of the party centre before the reform, the present party central functional structure has several new features.

(1) According to a *New China News* announcement, all the agencies at the party centre that overlapped those in the State Council were either abolished or amalgamated with their State Council counterparts. As a result, there is no agency in the party centre performing
specific governmental social and economic functions. For instance, the former Leadership Group for Taiwan Affairs was moved to the State Council and became a ministerial agency: the State Council Taiwan Affairs Office. The disbandment of the specialized central leadership groups (function category 3) was of great political significance.

(2) Along with the changed role assumed by the Secretariat, the two research centres originally attached to the Secretariat were transformed and placed under the direct control of the CC. While the so-called stronghold of the leftist ideologues (the Policy Research Centre of the Secretariat) was dismantled, a powerful new centre was erected, namely, the Central Party Research Centre for Political Reform.

(3) An amalgamation took place among the party central institutions (category 4). The merged or downgraded agencies included: Red Flag, now renamed as Seeking Truth, another stronghold of "ossified" ideas which was transformed into an academic journal of the Central Party School; Central Archives and Commission of Collecting Party Historical Data which were respectively incorporated into the Party History Research Centre and Party Literature Research Centre.

(4) Two more powerful organizations were added to the array at the party centre: the Commission for Party Work in the Party Central Agencies and the Commission for Party Work in the Central Government Agencies. They are actually watchdog organs responsible for the internal party affairs of the party and government centres. The latter is particularly important, as all the party leading groups (dangzu) were removed from government administrative organizations. As the next two years will be devoted to an economic retrenchment when the central control is to be tightened, a de facto party "education campaign" has been going on in the government bodies to rectify their work style. The mission of these two Commissions will become more demanding.

On the whole the new party centre is smaller in size and simpler in its administrative make-up. The restructuring has generated considerable impact on the overall political scene in China. (See Graph 2)
Organisational Structure of Party Central Committee after August 1988
3-2 The Politics Restructuring the Central Bodies

The entire process by which the party central bodies were streamlined bore out the political practice of long Chinese tradition: every emperor brought in his own courtiers. It was also accompanied by a great deal of power balancing among different groupings in the uppermost leadership. It was probably the first round of political strife since the Thirteenth Congress. In the end Zhao Ziyang basically achieved what he wanted.

3-2-1 The Establishment of the Centre for Political Reform vs Abolition of the Policy Research Centre under the Secretariat

The first example is the establishment of the Party Research Centre for Political Reform. Headed by Bao Tong, the former personal secretary of Zhao Ziyang, the Centre originated from an ad hoc group of effective writers commissioned to draft the political section of Zhao's report to the 13th Congress. The group remained after the Congress and was enlarged to take in a number of outspoken reformist theorists of politics and economics like He Jiacheng, a representative of those named as young Chinese Keynesian economists. Zhao's support for the establishment of the centre was a familiar practice of long standing that senior party leaders form their own think-tanks. But those leaders never openly admit it because it is against party principle: no party leader is allowed to organize a personal 'mountain' or faction. Now for the first time these young theorists could publicly articulate their stand as scholars-turned-politicians:

The area of scientific decision by the highest party or government leader is the realm no democratic system can transcend. Drawing from the experience of other countries and in order to conform to the tasks of a new era, it is necessary for the state economic decisionmakers to form their private mini-consultative think tanks (not administrative organs). The decision makers should hold frequent consultations with this group of experts about any matter of importance so as to guarantee the continuity, stability and fairly high rate of correctness of the policies made.10

These economists, closely associated with the State Commission of Economic
Restructuring, played a significant role in advancing proposals for economic reform during Zhao's premiership. As Zhao became the head of the party and is leading political reform, he needed another body to design the blueprint for this project. The new Centre is shouldering this formidable task.

Like the SCER, which was Zhao's reservoir of new ideas for economic reform, the Central Research Centre of Political Reform is also full of new ideas for political reform. For example, at the height of discussion about separating party and government functions, researchers at the Centre proposed the abolition of standing committees in the party provincial committees. Their reason was that since most of those permanent committee members either had a government post or were empowered to take charge of a sector of government work in their capacity of serving on the party standing committee, separation of the party and government offices would become meaningless if the institutional links between the party secretaries and government missions were not cut altogether. The proposal had the backing of Bao Tong but was turned down by Zhao, who considered it too radical, as it would affect too much of the present mechanisms of control. As a researcher in the centre who opposed the proposal commented:

If the party would exercise leadership over the government, there should be party people to do it. They are engaged in the leadership as a matter of fact, regardless of whether they are permanent committee members or not. At the moment the proposed abolition could only be a shell without contents.

Another important mission accorded to the Centre is the drafting of major policy documents for the CC and the Politburo. Before the Centre was set up, the task of drafting central documents was jointly carried out by the General Office and Policy Research Centre. After the 13th Congress, even though Zhao appointed his man Wen Jiabao to head the General Office, the political attitudes of the staff in the Office were not so clear-cut to have Zhao's confidence. The work is important in that these 'central documents' often bear the political points of view of the leaders who order the documents. It is not uncommon throughout party history that party documents become the evidence of the 'line errors' of fallen senior leaders. Those who control the drafting are in a better position to carry out their policy
preferences, especially at a time when there exist serious policy disagreements in leadership. The most recent case in point is the apparently different evaluation of the economic situation shortly before the Third Plenum of the 13th CC as expressed by Zhao's speech to the plenum and the speech made by the Premier to the State Council Conference. As usual, the evaluation of the situation is a parameter of the success or failure of policies implemented by the different leadership groups. The fact that Zhao's speech still regarded the bleak economic state of the country as promising reflected the extent to which the issue could be politically explosive. Indeed the legitimacy of Zhao's leadership depended closely on 'how to realistically see the situation'. Under these circumstances, the tone set by the central documents about the new policy line to the Plenum was of particular importance for Zhao's political future. The wording, judgments and conclusions of the central documents reveal clearly the positions of leaders towards a policy initiative. The control or loss of control over the drafting and issuing of the central documents mirror the distribution of power in the leadership. Central documents, especially speeches to the party congress and the CC's plenary sessions sanction a political line and thus are used as a political weapon against other groups. In this sense the Central Research Centre of Political Reform has become the manufacturer of these weapons.

The establishment of the Centre could also be regarded as an open expression of Zhao's dissatisfaction with the former Policy Research Centre of the Secretariat, which, under Deng Liqun failed to conform to the vision of political reform of the then Acting General Secretary. The first few months after Zhao took over the job from Hu Yaobang saw a big upsurge of leftist ideas disseminated from the Centre and other party propaganda agencies under its direction. Zhao was vulnerable to their offensive, for all their manoeuvres were initiated under the cover of the 'four cardinal principles' that no leader was able to say he did not support. In discussing political reform, they particularly emphasized party leadership, really meaning party control over the reform, which could be construed as their displeasure to see constraints placed on their power as the reform would gradually liberalize the control. In the course of their 'strengthening' of party leadership over political reform', it
would be unlikely for Zhao and his people to introduce measures to separate party and
government functions without being accused as relaxing party leadership.

The Policy Research Centre under Deng Liqun did not stop at just attacking those
advocating political reform as encouraging bourgeois liberalism. Deng Liqun tried to get to
the roots of bourgeois liberalism in the field of economic reform - a clear gesture against the
State Council's efforts to use more market mechanisms in the management of China's
economy. Many reformers viewed Deng's remarks as an attempt to retaliate against
criticisms to his Centre a year before for its unbalanced stress on the role of planning. In
1986 the Centre had compiled a book on the socialist planned economy, drawing on Marx
and other leading socialist theorists. Chen Yun's ideas were conspicuously presented. The
book did not go to press due to its rejection by Hu and Zhao. They considered it at odds
with the current of China's economic reform. But it did win support from Hu Qiaomu.
Obviously, the book attempted to influence the course of economic reform, which had just
entered a crucial period of transition from the old economic model to the new. Hu Yaobang
replied in a solemn manner to the submission of the Centre's appeal for publication. And
Zhao Ziyang said that we should be very careful to publish a book like this at this juncture.
This event silenced the Centre for the most time of the year.

It was clear that the Policy Research Centre did not submit to the command of Hu Yaobang
despite Hu's direct responsibility for its work. This phenomenon had deep roots in the
factional politics of the top leadership. In the last ten years, as economic reform deepened, it
called for a theoretical breakthrough regarding the relations between planning and market.
This, however, was not a question of pure economic theory but a political redefinition of
what was a socialist socioeconomic system. There were obvious dichotomies between Chen
Yun's bird cage thesis and Zhao's preference for more market forces in running the
economy. In this debate, which was going on openly at the academic level, Deng Liqun
spared no effort to support Chen's concept of planning. Each time Chen's selected works
were published, Deng always hailed it wholeheartedly, giving long lectures and writing long
articles to elaborate his ideas. In return Chen backed Deng in his opposition to Hu's handling of political issues and Zhao's approach towards economic reform. He said several times that nowadays it was difficult to find people like Hu Qiaomu and Deng Liqun who had theoretical talent. Without Chen's support it was inconceivable that Deng would be able to resist pressure from both the General Secretary and Premier for so long and this eventually helped to overturn Hu.

Even when the reformers got the upper hand before the Congress, Deng Li qun was still listed as a candidate as an alternate member of the Politburo. This was a typical example of how Deng Xiaoping played the role of the balancer in Chinese politics. As the reformers emerged stronger after the anti-Bourgeois Liberalization drive, something must be done to console their opponents. Otherwise, the foundation of the politics of consensus would be further eroded. But Deng Liqun should not be given the full membership of the politburo because his outspoken criticism may disrupt the decision-making process in the body. Being an alternate member, Deng could raise his viewpoints but have no right to vote. In this case the opposite views could be heard but these views would not effect the passing of the reform policies in real terms. Through this example people can acquire some understanding of Deng Xiaoping's handling of the conservatives.

However, this consolation for Deng Liqun and the party elders behind him was still too dear for Zhao Ziyang to accept. It was widely believed that it was Zhao's insistence that the election of the CC be through multiple candidature, an arrangement which wiped out Deng's chances to enter the Politburo. Deng won hardly any support from the Congress delegates who were all carefully chosen by Hu's people before being ousted. Many newly appointed provincial party secretaries did a great deal of persuasion among the delegates they led. On the other hand, it was only natural that Zhao did not like Chen's idea that persons holding views against the policy of the majority leadership group should be protected. Yet his determination to keep Deng Liqun away from the leadership core finally convinced the party elders that from now on they could no longer expect to work with Zhao in a cooperative
manner. Consequently, they formed a coalition to support for Li Peng and Yao Yilin. The exclusion of Deng Liqun and the abolition of his Policy Research Centre showed that, in the final analysis, Zhao was prepared to depart from the norms of China's post-Mao politics centred on compromise and consensus. It also showed that when confronted, Zhao was willing to break the rules of the game, which normally dictate compromise as the best means to preserve party unity. Zhao, however, faced a critical choice: to consolidate his authority in the Politburo he had to keep resistance at the minimum. He must do so as quickly as possible or he might never have enough time to do it, as his rivals could also grow quickly in strength with backing from the party elders.

3-2-2 The Downgrading of Red Flag

To achieve this end Zhao made another bold move in the name of political reform at the party centre, that is, the downgrading of Red Flag from an authoritative mouthpiece of the CC to an academic journal of the Central Party School. Red Flag, founded at the height of the Great Leap Forward, had a long tradition of ideological rigidity. Before the Cultural Revolution, under Mao's close supervision, it was instrumental in propagandizing radical ideas, such as class struggle and the purity of Marxism, Leninism and Mao Thought. Chen Boda, as chief editor was feverishly involved in the theoretical debate with the Soviet Union between 1961 and 1965, which pushed the Chinese understanding of Marxism and Leninism to the extreme left. During the Cultural Revolution, Red Flag was the chief medium that disseminated Mao's thesis of continued revolution under the conditions of 'proletarian dictatorship'. When it fell under the complete control by the 'gang of four', it did much to fan the waves of 'major criticism and all round dictatorship against the bourgeoisie'. Long after the start of the reform era, it still clung to the leftist way of thinking. For example, it carried a long series of articles criticising Wang Ruoshui's views on humanism and alienation. In the debate over the targeted model for economic reform, its position on planning taking primary place with the market secondary stood for a long time in the way of developing theories promoting of reform. Obviously, the inheritance of
leftist tradition in the minds of its new staff helped create a conservative culture in *Red Flag*, which gravely obstructed the new thinking.

Analogous to the restructuring of the former Policy Research Centre of the Secretariat, Zhao's decision to downgrade *Red Flag* was part of his overall strategy to preempt ideological conservatism. Concurrently, it served as a measure for Zhao to broaden his own power base. In early 1987, Zhao made a speech on ideology and propaganda to a central conference, branding those "ossified" in thinking as dogmatically interpreting the four cardinal principles. This speech marked the turning point in the campaign against bourgeois liberalism. By stressing one focus of work, namely, economic construction and two basic points, (1) reform and openness and (2) the four cardinal principles, he successfully diluted the intensity of attacks against those who were supposedly against the principles. Zhao reiterated that upholding the principles had been only one point in the party's political line since the Third Plenum in 1978, and in the future, the four principles, except that of party leadership, should not mentioned too often in public as too emphasis may arouse people's revulsion. Shortly before the 13th Congress, Zhao appointed Hu Qili to take over the leadership of party's ideological and propaganda work. Hu Qili at once initiated several offensives combating leftist ideas. The new leadership made great efforts to praise the successes brought about by economic reform. It propagated Zhao's thesis on the primary stage of socialism so hard as to excuse the defects of Chinese socialism and reform. This has generated popular cynicism towards the thesis. For instance, students at Beijing University described the thesis as a rubbish bag that could contain anything. Since September 1987, and especially since the Congress, all major newspapers have taken the side with Zhao. In many respects, although ideological conservatism was deep-rooted, Zhao dealt with it fairly easily. And his firm grasp on the ideological and propaganda work reflected his consolidation of power in the party centre.

When Zhao reordered the party centre, he probably did not anticipate the strong resistance from the ideologues that the downplay of *Red Flag* would cause. The dismantling of Deng
Liqun's Policy Research Centre could be justified by the changing role of the Secretariat. The decision to downgrade *Red Flag*, however, came solely from Zhao's personal likes and dislikes. It stimulated a number of party elders to take action against him. It was alleged that they complained to Deng Xiaoping of Zhao's arbitrariness in making such a major decision himself. Deng, however, tried to ease tension between both sides. Despite the extent to which this matter could influence the policy disputes over reform between different groupings in the party centre, it could by no means equate in importance with his overall plan for Zhao's succession. Additionally, he himself may feel that the magazine's inflexibility on theoretical matters impeded further emancipation of mind for reform. On the other hand, because he still believed it essential to elicit some basic support from the party elders for his second revolution, he made Zhao see to it that proper transfers should be arranged for the former *Red Flag* staff. In the meantime, the magazine continued to turn out issues. Deng also accorded high status to the new magazine in compensation by personally inscribing its new title: *Seeking Truth*. In the final analysis, Zhao's power base seemed quite steady in this post-congress test of power. Yet it also showed that other groupings were still waiting for whatever opportunities to wage a counter-attack.

In summary, the downgrading of *Red Flag* undermined the strength of ideological conservatism for the infighting with the reformers. This infighting was bound to occur not so much because the conservative elements in the ideological and propaganda front were still strong, but rather because the all-embracing theoretical guideline for the reformers, the thesis of primary socialism, was too weak. Should the debate be renewed, the magazine, *Seeking Truth* as an academic journal would not inject into the inner party strife the same political weight it used to be able to deploy as the major party mouthpiece. So the event represented a gain for Zhao and reform.

3-3 The Politics of Removing the Central Party Leading Groups

While Zhao strengthened his position in the party centre, especially in the leadership of the
ideological and propaganda front, he simultaneously lost his previous spheres of power in the highest government administration. Before restructuring, Zhao was Chairman of both the CC's Finance and Economics Leadership Group and Foreign Affairs Leadership Group. As the third-category central party organizations, including these two, were either annulled or removed to the State Council, he lost the bridge with the concrete management of state administration. For instance, first he let Li Peng take over foreign affairs about the time that Li was confirmed as Premier. In mid 1988 a new office was established in the State Council to deal with foreign policy formulation. The Politburo remains in charge only of broad policy guidance in this area. A case in point is its 14th Working Session, devoted especially to foreign affairs. It reached a consensus that following the new detente between the two superpowers, the overall world situation had effected a historical turn towards peace. It suggested the government administration react accordingly. Although it decided on the guideline for a Sino-Soviet summit and Sino-Vietnam talks on Kampuchean issues, it had looser control over the overall course and specific stages in these efforts. In fact the politics generated from the restructuring was profound.

3-3-1 The Removal of the Finance and Economics Leadership Group

The transfer of power over economic management was concluded by the end of August. Particularly important for Zhao was the power of economic management through which Zhao had capitalized on his reform designs and had ascended to the nominal post of number one leader in the party. With power over the economy taken away from him, there existed a real danger that his preferred economic reforms would be reversed, or at least, a danger of alterations to his previous priorities. As the recent Third Plenum of the Thirteenth CC changed the direction of economic reform, observers may now understand better why Zhao was so reluctant to be transferred from the premiership to the party chair.

Deng's remarks that between the two portfolios of the State Council and the party centre, Zhao could have only one, and that he believed the party job was more important, played a
decisive part in bringing about the current situation. Technically, however, the withdrawal of central party leading groups was instrumental in making it emerge. In terms of a political reform to separate party and government functions, the removal represented concrete progress towards rationalizing party and government relations. Yet in terms of its political implications on the overall balance of factional groupings in the top leadership, its merits and demerits are still far from clear.

In the past the central party leading groups concentrated in their hands enormous policy decision-making powers in major policy areas such as economics, foreign affairs, ideology and propaganda. Although these groups were set up at various times and some of them were transitory, once in place they inevitably formed the core of decision making at the highest level. They were usually directly responsible to the Politburo and its Standing Committee and headed by its members. The privilege associated with these groups was that there was no boundary to the exercise of their power. They made key decisions for the government to implement and often attended to administrative affairs that belonged to government. It all depended on the liking of the committees' leaders.

One well known example was Deng's bossy reproach to Geng Biao and Huang Hua, both Vice Chairman of the NPC Standing Committee, over their comments on Hong Kong issues in 1984. Prior to announcement of the Sino-British agreement on the transfer of sovereignty of Hong Kong to China after 1997, there had been heated discussions about whether China would station the PLA in the island. In one interview with Hong Kong correspondents, Geng Biao and Huang Hua were talked into saying something that could be interpreted as China's commitment not to station troops in Hong Kong. Their comments were immediately denounced as 'nonsense' by Deng at his reception for the same group of people, the type of rude remark by one Chinese leader to others seldom heard face to face by outsiders. Deng told the gathering that in regard to Hong Kong's future arrangement, only what three people said counted. They were the premier, State Councillor Ji Pengfei and himself.27 This special power was conferred on the first two, especially Ji, largely because both of them were
members of the Central Party Leadership Group for Foreign Affairs. (At the time the group's chairman was Li Xiannian.)

The Finance and Economics Leadership Group of the CC was the most influential among the groups. This was partly because of the historical role it played in China's economic management and partly because of its personnel. It was first established in 1958 as a consultative body with Chen Yun as its first head. Under Chen's leadership it did not go along with the Maoist approach towards economic development and repeatedly resisted the "backyard furnace" and "maojin" (adventurous advance), which greatly annoyed Mao. Following the Lushan Conference, Mao started a campaign against rightist tendencies in 1959. For a while the group stopped meeting.

In the early 1960's the Group was reorganized when an urgent need for central coordination and control emerged in response to the chaos caused by the Great Leap Forward. Liu Shaoqi, who was given the power to preside over the Politburo when Mao retreated to the second line, called on Chen Yun at his home to inform him of his new appointment as group leader and assured him of his full authority in leading economic readjustment. Chen Yun had Bo Yibo and Li Xiannian as his deputies and included in the group were vice premiers responsible for planning, agriculture and finance as well as the ministers of key industrial sectors. It was charged with making major economic policy, particularly concerning the production of steel on which the basic economic plan rested.

In the first two months of 1962, the CC held a famous meeting, often referred to as the conference of 7,000 cadres. At the meeting Liu Shaoqi delivered a speech on behalf of the Politburo, summarising the lessons of the Great Leap Forward. Mao made a self-criticism for his part in the disaster. He said that he had not realized before that even if steel was produced, it could not walk to where it was needed, for it did not have legs, a metaphor to describe his lack of knowledge of balanced economic development. After the meeting the party centre formally adopted the so-called leadership between lines, making it possible for
the Group to take full charge of economic affairs. There were minor adjustments of the personnel make-up. The fact that Premier Zhou was just a member of the Group showed the party's decisiveness in the economic policy-making vis-a-vis the State Council.30

The Group was the chief organizer of the first economic readjustment between 1961 and 1965. It gained enormous credit for economic restoration and hence power in the process, as it recentralisation a large number of plants previously "lowered" to be under the leadership of local government. It also set the precedent that in a situation of disarray the economic decision-making power must be centralized. Moreover, it proved that the return to order was best achievable through the party's organizational strength, which Zhao has termed as China's political strong point and has marshalled up again under the current circumstances.31 The readjustment resulted in a command economy of higher degree, more centralized and restricted by planning.

After Chen Yun returned to power again following the Third Plenum in 1978, the first thing he did was to propose the reestablishment of a central body of the highest authority for economic policy decisions. In March 1979, only four months after Chen was reelected as one of the five party vice-chairmen, a committee on economic and financial affairs was set up in the State Council with Chen as chairman. The exact reason why the committee was placed under the State Council remains unknown. Probably it was due to the fact that by then Chairman Hua's power in the State Council had been basically stripped from him. It was stipulated clearly that the Committee was the body in authority responsible for shaping policy and deciding on major issues in China's economic affairs. It was a powerful organization because it included most of the key figures who were later called 'party elders'.32 In retrospect, the fact that Yao Yilin was appointed as secretary general of the Committee and charged with its everyday work revealed Chen's consideration for Yao's takeover of a position in economic management similar to that he used to hold.

The Committee was transferred to the CC in March, 1980 when Hua also lost his real power
as party chairman. Zhao came from Sichuan to preside over it and in the same year became premier, the first case where a leader held both positions of economic policy-making and execution. When Zhou Enlai was premier, he was involved in policymaking but more on the side of implementation. Chen had been the policy designer for a long time but never the chief practitioner. The combination of these two responsibilities in Zhao's premiership had far-reaching impact on the course of economic reform as well as on post-Third Plenum politics when Zhao had to surrender both to Li Peng.

