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## Politics: Reform at the Crossroad

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Andrew J. Nathan

The politics of 1988 were dominated by the relationship between Deng Xiaoping, at age 84 still China's top decision-maker despite his semi-retirement, and Zhao Ziyang, the 69-year-old party general secretary, Deng's heir apparent. The year opened with Zhao's influence at a high point. He demonstrated his position as Deng's chief reform strategist by sponsoring a bold initiative to establish an export-oriented economy along China's coast. At year's end, when price reform suffered a setback, it seemed that Zhao's political career might also suffer, but he emerged from the crisis with his power intact—although his grip on the succession remained uncertain.

The broad commitment to economic reform was no longer at issue among the Party leaders, but controversy attended efforts to work out the details of reform and efforts to manage the social and ideological consequences of "opening up" the economy and social life. Deng's remained the only voice that could authoritatively settle such controversies among the leaders. Although both Zhao Ziyang and 60-year-old Prime Minister Li Peng, Zhao's chief rival for power among the younger leaders, relied increasingly on experts and specialists to frame policy options, China's policy-making process still remained personalistic: Deng's nod determined major policy decisions and power relationships. And Deng continued to rely on his intuitive style of "crossing the river by feeling the way from rock to rock."

Deng's impulsive mid-year decision to implement a still-embryonic proposal for price-system reform illustrated both his unquestioned personal authority and the limits that this authority placed on the influence of the rising technocracy. The episode also demonstrated the risks of such a decision-making style, as Deng's instincts proved flawed. Accelerating inflation generated a strong popular reaction that forced the government quickly to reverse the price-reform policy, which had been announced with much fanfare. In addition, since price reform was apparently a prerequisite for further reform of in-

dustrial enterprises, its failure was seen by many as a signal that reform as a whole had reached a dead end. For many, the Third Plenum of the Thirteenth Central Committee, which reversed the price reform, was the symbolic end of the decade of reform that had begun at the epochal Third Plenum of the Eleventh Central Committee in December 1978.

Nineteen-eighty-eight ushered in a season of discontent that is perhaps unique in China's post-revolutionary history. The failure of price reform in the fall accelerated the radical decline in the regime's authority that had begun earlier in the year. For the first time one could hear anti-Deng sentiments openly expressed among a broad spectrum of Chinese. The rising sense of anomie was as much a consequence of reform's successes—increased freedom of speech, rising expectations, social and geographic mobility—as of its failures—inflation and corruption.<sup>1</sup> The mood among intellectuals, in particular, reflected a profound questioning not only of China's political leaders and political system, but even of its national culture and national character. Some viewed the increasing social disorder and intellectual alienation as signs of a dangerous breakdown of the social contract; others saw these as normal signs of a freer "civil society" emerging as a result of rising prosperity and liberalization.

If the events of 1988 demonstrated Deng Xiaoping's continuing dominance of Chinese politics, they also showed that his decision-making style was becoming less suitable to China's increasingly complex political economy and turbulent society. Although Deng reiterated his desire to retire from the front line of government frequently during the year, he was unable to consummate a succession of power. The shape of the post-Deng leadership remained murky, and the chances remained high that the leadership would be politically insecure.

### **Zhao's Role and the Coastal Development Strategy**

The year opened with a bold reform initiative that demonstrated Zhao's pre-eminence as Deng's chief strategist for reform. The policy-making process leading to this new program, called the "coastal development strategy," also illustrated Zhao's openness to proposals from young, liberal reformers, his willingness to champion practical new ideas regardless of how far they might diverge from those of some of the older party leaders, and the political risks attending the

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<sup>1</sup> See Anne F. Thurston, "Year of the Dragon Ends on Note of Malaise," *Christian Science Monitor*, February 3, 1989, p. 19.

adoption of proposals that had not been thoroughly discussed within the Party leadership and the bureaucracy.

The new program, also referred to as "joining the great international circle," departs in several ways from the "open policy" put into effect in 1979. Under the open policy Beijing had successively designated four Special Economic Zones, fourteen coastal cities, three delta areas, and Hainan Province as places with preferential conditions for foreign investment and bases for the development of exports.

First, instead of concentrating foreign investment and trade in certain areas, the new policy opens up to foreign investment the entire coastal region from Liaoning to Guangdong—an area estimated to have a population of 100 to 200 million.

Second, under the new policy both capital and management are expected to come mainly from overseas investors rather than through joint ventures.

Third, both capital and raw materials may be freely imported, referred to as "putting both ends of the production process on the world market" (*liangtou zaiwai*). The old policy of discouraging imports of parts and raw materials has been dropped for two reasons: because of the difficulty experienced by foreign-owned firms in dealing with Chinese suppliers; and in order to reduce inflationary pressures on the Chinese economy that are generated when export-oriented firms compete with domestic-oriented firms for raw materials.

Fourth, the new strategy—under which China contributes only labor to the exported product, not capital or raw materials—is a strategy of exporting China's cheap excess labor power. Where the old open policy emphasized that foreign investors should supply China with advanced modern technology, the new policy stresses labor-intensive industries like clothing, handicrafts, and light industrial products.

