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From Deng Xiaoping's 'Reform and Opening Up' to Tiananmen Square (1977-1989)

This period, little more than a decade long, was a pivotal one in the history of modern China. On the economic side, it saw the first phase of Deng Xiaoping's reform policy, which involved the incremental replacement of central planning by market mechanisms. This policy, which was remarkably successful in transforming China's economy, was spearheaded by Zhao Ziyang, often in the teeth of determined opposition from conservatives in the Politburo, but with Deng's strong support. On the political side, the same conflict between liberals and conservatives also took place. But in this case, the politically conservative Deng opposed the politically liberal Zhao. In the climactic events at Tiananmen Square, Zhao wanted to pursue dialogue with the protestors, but Deng decided on martial law and ordered the troops to clear the square. Zhao had been designated as Deng's successor, but he was stripped of all offices, and held under house arrest from then on. Those who wish China well can only speculate how the country might have evolved, had Zhao's approach been followed at Tiananmen Square, and had this principled and devoted patriot indeed succeeded Deng. The Chinese economy resumed its phenomenal growth, and China joined the WTO in 2001. But the door to political reform had been slammed shut in 1989.

The Principal Actors and Their Main Offices

Deng Xiaoping (1904-1997)

Paramount leader of the People's Republic of China (PRC) December 1978 - November 1989. Chairman of the Central Advisory Commission of the Chinese Communist Party (CCP) 1982-1987. Chairman of the Central Military Commission 1981-1989.

Chen Yun (1905-1995)

Chairman of the Central Advisory Commission of the CCP 1987-1992.

Zhao Ziyang (1919-2005)

Premier of the PRC 1980-1987. Vice-Chairman of the CCP 1981-1982. General Secretary of the CCP 1987-1989.

Hu Yaobang (1915-1989)

General Secretary of the CCP 1982-1987.

Hua Guofeng (1921-2008)

Chairman of the CCP 1976-1981. Chairman of the Central Military Commission 1976-1981. Premier of the PRC 1976-1980.

Li Xiannian (1909-1992)

President of the PRC 1983-1988.

Brief biographies may be found in the Wikipedia entries.

Deng Xiaoping (*CGTN*: retrieved on November 15 2023 from https://news.cgtn.com/news/3d4d544f7a556a4d/share_p.html)

Preparing for Reform and Opening Up

'Two and a half'

After the turmoil of the Cultural Revolution and the death of Mao Zedong in 1976, Deng Xiaoping returned to work in July 1977, when Hua Guofeng was the Chairman of the CCP. At the Third Plenum of the Eleventh Party Congress in December 1978, he was officially acknowledged as the paramount leader of the CCP, with a mandate to take China on the path of modernization through 'reform and opening up'.

It is worth emphasizing, however, that Deng, unlike Mao, could not and would not act like a personal dictator. The decisions of the Party Work Congress that were ratified by the Third Plenum also nominated Chen Yun and Li Xiannian to share power at the top with Deng. Of these two, Chen was considered to be virtually Deng's equal, though this was not the case for Li. To insiders, the power structure of the 1980s was therefore known as 'two and a half'. Deng was head of a collective leadership, the first among approximate equals, and he functioned as spokesman of the Party.

From the outset, there were strong policy differences between these three men. Chen Yun was credited with bringing down the hyper-inflation after China was united under the CCP in 1949, and with mending the broken economy by enforcing retrenchment and other remedial measures after the Great Leap Forward. Mao had not been happy with Chen's involvement in reining in the Great Leap Forward and had sidelined him from the early 1960s. Having been in the political wilderness for nearly two decades, Chen was pleased to be swept back into power at the Third Plenum, by the support of veteran senior officials. These officials highly esteemed Chen Yun's ability to deal with complex economic issues. For a while at the beginning of the reform era, even Deng Xiaoping deferred to Chen on economic matters.

Chen Yun had learned economic planning from Soviet masters, and he still thought the approach of the first Five-Year Plan in the 1950s was the best for China's economic development. In Chen's view, without the disruptions of the Great Leap Forward and the Cultural Revolution, China would have gone a long way towards modernization as a Soviet-style command economy, with little market participation. After all, the Soviet Union had transformed itself into a modern socialist industrial superpower. Chen's left-wing ideology inclined him to remain an admirer of the socialist Soviet Union, and a critic of the United States as a capitalist country. Chen's approach to the economy was strongly supported by Li Xiannian, another conservative economic manager on the Standing Committee of the Politburo, as well as by some other

powerful conservative elders, and often by the heads of the central planning commission and the ministry of economic affairs.

In contrast, Deng had personally witnessed the success of the economies of France, Japan, the United States, and Singapore, where markets played the major role, and he saw this as the direction where China needed to go. As Deng's reforms went forward, fundamental differences of approach to the economy became increasing apparent. How fast the Chinese economy should grow, and how widely China should open its door to market forces and foreign investment and trade, were questions on which serious differences emerged between Chen and Deng. Deng favoured expanding the economy, focusing especially on speed and on opening up to the outside world, together with adopting reform measures to move towards a market economy. To a much greater extent than Chen, Deng was prepared to take calculated risks towards relaxation of controls, free people to develop their entrepreneurial talents, and let markets regulate prices. In Deng's view, 'generals who insist on gathering all information about their enemy before they go into battle will sometimes lose their chance to strike'.

Deng's team

By the summer of 1979 Deng had consolidated his power by appointing senior veteran party officials to replace those soldiers and radicals who had risen to power and were occupying key positions in the Party through the Cultural Revolution. As we shall see later, Hua Guofeng was effectively sidelined, and Deng was able to freely choose his own team.

Deng chose his right-hand men carefully, and he did not announce the names of those who were to occupy key posts in his administration until the end of 1979. As Secretary-General of the Central Party Secretariat in Beijing during the decade before the Cultural Revolution, Deng had become familiar with middle-level Party officials who would become senior leaders of the Party in the 1980s. Since his key appointments would have to work with Chen Yun, Li Xiannian and others as a team, Deng consulted other high-level colleagues for their frank assessments before making up his mind.

Since there was no model or blueprint to show Deng how to carry out reform and opening, innovation and experimentation had to be a part of the process. Deng and his colleagues had to be pioneers and path breakers. For these reasons, it was not surprising that the two people Deng brought in to occupy key positions in his administration were not only committed modernizers, but also bold risk takers, willing to try new ways of doing things.

Hu Yaobang (born in 1915) had proven his credentials to join Deng's administration through fostering scientists at the Chinese Academy of Science, and by stimulating fresh thinking among members of the Central Party School. He was responsible for publicizing the article 'Practice Is the Sole Criterion for Testing Truth', which played a crucial role in rallying Deng's supporters to adopt it as their guiding principle in discrediting the 'Two Whatevers' stand taken by Hua Guofeng's pro-Maoist group[1]. Zhao Ziyang (born in 1919) attracted Deng's attention as an outstanding provincial leader, who had won widespread praise for launching innovative rural reforms as the party secretary of Sichuan, Deng's home province. Zhao also experimented with new approaches to industrial enterprises. Deng regarded Zhao as a highly capable and committed reformer, who had the analytical ability and political skill to guide the introduction of reform and opening. After Deng became paramount leader, he persuaded Zhao to come to Beijing to take up a post in the Politburo in 1980.

Zhao Ziyang (*Wikipedia*: retrieved on 15 November 2023 from https://en.wikipedia.org/wiki/Zhao_Ziyang

Wan Li (born in 1916), first secretary of Anhui province, was another provincial official who also became an important member of Deng's reforming team. During the civil war, in the absence of regular rail truck transport, he had organized 1.4 million peasants to physically carry supplies of food and other necessities to the frontline Communist troops, including the Second Field Army under Deng and Liu Bocheng's command. Deng valued Wan's capacity to organize and complete large projects, such as the Great Hall of

[1] 'We will resolutely uphold whatever policy decisions Chairman Mao made, and unswervingly follow whatever instructions Chairman Mao gave.'

the People and certain major museums at Beijing. In 1975 Wan, as minister of railways, had impressed Deng with his high-level administrative ability and political skill when he brought order to the broken-down railway networks under Deng's briefly successful 'Rectification Campaign'. When Deng became the paramount leader, he instructed Wan to do whatever he could to eliminate starvation in the poverty-stricken province of Anhui. Wan's experimental model for rural reform in Anhui succeed so well that it was adopted by most of the other provinces in China, as will be discussed later.

In addition to these, Deng Liqun (born in 1915), and Hu Qiaomu (born in 1912), were included in the team although they were not committed reformers. They were chosen as highly experienced veteran party officials, who excelled in writing documents and polishing speeches. This central leadership corps, which also included Chen Yun and Li Xiannian, constituted the Deng administration that would carry out policies of economic planning, as well as reform and opening. Although there remained deep-seated ideological and policy differences even among this small group, Deng obliged them to present an appearance of unity to the provincial and local party officials, and to the Chinese public.

Deng's leadership style

Deng operated this new power structure and the team that constituted his administration as a macro manager. On 16 January 1980 Deng made an important address that set out his vision for the coming decade. He declared that economic growth through the four modernizations[2] was the immediate goal of his regime. The final goal was of course transforming China into a prosperous and strong modern nation. These necessarily long-term goals were to be achieved within the socialist system, under party leadership, and in conditions of internal unity and stability, and external peace. He saw it as his job to maintain these necessary conditions for economic growth and nation building. He devoted his efforts to devising long-term strategies and evaluating policies. Even the necessary short-term measures were selected on the basis of their contribution to the success of the long-term goals.

To raise public enthusiasm and to stimulate production, he gave the Chinese people a target to aim at. With the lessons of the Great Leap Forward still fresh in his mind, Deng did not want to raise people's expectations too high. After consulting Chinese experts and specialists at the World Bank for a realistic figure, he popularized the slogan of 'quadrupling income by 2000'. This figure was later reduced to the more easily achievable one of quadrupling the GNP between 1980 and 2000.

[2] Agriculture, industry, national defence, science and technology.

Deng did not, and was not expected to, provide a detailed step-by-step plan on how to achieve a high level of economic growth, or to give simple answers on how to modernize China. He focused instead on advocating important general principles and pointing out the correct directions. Deng and his colleagues were in uncharted territory. He urged his colleagues to be pioneers, to be bold, break new ground, conduct experiments, and be prepared to solve unfamiliar problems brought on by new developments. Not knowing what institutions were best suited for modernizing China, Deng let Zhao Ziyang run think tanks for studying the introduction of widely different systems in various localities. They were in a situation best described as 'crossing the river groping for the stepping stones'. Deng expected his high-level colleagues to take the initiative, and he held them responsible for their assigned tasks.

After many years as a military leader fighting war, and after seeing what Mao could do because he possessed authority, Deng valued authority and conveyed it in his actions and speeches. He also believed that a unified command structure was the most efficient way to exercise his own and the Party's authority. His decisions might be bold, but never rash. He avoided any weakening of his authority by making mistakes, or taking the blame personally when something went wrong. He seldom risked putting his authority on the line. While safeguarding his personal authority, he was also determined to defend the authority of the CCP. He could be very tough on those who attacked or challenged the authority of the CCP, as in the case of Wei Jingsheng for example. Having witnessed the damage done by the breakdown of party discipline during the Cultural Revolution, he put a high premium on maintaining strict party discipline. The Central Commission for Discipline Inspection, directed by Chen Yun, was an active part of his administration.

Since Deng preferred to rule by consensus, he tried to avoid forcing path-breaking policies or decisions on his colleagues before they were willing or ready to accept them. He supported inner-party democracy in the sense that his colleagues were free to express their opinions during discussions. He tried to avoid factionalism and a confrontational style of governing. If he believed strongly in the merit of a certain policy on a particular issue, he would try first to build public support and shape inner-party consensus. Then he would push the line he wished to take forward a little at a time, until the Secretariat had vetted it. After a consensus was reached, a document would be drawn up on the subject under consideration for circulation to the members of the Standing Committee, who would either approve or reject it, or send it back with suggested changes. Chen Yun and Li Xiannian regularly provided their opinions and comments on policies or issues being considered.

Deng normally had the final say on any important decision, or the final wording of a document. Although Deng was sensitive to the political atmosphere and paid attention to the views of others, he reserved the right to take the final decision himself. Once a consensus had been reached on a decision that had also received Deng's final approval, democratic centralism would ensure its implementation. Party discipline also required that no dissonant voices would be heard thereafter, at least in public.

Once a decision was made, it was the responsibility of Hu Yaobang and Zhao Ziyang to implement it. In his dictated memoirs, Zhao Ziyang reported that he and Hu Yaobang were more like staff assistants than decision-makers. However, they knew enough about national issues and the direction China needed to go, to take the initiative to experiment, and to come up with suggestions on new policies or new models for economic development. Once Deng set the agenda, Zhao and Hu had discretionary powers regarding how it was to be carried out. They were also free to micromanage policy decisions and daily tasks as they thought best. Deng was sufficiently confident about his ability to operate the levers of power, that he let Hu Yaobang and Zhao Ziyang, respectively, hold the top post of the party and the top post of the government, while he remained only as vice chairman of the party and vice premier of the government.

Before proceeding to review the remarkable successes of the reformers' programmes under Deng, we discuss first a contrasting initiative due to Hua Guofeng, which was not successful.

A false start

In 1977, when Hua Guofeng was Chairman of the CCP, he wanted to engineer a major economic breakthrough to strengthen his hold on power. In February 1978, Hua announced plans for massive investment on a list of 120 mega-projects, mostly in heavy industry, such as steel mills, oil fields, and power plants. These plans were in accord with Hua's ten-year vision, which grew out of the one Deng had introduced in 1975. The plants and equipment had to be purchased from abroad, for China did not have the capacity to manufacture its own at that time. The importation of high-quality industrial plants based on the latest Western technology was to be paid for by exporting Chinese petroleum, the production of which had grown by 15% annually from the early 1960s to 1977. Although investments in heavy industrial projects were normally slower to produce returns than investments in light industry for consumption, an annual growth rate of more than 10% was projected for this development.

Inspired by the examples of the rapid development of the Tiger economies of Hong Kong, South Korea, Singapore, and Taiwan, and by reports of Gu Mu's delegation to Europe, Hua's wish to hasten economic growth through such purchases from Japan and the West was supported by powerful forward-looking

project managers in the industrial and transport ministries, and by local officials. Once given permission to import, central and local government officials signed a rash of contracts with foreign suppliers based on their hastily drawn up wish lists, without sufficient mutual coordination or thorough feasibility studies. By late 1978 more than US$7 billion worth of contracts were already signed and many more were under discussion. But the US$ 4 billion foreign currency reserve was not sufficient to pay for these purchases.

Unfortunately, the hope of finding new sources of oil in addition to Daqing, the single productive field in Northeast China, failed to materialize despite intensive efforts at exploration and the drilling of millions of meters of oil wells between 1977 and 1978. There was no new source of revenue to pay for these expensive projects at a time when China had just begun to open up to the outside world. Consequently, Hua Guofeng's ten-year vision, dubbed the 'Great Leap Outward', proved to be as unsustainable as the other Great Leap of Mao.

Since Deng was not averse to purchasing foreign factories, he had initially supported Hua's plan. But many planners, alarmed at what was happening, appealed to Chen Yun, the highly respected doyen of economic planning, to make a judgment on these profligate projects, which they feared would plunge China seriously into debt. Chen was not even a member of the Politburo at the point, but they believed that Chen's verdict would have an impact, and indeed it did. Chen strongly criticized the plan for its lack of careful planning. He was concerned that China, still recovering from the Cultural Revolution at that point, lacked the trained manpower, the infrastructure, and ancillary industries to make the vision work.

After Deng became the paramount leader in December 1978, Deng changed his mind on this project and backed Chen Yun, who had also been empowered, like Deng, by the Third Plenum to occupy a top leadership position. Although Deng escaped blame despite having supported this plan at one time, Hua paid a price. A series of Politburo meetings late in 1980 resolved that although Hua had done some successful work, he had also made serious errors. One of these was his promotion of leftist slogans in economic work that led to calamitous losses for the national economy in 1977 and 1978. Another was that, though having little experience in economic planning or management, he had promoted a Ten-Year Plan that led to overheating of the Chinese economy through gigantic investment in heavy industrial projects. Hua had to take the blame for the failure of this plan. The Politburo decided that Hua 'lacked the political and organizational ability to be chairman of the party', and that 'he should never have been appointed chairman of the Central Military Commission'. Marshal Ye Jianying, who looked upon Hua as a protégé, was the only one in the Politburo who defended Hua. But Ye had to bow to the majority decision.

In June 1981, the Sixth Plenum of the Eleventh Central Committee formally accepted Hua Guofeng's resignation from these two top posts. Hua was allowed to remain as a vice chairman of the party and a

member of the Politburo, but he was too humiliated by the denunciations to participate in future high-level party meetings or decision-making.

Reform and Opening Up: The First Phase

The aftermath of Hua's failure: Chen Yu's policy.

Just as Deng and his follow reformers were poised to promote economic growth and modernization, from the spring of 1979 they were called upon to support, though reluctantly, the Chen Yun policy of retrenchment. At this point Deng deferred to Chen's judgment on the economy. As the paramount leader, Deng spoke with the leading project managers, asking them to lower some of the targets being planned and to avoid large foreign trade debt. He also advised the planners to give priority to projects that would provide quick returns on investments and generate employment.

Chen Yun preferred to use the less harsh word of 'readjustment' (*tiaozheng*) to describe a process of tightening expenditure on foreign investment for two years, with a view towards balancing China's limited income from foreign trade against purchases from abroad. Chen Yun also argued for a shift of economic priority from heavy industry to agriculture and light industry to restore the balance between them. In Chen's view, China had been developing heavy industry at the expense of the people's need for food and consumer goods. In 1978, around 57% of China's industrial output was from heavy industry, while the output of consumer goods was only 43%. In 1979, a Finance and Economic Commission was established with Chen Yun in charge to oversee economic planning and finance. In 1980, under Chen Yun's direction, light industry grew by 18.4%, while heavy industry grew by only1.4%.

1980 was the year when the Chinese government sustained the largest budget deficit since the beginning of the PRC. The cost of the Vietnam War, and reform measures, such as the increase in the procurement price of grain from farmers, the cost of resettling rusticated young urbanites from the countryside, and the cost to the central government of allowing the local authorities to retain a greater share of taxes for stimulating local economic initiatives, together with sizable importation of grain, all added to a large shrinkage of the revenue of the central government. Concern over the large deficit enabled Chen Yun to gain the support he needed to put officials who shared his views at the head of the State Planning Commission and the Ministry of Finance. He was also given control of the drafting of the Sixth Five-Year Plan from 1981 to 1985. China's economic growth rate for 1981 was cut back to 3.7% (compared with the previous year's growth rate of 7.8%), and allocation for capital construction was reduced from 55 billion yuan to 30 billion yuan. Hearing officials grumbling about the severe constriction on growth as a waste of valuable time, Chen Yun took the

position that waiting three more years was not such a big deal: China had already wasted over one hundred years of valuable time since the Opium War.

In addition to lowering the growth rate, Chen's retrenchment had other adverse effects. Besides disappointing the local Chinese officials involved in the various schemes, the retrenchment led to breaking foreign contracts, especially Japanese contracts, because nearly 50% of the foreign purchases were from Japanese companies. The cancellation or delay in execution of contracts infuriated Japanese business communities. It had an adverse effect on Sino-Japanese relations, as well as on the credit of the Chinese government. There was a loss of the goodwill earned by Deng Xiaoping during his October 1978 visit to Japan. Although Deng was loath to pull the plug on major import projects, he had to put on a brave face. Deng did his best to explain to a string of unhappy Japanese visitors that the inexperienced Chinese officials had made mistakes in committing China to purchase more capital equipment than the country could either afford or absorb. He promised to provide compensations to the Japanese firms concerned, and to revive the frozen projects later.

The construction of the large-scale automated modern Baoshan steel plant by Japanese contractors was an example of how the Chinese, finding themselves unable to supply the material needed to produce the steel, cancelled the contract early in 1981, before the start of the second phase of this project. It also provided an illustration of Japan's helpful attitude under the circumstances. The long-suffering Japanese devised a way to finance the shipment of the iron ore and high-grade coal needed from Australia to China, to enable the project to continue. On its completion in May 1985, it became the first large modern steel plant in China. Before it was built, China produced only one-quarter of the steel produced by Japan. Within thirty years, the Baoshan steel plant and others modelled on it enabled China to produce almost 500 million tons of steel annually, an amount roughly five times that produced by either Japan or America. China was much indebted to Japan from the beginning of its modernization.

Zhao Ziyang becomes premier to lead economic reform

While Deng saw the need to let Chen Yun and the conservative planners implement their retrenchment policy for a limited period, he was nevertheless impatient for economic growth to return. Up to this point, Deng had relied on Chen as his strategist on economic matters. It became increasingly clear that Chen retained a strong belief in the Soviet style command economy, coupled with deep reservations about reform. Chen's insistence on 'planned economy as primary, market adjustment as auxiliary' was obviously not Deng's vision of China's future. Deng felt the need for someone else to serve as his economic strategist.

Zhao Ziyang, the party secretary of Sichuan, was the person Deng chose for this task. In 1977, after Deng returned to power and was thinking seriously about the next generation of leaders, Zhao, as a promising

provincial party official, caught Deng's attention as someone who had the relevant experience and was in the right age group to be promoted to the Politburo. Zhao became an alternate member of the Politburo as a result of Deng's support. In 1978, when Zhao was making his mark as a reformer experimenting with granting industrial enterprises more autonomy, and contracting rural production down to smaller units, Deng made a stopover in Sichuan on his way to Nepal to talk with Zhao on their visions of reform. Impressed by Zhao's brilliance and commitment to reform, Deng persuaded Zhao to come to Beijing in 1980 to take charge of the State Council (i.e. to become the premier). Zhao also took over from Chen Yun the Finance and Economic Commission, which had its name changed to the Central Finance and Economic Leading Group under Zhao. On matters of economic reform, it fell to Zhao to frame issues, examine details, select options, and recommend possible courses of actions on which Deng would make his final decisions.

One should point out here that Zhao's vision of reform, which Deng seemed to share, was not a matter of tinkering with the system of a planned economy by making small changes and adjustments while keeping the system itself largely intact. Small changes might be necessary, but only during a transitional period. Zhao wrote in his 'Secret Journal' that he was determined to eradicate the malady of China's economic system at its roots. He stated that after reviewing the economic problems since the establishment of the PRC, he concluded that China's planned economy was deeply flawed because of its extremely low efficiency, although the lack of incentives was also a problem. He described how prolonged neglect of efficiency, and blind pursuit of higher output and growth, led to the production of large quantities of goods that ended up in warehouses and eventually became trash, because people would not buy them. Such waste caused financial deficits to build up and the banks to print money.

Although superficially this type of planned economy appeared to produce an adequate growth rate in industrial output or in GDP, the people received little practical benefit. Even when the Chinese economy had grown at a 10% rate, the standard of living of the people had hardly improved. Zhao stressed that he wanted to make products that had market demands in the most efficient way, and let people see the practical gains of the economic development. He concluded that, to do so, China had to be 'transformed into a market economy' and that 'the problem of property rights had to be resolved'. Zhao declared that he became an enthusiastic reformer after he had analysed China's economic malaise and recognized the need for systemic change. In keeping with his characteristic frankness, he confessed to not knowing exactly what steps to take to implement the reform.

To help him with this demanding task, Zhao was assisted by various Chinese think tanks, such as the Systems Reform Commission and the China Rural Development Research Group. In addition, Zhao could tap into the resources of the World Bank, which, under its president Robert McNamara, and Edwin Lim, its Resident Representative in its Beijing Office, developed a special relationship with the PRC after China

joined it in 1980. Deng told McNamara that China needed ideas even more than money. Zhao Ziyang was at the centre of discussions with the World Bank economists, and the officials from other parts of the world gathered by the World Bank, as well as with Japanese advisers, to explore the best way for China to make a successful transition from a planned to a market economy. A team of experts at the World Bank worked closely with Chinese economists to undertake an unprecedentedly large country study of China's economy since 1949. The three-volume report, published in 1981, provided invaluable advice to the Chinese on how best to handle the transition. The World Bank's 1985 report, undertaken at Deng's request, reassured Deng that it was feasible for China to quadruple its economic output by 2000. In addition to its advisory role, the World Bank also made loans to China, and provided a great deal of assistance in training Chinese economists during Deng's reform period.

After becoming premier, Zhao Ziyang had to work with both Deng Xiaoping and Chen Yun. As a party elder, second only to Deng in power, Chen Yun's influence in the economic sphere was in no way eclipsed by Zhao, who sometimes found it necessary to act as a moderator between them, when their differences came to the fore. Knowing that China did not have the necessary experience, private capital, knowledge, skills, and entrepreneurs to change suddenly into a market economy, both Zhao and Deng agreed that it would be best to make incremental and flexible changes; for example, opening markets and decontrolling prices step-by-step, with adjustments when necessary, starting with China's command economy and state enterprises. This was also the approach recommended by the World Bank. With the help of the World Bank, a conference with economic experts from Eastern European countries further convinced the Chinese that the Eastern European or Soviet 'big bang' strategy of moving to a market economy at one stroke was not suitable for China. Having decided on a gradualist approach, Deng could see that Chen Yun had an essential role to play. Chen's experience and skills were needed to keep the old system functioning, and to prevent disruptive and destabilizing changes during the transitional period. For this and other reasons, Deng tried to avoid conflict or confrontation with Chen, despite their differences.