Since assuming these two important offices, Zhao had gradually deviated from the conditions on which rested Chen's original agreement to hand over power to Zhao as the new representative of central economic interests. In fact central interests had been always embodied in the spirit of the Group. At first Zhao carried out faithfully the policy line set by his predecessor, namely, the 'eight character principle': adjustment, restructuring, consolidation and improvement. The price he paid for fostering the trust of Chen and his colleagues was the abandonment of his reform zeal, well known to the country through his Sichuan experience. As Chen Yun once commented: We should advocate speaking with the Beijing dialect. I am from Shanghai. But when I came to Beijing I began to speak Beijing dialect. When Comrade Ziyang came to Beijing, he, too, speaks Beijing dialect.33

As a provincial leader Zhao had no solid power base in the centre. He, therefore, started his journey to the top with a change of tone. Not only did he faithfully carry out Chen's readjustment policies, he also tried to convince Chen that he was following his ideas on planning and the market until the beginning of the urban reform. In a letter to other members of the Politburo Standing Committee on the guidelines for the forthcoming urban reform, he wrote on behalf of the Group:

1. China will carry on a planned economy, not a market economy. (2) What should be regulated through blind and spontaneous market mechanisms is limited to small commodities: the third category produce and the service and repair trades which only play a supplementary role in the national economy.34 (3) The planned economy does not equate with the economy dominated by mandatory planning. Mandatory and directory
planning are both forms of the planned economy.....(4) Directory planning is mainly regulation through economic levers. Mandatory planning should also be used within the functions of economic levers, particularly the law of value.\(^{35}\)

The first two principles are the core of Chen's economic thought. The rest are developments by Zhao on the basis of the first two. Obviously, Zhao deliberately kept his program in an open ended state. Without the acknowledgement of the first two, it was very difficult for Zhao to have the latter two legitimized. Only with the agreement on the first two as the guideline for reform did Chen sanction the whole package of ideas. In the 1985 Party Delegates Conference Chen openly criticised the direction of economic reform which apparently went beyond these agreed limits. He particularly mentioned the latter two principles to serve as a notice to the meeting.\(^{36}\)

Zhao claimed that these four principles could differentiate the Chinese economic structure from a capitalist economic model.\(^{37}\) They, however, did not represent a qualitative change from Chen's bird cage thesis. Judging from what he said later about the urban reform, particularly after the Thirteenth Congress, people could infer that the formulation of the four principles by the Group was a measure of political expediency by which Zhao went along with the other members of the Group, who all upheld Chen's ideas.

Yet Zhao as the leader of the Group did contribute to a reduction of central planning in China's economic structure. In the same letter he clearly stated that:

> The socialist economy is a planned commodity economy based on public ownership. But to put the plan first and the law of value second is not precise and no longer appropriate for continued practice in the future. These two sides should be realistically combined.\(^{38}\)

The combination of the competing theses paved the way for Zhao to put his own economic ideas into the forthcoming urban reform. This helped overcome disagreement on the reform goals that had already delayed the initiative for a long time. On the other hand, it also explained why the communique of the Third Plenum of the Twelfth CC held in October 1984 was self-contradictory in many sections. This compromise, rather than a clear-cut
consensus, on the theoretical guidelines for the urban reform heralded a troubled course.

Nevertheless, Zhao's expediency won him valuable authority in deploying the economic reforms which proved to be a fatal blow to those not in favour of his way of management.

The Third Plenum of the Twelfth CC decreed:

All the major reform steps of national importance must be preapproved and closely monitored by the State council. Local governments and units are encouraged to proceed with reform experiments. Yet any of their initiatives affecting the overall situation of the reform should first be submitted for approval by the State Council.\textsuperscript{39}

With this authority accorded to him, Zhao was able to circumvent the abstract four principles mentioned above by adopting concrete measures for his own reform preferences to change central control to 'influence'. For instance, when his reform strategy centred on decentralization and profit retention gave rise to a run-away local industrial expansion, he was slow to work out countermeasures for fear that such a move would enhance again the central vested interests. He believed that \textit{tiaotiao} dictatorship or central vertical control was a major obstruction to the erection of a socialist market economy.\textsuperscript{40}

In the meantime, as most of the original members in the Leading Group retired from the first-line of work, Zhao placed it firmly under his control. His right hand man, Tian Jiyun, entered the Group and was charged with the management of financial affairs - a traditional area of the central planners. Other new members were mostly his subordinates in the State Council, such as Wang Bingqian, the minister for finance, and Chen Muhua, the minister for foreign trade. They lacked seniority to pose any serious challenge to Zhao's leadership. Each time the Group met to decide on major issues, Zhao was able to translate his mind into policy lines which would then be put into concrete steps by the State Council. Now since Zhao controlled both bodies effectively, he could utilize any one of them to push his way through as he saw fit. On the whole, most of the economic decisions of national importance were still brewed and finalized in the name of the Leadership Group to represent the will of the party. For example, its annual meeting to evaluate the current economic situation and to work out the main points for the national economic plan for the next year formed an integral
part of the annual Beidaihe forum. Its 1986 meeting was devoted mainly to the discussion of price reform for 1987. It had already formulated some resolutions which would have become the State Council's work for the coming year if the leadership had not been forced to postpone their implementation in the wake of the student demonstrations. The party had reason to change its mind as the students might arouse people in other social strata because of high prices. Habitually, other senior leaders such as Chen and Deng still regarded the Group as the most authoritative body for policy deliberation. It was in one of its report meetings to Deng in September 1986 that Deng systematically elaborated his ideas about political reform and instructed the Group to study the issue.

3-3-2 The Impact on Party Factionalism and the Politics of Reform of the Restructuring of the Party Centre

Since the urban reform, Zhao's fairly independent management of economic reform had not been seriously challenged within the party. Chen's speech to the 1985 Party Conference was his last public criticism of the direction of reform. Then he, too, became silent. After the 13th Congress, Zhao further strengthened his power. One of the signs of this was his abandonment of the term 'planned commodity economy', which had embodied leadership consensus regarding reform up to the Third Plenum in September 1988. Instead whenever he talked about the future model of China's economic system he used the phrase the 'socialist commodity economy', which was interpreted as equivalent of a socialist market economy and clearly counterpoised the emphasis on the planning aspect accorded to the term by Li Peng and Yao Yilin. It seemed that barring a new sociopolitical upheaval, the only enemy capable of frustrating Zhao's policy line would be his own policy failures.

As of late 1988, the enemy seemed around the corner. Sustained price rises and fairly high inflation posed a grave threat to Zhao's position as the ultimate economic policy maker. This was compounded by the internal policy disputes between the party General Secretary and senior leaders in the State Council over whether reform should be quickened or slowed
down. Against this background the decision to remove the party central leading groups overlapping government bodies would surely weaken the General Secretary's say in economic affairs. In fact, after Zhao surrendered the premiership, his institutional linkage to economic decision-making was more vested in his leadership of the Finance and Economics Leadership Group of the CC. But when he was also stripped of this post and, particularly, when he took pains to advocate the separation of party and government functions, he would have greater difficulty in projecting his power in the policy-making process concerning every day economic management as well as economic reform.

The removal of the specialized central party leadership groups was carried out in the name of separating party and government functions: the number one task of political reform. The politics involved in the endeavour went, however, far beyond the removal itself. Under normal conditions people would question the value of such a division of labour between the party centre and the central government, for it should not make much difference whether the power is vested in the Politburo or the State Council. It always belongs to the party. The instructions coming from whichever locus of power all reflect the interests of the current regime. Zhao openly admitted that it was impossible to distinguish his work by economic or political demarcations. But in a setting of a complicated interplay of power in high politics, it could generate a profound impact on the leadership of economic reform in terms of direction, scope and speed, due to the different approaches toward reform by the different leaders in the two centres.

The Politburo is the highest authority of decision-making where policy consensus is worked out for implementation by other powerful central institutions, the State Council included. Yet in the current circumstances the State Council under Li is maintaining the impetus created by Zhao when he was able to deploy power over economic management fairly freely from the Politburo. Moreover the party elders in the Advisory Commission also have considerable weight in backing Li Peng in his efforts to resteer economic reform. As a result, an alternative government in its potential form could emerge to challenge Zhao's
authority. By emphasizing separation of party and government functions, political reform does, in a sense, facilitate such a tendency, which is quite alien to the original intention of its designers. The reform of the leadership structure at the party centre then created more concrete conditions towards this situation.

To conclude this chapter, new developments in the restructuring of the party central organizations has attracted my attention. The 1989 national conference on law and public security announced that a party leading group was reestablished to oversee the legal work. And during the dialogue between the students leaders and the State Council spokesman Yan Mu, Vice Minister for education He Dongchung revealed that a leadership group was set up in the CC to take charge of educational matters. The first one is a very powerful body comprising all the ministers for Public Security, State Security, the Armed Police, the Supreme Court and the Supreme Procuratorate. Headed by Qiao Shi, first secretary of the CCDI, it resembles its predecessor, the Party Central Political and Law Committee, which had been annulled following the 13th Congress in the name of separating the functions of the party, government and legal organs. Obviously, the resumption of this leading group reflected the degree of concern the leadership had over the worsening situation of public order and corruption among party cadres and government staff. In the wake of a new campaign waged by the party to clamp down on political corruption and economic crime, it is not difficult to infer its power and responsibilities.

On the other hand, however, through the setting up of this organ, we can also see the extent to which the party handles relations between political reform and social control and between the party leadership and socialist legality. In his speech to the Politburo's 15th session earmarked for political and legal affairs, Zhao reiterated that party committees from the CC to the grassroots should take firmly in their hands the leadership of two tasks: economic construction and the strengthening of legality. The first task may reflect Zhao's desire to recover some of his former authority in the economic management and reform. The second simply restated the party's tradition of placing itself above the law. Nonetheless, reinforced
party control over civil law work may upset many of the reform efforts to reduce the party's interference in the nonparty affairs. It seems that there will be a long way to go before any practical results can be achieved in political reform.

As mentioned in earlier sections, the restructuring of the party central organizations is conducted against a factional setting in the party leadership. The annulment and restoration of any leading bodies in the party centre involve a great deal of politicking among the party elites. The reerection of the two central leading groups in charge of Political and Legal Affairs and Education will to some extent enhance the party's control over the related ministries in the State Council and other important agencies of law enforcement. In other words, Zhao's authority as the leader of the Politburo might be raised again in these fields. From this new development and many precedents, people cannot exclude the possibility that the Finance and Economic Leadership Group of the CC, or some similar organs would be restored by the Politburo in the future. This may be more likely if the State Council fails to achieve a turn for the better in the current economic situation. For Zhao the power to run the economy is so essential that it decides not only the fate of the reform but also himself. During his talks with Professor Frieldman, Zhao admitted that if not entrusted with enough power, it was difficult for a leader to carry the reform through to the end. The politics generated in the restructuring of the party central organizations will remain dynamic as it involves the struggle for power. Therefore, the whole restructuring may eventually become well short of the goal targeted.
Notes

4. Ibid
5. Ibid
6. This is a comparison with other communist parties in power. According to one internal report of 1985, the central committee of the Soviet Communist Party had one general office and 22 departments. As far as China is concerned, compared with its central government bodies which have some 200,000 people, the number in the party central organs do not exceed 50,000.
12. My interview with the researcher during my field work in China.
15. It was widely disseminated that Deng Liquan once said that now the people talking about bourgeoisie liberalism have been criticised, but those practicing have not. The first time I heard these remarks was in March 1987 from a deputy director of Social and Economic Development Centre of the State Council.
16. Interview with a secretary of one of the leading members in the State Council's Social and Economic Development Centre.
17. See, for instance, Liang Zhi-ren & Thomas Chen (eds.), *Chen Yun's Economic Theories*, Hong Kong: Cred Consultants, 1985, pp.75--177.
18. Interview with people associated with the Congress during my field work in 1988. They said Hu Jintao, the former first secretary of the Youth League and party secretary of Guizhou Province was especially active. Hu is now party secretary of Tibet.
19. *Hongqi* published a number of articles stressing the primary place of the planning in the management of the national economy after Chen made 1985 speech. In early 1987 when anti-bourgeoisie liberalism was at its height, it attacked the ideas of reforming state enterprises into stock and share companies. See *Far Eastern Economic Review*, No. 9,
1987, p.28.
21. Interview with the students of Beijing University during my field work in June 1988.
25. *Supra*, Note 6
34. The third category products are the small and daily commodities.
37. *Supra*, Note 35
38. *Ibid*.
41. Professor Dong Furen, former director of the Economics Research Institute of CASS, talked about it in his meeting with the Chinese students in Canberra in 1987.
43. When I asked Professor Dong Furen if there was any difference between the socialist commodity economy and socialist market economy, he answered: "no difference at all", and he said in this kind of economy the market will gradually replace the central planning as the main means of regulation.
47. Following the short-lived price reform in 1988 doubts about Zhao's hold on power as the number one leader in the party were widespread. See, for instance, "Zhao Takes a


Chapter Four

Economic Reform: A Divisive Issue in CCP Politics

China scholars often argue whether the policy formulation process of the PRC is rooted in institutions or in the individuals. There have been different pictures at different times. As commonly acknowledged, in drawing bitter lessons from the Great Leap Forward and Cultural Revolution, when policymaking was personalized and arbitrary, the post-Mao party leadership has tried to rationalize the process by using collective wisdom and empirical evaluations of reality in making major decisions. More than ever before, the policies have been tested for the response from the populace. Now as of 1989, ten years after the reforms began, China’s political and economic systems have both undergone apparent changes. Yet the questions remain unanswered as to what extent these changes have created an environment that allows for an institutionalized policy process based not on personal biases nor propensities stemming from vested interests.

As mentioned in the previous chapters, the 13th Congress delineated the positions towards reform of various groupings in the top leadership. Events after the Congress seem to have made people think that the differences between most top leaders in handling political issues could at this moment be reconciled by their similar perception that it is control rather than further liberalization that is more relevant in China’s current situation of crisis. Political reform cannot be expected to make any breakthroughs in the direction of the party exercising political leadership only. Moreover, economic reform has become more controversial. Both ardent reformers and cautious central planners are busy adjusting their stance against a background of drastic political, social and economic change. Under the circumstances and within the context of intra-party policy disagreement on the scope, speed and strategy of reform, this chapter is devoted to an analysis of who are the dominant figures upon whom the destiny of reform hinges. More importantly, through this scrutiny, we can follow the political interactions between high ranking leaders in the party that reveal where the problems of reform become divisive and how they are managed.
4-1 The Economic System and Economic Reform

In China economic issues have had different levels of priority in the overall political agenda at the different times. When politics "took command" during Mao's reign, emphasis on economic work could be branded as attempts to alter the party's political and ideological priorities. At the Third Plenum in 1978, the CCP transferred its focus of work from class struggle to economic development. Since then economics has attained a status never accorded it throughout PRC history. Yet even though post-Mao reforms changed substantially the command aspects of the operational structure of the economic system, at no times has economics been in real command, regardless of what the term suggests. It is doubtful, for instance, that when Deng put forward the slogan of quadrupling China's 1980 GNP by the end of the century, he thought so much in terms of economic development as of political measures to restore the nation's confidence in the party. He made few mathematical calculations, leaving this to economists to do afterwards. In fact, Deng's political imposition of economic targets since his ascendance as the new paramount leader of China is viewed as a continuation of Mao's leap approach towards economics, in which Deng played his own role. He was very active in the 1958 Great Leap and was a major advocate of the West Leap Forward twenty years later. It has been alleged that he was behind the sudden initiation of the short-lived price reform of 1988. Deng's example reveals that in practice the very nature of the socio-political and economic system of all socialist countries excludes the possibility of a purely economic decision free of any political consideration.

Firstly, the economic system itself was politicised by the regime when the party-state system was constructed. As overwhelming state ownership of the means of production requires central planning as its major operational mechanism, the economic process has been mainly based on vertical administration. Its management is guided by a set of political and ideological principles reflecting the will of the ruling class. This was best illustrated by the daring argument that Liang Shuming, a famous Confucianist, had with Mao in the early
1950's. When Liang protested to the communists for their taking away property from the peasants, Mao said that Liang wanted to exercise only "small benevolence" or "woman's benevolence" xiaoren (let the peasants get rich) while the party gave big benevolence to the whole people by quickly industrializing the country in face of imperialist aggression (even though it did so at the expense of the short-term interests of the farmers).6

The state economic agencies were, therefore, designed to control the economy in a way that did not differ from the other polities exercising political control over the whole society. Their operations had only one goal: the fulfilment of the leadership's political and economic objectives. These economic agencies, therefore, became entrenched as part of that leadership's basic institutions of power.7 For instance, the State Planning Commission wielded enormous political leverage in the past, to the extent that it was hard to state whether it was a political or economic body. No wonder that, when seeing decentralization oriented reform strip a great deal of power from the organization, Chen Yun lamented that nowadays it was difficult for the Commission to carry out its duties.8 This state control is also evident at the macro level, for example, a state enterprise is at once a producer of goods and a government body of control. Together with the immediate higher authorities, they extract compliance from most of the urban population on behalf of the party-state through controls over the economic lifeline, political performance (biaoxian) and personal records of the workers. Consequently, economic development and management have been pushed primarily through a political process that permeates all the stages of economic decisionmaking and implementation.

Secondly, because the make-up of the polity in communist countries is monopolistic, and because running the economy is part of the mission of the party-state, all the major national economic policies are supposed to express the political preferences of the party and its individual leaders in their efforts to initiate, direct and terminate economic endeavors. The economic process is, therefore, subject to three factors affecting the political leaders: their
ideological tendency, their experience of central vs local management and vested compartmental interests they represent. Every major economic decision is a political issue generating heated debate among the party elite. As a result, the chance of a top leader's policy proposal being adopted mirrors the bargaining process in the power hierarchy and, concurrently, the profile of its proponent in the leadership. What should be emphasized is that since 'policy' refers here to the most fundamental decisions, policy-making remains a luxury confined to only a few top figures.

Contrary to Marxist wisdom that the economic base decides the superstructure, which is true in explaining long-term social change, socialist countries have demonstrated that the development of the productive forces (economic base) often hinges on the related development of political relations (the superstructure), particularly the political power structure. This phenomenon is most manifest at a time of social reform. This proposition has its own logic. The four millennia of imperial despotism in China blocked the country's economic development from a feudal to a more diversified capitalist economy. The emperor-centred political power structure was ill-fitted to advance any mode of production other than that stemming from landlord-tenant productive relations. Unless this political structure was destroyed, economic modernization would be hampered indefinitely.

As the nineteenth century's internal and external crisis made it imperative to transform the backward political system, it was obvious that only a revolutionary change could attain that goal. Any non-revolutionary attempt at change was aborted by the resistance of powerful conservative forces. Furthermore, the decline of the Qing Dynasty was quickened, partly by the success of economic reforms induced by the Westernization Movement. As the new capitalist productive forces soon transcended the ability of the traditional political system to accommodate them, the regime's collapse was only a matter of time. Nevertheless, viewed from the perspective that it was the pressure of foreign powers that made possible this progress, political factors served as the main catalyst for overall change.
The on-going economic reform in China has been seen as another example that a command economic system could be displaced only through political initiatives from a top-down process, at least at the beginning of the reform. This poses a great challenge to China's political system, which inherits the authoritarian tradition of past dynasties. In many respects the command economic structure fits well with a monopolistic political structure. The reform of China's political structure has been, therefore, a key factor for the success of economic reform, and represents a weak link in the overall reform. For instance, China's economic agencies possess the power of allocation of resources as well as control over personnel. They erect barriers for market allocation of both materials and human resources. The growth of market depends on the reduction of the power accorded to these economic control bodies. This reduction is a readjustment of power relations within the state machine and a task of political reform.

As the evolution of reform in the economic base calls for changes in the political structure and power relations, changes in the latter have become increasingly unpredictable because of the extent to which the vested interests are affected. In turn and owing to the constant adjustment of leadership positions, the unpredictable political environment produces many twists and turns in the course of economic reform. Considering the width and depth of changes in both the economic base and superstructure brought about by reform, Deng's term 'China's second revolution' makes sense, in that it involves a great deal of redistribution of power among all social and political forces. Indeed the superstructure with its socialist lifestyle, ideology, state ownership of property, and attitudes towards authority will change more dramatically as the revolution deepens. And it is here that the politicians, including all the conservatives, radical and realistic reformers, feel uneasy and try to exercise more control over its process to their own advantage.

So China's economic reform is first of all a political program and process. Put another way, politics is at the heart of this socio-economic project. It serves as the engine for its evolution as well as its brake. In an era of fast social change the most important feature in the politics
of reform is, to the eyes of many Chinese, control rather than liberalization, or at least, it is a carefully designed and managed top-down process of relaxation carried out for the sake of better control. As far as the policy formulation for reform is concerned, it has been subject to the political calculation of the party elite. Each reform step or counter-measure is strategized to consolidate and benefit the interests of one group or another in the leadership. Virtually all reform policies have been the outcome of protracted personal debate and compromise in high politics, despite the fact that the general trend has been moving towards decision on the basis of more institutional consultation. This phenomenon is the main cause, seen from the political angle, of why reform has been so uneven.

In retrospect, the decision to initiate economic reform was in the first place a political victory won by the Deng-Chen coalition over Hua at the Third Plenum in 1978. The ensuing ten years of reform have presented the leadership with numerous hard choices, as the logic of reform forces upon it the pressure of new problems. So far the official reform strategy has been basically trial and error, namely, partial and experimental. While it did alleviate the resistance to reform by some key conservatives, it has also failed to produce the desired results by which Deng hoped to generate consensus for further reform. Seweryn Bialer argues that the reform experience of most socialist countries has proved that

Of all the variants of reform, the leadership selects the one that would cause the least disturbance, and require the least cost and effort, that is a compromise solution. Instead of implementing it across the board and with determination, the leadership wants to try it out on an experimental basis and limited scale. Consequently, the result of reform is far from conclusive and even disappointing, which in turn fuels the arguments of opponents who prevent its further implementation.13

This is to state a fact that across-the-board reform is not possible due to political opposition within the party leadership. Yet before qualitative changes in the old system can be achieved, the failures of partial reform create not only more opposition from some of the leaders but also doubt among the general public, which makes the previously reached consensus very fragile. This is China's reality, analogous to the situation in other socialist
The reasons why comprehensive reform is unlikely have deep roots in the command political and economic system. Apart from other objective factors such as restriction of resources, the defects in China's policymaking process are also decisive. They in turn reflect the defects of its political system as a whole. As mentioned earlier, when a policy of some national importance is in the process of gestation, it is always examined within (1) the boundaries of official ideology; (2) the informal interplays of policy positions among top leaders to balance different opinions; (3) evaluations of the pressure of events under which the policy is carried out. Obviously these standards are more subjective and political than economic. For a long time the political values associated with the party-state have directed the party in running the economy. The post-Mao leaders have not been immune from this political behavior inherent in the nature of the system. For example, they all emphasize that they are building socialism, which they still see in terms of the Marxist concept of public ownership and the Stalinist one of planning.

In fact economic reform has further politicised the process for economic decision-making. Firstly, the controversial economic reforms, such as joint ventures, private enterprises and share companies, have produced changes in the social structure of interests. As a result, the traditional Marxist and Maoist economic principles can no longer offer clear-cut theoretical guidelines for the party leadership to project China's future socio-economic development. The profound crisis in ideology has given rise to policy disputes among the senior leaders on the one hand. And on the other, the inner party disputes have also been highlighted by strife among the populace regrouped along lines of the beneficiaries and victims of different reforms policies. Automatically they constitute the social base for both powerful conservatives and reformers at the party centre and further institutionalize their policy disagreement.

Secondly, as economic reform encroaches upon the previously taboo areas of public ownership and vertical control, consensus politics and its bargaining process has become
more difficult to maintain. When the whole of the traditional economic order is at the stake, the guardians of the old rise to the defence of their vested interests. The hard-won consensus long held as the foundation for political stability is endangered, forcing compromise on all the groupings in the top leadership. The reformists have encountered a dilemma: more compromise with those who hold reservations against reform reduces the effectiveness of the intended reform policies, but lesser compromise may intensify the policy differences and thus upset the balance of power at the top, which also means a troubled implementation for reform policies. This is one of the chief reasons why so many reform efforts have gone astray in the process of being carried out and why so much reform is only partial. This limitation to reform may be the only possible outcome in the Chinese context but will likely prove to be its undoing.