In short, the new policy is one of "export-led growth" or "export-oriented industrialization." It is explicitly modeled on the experiences of Taiwan and the other Asian "small dragons." Zhao's plan is to develop a fifth "dragon" along China's coast—one much larger than all the rest.

The genesis of the coastal development strategy illustrated both Zhao's links to a circle of young, pragmatic technocrats and his continued dependence on Deng Xiaoping for the political authority to implement radical economic reforms. The strategy originated with a handful of economists, most prominently Wang Jian, a 33-year-old assistant research fellow at the State Planning Commission. Wang and others argued to Zhao in late 1987 that an export-oriented strategy

would enable China to solve the two main problems created by the success of the earlier stages of reform: a shortage of raw materials and a surplus of rural labor. They also argued that an export-oriented strategy could help China surmount the two main obstacles that would face economic reform in the near future: enterprise reform and price reform. Exposing Chinese enterprises to the discipline of international market competition would force them to become efficient, they argued. Creating a large number of enterprises oriented to the world economy would provide a bridge for the adjustment of domestic prices to world market levels.<sup>2</sup>

After making two tours of the coastal regions, in January 1988 Zhao reported these ideas to Deng Xiaoping. In addition to the factors already mentioned, Zhao also emphasized that the low value of the U.S. dollar had raised the price of Japanese, Taiwanese, and Korean exports to the United States and that this offered an excellent opportunity for China to enter the market with its cheaper labor. Deng approved the proposal, stating that the policy "must be pursued with great boldness and with speed; on no account can we lose this opportunity." Based on Deng's support, the Politburo gave its endorsement at its Fourth Plenum on February 6.

Merely announcing the policy, however, did not guarantee its success. Zhao had not taken the time to create a consensus for the policy among other senior leaders or among the provincial officials whose cooperation would be required for the policy to succeed. The plan faced broad political and bureaucratic skepticism, one sign of which was that in his Government Work Report to the Seventh National People's Congress, Prime Minister Li Peng placed Zhao's plan only fourth among the tasks facing the government. The three tasks that took priority were promoting the development of agriculture and industry; improving science, technology, and education; and continuing enterprise reform. Those items Li listed after the coastal development strategy included political reform, cultural and social policy, and de-

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<sup>2</sup> Articles by or about Wang Jian include Wang, "Choosing a Correct, Long-Term Strategy for Development—an Idea on the 'Big International Cycle' Strategy for Economic Development," *Jingji ribao*, January 5, 1988, in FBIS-CHI-88-044, March 7, 1988, pp. 50–54; Wang, "Several Questions Concerning Strategy for Economic Development of the Great International Circle," *Shijie jingji daobao*, March 28, 1988, in JPRS-CAR-88-020, April 25, 1988, pp. 3–6; Wang, "Several Considerations on the Strategy for Export-Oriented Development of the Coastal Areas," in *Hongqi* No. 7, April 1, 1988, in JPRS-CRF-88-014, June 7, 1988, pp. 23–25; and Cheng Wanquan, "The Resourceful Young Scholar—On Wang Jian Who Struck the Idea of the 'Great International Circle,'" in *Ban yue tan*, No. 4, February 25, 1988, in FBIS-CHI-88-056, March 23, 1988, pp. 26–27. Also see Huang Fangyi, "China's Introduction of Foreign Technology and External Trade," *Asian Survey* 27:5 (May 1987) pp. 577–594.

fense modernization. In discussing coastal development, Li—unlike Zhao—emphasized careful preparatory work rather than speed and called for attention to the development of inland as well as coastal areas.<sup>3</sup>

The plan also confronted innumerable practical obstacles. In order to succeed, the new strategy will eventually require a further devaluation of the *renminbi*; Chinese enterprises can now earn more *renminbi* by selling products at home than by exporting them. But fears that such devaluation would aggravate inflationary pressures prevented any moves in this direction in 1988, and near the end of the year the government announced that there would be no devaluation in 1989.

Even if domestic obstacles like devaluation can be overcome, the export-oriented coastal development policy will face resistance abroad. Unless the quality of Chinese workmanship improves, China's products will not be able to compete in the world market. And even if the products do meet international standards, the export drive is likely to run into protectionist barriers in the United States, Japan, and Europe.

Nonetheless, by the end of 1988, considerable achievements were claimed for the coastal development policy. For the first eight months of the year exports from six of the coastal provinces were reported to have increased 21 percent over the same period of 1987, to a sum of US\$11.77 billion, representing 44 percent of China's total exports.<sup>4</sup> It was too early to evaluate whether such figures represented merely the natural momentum of a dynamic sector of the economy, or whether the policy changes in Beijing really had initiated a fundamental economic reorientation in the coastal regions.

## The Role of the Technocrats

Events at the Seventh National People's Congress, meeting from March 25 to April 13, were evidence of the continued rise of technocracy, which had been a striking feature of Chinese politics in 1987.<sup>5</sup> Seventy-one percent of the delegates were newly elected, and they were younger and better educated than members of previous

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<sup>3</sup> Li Peng, "Report on the Work of the Government," *Beijing Review* 31:17 (April 25–May 1, 1988), pp. 22–47.