Zhao arrived in Beijing in 1980, right in the middle of Chen Yun's economic readjustment policy. Since digging out of the hole created by the Cultural Revolution would take time, Zhao accepted Chen's readjustment measures for a limited time as an attempt to put the economy on a more solid basis before growth and expansion could resume. In retrospect, he thought the readjustment was too rigidly enforced and too severe. Later, when he concluded that Chen's measure of cutting infrastructure 'straight across the board' had not been necessary, he asked the Planning Commission to revive some projects, which were too beneficial or too costly to cut.

Soon after Zhao took over the work of the State Council, his attention was drawn to the rural reforms that Wan Li was undertaking to solve the problem of poverty and chronic food shortage in the countryside. Zhao

was aware of high-level opposition inside the party to Wan Li's experiment, especially from the conservatives with leftish sympathies. Having found answers to his doubts and reservations, Zhao became an enthusiastic support of Wan Li's reform, particularly after he witnessed the surprisingly good results. He was also pleased that the changes were voluntary rather than forced and were sufficiently flexible to adjust to local conditions. Following is an account of Wan Li's rural reforms, which Zhao considered 'the healthiest major policy shift in our nation's history'.

Rural reform (1): agriculture. The Rural Household Responsibility System (RHRS)

Shortly after Wan Li became party secretary of Anhui in June 1977 under Hua Guofeng, he carried out an extended inspection tour of the major rural areas of what was one of the poorest and most highly agricultural provinces of China. Despite serious famine and starvation after the Great Leap Forward, Wan Li's predecessor kept to the Maoist vision of high-level collectivization of agriculture in Anhui. Although some efforts were made to downsize the communes after the GLF, the party had a vested interest in continuing the collectivization of agriculture. The party leaders simply ignored evidence that agricultural collectivization did not work well.

After surveying the situation, the widespread food shortage prompted Wan Li to carry out a radical experiment - radical in the sense of going against the almost sacred Dazhai model[3] - and move in the direction of decentralizing collectivized agricultural production into smaller units. The smallest unit was, of course, an individual household: even downsizing to single households as the basic accounting units was not excluded. Politically, this was an extremely courageous initiative, because even the reform minded Third Plenum forbade contracting agricultural production down to the level of single households.

During the autumn of 1977, Wan Li introduced his radical experiment in a document called 'Provincial Party Committee Six-Point Proposal'. The most crucial points of the proposal were: decentralizing the authority of the agricultural collectives to the production team and permitting members of the team to work on their own private plots and sell the produce at local markets, provided the team had met their government assigned quotas and tax obligations. One proposal specified that distribution of produce to the members of the team (meaning payment in kind) should be made according to their work rather than according to their need. This blatant use of a material incentive to stimulate production was, of course, contrary to the spirit

[3] We recall that Dazhai, a former commune in eastern Shanci province, was known for Mao's directive 'Learn from Dazhai in agriculture', which set up Dazhai as a model for agricultural production in China during the 1970s and 1980s.

of Dazhai. A recommendation to reduce the quotas assigned to the production teams in Anhui, to lessen the hardship of the local farmers, was also proposed.

When Wan Li addressed the county party secretaries on the implementation of the six-point proposal, many were afraid that they would be accused of pursuing capitalism. Wan Li urged them to rely on practice to find out what worked best, to give way to creativity and not be afraid of making mistakes. His willingness to take personal responsibility encouraged the lower-level officials to move ahead with these proposals. Deng was aware of Wan's bold initiative. In February 1980, during his stopover in Sichuan, he asked the Sichuan Party Secretary, Zhao Ziyang, to carry out similar experiments, which Zhao did.

By the autumn of 1978, an excellent mid-year harvest under the new regime boosted Wan Li and his colleagues' confidence in their new approach, but it also aroused the supporters of large-scale cooperatives, including Chen Yonggui, the vice premier in charge of agricultural affairs and the hero of Dazhai, to denounce Wan Li for opposing Dazhai and restoring capitalism. Wan Li fought back, calling Dazhai an ultra-leftist model, and drawing people's attention to the success of his experiment. However, at the Third Plenum, Hua Guofeng and the new vice premier who succeeded Chen Yonggui, continued to support the Dazhai model, and the *People's Daily* brought out a series of articles against further decentralization of agricultural production in the spring of 1979. Feeling the heat from the opposition, Wan Li needed to find out whether the two top leaders supported his experiment. During a private meeting with Chen Yun in June 1979, Chen expressed strong personal support for his experiment. Deng Xiaoping told Wan Li simply to go ahead and not bother to argue with his critics. Repeating his general exhortation, Deng said: 'Just seek the truth from facts'.

Knowing that his initiative was working extremely well, and that the two most powerful elders personally approved of what he was doing, Wan Li was encouraged to fight with his critics. During a debate in Beijing, when a vice-minister of agriculture attacked the practice of contracting down to single households, the infuriated Wan, describing him as *feitou da er* (fat head with big ears, meaning like a pig) fired back: 'You have plenty to eat. The peasants are thin because they do not have enough to eat. How can you tell the peasants they can't find a way to have enough to eat?' Deng was aware that those who supported Wan's policy were labelled 'capitalists', but he kept himself above the controversy. Deng wanted to be sure that this strategy was really working before he committed the stamp of his authority on it.

As time went on, there were signs of Deng's growing approval for Wan Li's experiment. The Fifth Plenum of the Eleventh Party Congress that convened early in 1979 made Wan Li the director of the State Agriculture Commission and a member of the party Secretariat in charge of Agriculture. He also became a vice premier. In the summer of 1979, Anhui had another excellent mid-year harvest in areas where the responsibility for production was contracted down to the households. A former reporter of Xinhua News

Agency was in Anhui, and he was encouraged by high officials in Beijing to publicize the agricultural successes in Anhui.

Convinced that the system of contracting down to the households was working well, and not satisfied with just having lower-level cadres surreptitiously enforcing it, in the early 1980s Wan Li sought the support of the General Secretary of the Party, Hu Yaobang, to convene a conference of provincial party secretaries for the purpose of getting the official sanction of the top officials of the party for this system. Just before the conference met, Deng felt the time had come for him to declare his support officially for contracting down to the single household. This meant the effective dismantling of the ideologically charged commune system.

Aware of conservative opposition to rolling back agricultural collectivization, Deng did so in a deliberately low-keyed manner, avoiding confrontation and disputes with a large audience, and without describing the new development as de-collectivization. On 31 May 980 Deng called in his two writers, Hu Qiaomu and Deng Liqun, asking them to spread the message of the successful outcome of adopting the practice of fixing farm output quotas on a household basis in most of the production teams in Feixi county, Anhui, and in other suitable areas. The introduction of this flexible policy had led to large increases in production. Deng went on to advise a gradual step-by-step change to the new system, taking account of local conditions and the wishes of the people.

Given the green light by Deng to extend the model of household production nationwide, Wan Li consulted Du Runsheng, an expert on agricultural policy, and the top provincial party secretaries, at a meeting during the summer of that year to thrash out the details of the new official policy for wider application. To make it easier for the conservatives to accept the new system, it was called *baochan dao hu*, meaning ‘contracting down responsibility to the households’, also known as the ‘rural household responsibility system’ (RHRS). Since the land remained publicly owned, the local cadres would represent the state in providing the land and machinery to the farming households, which in return would, after harvest, turn over to the state specified amounts of grain and other crops as assigned to them by the local cadres. Provided a household fulfilled its contractual responsibility to the state, it could keep any surplus, and it had the freedom and authority to grow any crop in any way and at any time for its own use or for sale on the open market at prices determined by the market, rather than fixed by the state.

Before the introduction of this system, the power to decide on how much, when, and what to grow rested with the party leaders of the collectives, who also controlled the award of work points according to which their members were paid in cash and in kind. Just as the old, planned economy assigned nationwide quotas on grain and other crops, the RHRS likewise satisfied the national need for these products. Although it reduced the power and role of the rural party cadres, the conservatives were somewhat mollified by the fact

that the rural party officials still retained the power to assign the contractual responsibility. The peasants welcomed the change with overwhelmingly positive responses.

The political economist Yasheng Huang claimed that the RHRS started as a spontaneous reform from the bottom up by a group of 18 poor villagers in December 1978, in Xiaogang, Anhui province, rather than from top down as just stated. Wan Li might have come across this group during his tour of Anhui, but the villagers' initiative would have had little chance of success without support from above. Zhao Ziyang also testified that farmers in poor regions of Anhui and Sichuan had themselves initiated some form of RHRS at various times. In the economically hard times of 1960s, provincial party leaders, Zhao included, had successfully applied RHRS flexibly in certain localities to ease acute food shortage and increase production.

After the RHRS became official policy, it spread very rapidly. By October 1981, over 50% of the production teams in the country had opted for some form of RHRS, and by 1984 the rural households participating in the RHRS reached 99%. From 1982 to 1986, the CCP's Central Committee issued a No. 1 policy document at the beginning of each year to address the issues raised by the decentralization of agriculture. These acts also meant to signify that agricultural reform was a top priority of the government.

There was however one important region where farmers and local party leaders chose not to adopt RHRS. It was in the Northeast, where it was more efficient for agricultural collectives, such as production teams, to use tractors to carry out farming in large dry fields for wheat, sorghum, and other crops, rather than growing rice in small paddies by individual households, as in the wetter parts of China.

In 1982, the communes that had come into being in 1958 were abolished. This marked the end of over a quarter of a century of agriculture collectivization, which turned peasants into serfs of the state and routinely extracted an excessive amount of grain and other crops from the agricultural producers to feed the urban population, and to fund China's industrial development. Although peasant support was crucial to the CCP's victory in the civil war, the policy the CCP had pursued since the mid-1950s - high government- imposed quotas for mandatory procurement, and low purchase prices, with some priced at zero as taxes - had been extremely burdensome to them. After the government's heavy-handed extraction, there was little incentive for the peasants to invest their time and energy in producing more, and they were often left with insufficient food to feed themselves.

It was only after the implementation of the RHRS from 1979 onwards that the output of grain and other farm products surged dramatically. There were good harvests for six years in a row from 1979 to 1984. Witnessing the new rural prosperity brought on in large part by the RHRS, Zhao Ziyang wrote as follows:

> 'The energy that was unleashed in those years was magical, beyond what anyone could have imagined. A problem thought to be unsolvable had worked itself out in just a few years' time. The food situation

> that was once so grave had turned into a situation where, by 1984, farmers had more grain than they could sell. The state storehouses were stacked full by the annual procurement program.'

The production of grain rose from the previous peak of 300 million tons between 1955 and 1957 to 407 million tons in 1984. The change in policy not only ended the grain shortage and raised rural income; it also helped to increase production of industrial crops, such as cotton, oilseeds, sugar beets, flax, and tobacco, often at a faster rate of than that of grain. In 1981, China was the fourth largest importer of cotton; by 1984, China was exporting cotton. Left to themselves, the farm households appeared to value their labour time more than the collective planners, and they worked harder, put in shorter hours, and selected a more appropriate mix of products to grow. The results were a remarkable rise in productivity because the astonishing increases were achieved with less labour input. In short, the RHRS provided a great one-off stimulus to China's once stagnant rural economy.

Having greater control over their own economic activities, and with the permission to keep the surplus they produced, the peasants responded to the greater freedom and incentives with energy and enthusiasm, investing what resources they had to meet market demands more effectively by growing better quality, greater quantity, and more varieties of food and other crops. By 1989, the government abolished grain rationing, and consumers could buy all the rice they needed. It was a win-win situation all round, as urban dwellers were happy to find better quality and more varieties of vegetables, fruits, chicken, pork, and other foodstuffs on the market. Officials who opposed the abolition of collective agriculture found it difficult to maintain this stance when their families started to enjoy better food. As refrigeration and transportation improved, demands for these farm products also grew, providing further stimulus for the rural producers.

Some researchers looked upon the change to RHRS as a 'modest policy departure from the status quo ante' since land remained collectively owned by the production team. In view of the ideological opposition the reformers had to overcome, Zhao Ziyang regarded it as a 'major policy change and a profound revolution'. Zhao also admitted that without Deng's support the reformers would not have succeeded in propagating the RHRS nationwide. Deng had no ideological commitment to the RHRS as a system. He supported it for pragmatic reasons: it solved the problem of grain shortage and rural livelihood. It was to his credit, and that of his follow reformers, that the transition from collective agriculture to the RHRS was made without a debilitating split in the party. The popular enthusiasm and the successful results of this reform encouraged public support for further reforms.

Rural reform (2): industry and services. The Townships and Village Enterprises (TVEs)

(a)The destruction of the traditional household economy

In China's traditional economy, the myriads of rural households not only engaged in growing crops intensively on small plots, but also undertook the fabrication of handicrafts, which processed agricultural products and converted them into marketable goods. These non-agricultural sidelines were vitally important for the economic prosperity, if not the survival, of the rural population. These households spun and wove cotton, raised silkworms, and reeled silk threads, milled grain, cured tobacco, dried vegetables and fruits, made a variety of soybean products, carted goods to markets, and ran shops and businesses. They frequented market towns, the socio-economic hubs of their world, which provided outlets for their products.

During the 1950s, when the state established its monopoly control over agricultural products under the command economy, the growers were cut off from their staple supplies of grain, cotton, soybeans, and other raw materials for their non-agricultural businesses. The organic link between growing and processing was thus destroyed. Rural China became deindustrialized as the state took over all manufacturing production. As the state factories took on mass production, many specialized handicrafts withered away. This damaging policy caused the income of rural households in the more commercialized rural areas to decline. When deprived of the extra non-agricultural earnings, households with plots too small to sustain their families found it difficult to make ends meet.

After the rural households were subsumed into communes in the late 1950s, the villagers were encouraged to take up a different kind of non-agricultural work, such as producing steel and undertaking construction projects. This kind of diversion of manpower from agricultural production proved disastrous. These commune enterprises were abandoned during the post Great Leap Forward retrenchment in the early 1960s. During the 1970s, the Cultural Revolution era fostered a new kind of commune or brigade enterprises known as the 'Five Small Industries' which produced iron and steel, cement, chemical fertilizers, hydroelectric power, and farm implements for the agricultural sector. Although these small low-tech firms making these goods for local customers were left outside the plan, they were a product of the command economy. They were a very different type of economic entity from the traditional handicrafts that had flourished in China's countryside.

(b) How the TVEs emerged

In 1979, around the time when Wan Li's RHRS programme was doing well, the central government liberalized its policy on rural industry. The commune or brigade enterprises were no longer restricted to the 'Five Small industries' producing for the agricultural sector. The state also relaxed its monopoly on the purchase of agricultural products. This allowed the producers to sell more of such products on the

market, and to use them for processing into other types of goods. As the communes withered away during the early 1980s, the rural enterprises, the communal workshops, and stores blossomed out into *township and village enterprises* (TVEs). Like the traditional households, the TVEs not only processed food and other crops; they also produced niche products wherever markets were found.

At the outset, most TVEs were sponsored by the re-established towns and villages and were collectively owned by the participants. Soon afterwards, an enormous number of TVEs sprang up in the countryside during the 1980s. Some were firms privately owned by self-employed individuals (*geti-hu*) or by households. These were restricted by law to less than seven workers. Others were owned by groups or an alliance of private entrepreneurs (*liangying*). This latter category of TVE was not restricted to seven persons. The TVEs were so-called because of their location in rural areas. Although they came under the jurisdiction of the local governments, they did not need to be owned by their township or village governments. The ownership of the TVEs, their size, the forms of their organization, the products they made, the services they provided, and the markets they sold to, were very diverse. They were not a part of the planned economy, nor were they launched by Deng or his reformers. In a conversation with an official visitor from Yugoslavia in 1987, Deng recalled: 'In the rural reform our greatest success - and it is one we had by no means anticipated – has been the emergence of many enterprises run by villages and townships. They were like a new force that just came into being spontaneously.'

True, the TVEs were not intentionally brought into existence by Deng and his reformers; but their multifaceted and open-ended reforming policies, starting with the RHRS, unleashed Chinese peasants' potential towards capitalism and entrepreneurship. During two millennia of craft production and trading, capitalism had grown deep roots among the Chinese peasantry. Mao recognized the huge entrepreneurial potential of the Chinese peasants, about whom he said the following in 1955: 'As is clear to everyone, the spontaneous forces of capitalism have been steadily growing in the countryside in recent years, with new rich peasants springing up everywhere and many well-to-do middle-class peasants striving to become rich peasants.' Mao went to great lengths to suppress this tendency, for ideological reasons.

Recognizing the same potential, Deng Xiaoping wanted to encourage it, saying: 'If you want to bring the initiative of the peasants into play, you should give them the power to make money.' Since Zhao Ziyang and his think tanks were looking for ways to expand the market economy without interfering with the planned sector, the growth of the TVEs was just the kind of development they sought. The Systems Reform Commission pursued a policy that promoted the processing of agricultural products by rural enterprises whenever it was economically rational.

(c) Making the properties and persons of private entrepreneurs secure

For peasants in poor regions, taking up subsidiary business activities was a matter of survival; in contrast, if the better off rural residents wanted to invest their time, energy, and resources in TVEs, they would need to be assured of the security of their persons and properties. Before Mao died in 1976, there was no security of persons and properties for those suspected of engaging in capitalist activities. They often ended up in prison and having their properties confiscated. Since the Third Plenum of the Eleventh Party Congress in 1978, Deng Xiaoping and his reformers made speeches, issued documents, authorized newspaper articles, and promoted policies that endeavoured to assure the rural population of the security of their persons and properties, should they wish to engage in non-agricultural businesses.

At the beginning of the Deng era, some of the signals of big changes coming might have seemed faint and subtle to an outsider, but the Chinese people were well able to pick them up. The following reminiscence made by Liu Chuanzhi, the founder of Lenovo, in 1988, demonstrates how he sensed the change in the political climate in 1978.

> 'I remember that it was in 1978. There was an article in the *People's Daily* about raising cows. I got so excited upon reading it. During the Cultural Revolution, every newspaper article was about revolution and class struggle, non-stop, only editorials. At that time, activities like raising chickens or growing vegetables were viewed as capitalist tails to be cut. Now the *People's Daily* has an article about raising cows. Things have definitely changed.'

In 1979, the Chinese Government returned confiscated bank deposits, bonds, gold, and private homes to around 700,000 people, who had been classified as capitalists. The Chinese leaders did not attempt to enshrine private property rights in the constitution or law at that point. In any case, laws were not consistently enforced. In contrast to the left-right swings backwards and forwards during the Cultural Revolution, Deng and his reformers stressed the continuity and durability of the reforms, to give the people a sense of security of property rights that would incentivize them to take risks and become entrepreneurs. During the 1980s, they also tried to remove the ideological stigma against the private sector and elevated the status of the private entrepreneur. These efforts by Deng and his reformers provided a stable environment and a sense of confidence to those contemplating going into business during the 1980s. Following the introduction of the RHRS, the rural residents were sufficiently encouraged by the changed political environment to create a spate of TVEs.

From 1979 to 1985, 10 million private businesses emerged as TVEs in rural China. Between 1978 and the middle of 1990s, the TVEs were the most vital part of the Chinese economy. Employment in the TVEs increased from 28 million in 1978 to 135 million in 1996, a growth rate of 9% per annum. Over that period, the TVE added value grew from 6% of the GDP to 26% of the GDP, even though the GDP itself had been growing rapidly during that period.

(d) The TVEs and the State-Owned Enterprises (SOEs)

The unplanned TVEs filled the gaps left by the planned urban-based, monopolistic, state-owned enterprises (SOEs). The two types of enterprises had a relationship that could be either symbiotic or competitive. The labour costs of the SOEs were normally high because the state provided housing, pensions, medical benefits, and child education for the employees, on top of relatively high wages - often 60% higher than rural workers. Financed with low-interest loans by state-own banks, the SOEs operated on soft-budget constraints. The cost of their supplies and the price of their outputs were all fixed by the state planners. But the SOEs were taxed highly by the state, while the formal taxes on the rural enterprises were low. Many of the inefficiently managed SOEs were kept alive through public subsidy.

The TVEs rarely had access to subsidized capital. They needed to be flexible, seeking out profitable market niches, such as consumer goods the SOEs failed to produce, as well as products that relied on labour-intensive processing. Strong competition from the TVEs drove the SOEs to become more efficient. To lower costs, some SOEs would subcontract part of their work to the TVEs. Because they were able to share the monopoly profits of the protected market created for the SOEs, the early-entry TVEs were extremely profitable - in 1978, the average rate of profit on capital was 32%. Such profitability naturally propelled their rapid growth. In foreign trading areas along the Chinese coasts, the TVEs offered opportunities for Chinese exporters to move into labour-intensive manufactures.

(e) The golden age of the TVEs

The 1980s was the golden age of the TVEs. It was a decade when dynamic grassroots bottom-up entrepreneurship flourished in China's massive countryside of over 40,000 townships and a million villages. The speed of the development was most breath-taking near the very beginning. Because of the lack of statistics of output of production of the private sector during the 1980s, tax data was used instead to track this development. Between 1980 and 1981, the tax receipts from mostly rural self-employed businesses grew four-fold, from 884 million yuan to 3.5 billion yuan.

The TVEs were the catalytic agents that helped to transform all aspects of the Chinese economy from command to market. Rural entrepreneurs did not always remain rural: many expanded their businesses into urban areas or even large cities. There were many rags to riches stories. Although a small percentage of TVEs remained as collective concerns, sometimes with close links to the local government, the trend was for the TVEs in the private sector to grow and to take over the collective, or local government-run TVEs. For example, among 12 million TVEs in the mid-1980s, only 1.6 million were collective TVEs,

the rest were private. The total employment of the TVEs was 69.8 million. In 1996, of the 23.4 million TVEs employing 135.1 million workers, only 1.25 million were collective TVEs, which employed 59.9 million workers. Although the collective TVEs naturally tended to be larger employers, private individual or household businesses did not always remain small; some grew into large interregional concerns.

The explosive growth of the TVEs during the first phase of the reform (from 1978 to the middle of the 1990s) was the result of the coming together of many factors that worked in their favour. The most important of these was the supportive political environment that gave the Chinese peasants, who had a long tradition of capitalistic entrepreneurship, sufficient assurance of the security of private property and encouragements to exercise their native entrepreneurship, at a time when the command economy itself was loosening up to allow market forces to operate with experimental business models. Paradoxically the existence of the command economy was actually a positive factor for the TVEs to prosper. Despite the competitive advantage of the TVEs against the SOEs, the leading reformers allowed these rural enterprises to flourish, because this situation fitted in with their emerging dual-track strategy of reform, in which a planned economy co-existed with a market one, in a dynamic and interactive way.

Although private entrepreneurs associated with TVEs met political setbacks occasionally even in the 1980s, because some conservative planners decided to protect an ailing or weak state sector, the reformers often won the day through their steadfast pursuit of a pragmatic policy that worked. The policy liberated the naturally entrepreneurial peasants from the collective straitjacket, freed them to make their own decisions on agricultural production provided their contractual obligations to the state were met, and permitted them, at the same time, to take part in non-agricultural businesses. It required a great deal self-restraint on the part of a normally unconstrained government, which was accustomed to imposing its will and visions on the economic activities of its people. This was an extraordinary time, when the pragmatic party policy makers resisted relentless pressure from their conservative colleagues and let the peasants experiment, trusting them to come up with the right solutions. Since the TVEs provided employment and money to the local economy, local governments were supportive of these rural enterprises, even though they did not own most of them directly. They often helped the TVEs to obtain loans or provided guarantees for loans to help these businesses to grow.

(f) Poverty reduction

In the first period of reform, especially in the years from 1978 and 1985, the TVEs represented not just a private sector economic success story that brought out the latent rural Chinese entrepreneurship through proper incentives; it was also a period of striking poverty reduction in rural China, where 80% of the

Chinese lived. Between 1978 and 1981, the per capita rural income grew at a real rate of 11.4%. Rural per capita income more than doubled between 1978 and 1984. Business income was the fastest growing segment of the rural income, growing from 8.1% in 1983 to 14.9% in 1988. There were 254 million rural residents living in poverty (below $1/day) in 1978. Ten years later, in 1988, the number of Chinese poor was reduced by 154 million. The poverty reduction was mostly rural, because the city dwellers, who worked in SOEs, government offices, and public services, were paid decent wages with many fringe benefits.

Although the newfound rural prosperity did not close the huge differences in the standard of living between the rural and urban residents, it helped to narrow the gap. In term of the purchase of consumer goods, the urban / rural ratio fell from 10 to 1 in 1978 to 6 to 1 in 1981.

While the TVEs in the more industrialized coastal provinces near large urban centres benefited from having large market outlets, the welfare effect of the TVEs was greatest in the poorest and most highly agricultural provinces like Guizhou. Guizhou had a liberal private-sector policy. The peasants there jumped into non-agricultural businesses at the first opportunity to escape poverty. In 1987, 97% of the TVEs were private. Some of these household enterprises were able to secure finance locally or even from other provinces, to expand into considerably larger business operations of hundreds or even thousands of workers. Although the size of the private self-employed or household enterprises was legally restricted to only 7 people, this regulation was neither observed by the business people, nor enforced by the government. Between 1981 and 1984, Guizhou's per capita income experienced real double-digit growth.