Thirdly, the pressure of events has been a constraint on reform policy. In a country as big and populous as China, long beset with political upheavals and latent elements of social unrest, it is only natural for the party to be sensitive to signs of instability. Deng links unity and stability to the legitimacy of the party's leading role, though some skeptics among the common people regard it as his concern at losing privileges as the ruler. Confronted with an increasing outcry for more freedom and equal opportunities, the leadership reacts to subjugate economic liberalization to more practical concerns. Even the most zealous reformers tend to retreat when they see the backlash of the reforms endangering their own positions. In the wake of high inflation and resulting popular discontent, the Third Plenum of the 13th CC in 1988 announced a two year period of retrenchment, providing a good case in point. Chapter five will deal with it in detail.

4-2 The Politics of Policy Disagreement Over the Economic Reform

In the post-Mao leadership, some senior leaders played a more crucial role in economic decision-making than others. Generally speaking, a three-phase evolution and five personalities can be identified as dominating the decade of reform. In the first evolution
phase (1979 to 1984) the most influential leader responsible for major economic policy formulation was Chen Yun. Although his age forced him to retreat to the second-line leadership by the 1980, he had the final say on the overall guidelines for China's economic strategy. Despite Zhao Ziyang's enormous power as the *de jure* leader, he had to follow Chen's basic principle of economic management. Shortly before the Third Plenum of the 12th CC in October 1984, Zhao passed his bill, "The State Council Provisional Regulation on Further Enlarging the Managerial Autonomy for the State Enterprises", which paved the way for the creation of the market track in the command economic system. The circular gave form to most of Zhao's reformist ideas which stemmed from his Sichuan experiment. The circular served as the real watershed for economic reform. It moved China from Chen's adjustment of the Soviet economic model to an economy increasingly centred on market decentralization. It also marked Zhao's ascendance in the leadership from basically a front-man to a key policy maker. This was the second phase of the reform, from 1984 up to a few weeks before the Third Plenum of the 13th CC.

The third phase of the economic reform started with Premier Li Peng and his chief deputy Yao Yilin successfully changing the course from reform to readjustment in the Third Plenum. Their forceful slogan embodied Li Peng's 'new deal': "we must genuinely transfer the focus of both economic development and reform to the work of rectifying the economic environment and order." The biggest threat it poses to economic reform is that neither its scale nor the actual time frame can be estimated with any degree of certainty. Theoretically speaking, both Li and Yao are disciples of Chen Yun in that they uphold planning as the main ingredient for China's economic system. Nevertheless they know that after ten years of reform, Chen's way of economic management is no longer adequate for effectively running the economy. Like Zhao they come to accept the need to use macro economic levers while trying to safeguard planning.

Deng's power in making major economic decisions is considerable but his record in economic management has not been a successful one. As mentioned earlier, his name has
been closely associated with the Great Leap Forward and the aborted price reform in 1988. His problem with economic management resembles Mao's. While lacking a real understanding of economics, he has a simplistic ambition for China to get rich quickly. Since Deng's retreat to second-line leadership, he has increasingly distanced himself from concrete economic issues, though he by no means surrendered his privilege of having the final say in this important area. His influence on economic affairs is still great. But it is largely an influence rather than direct involvement.16

4-2-1 Chen Yun's Adjustment and Readjustment _ China's Soviet Economic Model with its Own Characteristics

On March 10, 1979, former Vice Premier Li Xiannian disclosed to a visiting American delegation that a major change in economic policy was in gestation. He said it was designed to rearrange economic priorities and rebalance the industrial sectors. The policy was similar to one tried in the early 1960s to remedy the after-effects of the Great Leap Forward.17 It is interesting to note that in first announcing this change to a foreign delegation Li set a precedent of releasing important top decisions, still controversial, to foreigners who were then used to leak the information to the Chinese public.

Four days later Chen Yun and Li Xiannian co-signed a letter to the CC in which they put forward a six-point solution to the serious economic situation resulting from the 'Western Leap Forward'. They proposed an economic readjustment of three years to bring about a sectoral balance in the national economy.18 On March 21, 1979, the Politburo approved Chen's proposal and appointed him as Chairman of the newly restored organ of highest authority for economic affairs - the State Council's Finance and Economics Commission.19 Relating the power strife in the top leadership at the time and the date of this policy revelation by Li to foreign visitors, which preceded its formal approval, we can infer that Li and his people tried to use the leaking back of the news from abroad as political pressure on
their opponents. This practice has by now become common, usually indicating that a power shift is going on behind the scenes.

The change in economic orientation in 1979 coincided with a powerful offensive waged by Deng and Hu Yaobang in the political field. By engaging the whole party in the discussion of the criterion of truth, they forcefully undercut the ideological and legitimate base of the "whatever faction" from which Hua had inherited power from Mao. At the same time a large number of the purged cadres were rehabilitated and placed in important posts in the party, government and military. With the changed distribution of power at the top, readjustment was the economic component of the Deng-Chen coalition aimed at removing Hua as party chairman.

On the other hand, this economic readjustment efficiently reversed Deng's efforts at reform in the industrial sector, which at the time was confined only to small steps of devolution. Since 1978 limited managerial power had been transferred from the centre to regions and from the regions to enterprises. Actually it did not make much difference a what name was given to the new strategy: Deng's reform or Chen's readjustment. As of 1979 they meant only one thing, namely, running the economy as Chen had run it in 1950s and 60s. As Chen reemerged as a party Vice Chairman, everyone acclaimed his glorious success in twice directing China's economy from chaos to stability in the early days of the PRC and after the Great Leap Forward. Chen's voice carried increasingly more weight in economic policy formulation. For Chen readjustment meant 'not just a retreat but a sufficient retreat' from both Mao's leftist economic principles and the reform undertakings centred on decentralization which, he believed, worsened the sectoral imbalances. As pointed out by David Bachman:

"In Chen's mind, readjustment involved an integrated set of policies that included an expanded role for financial control in state planning, a reduction of output target levels, reduced capital construction, particularly in heavy industry, and a bias against producers' goods."
Although these ideas originated from Chen's practical experience as the overseer of the economy, they gradually developed into a set of theoretical guidelines and constituted the two important features of his economic outlook for China's socialist economy: adjustment and readjustment.

Adjustment has been basically the revision of the Soviet economic model dominating China's economic system since the 1950's. Mao recognized the defects of an excessive transfusion of the Stalinist economic model into the Chinese situation. However, as he was dogmatically bound by his understanding of socialism as continuously advancing public ownership, he could do little apart from endlessly adjusting the leadership relations between the centre and the localities. He encountered a dilemma: in order to promote public ownership he had to use more central planning and control. This, however, directly conflicted with his efforts to give more initiative to the grassroots as the remedy for over-concentration inherent in the Soviet model. For instance, all his preferred policies such as "walking on two legs" or "small but complete" had disastrous results in practice. Unfortunately, Mao never adequately integrated this fundamental contradiction in his understanding of socialism.

In comparison, Chen Yun's approach towards the Soviet economic model has been much less ideologically oriented. In opposing the leftist principles such as 'pure socialism with more public ownership through mass mobilization', he has proposed retention of some small private business to supplement the public sector. He has also allowed some market forces in the management of the state economy, particularly in the production of consumer goods, which, he maintained, is covered inadequately by the central planning. While still a supporter of socialism based on the Soviet model, he wanted it revised to be applicable to China's conditions. He reiterated that the socialist economy should not exclude commodity production and exchange regulated by the law of value. In this he shared common ground with Deng's economic reform. Other differences in Chen's ideas with a traditional Soviet economic model include: his tireless emphasis on the development of agriculture, his stress
on greater production of consumer goods and his controls against excessive capital construction. His model for increasing production has emphasized upping the productivity of existing industries as opposed to the Soviet propensity for setting up more plants and new capital construction projects. These points were added to the Soviet model and worked well in the 50's and 60's, becoming the tenets of China's economic management.

Nevertheless, while Chen's adjustment to the Soviet model can be clearly substantiated, this is not to say that he is revising the core of the traditional command economy. The most important indicator is his lifetime trust in central planning. He has long held that mandatory planning must "take primary place". It must make up 70 percent or above in the overall national economic planning. Without mandatory planning, there is no planning at all.²⁵ Only recently has Chen accepted at all the concept of indirect planning.²⁶ To be fair, Chen's insistence on the dominant role of planning does not stem from a dogmatic belief in Marx's views on planning but largely from his own concrete experience of managing state owned enterprises, although he did affirm the correctness of related Marxist concepts.²⁷ In viewing the market failures experienced by China and other socialist countries, planning seems the effective way to manage an economy based on dominant state ownership when the confusion of property right and managerial responsibilities in the state sector fails to stimulate the producers to respond to market signals. Put in other words, there seems an unbridgeable gap between the micro operational mechanisms of state enterprises and the transformed macro economic management. Macro economic levers, which are able to exert enormous influence on enterprises in a market economy, have lost their full power over state enterprises, as these factories cannot declare bankruptcy in any situations. Even after ten years of reform Chen's idea that planning is efficient only when there is a strong central authority is still a basic rule for state economic management. The demanding task of central planners to keep a huge command economy in good order reinforces their belief in nothing else but a strong central control. Moreover, running the economy has created vested institutional interests at the centre of the system, and these constitute the major pool of
resistance to reformist ideas such as transforming state enterprises into independent producers. The conservative nature of China's central economic bodies has left its mark on the staff of these organs. This is why Chen is hailed as the leader by conservative forces in China.

Despite his advocacy of a supplementary role for market mechanisms in the Soviet model, Chen's job as a long-time central planner has made it hard for him to agree to decentralized market socialism. This is where he differs fundamentally from the reformers. In the process of transition from a command model to an increasingly market oriented one, his general negative response should not be found surprising.

Thus when serious dislocations in the national economy have arisen, central authority must be empowered to tackle the problems. Readjustment then becomes another word for the enhancement of power of central economic interests. It starts a process in which planning is retightened by political forces. Then the chief principles of the Soviet model, based on administrative control, would be upheld. For instance, the reconcentration of allocative power by central planners vis-a-vis the decentralizing trend of decision-making by local leaders has become a standard practice of readjustment. Chen and his disciples regard it as essential to ensure the interests of quanjue or, the "overall situation" over partial ones, and the long-term interests over short-term. Readjustment is, therefore, an efficient weapon arresting the tendency towards decentralization, a precondition for the market to work in a command economy.

Chen's concept of readjustment assumes that the economic disorder is mainly brought about by decentralization because it encourages economic activities outside the state plan and fans the winds of inflationary demand. So each time readjustment is launched, anti-decentralism becomes a political goal. The central and local power relations have to be redefined. This is a time when the central party control bodies show their teeth and the whole state machine becomes oppressive. During the 1979-1983 readjustment, the political slogan was that "all
should conform to the party's CC". Readjustment is also the time for the central planners to grab more power. The overall political and economic situation often becomes tense and unpredictable. This has been particularly true in early 1989, as the economic reform has just entered a critical moment of transition. Yet it seems appropriate to say that while reform may have to be shelved for the time being, readjustment also has lost some of its past effectiveness due to the changing nature of the economy. The leaders of both the reform and the retrenchment camps are, therefore, compelled to be involved in a political jostling neither side welcomes.

In summary, adjustment and readjustment constitute two important principles of Chen's model for China, a model that could be characterised as a loose command economy or a Soviet economic model with Chinese characteristics. In this model it is designed that the central economic interests retain dominance in running the economy. Politically, it is not strange that each time there is readjustment, Chen Yun's power reaches a new height and becomes indispensable. It was the 1979 readjustment that gradually promoted his authority capable of holding Deng Xiaoping in check. And in the current economic readjustment a similar development has taken place in the relations between Li Peng and Zhao Ziyang.

4-2-2 Zhao Ziyang's Decentralization: A Vehicle to Market Socialism?

Since the urban reform started in 1984, Zhao has been working hard to construct a new model for China's economy. What he has done is basically to push a line of thinking characterized by decentralization and profit redistribution between the state, localities and factories. By liberalizing rigid controls in a gradual manner such as narrowing the coverage of mandatory planning over the allocation of resources to, and outputs of, the state enterprises, the reformers have been able to inject more market forces into the old system, effecting substantial changes in its operational structure. The most important changes are as follows: (1) The state enterprises have partially changed from government appendages to independent producers;
(2) The monopolistic public ownership structure is giving way to a multiple structure of ownership with public ownership being less dominant and the other forms of ownership developing vigorously;

(3) The economic operational structure has been transformed from one mainly centred on planning to a dual track system with market regulations playing an increasingly important role;

(4) The economic decision-making process, previously concentrated within the government administration, has been diversified to allow the enterprises to respond to market signals;

(5) The business ties between industrial sectors and factories have moved from dominantly vertical sectoral separation to increased trans-regional horizontal links based on market exchange.

(6) The closed nature of China's economy has been fundamentally transformed and is more internationally oriented.

These changes are impressive, and to many seem to be paving the way for a gradual transition from a planned economic system resting essentially on vertical state control to a much more dispersed system more responsive to market direction. Some Chinese scholars have regarded the changes as greater breakthroughs in a short period of time than any which the East European countries have achieved in the last two decades. It is fair to say that without Zhao Ziyang's persistent commitment to reform it is highly unlikely that these changes could have been realized.

That Zhao's reform strategy started with increases in local autonomy in running enterprises was by no means accidental. Decentralization fitted nicely with Zhao's long career as a provincial leader, a job that did not oblige him to care about ideas such as balanced central planning, proportionate national development or the avoidance of government deficits, which central planners could ill-afford to ignore. On the contrary, Zhao wanted to see more recognition of local interests by the centre. After he was transferred to the centre in 1980, where he had to match his "local dialect" with the central concerns, he still managed to launch some limited reforms to encourage initiative. Examples include the arrangement in 1982 of what was called "eating with separate stoves", a financial responsibility system that
fixed the percentage of state revenue between the centre and provinces. The scheme granted the latter more financial autonomy and benefits as long as the provinces handed in their regulation tribute to the centre each year. Even when Zhao was faithfully carrying out the readjustment policies laid down by Chen before he came to Beijing, he acknowledged that this endeavour was temporary. For him, as for the other reformers in Deng's camp, it was politically dangerous to let the spirit of reform die or be jeopardized by entrenched vested interests rooted in the command economy. As soon as readjustment eased, he installed a reform scheme of "substitution of profit by taxation" in 1983. This reform served actually as the prelude for the introduction of the dual-track system through which more market forces were introduced into the operation of the state sector. With the new profit retention came increased financial strength in the basic production units. The enterprises, therefore, became more sensitive to market signals than any state plan. This has shaken the whole system of the command economy to its foundation.

The dual-track system was a natural product of devolution and, probably, the most important reform decision made by Zhao Ziyang. As mentioned in the previous section, that decision, as embodied in the 1984 State Council Circular, Further Enlarging Management Power of the State Enterprises, legitimised what was an unorganized, behind-the-scenes exchange of products by the state factories. At first there were some limitations placed on second-track activities. For instance, the plants could sell their extra products only after fulfilling the state plan; and the prices that they were allowed to charge could be no more than 20% above the state's. Yet gradually all these limits were pushed aside. What at first was seen as allowing greater managerial power to the state enterprises altered the basic outlook of the whole economic structure.

The dual-track system now constitutes three subsystems: (1) a dual production system covered by state plan and led by market transactions; (2) a dual price system consisting of various mechanisms of price formulation, including the planning price, state-directed prices with a range of fluctuation, and the free market price; (3) a dual circulation system of
materials composed of the state allocation and free exchange of goods in a primitive but growing free market. Actually most of the reform measures introduced later to change the command economic system were conducted within the second track, as the market increasingly provided greater scope for model transition. Zhao commented several times that the most visible success of reform was the new vitality in the economic system. The secret of this vitality lay in the availability of the second track which stimulated factories to produce more than was required by the state plan. When the extra products could enter markets for more profit, which could the be retained by the producer and awarded to its staff, the incentive to promote production was high. On the other hand, the incremental production by individual producers resulted in greater availability of products on the free market, which in turn led to the growth of the market itself. This served both as a catalyst for the transition from the old economic model to the new and as an education for people to get familiar with market competition.

In some degree Zhao was successful in pushing through his reform. Even though Zhao has been highly expedient in dealing with the various groupings in the party over reform issues, he still carried the whole program nearly to a point of no return. Probably his line of thinking and strategy for reform have added new problems inhibiting his goal of a mature market economy. Nevertheless it is difficult to think of better ways to do it against a background of a conservative inertia in society, as reflected by the masses' addiction to 'big rice bowl' benefit strong resistance from vested party and government interests and the difficulties in erecting a fully fledged market in a centralized and backward economy. Firstly, he made best use of the phenomenon of the two lines of leadership at the top. With the second-line leaders such as Deng, Chen, Li Xiannian and Peng Zhen only overseeing the broad policy orientation, Zhao successfully convinced them that he was following the course they charted. He designed and carried out reform on a piecemeal basis at the lower levels, which initially looked like minor adjustments of the existing system but proved later to be measures with a potential for generating far-reaching chain reactions. In the process
that quantitative changes led to qualitative ones, Zhao traded on the elders' lack of a real grasp of what was happening in the economic system until changes bore fruit. This process of change through decentralization and profit incentive was also disguised by fast economic growth in China, for which Zhao deliberately adopted an expansionary monetary policy. Visible economic achievement helped to mollify opposition to reform from Chen and his central planners. In this way Zhao had kept resistance to his reform initiatives at a manageable level even after consensus on the scope, speed and strategy of reform was shaken.

In looking back to the course of reform, it needs saying that even Zhao himself did not at first have a clear vision of the reforms. Nonetheless, he did not proceed with the reform with any preconceived bias against change. Instead he went along with its logic while trying to contain the controversies within acceptable limits. He changed this ad hoc stance only after he consolidated his power in the Thirteenth Party Congress. The key to Zhao's leadership of reform lies in the open-endedness and pragmatism of his attitudes.

Decentralization and incentive-centred profit arrangements were the easy way to get reform started. They originated from Zhao's Sichuan experiments, which attempted to make state enterprises the core of economic activity, large cities the centres of regional development and township industries the driving force in the growth of market. The advantage of this approach lay also in its openness and flexibility. It used the strength of the state to reorder the operational structure of the command economic system and at the same time let the logic of reform impose further changes upon the system. As pointed out by Jan S. Prybyla: Given the dictatorial makeup of China's polity and, therefore, the many means available to the leaders to translate their perception of what needs to be done into action (seek facts from truth), the intent is not unimportant. Following the Sichuan experiments, urban reform made it a key link to broaden management of state enterprises. Since 1984 the State Council has promulgated 13 circulars and 93 regulations to specify the enlarged powers of enterprises. Now most of them have
the unprecedented powers in planning, pricing, purchases and sales. From 1978 to 1986 their retention of profits increased remarkably from 3.7% to 42.4%. With these new administrative and financial powers, the local government and enterprises have more say to staff wages and other material rewards as well as in the hiring and firing of workers. These developments greatly curtailed the amount of control that the central planners used to be able to exercise over the micro economic activities.

At the regional level the State Council under Zhao Ziyang also delegated a great deal of power to the key cities. By the end of 1987, nine cities had been granted the administrative powers enjoyed by provincial governments. This practice was called as jihua danie or "regional development independent of the unitary state plan", also a Zhao invention. Zhao accorded this status to the city of Chong Qing when he was party boss of Sichuan. Now all these cities can conduct business in any part of the country without endorsement from their own provincial governments.

The provinces have, too, gained enormously from devolution reform. One important power they acquired has been their enlarged responsibility for local investment and development. The State Council stipulated in 1984 that from 1985 the State Planning Commission would increase the funding power of provincial government for local productive projects from RMB 10 million to 30 million. As far as nonproductive projects were concerned, the provincial government could grant approval without seeking permission from SPC. As a result the centrally-controlled-investment dropped in the national total from over 70% in 1979 to 25.4% in 1985. What affected the central-provincial relations most was the introduction of the financial responsibility system between the centre and the provinces, sponsored by the State Council in 1985. Under this scheme, the provinces negotiate with the centre each year for a certain percentage of their profit turnovers. They retain all that is left from the local revenue after paying the state taxes. The consequences have been profound. The proportion in the overall national income controlled by the centre has steadily
declined, falling below 50% by the end of 1988.42

The advantage of the strategy has been that the momentum for reform quickly took hold as the rigid controls previously placed on lower-level interests were lifted. These interests had a strong impetus for expansion. The result was that the top-down liberalization melded into the bottom-up pressure which made the trend difficult to reverse. This is why China's economic reform has been so dynamic.

Yet the strategy has its defects. The most damaging has been the nature of decentralization. It has taken the form of mainly administrative decentralization, meaning:

Administrative redistribution of decision-making power from one set of bureaucrats to other sets. It does not mean the dismantling of the economic bureaucracy, nor does it mean economic decentralization - a term implying the devolution of allocative power to basic economic units: buyers and sellers, customers and independent firms.43

In the process of this devolution, power was made available to regional economic bureaucrats which has created new economic vested interests. For a time many administrative companies were established. They differed from the previous government economic bureaus in that they did not allocate the products of their subordinate factories through planning but sold their products in the market on their behalf. In the process they intercepted a large amount of profit belonging otherwise to the producers. These companies usually had firm control over the factories attached to them because they were empowered to appoint all the key cadres in the factories and they only placed those seen as "loyals". Economically, these administrative firms operated as cartels, monopolizing local resources and thus erecting new barriers for the goods that flew in from and out to the burgeoning national market. As Deng admitted:

We have also done a great deal of work to delegate power to lower levels, but without much success. For one thing, while we are delegating powers to lower levels, other people are taking them back by establishing more organs, so the grass-roots units cannot function independently.44

The consequence has been profound. For the micro economic activities (enterprises),
control by local economic agencies can be more complete than the remote central planning, rendering abortive many enterprise reforms intended to turn factories into independent producers with most of the decision-making power. Moreover, at the macro level almost all well designed national reforms, based either on East European experience or Western market practice, have been distorted in the local implementation. The situation is reminiscent of the "multi-stateism" of Yugoslavia. The bitter lesson has actually left China with a dilemma. Theoretically speaking, the planned market economy - the goal of China's economic reform - is a system in which the producers make their own decisions according to the market signals and the state 'plans' the economy only through regulating the market. In practice when there is no administrative decentralization, the rigid central controls over enterprises cannot be loosened, leaving little room for the producers to respond to market signals. On the other hand, as administrative devolution benefits mostly the lower-level economic organs, which have no intention of allowing the market to take away their monopoly of resources, the market so manufactured in the process cannot grow fully fledged to give proper guidance to micro economic activities. There have been no proper rules for market competition, as indicated in the exchange within the dual-track economic system, where power becomes more essential than management skills. Consequently, massive dislocations have been caused at both macro and micro economic levels. For instance, although enlarged local business autonomy produces incentives for rapid regional economic growth, it is also one of the reasons for an overheated national economy. By early 1989 unsustainable industrial growth, inflation and loss of control over capital construction clearly pointed to the end of a reform strategy largely resting on spontaneity. In fact China's decade-long economic reform has magnified the pitfalls of replacing planning with the market when the framework for a market economy is lacking. Letting the market work entails the reduction of vertical administrative allocations of key inputs, which in turn entails a reduction of the economic bureaucracies. Nonetheless, local economic administrative bodies multiplied during the years of reform. So decentralizing physical planning has not ensured the mature market Zhao Ziyang had hoped for.
Additionally, in China's situation a profound contradiction has to be solved before the erection of a healthy market is possible. When an overall scarcity of resources prevents the emergence of a buyer's market, central planning and rationing become a necessity. Yet when the planning and rationing are still in force, it is difficult for a workable price system to be constructed. With this contradiction still dominating the economy, its management through the invisible hand can only cause market failures. Because of the uneven development between devolution and market formulation, there remains a broad area left untouched by either administrative control or market regulation. Dislocations arise as a logical outcome.