<sup>4</sup> *Renmin ribao, haiwaiban*, October 11, 1988, p. 1.

<sup>5</sup> For the rise of technocracy in the Thirteenth Party Congress in late 1987, see Li Cheng and Lynn White, "The Thirteenth Central Committee of the Chinese Communist Party: From Mobilizers to Managers," *Asian Survey* 28:4 (April 1988), pp. 371–399.

Congresses.<sup>6</sup> The Congress streamlined the central state organs by reducing the number of ministries and commissions to 41 from 45, restructuring a number of the organs, and appointing younger and better-educated ministers to many of the posts.

The Congress elected Acting Prime Minister Li Peng, a prototypical "red technocrat," to a full term as prime minister, the top post in the state hierarchy. Son of a Communist martyr and adopted son of Zhou Enlai, Li was educated in the Soviet Union as an electrical power engineer and served for many years in the Chinese energy bureaucracy.<sup>7</sup> In a press conference after his accession to the premiership, Li denied the view widely held abroad that he is a spokesman for a conservative wing of the leadership, describing himself instead as an implementor of Party policies. The fact that no important policy initiatives were associated with his name during 1988 lend plausibility to this characterization.

In his Government Work Report to the Congress, Li emphasized the need for a cautious and orderly pursuit of the established policies for economic reform, a steady pace of growth, the improvement of science and technology, more efficiency in government, and the maintenance of social order. To facilitate the movement toward a market-regulated economy, the Congress adopted constitutional amendments permitting the transfer of land-use rights and the existence and development of privately owned enterprises. It adopted laws which gave the managers of state-owned enterprises the authority to make business decisions without seeking permission from higher government organs.

Before and after the Seventh Congress, debate continued within the technocracy over the future path of reform. Movement toward a market-regulated economy had been a goal of the reformers for several years. In 1988 this reform faced two interlocking obstacles—government control of the prices of some major goods and government interference in the management of enterprises. At this policy crossroad, the leaders turned to their advisers in governmental and semi-governmental research institutes and the universities. They gave these specialists free rein to frame proposals, provide studies of foreign models, and conduct surveys in order to predict popular responses to alternative measures.

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<sup>6</sup> Lowell Dittmer, "China in 1988: The Continuing Dilemma of Socialist Reform," *Asian Survey* 29:1 (January 1989), p. 16.

<sup>7</sup> See Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes* (Princeton: Princeton University Press, 1988), pp. 51–58.

One group of economists, headed by Wu Jinglian of the Chinese Academy of Social Sciences and the State Council Research Center for Economic, Social, and Technological Development, argued for carrying out price-system reform first. These economists argued that a shift from controlled to market-determined prices was necessary to enable enterprises to operate efficiently. Acknowledging that price reform would entail some worsening of inflation, Wu pointed to the overnight liberalization of prices by Adenauer in postwar Germany as an example of how such inflation would be self-limiting as the domestic market was established.

Price reform seemed to its proponents not only economically necessary in 1988 but politically opportune. According to the State Statistical Bureau, in the preceding ten years the inflation-adjusted incomes of urban residents had increased by 85.7 percent, thus providing a cushion of well-being that would enable urban residents to absorb the impact of a temporary inflation. The vast bulk of the Chinese population, the peasants, would be much less severely affected by inflation than urban dwellers because the main component of inflation so far had been the rise in food prices and peasants grow rather than buy most of their food. In some respects, peasants would even benefit from inflation, which would raise the prices of the grain and other agricultural products they sell, as well as of the products of their village industries, which are not controlled. Although in some countries—Poland, Burma, and Iran, for example—inflation has been accompanied by economic stagnation, in China inflation has been accompanied by economic growth. In principle, this provided the government with enough resources to be able to plan wage increases for many of the urban residents. By reforming the wage system and the price system concurrently, the leaders could assure that price reform would bring no decline in the people's average living standards.

Moreover, proponents of price reform saw in it a built-in tradeoff for the inevitable loss of popularity the regime would face as a result of worsening inflation—a substantial reduction in bureaucratic corruption, a problem which has generated enormous popular discontent. Price-reform advocates pointed out that corruption is fostered by the two-track price system, under which there is a gap between official and market prices and those who have the discretion to supply a good at an official price are tempted to demand part or all of the difference between that price and the market price as a finder's fee. Therefore, narrowing the price gap would reduce the size of bribes, and removing it eventually would remove the main cause of corruption.