(g) Summary regarding the TVEs

During the 1980s, foreign direct investment (FDI) was insignificant, and the SOEs dominated urban commerce and industry. Market capitalism was represented by the TVEs, which were developing at a breath-taking speed, and this was an entirely indigenous rural Chinese phenomenon. Some of the TVEs were producers of goods, sometimes even on an industrial scale; a large percentage of them engaged in commercial or service activities. This development provided tens of millions of non-agricultural jobs or additional work for China's rural residents, lifting many millions out of abject poverty, and making some of them wealthy. It was no longer an insurmountable feat for peasants to join the growing ranks of the ten-thousand-yuan households (*wanyuan hu*). The economist, Yasheng Huang, called this development 'virtuous capitalism'.

Facilitating foreign investment and trade with the Special Economic Zones (SEZs)

(a) The origin and success of the SEZs

In November 1977, during the time when Hua Guofeng was still premier, Deng Xiaoping visited the southern province of Guangdong. Local officials had complained to Deng about the shortage of foreign exchange to purchase machinery and technology from abroad. The solution suggested by Deng - a typically pragmatic one - was to set up two collection centres, one near the British colony of Hong Kong and another near the Portuguese one of Macao, to collect surplus vegetables and fruit grown locally and from other provinces, to sell to the people of Hong Kong and Macao to earn foreign currency. At the time, there were no manufacturing establishments producing goods for export located near Hong Kong and Macao. He also suggested that Guangdong should build hotels and tourist facilities to earn money from abroad.

Deng was also informed about local youths trying to escape by the thousands across the border into the British colony of Hong Kong. The local officials treated Chinese fleeing to Hong Kong as a security problem. They put up barbed-wire fence along the twenty-mile-long land border, with thousands of police and troops patrolling the area. Those who were caught crossing the border illegally were put into detention camps and labelled as bourgeois. Ever ready to face an unpleasant truth, Deng said that the problem of Chinese escaping to Hong Kong was not a security issue but an economic one, and the best remedy was to improve the economy on the Chinese side of the border.

Soon after the Third Plenum of the Eleventh Party Congress in August 1977, China was ready to experiment with foreign investment in certain provinces, as well as with processing manufactured goods for export in some selected areas of those provinces that possessed special advantages for such developments. Guangdong's far southern coastal location and proximity to Hong Kong, and Fujian's situation across the Taiwan Straits, became the provinces of choice.

For the previous thirty years, Guangdong's industrial development had been held back, because the Mandarin-speaking leaders at Beijing were mistrustful of the Cantonese speakers of this province, which was located so far to the south, so open from the sea to Southeast Asia, and with the British colony of Hong Kong right next to it. The people here, whose dialect was hardly comprehensible to a northerner, were accused of 'localism', and looked upon as bourgeois and security risks by some of the conservative party bosses in Beijing. Under Deng's policy of reform and opening up, Guangdong's chance for industrial development had at last arrived, and its enormous potential for economic development was going to be given full expression. Some of its onetime liabilities now became its strong points. If an experiment had to be performed somewhere, the conservative Chen Yun would much rather see it done in the distant and less developed Guangdong, than in the nearer and more developed Shanghai. Fujian was going to be given

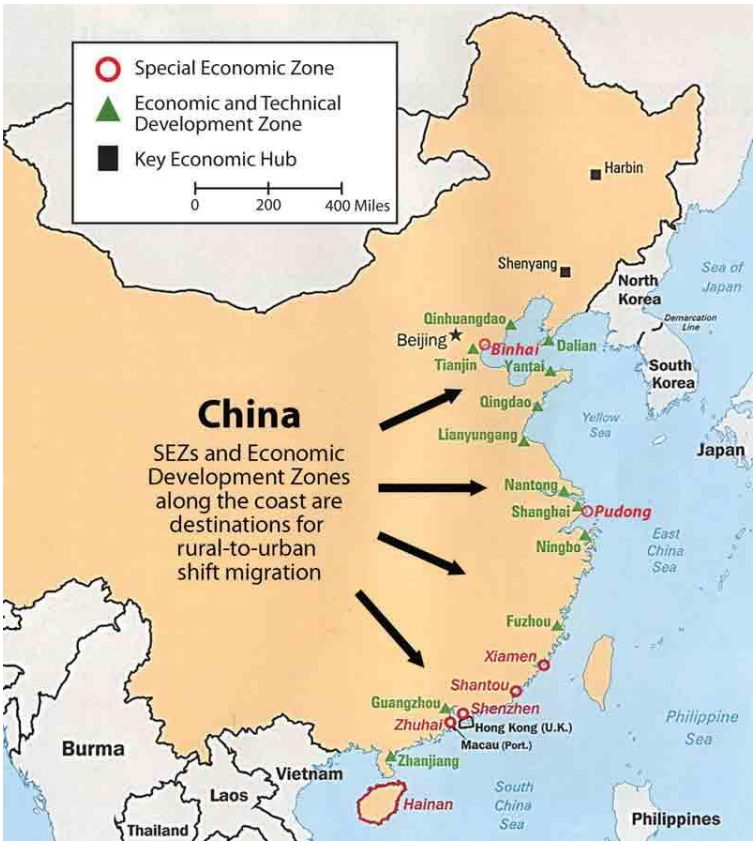
similar opportunities, but because Taiwan did not allow trade with mainland China at that point, Fujian was to be opened later.

Giving priority to Guangdong and Fujian, and later other coastal provinces, to develop their industries was a reversal of Mao's earlier policy of avoiding the possible security risks in developing industries near either China's land or coastal frontiers. From 1966 to 1975, more than 50% of China's investment funds had been spent on bringing goods and people to develop the remote interior, or the 'third front', where the infrastructure was poor. While Mao once saw the inevitability of a major world war, Deng had little fear of foreign attack after China's brief military action against Vietnam. The Chinese leaders understood that China's coastal regions had the advantages of ease of transportation, better infrastructure, lower costs, and the availability of well-qualified personnel.

Early in January 1979, Xi Zhongxun, the Guangdong provincial party secretary, was tasked by Beijing to come up with proposals to give Guangdong - and by the same token Fujian - a special status in terms of foreign investment and export industry. (As an aside, his son, Xi Jingping, was to become China's top leader in 2012.) Although Xi was not a native of Guangdong, he became a great enthusiast and advocate for the economic development of this province after being appointed as its party secretary in 1978.

On 17 April 1979 Xi Zhongxun brought a team of leaders of his province to Beijing, with proposals they had drawn up with the help of Gu Mu that, if accepted, would allow Guangdong (and Fujian also) a certain degree of autonomy in its dealing with foreign investors. They sought authority for the province to adopt flexible measures to attract foreign capital, together with the necessary advanced technology and management practices to build factories in Guangdong to produce goods for export. For its part, China would provide the land, the infrastructure, such as electricity, telecommunication and transport facilities, and the low-cost labour for the factories. In addition, China would make hotels, residential housing, restaurants, and shops available for foreigners.

Besides granting these two provinces the special status on foreign investment, four Special Economic Zones (SEZs) were to be established there to encourage and facilitate export processing. Three of the SEZs that were to be in Guangdong province were Shenzhen (across the border from Hong Kong), Zhuhai (bordering Macao), and Shantou (Swatow) on the northeast coast of the province. The fourth one was to be Xiamen (Amoy) in Fujian province across the Taiwan Straits. The locations of these zones were chosen with a view to their appeal to certain groups of overseas Chinese as potential investors.



Special Economic Zones and other development initiatives (*Global Village Space*: retrieved on 15 November 2023 from https://www.globalvillagespace.com/history-of-special-economic-zones-in-china/)

China's SEZs were similar to the export processing zones (EPZs) that had been established by Taiwan, Malaysia, Indonesia, and the Philippines during the 1970s. These zones offered foreign investors a host of special incentives: (1) lowered tax rates, or tax holidays for a specified number of years; (2) duty-free importation of components and raw materials, coupled with tax-exemption on exports; and (3) streamlining of administrative procedures, often through a 'one-stop shop', to enable the foreign-invested firms to operate smoothly with the participation of foreigners in the management and the workforce. In addition, a zone acted as a commercial entity, building infrastructure, and supplying utilities to the foreign firms, often at a subsidized rate.

The Chinese SEZs, like the Asian EPZs, were devised to promote exports at certain specified places, without damaging the existing protective structure for domestic manufacturing. They offered the benefits of creating employment and earning foreign exchange. For the sake of these benefits, the government had to give up a significant amount of tax revenue. In terms of normal customs procedures, the SEZs were effectively 'outside' the country. While the Asian EPZs were in countries with market economies, the

Chinese SEZs, though conceived as market-regulated entities, existed alongside a system of planned or command economy. These zones became a part of the dual-track incremental reforms. Unlike the Asian EPZs that occupied smaller areas, the Chinese SEZs tended to expand in size.

To the party conservatives with memories of foreign-controlled concessions in colonial times, these zones could easily be seen as places where foreign imperialists, after having been absent from China for over three decades, were being invited back and given special privileges. They feared that the Chinese companies, not being able to compete with the better-financed and more modern foreign enterprises, could be driven out of business and be displaced, as had happened during the 1930s. In their opinion, China's sovereignty was once more being compromised. They also worried about China turning capitalist, and the destruction of socialist planning.

Deng Xiaoping did not share these conservatives' fears and worries. In contrast to the international 'concessions', these zones were not being created under duress, and they were regulated and controlled by China. Unlike the conservatives, he was not ideologically opposed to private enterprise, and he accepted competition as a driving force behind commerce. He was also confident about the leadership of the CCP, which had the power to constrain the markets, to make sure that they served public purposes, and to prevent capitalists from dominating Chinese politics. He readily supported the socialist policy of economic planning, public ownership of land, and an important role for the state-owned enterprises. Deng insisted that there was no fundamental contradiction between a market economy and a planned one. The former need not be tied to capitalism and the latter could also be included in a capitalist economy like Japan. The two could exist together in a mixed – or 'dual-track' - economy. What mattered in China was that both these approaches to managing the economy served socialism, which he believed was the case.

As a reformer, Deng was determined to expand the market side of his dual-track system. Xi Zhongxun's proposals to give special status to Guangdong and Fujian, as well as to identify certain areas in these provinces for export processing, was sold by Deng to the party conservatives as market-expanding experiments limited to these 'special zones' (*tequ*), that could be easily monitored and controlled by the party. Should these experiments succeed, these zones could then be extended to other areas. Deng and his reformers were accustomed to breaking new ground in this manner, and the conservatives had found it difficult to oppose experiments and argue against successes. But at this point, had Deng wished to impose the regime governing the SEZs on the whole of China, he would not have got his way.

Deng responded positively to the Guangdong delegates' appeal to give them the authority (*quan*) to raise their own funds, since the party centre had no money (*qian*) to make the proposals work. How did Deng's 'special zones' (*tequ*) end up officially as 'special economic zones' (*jingji tequ*)? This was a concession to Chen Yun, who was concerned that these zones would become political. To appease Chen and other

conservatives, Deng agreed to this change of name. Nevertheless, Deng wanted these zones to do more than just export processing. Deng envisioned them as developing into comprehensive metropolitan centres, inclusive of manufacturing and commercial facilities, residential housing, and tourist industries. They were to be a window on modern developments. These areas would be given the flexibility to experiment with different ways of doing things. Deng saw that the adoption of modern management methods could benefit government administration as well as businesses. With the unflagging support of Deng Xiaoping and Hua Guofeng, who was still nominally in charge, official documents were issued in the summer of 1979, endorsing Xi Zhongxun's and Gu Mu's proposals to give special status to Guangdong and Fujian, and to create the four SEZs previously mentioned.

Besides the material incentives, the SEZs had a symbolic significance to foreign investors. They stood for China's commitment to an environment open to foreign investment and trade. They also enhanced the credibility of the reform process. The symbolic roles of these zones attracted attention, whenever the reform policies were challenged by the conservative planners. Chen Yun did not want any more SEZs than the original four, while Deng Xiaoping and leaders of other provinces were eager for many more after the economy of the SEZs, especially Shenzhen, took off.

However, even Shenzhen was not an overnight success. Border checks at first prevented easy access to it. Foreign investment, especially in the high-tech areas, was disappointing. It took some time for the local officials and businesspeople to acquire modern management skills, and to learn how to calculate costs and price their goods and services appropriately in the context of a competitive global market. There was also a learning curve on quality control and observing strict delivery schedules. Chinese workers had to adapt quickly to the discipline of working on factory assembly lines and using modern equipment. Chinese staff of upscale hotels and department stores had to undergo professional training in customer service. Furthermore, there were some social and cultural differences between the people from different sides of the border that needed to be bridged. As the Chinese absorbed their lessons, foreign investments, particularly from Hong Kong, started to trickle into the zone. It did not take more than two to three years for the trickle to become a stream, and then a flood.

This round of Chinese market opening was evidently occurring at just the right time. Hong Kong manufacturers of labour-intensive products were losing their international competitiveness because shortage of labour had driven up their costs. The large pool of low-cost labour available across the border in Guangdong, and the inducements to expand into Shenzhen, saved the Hong Kong exporters of toys, textiles, and electronics. From the early 1980s, factories went up in southern Guangdong and Shenzhen at an amazing pace. This development also provided seemingly limitless opportunities for Hong Kong

construction companies, which had acquired advanced building techniques when erecting skyscrapers during the construction boom of the 1960s and 1970s in Hong Kong.

Modern factories hardly existed in Guangdong in 1978. By the late 1980s, the entire stretch of the 104-mile route from Hong Kong to Guangdong was lined with factories on both sides. The special provisions and incentives, in addition to its proximity to Hong Kong, transformed Guangdong into an export powerhouse. Within three decades after this province and Fujian were given their special status, rural southern Guangdong had become urbanized, with skyscrapers, large industrial sites, luxury hotels, and superhighways, together with traffic jams. Chinese exports had grown 100 times during this period: from US$ 10 billion per year in 1978 to over US$ 1 trillion, with one third of it coming from Guangdong. Zhenzhen was a small town of some 20,000 in 1979. Twenty years later, this city had grown into a metropolis of nearly 10 million people. Its population continued to expand and spill over into the surrounding countryside during the first decade of the twenty-first century. Guangdong and the SEZs served as incubators for developing people who would become adept at functioning in a setting of a modern market economy as China went global. Their experiences would then be passed on to the Chinese in the interior.

(b) The conservative backlash

As the leaders and officials in Guangdong and Fujian plunged enthusiastically into developing the market economy of their provinces through attracting foreign investments, a chorus of criticisms from the conservative planners in Beijing arose against illegal activities in these provinces. Chun Yun and some of his colleagues felt that the ceaseless demands for materials such as coal, and the rapid market expansion, were posing a threat to economic planning. As director of the Central Commission for Discipline and Inspection, Chen Yun was concerned that the opportunity for making money was also eroding party discipline.

Before the era of opening up, although the high-level Chinese officials enjoyed better housing, chauffeur-driven cars, and the services of many staff to make their lives and those of their family members comfortable, they were not wealthy in terms of financial assets. The ordinary people and the party cadres were equal in the sense that everyone was more or less poor. For decades in the past, the party had exhorted its functionaries to serve the people selflessly, and to equate the ownership of private property with capitalism. After the reform and opening up, suddenly the race to get rich was on. Indeed, in an attempt to turn around the Communist society's ideological prohibition against striving for private wealth, Deng even said 'To get rich is glorious'.

The people of Guangdong had seen some of their fellows get rich in the countryside through private entrepreneurship connected with the TVEs. Having the chance to manage, or to participate in, foreign invested enterprises (FIEs), the local officials of Guangdong, and Fujian in due course, saw a road to prosperity not just for their locality, but sometimes for themselves also. Since hundreds of thousands of party cadres were involved in bringing in foreign goods, setting up factories, and selling the products without established rules and regulations to govern every conceivable situation, some of them could be tempted by opportunities to use their positions for personal profit. This led to abuses, such as bribery, corruption, and smuggling. The provincial leaders of reform were proceeding on untrodden paths, and the directives from Beijing had to be adapted to local conditions: everyone was learning on the job. They had to devise ways and means of dealing with these abuses. Chen Yun looked upon them as side-effects of the SEZs. At a meeting of provincial first party secretaries in January 1981, he spoke out against the setting up of any more SEZs anywhere else in China.

As accusations against these illegal activities against officials in Guangdong mounted, Chen Yun criticized higher-level leaders there for not stopping them. When Beijing officials started to block some of Guangdong's initiatives, Hu Yaobang, who headed the Party Secretariat, threw his weight behind the reformers in Guangdong and smoothed their path. Although Hu Yaobang refrained from openly disagreeing with Chen Yun's stance concerning Guangdong, tension between them increased. Meanwhile, Deng Xiaoping kept himself above the ongoing contention, even though he cared enormously about the experiments in Guangdong and Fujian. In late 1981, following accusations by two high Guangdong officials, who had personal reasons to call Chen Yun's attention to Guangdong problems, a furore broke out among the leading conservative officials in Beijing. As a response to Chen's complaints about smuggling, Deng asked Hu Yaobang to send a team to Guangdong to investigate, and to warn all party members about the problem.

Deng also decided to find out himself what was really happening in Guangdong, by choosing to spend his winter holiday there from 20 January to 9 February 1982. Although he said that he did not go there to listen to official reports or talk about work, he spent an hour and a half listening intently to Ren Zhongyi, who informed him exactly what was happening in Guangdong, focusing especially on Shenzhen and Zhuhai. In the end, Deng confirmed to Ren his belief in the correctness of the party's policy of opening these areas, Ren was told to carry out this policy if he also believed in its correctness. However, Deng was not prepared to take the risk of defending Ren against his accusers.

Ren was summoned to Beijing, with Governor Liu Tianfu of Guangdong, to face Chen Yun, who was to chair a meeting of the Central Discipline and Inspection Commission from 12 to 15 February 1982. The two were pressed to explain why they had failed to stop smuggling and corruption in Guangdong. Among

their critics were those who raised broader ideological issues, connecting what was happening in Guangdong with the return of the bourgeoisie and class warfare. Ren undertook the usually required self-criticism. He had brought along with him 68 Guangdong officials to show that they were united in their support of reform and were making serious efforts to stop smuggling.

After Ren returned to Guangdong, he was in a quandary regarding what he should tell the officials at the enlarged standing committee meeting which he had called. If he reported the full extent of Beijing's passionate accusations, he feared that Guangdong's economic dynamism might suffer. Instead of carrying out a witch hunt for culprits and taking the blame upon himself, he asked his subordinates to correct past errors and warned them against taking part in personal profiteering and other illegal activities. His subordinates were grateful, but Chen Yun was not satisfied.

Ren Zhongyi and Liu Tianfu had to return to Beijing later in February to face more grilling by conservative officials. Before the meeting at the party Secretariat, they met Hu Yaobang and Zhao Ziyang, who explained to them the criticism they would face. Ren was requested to write a new self-criticism. Even more party and government representatives attended this meeting than the first one, and the criticism was even more severe. One critic insisted that the struggle against corruption was a class struggle. Ren responded by presenting his more penetrating self-criticism, and Liu stressed the efforts they had already made to deal with the problems. Then they expressed their fears that the special policies for Guangdong would be withdrawn. Zhao Ziyang and Hu Yaobang, both staunch supporters of Guangdong's reform, assured them that these policies would not change, but they would have to take more effective actions to curb the illegal activities.

In Zhao's view, the coexistence of a planned and a market economy during a period of rapid growth or transition to market was a stage of development especially prone to corruption. He pointed out that businesses could make huge profits through buying commodities at a low price from supply agencies in the planned system, and then selling them at higher prices on the free market. Those who could obtain import or export permits for certain goods could also earn large profits from exploiting the price differences between China and foreign countries. When the businesspeople bribed the officials involved with permits and planned supplies to get these unfair advantages, the unhealthy link between power and money would be the result. These were some of the ways corruption worked.

To root out this problem, Zhao suggested the following far-reaching political and institutional reform:

> 'The only solution for resolving this issue is continued deepening of reform to separate government and enterprise, to hand down powers currently held by the government to the administrations of the industries, and to resolve the issue of monopoly or the overconcentration of power in the party.

> Another imperative is the building of institutions. A commodity economy [Zhao found 'commodity economy' a less controversial term than 'market economy'] required appropriate institutions: a tax affairs office, police departments, bank branch offices, and various agencies to enforce and execute regulations. If procedures were all transparent, and if the results were made public, there would be fewer attempts to engage in corrupt activities.'

Zhao continued to make a case against the monopoly of power by party officials, which easily led to abuse of power. He suggested 'building democratic politics' and checking the power of the officials through public opinion and scrutiny. Zhao was the only one among the uppermost echelon of Chinese leaders who believed in some form of Western-style popular electoral democracy for China.

However, corruption did also exist in democratic countries. Although Hong Kong was not a democratic country, it had relatively advanced government institutions. Zhao Ziyang found Hong Kong's example in dealing with this issue instructive. Hong Kong had had a serious problem with corruption in the 1960s, when even the law enforcement officials were corrupt. After the establishment of an Independent Commission Against Corruption in the 1970s, the quality of the civil servants and law enforcement personnel, together with their pay and benefits, all improved. Hong Kong recorded its success in a film called The *Storm Against Corruption*. Zhao's views, however, were too advanced for solving the problem of corruption in Guangdong at this stage.

Ren Zhongyi was summoned again to Beijing for another round of criticisms barely eight days after he returned. Ren and Liu's second visit did not entirely satisfy their Beijing critics. In addition to Gu Mu's lengthy investigation, the Central Discipline and Inspection Commission despatched a team led by Zhang Yun, its deputy head, to Guangdong to make a further two-month inspection. At the end of this period, Zhang concluded that Ren Zhongyi and others had made great efforts to deal with the problems in question.

Deng Xiaoping had been following closely the reports on the meetings concerning the issues raised on Guangdong and Fujian, but he avoided showing his hand. After he read Zhang Yun's report, which effectively resolved the issues concerning Guangdong in its favour, Deng immediately sent the report to the Politburo. The Politburo issued a document on 31 December 1982 affirming Guangdong's efforts in dealing with economic crimes. It quoted Chen Yun's conclusion: 'We must operate the SEZs, but we must continuously summarize our experiences and seek to make sure the SEZs are done well.' As the political storm against Guangdong and the SEZs subsided, Deng was pleased that the experiments of these special zones could continue, without putting his own authority at risk. But it had been a close call.

The opening of fourteen coastal cities as Economic and Technical Development Zones (ETDZs)

(a) The establishment of the ETDZs

As Guangdong, Fujian, and the SEZs grew ever more prosperous and modern, Deng waited for an opportune time to extend this system to other coastal areas. In June1983, he pointedly remarked: 'Most people are saying good things about the SEZs'. By that time, a momentum of support for Deng's reform and opening up policy in general had built up inside the party. Deng encouraged Beijing officials to visit Shenzhen and Zhuhai to see with their own eyes the progress that had been made there.

As Chinese exports reached 100 billion yuan in 1984, a 238% increase from 1978, Deng decided to try out for himself the advice he had given to others. On 24 January 1984 Deng arrived on his special train in Guangdong at the start of his winter `vacation' in the south. He spent more than two weeks travelling in Guangdong and Fujian, visiting three of the four SEZs – Shenzhen, Zhuhai, and Xiamen. Deng had already formed positive views of these areas through briefings and reports, but he wanted to make his own personal judgment based on his own impressions and what he saw and heard locally. With its modern factories and several square kilometres of high-rise buildings, Shenzhen already had the appearance of a modern Western city. Deng noticed with approval the slogan: `Time is money, efficiency is our life', featured on a big billboard in the middle of the city. Only after visiting Shenzhen and Zhuhai was he ready to say affirmatively, in Guangzhou, 'The development and experience of the Shenzhen SEZ proves that our policy of establishing such zones is correct'. As televisions were widespread in China by 1984, millions of Chinese people were able to see the modern skyscrapers and factories in these places, as Deng saw them.

After Deng became convinced by what he saw in Guangdong and Fujian that it was safe and beneficial to China to allow foreign investors to take part in China's economic development, he began to suspect that China had not yet opened itself sufficiently. Thinking along this line about Shanghai, he said 'In Shanghai we need ten big hotels, and we could rely on outsiders to be the sole investors'. He also announced that phase two of the Baoshan Steel Works could start without waiting for the next five-year plan.

Once again, the conservatives attacked the leaders of Guangdong and Fujian for bribery, corruption, and smuggling, as if these were inherent faults of Deng's policies. For his part, Deng attributed these illegal acts to the implementation of the policies, rather than their consequences. Deng did not defend these leaders, and he demanded that the economic crimes be stopped with strong and quick actions. The conservatives brought down some of the targets of their attacks, but they failed to change the policies. Deng's main

concern was not the political fortune of a few party functionaries, but the extension of these successful policies to an additional fourteen cities along the Chinese coast.

Shortly after he returned to Beijing, on 24 February 1984, he called a meeting of his key reformers, Hu Yaobang, Zhao Ziyang, Wan Li, and Yang Shangkun, together with leading planners and others to prepare a statement on the opening of fourteen Economic and Technical Development Zones (ETDZs). These zones, which were opened by an official circular on 4 May 1984 were essentially SEZs with a different name. The reason for the change of name was because Chen Yun had, in January 1982, declared that no new SEZs were to be created after the original four. The only exception was Hainan: the entire island became an SEZ during this phase of opening. Chinese critics of the SEZs pointed out that the goods produced in these zones were mostly coming from low-tech, labour-intensive factories. The new zones would be under pressure to attract more foreign high-tech industries.