The development of a nonstate industrial sector was another important policy priority in Zhao's reform agenda. In 1987 he advocated that most small state enterprises could be leased out to private concerns. In light of the number of these enterprises, this was viewed as paving the way for a qualitative privatization of these factories. In the same year Zhao also instructed vice minister of the State Economics Commission, Lu Dong, to conduct a comprehensive investigation of township enterprises. Lu's report gave high marks to the operational structure of the sector, which felled overwhelmingly in the market track. The report was later published at Zhao's suggestion and led to a 'quasi' drive for state factories to borrow the management skills of the township industries. When receiving the visiting Ethiopian president, Zhao commented:

> We have carried out a policy to encourage the development of the township industries. They have demonstrated a lot of vitality, flexibility and adaptability. From the experience of fast developing township industries we have learned that the operational mechanisms of state enterprises are not reasonable. Now we are putting their experience into the reform of our state enterprises.

In fact, Zhao's favourable opinion towards township industries can be best understood in the light of his frustrated plans to make the public sector more responsive to market forces. The difficulties associated with state enterprise reform, such as the problems of hiring and firing of workers, wage and social security issues and bankruptcies turned grey a great deal of his hair. None of these problems was outstanding in the nonstate sector. As their
economic activities revolved largely around the market, they achieved the status of independent producers responsible for their profits and losses, a goal long desired in state-sector reform. Throughout the reform years the nonstate sector registered the fastest expansion. Compared with township factories, the state sector, though contributing the biggest share of state revenue, is too heavily dependent on state investment. The nonstate sectors, however, develop mainly with their own capital. As they expand, they also contribute to state revenue by paying more taxation.

Another feature in both Zhao's leadership of reform and economic management was his persistent stress on rapid economic growth. Since Zhao was charged with everyday economic management, he may not have agreed with some of his aides who put forward radical suggestions, such as using moderate inflation and institutional consumption to boost economic growth. He, as the new overseer, may also have had reservations on further reducing control of planning. Nonetheless, as Premier, he was under pressure to satisfy pressing demands from the populace for better living standards, which necessitated high economic growth. So the proposals put before him by his young economic advisors were often congruent with his concern about how to maintain the momentum for still faster development. For instance, Zhao was aware that one of the fundamental causes of recurrent over-heating in the economy was the fast growing population. According to one official prediction, in the next decade China will have to find jobs for sixteen million city dwellers each year, urgently calling for more capital projects to provide more employment opportunities. In addition every year about nine million surplus rural labourers must be transferred to the industrial and other non-rural sectors. To meet this pressure China needs to maintain a level of annual increase of several dozen billions RMB for new investment and basic wages. Otherwise the people's per capita income will stagnate or even drop. Politically, a fairly fast growth had been indispensable for Zhao.

Consequently, a mixture of factors, such as the logic and necessity for further economic
reform, the slow progress in the reform in the state sector and frustrations with the distorted implementation of reform due to vested local and compartmental interests made Zhao more prone to accept the managerial advantages of free economies. He openly admitted that as far as centralized economic management was concerned, there had not been a single case where a socialist economy had done well. Gradually Zhao's economic outlook began to shape itself into a completely new perspective, quite unique in socialist economics. Although still in its primitive form, several features are distinguishable:

(1) more autonomy for the provincial governments in directing regional economic development - the introduction of a series of industrial and financial responsibility systems.

(2) more autonomy for enterprises in their production and sales - the thesis of running business in accordance with international practice.

(3) less administrative means of macro economic control exercised by the central economic ministries. They must change management functions from direct control to indirect guidance - the thesis of the state guiding the market and the market regulating enterprises.

(4) a fairly high economic growth rate in order to alleviate the strained economic relations in terms of aggregate social demand and supply. To this end, a relaxed monetary policy is desirable.

(5) support for the expansion of the nonstate sector, particularly an increasingly important role played by the township industries.

(6) more international involvement in China's economy - his 'coastal development strategy'.

Obviously, these decentralizing preferences departed from the economic principles favoured by the central planners, creating a chronically polarized political debate within the top leadership. In fact the policy discrepancies over the course and objectives of economic reform revealed the dynamics of China's present-day politics. In the unfolding of the second-phase reform Zhao moved to the very centre of high power politics.

4-2-3 The Impact on the CCP's Consensus Politics of the Chen-Zhao Policy Disagreement
China's second-phase reform was launched with a loose political consensus as indicated by the Communique of the Third Plenum of the 12th CC. It presented a mixture of competing preferences towards reform by the key party leaders. The consensus was built upon an agreement that China's economic structure needed to be decentralized to allow a role for the law of value. In the meanwhile, it still held to the primacy of state planning over the market. It was also agreed that the strategy for reform must be 'trial and error', making the reform an open-ended experiment. As market forces worked their way through, more decentralization became the logic of development. The 'bird' tried to fly out of the 'cage'. This soon broke the previous agreement by both camps on reform. The essence of the problem is that reform was not initiated for its own sake. It had to have a clearly defined goal and address the questions of how far and fast it should go. If the goal was to provide an improved version of Chen's Soviet model with Chinese characteristics, it seemed it had already gone far enough. But if one were to follow the logic of Zhao's approach, then it had just penetrated the periphery of the traditional economic structure. It was here that the fragile consensus broke and gave way to open infighting.

For example, Zhao's decentralization policies fostered the strong tendency in local government to get rid of central control. As the provinces gained increased authority in running the local economy, they took pains to construct an independent industrial base within their borders in order to occupy a favourable position in the fledgling market. This development, coupled with the uncoordinated use of local resources and retained profits, resulted in keen competition for materials and equipment, causing a virtual breakdown in the national system of allocation. One provincial leader described his daring initiatives in such a way: "in following the logic of reform one should circumvent the red light (central austerity), accelerate at the yellow and brave through at the green." These remarks were severely criticised by Li Peng and Yao Yilin after the Third Plenum of the 13th CC. Nevertheless it was too late to change the overall climate where local interests had already become entrenched. A unique phenomenon had arisen: the economy had been invigorated by removing strict vertical controls over micro economic activities, resulting in an economic
growth unprecedented before; on the other hand, macro economic coordination had become paralysed as devolution-oriented-reform rendered impotent many economic functions of the state. While the latter could have been seen as a price paid for the former, the price simply became too high for the central planners. The reaction to the situation was a renewed call for a battle against decentralizing tendency in the party leadership at various levels. This indicates that the core of the political debate in the leadership still revolves around whether China’s economic structure should become marketized or remain basically command - a question that seemed resolved at the 13th Congress. The debate split the 1988 Beidaihe meetings, as mentioned in Chapter Two, and formed the background to new readjustment policies announced by the Third Plenum two months later. At present in terms of economic decision-making power, the central economic interests look to have the upper hand over the reformers.

Yet the political situation is still far from clear. On the one hand, we have cases where political leaders have suffered a serious erosion of power due to their failed economic policies, such as Mao after the Leap and Zhao after the abortive price reform in 1988. On the other, we see an enlarged power base for Zhao in the relations between the centre and provinces, because his decentralization policies allow direct benefits for the localities. Zhao’s strength stems chiefly from his authority in the Politburo and the Central Committee, particularly the latter. Under normal conditions, the 13th CC, composed mainly of first-line younger leaders, should have been able to sanction Zhao’s major policy initiatives, such as his 'coastal strategy'. In a sense, Zhao’s acceptance of the elder’s pressure to retreat from the pivotal position of economic decisionmaking actually put central planners, particularly Li Peng, in an unenviable position. Confronted by the local leaders, who have gained more power with Zhao’s devolution policies, Li is unlikely to win a decisive victory. The new consensus of readjustment is bound to suffer new setbacks, as the austerity measures cannot work well in economic activities outside the plan. Should the readjustment fail, the reformers would regain some economic decision-making power and push reform forward. They have been buying space with time.
In retrospect Chen Yun openly challenged the direction of reform as early as 1985. He admonished the delegates of the Special National Party Conference: See from the situation today, the principle that regulation by planning is primary and by market secondary is not yet out-of-date. There is no doubt that Chen's words sounded conservative at a time when the momentum of reform was becoming stronger with every passing day. However, his criticism was directed at a fundamental weakness of Zhao's leadership of reform, which can be seen by a case study of the relationship between the devolution and inflation in China's second phase reform.

4-3 A Case Study: Devolution Reform and Inflation

As China's inflation has reached an unprecedented level since 1949, scholars are conducting research on its causes and courses. Many in China trace inflation back to the beginning of the urban reform. They believe that inflation is actually a logical development from one erroneous decision Zhao's State Council made along the line of devolution and profit sharing. Their investigations illustrate aspects of the decision-making process and how a single important decision may affect the whole reform in China.

When the 1979-1984 economic readjustment was concluded, a buyer's market for retail consumer goods emerged (only in relations of supply and demand, not in the sense of market competition). The supply of primary and semi-finished industrial products could in the main keep up with expansion of the processing sectors. In retrospect, many Western and Chinese economists held that this was the time for a fundamental reform of China's price structure. The party leadership, too, realized the importance of price reform in the construction of a unitary market. The recognition was made manifested in the Communique of the Third Plenum of the Twelfth CC, which regarded the price reform as the key link in overall reform. Nevertheless, the State Council emphasised the division of administrative
power between governments at different levels, allowing only the splintering of the market. It is clear now that a thorough price reform could have helped the ultimate erection of a mature market system, while decentralization of administrative power only generated quantitative changes within the old command structure. The choice for a lesser controversial reform at the time may have reduced the resistance from the central planners, who understood the consequences of such a reform. It, however, led the reform to a near impasse. The implications of which are still strongly felt today.

The State Council decided in the last quarter of 1984 that the country's specialized banks would have a fixed quota for their investment credit grants in 1985. Within the quota, they could have more independent decision-making power. The design was well intended for the purpose of rationalizing the relations between the central, The People's Bank of China, and the specialized banks. When the central bank system was first put to work in 1983, the specialized banks were no more than the cashiers of the PBC. On the one hand the commercial transactions of the specialized banks were strictly controlled by the PBC. On the other, the central bank had to pay all of the losses of the former. On the whole, the entire banking system was under the control of governments at all levels. The new reform scheme was actually the first step taken by the State Council to turn them into independent financial entities. It stipulated that the new investment quota for these specialized banks would be based on the actual amount of investment each of them granted in 1984 and would proportionally increase in the years to come. It was at the disposal of the specialized banks to decide on how to send out investment loans within their approved quota.

So the amount of investment loans in 1984 was very important for each specialized bank. A bigger figure meant greater business autonomy. In order to obtain an increased quota in the future, the specialized banks tried to boost their investment loans by all possible means as the year was drawing to an end. They suddenly changed their attitude from hard negotiators to keen investors. In fact they begged local governments and factories to receive loans. As a result, a serious loss of control over credit occurred, with a sharp rise of 28.8% in
investment compared with 1983. December alone registered a runaway increase of 48.4%. In the meantime another central decision delegated to state enterprises the right to change ceilings on wages and bonuses for their employees. The scale of increase was also dependent on the 1984 base figure. Many enterprises made it an emergency measure to give extra money to the workers. The investment money taken to the gates of the factories by the banks was, therefore, most welcome. The overall amount of the windfall in the fourth quarter was 117% more than that of 1983. The annual grant was up by 19%, the highest since the PRC was founded.

The year 1984 saw a record grain harvest. As a result, the peasants had more grain to sell than the state could afford to buy. To make matters worse, the banks' money had already been used up through the new investment arrangement with factories. The central bank - the People's Bank of China - was urgently compelled to print more currency. According to one Chinese economist at the State Commission of Economic Restructuring, special airplanes carrying bank notes were hastily dispatched to places where the peasants had become agitated at the government's refusal to make good their previous promise to purchase whatever they produced.

All these mentioned above were factors behind the injection of unnecessarily large sum of currency into circulation. When the State Council realized what was happening, it cut further grants and set a ceiling of 18 bn yuan for the year's money supply. But it was too late to stop the momentum. By the end of 1984, RMB 26.2 bn was put in circulation, or a 49% increase, exceeding the state limit by 9 bn and heralding inflation and price spirals in the years to come.

Furthermore, 1984's excessive loans for capital investment fanned the already overheated industrial growth. And the sudden increase in personal income stimulated consumption, which further pressured the processing sector to expand. In 1985 the first half of the year
saw an industrial growth rate of 23% in the public sector and 50% to 60% in townships and
villages, compelling the centre to try to cool down the economy.\textsuperscript{61} In a short period of time,
four provincial governors' meetings were convened to urge them to bring the situation under
control. Unfortunately, a large proportion of the new projects launched were small local
ones. Normal control methods through central planning could not reach them effectively.
Moreover, many of these projects were already in operation, and to close them down would
have meant great losses to the localities. In an attempt to keep losses at a minimum, the
State Council was forced to carry out a 'soft landing strategy' in 1985 to prolong the
retrenchment process. Under these circumstances, most of the projects already in place had
to be fed with more funds to keep them going. The banks were forced to issue even more
currency. The State Council stipulated that capital investment for the year should not exceed
the level of the previous year, but in reality it increased by 70 bn yuan. The total money
supply substantially surpassed the 1984 figure of 19.5 bn, an increase of 24%. Compared a
GNP growth of 11.2%, a rampant inflationary situation was well established.\textsuperscript{62}

The abnormally high industrial growth of 1985 was achieved mainly by expansion in those
processing sectors dependent on substantial imports of foreign equipment and raw
materials. While it pushed up the 1984 investment figures, it lowered foreign currency
reserves. Some key sectors: energy, transportation and raw materials, were casualties in the
process. Problems of bottleneck, together with a deflationary policy by the State Council,
dampened industrial growth to only 4.4% in the first quarter of 1986, prompting a new
round of policy debates in the top leadership and among economists. Before long the view
that steps should be taken to speed development prevailed. This low growth rate was
unacceptable both politically and economically. Politically, the reformers represented by the
Deng-Hu-Zhao group needed to show to the world that reform had resulted in rapid
economic development. Deng's promise to give every Chinese $US 800 to spend by the
year 2000 could not be met by such a low rate of growth. Economically, with large sums
flowing into people's pockets but with insufficient commodities available to soak up these
funds, the market situation would become increasingly precarious. More goods had to be
turned out to ease the pressure of excessive demand. This in turn required an even faster development of processing sector. This situation called for immediate remedies: whether to continue retrenchment or to relax control? In response the young theorists in the SCER predicted that should the option of retrenchment be followed, economic growth would decline further and, even a general recession was possible.63

These warnings alarmed Zhao. In the latter part of the year, the banks were urged to expand the money supply to spur a resumption of fast growth. Professor Dong Furen, former director of Research Institute of Economics of CASS, disclosed that Zhao lost temper several times to the minister for finance and the bank governors, who were reluctant to issue more currency. Eventually the year 1986 registered an industrial increase of 11.1%. According to authoritative economist Xu Muqiao, a good part of the growth in the second half of the year was attributable to the production of unsalable commodities for which the banks issued 10 bn yuan. By the end of the year about 20.4 bn more RMB was put into circulation than 1985, a 23.4% increase, compared with a growth of 8.3% in GNP, indicating the extent to which the currency had declined in value.64

The 16.5% industrial growth for 1987 was also based on massive capital investment, about 50 bn RMB more than the previous year. Relating to it was a 19.49% increase of money supply, or 23.8 bn yuan, as against 9.4% of the GNP growth in the same year. See the table below:

<table>
<thead>
<tr>
<th>Year (over previous year)</th>
<th>1985</th>
<th>1986</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foodstuff (price rise)</td>
<td>9.9%</td>
<td>14.4%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Primary products (Ibid)</td>
<td>6.3%</td>
<td>4.8%</td>
<td>7.8%</td>
</tr>
<tr>
<td>General index (retail price)</td>
<td>8.8%</td>
<td>6%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Growth in currency issued</td>
<td>24.7%</td>
<td>23.4%</td>
<td>19.49%</td>
</tr>
<tr>
<td>GNP growth rate</td>
<td>11.2%</td>
<td>8.3%</td>
<td>9.4%</td>
</tr>
</tbody>
</table>

Source: Liu Guoguang, Reform No 4, 1988
Xie Muqiao published an article in mid 1988 worth quoting at some length, as it reflects the concern of the central planners over Zhao's reform preference for decentralization:

In summarizing the experience of the last nine years, we see that each year the state plan has been appropriate, requiring 'a policy of double retrenchment' in the fields of finance and credit. But the result of implementation showed that the plan has been broken every year. What is the cause? It lies in the "bloating phenomenon" where the province municipalities and counties all push their own developmental plan. Nobody dares to criticise a situation such as this. On the contrary, this phenomenon has attracted praise from the media and even from some leading comrades. East China's demands are for more projects and quicker development at the time of new opportunities. The west calls for a speedy catch-up with the east. The media do not propagate how to implement the state plan but how to tramp on it. The financial responsibility system has been pushed at all levels of local government which makes it more convenient for them to break the central plan. When the planning has been set aside by the (reform) policies, dislocations in the national economy become inevitable. Even after the overheated economic situation is acknowledged, it is not yet resolved. There have been few steps taken to cool it down. The guideline for the economic reform should be efficiently tight macro-economic control and a relaxed micro environment. The shortcoming before 1984 was the rigidity at the micro level. The mistake after 1984 in my opinion lay in the loss of macro economic control. In this mutually dependent relationship the loss of macro control will definitely result in micro disorder, which in turn will not provide a relaxed micro environment. (emphasis added)65

For years there had not been any criticism this strong and specific against the mainstream policy line of the Deng-Zhao reform leadership. It is said when well-known economist Wu Jinglian argued that it was essential to create first "a relaxed economic environment" before any in-depth reform steps could be made possible, it greatly displeased Zhao and his advisors.66 Yet Xie Muqiao's remarks were much sharper and to the point. Obviously, he clearly attributed the breakdown of the central planning and macro economic controls to the devolution reform, including the increased power and financial responsibility granted to local governments. This article was also the first public criticism of Zhao's coastal strategy, albeit in a round about way. He also explicitly implicated Zhao as responsible for the slow
shortcomings before 1984 were only a lack of invigoration at the micro level, people could easily read into it that the macro control was all right. When the loss of macro control occurred, both macro and micro would suffer. Thus the deformation of macro control was the chief cause for most of the economic troubles. Another important point in his article is Xue's chastisement of the mass media. Under the leadership of Hu Qili, the media were very forthcoming to Zhao's call. This became a serious obstacle as the central planners were preparing a comeback.

It is not clear that the article was inspired by some leading figure in Chen-Li groupings. Yet as a member of the Party Central Advisory Commission, Xie certainly expressed what his follow members wanted to speak out. Moreover, the timing of the article was of significance. It appeared in the midst of loud and favourable interpretations by Chinese economists of the Politburo's new call for price reform. As influential as Xue is, his article did arouse considerable attention from both leadership and theoretical circles. Probably it anticipated what would become of price reform. In his more recent article entitled "Earnestly Sum up the Reform Experience of the Last Ten Years", he was even more critical of reforms based on decentralization. Together with another article by Wu Lengxi, a former Editor-in-Chief of People’s Daily and member of CAC, who compared the current situation of decentralization with that of The Great Leap Forward, a theoretical environment against Zhao's way of reform was developed for the Third Plenum of the Thirteenth CC.

In concluding this Chapter I feel obliged to point it out that although Zhao Ziyang's devolution has caused economic dislocations, it is difficult to foretell if there were better ways to reform than Zhao's strategy. Political opposition from the central economic interests did not give Zhao any other alternative to overhaul the economic system more decisively along market lines except by adjusting its operational structure from within the command system. It is also arguable that Chen Yun's option of tight central control would have been optimal for the maintenance of macro economic order, still less for healthy development. It might be that in reforming a socialist economy, especially that of China's, which is dogged
might be that in reforming a socialist economy, especially that of China's, which is dogged not only by structural defects but also by a low level of development and limited natural resources, one has to choose between two evils: rigid control or general disorder. Using political forces for structural change as embodied in the Deng-Zhao reforms, may cause resource exhaustion and economic instability. To stick to Chen's way of central control may make the economic situation appear stable in the short run. Yet there is no doubt that a command economic structure will suffocate the vigor of the economy. In the long run it will likely collapse due to its inefficiency, on the one hand, and incapability to provide enough products to satisfy the increasing demand from society on the other. The challenge facing Chinese reformers is whether they can find a workable way to put together the two completely conflicting economies. Yet the conservativeness of Chinese politics is doing everything possible to prevent just that from taking place. The Third Plenum of the 13th CC was only the latest example.
Notes


2. The 13th Congress announced an overall plan for political reform with the emphasis placed on separating the party and government functions and on restructuring the party and government institutions. But hardly was the reform launched, when economic disorder and signs of social unrest forced the authorities to resort to recontrol measures which ran counter to the intended goals of political reform. For example, the proposed separation of party and government functions was replaced by the stress on giving full play to the strong point of the political system, a euphemism for reinforced central control.


4. It is customary practice for China's theorists to give 'reasonable' interpretations to the leaders' impetuous political slogans. The most recent case was the outpouring articles by many academics sanctioning the short-lived price reform after it was proposed by the Politburo in 1988.

5. This was disclosed by Nineties, No. 9, 1989, pp. 17-18.


15. See Li Peng, "Changing in Real Earnest the Focus of Work in Construction & Reform into Rectification of the Economic Order ", *Qiu Shi (Seeking Truth)*, No.1, 1989, pp. 4-10.
16. This was revealed by Deng in one of his internal speeches in 1983 in which he praised the work by the first-line leaders such as Hu Yaobang and Zhao Ziyang. He said that he did not spend much time on decision-making over specific issues but left it to Comrade Yaobang and Ziyang.
25. This is conveyed by Deng Liqun in his series of lectures on Chen Yun's economic ideas to the graduates of the Central Party School in 1982-1983. These lectures were later published as internal readings by the school.
32. Since 1984 most of the reform steps have been designed to increase market coverage of economic activities and, therefore, they all have fallen into the second track market regulation. The 1985 price reform enlarged the area where the state-controlled-prices were
In 1986, due to the setback of the price reform, a national program to promote horizontal links of state enterprises was launched. The links were based on the framework of the market track of the economic operation. The same was true to the 1988 enterprises' reform centred on management/contract responsibility system. Without the second track there would be no extra-state quota to talk about, therefore, no contract and responsibility system.

33. Even though the central planners could slow down further marketization of the whole economic system, as they are doing in the current retrenchment, there are things they are unable to reverse, such as a general upsurge for higher consumption and living standards, a large-scale reduction of local interests linked to the market operation and a basically freed rural economy. The political price will simply be too high for them to bear if these were re-reformed.

34. For instance Chen praised Zhao for his leadership of reform in 1980 in a manner he rarely used. *Supra*, note 18, p. 250.

35. This was put forward by Chief Executive of the State Council's Development Centre, Professor Wu Jingliang in his article, "Some Contemplation on the Choice of Reform Strategies", *New China Digest*, No. 5, 1987, p. 59.


40. The nine cities are Chonqing, Wuhan, Shenyan, Daliang, Guangzhou, Harbin, Xian, Qingdiao and Ningpo


43. *Supra*, note 38, p. 568.


47. Professor Dong Furen, Director of Economic Research Institute of the Chinese Academy of Social Sciences, interview with Chinese students in Canberra, July 1987.