Other economic specialists, however, warned that the worsening inflation induced by price reform might be more serious and longer-lasting than Wu Jinglian and his allies predict. In 1988, inflation had already reached the highest levels since prices were stabilized in the early 1950s. By the end of the year, the official inflation rate had reached 18.5 percent, with the actual rate substantially higher. Official statistics showed that 21 percent of urban workers had suffered a decline in living standards in 1987. In addition, survey research by the Economic System Reform Institute indicated that public anxiety about prices was so keen that price reform might well trigger a psychological inflationary spiral. The Institute warned that the political danger of inflation lay in people's fears about the current price of goods than in their worries about inflation devaluing their savings and undermining the worth of their future pensions, which are calculated as a percentage of base salary and do not reflect the bonuses and other perquisites that make up an increasingly high proportion of most workers' incomes.<sup>8</sup>

An alternative reform proposal, put forward by Li Yining of Beijing University, called for placing emphasis on strengthening the managerial autonomy of enterprises. It was known as the "3-5-8" plan because it had three-year, five-year, and eight-year targets. Li's proposal was based on the idea, accepted by virtually all Chinese economists, that a major cause of inefficiency in state-run enterprises is government interference in their operations. According to this view, each ostensibly state-owned enterprise in China is in practice the property of—that is, controlled by—a specific governmental bureau, usually at the provincial, municipal, or county level. The bureau enjoys the benefits of its "property"—such as control over taxes remitted, access to manufactured goods which can be traded with other bureaus, and the ability to make job appointments. In exchange, the bureau gives the enterprise free land and money for investment, protects it from competition, helps it acquire low-cost raw materials, and allows it to set profitably high prices for its manufactures.<sup>9</sup>

Many reform economists have long held that as long as this situation persists, price reform will fail. The market will be unable to disci-

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<sup>8</sup> See State Economic Restructuring Institute, "Only through Tackling Difficult Problems in Reform Can Society Be Stabilized," *Shijie jingji daobao*, August 29, 1988, in FBIS-CHI-88-194, October 6, 1988, pp. 17–19.

<sup>9</sup> For a perceptive Western analysis of this phenomenon, see Christine P. W. Wong, "Ownership and Control in Chinese Industry: The Maoist Legacy and Prospects for the 1980's," in Joint Economic Committee, Congress of the United States, *China's Economy Looks Toward the Year 2000* (Washington, DC: Government Printing Office, May 21, 1986), Vol. 1, pp. 571–603.



pline enterprises because they will continue to be protected by their bureaucratic owners and will take advantage of price reform to raise prices and increase their monopoly profits. Li Yining's special contribution to the debate was to argue that enterprise reforms enacted or tested to date have been unable to free enterprises from bureau control. These have included allowing enterprises to retain profits, substituting taxes for profit remittance, signing performance contracts with managers, and expanding the limits of managerial autonomy by law.

Li proposed "stockification"—turning enterprise assets into stocks, and giving or selling a portion of these stocks to the enterprises' employees, to other individuals, or even to other companies, while also keeping a portion for the state. Once transferred to new owners, Li argued, the enterprise would be able to resist official interference, thus becoming free to respond to market signals in pursuit of profit and efficiency. Joint-stock companies would still be socialist, Li argued, because each company's stock would be owned by a broad range of people in society, especially the enterprise's staff and workers, and because a sizable portion of the stock would remain in the hands of the state.

The way in which the choice of price reform over enterprise reform was made indicated the limits of technocracy in China today. Deng Xiaoping suddenly announced the decision to go ahead with price reform, although the debate among the experts had not yet reached its conclusion.

## **The Rise and Fall of Price Reform**

On June 22, during a meeting with Ethiopian President Mengistu Haile Mariam, Deng Xiaoping remarked that conditions were ripe to reform prices and wages. "We are in the process of storming this pass right now," Deng told Mengistu. "We expect it will take us five or six years."<sup>10</sup>

Deng's pronouncement, apparently unexpected, became policy, and Zhao Ziyang called upon Wu Jinglian, Li Yining, and other economists to work up concrete proposals to implement the policy. These proposals were debated at the Politburo meeting held in the seaside resort of Beidaihe in July and August. In August, the New China News Agency announced that the Five-Year Plan for price reform had been adopted by the Politburo and would be submitted to the Central Committee in September for its (pro forma) approval.

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<sup>10</sup> *Renmin ribao, haiwaiiban*, June 23, 1988, p. 1.

What emerged from Beidaihe was apparently a watered-down version of Wu Jinglian's proposal. The plan, which was never publicly released, evidently called for a step-by-step raising of the prices of major industrial raw materials, transport rates, electric power, and grain. Over the course of five years, the price increases were expected gradually to narrow the gap between state-set prices and free-market prices, with the state-set prices nearing or equaling market prices at the end of the transition period. In short, the goal was to abolish both the "double-track price system," and the concomitant direct state role in allocating goods, and to create a situation in which the state could control the economy through macroeconomic levers like credit, money supply, and investment ("the state adjusts the market and the market guides enterprises"). In order to assure that most people's incomes would keep pace with the inflation induced by the reform and that living standards would not fall, the Politburo also intended to reform the urban wage system at the same time.

Before the details could be announced, however, the psychological inflation predicted by some experts began to occur. People ran to the banks to withdraw their funds and to the stores to buy whatever goods were available. Perhaps more serious than the popular panic was uncontrolled price-raising by industrial enterprises, which took advantage of the new atmosphere to seek larger profits. Zhao Ziyang was soon forced to present the consensus advice of the other leaders to Deng Xiaoping: in order to stem the tide of price rises and of popular discontent, price reform must be abandoned and central economic control must be tightened to bring inflation under control.