Deng nevertheless gave credit to the SEZs for providing the opportunity for the Chinese to learn foreign technology and management skills. Drawing on the experiences of the SEZs, Deng was able to instruct and guide the local officials concerned on how to set up and manage the ETDZs, by issuing a document called `Decision on Reform of Economic Structure' at the Third Plenum of the Twelfth Party Congress in October 1984. These newly opened ETDZs, with a total population of 160 million, were given a lot of leeway to adapt the guidelines to their local conditions and needs. Gu Mu, the highly experienced developer of the SEZs, was given the job of coordinating between Beijing and the fourteen coastal cities which included Shanghai.

Deng pointed out at this meeting that the high efficiency of Shenzhen's construction workers, who originated from inland cities, was the result of the contract responsibility system that tied their wages to their performance. Since it was not possible to offer such high wages everywhere immediately, they had to allow some people to get rich first. He also mentioned that because of the new job opportunities in Shenzhen, some of the people who had fled to Hong Kong earlier were returning to China. Because Chen Yun was not present at this meeting, Deng instructed Yao and Song to convey his views to Chen. Chen Yun did not oppose the opening of the ETDZs, but he was critical of the complexity of the administrative procedures required, as goods crossed the boundaries of these zones and the surrounding areas.

The new round of opening was partly an acknowledgment of Guangdong's success in industrial development and in earning foreign currencies, and partly a response to pressure from other provinces which also wanted to grow prosperous through export. Guangdong became China's 'new Dazhai', a model and a showcase for modernization. Officials all over China learned about its pioneering experiences through reports, discussions at meetings, and study tours. Measures introduced by Guangdong, such as the use of commercial taxis, and the financing of major building projects like highways and bridges by issuing

bonds to be repaid by tolls, were at first denounced as capitalist, but later copied by other provinces. There was also pressure to join the economic gold rush from officials of the interior. Beijing tried to mollify them by stating in the circular that the coastal areas would help the inland provinces by providing materials, financial support, and worker training.

(b) Zhao Ziyang's growth strategy for China's coastal regions

As Chen Yun and the conservative planners continued to find reasons against the development of special coastal zones for foreign investment and trade, Zhao Ziyang, on the contrary, was pushing strongly for enhancing this development. Zhao had worked in Guangdong in the 1960s, when China had very little foreign trade. His appetite for foreign trade had been whetted when he saw how Guangdong's economy had benefited from his efforts to increase foreign trade there at that time. In the winter of 1987, three years after the second round of opening of the coastal regions, he carried out an inspection tour of these areas. Although he was favourably impressed by the economic development, he thought these regions could do a great deal better if they followed the trend of global economic restructuring and took part in it more fully.

This global economic restructuring was a continuous process, whereby as a country or region's economy became more developed, it would move upwards into more highly technological and capital-intensive manufacturing and leave the more labour-intensive production to a less developed country. For example, as the living standard and wages of the United States rose, some of its labour-intensive manufacturing moved to Japan. As Japan advanced, some of its labour-intensive products lost their competitive edge against the four Asian Tigers, which at that time had lower labour costs. Confronted by this situation, Japan moved the production of these products to its neighbouring Asian Tigers. Although the more advanced countries lost jobs in the sectors they vacated, their consumers gained from paying less for the imported products. The hope was that as the economy in the advanced countries developed further, new high-tech and more sophisticated service sectors would emerge, to create new jobs to keep their citizens in highly remunerated employment.

Zhao observed with special interest how the Asian Tiger's supercharged growth was aided by their governments' policy of supporting exports to the rich industrialized countries. Noticing that China's coastal regions possessed many of the advantages of the Asian Tiger countries, such as a rich supply of high-quality labour, good infrastructure, convenient transportation, availability of information, and people's awareness of international markets and competition, he believed that China's coastal regions could achieve the same kind of highly accelerated growth as these nations, if the correct policies were applied. Zhao strongly believed that, even back in the 1960s, there had been huge potential in foreign trade for China's coastal

regions, but China's system and policies had suffocated it. He wrote regretfully that 'It wasn't for lack of opportunity, or because it had been impossible, but rather because it had not been permitted'. Because China 'had closed its door to the world and implemented a highly centralized system without the free flow of information', China had missed many opportunities during the world's economic restructuring. He wanted to make sure that China would not miss another chance, as he watched the continuation of this process.

For this reason, Zhao proposed the 'two ends extending abroad strategy'. This was intended to utilize fully the global restructuring by importing raw materials and sometimes equipment, which could be done by foreign investors, and then capitalizing on the advantages of the coastal regions to produce large volumes of labour-intensive low-cost manufactured goods. If these goods were of good quality, they could easily be sold abroad by the foreign investors, who were likely to have established market outlets. Zhao argued for the implementation of this strategy with all speed, as he saw that the Asian Tigers were already in the process of moving some of their industries to the lower cost ASEAN countries. He was eager for China's coastal regions to take the opportunity without delay to compete for a market share during this movement, and to integrate the one to two hundred million largely rural inhabitants, or migrant labourers, into the global marketplace.

A variation of this strategy had already been carried out in Guangdong during the 1981-1984 round of reform and opening up. It was called 'three inputs plus export subsidy', according to which Guangdong 'imported materials, samples, and designs, used existing equipment and labour to process it all, and then exported the finished product with subsidies applied'. Attracted by this policy, businesspeople in Hong Kong rapidly moved their production bases and equipment across the border to China. Success came quickly, even though the conditions in China were regarded as somewhat primitive, but standards quickly improved. This approach later spread to Fujian, Shanghai, Zhejiang, and Jiangsu.

Zhao's proposed strategy was meant to strengthen Guangdong's winning approach to foreign investment and trade, by the removal of certain obstacles to enabling China's export trade to accelerate and increase significantly in volume. One important obstacle to be removed was the system of channelling China's foreign trade to a limited number of state-owned foreign trade companies (FTCs), which monopolized China's import and export trade. Zhao proposed to liberalize this regime, and to give the producing enterprises the right to buy and sell directly from foreign countries. In return for this privilege, these enterprises would have to take the responsibility for their own profits and losses, and presumably taxes also. He did not think the State-Owned Enterprises (SOEs), with their 'taking the profit but sharing the losses' way of doing business, had the right culture to join the export-orientated manufacturing concerns. On the other hand, he favoured developing the TVEs into such enterprises, because they were more flexible, and they had a good reputation for delivering on time and paying attention to quality.

As ever, besides removing obstacles in the system, Zhao also had to overcome the objections of the conservative planners to speeding up the coastal export trade. Li Peng and Yao Yilin feared that acceleration in exports would exacerbate an already over-heated national economy. Chen Yun was afraid of the effect on the balance of payments if many of the goods produced could not be sold. Some did not think the Asian Tigers were good models for China, since they were so much smaller than China. Zhao was able to come up with reasonable answers to counter these objections.

Zhao criticized China's 'highly centralized planned economy which looked upon the entire nation as a grand chessboard and relied on the state to invest in the development of natural resources in the western regions and transport them far away to the coastal regions for manufacturing'. This policy held up China's development, besides creating conflicts between inland and coastal provinces, because the former did not want to sell raw materials cheaply to the latter. He thought the policy of developing such a large country with big regional differences in a uniform way and at the same pace was wrong. Although the coastal region lacked raw materials, the advantages they had, which were ignored by this policy, were being wasted. In the past, he said, China 'had mechanically emphasized self-reliance, and had not taken advantage of international markets' to earn foreign currency and accumulate foreign reserves, as Taiwan had done.

Zhao pointed out: 'Before liberation, Shanghai was a highly developed metropolis in the Asian Pacific Region, more advanced than Hong Kong, let alone Singapore or Taiwan. But after a couple of decades, Shanghai had become run down and had fallen far behind Hong Kong, Singapore, and Taiwan. This made people ask: What exactly is the advantage of socialism?'

At a time when China's general economic level was in producing raw materials for export, some people questioned how a proud socialist republic like China could stoop so low as to use rural TVEs to make labour-intensive goods for export. They believed the correct approach was to organize huge enterprise groups to produce and export goods using highly advanced technology. Zhao reminded them that China was a developing country, and this approach was totally unrealistic. China could not manufacture those kinds of products in sufficiently large volume to provide employment.

China needed to start by making low-cost labour-intensive goods in its coastal regions and export them from there. 'The acceleration of development along the coast would not only benefit the coast but drive the economy of the whole nation', Zhao argued. As China's costal economy developed, its labour costs would go up and the production could then shift inland, where labour cost less. In due course, China would be able to manufacture capital and technologically intensive products with higher added value.

Deng Xiaoping and the coastal regions were highly supportive of Zhao's proposed strategy. Deng was for seizing 'the opportunity by taking bold and decisive actions so as not to lose any opportunities'. Despite

the conservatives' many concerns, the Politburo passed and implemented Zhao's development strategy for the coastal regions. Zhao's policy, though somewhat watered down, continued even after the Tiananmen Square debacle of June Fourth 1989, and it made a major impact on China's foreign trade, especially exports.

The export processing (EP) strategy rolled out by Zhao was manifestly and explicitly trying to open, expand, and globalize China's economy. It attracted foreign investors to set up foreign invested enterprises (FIEs) in China's coastal provinces in a significant way. Most of the FIEs were from Hong Kong and Taiwan, the Tiger economies Zhao had noticed as ready for restructuring. The proximity of China's coastal regions to these foreign investors' home locations lowered their transaction costs in shifting their production to China. Because these FIEs had most likely already established outlets abroad, they gave Chinese goods ready access to international markets. The new EP regime allowed these FIEs to skirt around a host of regulations that impeded trade under China's partially reformed ordinary trade regimes.

The share of the EP and FIE trade as a fraction of total exports jumped more than 10% from 1988 to 1990, climbing to 56% in 1996 before levelling off. The composition of the exports, starting from 1985, shifted dramatically from natural resource-based products, such as petroleum, to light, labour-intensive manufactured goods. Zhao wrote: 'It was because of the sustained development of the coastal economy that the nation reached large export volumes in just a few years, and foreign reserves grew by a huge amount'.

The remarkable success of the first phase of reform and opening up

The period from the initial reform and opening up of the economy in 1978-1979, to the re-affirmation of this policy after Deng Xiaoping's 'southern journey' in 1992, could be considered as the first phase of this economic process, because of the style and contents of the reform. On the eve of the reform, China was the world's most isolated socialist state, a developing country with a low-income and predominantly rural population (only 18% of the population lived in the cities). It did not produce sufficient grain to feed its people, or enough electricity to power its factories; consumer goods were scarce, and basic infrastructure was non-existent. There was also a shortage of capital to purchase the equipment and commodities it needed from abroad for modernization.

Premier Zhao Ziyang was the key policymaker and manager of the economy from 1980 to 1987. He pursued a 'dual track' policy of combining the existing planned economy with a market one in such a way as to

realize the objectives of the reform, without major economic or social disruption. One leg of the policy involved decentralizing the power of the planners and relaxing the central government's monopoly over industry, while continuing the planned economy, frozen at the 1984 level, as a stabilizer, and ensuring that key government goals, such as investment in energy and infrastructure, were met. The other aimed at introducing markets where feasible and lowering the entry barriers to private and collective firms, with the goal of gradually and progressively allowing the expanding market forces to grow businesses out of the planned sector, yet without privatizing the SOEs.

During the early stages of the reform, the government lowered its share of the GDP to provide the rural and urban households with more resources and incentives, to improve their own economic lot. Just as the economic prospects of the rural households improved with the RHRS and the development of the TVEs, over 26 million rusticated former city-dwellers, the one-time Red Guards, and intellectuals, took advantage of the freer atmosphere to return to their home cities between 1978 and 1980. Apparently, those who held urban residents' permits (*hukou*) which, together with the rural household registration system, institutionalized the great urban-rural divide, still found city living more attractive.

Unable to provide employment for the sudden surge in urban population, Deng pointed to the danger of increasing crime among urban youth 'waiting for employment by the public sector' to win his conservative colleagues' acceptance of the policy of letting the urban unemployed become *getihu,* meaning that they could set up private individual or household enterprises. Inspired by stories of successful business start-ups and Deng Xiaoping's startling remark, in the ideological context of a socialist society, that 'to get rich is glorious', there was no lack of people who were willing to take the risk of venturing into business. Such a move was commonly known as *xiahai*, or going to sea, during the 1980s.

If city-dwellers relied on their own labour and did not exploit others, they would be considered workers rather than capitalists. Since Karl Marx, in volume 4 of *Das Kapital,* describes an employer with 8 employees as an exploiter, the Chinese authorities would consider the working owner of an individual household enterprise to be a worker (and not an exploiter) if he or she limited the number of employees of the business to 7. Once permitted, urban household enterprises grew by leaps and bounds, providing many needed services such as stalls for food, drinks, retail goods, haircuts, bicycle repair, and even small-scale manufacturing. As some of these urban businesses grew larger than employing only 7 people, Deng and Chen Yun were drawn into the discussion. At the Thirteenth Party Congress in 1978, Deng's supporters managed to change this rule to enable urban household businesses to employ more than 7 people. (The author witnessed the proliferation of *getihu* and *xiahai* phenomena during her frequent visits to China in the 1980s.)

The policy of loosening up government control of the economy of the Chinese coast to attract Foreign Direct Investment (FDI) into labour-intensive manufacturing, particularly those sectors vacated by Asian Tiger economies, was another important development strategy that suited China's labour-rich, capital-scarce, and technologically poor economic environment, without disturbing the planned core too much. The spectacular success of the special zones was enormously helped by the proximity of Hong Kong and Taiwan, and the enthusiastic response of overseas Chinese in Southeast Asia. This group, especially Hong Kong, provided the bulk of the FDI.

Although FDI helped the modernization and industrialization of China's coastal area by capitalizing on labour-intensive manufacturing for export, China did not depend on foreign capital inflow to finance domestic investment. The sustained high rate of domestic investment, as reflected by the increase in the fixed capital formation that went into building factories, houses, and infrastructure, was a major contributory factor to China's high rate of growth. Gross fixed capital formation from the end of the 1970s through most of the 1980s reached 30% of the GDP. This figure increased to about 35% during the 1990s.

Income for economic development at first came from the government. During the reform, the national government's income diminished, as decentralization of the power of economic decision-making to regional and local governments gathered momentum, and as its industrial monopoly shrank. High domestic investment nevertheless continued, made possible by the rapidly increasing household saving. The state-owned banks utilized the people's savings to finance investments. Household savings increasingly replaced the diminishing financial capacity of the national government to invest. The productivity of investment also increased, sustaining the high rate of domestic investment.

The relative stability of the economic environment provided by the gradual incremental reform encouraged the more prosperous households to save. Although macroeconomic imbalances appeared after every period of accelerated market reform (1978-1979, 1984, 1987-1988), the austerity measures taken during the periods of retrenchment (1981-1982, 1986, and 1989) to control rising inflation from an over-heated economy, soon stabilized the economy. The drive towards reform continued after each of the 'political business cycles' during the period of the first phase of the reform. According to figures provided by China, the annual real growth rate (nominal growth rate adjusted for inflation) from 1978 to 1993 reflected the macroeconomic cycle as shown below.

Year	1978	1979	1980	1981	1982	1983	1984	1985	1986
Real growth in % Yuan	11.7	7.6	7.8	5.2	9.1	10.9	15.2	13.5	8.8

Year	1987	1988	1989	1990	1991	1992	1993
Real growth in % Yuan	11.6	11.3	4.1	3.8	9.2	14.2	14.0

The Chinese GDP growth rate averaged 9.9% during this period. The Chinese GDP grew from US$ 216,462 million in 1978 to US$ 613,223 million in 1993. The per capita GDP more than doubled from US$ 226 in 1978 to US$ 520 in 1993. During this period, the growth of real per capita income in constant 2004 prices in RMB (the Chinese national currency) was more pronounced in rural than urban China as shown by the figures below.

Year	Rural net household income	Urban disposable income
1978	about 500	1,701
1985	1,343	2,728
1991	1585	3,612

The sustained period of high rate of GDP growth, even if brought down to an average of 7% annually adjusted for over-estimation, showed that the policy pursued during the first phase of reform was overwhelmingly successful. Such a growth rate over an extended period of between 10 and 20 years only occurred in post-World War II East Asian countries: Japan, Korea, Taiwan, and Thailand. The high Chinese rate of growth was to continue for much longer.

The reform not only lifted millions of rural Chinese out of poverty - in China, poverty was a primarily rural phenomenon - it also raised the income of the both the rural and urban dwellers. Despite the reformers' bitter struggles against the conservative planners, their coherently implemented measures of gradual and incremental changes achieved their goal of altering the structure of the Chinese economy from command to market without devastating disruption, or the collapse of the economy, as could have happened in a 'big bang' approach to such a change. The rural residents gained from the abandonment of collectivization and the opportunities to use their traditional entrepreneurship to do business, and they enjoyed higher incomes and standard of living. The urban residents' economic position was protected by the government's continued support for SOEs, and as the economy developed, they could find new niches for entering business. Since no major group suffered serious loss from this transformation, several economists characterize this period as 'reform without losers'.

The Issue of Political Reform

Public pressure for political reform, and the conservative backlash

Deng Xiaoping, the paramount leader for economic reform since 1978, was politically a conservative as shown by his 'four cardinal principles', which were:

1. Uphold the socialist path
2. Uphold the people's democratic leadership
3. Uphold the leadership of the CCP
4. Uphold Mao Zedong Thought and Marxism – Leninism

Deng had devoted his life to the Chinese Communist Party, which he joined in 1924, three years after its foundation. After he remounted the political stage in 1977, he dedicated himself to the goal of making China wealthy and strong, an objective of generations of Chinese leaders since the 1860s. He realized that this aim could only be achieved through the development of China's productive forces by relaxing the command economy, and letting market forces increasingly regulate the pricing, supply, and demand of goods. But he was equally convinced that China's economic modernization could only be achieved in a politically united and stable China under the leadership of a strong CCP practising its kind of socialism. In Deng's view, western style capitalism represented greed, and he equated its individualism to selfishness. He thought that American democracy, with its checks and balances, would lead to a dysfunctional government. He would bring all his power to bear if China were to be threatened by chaos, and he would resist any challenge to CCP rule.

The rhetoric of economic reform coming from the top, starting around the Third Plenum of the Eleventh Party Congress from late 1978 onwards, created high public expectations for political reform and liberalization. Even after the suppression of free expression connected with the 'democracy wall' (November 1978 to December 1979), and after Deng had delineated the boundaries of freedom by enunciating his 'four cardinal principles', the public's desire and hope for political reform grew with the relaxation of the state's control of the economy, and with the decentralization of the power of economic decision-making to local governments, and even down to households, both rural and urban. The increasing pressure for political reform posed a challenge to the politically conservative party leaders.

In the early 1980s, the powerful conservative elders, Chen Yun and Wang Zhen in particular, became deeply concerned about liberal opinions flourishing in the Central Party School. They blamed this development on the *de facto* head of this institution, Hu Yaobang, and his reform-minded colleagues. With Deng's support,

they set about tightening the discipline of the school by shifting key staff appointments; in particular, Hu's enlightened candidate for its presidency was passed over.

The conservative elders were also upset by Chinese intellectuals' veiled criticisms of the party in stories about the past. Their conservative position was strongly supported by the guardians of socialist orthodoxy, Hu Qiaomu and Deng Liqun, who asked Deng Xiaoping to judge the screenplay of a potentially popular movie called *Unrequited Love*, of which they disapproved. Deng stopped its release, because of its negative portrayal of the party. Disturbing developments from abroad, such as strikes and movements for freedom against the Polish Communist Party in 1980, also heightened the fear of the conservative CCP leaders for the security of their own party.

Hu Yaobang, the liberal party general secretary who had, as we have seen, been chosen by Deng as one of his top reformers and a possible successor, was under great pressure from party conservatives to restrict the intellectuals' freedom of expression. Since Hu was sympathetic to the intellectuals, he was slow to respond to their complaints. As a result, Hu came under conservative attack as being too lenient and indulgent towards those who damaged the reputation of the party. This prompted Deng Xiaoping, in 1982, to place Deng Liqun in charge of the centre's Propaganda Department, to provide a check on the intellectuals' disparagement of the party, while letting Hu continue to direct the party's activities. Deng's act was reminiscent of that of Mao who, in 1975, put the Gang of Four in charge of ideology, while allowing Deng to manage the affairs of the state.

The efforts of the party elders and Deng to rein in the criticisms of the intellectuals appeared to have made no impact on them. In January 1983, an outspoken liberal, Wang Ruoshui, who was a deputy editor of the *People's Daily,* wrote an article about a type of socialist humanism that upheld the principle of equality of all citizens before the law, and the inviolability of a citizen's personal freedom and dignity. On 16 March 1983 the *People's Daily* published a speech by Zhou Yang, another notable liberal theorist, who argued that 'alienation', a term used by Marx to describe the feeling of the exploited workers in capitalist societies, could exist in a socialist society, where officials abused power, and where democracy and the rule of law were absent.

Deng regarded these expressions as bourgeois liberal attacks on the party that he could neither tolerate nor ignore. In September 1983, he responded by making a big speech against 'spiritual pollution'. He thought that some young intellectuals who had suffered during the Cultural Revolution were trying to settle accounts, or that they had been seduced by bourgeois liberalism from the West. After Deng returned to work in 1977, he had made a strenuous effort to improve the status and living conditions of the intellectuals after years of Maoist persecution, because he realized that their knowledge and skills were vital for China's

modernization. His initiative made a big difference to the subsequent treatment of China's intellectuals. Consequently, Deng could not understand why they were making trouble at a time when their own situation, and the economic conditions in China in general, were improving.

Deng decided that the party's present difficulty with the liberal intellectuals was a result of the party being too permissive. It must be that the laxity in enforcing discipline had shielded some bad elements, who wished to stir up trouble, when they should have been expelled from the party. The party had not carried out sufficient ideological education of the people to enable them 'to assess the past correctly, to understand the present, and to have firm faith in socialism and leadership by the party'. Deng's views implied a strong criticism of Hu Yaobang, who had been pressing to enlarge the range of freedom for intellectuals.

Shortly after his September speech, Deng felt that nothing short of a nationwide campaign could curb 'bourgeois liberal' criticisms of the party. On 12 October 1983, at the Second Plenum of the Twelfth Central Committee, he launched such a campaign, warning against spiritual pollution. This was the first political campaign he had mounted since he became the paramount leader in 1978. As he introduced this campaign, he warned those assigned to carry it out against using the ruthless methods that involved the threats, intimidations, and harsh criticisms which had characterized past political campaigns under Mao. But his warning was not scrupulously observed, and the campaign encountered widespread opposition, so Deng allowed it to fold less than a month after its inception.

The failure of this campaign encouraged critics of the party to be even bolder. They used the Fourth Congress of the Writers' Association, held from 29 December 1984 to 5 January 1985, as a platform to declare their independence from the party. Their rebellious spirit infuriated Deng and other conservatives, who held Hu Yaobang responsible for attending the conference without curbing the outspoken criticisms of the party.

Apart from Hu's liberal politics, Chun Yun was also unhappy with Hu's activities in the economic sphere. Hu appeared to be one-sided in promoting Deng's policy of freeing the market forces in favour of rapid economic growth, without due consideration for Chen's interest in balancing the economy and keeping a vital role for the state sector. Being energetically dedicated to reform, during his years as head of the party, Hu had travelled so frequently within China that he had visited over 80% of China's 2,000 or so counties and most of its 183 prefectures, mostly to solve local problems and to whip up enthusiasm for economic reform. The conservative planners were incensed over the 'flexibility' granted by Hu to local officials without regard to their own carefully crafted plans.

Zhao Ziyang also saw Hu as basically pro-market, believing that 'it was the highly concentrated top-down planning model that had limited people's motivation and creativity and restricted self-initiative at the

enterprise and local levels'. Hu's activism towards liberating the production forces was in keeping with Zhao's own views and should have made them allies. But even to Zhao, Hu was over eager, intruding into his area of jurisdiction as the premier, and upsetting his orderly incremental and methodical way of introducing market forces.

At a joint meeting of the Standing Committee of the Politburo and the party Secretariat on 17 March 1983, Chen Yun defended his policies and mounted a fierce attack on Hu Yaobang's approach to the economy. During this meeting, Zhao Ziyang also accused Hu, though without mentioning the latter's name, for having 'interfered with disciplined control of the economy'. The root of this conflict lay in the overlapping responsibility of Zhao as the head of the government, and Hu as the head of the party. Deng intervened in favour of Zhao's approach and emphasized premier Zhao's role in managing specific economic tasks. Despite their differences, Zhao and Hu cooperated with each other for the most part.

Unlike Hu Yaobang, Zhao Ziyang, who was primarily responsible for economic reform, was far more circumspect towards Chen Yun. Even though Zhao could not accept Chen's negative attitude towards economic reform, especially Chen's stand that 'planned economy was primary, and market adjustment secondary', he cooperated with Chen's retrenchment measures during 1980, and 1981, though privately he had some reservations.

Deng reacted to the criticisms and complaints against Hu Yaobang from the conservatives, and from Zhao Yiyang in the early 1980s, by asking Hu to meet him from time to time, when he criticized and admonished Hu personally. Deng continued to support Hu as secretary general, until the gap between their views on liberalization grew too wide, and until Hu lost Deng's trust on the matter of Deng's retirement in 1985.