48. Zhao's attitudes towards reform and development when he was Premier were contradictory. His political fate was closely linked to Deng's reform. Yet a serious mistake in the economic management would push the economy into a difficult situation, which would in turn endanger his political career. While he stressed deepening reform, he made numerous speeches emphasizing a manageable level of growth. His agreement to a mini-retrenchment policy in 1985 was an example. His less determined push in its implementation, which resulted in its abortion, was another example to show his ambiguity to the issue.


55. There are at present four specialized banks, namely, Bank of China, Agricultural Bank, Industrial and Commercial Bank, Construction Bank


57. See Xue Muqiao, "Inflation and Price Rises Reform", No. 4, 1988, (published also in *Guangming Daily*, June 30, 1988, p.3.)


60. *Guangming Daily*, June 30, 1988, p. 3.

61. *Ibid*.

62. *Ibid*.

63. Ciao Yuanzeng, "The Economic Situation In The First Six Months of 1986", an internal report commissioned by the Research Institute of the State Commission of Economic Restructuring

64. & 65. *Supra*, note 60.

66. My interview with researchers in the Economic Institute of Chinese Academy of Social
Sciences during my field work in Beijing in May, 1988


Chapter Five

The Third Plenum and Its Implications for Consensus Politics

As mentioned in previous chapters, the institutionalization of the political process at the top leadership level is adversely influenced by a long tradition of factionalism and to a lesser extent, by policy disagreements due to different approaches towards ideology, economic management and reform. Events since the 13th Congress have shown the potential for powerful party and government institutions to disintegrate the unitary leadership of the Politburo, as indicated in the competing work priorities of the Politburo and State Council. Given a highly fluid political and economic situation, policy dichotomies between the reformist Politburo led by Zhao and the State Council, increasingly subject to the control of the cautious Li-Yao group, have gradually come to light. Their differences of opinion over the speed, scope and orientation of China's economic reform have constituted the core of the country's politics of the day. They were obvious at the recent Third Plenum of the 13th CC, which effected a sharp turn in the course of economic reform. The Plenum's resolution to replace economic reform with a new economic readjustment for two years starting from 1989 cast clouds over the future of the whole enterprise. In less than a year the political line of the 13th Congress to promote further market-oriented reform was turned around to one favouring central control. October 1988 alone saw a number of recentralization measures implemented by the State Council to curb efforts to render the economy more market oriented. As summed up by the well known economist, Wu Jingliang: "the unseeing feet are trampling on the invisible hand." Another Beijing economist put it in a more straight-forward way:

What we are witnessing are not just efforts to fight inflation and other dislocations, but a roll-back of reforms introduced by Hu Yaobang and Zhao Ziyang since the early 1980s.

Not only economic reform was affected. Political reform, a hot topic among party officials and academics alike since 1987, lapsed into a state of hibernation. Obviously, the goal of reform aiming at further relaxation of political control contradicted the goal of retrenchment.
This chapter will evaluate the causes behind the new policy change, its socio-political dimensions and its implications for CCP politics.

5-1 High Frequency of Policy Oscillations since the 13th Congress

When the Thirteenth Congress reconfirmed him as the leader of the party, observers in and outside China commented that a Zhao Ziyang era had been inaugurated. The ensuing events proved that this prediction was premature. Yet, judging from the manner in which Zhao steered economic reform before the Plenum, people could easily have formed an impression that, as far as economic policymaking power was concerned, the towering presence of Deng's personal authority had started to shift from to Zhao. This feeling was particularly strong during the period when Zhao pushed his coastal strategy and price reform. As both endeavours came to a virtual halt in the last quarter of 1988, a great deal of uncertainty hung over Zhao's ability to lead economic reform. The twisted course of economic reform since the 13th Congress provides some clues for us to trace the rise and fall of Zhao and the burgeoning divergencies in economic policymaking between the party centre and the State Council.

5-1-1 The State Council's Deflationary Retrenchment Policies

In his political report to the 13th Congress, Zhao listed six major tasks to deepen economic reform. At the top of the agenda was enterprise reform, concentrating on the universalization of the management contract and responsibility system. This was further confirmed as the key link in the overall reform by Zhao on December 18, 1987, when he received the graduates of the Research Centre of Economic Restructuring from the Central Party School. One month later Zhao summoned the leading personages of the former State Economic Commission for a report on the current situation of enterprise reform. During the meeting, Zhao was quoted as saying:
Contract and responsibility systems in the state enterprises have dealt with the crucial problems within the state enterprises. (Problem of efficient management, note from this writer) If it can be carried out even better this year, its success will be more apparent.7

In his Spring Festival Address, however, Acting Premier Li announced a new policy guideline for the economic work of 1988, with the stability of the national economy as the number one task. Li's policy line was centred on a program called 'the double deflation and retrenchment' strategy in finance, commerce and capital construction. Enterprise reform slid to third place in the State Council's work priorities.8 To be sure, this is not to suggest that the enterprise reform contradicted the 'double retrenchment'. On the contrary, a sound deflationary policy could create a stabilized economic environment in which the contract and responsibility system could deliver better results. The issue is, however, the competing emphases of the party centre and State Council in the leadership of economic work. When the State Council was under Zhao's premiership economic reform and everyday management were generally coordinated. Reform concerns usually dominated the overall agenda. Now it seems that the State Council under Li has placed more emphasis on economic management. Reform remains high on the agenda of policy rhetoric but not its practice.

The importance accorded to different missions has special significance in China's politics. The number one task is usually termed as zhongxin gongzou or the 'central mission'. In the history of the communist party many people have been persecuted for interfering with the 'party's central work' that was supposed to take precedence over all other work. It is not a technical question. It often reflects the capacity of the top leadership to reach policy consensus. In a sense, the contradiction in placing different tasks in the centre by Zhao and Li pointed to the fact that the debate over which should enjoy more priority, reform or development was still unresolved. The bottom line of the debate was concerned with the different attitudes on questions such as the speed, scope and strategy of the reform. Since 1986 Chinese economists have written a large number of articles dealing with the
relationship between reform and development. Roughly speaking, two camps emerged. Some leading economists in CASS, represented by Wu Jingliang, favoured a fairly relaxed economic environment in which, they believed, economic reform could be better implemented. Their criterion for a relaxed situation included a lower rate of economic growth, less capital investment and balanced sectoral development. People on the other side were young researchers in the Research Institute of the SCER. They argued that a relaxed environment could be created only through accelerated reform. In the relationship between reform and development, the former must take precedence over the latter. The debate became fully politicised in the policymaking process. A relaxed economic environment meant enhanced control over economic management. This went hand in hand with the State Council's priority to stabilize the economy. On the contrary, deepening reform meant further relaxing control, which would very likely produce high rates of growth and investment, thus crippling stability policies. Li Peng as Premier has the immediate task of taking care of the well-being of the economy. And he has more practical concerns about order of the economy. As a result moderate reform is seen as desirable. When the debate was further intensified, People's Daily, under the guidance of Hu Qili, felt obliged to step in. One of its commentaries in early 1988 had this to say:

In researching into measures for economic stability, considerations should also be given to the possibility of whether they would be helpful for the furtherance and implementation of reform, whether they would rigidify the economy that had already been invigorated and whether they would push back progress already made in reforms. In the end economic stability can be achieved only by deepening reform. It is not correct to stabilize the economy through reversing the reforms and suffocating the economy.

These words certainly reflected what Zhao Ziyang understood about the relationship between reform and development.

The confusion was further magnified when Zhao advanced his coastal developmental strategy at the same time as the deflationary and retrenchment policies started to be implemented. The strategy was so forcefully orchestrated that the State Council's initiative...
seemed to have been bypassed. The competing directions led by the Politburo and the State Council reminded people of the abnormal phenomenon before the 13th Congress where the trinity of leadership, the party centre, the State Council and the military, was set apart. In regard to economic policies, it is the Politburo that charts the overall orientation while the State Council puts forth its concrete implementation measures to follow the party centre. It seems, however, that the overall view and implementation were not always in conformity.

In the last quarter of 1987 the State Council had staged a mini retrenchment strategy to ease pressure on the widening gap between excessive social demand and supply. The new control measures were mostly deflationary monetary regulations. At the beginning of 1988 Premier Li and his senior deputy Yao Yilin reaffirmed that the strategy would continue through 1988. In January, at a national conference on banking work for 1988, Yao emphasized that work done to reduce credit and investment loans in the last quarter was positive. But in order to develop the economy in a sustained and balanced manner, long-term efforts were needed. Throughout 1988 the priority of financial work of the State Council was to ensure that money supply was controlled on the one hand and sustainable growth maintained on the other. Li elaborated on what Yao had said in the same meeting, that the State Council would take strong measures to support the banks in financial deflation, which was thought to be the guarantee for stability of the economy. They included: (1) control of investment loans. New projects should be kept abreast with the development of the infrastructure. For instance, before any new capital construction was launched, it must be approved by the energy departments to make sure its operation would be within the capacity of power supplies and transportation. Projects outside the state plan would be resolutely curtailed, especially those of hotels and office buildings.

(2) Strengthening the authority of central agencies in macro-economic control. Meanwhile, efforts should be made to raise the percentage of central revenue in the national income and reduce that of the localities.

(3) Tightening government spending. In 1988 all government offices must cut expenditure
by 20%. If any deficits were incurred, they had to be serviced by the national debt. Overdrawing on the banks was no longer allowed.

(4) Enhancing taxation control over both the public and private sectors.

(5) Cutting back the money supply. For 1988, RMB 23 bn was targeted. In the future money supply must be fixed at a certain amount through setting up a quota on the investment funds for each specialized bank. The PBC, the central reserve bank, served as a regulating power.

(6) Readjusting the income distribution structure and related policies and punishing illegal earnings made either by individuals or units.

(7) Exercising stricter control over importation of consumer goods and the administration of import permits.13

In retrospect had these measures been carried out in good faith, there would not have been much need for the Third Plenum, which adopted similar policies. The only difference was that the latter were much tougher and covered a wider field. The failure of their implementation revealed the extent to which Zhao's Politburo and the State Council diverged further in their policy preferences. There is no doubt that the State Council's retrenchment policies were meant to strengthen central control, albeit in the name of stabilizing the economy. Whether or not they stemmed from the expedient considerations forced upon them by the grave economic situation, they certainly contradicted the reform goal of erecting an economic structure largely reliant on market forces. As some liberal economists argued, the current economic situation may warrant their implementation but the implementation *per se* would delay the final attainment of the goal.14 This was the chief reason why Zhao was lukewarm to the "stability' strategy". When he finally handed over the premiership to Li Peng in December 1987, he set an overall line for the government administration: reform should command all the work of the State Council. He anticipated the would-be twists and turns in the future reform under the new premier and pointed out explicitly:

Reform requires courage and a spirit of creation. (You) should not be afraid of
taking risks but dare to make timely decisions, or you otherwise would lose opportunities. In practice, when new and unexpected things emerge which force changes in reform plans already decided, adjustments or even reversals may be made in order to nurture new favourable conditions for the future reform. Nonetheless, reform must not be stopped. It is just like running a boat against the tide: sliding backward if not forward. So to stop reform would cause regression to the old ways of running the economy.\textsuperscript{15}

Undoubtedly, these words were not uttered for nothing. They illustrated Zhao's concern after giving up the premiership.

5-1-2 Zhao Ziyang's Coast Strategy

Obviously, Zhao's coast strategy was one of the factors obstructing an efficient implementation of the State Council's austerity strategy. Hastily prepared and tabled, the strategy was the first major policy initiative independently masterminded and launched by Zhao after he was confirmed as the party's General Secretary. For a while it gave people an impression that Zhao was in charge of both party work and economic management. The strategy not only challenged the government plan, but also the mainstream thinking for reform in the theoretical circles. In March the leading economist Liu Guoguang put forward on behalf of CASS a proposal for economic reform for the next eight years. He suggested that given the tight economic situation of the day, the first three years from 1988 should be devoted to stabilising the economy. The steps of new reforms should be relatively small. After all, deepening reform could not be divorced from a stabilized economy. When the economic situation improved, the next five years could see bigger steps towards reform, for which he proposed a large-scale share capitalization of state enterprises.\textsuperscript{16} In fact, after Zhao's strategy was published, the economists in CASS were conspicuously quiet. This contrasted strikingly with their usual positive stand on reform.

The coastal strategy collided with Li Peng's in that it required a giant step towards decentralization, at least as far as the coastal areas were concerned. Considering the large
proportion of GNP generated by the coastal provinces, decentralization in these areas would render much of the austerity measures impotent. For instance, in order to realize the strategy which aimed at changing an inward directed economy to one internationally oriented, considerable reform must be in place in the existing systems of foreign trade, administration of foreign exchange, allocation of raw materials, taxation and exemption, custom regulations, preferential credit and bank loans, interest and so on. As the practice of 'what we have, we export' gave way to 'what they need, we make and export', the command central planning over these provincial economies would gradually lose much of its relevance.

Here again a successful external economy must be nurtured in an environment where the initiatives of local enterprises can be brought into full play. Its contradiction with central planning was apparent. Since the strategy was formally adopted as the new state policy at the Second Plenum of the 13th CC, a great deal of effort had been devoted to creating a favourable macro-economic climate for opening the coastal areas. On March 12, 1988 the State Council promulgated a major reform package for foreign trade. From 1988 the centre would only see to the fulfilment of the quota whereby the coastal provinces submit their foreign currency turnovers to the state. They could have the final say on the use of surplus foreign exchange earnings after fulfilling the state contract. The implication was twofold: while it would make it increasingly difficult for the centre to monopolize foreign trade through the permit system, it legitimized the right of the localities, particularly the producers, to use hard currency. Consequently, central control over imports and exports was profoundly weakened, paving the way for the provinces to compete to import high-priced consumer goods and export the materials badly needed at home. Ten days later the Central Customs Administration introduced new regulations which gave a green light to the importation of raw materials with reduced and even no duties. In early March the Party Central Committee convened a policy formulation conference, attended by provincial governors from the coast and leaders of the central financial, commercial, energy, and
transportation ministries. They were brought together to kick off a concerted effort pushing Zhao's strategy. The meeting was necessary because the centre and provinces had divergent policy priorities in following the different strategies of the party centre and the State Council. Work had to be done to coordinate their pursuits. The relations between reform and economic stability were discussed at the national level. As expected, the meeting did not result in any concrete resolutions, except for an emphasis on further emancipation of the mind and changes to old ways of reasoning and ideology. Implicitly, this conveyed a criticism to some central economic interests which were not very forthcoming to the call of the General Secretary.

Shortly after the meeting the Minister for Transportation disclosed his plan to support Zhao's strategy. Its keynote was the fast establishment of two radiating transportation networks linking the coastal areas more conveniently with the interior and overseas shipping points. Incorporated into the plan were projects for two hundred harbours of various sizes and a number of national highways. Considering the high cost of these works, for example, the cost of building one kilometre of highway in China now stands at RMB 5 to 10 million, the construction expenditures were bound to be staggering. Moreover, the localities had vied with each other to put up hotels and other service facilities in the name of 'providing a sound soft environment to lure foreign investors'. Doubtlessly, all these follow-ups to Zhao's strategy became a drag on the deflationary and retrenchment strategy, which centred on scaling down capital construction.

The biggest beneficiaries from Zhao's strategy were the coastal provinces. Among the measures to be implemented, the most significant was the decoupling of local finance from the central. For the first time since 1949, Shanghai had autonomy to retain all it earned after handing in a fixed contracted quota and this would remain unchanged for five years. In the past Shanghai's income was closely tied to national revenue. As it provided the largest source of local revenue to the state (RMB 400 bn over the last three decades), the state
treasury was surely displeased over the decision. In July 1988 the State Council announced that from then on thirteen rich provinces, most of them along the coast, would have a financial responsibility system similar to that approved for Shanghai. The proposal was tabled when Zhao was premier. Now Li had to carry it out. The circular openly admitted that after the new system was put into practice, central income would shrink, the local thirst for capital investment would be stimulated and economic concerns would be dominated by short-term interests. Apparently, the arrangement represented a head-on collision with the centre's call for a reduction of local income retention and would have been impossible without Zhao's backing.

The economic climate characterized by runaway expansion made it very difficult for the State Council's strategy to be even partially carried out. As a result, the first half of 1988 witnessed an aborted plan to restrict government spending, which had climbed to RMB 99.3 bn - a 10.4% increase over the same period of 1987. As for the capital loans issued, the picture was even more troublesome. Usually the credit granted in the first six months of a year should not exceed 20% of the planned total. In the first half of 1988, however, over 50% of the whole year's was gone, a 24.6% increase over the corresponding period of the previous year. The arranged cut in money supply did not fare better. By August 1988, a 40% increase of money supply was registered.

According to the State Statistics Bureau, the newly launched capital construction projects, most of them outside the state plan, were not brought under control. In the first half of 1988, 9253 new projects, all with an investment of more than one million yuan, got off the ground, or two projects every hour. The investment budget was exceeded by 30.1 bn. The increase in capital construction since May was especially alarming. In June, 3662 new projects were launched, twice the number for the first quarter. Compared with 1987, the first six months in 1988 saw an increase of RMB 30 bn in investment of fixed assets. This made mockery of the State Council's plan to squeeze at least 20 bn yuan out of circulation.
based on the previous year's volume, representing a complete bankruptcy of the deflation and retrenchment program. Particularly alarming was the overheated growth along the East coast. From January to July the four provinces, Jiangsu, Fujian, Shandong and Guangdong achieved a GNP p.a. growth of 26.9%. Their increased gross output value made up 41.% of the national total, a driving force for the overall overheated situation, with industrial growth reaching 17.2%.27

Under these circumstances, the best way to cope with runaway expansion was to put a brake on the overheated economy. Zhao, however, chose to move in an opposite direction. In June 1988 the Politburo announced a surprising decision: the core program of economic restructuring would be price reform. Following the lifting of price controls on 14 kinds of foodstuffs in April, the Politburo stipulated that in the not too distant future, control over prices of all consumer goods and most of the means of production would be relaxed. Immediately after the announcement, price rises which had already hit double digits soared beyond control. People bought up whatever goods were available in shops and created a run on local banks, leading to a sharp fall in deposits. In the name of price reform, inflation previously latent due to state control, suddenly exploded. The price index for July and August in big cities shot up 31%, a level reminiscent of the last days of the KMT. As revealed by the responsible personage of the State Statistics Bureau, for every one percentage-point rise in the national price index, the customers had to pay 5.42 bn. yuan more on living. While the statistical figure of 1988 is still unavailable, for 1987, the Chinese people spent RMB 39.6 bn more in everyday living due to price rises, resulting in a decline of living standards for 22% of the population.29 The situation for 1988 must have been much graver.

The economic chaos of August led to the readjustment of September similar to the aborted double deflation strategy the State Council had tried earlier in 1988. Yet politically its impact was far more significant. Like the Great Leap Forward, the failure of economic policies
meant a reduction in political leverage at the top. In Zhao's case, it meant a reduced say in economic matters, both in daily economic management and reform. He openly admitted to the American encyclopaedist, Frank Gibney, that although he devoted most of his time to considering reform issues, he, as party General Secretary, no longer saw to everyday economic management. Economic reality threw weight into the debate between those people wanting to accelerate reform and others wanting to hold it back. Obviously, Zhao's misjudgment in pushing price reform eroded his power base for future reform through decentralization. Now the tide had turned, and the series of State Council decrees on readjustment following the Third Plenum reminded people quite strikingly who was now in charge of the economy. Indeed, Zhao's image as the leader of reform was tarnished by his inept response to inflation and the price hike. Once the confidence of the ordinary people in reform was gone, nothing could be done to further it. To the extent that Zhao lost dominance over policy initiation, it resembled the power shift immediately after the Great Leap Forward when Mao's economic authority was assumed by Liu and Chen, as pointed out by Tang Tsou:

The supremacy of Mao and his groups in form, in ideology and in policy orientation but the "supremacy" of Liu and his group in practice and in policy implementation.  

Certainly the economic factors did not stand alone in bring about a situation like this. They had deep roots in political, social and other fields.

5-2 Political and Social Dimensions of the Third Plenum

People often wonder why Chen Yun has been silent since he made his critical comments on Zhao's economic management in 1985. Due to lack of official data, only a tentative interpretation can be ventured. One reason is probably his preoccupation with the political situation since 1986, which encompassed several important issues of current Chinese politics. Firstly, relaxed political control had made it possible for people at different social levels to voice their grievances, growing from defects in China's political system.
Intellectuals and university students spearheaded the movement for democracy, another disgruntled reaction to the defects. The symptoms of social unrest and rampant corruption could not have failed to arouse Chen's concern over the future of communist rule. He frequently stated "in the party's work-style lies the survival and demise of the party". Secondly, the settlement of political succession at the forthcoming 13th Congress required his attention. As leader of the minority groupings in the party leadership, he had to give considerable thought to this fundamental issue. He must make sure that organized efforts to prevent Hu from assuming the number one leading post were successfully carried out without causing excessive social repercussions. It demanded much of his limited energy.

Another probable consideration in his tolerance for Zhao's approach to reform was his sense of timing for an offensive. Chen Yun is an astute statesman. He knows well when one can force a show-down and when one has to wait. At the high tide of the Great Leap Forward, he had a longer list of criticisms than Marshal Peng Dehuai. Nevertheless, he was very clear that the time was not right. Should he have voiced anything like Peng's letter to Mao, he would not have escaped the same fate. So he just kept silent and asked for sick leave, believing that the course of events would move in an opposite direction when they reached a crisis. If this happened, he would be invited to take charge provided he said nothing. This indeed took place. He had his chance to recentralize economic command after the Leap without taking high political risks.

History does sometimes repeat itself and politicians take advantage of it. Zhao's way of reform along the line of marketization did not conform to Chen's outlook for economic restructuring. But when Zhao was still on the rise and things had not turned extreme, it was difficult even for Chen to take action to change course. Antagonistic confrontation within the top leadership was not his style unless a crisis situation dictated it. To him, facts were more convincing than words. Only with supporting evidence can power be wielded more decisively. His expectation that Zhao's troubles with reform would provide the needed
evidence underlined his strategy of 'keeping silent'. The high inflation and price rises in 1988 finally made mature the time for the central planners to initiate a come-back.

As the case study in the previous chapter showed, inflation originated from miscalculations by the Deng-Zhao leadership group. As a Chinese proverb goes: with one wrong step, the whole game can be lost. The implication is profound. The loss of macro-control at the inception of the urban reform due to a massive devolution program in sectors like banking, foreign trade and taxation gave rise to what was called 'two inflations and three lost controls'. The two were excessive investment and consumption and the three, over-issuance of currency, of credits granted and foreign exchange spending. Although a soft retrenchment policy was proposed to remedy these problems, it was carried out only perfunctorily as it ran against the mainstream of reform. Besides, a number of young economists loudly warned that a tight monetary policy could cause recession, which was politically unacceptable. Gradually, economic dislocation became apparent, as indicated by fluctuating agricultural growth, deteriorating sectoral imbalances, uncontrolled price hikes, decreased productivity of state enterprises and enlarged government deficits. All these problems provided central economic interests with ammunition to attack the devolution reforms. More importantly, the "evil wind" of official corruption within the party and growing cynicism in society led people to question the foundations of Deng's second revolution.

5-2-1 Political Reform and Party Decay

By the time the Third Plenum decided to tighten economic control, political corruption and instability induced by an abnormal social environment had reached such proportions that the foundation of communist rule was shaken from the very top to the grassroots. Among all the vices that arouse the populace's indignation, the most telling was the accumulation of great wealth by state officials through abuse of the power entrusted to them to run the
economy. This endemic corruption is popularly called 'guandao' or 'official profiteering'.