The policy was reversed less than two weeks after the Politburo made its decision to proceed with price reform. The State Council passed a six-point decision announcing that no major steps would be taken in price reform during the next year and promising that inflation would be lower in 1989 than in 1988. Subsequently, the Third Plenum of the Thirteenth Central Committee, which met from September 26 to 30, adopted a decision to "place the emphasis of reform and construction for the next two years upon bringing order to the economic environment and rectifying the economic order." In his speech to the Plenum, Zhao Ziyang announced, "Price reform should not and cannot be further carried out without reform in other areas."<sup>11</sup>

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<sup>11</sup> Zhao Ziyang, "Report to the Third Plenary Session of the 13th CPC Central Committee," *Beijing Review* 31:46 (November 14-20, 1988), center section; quotation is from p. iv, but I have used my own translation here and in other quotes from this speech.

With the abandonment of price reform, attention turned to Li Yining's alternative enterprise reform proposal. In his speech to the Third Plenum, Zhao stated, "Next year, the pace of price reform should be slowed down while enterprise reform must be emphasized."

But the spectacular reversal on price reform left few observers optimistic about the prospects for thorough-going enterprise reform. The political obstacles to enterprise reform are even more daunting than those which forced the abrupt reversal on price reform. For Li Yining's proposal to succeed, as he himself has acknowledged, several accompanying reforms would also have to be achieved. First, official ideology would have to be thoroughly overhauled to find a way to justify what is essentially an abandonment of socialism in favor of private ownership. Second, extensive political reform would be necessary to narrow the powers of government bureaus and force them to respect the new-found independence of enterprise. Third, the owners of stock in Chinese enterprises would have to be able to buy and sell their shares in a stock market, with prices allowed to rise and fall according to the efficiency of companies' operations; for such a market to function speculation in stocks would have to be allowed. Fourth, hitherto nonexistent markets would have to be created in land, capital, labor, and technology, in order to enable the new companies to realize their economic potential. Finally, establishing a market environment that would discipline the enterprises to operate efficiently would require implementation of the already-stalled price reform.

By the end of the year, no concrete measures had been taken to implement Li Yining's far-reaching vision. Many Chinese feared that reform had reached a dead end. According to some, all the feasible reform measures had been accomplished, and the ones remaining were too difficult and too intertwined to implement. China's economy was doomed to enter a long period of stagnation.

A less pessimistic view held that the next step of reform could be taken not in Beijing but in the provinces, and not in the state-owned economy but in the private economy. According to official statistics, private enterprises produce only about 1 percent of China's total industrial output value. But the real figure is doubtless much larger, perhaps as much as a quarter or a third of industrial output value in some provinces, especially if one counts those among the vast number of ostensibly collective "township enterprises" that are actually privately owned. Such enterprises are especially active in Guangdong, Fujian, and Zhejiang. If local enterprises continue to grow at the current rapid rate, the next stage of China's reform may not be reform from above of state enterprises, but rather reform from below led by

the small and medium-sized privately run enterprises, which might create their own market mechanisms in dealings with one another. Early signs indicate that local levels of government and most state and private enterprises were paying little attention to emergency retrenchment policies mandated from above in the fall of 1988 to try to regain control over the economy and slow inflation.

## **The Worsening Social Mood**

Among many Chinese, concern about the prospects for a second decade of reform intersected with a crisis of confidence in their leaders and even in themselves as a nation. This social and intellectual crisis is a major political irony of the reforms. Although reforms had been undertaken in 1978 in a bid to redeem the Party's legitimacy by radically improving the economy, by 1988, the inflation and devolution of power brought by the successes of reform had contributed to a decline in the regime's authority and to a wave of profound questioning about China's national character.

The roots of discontent lay in the achievements of reform. Rapid economic growth caused inflation, and the transition toward a market-regulated economy created a two-track price system which engendered corruption. The failure of government salaries to keep up with inflation led bureaucrats and functionaries to demand bribes to perform their duties. By 1988, bribes had begun to be routinely required in big cities to install phones or to start electricity service, and even to get mail delivered or to receive medical attention. Such bribes had become institutionalized and semi-legitimate, increasingly collected openly by offices or groups of office-mates. Throughout society, the Party's encouragement of a new ethic of entrepreneurship had led to a general blurring of boundaries between legitimate and illegitimate economic and social behavior and to an increasing sense of normlessness.

Although the incomes of most peasants, factory workers, office workers, and private entrepreneurs had increased, the growth of incomes lagged behind rising expectations. Each social group seemed less impressed by its own gains than by the seemingly more rapid advance of others—perhaps with the exception of peasants in the more prosperous suburban areas, who were the group that benefited most from the first decade of reform.