The first casualty: Hu Yaobang's removal

The issue which apparently precipitated the fall of Hu Yaobang was that of Deng's retirement. During Mao's last months as the ruler of China, he lost his power to communicate effectively, either through speech or in writing, and yet the most critical decisions concerning China, such as the choice of a successor and whether Deng should be spared, were still in his hands. The possibility of Mao being manipulated, in his enfeebled condition, into making big mistakes was high. Deng's removal from power was the result of Mao's acceptance of the false account by Mao Yuanxin and the Politburo, then dominated by the Gang of Four, that Deng Xiaoping was the prime mover of the Tiananmen Incident on 5 April 1976. Deng was under house arrest during the last months of Mao's life. He and his family's anxiety about their fate, and China's also, was not helped by the fact that he was entirely cut off from information and personal visits from those at the centre of power. Having experienced what Mao did to him and China by clinging on to power until

his death, Deng was determined to end life tenure of high-level party officials after he became the top leader. This was not an easy task, because many of the party elders had been out of power during the Cultural Revolution, and they did not want to retire after returning to office, even after reaching their late sixties or early seventies.

In 1980 Deng proposed an attractive plan for retiring several hundred top leaders, by offering membership of a newly created Central Advisory Commission (CAC) to those who had 40 years of party membership and leadership experience. Deng served as its first president. The 172 who qualified were allowed to retain their full salary, ranks, and perquisites, such as chauffeur-driven cars, offices with staff, seats at important meetings and fancy banquets and so on, but they had to cease serving on decision-making bodies. CAC membership would sweeten the pill of retirement by allowing the senior officials to continue to be honoured and to enjoy an excellent lifestyle, but without power. As senior advisors, Deng expected them to play an important role in training the younger generation of officials as their successors.

The CAC was intended to be a special organization for this generation of revolutionary veterans, and as such it was given a time limit of 10 to 15 years. In the future, all positions would have regular term limits. The CAC was only partly successful, because Chen Yun, Wang Zhen, Deng Xiaoping, and other elders still retained their previous positions after becoming members of CAC. This situation led Zhao Ziyang to express the feeling that he and Hu Yaobang were effectively only office managers, since power was still in the hands of these elders. When Deng himself stepped down fully in 1992, the CAC was abolished.

In 1985, Deng again raised the issue of high-level succession by holding a large National Representatives Conference, with 992 attendees, from 18 to 25 September, to enable the party to announce key retirements and appointments of potential successors. Since the conference lacked formal authority to select members of the Central Committee, the Fourth Plenum of the Twelfth Party Congress was held on 16 September to accept resignations. During that plenum, sixty-four senior and alternate members of the Central Committee (around one fifth of the total membership), including 9 members of the Politburo, announced their retirement. Sixty-one out of the sixty-four retirees were over sixty-seven. One of these was Marshall Ye Jianying, who was a member of the Standing Committee of the Politburo. Since he was not immediately replaced, the Standing Committee was reduced from six to five (Deng, Chen Yun, Li Xiannian, Hu Yaobang and Zhao Ziyang).

Before the closing of the conference on 24 September, the Fifth Plenum was held to announce the new appointments. Selection of new Central Committee and Politburo members had begun in May 1985. Education and age were among important criteria. The new crop of high officials was younger, with an average age just over 50, and better educated than those whom they replaced (76% were college graduates, with many trained in science and engineering). Notable among the new Politburo members was the 57-

year-old Li Peng, the adopted son of Deng Yingchao, Zhou Enlai's wife. Li, trained as a hydraulic engineer, would later rise to become the premier and play a key role at Tiananmen Square. Among the even younger alternate Politburo members were Jiang Zemin and Hu Jintao, who were to become respectively the third and fourth generation paramount leader.

Since there were speculations about the eighty-one-year-old Deng's retirement before the National Party Representative Conference, a senior Hong Kong Journalist named Lu Keng, who was once branded a 'rightist' when he worked in the PRC, interviewed Hu Yaobang in January 1985. Lu praised Hu as an 'enlightened, honest, and straightforward political leader; one who never plotted conspiracies, was generous, open-minded, understanding, and full of vigour'. Then Lu asked Hu, 'Why don't you take over the Central Military Commission while the old man Deng is still alive? If you do not, how will you handle the situation if, in future, the military commanders oppose you? Would you be able to keep things under control?' Hu's response was that he had never considered the issue. Then he said, '[Zhao] Ziyang and I are busy with economic and party affairs. The army is a place for observance of seniority, so right now with no war to fight, let Deng have his position. That way, Ziyang and I can concentrate on managing economic and party affairs'. Hu was known to have a habit of speaking freely and spontaneously, and some of the things he said were considered inappropriate for someone of his position.

Hu's interview with Lu Keng greatly displeased Deng. Deng had let Hu Yaobang know that he was considering his own retirement. It would be at a time of his own choosing; he certainly did not want others to push him into retirement. Deng was especially offended by the reference to the Central Military Commission. According to Zhao Ziyang, 'Deng could have interpreted …that deep in Hu's heart, he agreed with Lu Keng'. Deng discussed this matter with several senior party officials, and he told them that Hu's talk with Lu Keng had been 'highly improper' and 'way out of line'. Deng's criticism of Hu became widely known. Some party elders were speculating openly that Hu was creating a public impression that Deng would retire. This latest piece of serious indiscretion, in addition to Deng's continuing unhappiness with Hu's views and activities on anti-bourgeois liberalization, led Deng finally to mistrust Hu and to consider taking the big step of removing Hu, one of his chosen pillars of reform, from office.

Apparently, Deng had already made up his mind to dismiss Hu, when he told the party elders, who were at the Beidaihe resort during their annual summer gathering in 1986, that he had made a big mistake in his judgment on Hu Yaobang. However, Hu did not seem to have sensed Deng's change of heart towards him. Zhao observed that after the elders returned to Beijing, 'their disrespect, displeasure, and disregard' towards Hu Yaobang 'all rose to the surface', making Hu's 'work as leader very difficult'. He met a lot of criticism

and opposition from the conservatives when he was drafting the 'Resolution on Building a Spiritual Civilization', which eventually passed with Zhao's help.

When Deng raised the subject of reform of the political structure during the summer of 1986, a topic that had not been touched since the early 1980s, it was significant that he asked Zhao Ziyang rather than Hu Yaobang to lead the research, discussions, and the drafting of the final report. Zhao was given staff to set up the Political Reform Office to carry out the research, and to conduct many symposia on different political systems for nearly a year. It turned out that Deng's intention was not to alter the existing political structure in any fundamental way, such as introducing greater Western-style democratic practices, which he thought would impede timely government decision-making. What he wanted was administrative reform of the bureaucracy, to slim it down and streamline it, eliminating the overstaffing and overlapping of authority that inflated the state budget, in addition to hampering efficiency. Although Zhao was inclined towards more deep-seated political reform, he had no option but to follow Deng's guideline at the conclusion of this exercise.

Meanwhile, newspaper censorship did not stop domestic and international news reaching increasingly large numbers of Chinese people via their televisions, the number of which rose from 3.5 million in 1980 to 40 million in 1985. In the spring of 1986, Chinese students, who wanted more freedom and democracy, took to the streets *en masse* to express their discontent with the current situation in China, after they had been galvanized by watching the TV footage of the demonstration of people power that led to the fall of President Marcos and his wife Imelda from office. Later in September 1986, President Chiang Ching-kuo of Taiwan, who succeeded his father, Chiang Kai-shek, allowed the legal existence of an opposition party, a move that led to full-blown democracy on that island. This news was electrifying to the Chinese students and liberals.

In November 1986, the brilliant and internationally famous pro-democracy astrophysicist, Fang Lizhi, who was the president of the well-known University of Science and Technology in Hefei, Anhui, characterized China's current government as a 'modern form of feudalism' when he spoke at Tongji University in Shanghai. He also said, 'Not a single socialist country has succeeded after World War II'. In one of his speeches, he ridiculed Mao for praising the wisdom of the uneducated. He told a receptive audience how courageous European scientists broke away from the dogmatic traditions that had constrained them from the Middle Ages. Fang was a powerful speaker with an enthusiastic following, particularly among the young student population in China. On 4 December 1986, after a speech at his home university, large-scale student demonstrations erupted in Hefei, Nanjing, and Shanghai and spread like prairie fires to Beijing and some 150 other cities.

Hu Yaobang chaired a meeting at the party Secretariat on 8 December, and he tried to placate the students by saying that conditions in the universities needed to be improved. Although the students were China's educated elites, they did live in very cramped dormitories and on graduation were assigned jobs rather than being able to choose their careers freely. Many found it intolerable to be supervised by poorly educated and seemingly arbitrary and arrogant party cadres. The conservatives, however, considered Hu's sympathetic response to the student demonstrators to be too soft.

On 18 December the heightened student agitations in Shanghai brought out Mayor Jiang Zemin, who spoke before a mass audience. Finding himself being heckled and ignored, he asked some in the crowd to come up to the podium to express their views. After several of the students did so, Jiang told them that they did not understand the differences between the West and China, and that their knowledge of democracy came from translated works. After telling them that they should learn it from direct sources, Jiang then recited from memory the Gettysburg Address in English. The students were impressed by this feat. During the next few days, when the students were tied up with examinations, the Shanghai municipal authorities decreed that permits were required for public demonstrations. As student demonstrations in Shanghai then subsided without conflict, Jiang Zemin was given very high marks in Beijing, and he caught Deng's attention.

Deng was shocked by the scale of the student demonstrations and on December 27 met the party elders to discuss the seriousness of the situation and Hu Yaobang's weaknesses, and inability to control the situation. It appeared that Deng was ready to take strong actions against the student turmoil and give Hu the final push, instead of waiting for the Thirteenth Party Congress, which would be the proper way to handle personnel changes at the highest-level. On 30 December Deng called Hu Yaobang, Zhao Ziyang, Wan Li, Li Peng, Hu Qili, and He Dongchang, the Vice Minister of Education, to an emotionally charged meeting at his home about the student demonstrations. Deng said, 'The student demonstrations that took place recently have not happened by chance. They are the result of lax control over bourgeois liberalization'. Besides naming the dissident astrophysicist, Fang Lizhi, and the liberal writer, Wang Ruowang, as among those responsible, Hu Yaobang was singled out as the one who should take the blame. Deng expressed his exasperation with Hu for not having carried out his instruction to expel Wang Ruowang from the party long ago. Deng proposed firm measures to quell the demonstrations. After Deng's remarks at this meeting, which were recorded and circulated to other officials, Hu could no longer lead, and he was left with no option but to resign.

On 4 January 1987 Zhao Ziyang and party elders were asked to assemble at Deng's home, where Deng showed them Hu Yaobang's letter of resignation. The main contents of the letter were Hu's self-criticisms. Hu admitted that 'he had not been cautious enough in his leadership, and he had done a lot of foolish things

concerning domestic and international issues'. He continued by saying that 'he had been weak in upholding the Four Cardinal Principles and the Anti-Liberalization Campaign, had been ambivalent in his attitude, and had therefore caused a flood of liberalization and had become a protective shield for some villains'. He concluded that 'since the mistakes he made were grave, he was asking permission to step down in order to review his thoughts and give a proper account to the party'. Hu's self-criticism followed the party tradition of reiterating the criticisms of those who wanted to bring him down, and in his case those were Deng, many of the elders, and his conservative colleagues. His resignation was a dismissal in disguise.

No one disagreed when Deng said that Hu's resignation was to be accepted. Deng also said that after Hu stepped down, the Standing Committee was to be composed of Zhao Ziyang, Wan Li, and the elders, Yang Shangkun and Bo Yibo. (The last-named was the father of Bo Xilai, who, as the head of the party of the Chongqing municipality, was a rising political star among the fifth generation of political leaders. During the period from the winter of 2011 to the spring of 2012, when the transfer of power took place from the fourth generation of top Chinese political leaders to the fifth, Bo Xilai suddenly fell from grace on charges of breaching party discipline, after his wife confessed to murdering a British businessman). Deng accepted Zhao's suggestion of adding Hu Qili, a reformed-minded member of the Politburo close to but not related to Hu Yaobang, to the Standing Committee which Zhao was to lead.

Deng then suggested that 'party life meetings' (closed-door struggle sessions) be held in the name of the Central Advisory Commission to criticize Hu Yaobang, to make the case to justify Hu's removal, before announcing this matter at an enlarged Politburo meeting instead of a full Central Committee Plenum. Normally the dismissal of someone with as high a position as the party general secretary had to be approved first by the Politburo, then by a plenum of the Central Committee, and finally by a party congress. In Hu's case it would be the Thirteenth Party Congress to be held later in 1987. Deng's way of dismissing Hu was therefore not in line with proper party rules. Considering Hu's popularity with the students, intellectuals, liberal high officials, and local officials, not to mention the one million people for whom Hu had worked tirelessly, after the start of the reform in 1978, to reverse the cruel verdicts that the Cultural Revolution had imposed on them, the party leaders were aware that dismissing Hu might have repercussions from his large number of supporters. Deng decided to expedite Hu's removal from power to minimize its impact on the public. Zhao visited Hu to inform him of the party life meetings, and said that after Hu's resignation was made public, some people might make trouble in Hu's name. Hu promised 'to stand resolutely by the party'.

Deng instructed that Hu's case should be handled 'softly', and the latter was to retain his Politburo membership. Despite Deng's instruction to deal gently with Hu, the party life meeting that started on 10 January 1987 lasted almost a week, during which Deng Liqun and some others criticized Hu harshly.

Obliged to give self-criticism at the beginning as well as the end of the sessions, Hu became extremely emotional, weeping openly towards the end of his talk.

Zhao Ziyang described Hu Yaobang as someone who was amiable, open-minded, very generous, able to listen to different opinions, and disinclined to give people a hard time. Someone as open, spontaneous, and good-natured as Hu would probably not have risen to the top in the tough backbiting atmosphere of the CCP, but for Deng's need for capable, energetic, and dedicated leaders to carry out the reform and opening up. Deng knew Hu's strong points, and trusted and supported him for several years, despite a deluge of criticisms against Hu from the conservative wing of the party. Hu's indiscretion regarding Deng's retirement, and his inability to follow Deng's instructions on curbing bourgeois liberalism, probably owing to genuine differences in their views on this subject, ended in his downfall.

On 19 January 1987 the party centre issued Document No. 3, giving a summary of Hu Yaobang's self-criticisms and listing the reasons for his removal. In addition to citing many failures Hu had acknowledged in the sphere of politics, economics, and foreign affairs, he was accused of having 'resisted the party's efforts to oppose spiritual pollution and bourgeois liberalization, giving rise to demands for total Westernization, and the creation of student turmoil'. After suffering such public disgrace on being removed from power, Hu became reclusive, saw few visitors, and rarely took part in party activities.

Before this document appeared, Document No. 1 had been circulated on 6 January to all party members, summarizing Deng's directives on the student demonstrations. Deng urged people to take a 'firm stand against bourgeois liberalization', because the future of the country depended on it. Those who would not respond to 'education' would be dealt with 'severely'. Shortly afterwards, as the demonstrations subsided, the students' clamouring for Western-style rule of law and democracy ceased. The public media no longer attacked official corruption and abuse of power; they trumpeted instead the importance the Four Cardinal Principles and anti-bourgeois liberalization.

This turn of events must have appeared to Deng and the other conservative leaders to prove that the student turmoil was indeed caused by Hu's failure to use stern measures as Deng had commanded. Some thought China would have become ungovernable if Hu had had his way. Not to carry out the bidding of the supreme leader of the party was a serious breach of party discipline that required punishment. Deng Xiaoping was a strong believer in this. He had allowed himself to be punished by Mao, when he had chaired two months of meetings at the Politburo and been compelled to hear, in silence, criticisms and verbal abuse against him by the Gang of Four and their supporters in 1976. Others considered the humiliating treatment of Hu, who worked so hard and selflessly for the country, to be a travesty of justice. The repercussions from Hu's dismissal which the party leaders feared did not occur straight away, but

when Hu passed away in April 1989, the students who came to mourn him started waves of demonstrations in big cities, which were far more threatening to the regime than those in 1986 and ended with the disaster of Tiananmen Square.

A second casualty: the sidelining of Zhao Ziyang

(a) Zhou versus the conservatives: 'socialism with Chinese characteristics'

Hu Yaobang's demise left the party general secretary's post vacant. Deng decided that Zhao Ziyang should take charge of the daily tasks of the Politburo, and of the Secretariat as acting general secretary. Zhao at first demurred, saying that he would prefer to focus on economic reform work, as the premier. Since no one else could be found that had the support of both the elders and Deng for this post, Zhao had to accept the appointment of acting general secretary, as well as doing the job of the premier, until the Thirteenth Party Congress in October 1987.

Although Hu's dismissal did not arouse angry popular protests from the liberals at the time, repercussions from the conservative leftists occurred immediately. An Anti-Bourgeois Liberalization Campaign was launched on 16 January 1987 to cleanse the atmosphere of spiritual pollution, and remove liberal officials appointed by Hu Yaobang, and to take action against intellectuals protected by him.

Hu Yaobang's departure, and this campaign, gave the party conservative ideologues, Hu Qiaomu and Deng Liqun, who had been sidelined by Hu Yaobang, the chance to strongly voice the leftists' position, with the enthusiastic support of many of the party elders. They also began to regard Zhao Ziyang as taking Hu Yaobang's place as their chief opponent. For his part, Zhao Ziyang spent most of the first half of 1987 trying to prevent the conservatives from turning this campaign into a bull-blown Cultural Revolution type of movement, aimed at punishing the liberal intellectuals.

Deng Xiaoping suggested making a list of the troublesome liberals and punishing them by criticisms or expulsion from the party. With this encouragement, the Central Discipline and Inspection Commission under Chen Yun, and the Research Office of the Central Committee Secretariat under Deng Liqun, went into high gear to compile a record of things people had said, to use as evidence against those who were known to harbour, or were suspected of harbouring, liberal ideas. The result of the witch-hunt led to Fang Lizhi (astrophysicist), Liu Binyan (journalist), Wang Rouwang (news editor), and Zhang Xianyang (liberal intellectual) being expelled from the party, some others losing their jobs, and many having to endure criticisms behind closed doors. Had it not been for Zhao's efforts to minimize the number and the harm

done to those singled out for punishment, many more people would have suffered serious damage to their psyche, reputation, or career.

Towards the end of April 1987, Zhao persuaded Deng that some people were using the Anti-Liberalization Campaign to resist reform. This was going against the goal of the Thirteenth Party Congress, which was to support reform. Zhao claimed that during the past few months, the pro-liberalization attituded had been turned around, and it was time to end the campaign and start to 'highlight reform' in the media. Deng agreed, and asked Zhao to deliver a speech to that effect. In May 1987, Zhao spoke at the Central Party School, the Secretariat, and the Politburo, criticizing those who were using the Anti-Liberalization Campaign to cause disturbances and pit the left against the right. He said that it was correct to take time to resolve the problem of spreading liberalization; however, in the long run, the economic reform was much more endangered by disturbances from the left. Zhao's effort to end the campaign was aided by Deng, who told foreign visitors that 'socialism did not just mean being poor', and that the 'mistakes of being too far to the left were the most important lessons learned in China's pursuit of socialism'.

With the campaign out of the way, Zhao was ready to focus on preparation for the Thirteenth Party Congress but for one major obstacle, which was Deng Liqun's control over the party's ideological and propaganda work. It was crucial for Zhao to have someone in this area who was supportive, rather than obstructive, to reform. Help soon emerged from a pro-reform elder, Li Rui, who wrote a letter in July to Zhao reporting Deng Liqun's 'disreputable and immoral behaviour' during the CCP's Yan'an period (from 1937 to 1947). Li wrote that Deng Liqun had used his position improperly to investigate him in order to repeatedly interview Li's wife, whom Deng had then courted, and that Deng was 'therefore unfit to lead the work in ideology and propaganda'. After Deng Xiaoping read this letter, a meeting of the five-man Politburo Standing Committee convened at the paramount leader's home on 7 July to announce the dismissal of Deng Liqun as head of the Propaganda Department, as well as the dissolution of the Research Office at the Secretariat controlled by Deng Liqun. The meeting approved Zhao Ziyang's suggestion that Hu Qili, a pro-reform member of the Standing Committee, should take over Deng Liqun's position at the Propaganda Department. In order not to offend Deng Liqun and his powerful supporters too much, Zhao also suggested that Deng Liqun should be allowed to remain a member of the Politburo.

The Party's conservative elders, Chen Yun, Wang Zhen, and Li Xiannian, all of whom were very close to Deng Liqun, became very hostile to Zhao after Deng Liqun lost all his bases for left-wing propaganda, including the *Red Flag* magazine, which was obliged to close. When they had focused their anger on Hu Yaobang, Zhao was considered a neutral, because Zhao often consulted Chen Yun as he carried out market reform cautiously. After Zhao accomplished what even Hu Yaobang had not been able to do, Zhao became

their number one enemy. Since they could not touch Deng Xiaoping, the paramount leader, who used his power to uphold the overall policy of reform and opening up, they focused their attack on the vulnerable reforming officials, chief among whom was now Zhao Ziyang. Because he had worked most of his official career in the provinces, he did not have a network at the capital to inform him of the devious schemes and machinations against him, which were going on behind his back. For the time being, however, since the economic reform had achieved impressive results, Zhao was protected by Deng's staunch support.

Having stopped the Anti-Liberalization Campaign and Deng Liqun's anti-reform propaganda, Zhao could now concentrate on the vitally important task of drafting the Political Report for the 1987 Thirteenth Party Congress, with the help of a team assembled by Hu Yaobang, and with the addition of Bao Tong, whom Zhao appointed as leader. It was Zhao's intention to use this report 'to further advance the major policies and strategies for reform'. Zhao was aware that even though it was widely known that productivity had grown, that the speed of development had increased, that people's living standards had risen, and that China had become much stronger since the beginning of the reform in 1978, the reform had an intrinsic ideological weakness that rendered it vulnerable to left-wing attack. Zhao acknowledged the importance of ideology in China's governance, whether it be Legalism, Confucianism, or Maoism, and he strove to formulate a theory to buttress the reform, and to include that in his Political Report.

This ideological weakness was partly historical, because pre-industrial China had become a Communist state through a CCP-led revolution supported by the peasants. This process did not correspond to the orthodox route for arriving at a Communist society according to Marx. Basing his analysis on European experience, Marx posited a bourgeois-democratic stage, from which a proletarian-supported Communist party would overthrow the capitalist society to usher in Communism. Since China had already practised 30 years of socialism, an orthodox Marxist might have suggested that socialism was implemented too early in China. Following this line of thinking, Zhao could have argued that China needed to go back to the stage of market capitalism, and that this required a corresponding reform policy. But Zhao regarded this approach as too risky and he did not use such an argument in support of reform.

Another problem was related to Deng's Four Cardinal Principles that enshrined Marxism, Leninism and Mao Zedong Thought. Zhao had to argue with left-wing officials, who wanted to characterize the 'Four Cardinal Principles' as the guiding principle, and the 'Reform' and 'Opening up' as only the means to an end. This was their way of denigrating the importance of reform, or perhaps it was even an attempt to do away with the reform, in the name of upholding the Four Cardinal Principles. Zhao wished to seize the opportunity offered by the Thirteenth Party Congress to address this weakness once and for all, to save the reform from endless attack, and the officials implementing it from relentless sniping.

Zhao thought hard about an ideologically acceptable way to characterize the current economic reform, which was in part, as he admitted, 'the rejection and correction of the planned economy'. He asked the question: what is socialism? He noticed that some theorists equated the Soviet-style planned economy with socialism, and at the same time branded methods that were beneficial to the development of productivity and socialist modernization in China as capitalist. Zhao said that the Soviet model was suitable for times of war, not intrinsic to socialism. The reform had proved that the Soviet model was 'excessive for China's socioeconomic development and productivity'. He concluded that the best way to characterize what China was going through then was as the 'initial stage of socialism'.

Zhao did not take credit for coining this phrase. In 1981, a resolution on historical issues at the Sixth Plenum of the Eleventh Party Congress contained this phrase, and Hu Yaobang in his Political Report at the Twelfth Party Congress in 1982 had also used it. Zhao knew that adopting a concept that had been accepted in the past would meet with far less resistance than introducing something new. He decided to revive and highlight this concept at the Thirteenth Party Congress. Doing so would cast away any doubt about whether China was practising socialism. The 'initial stage' part would provide some leeway, freeing China from the restrictions of orthodox socialist principles, permitting reformers to implement policies appropriate to China's stage of development, and allowing various economic elements to exist side-by-side with the dominant system of public ownership.

On 27 May 1987 Zhao wrote to Deng Xiaoping to propose an outline of the draft of the Political Report. He suggested using the concept 'initial stage of socialism' as the theoretical basis of the report, which 'would systematically cover the theory, principles, and tasks of building socialism with Chinese characteristics'. In addition, it would emphasize the two basic points defined by the Third Plenum of the Eleventh Party Congress in 1978: upholding the Four Cardinal Principles and upholding reform to reenergize the economy. Deng promptly approved Zhao's outline. Zhao also sent the same letter to Chen Yun and Li Xiannian, and they both expressed their approval.