Official speculation means that a large number of leading bodies of the party, government and military are engaged in business through the administrative companies they have established for the purpose of making a profit for their own staff. These "official profiteers" operate either as a trading firm run directly by the government agencies or a co-operative disguised in the name of a non-official office or a consulting firm composed of the retired cadres who are only too willing to contribute their "remaining heat" - former official connections. Without exception, they all have powerful backing from their parental agencies in the state administration.

Ever since the outset of urban reform in 1984, corruption in doing business through bureaucratic connections (guanxi) has quickly expanded. The resurfacing of this familiar pattern of corruption, which some Chinese academics linked to the tradition of bureaucratic capitalism in modern China, may indicate that in a nation without a capitalist history, some people must accumulate enough wealth to help pass the stage of primitive capital accumulation. And when they do it, they have to borrow the strength of state, regardless of the nature of the means. These academics argue that it is evil but it is probably an unavoidable stage in China's long and painful process towards modernization. There might be some truth in the statement, although no hard evidence exists to prove it. Reform discards the Stalinist developmental model. Yet it has not showed that the new method is working well. One complicated question is how to transform the existing command economic structure into a more dispersed one. Bureaucratic business might reduce the rigidity of the economy. But it can also alienate the majority of society, as it polarizes wealth. While it is helpful in breeding a new generation of capitalists and middle class with independent economic interests, a precondition for political pluralism, the society may be torn apart by the intensified interests conflicts before they can exert any stabilizing effect on the political balance. This other side of the picture reveals the ties of political decay caused
by official profiteering with the cycle of dynastic demise in the history of feudal and modern China. With the 'evil wind' blowing stronger, for the first time since 1949, both the party leaders and the 'masses' shared a sense of crisis. For instance, people coming from China who participated in the "4.27" Tian An Man incident compared it with "4.5" of 1976, with the same feelings that the regime was in deep trouble and the populace were restless. The KMT did not get through this crucial stage of modernization in the mainland largely due to its widespread corruption. Now the test is imposed on the communists.

The ineptness of the current regime in scaling down corruption, not to say weeding it out, has its roots in the institutional, cultural and motivational background. It is generally acknowledged that in a command economic system, where the demarcations between the state's economic and political functions are obscure, Guanshang or bureaucratic business is extremely harmful both to normal economic activities and to the political image of the state. Institutionally, in China most government offices can either have control over or get access to much needed raw materials through central or local planning authorities. In running the state economic functions, they allocate the materials to their subordinate units, monopolising the circulation of a particular product or controlling a sector of industry. With the dual tiered economic system in place now, they are able to distort this function of allocation. After ten years of reform, a semi-command, semi-market economy has been developed. In this dual track system, the government offices not only have legitimate rights to take possession of large amounts of state property in the role as watchdogs of the state plan, but there are also broader opportunities for them to use this property in the marketplace for commercial benefit. They simply transfer the materials allocated to them from one track (planning) at state-controlled prices to another (free market) and resell them at the black market rate.

What makes people most angry about these bureaucratic portfolio firms is that they operate primarily for the benefit of the officials involved. In other words, they steal the property belonging to the whole people under the protection of government office. Certainly, other
people in the units for whom the firms are set up also have a share. But the victims are the state and those who do not have such power. The unfairness lies in the unequal competition in a market with unequal power and opportunities. As a result, the gap in wealth between those who have guanxi or back door connections and those who live just on salaries is quickly widening, causing widespread social discontent. At the moment, in concluding a commercial transaction the person who extracts the materials from the state channel could receive a commission fee of up to 50% of the differential between the state and the open-ended market prices. This is the reason why so many cadres and their sons and daughters have been lured into profiteering. To them power is money and with money they can obtain more power.

As the winds of speculation blow, corruption becomes so conspicuous that people's confidence in the leadership has dropped to the lowest point since 1949. One popular saying goes like this: among one billion people, nine hundred million are engaged in the business of retail selling, and one hundred million are trying to go abroad. The number of economic criminals among party and government officials has risen sharply. According to official statistics, Anhui Province alone prosecuted 1377 public servants in the two years between 1986 and 1988, this number exceeding half of all the economic criminals prosecuted in the province. On a national basis, the percentage of government staff among the total number having committed economic crimes has been increasing steadily from 34% in 1983 to 35.8% in 1984, 46.5% in 1985, 49.2% in 1986, 51.2% in 1987 and 63.8% in the first six months of 1988. It is not that the party leadership just turns a deaf ear to the public outcry against this "evil wind". The leaders became very worried about decay within the party. In early 1986 the party reiterated the ban on state staff running business firms. Since July 1988 hot lines were installed for informants to report on those who had committed economic crime. By September 1888, 1974 such lines or report stations had been set up. They received 22,416
reports within a matter of two months. Among them 12,036 implicated government staff, comprising 27.3% of the total. The worsening 'party style' forced Zhao Ziyang to issue an order that the anti-bribery and embezzlement campaign should target mainly party and government bodies. Nevertheless, the efforts to alleviate abuses of power have been undermined by the need of the party to exercise control over the economy through these very offices, on the one hand, and on the other by the need to promote further economic liberalization in the direction of maintaining the dual track system. This has posed a serious threat to party legitimacy. One report on the situation of law enforcement revealed that out of 44 laws promulgated in recent years, only 15 were considered as being fairly carried out in Shanghai. In Guangdong Province less than half of the cadres charged with economic crimes have been prosecuted due to the interference with the criminal procedures through entrenched power relations (guanxi). The impotence of the party's internal control mechanisms quickens the decay process. Party authority is facing a very difficult transition from the old to the new economic structures.

One factor impeding the party's offensive against corruption stems from the confusions in the notion of "deviant" behavior. Some reform measures are conceived as corruptive by some cadres but by others, only normal acts from a reform mind. For a long time the incoherent response to many market-oriented practices by the CCDI and a number of enlightened party leaders had produced tremendous contradictions in dealing with newly emerged legal problems associated with market reforms. Even for many people who have done corruptive deeds, their motivational dimension is not as simplistic as many condemnations indicated. During my field work in China in mid 1988, I interviewed one of these official profiteers who offered a defence of his speculative activities. He said if they did not do it, the majority of the staff in the parent bureaus would be unable to keep up with the rest of the citizenry in terms of the basic requirements of life. There seems some truth in his remarks. In China today there is a gap between the reformed price system for most consumer goods and an unreformed wage system for public servants and educational and
scientific institutions. With as much as 70% of all commodities being exchanged in the marketplace and subject to its fluctuating prices, a certain amount of supplementation to the fixed wages of these people is crucial for them to keep up with price rises and the living standards of their neighbours. By now most state enterprises have linked their awards with profit turnovers, indicating that the majority of city dwellers no longer have an upper ceiling on their earnings. The state agencies and educational and scientific institutions have lagged far behind in this development and have to find ways out themselves. Take the income distribution of Wenzhou city as an example. In 1987 the average per capita income for each cadre's household was RMB 1038, far below that of the city's average living expense 1105.5 Yuan per head. The educational and scientific institutions have introduced a policy called 'paid social service through educational and scientific undertakings'. The commercialisation of education and scientific research has assuaged the financial strains on teaching personnel, although it is far from sufficient. The public servants are, however, denied any legitimate "moonlighting". They have to circumvent state controls. Sometimes it can be very simple because they have power that can be easily transferred for economic gain.

The difference in income among public employees, between the office staff and workers for instance, has provided a reasonable though not so legitimate excuse for the state bureaucracies to grab their own share in the redistribution of wealth. It has become a serious obstacle for the party leadership to handle the problem of corruption as it is unable to offer an alternative to compensate in assuring a decent living for its own staff. Outright elimination of the illegal state companies would affect many people in terms of their living standards and their morale. This inherent risk to the leadership underlines why state bans have been so ineffective. The predicament for the authorities is that if such malpractices are allowed to continue, an angry populace will eventually deny legitimacy to communists to rule as they did to the KMT regime.

The leadership has another reason for acquiescing in the existence of the bureaucratic
companies. As the on-going political reform has streamlined a large number of the party and government agencies, the top leadership is under severe pressure to accommodate the pressure from those who have lost jobs and, as a corollary, the power attached to them. Deng once commented that the success of political reform hinged upon whether the personnel question effecting some twenty million cadres could be solved. Letting them do business is, therefore, a most convenient method to placate them in return for their support for political reform. People can draw a parallel here with what happened in rural reform ten years ago. The resistance of the village party secretaries to decollectivization was effectively overcome when most of them were provided with opportunities to get rich first. This time most of the cadres cut back from their original posts in the central ministries have also been granted opportunities to go into business. According to Economic Daily , the number of bureaucratic firms set up in Beijing alone reached 4742 in May 1988, 703 more than the figure of January. The fastest growth was registered by the central party and government ministries, which coincided with the organizational reform of the party centre and the State Council.

Yet whether the party leadership can be successful in pushing forward political reform by buying off the released state staff remains to be seen. The state will simply be impoverished if it allows such a large number of official profiteers to "steal" state property. The soaring social protest against corruption was the background to the decision of the Third Plenum to crack down on bureaucratic firms. It, however, also narrowed the room for proceeding with political reforms aimed at altering the functions of state economic bodies. One precondition for the change was to cut back a large number of the agencies and personnel engaged in the direct control of the economy. Their resistance is bound to be fierce if a satisfactory outlet is not made available for them.

Guan shang or bureaucratic business is not the only form of corruption that is haunting China, although it is attracting most of people's attention, as embodied in the 8 demands by
the demonstrating students in March 1989. There are other forms of rampant corruption, such as bribery and extortion, patronage and nepotism. To be sure, official profiteers use all these vehicles in their illegal dealings. Because they have all these means of corruption at their disposal, many of them can get away with it, even when discipline is tightened. This malaise of China's political structure is the main obstacle to its reform: with the lifting of the traditional means of punishment associated with political campaigns and party rectifications, the current system of discipline is unable to cope with the demands for control being made on it. Corruption can only be expected to flourish further. It seemed that the Third Plenum reached a consensus between the reformers and the central planners that political reform centred on decontrol should wait because it was control that must be taken care of first. In the final analysis the vested interests of both reformers and central planners are more connected to the continuation of the party's leadership than to how that leadership should be exercised. Even though the enlightened leaders in the top party ranks have realized long before that an improvement of rulership could prolong the CCP's monopoly of political power, they now have neither time nor capability to practice these new ideas.

5-2-2 The Changing Structure of Social Interests and Social Instability

Parallel with rapid political decay is an upsurge of social discontent brought about by the unevenness of economic reforms and is directed towards the government. For instance, the students taking to the streets in March and April 1989 won great sympathy from the public. But few people have realized that they entertained totally different goals in staging this drama. The students tried to pressure the regime to speed up the political and economic reform so that a more relaxed social environment would be created which could benefit their political and academic objectives. They, therefore, explicitly targeted Li Peng because of the latter's part in the current retrenchment policies. And they seldom mentioned the market failures associated with reform. The general public also attempted to pressure the government. They, however, intended to make the leadership slow down the reform as any
deepening of the reform in the direction of free enterprises would affect their interest in the "big rice bowl". Talking with many people in Beijing during my trip to China shortly before the students demonstrations, I was surprised to find that most of them thought they had already had enough reforms. For many of them economic reform equated to price rises. When they went to the streets with the students, an unique phenomenon emerged, that political forces with opposite aims became comrades-in-arms as the government served as their rallying point.

Before reform, communist ideology emphasized as an important principle the narrowing down of the interest differentials between various social strata. The Maoist concept of "elimination of three big differentials" (between the workers and peasants, rural and urban areas, and mental and manual labourers) had been faithfully translated into a dominant structure of public ownership of the means of production and materialized in a tightly controlled system of distribution characterized by low incomes and low consumption. The system was also used as an effective weapon to meet political ends, such as minimizing conflict between different social groups in order to maintain social cohesion. In echoing the small-peasant mentality for an ideal society based on egalitarianism, it successfully instilled in the minds of the Chinese people a value orientation: social fairness and equality meant everyone should have a similar share of social wealth.

In this clear-cut social structure of interest, everyone knew where his place was. The traditional Chinese belief holds that if people are all kept in their original position in the society and family, there should not be any anxiety and confusion on the part of the populace and thus no social upheavals. Chinese society before the reform had been relatively immobile and thus remained stable, as far as the grassroots were concerned. As soon as any heresies appeared, they would at once be cut off as the 'tails of capitalism'.

The strong point of this static structure was that it prevented the polarization of wealth when
there was so little to share. It also empowered the state to concentrate limited resources on rapid industrialization. It seems true that where social interests were strictly channelled to conform to the will of the state, there would not be enough competition for development and as a result, reasonably fast social changes. The fairly slow economic development in socialist China in its first three decades served as an index of how Maoist developmental strategy deviated from the general economic laws by laying too much stress on equality at the cost of efficiency.

Deng's reform is, therefore, a necessity to redress the balance between efficiency and differentials of interest and between equality and polarization in social change. And indeed the liberal economic policies of reform - decentralization and the introduction of market forces - paved the way for the formulation of a new multi-ownership structure. As an unavoidable product of such a structure, a new and more complicated social structure of interests gradually came into being. In this way China's reform could become as the catalyst for the reorganization of different social forces through incremental means.

Newly released statistical data reveal some of the details of these dramatic changes. By the end of 1987, the percentage of the state sector in the gross value of national industrial production had shrunk to 57.7%, compared to over 80% in 1978. The share taken by co-operative enterprises, individual household production and private concerns had risen to about 42.5% of the total. The fastest expansion was achieved by non-state township industries, now boasting more than 15 million enterprises with the bulk being privately owned. The workforce in these industries was 70 million people, equivalent to the total in the public sector. The number of private enterprises employing eight or more labourers reached 225,000, and many of them were giants with real assets of several tens of millions of dollars.46 In contrast with the plain structure of social interests before Deng's second revolution, consisting of the rural commune system, workers in the state factories in urban areas and a small number of governmental, educational and scientific staff, this change is
probably the most profound of all. The very social fabric has been altered.47

Chinese people have a strong impulse for wealth acquisition but this was greatly inhibited by Mao’s struggle against "small production mentality", which he believed was the seedbeds for capitalism. Now it was rekindled by Deng’s advocacy that some people be allowed to become better off than others. The reform steps realized this process. Facing the problem of unemployment in the cities and surplus labour in the countryside, the government had carried out a lenient policy towards the burgeoning private sector. In the public sector, devolution and profit retention gradually weakened central control. At the beginning of the reform the profit sharing ratio between the centre, provinces and grassroots was determined more by the centre’s mandatory planning than market regulation. The redistribution of national income at the individual level in state and collective enterprises was still subject to administrative restriction, making it possible for the state workers to have a fairly even share. On the other hand, because it took some time for private undertakings to become profitable, the state sector got a quicker and larger slice from the cut of the state 'cake', and the disparities in wealth between the public and private sectors and among the state staff were not so conspicuous as at first to generate popular dissatisfaction. As one researcher revealed that the Gini index for the cumulative income distribution in China’s cities was 0.168 in 1984, compared with that of 0.185 in 1977, the gap in wealth was even narrowed. In the countryside, as the rural reform had started five years earlier, the Gini coefficient had already risen from 0.2124 in 1978 to 0.2577 in 1984.48

Nonetheless, as the private entrepreneurs quickly expanded their business with enlarged capital investments permitted by the relaxed policy, they soon left the public sector well behind. Where the command economy failed in fields such as transportation and everyday consumer goods, private enterprises did best and multiplied their fixed assets in a short time. With the dual track system covering more spheres of production, market forces cut deeply into the territory of state planning. The former control structure increasingly
contradicted the reform strategy, practice and logic. More devolution weakened state power for general regulation, which in turn weakened control over income redistribution. For instance, as the wages and other premiums are linked to the profit turnovers, the producers have made use of this opportunity to retain more profit that is distributed to their staff.

The pace of social change has been quickened by the chain reaction generated by reform. For instance, the second phase of rural reform concentrating on marketization of rural production set in motion a sectoral realignment of productive elements in the countryside. The peasants have been tempted to produce anything that can bring in more profit. This inclines them towards industrial and sideline production at the expense of grain production. Among other consequences of the trend is a fast transfer of rural population to work elsewhere. According to a report, by the year 2000 about 300 million peasants will be rendered surplus. They will become a huge burden for the economy and a potential threat to social stability if employment cannot be created for them in time. This pressure is well beyond the capacity of the state economy to absorb. At the time the report was written in 1985, it cost about 10,000 yuan in fixed assets to equip one jobless person in the cities. Although the figure was very low by present standards, it would still require the state to invest RMB 170 bn a year to provide the 300 million surplus farmhands with industrial posts. The urban authorities have already been hard pressed by their own unemployment problems: how can they cope with this titanic rural labour force? The only feasible way would be the development of rural township industry that requires few state inputs. The natural outcome of such a strategy will be a great leap forward towards privatisation of the economy. As the relaxation of land-use transfer rights among farmers spearheads the movement of the rural labour force from tilling the land to industry, within one or two generations the public sector will lose its dominant position in today's economic structure of mixed ownership.

This mixed ownership structure has posed great challenges to China's economic and
political system built upon a set of values increasingly becoming obsolete. The crisis of the regime emerges partly because of the leadership's inept response to the new situation. Obviously, the CCP has not been well prepared to cope with rapid social change, which constitutes one reason why the conservative outcry for slowing down the pace of reform has been so warmly received. At the moment all the reformers can do is to reiterate that they will not abandon the dominance of public ownership.52

The biggest challenge the new ownership structure presents to society is that in breaking the political, ideological and economic shackles imposed on "self-interest", the social groups represented by their new ownership status can try their best to build up economic might through means legitimate or otherwise. In consequence, differences in interests have quickly intensified and so also conflicts between them. The emerging new social structure of interests has confused the traditional clear-cut demarcation of what is fair income and what is not. It now seems to everybody that while reform is necessary, it is unfair in its effects because most people have not obtained what they hope for or feel that what they have gained is less than expected or than what others have received. To a large extent the phenomenon is due to the breakdown of the popular psychological equilibrium originally based on the Maoist egalitarian legacy, for which a large proportion of the population still feels nostalgic, especially the cadre class. Local officials have recently stepped up their demands for payment from the newly enriched private entrepreneurs. This is a fine example of how they perceive their materially unfavorable position in the new social structure of wealth redistribution. They react to it by openly using their power to squeeze the upstarts for tribute. If the contributions are not forthcoming, they make all kinds of excuses to hinder their business.

Among the masses themselves, strife is also widespread. The old-time slogan of 'eating big households' reappeared and was practiced by those doing poorly in the markets.53 They pick bones with the successful ones and harass their production. When these cases go to
court, the local cadres often intervene in civil disputes or order lenient verdicts for the troublemakers in fear of the 'indignation of the majority'. In terms of the gap between low material benefits and high social status, intellectuals are in somewhat anguish to live in a society still under the Confucian influence that 'study is above everything else'. They perceive an affinity with the worst victims in the reform-generated social structure. Their taking to the streets with the university students in Beijing in May reflected their frustrations with the failure of reform in addressing the problem of uneven distribution of the benefit of reform. Their feeling is that if anybody should be better off first, he should be a factory engineer or a university professor, people who contribute to the society through their specialized knowledge.

As mentioned earlier, the core of the question associated with the new social structure is that of fairness and equity. In the eyes of most Chinese people, it is neither fair nor equal for there to be no clear rules in the game of becoming rich. The intellectuals are deeply frustrated by the fact that hairstylists' scissors can bring in more income than surgeons' scalpels. By 1987 the Gini index for the urbanites reached 0.236, a remarkable increase in a matter of three years. Other research data revealed an even more appalling finding: that in 1988 the national total retail sales reached RMB 505.1 bn. One forth of the total was sold by the private business people. Considering the fact that they comprise only 2% of the whole population, the disparity in wealth must be remarkable. A small number of the offsprings of the high ranking officials have become the richest upstarts. The popular resentment is well founded.

Some social scientists, however, put the phenomenon into historical perspective and offer more reasonable explanations. They hold that the inequality in personal income evolves hand in hand with a change of economic structure from the subsistence-oriented towards low level well-to-do consumption. The restructuring has left the 'sunset' industries in a dire situation compared with the newly prosperous sectors, such as electrical durables. For
instance, between 1984 to 1986 the retail sales of color T.V., refrigerators and washing machines increased by 69.2%, 157.3% and 77% respectively. The 1987 annual production of color T.Vs. was 6.72 million sets against a demand of 15 million and for 1988, 8 million against 20 million.\textsuperscript{57} Related to the change of consumption/production patterns is a fast regrouping of the labour force, funds and raw materials away from the traditional industries. No matter what is tried, these so-called 'sunset sectors' cannot compete on an equal footing with the more profitable industries. The state, while unable to declare them bankrupt, can only afford to subsidize them at a bare subsistence level. The enterprises turning out profitable products, however, quickly seize the limited market and take advantage of industrial restructuring and Zhao's policies of devolution and profit retention, which built up the framework for the enlarged income differentials between the industries, regions and factories. They do not just survive but prosper. Individual workers in the "sunset" industries feel wronged because in a socialist economy where there is no labour market for the exchange of staff it was not of their choosing where they work. Yet they now have to share the misfortunes of their units. Conflicts between workers in different sectors either stemming from unequal employment opportunities and unreasonable allocation of resources rooted in the economic system or from the partial reforms, have resulted in many strikes and go-slows. According to a survey conducted among 210,000 workers in 400 state enterprises in 17 cities by the National Worker's Union, the work spirit has dropped to the lowest point since 1949, with 50% of workers having become tired of working for the state.\textsuperscript{58}

Lack of an efficient system of macro control and regulation over the income differentials between industrial sectors, enterprises and individuals has enhanced the perception that it was the state and its reforms that brought about this unfair income situation. It was rooted in Deng's slogan of 'let some people get rich first' and was institutionalized by Hu Yaobang's advocacy: 'be able to make money and spend it'. For the government, however, construction of an efficient macro-control system over the regulation of income has to go
hand in hand with the erection of an entirely new macro-controlled economic system, which
would be a long and painful process. It is easy for the state to take emergency monetary
measures to affect the aggregate social income so as to effect an increase or decrease of
income among social members. But it will take a long time to establish a set of mechanisms
to distribute the social income relatively evenly among the citizens. Without a fully fledged
system of taxation, credit and monetary controls associated with a fully fledged market,
forceful administrative control over personal income will cause adverse effects on
production, as was proved in the past. 59

China's reform is a structural transfer of power and interests from some social groups to
others. A new structure of ownership of means of production is both a result of the transfer
and a catalyst for further transfers. Now a new structure of ownership composed of public,
collective, cooperative, private, individual household, joint venture and wholly foreign
capitalist concerns has fundamentally confused the lines of social stratification, and also the
common interests used to bind one given class and its pursuits. For instance, interests
sought by the staff in a state enterprise may be in conflict with those by their brothers in a
private one. Nonetheless, together they may have the same stake to guard against the state's
intervention, for instance, with their unquotaed bonuses.

The new forms of wealth acquisition through various forms of ownership have to a
significant extent contributed to the breakdown of the previous social structure. In a
co-operative company rewards from dividends have exceeded regular wages. In the private
sector a owner's revenue is tied more to his capital than to his labour efforts. This is most
apparent in the countryside where privatization at higher than household level is viewed as
the only conceivable way out for the majority of the peasants to accumulate economic
strength. 60 The workers in the public sector are worst off in income become the state low
wage system and tight control over bonus take away most of what Marx called as 'surplus
values'. The contradictions between the farmers and workers and among workers in
different ownership forms have increased in magnitude. As this trend gradually builds up momentum, it is changing the foundation of the People's Republic - the 'alliance of the workers and peasants' on which the CCP rule rests. This is because when market mechanisms enhance the sense of self-interest in the minds of the newly independent farmers, the traditional methods of milking rural resources for fast industrialization will only increase the rifts between the peasants and urbanites. With the state's acknowledged multi-ownership structure in place, there has emerged a veritable capitalist class in China. They may come from the successful vendors, the bureaucratic business people, the urban and rural private entrepreneurs and the shareholders of large high-tech companies such as Stone. Whatever their social origins, they represent a new productive force in China, though for a long time to come they will have to rely on the state's mercy for existence. Apart from the political significance of this new formation, its economic outcome is that it acts as a locomotive driving the gap in wealth even wider.