Years of intermittent political decentralization and liberalization had finally created an atmosphere in which social groups could give open vent to their sense of frustration. The year saw a striking rise in reports of protests, strikes, and demonstrations by workers, students,

and occasionally peasants. The crime rate increased by 45.1 percent over the 1987 rate,<sup>12</sup> and there were frequent reports of serious crimes, including train robberies and other acts of violence. During a July conference on public security, both Prime Minister Li Peng and Minister of Public Security Wang Fang blamed the economic situation for what they described as a severe increase in economic crimes, corruption, theft, economically motivated crimes of violence, and incidents of mass unrest and counter-revolutionary activities.<sup>13</sup> There were reports that special mobile police units and antiterrorist units had been established to deal with unrest. It was rumored that police officials had visited both Poland and Chile to study anti-riot methods. The death penalty was frequently imposed—and widely publicized—not only for violent crimes but also for economic crimes, including bribery, embezzlement, fraud, smuggling, and corruption, where relatively large sums of money were involved or other exacerbating circumstances were found. Although no aggregate statistics were released, such executions numbered at least in the hundreds, more probably in the thousands.<sup>14</sup>

Given the postponement of price reform, which had been expected to help cure corruption, the leadership stepped up efforts to stem official corruption by administrative means. Both serving and retired Party officials were ordered to cut their ties with businesses. Deng Xiaoping was said personally to have ordered that the Kanghua conglomerate be broken up and that it sever its relations with the semi-official China Foundation for the Handicapped, which is headed by his son, Deng Pufang. A system of hotlines was set up to encourage citizens to report Party corruption, although citizens' trust in the system seemed to be low.

The mood among the intellectuals reached a point somewhere between pessimism and despair. Intellectuals were the only major segment of society whose living conditions had declined on the average during reform. The government, which runs virtually all the institutions employing intellectuals, allowed their salaries to lag far behind inflation due to worsening budget deficits and the relatively low priority given to education. It became common to remark, in rhyme, that, "To wield a surgeon's knife is not as good as wielding a barber's

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<sup>12</sup> *Renmin ribao, haiwaiban*, January 24, 1989, p. 1, in FBIS-CHI-89-015, January 25, 1989, p. 16.

<sup>13</sup> *Renmin ribao, haiwaiban*, July 6, 1988, p. 1 and July 7, 1988, p. 4.

<sup>14</sup> "According to incomplete statistics, over the last 5 weeks almost one hundred serious criminals in Guangdong have been executed," reported a pro-PRC news agency in Hong Kong on January 26, 1989, *Zhongguo tongxunshe*, January 26, 1989, in FBIS-CHI-89-018, January 30, 1989, p. 61.

razor," and "Researching the atomic bomb doesn't pay as much as peddling tea-eggs."

A wave of complaints over the low salaries and poor living conditions of intellectuals found its way into the halls of the Seventh National People's Congress, where many delegates raised the issue, including Beijing University President Ding Shisun. Prime Minister Li Peng acknowledged in a news conference that

educational expenditures are insufficient, the intellectuals' salaries are too low, and incomes are inequitable. There are phenomena of bureaucratism and corruption in the government, and the popular masses and college students are dissatisfied with this and have raised some criticisms and suggestions. I consider this to be normal.<sup>15</sup>

Pressed by its own budget deficits, the government could only suggest that universities offer consulting and educational services to society or set up sideline enterprises to increase income. Students at *Beida* (Beijing University) sarcastically threatened to set up a shoeshine stand outside the Great Hall of the People during the People's Congress in order to implement this suggestion.

The discontent of intellectuals and students went beyond dismay over intellectuals' standards of living. As in previous years, students and intellectuals protested for continued reform and against government restrictions on foreign study and government repression of political activities. *Beida* students carried out a series of demonstrations in June, ostensibly in protest against the beating death of a graduate student at the hands of some hoodlums near the campus, but actually raising the by-now standard issues of freedom of speech, human rights, and democracy. The official New China News Agency blamed the protest on incitement by Voice of America.

Chinese students abroad also continued to act as a critical lobby, writing an open letter in April 1988 to protest what they said was a tightening of the policy on sending students abroad. While denying that there had been any significant change in policy, the State Educational Commission acknowledged that from now on China would require most of its students going to the United States to accept the status of "state-sponsored student," under a J-1 visa, which is much harder to convert to permanent residency in the United States than normal student visas. The commission also acknowledged that the mix of specialties and countries approved for foreign study would be altered.

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<sup>15</sup> *Renmin ribao, haiwaiban*, July 4, 1988, p. 1.

Leading intellectuals spoke increasingly freely at home and abroad. The more independent their words, the more popular such thinkers seemed to become among intellectuals. Fang Lizhi, the astrophysicist known as "China's Sakharov," and Liu Binyan, the investigative reporter, who were both purged from the Chinese Communist Party (CCP) in 1987, were allowed to go abroad in 1988, Fang to Australia and Liu to the United States. Fang made a series of statements abroad and at home to the effect that Marxism is obsolete and that China needs a multi-party system. He reportedly outraged the top leaders by reiterating the widespread belief that relatives of some Party leaders are putting money away in foreign bank accounts. Liu Binyan spoke widely in the United States and Europe, among other things praising the Democracy Wall activists of 1978–79, calling for the establishment of independent periodicals in China, and predicting that fundamental changes in the Chinese political system were germinating within the shell of the old system.