As he was honing the report with his team, Zhao summed up the three essential points of building *socialism with Chinese characteristics*. These were (1) making economic development the central focus; (2) upholding the Four Cardinal Principles; and (3) upholding the reforming and opening up policy. Zhao considered that these three elements formed the general direction of the Third Plenum of the Eleventh Party Congress. This landmark event, to which Zhao repeatedly referred, renounced class struggle as the central focus, and took up economic development instead. Zhao's team made these points into a snappy colloquial phrase as 'one central focus, two basic points', rendering it easy to quote and remember. Deng Xiaoping thought this phrase was 'very well put'. Since how long the primary stage was meant to last was not spelt out, staunch socialists could always hope that China would reach the higher stage of socialism at a later

time. When asked how long he expected the initial stage to last, Zhao said up to 100 years, depending on how long it would take for China to complete socialist modernization.

The Thirteenth Party Congress held from 5 October to 1 November 1987 was Zhao's congress. As the front-line leader and now the heir chosen by Deng, Zhao delivered the Political Report on which he and his team had worked extremely hard, to reignite enthusiasm for reform without offending hardline conservative planners. The report turned out to be a triumph for Zhao, for he managed to win approval not only for the economic reform plan, but also for a political one. The report defined the economic system under reform as a 'planned market economy', as opposed to previous documents that had declared planning as primary. The state was to regulate the market, and the market was to guide enterprise. The role of detailed planning was to continue to decline.

As regards the political reform plan, Zhao stated that its long-term goal was 'to build a socialist political system with a high degree of democracy and a complete set of laws', and he expected such a system to be full of 'vitality'. From Deng's speeches on state leadership, Zhao knew that Deng stressed 'efficiency' and 'vitality' in connection with political reform, but that he opposed more fundamental changes to the concentration of power in a single party. Although Deng gave Zhou a free hand to work out the details of the political reform plan, a succession of drafts was submitted for Deng's approval. Zhao had to work within the framework of the kind of democracy of which Deng approved, which was democracy within the party, although Zhao eventually concluded that a parliamentary or congressional type of democracy would be the best political system for China, as its economic reform deepened. However, Deng supported the separation of the party and government, with fewer overlap of roles, with the former playing a lesser part in supervising the latter. As mentioned previously, he also wanted the government bureaucracy to be more systematically regulated with responsibilities, rewards, punishments, remuneration, welfare provisions, and retirement benefits based on explicit rules, rather than on haphazard personal decisions by those in power.

Other proposals for reform included more power to be delegated to the lower levels of government, more consultation with local authorities in affairs concerning them, and more information for the people. Key Politburo decisions were be reported by the media instead of being kept secret. As regards democracy for the people, their views would be heard through strengthening various organizations representing them, such as women, workers, and other groups. More training should be given to officials of minority nationalities, whose autonomy should be enhanced. The party should lessen its control of factories, schools, hospitals, and business firms, to give these local organizations greater freedom to make decisions for themselves. To spread information among the officials, the Central Committee was to hold a Plenum twice a year instead of once yearly. Strengthening the legal system was also on the reform agenda. These reform measures, if implemented, would decrease the party's monopoly of power and intrusion into other spheres of the society,

and would benefit government transparency and rule of law. Unfortunately, however, Zhao's days in power were numbered, and his conservative successors were more interested in increasing the power of the party rather than shrinking it.

(b) Changes at the top

The other major task for the Thirteenth Party Congress to perform was the appointment of new leaders. The most critical decisions regarding naming the new Politburo Standing Committee, and planning the futures of some of the elders, were made during the months leading up to the congress. Even before Hu Yaobang resigned, Deng had appointed a group of seven people, who were mostly elders, to take charge of proposing leadership changes for this party congress. Bo Yibo was at the head of this group. Deng very much wanted the block of three powerful anti-reform elders to retire from their respective positions. They were: Chen Yun as the first secretary of the Central Discipline and Inspection Commission, Li Xiannian as president of the republic, and Peng Zhen as chairman of the National People's Congress. Deng had told Zhao earlier in 1987 that if these three were to remain in their positions after the Thirteenth Party Congress, foreign media would consider this as a 'victory for the conservatives'. However, if these three were asked to retire, it would be difficult for Deng to justify his own continuation on the Politburo Standing Committee.

With some persuasion, Peng Zhen agreed to retire, and Chen Yun and Li Xiannian accepted semi-retirement, in the sense that each would be taking up a new post as chairman of the Central Advisory Commission, and chairman of the Chinese People's Political Consultative Conference, respectively. Deng would also semi-retire, as he would resign from the Central Committee, the Politburo and its Standing Committee and all other posts, except for the chairmanship of the Central Military Commission. Deng's primary motive for this arrangement was to put Zhao in charge as China's new front-line leader and his successor. He kept the power to control the military in case of an unforeseeable emergency. He offered Chen Yun and Li Xiannian honorary posts with little power, as a move to protect Zhao from the interference of too many 'mothers-in-law' (dominant figures in the traditional Chinese household). However, Deng was to remain as the one and only mother-in-law of the Politburo Standing Committee. Deng explained that this arrangement was necessary to assure the international community that China would remain stable.

After Deng and the elders had made their decisions, Zhao and several other top leaders met at Deng's house on 7 July 1987. During the meeting, Bo Yibo asked Zhao to announce at the First Plenum of the Thirteenth Party Congress that the party 'would continue to seek comrade Deng Xiaoping's guidance on major issues, and have Deng make final decisions'. At this meeting the initial proposal of seven members of the Politburo Standing Committee was cut down to five. They were: Zhao, Hu Qili, Qiao Shi, Yao Yilin and Li Peng. Of

the five, the first three named were pro-market reformers, but Yao Yilin and Li Peng were conservative planners.

Wan Li, who was a Zhao's vice-premier and a follow reformer, was removed from the Standing Committee, because his outspoken straight talk had offended some people in the past, including some elders. Bo Yibo, representing the Seven-Person-Group, spoke against Wan's continued presence on the Standing Committee. Tian Jiyun was also dropped from this critical governing body because Yao Yilin said that Tian had promoted a relative who caused problems. Zhao thought it would have been more proper for this allegation to be made prior to the meeting, so that an investigation could take place before removing Tian. However, since Yao craftily spoke against Tian on the very day of the finalization of these key appointments before the congress, Deng simply said Wan and Tian would not be members of the Standing Committee. Yao's behaviour gave Zhao a bad impression of his character.

Among other important posts was the Chairman of the National People's Congress. Deng proposed Wan Li for this job. In case Wan Li's appointment raised objections among the elders, Deng advised him to visit the elders individually to carry out self-criticism, which Wan did. The post of the president of the People's Republic went to Yang Shangkun. Zhao Ziyang was to hold the party's top post as its general secretary, rather than just acting in this post, as he had after Hu Yaobang's dismissal. As a result, someone had to be found before the Thirteenth Party Congress to assume Zhao's current position as premier.

Li Peng's name came up for this post. However, Li being an engineer, who had experience in the fields of technology and electricity generation, lacked experience in economic management, the premier's primary responsibility. Deng was also concerned that Li Peng had a reputation for favouring the Soviet Union, where he had studied. It was known that Li had once combined a European visit with a detour through the Soviet Union without checking with anyone. However, Chen Yun and Li Xiannian supported Li Peng, and it was difficult to find another name for this post that would satisfy Chen Yun and Li Xiannian. Deng asked Li Peng to make a public statement to remove people's suspicions about his pro-Soviet tendency and declared that Zhao Ziyang was to continue to manage economic affairs as head of the Central Economic and Financial Leading Group for the time being. Li Peng would ultimately exercise a baleful influence on Deng at the time of Tiananmen Square.

(c) Problems with price reform and inflation

The Chinese economy ended the year 1987 well, and the Thirteenth Party Congress was well received at home and abroad. Foreign trade was healthy, boosting the country's foreign reserves; the money supply remained within plan; and there was an abundant harvest, though agriculture had stagnated in the last few

years. Learning from experience, Zhao found that in 1987 he was able to stabilize the economy by bringing macroeconomics under control without stifling growth at the microeconomic level. However serious challenges were to follow after some of his reform measures were implemented.

Soon after this congress, early in November 1987, Zhao got busy trying to implement many proposed economic reforms, such as the previously mentioned coastal reform policy, turning the Island of Hainan into a province and setting it up as the largest SEZ, and making the whole of Guangdong province into an economic testing ground for reform policies. A set of Enterprise Laws were drafted, defining a large or a medium SOE as a legal entity. Though the state retained ownership of the SOEs, the managers were to be empowered to make decisions on how to operate these enterprises, and to be responsible for their profits and losses. This contract-out scheme was reminiscent of the RHRS in the countryside. It was aimed at introducing competition, increasing efficiency, and offering incentives for the management to make profits. The hard-budget constraint in such SOEs would put an end to the situation whereby the enterprises took all the profits, while the state bore the losses. Zhao also implemented a shareholding system for large and medium SOEs. In addition, he proposed the 'grafting' of foreign systems of technology, finance, management, and marketing onto these enterprises into order to transform them. These reform measures would prepare the SOEs for the breakthrough into an unplanned market economy.

The National Party Congress in March 1988 passed the measures in connection with establishing Hainan province as an SEZ, the Enterprise Laws, and with officially permitting family and private enterprises to exist and grow. The congress also adopted amendments to the Constitution allowing the right of land use, and legalized leasing of land. So far so good: but Zhao's most successful years ended far too soon.

The issue that turned out to be problematic was price reform. Zhao's economic model had been based on step-by-step incremental changes, letting the market sector of private domestic firms and Sino-foreign joint ventures expand their operations into the state-controlled planned economy in a coordinated manner. This process led to a two-track pricing system, whereby prices for the same goods would have a higher price determined by the market, and a lower price fixed by the state. Although the incremental reform and the two-price situation had produced excellent economic growth, they had also created friction and given rise to corruption, besides involving large costly subsidies to the SOEs by the state. This situation could not continue indefinitely. There must be a point where the conditions would be right to achieve a one-step or multi-stepped coordinated breakthrough to reach a fully functioning market economy. Deng thought price reform had been left too long in abeyance and encouraged his lieutenants to achieve a quick breakthrough of freeing prices and ending the subsidies.

With Deng urging him to make a bold decision on this matter, in May 1988 Zhao presented a report to an enlarged Politburo meeting with the title 'Establishing a New Socialist Order: The Socialist Market Economy'. Zhao said that he was considering making significant progress on the critical task of price reform (in practice that meant letting prices rise freely) and coordinating it with raising wages and other financial moves to take place within five years. This was to be the decisive battle for ending the two-track pricing system and attaining a market economy. Vice-Premier Yao Yilin, and his State Council colleagues, were to draft a plan to implement it. In August when the top leaders met at Beidaihe, the plan was approved, following discussions and some revisions. Then it was returned to the Politburo for consideration.

The timing to start implementing this plan in 1988 was apparently perceived to be relatively favourable, because the economy as well as people's incomes were growing. Besides, the government had some backup measures, such as selling some small and medium SOEs and public housing to take excess money out of circulation. Deng was firmly behind this plan for price reform.

But perhaps 1988 was, after all, not such a good time to start the price reform, particularly the one-step shock treatment, as Zhao later called it. Cumulative inflation over the past several years had reached 7% by 1987, and people, especially those on fixed income, were already worried. Although a 7% rate of inflation could not be considered very high, it was higher than the previous years. Zhao considered this situation to be the result of agricultural stagnation during the previous few years, and too much investment on infrastructure. Price volatility alternated with the expanding and retrenching phases of the economic reform under Zhao. During the first quarter of 1988 prices, especially of food, continued to rise.

Just as the price hikes for all these essential food items including vegetables were catching people's attention, the media were busily airing the discussions and the plan for price reform among the party leaders. The news aroused popular fear that such a reform would lead to sudden and huge price increases that would devalue peoples' personal bank savings, which represented the slow accumulation of years of hard work. Zhao considered that the publicity given by the media, even before the reform was implemented, was highly improper. The psychological effect of anticipating inflation led people to rush to the banks to withdraw their savings, and to buy and hoard commodities in desperate attempts to keep the value of their savings. This led to very high levels of inflation, though Zhao would not describe it as runaway inflation.

While this was happening, the Central Economic and Financial Leading Group led by Zhao repeatedly proposed to the State Council to raise bank interest rates and to promise value-guaranteed savings. Li Peng and Yao Yilin hesitated to act on the proposal, for they were concerned that the banks would be too much burdened, if the interest on savings were increased while the interest on loans to the SOEs could not be

adjusted accordingly. Meanwhile 'the bank runs and hoarding of commodities led to an overall panic, which arrived with the force of a tidal wave', as Zhao put it.

Eventually, when Li and Yao put the proposed value-guaranteed savings in place, savings and deposits again rose, starting in the fourth quarter of 1988, and accelerating in the first quarter of 1989. Stability in bank savings soon returned. Zhao looked upon this as a proof that the economy had no really serious problem. People's panic after the inappropriate news reports about the coming price reform had been a major cause of the bank run, making inflation appear much worse. After this disturbing episode, Zhao concluded that they had chosen to start the breakthrough at an inappropriate point of the existing economic reform, without having put in place the value guarantee for savings when the inflation continued to rise early in 1988. As soon as Zhao saw the repercussions of the price reform, he quickly decided to delay its implementation to a later time. In the meantime, he thought it was best to calm people's fears and concentrate on improving the economic situation.

Having misgivings about reform in general, Yao Yilin and Li Peng readily agreed with Zhao's decision to halt price reform. Before Deng was notified of this decision, he was still encouraging the leaders concerned not to be afraid to take the risks involved with price reform. After being informed of Zhao's decision, Deng agreed, and it was approved by the Politburo.

(d) The Conservatives force a retrenchment and Zhao is sidelined

After halting the price reform, Zhao intended to continue to take charge of the economy from his position as the head the Central Economic and Financial Leading Group. He intended to stabilize the economy as a first priority, and then continue the step-by-step incremental reform as he had done in the past. However, before he was able to do so, Premier Li Peng and Vice Premier Yao Yilin of the State Council muscled in, using the slogan 'adjustment and reorganization' to adopt an austerity program that was classic Chen Yun policy. On 26 September 1988 during the Third Plenum of the Thirteenth Party Congress, Li and Yao recentralized financial controls and lowered spending and growth targets, in addition to tightening money supply in an endeavour to control inflation and eliminate financial deficits. As they began to achieve these goals, the growth rate of the GNP plunged from 11.2% in 1988 to in 3.9% in 1989.

Zhao thought Li and Yao had gone much too far in using administrative means to slash credit. The lack of liquidity caused by the stringent controls led to economic stagnation, because there were no funds for procuring agricultural products, nor for upgrading technology for factories. As the money supply and currency in circulation both increased during the latter half of 1988 and the beginning of 1989, Zhao suggested easing the tightly controlled credit to some extent, to satisfy the need for production, and to

resolve the savings issue to ease people's fears. His proposal was not adopted. Zhao found that his colleagues in the State Council were sidelining him. He could no longer participate in, let alone manage, economic work. Zhao continued to try to solve economic problems from his position as head of the Central Economic and Financial Leading Group, but the State Council simply ignored his suggestions. The hands of Li and Yao were strengthened by some of the conservative elders, who expressed the view that Zhao, as the party's general secretary, should focus on political and ideological work, and stop interfering with the State Council's work on the economy.

As the pro-market economic reform expanded more widely and penetrated more deeply into the existing command economy, it came up against resistance from a strong pro-planning and anti-reform faction in the party, as we have discussed earlier. Even though Deng was the initiator and chief sponsor of the economic reform, the conservatives could not damage Deng, but his chief executive officers for the reform, Hu Yaobang and Zhao Ziyang, were more vulnerable.to the conservatives' attacks. Before Zhao became the party chief as Hu Yaobang's successor, most of their animosity was directed against Hu. After Zhao took over Hu's job late in 1987, his actions to contain the Anti-Liberalization Campaign and Deng Liqun's influence, as well as his successful efforts to promote political as well as economic reform at the Thirteenth Party Congress, soon made Zhao the archenemy of the conservatives - the elders Chen Yun, Wang Zhen, and Li Xiannian especially.

Zhao was aware that a strong conservative group, including these elders, had been working together aggressively to undermine and oppose him, using all kinds of tactics, even before the panic buying. After that episode, the State Council and some elders exaggerated the severity of the economic problems, and heaped the blame on Zhao, in addition to casting the entire reform carried out by Zhao as a failure, despite his previous achievements. Zhao heard from several channels that a group of elders had written to Deng questioning Zhao's qualification and requesting Zhao to step down. Their campaign to overthrow Zhao was picked up by Hong Kong newspapers, which circulated rumours that Zhao had been stripped of real power and was no longer managing economic affairs.

Around the time of New Year 1989, Li Peng and Yao Yilin, with the support of some elders, used a party life meeting of the Politburo Standing Committee for the purpose of criticizing Zhao and the reform. Deng was very displeased when he heard about it from Zhao. Deng spoke to Zhao at length about the reform and expressed his belief that there was no hope for China's future without reform. Deng then asked Li to convey to Zhao and other members of the Politburo that Zhao was to remain the party general secretary for two more terms.

Before the student demonstrations and the June Fourth tragedy of 1989, Zhao went to Deng's home twice to talk to Deng. The first time was during the Spring Festival (the traditional Chinese New Year) in 1989, when Deng offered Zhao the chairmanship of the Central Military Commission, while retiring himself. The talks with Deng confirmed Zhao's suspicions that many of the elders had been 'bad-mouthing' him, for Deng told Zhao that he would not be influenced by them, and that he rejected their pressure. Deng's reason for this move was partly to let Zhao consolidate his leadership position as Deng's successor, and partly to stop the elders from interfering in state affairs. However, Zhao persuaded Deng to stay on and not to mention this subject for at least another year. Zhao argued that in the current economic situation, even if Deng withdrew from state affairs, the other revolutionary elders, even without official positions, might well continue to interfere. In that event, Zhao would find it very difficult to manage state affairs. Deng agreed not to raise the issue for another year. At the second meeting, just before Zhao's visit to Russia, Deng told Zhao that after his trip he would like to have a meeting of the Politburo Standing Committee and some of the elders, to discuss Zhao's continuation as the party general secretary for two more terms.

Although Deng's strong support allowed Zhao to continue in his leadership post in the party, he was powerless as he watched Li Peng and Yao Yilin, with the support of the conservative elders, use the slogan of 'adjustment and reorganization' to roll back the reforms. They issued many administrative regulations that controlled spending on infrastructure, and abolished measures to revitalize enterprises during the recent years. They took back the powers that had been handed down to local authorities and enterprises. They returned commodity prices, which had been freed, to government control without any justification for doing so, because the consumer price index in 1989 was not higher than 1988 - it was on target, according to Zhao's original plan. They scrapped the entire coastal development strategy, which Zhao had painstakingly developed. The RHRS, which allowed farmers the right to decide whether or not to plant, and how or what to plant, after fulfilling the state procurement quota, was all dismantled.

To control credit and loans, ordinary people were permitted to put deposits into banks, but not allowed to withdraw their savings, which were frozen. Power became concentrated in the hands of a few people in the State Council and some of its agencies.

After a few months of these brutal command economic measures, the economy nose-dived, markets slumped, and production stagnated. Zhao claimed: 'If it had not been for the non-state-owned sector of family businesses and joint ventures, the entire national economy could have fallen into extreme adversity'. The economic stagnation continued for another three years until 1992, after the retired Deng Xiaoping went out on a limb to try to revive the economic reform. On top of the austerity policy, China's economic slow-down during this period was also exacerbated by the economic sanctions imposed by Western countries

after the tragic government suppression of the student demonstrations of June Fourth 1989, which we shall shortly discuss.

In retrospect, Zhao thought that if they had simply continued the step-by-step incremental market reform without starting the price reform in 1988, he would have been able to continue to manage the economy. He could then have stabilized the economy by cutting down on infrastructure spending and deepening the market by further reducing the planned sector. At the start of the price reform, the improper publicity on imminent price increases by the government had led people to anticipate huge inflation, and as a result the bank runs and panic buying had occurred. Necessary measures could have been applied at that point, such as acting quickly to announce the cessation of price reform, then raising interest rates, in addition to promising the people guaranteed savings, to ease people's fear for the integrity of their savings; financial stability would then have returned. Zhao later believed that the seriousness of the bank runs and panic buying was overestimated during that time. But this experience caused him to lose confidence and prompted him to stop the price reform. At that point they should have carried out the measures mentioned above, but unfortunately the State Council, controlled by Li Peng and Yao Yilin, did not respond to Zhao's proposals on this matter.

Zhao later realized that it had been a mistake to shift the emphasis away from reform towards 'adjustment and reorganization', given what Li Peng and Yao Yilin did under this slogan. Zhao blamed himself for some of the missteps and took responsibility for them, but he did not anticipate that the opponents of reform in the State Council would seize power from him straight away, sideline him, and carry out their destructive retrenchment policy. Zhao felt a profound regret about these developments.

The June Fourth Crackdown in Tiananmen Square, and Zhao's Downfall

The trigger for the demonstrations: mourning for Hu Yaobang

After the democratically inclined Hu Yaobang was harshly criticized and dismissed early in 1988, his sudden death on 15 April 1989 came as a shock to the Chinese public, particularly the youths and intellectuals on behalf of whom Hu had battled the conservatives. They regarded him as a symbol of a good official and had been inspired by his high ideals and attracted by his personal warmth and integrity. Now they looked upon him as a martyr to the cause of liberating China from the economic and political fetters that hindered its development into a modern country. Within hours of the public announcement of Hu's death, the walls of Peking University were covered with posters mourning his passing. On 16 April around

800 students marched from their universities to the Monument to the People's Heroes in the centre of Tiananmen Square to lay wreaths. The students were orderly, and the police did not interfere with their respectful activities in commemorating Hu.

On 18 April, as more and more students gathered at Tiananmen Square, invoking Hu's memory to promote the cause of freedom and democracy, Li Peng noticed that the activities originally associated with mourning for Hu had become politically charged protest demonstrations. On the morning of that day, several hundred students went across Tiananmen Square to deliver a list of demands to the Standing Committee of the National People's Congress (NPC) at the Great Hall of the People. The list included more freedom and democracy, ending the Anti-Liberalization Campaign, reversing the guilty verdicts on those who had demonstrated in 1986, and making the income of officials and their children public knowledge. Towards the middle of the night, the protesters, instead of dispersing, gathered as an angry crowd of several thousand demanding to enter Xinhua Gate at Zhongnanhai, the seat of the party, the government, and the home of many high officials. Refusing requests to leave, the crowd was finally forced by the police to leave at around 4 a.m. Soon after, a regiment of troops was sent to guard Zhongnanhai[4].

On 21 April, as student demonstrations continued and grew, a high-level educational official directed the universities to restrain their students, and to carry on normal campus activities. The *People's Daily* printed the government's order to ban demonstrations and warned those involved 'not to take the regime's tolerance for weakness'.

On the day of Hu's funeral on 22 April, around 200,000 people gathered in Tiananmen Square to listen to the 20-minute loudspeaker broadcast of Hu Yaobang's memorial service. His body was buried in Babaoshan, where high government officials were buried. Hu was treated with honour after his death, partly because Deng still regarded Hu as someone who had contributed to the reform, and partly because the party leaders could remember the people's furore when their beloved Premier Zhou Enlai's passing was not treated with sufficient respect. The government permitted the gathering of the people in the square outside the Great Hall of the People, where Hu's memorial service was taking place. After the service, three student representatives knelt for about three hours on the steps of the Great Hall, waiting for Li Peng to talk to them. The students complained that they had been encouraged to believe that Li Peng or some other officials would come out to have a dialogue with them. Li Peng said that he was not aware of this. In any event, Li

[4] Although Deng never lived at Zhongnanhai after he returned to power in 1977, no doubt he could remember an ordeal he had suffered there. During the Cultural Revolution, after he was denounced as a capitalist-roader, his enemies allowed a radical youthful mob to raid his residence at Zhongnanhai to carry out a verbally abusive struggle session against him.

Peng did not believe in talking to students outside the official student organizations sponsored by the party, who would be more controllable.

It was easy to see a parallel between the April 1989 demonstrations in Tiananmen Square and those that had taken place there three years earlier, in April 1986. The earlier demonstration was a movement by ordinary people in Beijing, venting their anger against the Gang of Four, whose myriad misdeeds included inflicting mental anguish on Zhou Enlai when he was gravely ill with cancer, and refusing to honour him properly after his death. Some people at the earlier movement also came out in support of Deng Xiaoping. The present protest involved mostly university students, who gathered in Tiananmen Square to honour the death of their friend, Hu Yaobang, who also suffered mental anguish after his humiliating removal from party leadership by Deng and his colleagues, who considered Hu too liberal and too soft on the 1986 student protests. Their protests implied a criticism of Deng, and of those who did not support the more liberal regime advocated by Hu Yaobang. Besides rallying around Hu as a symbol, the agitating university students had collectively certain grievances, which they wanted the government to address.

The character and grievances of the demonstrators

Unlike the radical student demonstrators involved in the protests of 4 May 1919 and the mid-1920s, who had been toughened by growing up and surviving in a politically disintegrating China dominated by warring militarists and foreign powers, the students of 1989, by contrast, were relatively pampered beneficiaries of China's reform in education and the economy, living in a peaceful and united China.

The earlier generation of student agitators, which included people like Zhou Enlai, had developed organizational skills with nation-wide coordination and political agendas fired by nationalism. Many of the present generation of student demonstrators admired the West, and conveniently combined the slogans of freedom and democracy with honouring the memory of Hu Yaobang, to rally public support from both Chinese and foreigners. Most of them had no more than superficial ideas of how democracy developed and operated in Western societies. Lacking experience of political organization, they were a crowd with shared grievances. Leaders emerged from among those who could deliver rousing speeches and display bravado, but they could not control the loosely affiliated participants, form a strategic plan to attain realistic goals, or represent their fellow demonstrators to negotiate with the government.