In discarding the Maoist vision of socialism, the current Chinese leadership has embarked on a new road: a blend of planned economy, state capitalism and free capitalistic mechanisms. It has inevitably confronted an irreconcilable dilemma experienced by most developing countries: relaxation accomplished a rapid growth of the national economy and a general upgrading of living standards. On the other hand the powerful charge generated by the new social structure but yet to be absorbed by many citizens, puts to the test the ability of the current political and economic system to accommodate the changes. As the transition is characteristic of systemic reform, efforts must be made to safeguard a proportionate distribution of the benefit of change among all the interests of society. So the next stage of reform has to address the contradiction between further broadening income differentials to boost incentives for faster growth and maintaining at least a minimal social equality in order to keep a reasonably harmonious social environment.

Since the beginning of 1987, particularly since the ninth session of the Politburo last May,
1988 social and political pressure has been steadily building up. Frequent traffic accidents, endemic disturbances in state enterprises and worsening public order reflect the discontent of a large proportion of people whose interests have been either upset in the new social structure or crippled by the passing of the old. Public outcry for a fair and equitable society is mounting to the point where popular frustrations can culminate in a Chinese Gdansk incident.

Such was the social background of the Third Plenum. The neglected voices in the leadership of groups holding opinions against reform that the reform has gone too far and too fast, suddenly increased in volume, as they responded to this social discontent. In contrast, the claims by the Deng-Zhao majority group that 'in the field of distribution, eating from the big rice bowl was still the major problem' became so feeble that it indicated clearly that the time when reformers could gather quick support from the majority of the population had passed. It seems that people no longer care about who represents reform, only who can stop the further slide of their interests, or at least who can stop those big profiteers. The reformers, especially Zhao himself, have to come to terms with a changed social mood.

5-3 The Third Plenum: A Powerful Offensive to promote the Central Economic Interests

The decision of the Third Plenum of the 13th CC that the next two years would be devoted to an economic retrenchment caught many people by surprise. It was not that the change of direction was unusual, judging from the zig-zag course of reform since 1978, but that the turn was too sharp and violent. People still remembered well Deng's remarks in March 1988 that "we have been cautious in carrying out reform. In fact we have been too cautious. Now we should be bolder. Do not fear to take risks". It seemed only yesterday when he urged a surgical price reform to cure the lingering pain. Now he has suddenly changed his tone. When receiving the Vice Chairman of Japan's LDP on September 16, 1988, he disclosed that:
The result of our discussion was that we should stick to the old principle, that means, we should be bold in planning reform but steadfast in taking steps. Now we are bold enough, so we should be more cautious.64

So within a matter of three months a switch was made from a major move to further liberalize the command economy to a similar retreat to enhance central control. There is every reason for observers to question what is wrong with China's economic reform.

The main theme of the Plenum was improving the economic environment and rectifying the economic order. It stipulated that (1) Investment in fixed assets in 1989 would be reduced by RMB 50 bn, roughly 20% of the actual investment of 1988.

(2) Overheated consumption, particularly in institutional expenditures, to be drastically curtailed to a level consistent with social supply.

(3) Forceful efforts centred on cutting back money supplies to ease high inflation, stabilize the financial situation and lower prices.

(4) Overheated industrial growth will be brought under control, to a level above 10% p.a..

(5) More attention to be paid to agriculture with increased inputs to grain production.

(6) A considerable sectoral restructuring, giving priority to energy and transportation and easing the overt growth of the processing sector.65

Yao Yilin made it clear that it was another economic readjustment similar in nature to the ones tried in 1962, 1979 and 1986. And the tasks listed above could not be achieved without resorting to the tough control measures worked out in previous readjustments.66 In his speech to the Third Plenum Zhao quoted Deng as saying: "macro-economic control implies that the central authorities must mean what they say." Zhao went on:

To exercise macro-economic control, it is necessary to make comprehensive use of economic, administrative, legal and disciplinary means as well as to contact extensive political and ideological work. In the transitional phase, in particular, it is unwise to abandon administrative means prematurely or offhandedly. Otherwise economic disorder will ensue.67

What is meant by using administrative means in running the economy? Put simply, it means
state interference in economic affairs through non-economic levers, the most popular being planning. Rhetoric as such had disappeared for a long while. It seemed unlikely that it was spelled out by Zhao, a strong proponent of replacing administrative means with economic levers. In his report to the Plenum he went even further to evoke party organizational control of the current economic situation. In fact, there is nothing new in these controls in the experience of the PRC, which has witnessed several cycles of 'once let go, the economy results in disorder; once the control is retightened, it becomes rigid'. Yet the significance of this recurring cycle lies in the revived argument of whether or not there is ever a way out for market socialism in China.68 Facing the grave economic situation where price rises run wild, speculation gets beyond control and inflationary pressure shakes the very foundation of society, people wonder what other measures could be used to rectify the current dislocations.

The remedy proposed by the Plenum for the economic diseases will certainly roll back much of the progress made since reform, along the lines of letting market forces play a decisive role in economic management. In the critical moment of transition from the old economic structure, based on central planning, to the new, relying increasingly on market regulation, retightening central control will have a major impact on the course of reform and, more importantly, on the distribution of power in the top leadership. This has been repeatedly illustrated by the precedents provided in previous readjustments.

The State Council quickly seized the opportunity to promote its authority. Immediately after the Plenum it issued a series of administrative decrees to tighten central control. Before the year ended, more than thirty were promulgated, effectively turning around the whole reform climate.69 Listed below are only some of them, adopted in September and October of 1988, which assist an understanding of the renewed administrative interference with the economy.

September 24: the State Council announced that from then on all silk buying and exporting
would be monopolised by the General State Company of Silk Imports and Exports. No other units would be allowed to enter the business of silk exports.70

September 25: The State Council started a national inspection of taxation and financial work. All inspection teams were led by high-level central bureaucrats.

September 26: The State Council issued provisional regulations for the construction of office buildings, public halls and hotels. It ordered: (1) winding up all public building projects under construction or on the drawing board that were not absolutely necessary; (2) lowering the building costs of those remaining; (3) bringing all new construction under state planning, while prohibiting any projects outside the plan.71

October 1: The State Council notified that it would send high ranking special price inspectors to all provinces, autonomous regions and municipalities. The move was designed to enable the centre to closely monitor the price situation throughout the country.72

October 5 The State Council approved a five-point decree for foreign trade, drafted by the Ministry of Foreign Economic Relations and Trade. The keynote of the regulation was the resumption of central control over foreign trade through a new permit and profit retention system, which reversed many of the devolution policies initiated only 6 months earlier in the implementation of the coastal developmental strategy.73

October 6: The State Council issued a directive restricting institutional purchasing power. It broadened the items under special control from 19 to 29. No state agency could buy them for 2 years starting from 1989.74

October 8: The state Council decided that the purchase of cotton would be conducted in accordance with a nationally unified price set by the centre. The intermediate firms in the
business would be dismantled.75

October 11: A State Council conference approved a package of austerity policies advanced by relevant central ministries. For instance, the SPC reported that it would set up special offices to assist the State Council's office in checking on capital constructions, headed by the Premier himself. The PBC reported seven measures to reduce investment loans. It resolutely prohibited ten categories of loans: projects outside the state plan, nonproductive capital construction, projects financed through locally raised funds, portfolio trading firms, and so on. The State Price Administration put forward ten emergency measures to control price rises. The main ones were: stabilizing prices of the basic commodities for everyday living, winter vegetables, and rationed meat. The Ministry for Materials also had a list of ten provisions to oversee material circulation. It was determined to get the official profiteers out of circulation by linking the producers directly to the users in accordance with the state plan.76

October 13: The State Council decreed that agricultural chemicals, fertilizers and plastic must be under unified purchasing and sold through the State Company for Agricultural Means of Production.77

October 29: the State Council sent out a nine-point circular concerning price controls. It stipulated that the prices of the staple foodstuffs must not be decentralized nor the everyday vegetables for urbanites. They must be placed under the planning price only. For the materials that can have market prices, no company or producer could charge more than the maximum price imposed by the state. The sales of the industrial materials in high demand such as crude oil, copper and rolled steel must be monopolised by the state agencies through planning.78

The strictly supervised implementation of these retrenchment policies initially improved the
economic situation. As of March 1989, cancelled capital construction projects reached 18,000, taking RMB 64 bn out of national and local investment plans for the next several years. Deflationary policies were reinforced by stopping the money issue, pushing down the price index. These steps achieved some results, as reflected in the October price index which, rose less quickly than September. The rate of increase was 1.7% as against 3% between July and September on a year-to-year basis. The run on banks and panic buying were eased, although they still occur occasionally. There is truth in the claim by central planners that administrative measures are most effective in checking economic chaos. Yet the negative side of the picture cannot be fully disguised by a quick restoration of economic order. The long-term implications of recentralisation may outweigh the short-term gains.

5-3-1 The Problems of the New Economic Readjustment

After a decade of reform China's economic development is still basically size-and-speed-oriented. Size and speed are backed up in the main by capital investment. This is because the economy has not changed from one based on quantity to one on efficiency. Under the pressure of excessive social demand, it has to increase production by setting up more factories. Moreover, the phenomenon where state enterprises grant bonuses from funds obtained by profit retention and expand production through bank loans characterizes the pattern of income redistribution and reproduction. Their circulation funds is almost totally dependent on bank loans. This source is most vulnerable to deflationary policies, which create a shortage of funds essential for normal production and cause a payments crisis for state enterprises. The result is a sharp shrinking of production and reduced speed of development. Without a proper size and speed in industrial development, there would not be enough national income. Generally speaking, when industrial growth is under 5% p.a. there is no increase in state revenue. The state then has to resort to the printing of currency to maintain its financial stability, negating the efforts made to tame inflation. On the part of workers, when they receive less bonus due to tighter control over consumption funds, they
become even more disillusioned towards reform. This constitutes the bottom line of the aborted 'soft landing retrenchment' in 1986.

The cut in bank investment funds has already brought about a grave economic situation, different from the one caused by high inflation. By the end of 1988 the local governments had run out of funds to purchase rural produce as a result of the Agricultural Bank's refusal to lend money on the instruction of the central bank. As the contracted grain had to be bought, they had to give the farmers "promissory notes" instead. Jilin Province alone issued such notes worth 300 million Yuan. Although it was said that the note could be redeemed later when the government had money, the practice angered peasants who were dubious about the promise. Many of them would rather wait and see instead of selling their harvests to the state. This further affects the supply of rural produce to the cities and become politically explosive.83

The shortage of funds in industry is even more acute. On October 1, 1988 the PBC and its four specialized banks suddenly ceased to grant investment loans, causing great difficulties to the majority of state enterprises dependent on the state banks for money to buy raw materials for production. A great number of them were on the edge of bankruptcy, including many which produced goods in high demand. Some cities ordered closures of factories due to the limited circulation of funds in the local banks.84 The plants adopted various counter-measures to cope with the deflationary policies. They tried to circumvent the state banks in obtaining capital. Those which had deposits in the banks immediately withdrew them for fear the government may freeze these funds. Other plants either hoarded their products for speculation or engaged in barter trade for raw materials. The centre's reassertion of control over financial activities has resulted in a concerted response from about 420,000 mini-trading firms and small factories which have created a new track of money flowing outside the state banking system. In this so-called 'outside body circulation' some RMB 210 bn changes hands every day, not only challenging deflation but also serving
as an unstable element for the future financial situation. For example, at the height of the state banks' payment crisis, as the central bank stopped providing money to its branches, thirty small private money centres in Wuhan lent to the six state banks in the city RMB 140 million, proof of the de facto bankruptcy of the state banks. It is the first case in the PRC that the powerful state banks were made creditors of the small private money centres.

The economic situation in 1989 will look even bleak according to one official source. Take the machine building and electric products industries as an example. They bear the brunt of the restrictions on capital investment loans. In terms of fixed assets, number of employees and gross output value, they represent one fourth of the national total. In the two years between 1989 and 1990 they will face a repetition of the difficulties they encountered in 1980's readjustment. Due to a lack of funds in circulation, economic efficiency will be expected to drop at 70% of all such enterprises. One third of factories will make a loss and a large number will close down. The unsalable products will exceed 1980's level of RMB 60 bn, equivalent to that year's entire output value. Most state enterprises in the processing sectors will have an even harder time in 1989. They will struggle for the limited resources available due to overstretched development. The ratio between outside-the-plan projects and inside ones is 3:1 compared with 1:4 in 1980. Most of the projects outside the plan have to be supplied with materials from the grey markets, itself the target of the centre's readjustment efforts. The overheated economic growth may be cooled down. But the prospects of stagflation, as reflected by a drop of production of more 10% in the industries of steel, crude oil, chemicals, and foreign trade in the first quarter of 1989, will also loom large in the months ahead.

The deep cut in the capital construction projects will also affect long-term economic development. While reducing aggregate social demand, retrenchment will levy a high price on future economic growth. Since the urban reform there has been a widespread thirst for capital investment. Yet official statistics shows that productive investment figures have not
been very high. See table

<table>
<thead>
<tr>
<th>Year</th>
<th>1985</th>
<th>1986</th>
<th>1987</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>17.2%</td>
<td>13.5%</td>
<td>16.8%</td>
<td>20.7%</td>
</tr>
<tr>
<td>Income</td>
<td>11.2%</td>
<td>7.4%</td>
<td>18.2%</td>
<td>11.4%</td>
</tr>
<tr>
<td>Investment</td>
<td>22.4%</td>
<td>19.1%</td>
<td>24.4%</td>
<td>N.A.</td>
</tr>
</tbody>
</table>


Productive inputs have exceeded national economic growth by only a few points. Other newly industrialized economies all have a record of productive inputs several times over the rate of national economic growth. Against a background of sharp population increase, a deep curtailment of capital investment loans will not only adversely affect long-term economic strength but also the living standards of the present and future generations. The Chinese leadership is confronted with a profound dilemma: it cannot afford to have too high a growth rate or too low a one. It is walking a tightrope.

5-3-2 Intensified Conflicts between Central and Local Interests

The first victims of retrenchment policies are the local interests. As mentioned earlier, Zhao’s devolution reforms have in the past five years created a solid structure for economic management and redistribution of national income and wealth favouring the provinces. Its framework is the central-local financial responsibility system. Its supporting pillar is the fast growing outside-plan-funds at the disposal of the localities and its driving force is the special policies granted to the regions, such as the coastal strategy. Retained profit in the provinces has fostered an entrenched local economy fairly independent of the national one.

Under the decentralization regime, the bigger the local economy, the richer the local people and the higher the political prestige of the local leaders. This mechanism of incentives for local expansion is viewed as the main reason for the overheated processing industries, particularly those that can bring in quick money. At the moment approval from the SPC is
required only for capital investment projects exceeding RMB 30 million or involving hard
currency above 5 million U.S. dollars. Projects with less investment are the responsibility
of local governments. Because the centre only sets an upper limit for the overall amount of
investment in each province and it does not have either the means or manpower to oversee
small projects effectively, local construction projects can usually evade central control.\textsuperscript{91}

On the other hand, the financial responsibility system between the centre and the provinces
makes it unnecessary for the localities to look at things from a macro-economic angle. It is
only natural for local leaders to promote local development when their economic interests are
magnified by the new incentive mechanisms. Within four years, for instance, 113 colour
T.V. assembly lines were imported by the localities because coloured T.V.s sold well. Yet
as they did not have sufficient hard currency to purchase the components, many lines lay
idle, causing heavy losses.\textsuperscript{92} Consequently, most central planners regard the key to the
success of the current retrenchment lies in their ability to change this irrational situation. In
this respect Zhao relayed intimidating warnings from the central planners in his report to the
Plenum:
\begin{quote}
We should warn beforehand that comrades in the localities must conform
to the central policies of retrenchment. You should not commit mistakes at
this important juncture.\textsuperscript{93}
\end{quote}
Zhao's rhetoric confirmed people's anticipation that the Third Plenum was an attempt by the
centre to subdue the localities in the coming economic campaign.

The centre's squeeze on the provinces has several aspects. Since September 1988 the State
Council has sent ten inspection groups to most provinces, municipalities and the
autonomous regions. Their task was simple but difficult: to axe as many capital construction
projects as possible. These high-powered groups were all headed by central ministers. They
played a key role in getting 112,000 capital projects off the agenda. But the State Council
was not satisfied with the progress made so far. Yao Yilin instructed that what had been
done was only the beginning. The inspection should be prolonged well into 1989 and
Financial recentralization is the key point in economic retrenchment. The 1988 National Conference on Financial Affairs held that devolution and profit retention caused a loss of control over the macro-economy and accounted for the current financial difficulty. The excessive dispersion of the state's financial strength was reflected in a drop in state revenue in the overall revenue from 31.1% in 1979 to 19.3% in 1988. The irrationally fast increase of capital outside the state plan from RMB 45.3 bn to 227 bn during the same time was another indicator. The recentralization of national income was, therefore, an important mission for on-going readjustment. The goal was to raise to 28% the percentage of state revenue in the national total. Central income would be increased from 60% to 70% of the total national income. The impact on economic reform, which aims at the establishment of a market economy based on a decentralized financial process, would be far-reaching.

In order to achieve this objective, the State Council has amended the original financial responsibility arrangement between the centre and the 16 provinces that contribute most state revenue. They will from 1989 submit a larger percentage of profit than they could otherwise retain in the previous scheme. In addition, the State Council took a new step to recentralize taxation powers. By introducing a so-called dual leadership system over taxation which is a vertical mechanism of control, the previous right of the local government to exempt local industrial concerns from taxation has been on the whole vetoed. Needless to say, this control measure will greatly affect the income of local authorities.

Township industries, which provide a large percentage of provincial revenue, have also been affected. In the last 7 years investment loans granted by state banks to township industries have been increasing at an average rate of 36%, an accumulation of nearly RMB 100 bn. In 1988 RMB 14 bn more was granted to the industries by way of investment than in 1987. Without clear state coordination policies, two visible phenomena reached crisis
point. The first was the loss of macro control over the direction in which township industries expand. There is no efficient assessment system for township industrial investments. The villages put up whatever factories that make easy money, regardless of the factors of ecological maintenance, material consumption and technology. They build new projects through retained profits, if any, while relying on bank loans for circulation funds. Their existence is, therefore, fragile in the face of the cuts in investment loans. The second factor is the loss of state investment funds when the village plants fail to attain the designed goals. According to one estimate, 3 out of 4 township factories have gone bankrupt in recent years. So the investments in those that fail cannot be recovered.99 The first half of 1988 registered RMB 24.6 bn loss in this category.100

The austerity policies towards township industries will concentrate on several areas: (1) Except for the continuing projects, no new capital construction will be launched in 1989. (2) With RMB 150 bn investment loans made available for 1989, a large restructuring program will be adopted to cut back about two thirds of total township industries. The remaining ones will be those producing exportable products or supporting key state industries. (3) The township factories have to rely on their own efforts for circulation funds. (4) The Agricultural Bank and other related institutions should work hard to recover RMB 20 bn in 1989.101 Obviously, these measures will have enormous impact on local interests. Firstly, they will increase local financial difficulties, for a significant proportion of provincial revenue is created by township industries. For example, Shandong is the country's biggest cotton producer. In the past four years it has set up a number of small cotton processing mills for the simple reason that textile products make more money than selling raw cotton to the state. Now the state has ordered most of them dismantled as they have secured a big share of the cotton quotaed for state enterprises, which are technically advanced. Consequently, local textile income will be eliminated as a result. One county director complained:

The annual revenue of this county is RMB 12 million. After we dismantle
twenty thousand cotton spindles as ordered by the centre, local revenue will drop by RMB 10 million. At the same time the unexemptable profit turnover of RMB 4 million is by no means reduced. This will cost me my life.102

Secondly, retrenchment policies will increase the local burden of rural surplus labour. As mentioned earlier, township industries are deemed the only feasible outlet to ease the problem of too many people tilling a fixed area of land. Now that this road is obstructed, albeit temporarily, a further dive in agricultural efficiency can be expected. Moreover, it is almost certain that a repetition of the large-scale bankruptcy of 1986 among village factories, 700,000 in all, will recur in 1989.103 It is predicted that this time an even larger number will face the same fate. Already about one tenth of the nine million peasants who had been transferred to industries before have become jobless - a major cause of the so-called mangliu or the "the blind population mobility" - a potential threat to social stability.104

The state cannot afford to keep too many 'cocks' which, while consuming the national wealth, do not increase productivity. Yet when it kills these 'cocks', it is difficult for it not to affect the 'hens' that produce eggs. For the localities, however, what may be the 'cocks' for the state may be 'hens' for themselves. Recentralizing financial interests is bound to give rise to serious conflict between the national and local governments. The practice of "you have your policy and we have our counter-policy' will, as before, engage them in a tug of war, the result of which will determine whether retrenchment can be fully carried out.

5-3-3 The Impact of the Economic Retrenchment on Leadership Politics

The Third Plenum of the 13th CC was the forum where a new policy consensus was reached. The majority and minority leadership groups both recognized the necessity for some brake on reform in the wake of the grave socio-economic situation. Judging from the sharp policy switches from the Politburo's decision to promote further price reform in August, to September's readjustment, the new consensus was arrived at hastily, leaving
little time for the party leadership to agree on all particulars of the new policy direction. The consensus had to be very broad and, therefore, fragile. Like the several rounds before it, the implementation process of the present one would likely overstretch the consensus to the point where agents were produced to break down the general agreement. The same pattern of consensus management mentioned in the first chapter seems to point in the direction of the current one.

The aim of the Third Plenum is to rectify economic dislocations, to slow down the overheated economic growth and above all to ease the pressure of inflation and price hikes. Yet behind the announced goals is the renewed contradiction between the efforts to further advance reform and to hold back reform. Even though nobody openly claims that reform should be stopped, the practice of retrenchment does so in its own way. As acknowledged by Wu Jiaxiang, a leading proponent of 'neo-authoritarianism', the economic readjustment would:

slow down the reform process. Whether or not we are willing to admit retrenchment would make it very difficult to create a climate for reform. It is likely that we have to give up the fruits of reform we have already achieved. The general direction of reform is to relax while the general principle of retrenchment is to control (herein referring mainly to direct control). Control naturally means better circumstances for relaxation in the future. Nonetheless, a protracted phenomenon like this, where we have control for a period of time and relaxation for another, not only prolongs the road to reform but also erodes people's confidence in reform. Consequently, those who are willing to reform and those who are not are both proved correct in rotation. (emphasis added)¹⁰⁵

This is a sharp observation concerning the relationship between reform and readjustment, revealing that there are people who are using the new retrenchment to oppose reform. And for these who are inclined to exercise direct control, it is their turn to be correct.