The Democracy Wall activists had committed the mistake of voicing similar ideas ten years too early. Most of the best known among them, such as Wei Jingsheng, Wang Xizhe, Xu Wenli, Chen Erjin, and Liu Qing, remained in prison. But one of the earliest casualties of that episode, Ren Wandong, resurfaced in 1988, five years after his release from prison, with an essay challenging the Communist Party to "let the people decide their future through the ballot box" and warning that "for the next few decades at least, China is likely to be a confused and unstable place."<sup>16</sup>

In June, the Party's venerable ideological journal *Hongqi* (*Red Flag*) was replaced by a new one called *Qiushi* (*Seeking Truth*), which was intended to be more lively. At the Fifth National Congress of Literature and Art Circles held in Beijing in November, Politburo Standing Committee member Hu Qili promised minimal Party intervention in literature and art but also tried to reassert the doctrine that it is the social responsibility of the writer to serve the Party and socialism.<sup>17</sup>

Despite such efforts, the Party no longer seemed to have either the ideological authority or the political will to induce intellectual conformity or to repress expressions of discontent. The intellectuals as a whole seemed to have gone beyond seeking more freedom of thought and flexibility within Marxism—their apparent goal as recently as a year or two earlier—to rejecting Marxism as wholly irrelevant to their concerns. Except for a handful of professional philosophers, few both-

<sup>16</sup> "Essay by Ren Wandong," in *South China Morning Post*, November 29, 1988, in FBIS-CHI-88-229, November 29, 1988, pp. 24–26.

<sup>17</sup> *Renmin ribao, haiwaiban*, November 10, 1988, p. 2.

ered to pretend to an interest in Marxism; many openly treated it as a cynical joke. In published works, Marxism was usually referred to perfunctorily, if at all.

The depth of alienation of the intellectuals was sharply revealed by the popular six-part television series, "River Elegy" ("Heshang"), written with the participation of some of the leading intellectuals of the younger generation, including journalist Su Xiaokang and historian Jin Guantao. The series was an exploration of the nearly century-old theme of the roots of China's backwardness and combined inquiries into China's geography and prehistoric civilization with analyses of more recent problems with modernization. Its boldly Toynbeeian argument, applied to the vast sweep of Chinese history and to Chinese civilization as a whole, was that China's anciently rooted, inward-looking, peasant-based civilization was moribund. The only way forward for the nation was a merger with world civilization—i.e., complete Westernization.<sup>18</sup> The TV series received widespread praise, except among some Party elders who attacked it angrily and were able to prevent a second airing.

With "River Elegy," a decade of increasingly searching critiques of the Cultural Revolution had finally grown into an inquest into Chinese civilization itself. The conclusions drawn from the inquest were nightmarishly reminiscent of the themes that had tormented Chinese intellectuals about their civilization since the late nineteenth century—the fear that the Chinese race is falling behind other races, that some vital cultural essence has been exhausted, and that China's peasant-based culture is inherently and fatally deficient in the modern values of democracy and science. The series conveyed the sense of a nation caught in a historical trap with no way out. As a judgment on China's achievements and prospects, the film's evaluation of Chinese civilization might seem to outsiders to be too harsh, but it was extraordinarily revealing of the intellectuals' state of mind.

The consensus seemed to be that Western democracy and even the Taiwan system represented proper models for Chinese political reform. The press increasingly and more forcefully advocated ideas that had not been promoted publicly since the crackdown in January 1987, such as a free press, truly competitive elections, separation of powers, and allowing the NPC to function as a real legislative body.

Yet many intellectuals were pessimistic that any such developments would actually take place in the near future. Deng continued to hew to the conservative political line defined by his "four basic principles"

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<sup>18</sup> See Frederic Wakeman, Jr., "All the Rage in China," *The New York Review of Books*, March 2, 1989, pp. 19–21.



(dictatorship of the proletariat, socialism, Marxist-Leninist-Maoist thought, and party leadership). In addition, reform theorists around Zhao Ziyang propounded a theory labelled the "new authoritarianism," which argued that in the current period reform required strong authority, not democracy. According to the new authoritarians, the urgency of reform and the enormity of the obstacles to it brooked no delay for consensus formation or compromise. They argued that the most dangerous threat to reform came not from conservatives in the leadership but from social groups adversely affected by inflation, unemployment, and other transitional problems. Citing the works of Samuel P. Huntington and the experiences of South Korea, Singapore, and Taiwan, the new authoritarians called for nondemocratic rule by a reformist elite who would push the reform program through against all resistance. They argued that such a program differed from China's old authoritarianism in that it would be used not to deprive people of their freedoms but to break through the obstacles that still limited people's freedoms.<sup>19</sup> Early in 1989, Zhao himself reaffirmed that "China cannot implement a Western style multi-party system . . . . Political reform is definitely not going to abolish the leading role of our party."<sup>20</sup>

With Mao's death, the Party's source of legitimacy had shifted from serving as a revolutionary vanguard to serving as a technocratic elite forging the way to modernization. But Deng's dismal performance in the second half of 1988 struck a blow at this legitimation. Perhaps the most striking sign of society's mood was a widespread willingness to criticize the hitherto sacrosanct Deng for his stewardship of the reforms. Personal attacks on Deng and his children were reportedly included in wall posters at Beijing University. Many writers renewed sharp criticism of the overcentralization and personalization of power in the Chinese system. The fact that the mood among the intellectuals did not lead to an open political challenge to the regime in 1988 was due to several factors: the intellectuals' fear of political disorder and their distaste for taking physical risks, the absence of a political alternative, the openness of the Party leadership to input from leading intellectuals (and the shared family and personal networks among the two groups), and, most important, the fact that other major social groups, especially the peasants, were not equally disgruntled.