What were the grievances of the students? They were angered, as intellectuals traditionally concerned with China's future, by the 1983 Anti-Liberalization Campaign that highlighted the Deng administration's refusal to introduce political reform to accompany progressive changes in the country's economy. They were discontented with the growing official corruption, as the expanding market economy offered new

opportunities for venality. They witnessed with resentment profiteering officials, hand in glove with unscrupulous and uneducated entrepreneurs, flaunting their ill-gotten wealth gained from exploiting public resources, while the students had to live a life of frugality in cramped university dormitories. They were unhappy about having to accept government assigned jobs at the end of their studies, after they had striven so hard to acquire a good education. They wanted freedom to choose their own careers, but the government continued the system of assigning university graduates to jobs in key industries and government positions, because of a shortage of well-educated personnel. They also wanted to be free from the supervision of their political guides, who were mostly less well educated than they, and whose secret reports on them would affect their future careers.

How did the people in Beijing react to the student demonstration? The student unrest touched a chord of discontent among the residents of Beijing. Many had lost money during the bank runs and panic buying. Those on fixed salaries lived in dread of high inflation and of losing their jobs from the government-led economic retrenchment, and there were also people who were displeased with the Anti-Liberalization Campaign and the treatment of Hu Yaobang. These people empathized with the students and warmly supported their calls against corruption, for democracy, and for better governance. Some even joined the demonstrations and helped the students in many ways. Zhao also suggested that a small number of people, who were opposed to socialism and the CCP, had joined the student agitation to make trouble.

The reactions of Deng, of Zhao, and of Li Peng

Deng Xiaoping did not sympathize with the demonstrators. He regarded them as the privileged receivers of free university education, the standard of which he had striven to raise, and the beneficiaries of the economic reform, for which he had worked hard. Just as China was achieving some measure of success in modernizing its economy, the student demonstrations were threatening his regime's stability, and its ability to continue on this path. He was determined to save China from following the example of socialist Poland, where the party authority had collapsed, when the leaders did not act firmly against popular demands. But, having absorbed the lesson of public fury when peopled had not been permitted to mourn for Zhou Enlai's death, Deng made no attempt to curb the student demonstrations until after Hu Yaobang's funeral on 22 April.

It was highly unfortunate for China that the leaders managing the daily affairs of the party and government at Beijing, General Secretary Zhao Ziyang and Premier Li Peng, held diametrically opposed views on the

student demonstrations, which naturally led to a split between them on how best to deal with the situation. As the party general secretary, Zhao was in charge when he was in Beijing. He was tolerant and understanding of the students' expression of discontent and thought it wiser not to take strong action in case of a backlash that could jeopardize future reforms. He would only punish those who carried out violent or destructive acts, such as looting, beating, burning, or trespassing, according to the law. Zhao and others hoped that the students would return to their studies after Hu's funeral.

However, just at this critical juncture, Zhao had to leave on 23 April for Pyongyang, North Korea, for a visit that had been arranged some time previously. Before he departed, he left a 'three-point instruction' with Li Peng and members of the Politburo Standing Committee on how to handle the students after Hu's memorial service. Point number one was to persuade the remaining students on the streets to return to their classes. Point number two was to carry out dialogue with the students and their supporters to reduce tension. The third was: 'Bloodshed should be avoided, no matter what'. Zhao had been given the impression that Li Peng and his Politburo colleagues agreed with his instructions and would carry them out.

On 19 April Zhao called on Deng Xiaoping and talked to him about his trip and his views on the current student unrest. Deng agreed with Zhao's position regarding the student demonstrations. Deng also informed Zhao that after his return, he would be promoted to be the head of the Central Military Commission. The conclusion to be drawn from their meeting was that Deng still regarded Zhao as his successor, despite the array of economic and political problems that had cropped up to challenge the regime of the two reformers. On 20 April Zhao was pleased to notice that most of the students had already left Xinhua Gate, and their demonstrations had simmered down by the time he left Beijing.

However, on 23 April, the day of Zhao's departure, students from twenty-one universities formed a 'United Student Organization', which decided that in 1986 the students had given up their struggle too easily, and so this time, instead of following their earlier announced plan of returning to their class on 4 May, they were going to boycott classes for an indefinite period. Zhao was aware, when he was still in Beijing, that the students were already divided among themselves. The moderates who wanted to return to class were prevented from doing so by extremists blocking the entrances of the classrooms. Zhao commented in retrospect that the government missed an opportunity to talk to the students, to diffuse and calm down the situation at that point, and to let the more dissatisfied students air their views.

Li Peng, who was left in charge of the Politburo Standing Committee, did not follow Zhao's instructions to carry out any dialogue with the students. Instead, he met with President Yang Shangkun that very evening,

and together they communicated to Deng their views on the seriousness of the situation and urged that firm and swift actions were needed. This stand was a major departure from Zhao's position.

On the evening of 24 April Li Peng presided over a Politburo Standing Committee meeting to hear reports on the student agitation from Chen Xitong and Li Ximing, both officials of the Beijing municipal party committee. These local officials made the situation seem exceedingly grave, presenting the demonstrations as a movement opposing the Communist Party and targeting Deng Xiaoping. They selected sporadic remarks of a tiny minority of extremists expressing personal criticisms against Deng and represented them as the major trend of the movement. In the minutes of this meeting, the student movement was characterized as 'an organized and carefully plotted political struggle'.

On 25 April Li Peng and Yang Shangkun went to Deng's home to report to him about the Politburo meeting. After hearing their report, Deng agreed straight away to label the student movement as 'anti-party, anti-socialist turmoil', and to couple that with a proposal to end the demonstrations quickly in the manner of 'using a sharp knife to cut through knotted hemps'.

The 26 April editorial in The People's Daily, and Zhao's attempt at political reform

On the evening of 25 April Li Peng circulated Deng's remarks to party cadres of all levels. On Li's initiative, the *People's Daily* published an editorial on 26 April that paraphrased his conversation with Deng. The editorial designated the student demonstration as 'premeditated and organized turmoil with anti-Party and anti-socialist motives'. Deng was incensed with Li Peng for making public what had been a private conversation, because Deng wanted to be known as someone who 'loved and protected young people'.

After the editorial appeared, Li Peng fully expected that the fear of government crackdown would lead the student agitators to back down, but the opposite occurred. Since the beginnings of the reform era, the Chinese government had shown greater tolerance towards criticisms from intellectuals, students, and the public in general. Such politically incriminating words as 'anti-socialist', 'anti-Party', and 'pre-meditated plot' had not been heard for years. The students were enraged, with the more moderate ones joining the extremists. Despite fear of retaliation on their part, the situation between the government and the students escalated into a confrontational mode from 27April. On that day, the number of student demonstrators swelled, with many leaving wills and letters of farewell to their families before taking to the streets. Many officials in the government, the universities, and other organizations were displeased with the editorial. The intellectuals were especially critical.

The general public believed that the student movement was motivated by patriotism, and that their demands for cleaner government and better treatment were legitimate. According to Zhao Ziyang, the editorial had

the effect of increasing popular sympathy and support for the students. Video recordings showed that people in Beijing lined the streets and applauded the demonstrating students, and some even joined them. The demonstrators ignored the Beijing Municipal government's newly announced regulations on demonstrations and went through police roadblocks with impunity.

When Zhao returned from North Korea on 30 April, he was struck by the students' heightened mood of defiance following the 26 April *People's Daily* editorial. Encouraged by the widespread popular support and the failure of the government's use of propaganda, and that of the police to contain their movement, the students had grown fearless. They believed that the government had exhausted all the means at its disposal short of calling in the army, but they could not imagine that the authorities would use military force against them. Zhao and many party elders were deeply worried that the escalation of tension between the students and the government would result in bloodshed, a situation they resolved to do their utmost to prevent.

Although Li Peng and Yao Yilin were pressuring Zhao to support their tough stance, Zhao felt that his State Council colleagues had overreacted to the situation, and that Li Peng's report had prejudiced Deng Xiaoping towards taking the hard line. The tough position they took was more in line with the mentality of class struggle than with the era of reform and opening up. Having canvased opinions from leaders of various non-Communist political organizations and universities in Beijing, Zhao thought that the 26 April editorial, and the subsequent handling of the student demonstrations by the Central Committee, were against the wishes of the people. He believed that dialogue with the students, based on the principles of democracy and law, and some form of softening of the position taken by the 26 April editorial, would help not only reduce tensions, but also boost political reform.

Zhao saw Deng Xiaoping as the person who held the key to the success of implementing this approach. If Deng would relax his position a little, such as by admitting that the government had 'overreacted' to the student demonstrations, Zhao believed that he might be able to turn the situation around with his approach. If Deng stood his ground, Zhao did not think he could obtain the necessary cooperation from Li Peng and Yao Yilin in the Politburo Standing Committee 'to carry out the principles of reducing tensions and opening dialogue' as he had envisaged. Zhao tried very hard to have a meeting with Deng privately to persuade the paramount leader to soften his tone on the 26 April editorial, but he could only meet Deng's family members, who advised him to try to improve the situation by not mentioning this offending editorial; they thought it would be difficult for Deng to reverse his position. Zhao had no choice but to put his ideas to the test single-handedly.

On 4 May Zhao made a speech to the delegates of the Asian Development Bank regarding the student demonstrations. Zhao declared the Chinese were resolved to deal with the matter in a 'cool, restrained, and

orderly manner based on democracy and law'. He reassured foreign investors that China was not descending into turmoil, and that the troubles with the students would soon be revolved. He declared that the students were 'patriotic', and that 'they were merely asking us to correct some of our flaws' rather than being 'against the basic foundation of our system'. But he also admitted that there were some elements wanting to manipulate the situation in their own interest.

Zhao's 4 May speech received positive responses both at home and abroad. Many students in Beijing resumed classes from 5 May. Zhao heard from the director of the Xinhua News Agency in Hong Kong that Yang Shangkun approved of his speech. Li Peng was forced by the widespread support to react positively to Zhao's speech, but he disagreed with Zhao that the 26 April editorial remained a problem. However, Chen Xitong and other hard-liners criticized Zhao, accusing him of encouraging turmoil by his soft stance.

To address the issues of greatest public concern raised by the student demonstrators, such as democracy, the rule of law, government transparency, and corruption, Zhao thought active measures were necessary. He suggested setting up a 'Commission Against Corruption' with real authority, under the National People's Congress (NPC). This body would 'accept reports and conduct investigations into the unlawful activities of senior Party leaders; strengthen the public's ability to scrutinize the government; increase government transparency and speed up the process of establishing laws on the press and demonstrations; and adopt the practice, common around the world, of protecting the people's democratic rights by establishing specific laws'. He further proposed calling a meeting of the NPC Standing Committee to 'conduct public hearings on the auditing of several major corporations that were commonly believed to be plagued by corruption'.

Zhao wanted these projects to be handled by the NPC, partly because the people believed this organization was more transparent than the party or the government, and because he wanted the NPC, as the highest authority of the nation, to play its rightful role. On 3 May Zhao had visited Wan Li, the Chairman of the NPC Standing Committee, to discuss his proposals with him. As one of the most ardent supporters of reform and opening-up, Wan expressed his total agreement with Zhao, and indicated his willingness to set a date for an NPC Standing Committee meeting to put these issues on its agenda. It was an unfortunate coincidence regarding the implementation of these plans that Wan Li was just about to go on an official visit to the United States and Canada. He had thought about talking to Deng Xiaoping on these issues before he left, but he did not find time to do so. Wan Li praised the student movement highly while abroad, and he characterized it as patriotic and democratic.

During these troubled times, there had been many rumours circulating about the sons and daughters of senior leaders doing business by taking advantage of official government resources. Since Zhao's own children were among the accused, Zhao sent a formal letter to the Politburo, requesting it to open an investigation of members of his own family by the Central Discipline Correction Commission and the Ministry of Supervision. The investigation found nothing incriminating against members of Zhao's family.

Considering the students' interest in press freedom, Zhao mentioned to some of his senior colleagues that attention must be paid, when drafting new laws, to relaxing the restrictions on news reporting, editorials, and commentary. Zhao was hoping that implementing these proposed reforms would reduce the level of dissatisfaction among the people in general and the students in particular, leading the student demonstrations to calm down. However, when Zhao tried to enforce his proposed reforms, he found that Li Peng and Yao Yilin, together with the Beijing Municipal Party Secretary, Li Ximing, made fierce attempts to block, resist, and delay the carrying out of his proposals. They tried to distort Zhao's 4 May speech by claiming that it was in line with the 26 April editorial. They also tried to spread a notion at a meeting held by the State Council, with several university party chiefs, that Zhao's speech represented his personal opinion only, not that of the Central Committee. This message was soon spread among the students. This hard-line group also tried furiously to resist and to delay Zhao's dialogue with the students. They prohibited students from selecting their own representatives, allowing only students from the officially recognized organizations to participate. Zhao thought such dialogues were worse than none.

Zhao observed that when this group did hold dialogues with the students, they simply mouthed certain official forms of words, in the manner of handling foreign reporters at press conferences, presenting an image that would benefit themselves politically. This gave the students the impression that the government's offer to hold dialogue with them was totally insincere. Zhao criticized the group repeatedly, but they simply ignored him. They were even more resistant to Zhao's efforts to fight corruption and increase transparency. Li Peng even opposed listing these issues on the agenda of the NPC Standing Committee. As a result of the actions taken by Li Peng, Yao Yilin, and Chen Ximing to sabotage Zhao's efforts at diffusing tension and carrying out political reform in earnest, people began to have doubts about Zhao's 4 May speech.

After returning to classes, some students became disillusioned, claiming that the government spoke with 'two voices', and perceiving a rift among the party leaders. The press in Hong Kong also started speculating about the conflict between Zhao and Li around this time. Zhao feared that Li Peng and his colleagues' success in blocking his conciliatory approach and reforms, made it inevitable that any new rounds of dialogue with the students would be intensely confrontational.

Gorbachev's summit with Deng

The lack of resolution of the outstanding issues raised by the student demonstrators meant that Beijing might not be sufficiently orderly to receive Gorbachev, who was to pay China a historic state visit from 15 to 18 May 1989. The Russian leader's visit would mark an important turning point in the relations between the two countries. After the Sino-Soviet rift since the early 1960s, Russia and China were to resume friendly relations entirely on Deng's terms. During the 1980s, Deng spelt out three conditions for this to happen: the Soviets had to pull out of Afghanistan; remove their troops from China's northern borders; and their Vietnamese allies had to leave Cambodia. After lengthy negotiations, Gorbachev had agreed to China's terms, proving the correctness of Deng's assessment that the Soviets were overextended. The triumphant Deng was ready to play the gracious host, welcoming Gorbachev at Tiananmen Square, with the world press in attendance, to celebrate the rapprochement of the two great neighbouring nations.

Before the arrival of Gorbachev and Western press luminaries, the worried Deng was ready to use all possible means to clear the demonstrators from Tiananmen Square, including the use of force. On 13 May Zhao and Yang Shangkun went to see Deng, who complained that the demonstrations had been allowed to drag on for far too long. Zhao tried to assure Deng that the vast majority of the students were aware that their nation's honour was at stake and would be unlikely to upset the welcoming ceremony. Zhao also noted that Deng agreed in principle with his view on opening a dialogue, tackling corruption, and increasing transparency The pressure was now on Zhao to ensure an orderly Beijing, without people agitating at Tiananmen Square during Gorbachev's imminent visit. The task turned out to be impossible.

Zhao was soon to face the more intensified confrontation he had feared between the students and the government hard-liners. Although many Beijing students chose to remain on their campuses, on 13 May the students who were desperate to keep their movement going, particularly the more radical new arrivals from other cities, decided to use a novel tactic, which was to stage a hunger strike while sitting in, or camping out, in Tiananmen Square. These students thought Gorbachev's visit gave them a good opportunity to pressure the government to give in to their demands, the strongest of which was to reverse the characterization of their movement made by the 26 April editorial. Anxious that deaths among hunger strikers would inflame the sympathetic public, the government provided shelters from rain, and medical and other facilities to keep the hunger strikers alive. Official statistics recorded that 8,205 hunger strikers were taken to hospital.

On the same day, Zhao delivered a speech to a gathering of workers, saying that 'it would be unreasonable for the students to disturb international state talks and do damage to the Sino-Soviet Summit because their

demands had not been satisfied'. He pleaded with the students to 'take the big picture into consideration, and not injure our friends while delighting our enemies'. This speech was printed in all the major papers, but the students did not respond to it. On 14 May several well-known Chinese intellectuals, aware of the possibility of violent clashes, and thus of the importance of clearing the square before Gorbachev's arrival, urged the students to leave Tiananmen Square temporarily, but to no avail.

Just before Gorbachev arrived, Li Peng asked Zhao whether the latter was going to continue to use the soft measures, which had already proven useless, to deal with the student demonstrations. Zhao thought the cause of the failure was not the soft measures but Li's actions, which had prevented him from carrying out proper dialogues and political reforms to address the major concerns of the students. Li's query revealed to Zhao Li's hidden ill intentions of looking for an excuse to use violent means to crush the student demonstrations.

By the day of Gorbachev's arrival on 15 May, Tiananmen Square was not only still filled with hunger strikers, but the number of their supporters had also actually grown. At about 1 a.m. on 16 May, the day when Gorbachev and Deng were scheduled to meet, the government made a last desperate attempt to clear the square with loudspeakers, urging the hunger strikers to consider the national interest, end their hunger strike, and return to their universities. The students were also told that the government was starting a dialogue with their representatives. They listened under banners they had made to welcome Gorbachev as a political reformer and 'ambassador of democracy', but they and their supporters refused to leave the square.

This situation forced the government to change the plan of welcoming Gorbachev at Tiananmen Square, and substitute instead a small ceremony at the heavily guarded airport. When Deng subsequently met Gorbachev at the Great Hall of the People, some demonstrators even tried to crash into the building, breaking a window in the attempt. Deng and other senior officials were humiliated by having to change the venue, and by not being able to bring order to their capital during a landmark occasion in China's international relations.

The meeting between Deng and Gorbachev, both reformers in their different ways, nevertheless went well. According to the Foreign Minister Qian Qichen, who sat in on the two-and-a-half hour meeting between them, Deng was an 'exuberant host', who talked 'disarmingly about previous tensions with the Soviet Union'. Deng described the 1960s Sino-Soviet ideological debates, in which he personally played a leading role, as 'all empty words'. Deng said that the past problems stemmed from the fact that the USSR did not always treat China as an equal partner. He also said that the Chinese would never forget the help provided by the Soviet in laying China's industrial foundation. Deng was obviously happy at the healing of the prolonged breach between the two countries, and with the beginning of a new era in their relations, on his

proposed terms. Gorbachev expressed agreement with Deng's views and declared his support for striving to develop a more friendly relation between the two neighbours.

Even given Deng's steely self-control, his behaviour sometimes betrayed the tension he felt about the protests that seemed to challenge his rule in the very centre of his own capital. During the banquet in honour of Gorbachev, the world saw on TV his shaking hand dropping a piece of dumpling from his chopsticks.

Deng had taken great care to make sure that improvement in Sino-Soviet relations would not be at the expense of good Sino-American relations. In February 1989, Deng had informed President George H. W. Bush about the coming Sino-Soviet rapprochement, and assured Bush that the times had changed, and that there was no danger of China developing the close relationship that it had had with the Soviets during the 1950s. Deng also told President Bush that it was in China's interest to continue to seek closer relations with the United States. In May 1989, when Wan Li was visiting North America, Deng had sent him to reassure U.S. and Canadian officials, including President Bush, that the coming Sino-Soviet summit would make no difference to China's relations with the U.S. and Canada. After Gorbachev's visit, Deng sent Qian Qichen to inform the American government about the Sino-Soviet discussions.

The international press that gathered in Beijing to cover Sino-Russian rapprochement found the student movement mesmerizing. According to an estimate by the Ministry of State Security, about 1.2 million people were present at Tiananmen Square on 18 May, despite the rain. The protest had spread to other cities, and some 200,000 protestors, many after train journeys of several days, had converged on the square. Gorbachev's press conference that was to take place at the Great Hall of the People had to be moved to the Diaoyutai Guest House because his motorcade could not pass through Tiananmen Square.

The drama in the square proved more fascinating to the foreign press than Gorbachev's visit. Unlike ordinary Chinese people, who tended to keep a discreet distance from foreign journalists, the English-speaking demonstrators were eager to present their case for freedom, democracy, and the need to curb high-level corruption, to a vast international audience. Although some foreign reporters recognized that the knowledge most of the Chinese students had about democracy, and how to set about forging it, was limited, they could not avoid being moved by the young people's enthusiasm and idealism. With the eyes of the world on China, the students grew more confident that the PLA would not attack them. The students were right that Deng would not send troops to attack them when Gorbachev remained in Beijing, but the prolonged turmoil they had created at Tiananmen Square, and their brazen refusal to leave it during Gorbachev's state visit, made Deng feel that they had gone too far.

Moreover, a serious misunderstanding was about to arise. When Gorbachev, as the president of the U.S.S.R. and the General Secretary of the Russian Communist Party, met Zhao Ziyang, the General Secretary of the Chinese Communist Party, during the afternoon of 16 May after Gorbachev's talk with Deng, there was a confusion about whether the Russian leader's meeting with Deng, or the one with Zhao, constituted the summit. This situation arose because Deng's official position was neither the president of China, nor the general secretary the CCP. Deng had even eschewed membership of the Politburo's Standing Committee, to exclude other party elders from this body. The reader will recall that Deng only allowed himself the pivotally powerful chairmanship of the Central Military Commission.

To clarify this situation, and to carry out Deng's expressed wish that it was *his* meeting with Gorbachev that constituted the summit, Zhao felt obliged to explain to Gorbachev that Deng Xiaoping remained the paramount decision maker for the CCP, a situation which had been officially confirmed by the First Plenum of the Thirteenth Central Committee in 1978. During their meeting, Zhao tried to make it abundantly clear that it was the Gorbachev-Deng meeting that signified the restoration of the relations between the parties of their two nations. In his past meetings with foreign leaders, Zhao had routinely let them know that Deng remained at the helm.

Zhao's remarks to Gorbachev on Deng's role were intended to enhance Deng's prestige and to legitimize Deng's exercise of power in the mind of the public. He was soon to discover that these remarks were misunderstood by Deng and his family, and that they were extremely angry with him. Zhao was dismayed by how and why the publication of his well-intentioned remarks led Deng and his family to the view that Zhao was 'shirking responsibility' and pushing Deng 'intentionally' into the forefront 'to confront the public at a critical moment'. It appeared that Deng had forgotten that it was Li Peng who had pushed Deng to the forefront of confrontation with the public, by the 26 April editorial.

Reflecting that Deng had treated him well and had shown long-term trust and vigorous support for him over the economic reform issues, Zhao was deeply aggrieved by this misunderstanding, mainly because of the pain it must have caused his aged mentor. Zhao also felt wounded by the false light it threw on his character. On 28 May Zhao wrote a letter to Deng to explain his remarks to Gorbachev, but Deng never acknowledged or replied to this letter. Li Peng, Zhao's chief rival, wrote in his diary that Zhao's comments to Gorbachev were the latter's way of placing blame on Deng for the economic troubles of 1988, and for the current student disturbances. Once again, Deng agreed with Li.

Zhao's proposal to reverse the offending editorial's line, countered by first moves towards martial law

16 May was the fourth day of the student hunger strike. Zhao became desperate to bring a quick end to it before any deaths occurred, and before Li Peng and his colleagues used the students' intransigence as a pretext to violently crack down on them, after Gorbachev and important foreign media moguls had departed from China. In the evening of that day, he proposed to his Politburo colleagues, for the first time, to accept the students' strongest demand, which was to reverse the 26 April editorial that had designated their movement as anti-party and anti-socialism, because these labels carried the consequences of punishments for those involved. Li Peng opposed the idea, saying that the editorial was drafted strictly according to Deng's own words. Zhao rebutted Li, stating that the editorial had been drafted according to the minutes of the 24 April Politburo Standing Committee meeting and that Deng had merely voiced support for the discussion that came out of that meeting.

Then Yang Shangkun warned that revisiting the 26 April editorial would damage Deng's image. Zhao replied that they could avoid damage to Deng's reputation by arranging to have the Politburo Standing Committee take collective responsibility for the 26 April editorial debacle. Zhao added that, since he had sent a telegram from North Korea agreeing with Deng's decision, he would accept the responsibility for the 26 April editorial himself. On hearing Zhao's offer, Li Peng exclaimed, 'This is not the proper attitude of a politician!' As Zhao could not go forward with this line, on 17 May he phoned Deng asking for a private meeting with him to settle the matter. Later, a member of Deng's staff replied, asking him to go to Deng's home that afternoon.

When Zhao arrived at Deng's house, he was discomfited by the fact that, instead of finding Deng alone, all the members of the Politburo Standing Committee, as well as Yang Shangkun, Deng's close associate and a spokesperson for the military, were already assembled there. Wan Li, the chairman of the National Party Congress, would have been there, but for the fact that he was still abroad. Zhao immediately felt that things had already taken a turn for the worse.