Ever since Deng returned to power, reform or counter-reform have been a prominent issues. Deng used reforms to enlarge his power base by recruiting a fairly large number of younger
leaders into his reform camp. With Hu Yaobang gone and Zhao Ziyang’s economic program in trouble, the new readjustment has strengthened the power position of the other groupings. While the reformers are on the defensive at the present, they are still trying to influence the course of economic readjustment. For instance, Zhao has renewed his call to further his coastal strategy. Despite the damage it might do to retrenchment, Li Peng had to list it as one of the major tasks for 1989. On the other hand, since the State Council has been entrusted with the everyday management of the economy, it is in a better position to consolidate retrenchment controls and the authority of central interests. The ramifications of the two policy preferences will probably sooner rather than later undo the current consensus reached in the Third Plenum. In fact, the differences in emphasis have already emerged as readjustment unfolds.

By now it has become clear that the guiding principle of the current readjustment is identical with Chen Yun’s outlook on economic management. They include a balanced sectoral development, particularly the balance between agriculture and industry. In order to be in balance, Chen's measures have dominated the agenda of retrenchment, such as wiping out projects outside the plan, reducing the number of small local factories so as to protect large state enterprises and giving more inputs to the basic industries at the expense of the processing sectors. All these have been worked out in the interest of solidifying the command structure. The result of many years of reform has been reversed.

The aborted efforts reform China's price system in mid-1988 were made in an attempt to couple the two tracks in the price structure. It was generally recognized that the grey area in the dual system served as a source of corruption which, if allowed to continue, could engulf the regime. To free all commodity prices would mean reduced space for profiteering in the system. At the same time, decontrol of prices for most consumer goods and industrial materials would render impotent the central planners in running the economy. Even if conditions were not ripe for such an enterprise, the correct direction had been set for
deepening reform. The retrenchment policies, however, emphasized the necessity of keeping the dual-track system intact.107 In the long run, what lies behind this was the secret disclosed by famous Polish reformer Brus that with the coexistence of two tracks in economic management there would always be a possibility of restoring the predominance of the command mechanism.108 The readjustment serves additionally as a bridge back to the past. Already people have argued that because of the gravity of the current economic situation, two years of retrenchment would not be enough. A longer time-frame was needed. Considering that the longer the retrenchment, the higher the price any future reforms will have to pay, Deng and Zhao cannot afford to stay silent for too long. When foreign debt servicing comes to a peak in the mid-1990's, the economic environment will become more difficult for any substantial market-oriented reform. This was a lesson that Zhao learned from the experience of the East European countries, and what is behind Deng's rhetoric that "analgesia is better than lingering pains" when he urged risky price reform.

The economic readjustment was rationalized by assessing the general situation in the country. The importance of the issue was rooted in one of Mao's famous remarks during the 1959 Lushan Conference: the party unity was dependent on the unanimity of the party's evaluation of the situation. If the situation was good, there would be no need for retrenchment. Then the question was directed towards the assessment of economic reform. Since the Plenum, the debate over the economic situation has been intensified. A number of well-known theorists, conservative minded or otherwise, have written articles challenging the reform policies of the last several years. The article by Xue Muqiao, "Learning in Earnest the Lessons of Reform in the Last Ten Years" spearheaded the current. He argued that the leadership of economic reform included (1) overt optimism after the last economic readjustment, that resulted in a 'blind advance' in 1984; (2) lack of a strategic, long-term plan for reform at a time when macro-control were transferred from direct into indirect means, resulting in a serious loss of control over micro-economic operations; (3) obstacles
to implementation of the deflationary policies of 1986-1987 from some senior leaders that resulted in deteriorating inflation and price hikes. Consequently, Xue believed that economic reform as a whole and price reform in particular would be delayed at least for five years.\textsuperscript{109}

In the meanwhile, other articles were published criticising the inflationary policies adopted by Zhao under the influence of the "young Keynesian economists" in SCER. Advocacy of a coastal strategy and development of township industry was also blamed as transcending the capacity of national economic strength. The deviation from the need for macro-economic guidelines was due to the "less sober-minded approach" of the leadership, which clearly implicated Zhao Ziyang.\textsuperscript{110} The points raised in these articles contributed to the general disappointment of the public over reform and echoed the conservatives' outcry of whether reform was relevant to China. Feelings reached a dangerous level by the end of 1988, which forced the reformers to initiate another \textit{xingshi jiaoyu} or 'education on the situation'. Hu Qili asked media circles to direct public opinion in 'a correct manner'. He said the reform was successful in the main. Problems in its course were soluble. If we saw only one side of the picture, we would develop disillusionment towards reform. The chief purpose of the media was to reverse the centripetal force of society towards the party and government.\textsuperscript{111} Hu's speech revealed the extent to which the reformist group in the party leadership was vulnerable and had to protect the reform momentum from being further eroded.

As for the practical steps to rectify economic order, the differences between the leaders testified the fragility of the political consensus based on compromise. Retrenchment is a major test of the ability of the State Council. If it can arrest China's high inflation, its authority will be strengthened as an independent power base capable of expanding from being the currently weak minority leader to an equal rival with Zhao. On the other hand, if Li Peng cannot smooth the economic dislocations, as the new leader of the minority groups, he will have difficulty not only with Zhao's group but also with his own people. In this
context it is understandable that he has adopted an unusually heavy-handed approach towards retrenchment. His chief aid, first deputy premier Yao Yilin, supports him wholeheartedly.

On November 17, 1988 while receiving reports from the central inspection groups over the clearance of provincial capital construction projects, Li Peng and Yao Yilin instructed:

People should be aware that it is not enough to scale down the construction of office buildings, public halls, hotels and in textile and light industries. We must also inflict a deep cut on heavy industries. In the past we put up not only too many nonproductive projects but also too many productive ones. Now we must compensate by giving them the axe. We will have to settle old accounts by sacrificing strength and speed for future development.112

Although a number of sectors has been agreed to be protected, the scope was deemed too narrow by Li and Yao. Their hardline approach has exposed most industries to the 'axe'. These indiscriminate 'cuts' have caused much concern in Zhao's circle. They have already been blamed for China's inflation. If the retrenchment really results in a general recession, Zhao will still be the first to bear the brunt. In April 1989 a new debate is going on as to whether to relax the tight control over capital investment loans or further tighten it up. A People's Daily commentary argued that

In the course of rectifying the economic order,... we should adopt correct industrial policies, rationally readjust the industrial structure, protect the projects that turn out products in high demand and clear up those causing overheated growth. We should not apply an indiscriminate 'axe' to them all. The crux is to improve and increase the effective supply.113

The emphasis of this paragraph is really on increasing supply rather than cutting capital investment projects. As Liu Guoguang pointed out, the call to increase supply at this juncture was nothing but a synonym for overheated growth.114 The debate has not reached the conclusive stage. We have to wait for the result, which would probably evolve another process of consensus building in the top leadership.
In the final analysis, the Third Plenum of the Thirteenth CC will have an enormous impact on China's course of reform. While it is difficult to predict that the past pattern of political jousting between the reformist camp and other cautious minority groupings would be altered significantly, the outcome of retrenchment will surely affect the top party leadership in terms of power and alliances. For instance, the party centre is currently the representative of provincial interests. Zhao draws power from CC members who play an important role in its plenums. On the other hand, the State Council's efforts will hurt more local interests and thus make enemies there. But the economic dislocation and worsening social environment can become a rallying point for the minority groupings to unite to influence the main policy line. As they have the backing of the party elders, the intensified inner party strife among a front line leaders will provide some excuse for the elders to step in. A loose united front formed by various conservative elements may come as a result. If such a situation were to emerge, Deng Xiaoping's key role of being the balancer between different groupings would be greatly reduced. The situation in the several years ahead will be dynamic and unpredictable. In the meantime the political and economic reforms are, probably, the main victims of the policy shift.
Notes

1. In the first half of 1988 we saw a strange phenomenon where Zhao in his capacity as General Secretary called for a big push to open the country's coast to the outside world, while Li Peng in the name of the State Council stressed the 'double retrenchment policies'. The dichotomy was apparent. The former called for faster economic expansion and appealed to provincial interests and the latter for the cooling down of economic growth and central control. As one researcher in the CASS disclosed, when a number of American China hands suggested that they conduct an annual survey on the problems of China's economic reform with the money raised from big American and Hong Kong companies, Li instructed that work should be coordinated by the State Commission of the Economic Restructuring headed by himself. When the report reached Zhao Ziyang, Zhao negated the instruction and ordered CASS to be the coordinator. Obviously, after the leadership in SCER was restructured, it is no longer as liberal as CASS. A different sponsorship of the study could make a difference in the work.

13. See Li Jiange, "The Strategic Problems of Reform under the Conditions of Double Deflationary Policies", *Commercial Times*, December 3, 1988, p.3, Also see Wang Sonqi,

14. Interview during my field work in Beijing with researchers in the Economic Research Institute, CASS


33. Apparently Hu Yaobang's style of leadership did not fit in the post-Mao politics of compromise in the CC. His outspoken criticism of the Maoist policies implicated the current leaders in both the party centre and localities. For instance, his speeches in Tibet in 1982 blamed many of the Chinese cadres on their leftist policies towards Tibetans, angering most of those involved. His liberal attitudes towards intellectuals were regarded as the cause of bourgeois liberalism. It was widely disseminated that it was Bo Yibo's passing of Chen's word to Deng that "the party will spilt if Hu does not go" which had made up Deng's mind. Deng at once called Chen Yun at home, at which time the decision was reached.
34. This was summarized by Yang Baixin of the State Council's Economic Developmental Centre in one of his internal speeches.
41. News from *New China News Agency*, November 12, 1988
53. 'Eating Big Household' is a slogan popularly used by the rebellious peasants against landlords. The Red Army also made good use of it to arouse poor peasants during the 28 years of the Chinese revolution.
60. *Supra*, note 51.
67. Supra, note 65.
82. Economic Daily, July 29, 1988, p. 3.
83. People's Daily, February 29, 1988, p. 3.
86. Economic Daily, December 30, 1988, p. 3.
88. Ibid.
90. Economic Daily, November 11, 1988, p. 3.
93. Supra, Note 65.
97. For instance about half of Jiangsu Province's provincial revenue comes from taxation on the township industries. Moreover the reason why Jiangsu is the number one province in the country in terms of GDP lies in the fact that it has the largest township industries in China.
99. Talk with a researcher in CASS during my field work in Beijing in June 1988
100. *Supra*, note 98.
Chapter Six  Some Concluding Remarks

The politics of China's reform is intricate. Any conclusion about it is, therefore, inherently risky. This thesis has encountered a great challenge - that just before its submission the unprecedented student demonstrations erupted in Beijing and altered the colouration and content of politics. Hence I have to put a date to the period before which it was valid, as being April 15, 1989, the day when Hu Yaobang died.

The reason why China's politics is elusive lies in the lack of regularized processes, especially in matters of leadership. In terms of logic, the connotation of each effected variable is so complex that individual independent variables can adequately describe neither the quantity nor quality of the changes. In other words, as the politics of reform is best mirrored in the oscillations of government policies, every turn of its course is precipitated by a mixture of many unpredictable factors, social, political and economic. Particularly important is the pressure of a prompt event, which can easily set apart the subtle balance between the different political forces. During "peaceful times" the crisis elements are latent. When they erupt, they are capable of rearranging the social forces, fostering a new equilibrium of power and sowing seeds of further crisis. As China is undergoing a sweeping social transformation, balance and imbalance will alternate, making politics highly dynamic.

This thesis has examined a number of issues that centre on the politics of reform. In terms of leadership politics, the mainstream efforts of the CCP since the outset of the Dengist era from 1978 up to April 1989 when the students called for his resignation had been devoted to the establishment of some regularized procedures among the top leadership in running state affairs. Although only limited success was achieved, the 13th Party Congress did push this to a new height. Compared with the days when the party elders interfered with the first-line leadership at will, the 13th Politburo as a collective office started to act as the source of authority in making major decisions. This progress also paralleled the succession of political
leadership, which saw more young leaders in key positions in the party centre and regional government.

The general trend of CCP politics after Mao had been characterized by an ethos of consensus-building in the leadership. The reason for this is multifold. Historically, the lesson of the Cultural Revolution of a leadership paralysed by factional struggle still alarms most party leaders. In the array of power at the uppermost level, the fairly equal strength of the different groupings had not provided for dominance by any one group. The outcome of this was the constant compromises each player had to make in order to continue the "game". Moreover, Deng used his authority to assume the role of 'balancer' for all the "teams" involved. Chinese experience has shown that when the strife in the leadership is prevalent and balance subtle, there is a need for a 'balancer' to maintain an equilibrium in politics.

Yet the politics of compromise harboured within it fatal defects. Although a broad agreement existed in the perception of the leadership that reform was needed to overcome the inefficiencies rooted in the command economic model, consensus on the details of reform was basically absent. Therefore every major step in reform tore apart previously reached compromises. Throughout the reform period the continuous rift between Zhao Ziyang's advocacy of an economic model relying largely on free-enterprise mechanisms and Chen Yun's insistence upon maintaining the basics of the existing system dominated the party's major policy debate and was magnified by the zig-zag course of the resultant decisions coming from the policy makers. Moreover, the policy disagreements also helped factionalize the party leadership, which in turn rendered the hard-won consensus ever more fragile. In fact, factional strife between the reformist and cautious groupings highlighted the clashes of the old and new vested interests growing from the current dual economic system. Attached to these vested interests were different social forces for and against reform. But The crisis of the CCP in the April-May incidents in Beijing in 1989 showed convincingly that the party leaders did have and made use of their social constituencies to tilt the balance of intra party power struggles towards their own advantage. These events have also exposed the
increasing strife within the reformist camp. Deng has been willing to effect some change in the political and economic system. At the same time he has imposed limits to the change, vividly expressed in his four cardinal principles. These limits, as we read in his mind: change in my term not yours, have damaged not only the general social mood for more liberalization, but also frustrated the genuine commitment to reform by some leaders within the reform group. Yet aspirations of the masses for more changes have gathered momentum. It is challenging both the conservative elders and the conservative reformers. Inevitably, the resultant of different forces gives birth to social crisis. Under these circumstances, even if the leaders tried to avoid direct confrontation between themselves, the powerful discharge of 'people's strength' pushed them into the whirlpool of the conflict, making unlikely any compromise which would have otherwise been possible when society was not bursting into large-scale protest.

In the politics of reform another unavoidable challenge before the leadership is how to redefine the relations of power between the centre, middle-level and grassroots governments. After a decade of decentralizing reform, local powers have been greatly expanded. The previous clear-cut demarcations based on vertical controls have been replaced by an intersection of both vertical and horizontal lines of control. The unified central administration has been fragmented as independent power loci emerged in the different central departments. With more powers being delegated to the localities, the middle-level state agencies have developed their own political and economic interests and thus have been able to block the top-down and bottom-up interactions between the centre and grassroots. Now there seems to be no single leader or group of leaders who can claim absolute control over any situation. The fact that there are no effective self-sustaining rules for command, communication and control underscores the serious problems that exist in policy formulation and implementation. If the CCP leadership cannot work out a set of new guidelines to regulate the relations of power between the centre and localities, the confusion will not only affect reform but also inflict further friction in China's political system.
Connected with the changed relations between the centre and localities is the changing relationship between state and society. Reform along the line of devolution and profit redistribution has created two distinct tendencies in state-society relations. Devolution has enhanced the power of the middle-level bureaucrats. While their interception of power accelerates the localization of power and party decay, the central government has lost authority to coordinate a balanced social change and the populace remains powerless. The profit retention arrangements in the meantime have given way to a fundamental change in the perception of people towards the state and among themselves. People have begun to judge their actions according to their own political and economic interests - a major step away from their previous helpless compliance with the state's power.¹ The simple relations between state and society based on unconditional obedience to the central authorities are being superseded in most cases by an unregulated bargaining process. This is a source of jihui, the current social crisis and opportunities for the populace. As mentioned above, the Chinese regime is customarily inclined to become more oppressive in situations of crisis. The far-reaching significance of the students taking to the streets lies exactly in its warning to the leadership: "Time has changed; when we stand up, there is no easy way for you to return to the rule of autocracy." What has taken place in Beijing in recent weeks has generated a new politics of interplay between the ruler and the ruled. This is indeed a monumental change in the PRC's search for a path to modernization. In this sense it is the people, not the ruling class, who have created new opportunities for themselves. A more detailed scrutiny is certainly beyond the scope of this thesis. What I would like to point out is a feeling that in terms of methodology in the study of Chinese politics, many political scientists have concentrated on the leadership to the neglect of social forces. As the ordinary citizens will exert more influence on the course of China's political development in the future, more attention should be given to them.

In the economic field, it seems that any conclusion about China's reform would not be complete without taking a look at the possible way out of its present impasse. So far the prospects for reform look dismal. Firstly, the success of reform lies in whether China is able to transform its economy based on command planning into one based on market
regulation. At this moment it means that reform must quickly change the dual economy which uneasily combines command and market mechanisms. However, the attainment of this goal is much dependent on whether a workable price system can be constructed, which is in turn dependent on progress in the reform of ownership. These two factors are decisive for the future of China's economic reform.

After a decade of reform it becomes less controversial to say that the current ownership structure stands as an obstacle for the creation of an efficient price system. As property rights and management rights are confused, the state has to shoulder all the liabilities of the enterprises that make a loss, regardless of whether it is due to their poor management or external difficulties. Before this paternalistic relationship is severed, a double dependency practice will dominate enterprise behaviour, namely, the producers are only responsible for profits. Under this condition there is no way that the invisible hand can properly guide micro economic activities. When state enterprises are unable to hire and fire workers by themselves, or to declare bankruptcy, the state has to adopt protective policies for their existence, serving as the source of their dual dependence on the state for cheap materials and on the market for profits. In such a system market prices will always be distorted, causing many market failures. Even if the state pushes through some partial market reforms, including those concerning the price system, they will not effect a basic change in the current economic model, given the overall culture associated with the entrenched ownership relations between the state and enterprises. A forceful implementation of these reforms will certainly intensify the contradictions inherent in state ownership and a market price system, as indicated by the present disorders in the economy.

Moreover, the reform of ownership is a sensitive political issue. It is intimately linked to one of the four cardinal principles: the socialist road, which the current leadership is still committed to uphold. Amidst fast social change, a large-scale ownership restructuring is also risky. China is still beset by problems in the transition of its dualistic economic structure: a very backward rural economy and low level of urban industrialization.
with other undesirable factors such as a huge population and limited resources and capital funds, an effective change in the current ownership structure in the direction of free enterprise will set in motion capital accumulation in the hands of a small section of people, who, more often than not, have bureaucratic connections. Resentment by the majority of the population will be the natural result and impede further reform. Another outcome of a thorough-going ownership reform will be unemployment among the 25 to 30 million so-called "hidden surplus workers" currently employed by state enterprises. Social consequences must be grave if the party pushes the reform further in this direction. Using a metaphor from development economics, it points to a simple fact that the cake is too small for everyone to have a satisfying share - a guarantee for a smooth transformation of the present ownership structure. If one step goes wrong here, many hidden critical factors will surface.

If the present ownership structure is not to be substantially changed, no price reforms will attain their goal of rationally allocating resources. The macro economic levers will always contradict the micro economic operational process. However, in comparison with the ownership reform, price reforms are still the easier choice - the reason why Deng and Zhao decided to "break through the pass" in 1988. Yet the resultant price rises and popular panic seemed to indicate that this path out of the deadlock was also blocked. The subsequent retrenchment has shown that China's economic reform has not yet reached the point of no return.

Nevertheless, there is no way back to the days before the reform. After years of market-oriented decentralization of the economic system, a new functional structure within the old has been created. It requires another sweeping reform to return to the previous command economy. The price would be so high that it would make anybody taking the decision balk at its consequences. For instance, the urban reform was launched under the pressure of fast growing township industries whose operation was predominantly dependent upon market regulation. They competed with state enterprises for materials and
markets and constituted a second economy. In fact, the Chinese economy as an integral whole could not afford to be forever pulled between two opposite forces. So the urban reform was seen as an effort to erect a unitary market regulating both economies. The reform in the ensuing years has generated more pressure to move state factories in the direction of market competition. Unless planning can efficiently allocate materials and distribute products, it would be impossible to recentralize the economy again without inflicting tremendous stress upon the economy.

Apart from the difficulties in its reform, China's economy does not look entirely helpless. It is still the fastest growing economy in the world. Despite troubles like inflation and overheated growth, the available social demand may serve as an engine to drive the economy further in the track of fast expansion. If under proper control, it might be better to have a certain excess amount of demand than a lack of pressure. As Pointed it out by Michel Oksenberg:

> The Situation of China's present leadership is far from hopeless. First of all, successful policymakers rarely completely solve problems. They bring them under control, reduce them to manageable proportions, and-hopefully-eliminate or greatly reduce their worst consequences.5

Judging from the current situation of China's economy, the remarks, which were made in 1984, sound a bit too optimistic. Yet, barring the emergence of political upheavals and devastating natural disasters, there are reasons to believe that the regime is still capable of marshalling enough strength to get things done according to its designs.

Such is the state of China's economic reform. On the one hand, it cannot surpass the barriers of its ownership structure, and a successful price reform is presently out of the question. Hence no further breakthroughs can be expected, meaning a continued deadlock in the reform. On the other hand, China still has potential for fast economic development, albeit a rather precarious one. This potential may, to a degree, alleviate some of the pressures the Chinese leadership has to bear, such as an increased expectation of consumption from the populace. Under these circumstances, the future economic reform
will likely be of a quantitative nature, reworking the system to adjust better to the changes already in place. Although economic and political reforms will be loudly talked about, it is difficult to anticipate massive reforms like those staged in the past. This prospective routinization of the reform also suggests that the leadership will stick to a middle course as regards social change. In facing both constraints on and pressure for changes, it will try to play it safe in the long transition. Whenever conditions are deemed ripe, some limited reform initiatives can be expected. Otherwise the party will just tighten up controls. Zhao Ziyang once said that China's reform was a course of a century. If the rhetoric proves to be the path for reform, it will gradually quieten down the Dengist second revolution. This result of reform has already been seen in some East European countries.

Deng Xiaoping has led the reformers to challenge the existing political and economic system. They are powerful leaders, many of whom are quite committed to the course. Yet it becomes clearer now that they are not more powerful than the system itself, and the vested interests created by the system. If this routinization means the end of any reform conducted by Deng and Zhao which could be called "second revolution", an old question is raised again: is it possible to change a regime, (or a social system, to be more exact) only through gradual alterations of the old, as embodied in a reform? When answering this question, people immediately remember an unpleasant fact: that there has not been a single successful reform in Chinese history. On the other hand, with the renewed and reinforced call for more individual freedom, a burgeoning class of independent economic interests, and world-wide support for the Chinese democratic movement, the reform leaders are also under pressure from people who are not satisfied with the slow changes in China, at times of the universal outcry for democracy. The social crisis will emerge repeatedly in the years ahead. It may serve both as an inhibitor for the regime to slide backwards and as a catalyst for more social progress.

To conclude the thesis I would like to quote a few sentences from Confucius: Zizhang asked whether ten generations in the future can be known. The Master
said: "The Yin dynasty based itself upon the ritual of Xia; the modifications it made can be known. The Zhou dynasty has based itself upon the Yin ritual; what modifications it made can be known. Those who may perhaps succeed the Zhou, even a hundred generations in the future, can be known."

The rituals of the incumbent dynasty are certainly undergoing sweeping changes, which have gone beyond simply modifications. What can be known about ten generations in the future is a great deal of changes. And what are these changes? for better or for worse? Only the future may provide the answer. What is left for us - this generation of Chinese - however, are difficult contemplations, hard choices and probably a lot of personal sacrifices. Let us hope these changes will produce a freer and brighter new China.
Notes

1. See Huan Guocang: "On the Background of the Neo-Authoritarianism", the Nineties, No. 4, 1989, pp. 82-84.


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