<sup>19</sup> See, e.g., Wu Jiaxiang, "Xin quanweizhuyi shuping," *Shijie jingji daobao*, January 16, 1989, reprinted in New York *Huaqiao ribao*, February 16, 1989, p. 10. In an interview, Huntington himself disclaimed the applicability of his theory to China. See *Shijie jingji daobao*, March 27, 1989, p. 13.

<sup>20</sup> Zhao Ziyang, "Guanyu dang de jianshe de jige wenti," speech given January 28, 1989, *Renmin ribao*, *haiwaiiban*, March 17, 1989, pp. 1-2.

## Leadership Succession and the Prospects for Reform

Far from clinging to power, Deng continued his efforts, which have extended over several years, to create a stable arrangement for his own succession. Toward the end of the year he claimed that Zhao Ziyang and Li Peng were now in control and that he was enjoying a leisurely semi-retirement, although the events of the year belied such statements. Deng continued to be indispensable, in fact, to any major policy decisions, which bodes ill for the fate of reform once he passes from the scene.

None of the five top leaders beneath Deng in the hierarchy seems likely to be able to replace him as the authoritative decision-maker who can unify an increasingly fractious nation for further risky steps of reform.

Zhao Ziyang remained the strongest candidate. During the debate over price reform and after its reversal, rumors flew that Deng was dissatisfied with Zhao, threatened not to support him during the summer Politburo debates, and was angered by complaints lodged against him by party elders Wang Zhen and Bo Yibo during the price reform fiasco. Whatever the truth of these rumors, Zhao seemed to emerge from the episode with his authority unscathed.<sup>21</sup> To be sure, there were several self-critical sentences in his report to the Third Plenum. For example, he stated that "If we had paid closer attention to solving this problem [of unbudgeted capital construction] early this year, the current situation would have been better. It seems we noticed this problem too slowly and tackled it too late." But the self-criticism was collective rather than individual, addressing a failure of the entire leadership and not only of Zhao himself. But Zhao remains without a power base in the army, he is too liberal to win the kind of unquestioning acceptance from all sections of the Party that Deng has enjoyed, and to date his authority remains dangerously dependent on Deng's backing.

Among other candidates for the succession, Li Peng has an even narrower base of support than Zhao. Li, like his adoptive father Zhou Enlai, appears to have the personality of a policy implementor rather than that of a political leader. Yao Yilin has always served under the shadow of his mentor, Chen Yun, and lacks the broad experience and prestige of members of the senior generation of leaders. Hu Qili seems too young, too liberal, and too politically cautious to come out on top in a power struggle.

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<sup>21</sup> Chi Hsin, "Behind-the-Scene Maneuvers in Stopping Price Reform," *Chiu-shih nien-tai*, November 1, 1988, in JPRS-CAR-89-005, January 13, 1989, pp. 1-3.

The least-well-known member of the Politburo Standing Committee cannot be excluded as a come-from-behind candidate for the succession. He is Qiao Shi. Almost nothing is known about his political base, his personality, or his beliefs that would indicate how well he could establish power or what policies he would favor if he did win. But because he controls the security apparatus, he has to be taken seriously as a possible winner in a succession crisis.

An institutional dark horse in the succession is the army. The Party's ability to control the army has remained a crucial political question. For years the army has expressed its dissatisfaction with the ideological and social disorder that has accompanied liberalization. The overhaul of the officer corps in recent years appears to have reduced the split between army and Party leaders. Yet Deng has as yet been unable to realize his often-stated goal of retiring as chairman of the Central Military Commission; he was re-appointed to the post at the Seventh National People's Congress. Although Deng told foreign visitors that it was Zhao Ziyang who actually ran the military commission, Zhao's status on the commission continued to be that of first vice-chairman. The long-time vice-chairman of the military commission, Yang Shangkun, aged 81, continued to hold that post even as he was elected President of the People's Republic. Yang's brother, Yang Baibing, remained director of the General Political Department.

The generals have played key roles in power transitions in the past, for example in the arrest of the "Gang of Four" after the death of Mao. Deng's departure may disturb the delicate balance between military and Party elites and force a weak or unstable successor to turn to the military for support. In such an event, the facade of Party rule would probably be maintained, with the generals exercising their influence largely behind the scenes.

Whatever its inner structure, the post-Deng regime will most likely take the form of collective leadership. The question will be whether any post-Deng leadership will be able to create enough consensus and concentrate enough power to overcome the strongly entrenched bureaucracies and deep conflicts of interest among regions, agencies, and social classes that stymied the forward movement of reform in the latter half of 1988—and whether, while trying to do so, the leadership will be able to win at least tolerance, if not support, from an increasingly restive populace. Without Deng, both these tasks will be harder than ever.