Zhao was the first one to speak. He pointed out the extremely grave situation of still having 300,000 to 400,000 demonstrators in the capital, protesting government corruption and lack of transparency, as well as its 'cold-hearted' disregard for the lives of the hunger strikers. Besides students, many teachers, scholars, journalists, and even government staff were among the protesters. Zhao claimed that they had widespread sympathy from workers and peasants. Then he appealed to those present to relax the judgment of the 26 April editorial that labelled the student movement unfavourably, as the key to stopping the confrontation

with the massed demonstrators, and for gaining wide support. When Zhao was making his points, he noticed that Deng appeared ‘very impatient and displeased’.

As soon as Zhao finished speaking, Li Peng and Yao Yilin both stood up, criticizing him vehemently, and blaming the escalation of the demonstrations on Zhao’s 4 May speech to the Asian Development Bank. Surprised by the intensity and the unrestrained manner of their attack, Zhao got the impression that they must have already received Deng’s tacit approval to make it. Hu Qili, Zhao’s ally in the Politburo Standing Committee, expressed the opinion that the 26 April editorial should be revised. Qiao Shi, the remaining member of the Politburo Standing Committee, equivocated. Opposing a revision of the editorial, Yang Shangkun mentioned that Liao Hansheng, a retired veteran military leader, believed that martial law should be applied. Zhao noticed that Yang had shifted from his previous position of being against the imposition of martial law, to the opposite.

After everyone had expressed an opinion, Deng declared, ‘The development of the situation has only confirmed that the judgment of the 26 April editorial was correct. The reason that the student demonstrations have not subsided is something within the Party, and that is Zhao’s May Fourth speech at the ADB meeting. Since there is no way to back down now without the situation spiralling completely out of control, the decision is to move troops into Beijing to impose martial law’. Then, on 17 May, he appointed Li Peng, Yang Shangkun, and Qiao Shi as a three-person team to implement the imposition of martial law.

Although Zhao was extremely worried about the grave consequences Deng’s decision would have, he said nevertheless that ‘having a decision was always better than not having one’. Deng then said, ‘If this turns out to be a wrong decision, we will all take responsibility’. Li Peng mentioned that the contents of the Politburo Standing Committees had been leaked to the public, and that there must be bad elements on the inside. Li followed this remark with a claim that Zhao’s assistant, the Political Secretary Bao Tong of the Politburo Standing Committee, was one of them. Zhao protested, asking Li for his evidence for such a claim. Li replied that he had evidence that he would reveal to Zhao later.

Zhao’s last efforts, and his removal

Extremely upset, Zhao walked out as soon as the meeting adjourned. He decided that no matter what, he would not be the general secretary who mobilized the military to crack down on the students. In a state of heightened emotion, he called Bao Tong from his home to ask him to draft a letter of resignation for him. He also explained his decision to his wife, his daughter, and his two sons; they understood and accepted what he planned to do. When Yang Shangkum found out about this letter from the Service Bureau of the General Office of the Central Committee, Yang ‘repeatedly beseeched’ Zhao not to ‘pour gasoline on a

flame', because the revelation of a split among the leaders through Zhao's resignation would make matters worse. On the evening of 17 May Zhao refused to chair a meeting of the Politburo Standing Committee to announce martial law. Even though Zhao acceded to Yang's pleading and had his letter retrieved from the General Office, he was effectively excluded from the government's decision-making process from 17 May onwards, when he also noticed that Li Peng began to monitor his public activities.

During the evening of 17 May, the Central Committee General Office made arrangement for the top leaders to visit hunger-striking students who were in the hospital. Li Peng was not going to go until the last minute, when he found that Zhao was going. On 18 May Zhao forwarded a selection from the many letters he and the Central Committee had received from many prominent people and senior party members, who urged the party to treat 'the students properly, acknowledge that the students' actions had been patriotic, and change the wrongful stance assumed towards the students'. He also enclosed a letter of his own reiterating his views, and warning Deng against imposing 'harsh measures'.

The decision to implement martial law after the departure of Gorbachev on 19 May was announced by Yang Shangkun to an enlarged meeting of the CMC on 18 May. He also instructed their commanders that the troops were not to fire, even if provoked; many did not even carry weapons. On that day, Li Peng also informed large numbers of high-level party, government, and military officials of the troop movements.

On the early morning of 19 May Zhao wanted to visit the students at Tiananmen Square. When Li Peng failed to get the General Office to stop Zhao from going there, he also decided to go. According to Zhao, Li was terrified and fled soon after they arrived there. After greeting the students, Zhao made an impromptu speech, saying to them that he 'too had once been young and had taken part in demonstrations without regard for the consequences'. He advised them 'to give up their hunger strike and to take care of their health, so they could take an active part in the four modernizations'. Knowing what could be in store for them, he told them to 'treasure their lives'. His speech was printed by many Beijing papers. The picture of a trembling Zhao talking to the demonstrators with tears in his eyes was seen on TV by people around the world. Zhao's colleagues later criticized him harshly for this speech.

During the afternoon of 19 May Zhao received a notice, asking him to chair and speak at a meeting later that day to announce the mobilization of troops and the imposition of martial law. Contrary to the normal practice, the notice did not provide other details, such as where it was to be held and who would attend it. The notice was likely to have come from Li Peng, for it enclosed Li's 19 May speech, which Zhao had seen on television. Li's speech associated the escalation of the student demonstration with Zhao's speech on 4 May. Li might have given Zhao the notice on Deng's instruction, for Deng did not seem to want to dismiss Zhao, even though he also had blamed the escalation of the student demonstrations on Zhao's 4 May speech

and had rejected Zhao's plea to reverse the judgment made by the 26 April editorial on the student movement. Witnessing Zhao's strong emotional response against martial law, Deng had decided to ask Zhao's colleagues to implement it at the 17 May meeting. Significantly, during the same meeting, as if to remind those present, Deng had said 'Zhao is still the General Secretary'.

Party discipline traditionally demanded that Zhao, as Deng's subordinate, should implement Deng's decision without equivocation. At this point Deng might have wanted to give Zhao, who had carried out the economic reform so successfully until the recent high inflation and bank runs (a situation for which Deng must have been aware that he was himself partly responsible), a final chance to observe party discipline and agree after all to implement his decision on martial law, whatever personal reservations Zhao might have had. But Zhao stubbornly refused to take any part in the 19 May meeting and applied instead for a three-day leave on account of physical exhaustion. Zhao suggested Li Peng to chair the meeting in question.

When Li Peng announced martial law on the morning of Saturday 20 May, 50,000 troops had already been ordered to move quickly during the night of 19 May to arrive at Tiananmen Square on the morning of 20 May. By the afternoon of 19 May, students began to learn that soldiers in trucks, tanks, and armoured vehicles were at the outskirts of Beijing. Naturally they were fearful, and some Beijing students went back to their universities. The most determined protesters, especially students from other cities, decided to stay and face the worst. The martial law, and their government sending the army against the students, incensed the residents of Beijing and aroused them to organize resistance. The city was lit up by the light of a full moon on the night of 19 May. Hundreds of thousands came out spontaneously into the streets or were mobilized by others by phone. Even children and old ladies ventured out to sleep on the roads, and some people lay on train tracks, while others blocked the entrances of the subway; together they formed crowds everywhere to prevent the troops from entering the city. People with walkie-talkies stationed themselves at key junctions to warn people of the arrival of troops, so that they could rush to surround the soldiers. Foreign correspondents reported that the 'entire city became involved in the demonstrations, beyond anything ever before witnessed in the city'.

This collective action by the people of Beijing did indeed stop the 50,000 troops from entering the city from the four compass directions. At 4:30 a.m., student-controlled loudspeakers at the site of the sit-in announced in triumph, and amidst loud cheering, that the troops were unable to reach Tiananmen Square because they had been blocked by the people in all directions. Some students promptly organized themselves to address the soldiers, stalled in their trucks, explaining their position to them. People with access to printing machines gave the soldiers leaflets. Some soldiers, mostly rural youths with less education than the

university students, began to appear sympathetic to the students. These first contingents of troops, who were told not to respond to taunts or use violence, were at a loss what to do.

In Beijing, the people's spontaneous and massive resistance surprised Li Peng and other party leaders. Li noted in his diary on 20 May that everywhere the troops had been stopped. On 22 May his diary recorded that the troops were not able to move for fifty hours. Li Peng also wrote that Deng Xiaoping was worried that the youthful students might be able to sway the young soldiers, so that the martial law troops would be unable or unwilling to impose order on the protestors. On 22 May the soldiers were ordered to withdraw to the outskirts of Beijing temporarily, to await further orders. Even though martial law had not ended officially, the demonstrators began to celebrate their victory.

Buoyed by popular support, new arrivals from the provinces continued to swell the number of students occupying Tiananmen Square, although the hunger strike had ended before the last week of May. On the night of 29 May, they erected opposite Mao's portrait in Tiananmen Square a huge statue, which they called the Goddess of Democracy, modelled after the American Statue of Liberty. It was made of styrofoam by the students of the Central Academy of Fine Arts and was carried to the square piece by piece by pedicabs. The unveiling ceremony attracted enormous attention both in China and abroad.

The Goddess of Democracy statue *(Reddit*: retrieved on 15 November 2023 from https://www.reddit.com/r/neoliberal/comments/bw095o/goddess_of_democracy_constructed_in_tiananmen/)

Meanwhile, Zhao Ziyang, while still officially on leave, made many futile attempts to inform Wan Li of the situation in China, and to ask him to return to China promptly. Zhao hoped that if after Wan Li's return,

he was allowed to hold an NPC meeting ahead of schedule, and if the NPC was empowered to use the means of democracy and law to turn the situation around, the present crisis might be resolved. The NPC vice-chairman Peng Chong told Zhao that he had already written to the Central Committee, requesting Wan Li to return ahead of schedule with the permission of the NPC Standing Committee.

Zhao later learned that Li Peng had blocked his attempts to try to get Wan Li to come back to China ahead of schedule. Since the leaders feared that Wan Li might back Zhao, they had asked him to return to via Shanghai. When Wan arrived in Shanghai on 26 May he was greeted by the Mayor Jiang Zemin and an alternate Politburo member, Ding Guangen, both of whom briefed him and provided him with a package of documents explaining why Zhao had been pushed aside. Although Wan spoke about the student movement as patriotic and democratic while aboard in North America, he expressed support for Deng's policy after returning to China. After Wan Li showed his solidarity with the official position, he was permitted to return to Beijing.

Zhao's refusal to attend the 19 May meeting made Deng and other elders extremely angry. On 20 May Deng called a meeting that included, besides Yang Shangkun, the elders Chen Yun, Li Xiannian, Wang Zhen, and Peng Zhen, and three Politburo Standing Committee members, Li Peng, Qiao Shi, and Yao Yilin, (the other two, Zhao Ziyang and Hu Qili, were not notified). Zhao learnt that, during that meeting, Wang Zhen labelled him as a counterrevolutionary, and Li Xiannian accused him of setting up a 'second headquarters'. Deng made the final decision to remove Zhao from his position as the party general secretary. Since Deng was aware that there were criticisms about the handling of Hu Yaobang's case both inside and outside China, he directed the staff to prepare documents and follow proper procedure in Zhao's case. He asked that the public announcement of Zhao's case be delayed until the necessary procedures were completed.

The final crackdown on 4 June 1989

Facing massive resistance from the people of Beijing against martial law, Deng and other top leaders at the centre became worried about whether the senior military commanders, and regional leaders, still supported their determination to use military force to end what was characterized by Li Peng as a 'counter-revolutionary turmoil' at Tiananmen Square. This term was used to represent the student demonstration as a planned and premeditated movement to overthrow the CCP and Deng Xiaoping. On 20 May eight retired generals, who had not been consulted on enforcing martial law, wrote to Deng expressing their opposition to the use of force. Deng and Yang Shangkun despatched top military leaders to visit each of these generals individually to explain the reasons for their decision. Using the military to take control of Tiananmen Square

was approved by the commanders of all seven military regions. Deng himself tried to talk to all the influential elders to make sure they were solidly behind him. Li Peng focused on phoning leaders across the country to inform them about the situation at Beijing, and to win their support for the way the government planned to handle it. His diary on 21 May recorded that the leaders of twenty-two provincial-level organizations expressed their support for martial law.

Immediately after the soldiers were ordered to retreat temporarily on 20 May, Deng directed Yang Shangkun to move trucks, armoured vehicles, and tanks with enough soldiers to overcome all resistance. Soldiers were despatched from five of the seven military regions, mostly by rail, and some by plane to Beijing. By Saturday 3 June around 150,000 soldiers were gathered on the outskirts of Beijing. Because of the previous experience of being overwhelmed by the people of Beijing and the students' resistance, soldiers had been secretly infiltrating into the city as civilians or in other clandestine ways since 26 May. By Friday 2 June many soldiers were assembled inside the Military Museum about four miles from Tiananmen Square. Some especially well-trained forces were positioned inside the Great Hall of the People.

The student demonstrators had some inkling that soldiers were moving back into the city prior to 3 June. Students at the sit-in had several rounds of voting about staying or leaving. A majority voted to stay, although most of those who did not want to stay had already voted with their feet. They still could not imagine that the government troops would actually shoot and kill them. Some student leaders tried to bargain with the government, promising to leave the square if they would not be punished and if their organization would be recognized by the government. The government would not give them such an assurance.

On the night of 2 June, the demonstrators and their allies spread the word that some military forces were entering the city, and many people gathered to impede the progress of army vehicles, overturn them, and even set fire to them. A Beijing party official, Chen Xitong, reported that rioters 'beat up PLA soldiers, seized munitions and military provisions', and the office of the Central Government and other major government organs came under siege. Such reports made the suppression of the 'counter-revolutionary riot', as the distraught Li Peng called it, even more urgent. He declared that the government must be 'absolutely firm' in trying to put it down, and that no mercy would be shown to the tiny minority of rioting elements.

The dark Saturday night of 3 June was chosen for the crackdown, so that by Sunday 4 June Tiananmen Square would be free of turmoil. With military forces already assembled, during the afternoon of 3 June

Qiao Shi called an emergency meeting to finalize the plan for clearing Tiananmen Square. Yang Shangkun presented it to Deng Xiaoping, who promptly approved it. The PLA martial law forces, the People's Armed Police, and the Public Security were authorized to use any means necessary to quell the disorder.

On 3 June the commanders of the various military regions met at the headquarters of the Beijing Military Region to review the details of their assault plan for that evening. Three waves of troops were to move in their motorized vehicles from four directions of east, west, north, and south, starting at 5:30 p.m. At 6:30 p.m. that evening, an emergency announcement was made by the public radio and TV, urging workers to remain at their posts and residents to stay at home to 'safeguard their lives'. Then CCTV, the state TV station, broadcast this message non-stop, and at the same time loudspeakers at Tiananmen Square made the same announcements. Since the announcements did not say that the troops were moving in, many people, who had become accustomed to government warnings, were not sufficiently alerted by the phrase, 'safeguard your lives'.

On both 2 and 3 June student protestors used a 'Flying Tiger' squad of motorcyclists to spot troop movements and inform others to set up roadblocks. When the first wave of troops in their trucks came upon the roadblocks, people rushed up to slash the vehicles' tires or just let air out of them. When the trucks came to a halt, some people ripped out parts of their engines, threw bricks and stones at the soldiers, or taunted and assaulted them. Some of these roadblocks were effective in stalling not only the first wave, but also later waves, because of the build-up of disabled vehicles.

The greatest civilian resistance and military violence occurred from 11:00 p.m. on 3 June to 4:30 a.m. on 4 June, on a main street four miles west of Tiananmen Square, near Muxidi Bridge and a group of tall apartment buildings where retired high-level officials lived. At about 9:30 p.m., soldiers of the 38th Group Army reached Muxidi Bridge and found their advance blocked by buses stretched across the road. Gathered there were also several thousand civilians, who taunted the troops and threw rocks and other objects at them, after the soldiers had fired tear gas and rubber bullets at the crowd. An officer ordered the crowd to disperse using a bullhorn, without any effect. Even though this army group was under special pressure to prove their loyalty to the party, their commander, Xu Qinxian, excused himself from having to lead his troops, on medical grounds. By10:30 p.m. the soldiers at Muxidi Bridge began firing into the air and throwing stun gun grenades, but no deaths occurred.

By 11:00 p.m., still unable to move forward, the soldiers began to fire directly into the crowd, using their AK-47 automatic rifles, which were capable of firing 90 rounds per minute. As people were shot, the wounded were rushed by others around them to the Fuxing Hospital nearby with whatever means of transport was near and available. Meanwhile PLA trucks and armoured vehicles started to advance at speed,

ready to run over anyone who stood in their path. Even after the soldiers started to shoot at their own citizens with live rounds, it took them about 4 hours to advance the four miles to Tiananmen Square.

On Sunday 4 June the troops did not arrive in large numbers at Tiananmen Square until after midnight, although soldiers in plainclothes and some police had already been there for several hours. The square had been lit up with lights since 8 p.m. The soldiers who arrived from the east shot at the windows of the buildings where members of the foreign press lived, to warn them not to stay near the windows and take pictures of the military action. Plainclothes officers stopped foreigners in the sensitive areas, asking them to keep off the streets for their own safety, and not to take photographs of any military action. Many foreign photographers had their cameras taken away from them. Despite the Chinese warnings, many scenes and eye-witness accounts of the terrible violent events reached the West. The iconic picture of a Chinese youth blocking a tank's progress was imprinted in the memory of many Western TV viewers.

Just before the troops began to move in, an estimated 100,000 protestors were still occupying the square. By 1 a.m. on Sunday 4 June soldiers were arriving from all directions. From the edges of the square and the Great Hall of the People, the soldiers fired live bullets at those who had been taunting and throwing rocks at them and refusing to move. The surprised and panicking people nevertheless carried away the wounded. A student leader, Chai Ling, told the others that they should feel free to choose either to stay or go away.

A Taiwanese popular singer, Hou Dejian, who had been with the demonstrators since 27 May, took a microphone to warn those remaining that the troops were closing in on them, and that having already proven their courage and determination, they should leave to lessen the bloodshed. At 3:40 a.m., Hou and some others approached the soldiers enforcing martial law, to negotiate a peaceful withdrawal from the square. The soldiers agreed after a brief discussion. The lights in the square went out at 4 a.m. Hou promptly returned to the microphone announcing the agreement and asked those remaining to evacuate immediately. Some three thousand people quickly followed Hou out of the square. After 4:30 a.m., as the soldiers closed in, the remaining students either retreated or were forced out by 5:40 with little violence, as the government later claimed. Just before dawn, Tiananmen Square was then completely clear of protestors, as the enforcers of martial law had planned.

There were no agreed figures regarding how many people were killed or wounded during the crackdown. Chinese official reports a few days after 4 June stated that over two hundred were killed, and about two thousand were wounded. Among those killed were some twenty-three students and twenty soldiers. Ding Zilin, the mother of one of those killed, attempted to collect the names of all those killed during that tragic night. As of 2008, she had collected almost 300 names. On 2 July Li Peng gave Brent Scowcroft, the U.S.

National Security Advisor, a figure of 310 deaths, including some soldiers and thirty-six students. Timothy Brook, a Canadian scholar at Beijing during that time, reported 478 deaths and 920 wounded. His figures were drawn from all eleven major Beijing hospitals and estimates by foreign military attaches. Even Brook's mortality figures were believed to be on the low side because people might have tried to hide away relatives who died from that night's violence, to avoid being found guilty by association. According to the report of Li Zhiyuan, the chief political commissar of the 38th Group Army, in addition to soldiers killed and wounded, some 65 trucks, 47 armed personnel carriers, and 485 vehicles were damaged.

The consequences of the crackdown, and the punishment of Zhao Ziyang

A most serious political consequence of the student movement, which advocated a more democratic and transparent government, was the fall of Zhao Ziyang, who was sympathetic to them and worked towards the same goal. Ironically, the pro-liberal student demonstration of 1986 had precipitated the dismissal of the liberal Party Secretary Hu Yaobang. Had Hu carried out strictly Deng's instructions to clamp down on liberal intellectuals' and students' criticisms of the party, and their call for greater freedom of expression, Deng might not have forced him to resign. By the same token, if Zhao Ziyang had implemented martial law as Deng had commanded, Zhao might have not been purged. Deng had appointed these two individuals not just for their proven capability and experience as high-level party officials, but also because of their sincere belief in reform and opening up of China.

But this was in the economic sphere. The tragedy for them both, and for China, was that their political ideas were more liberal, and more in tune with the enlightenment ideals of the modern West, than those of Deng and others, who included several highly influential revolutionary elders, and a powerful contingent of left-wing conservative colleagues. Both Hu and Zhao were incorrupt and highly principled men, who could neither bend sufficiently to the demand of party discipline, nor succumb to the temptation of playing the games of flattery, scheming, slandering, rumour mongering, and acquiescence to power abuse or corruption common among their colleagues. The student demonstrations highlighted the differences between their liberal approach to political reform, and that of their younger conservative rivals, who were supported by the anti-reform elders. Their rivals or enemies exploited the occasions of student protests, and the fear of the party losing control, to destroy Deng's trust in them and their political careers. Considering how close Zhao was to becoming Deng's actual successor, and the high probability of Zhao endeavouring to lay the foundation of democracy and rule of law in China if he had taken over from Deng as the paramount ruler of China, those who wish China well must deeply regret the loss of this opportunity.

After Zhao's three-day leave, no one told him that he had been removed from his general secretaryship. Since no one contacted him in any work-related issue, he felt entirely isolated and worried that he might be

accused of having neglected his duties or abandoning his job. He tried to ask Yang Shangkun to come over to see him to find out whether he had been dismissed, and to explain to Yang why he had spoken to Gorbachev about Deng's position in the party. He did not manage to see Yang. Further action on Zhao's case was left in abeyance until the party leaders had dealt successfully with the mass movement in Beijing. Zhao was put under house arrest on 28 May. Hearing intensive gun fire while sitting in his courtyard on the night of 3 June, Zhao concluded that the tragic event which he had tried so hard to avoid had indeed taken place.

Bao Tong, Zhao's liberal-minded aid, who was accused of passing to the student demonstrators secret information from Politburo meetings, such as troop movements, was arrested and sent to Qincheng, a prison for high-level inmates, where Jiang Qing had spent the years of her incarceration. Some of Zhao's other assistants were also sent to jail for many years. Many student leaders and even some prominent intellectuals were arrested and detained, some for prolonged periods. Some demonstrators, helped by an 'underground railroad' of safe houses and brave friends, escaped abroad, and these included the intellectuals Yan Jiaqi and Chen Yizi, and student leaders Chai Ling and Wu'erkaixi.

Another political consequence involved regression in political reform. After the ground-breaking Third Plenum of the Eleventh Party Congress that had started the reform and opening up of China, the CCP leaders, having learned from the painful experiences of the Cultural Revolution, wanted to prevent its recurrence. As a result, they had established a new Party Charter that specified 'Several Rules Governing Political Life in the Party' in the Twelfth Party Congress in 1982. After urgent tasks in the aftermath of the Tiananmen Massacre had been dealt with by the party leaders, they decided to hold an enlarged meeting of the Politburo Standing Committee from 19 to 21 June 19, to criticize Zhao and to act out the drama of following proper lawful procedures to end Zhao's political career.

Two high officials, one of whom was the Vice Chairman Wang Renzhong of the People's Political Consultative Conference, were sent to ask Zhao to prepare for self-criticism. Zhao responded by asking how he could write a self-criticism, since documents of criticisms and accusations against him had already been circulating all over the place, but none had been shown to him, and no one had checked with him whether the facts were correct. He also pointed out that his dismissal had violated party procedure. According to the Party Charter, when the Central Committee was not in session, its power was to be assumed by the Politburo Standing Committee at a meeting chaired by the general secretary of the party. Since no Politburo Standing Committee meeting chaired by him had been held to dismiss him, his removal from the general secretaryship lacked legal authority. By the same token, subsequent meetings to announce his 'crimes', held by Li Peng, Yao Yilin, Yang Shangkun, and Song Ping, the director of the Organization Department, with various departments and the first- and second-ranking leaders of provinces, also lacked

legal authority. Zhao also protested against the summary detention of Bao Tong, which appeared to be following the method of the old political campaigns. If the leaders of the party believed that Bao had done something wrong, they should handle his case according to the Party Charter and Law. Zhao asked his visitor to relay his message regarding Bao to the Central Committee.

Li Peng, who first chaired the Politburo Standing Committee enlarged meeting, gave a report that accused Zhao of 'splitting the Party' and 'supporting turmoil'. Li then proposed that Zhao be removed from his positions as general secretary, member of the Politburo, and member of the Politburo Standing Committee, and that there was to be further investigation on matters relating to Zhao. After listening to two whole days of criticisms and accusations against him, Zhao asked for a chance to speak. Yao Yilin, who chaired the latter part of the meeting on the second day, reluctantly gave Zhao ten minutes to respond. Zhao read out a statement that 'laid out the truth and the actual context of the debate and rebutted the accusations that had been made' against him in the meeting. Zhao's audience was startled and ruffled by his reaction, because someone in his position was normally expected to behave in a contrite way, not to argue, admit his wrongdoings, and hang his head in shame. Zhao had been exhorted by Wang Renzhong, when the latter visited him for the second time before the meeting, not to challenge his attackers and critics at the meeting if he hoped to be treated leniently.

To punish Zhao for his 'bad attitude', he was told after the meeting resumed the next day that the participants were to vote on a resolution to take away his membership of the Central Committee, in addition to removing him from the positions announced by Li Peng previously. Zhao found many irregularities in the conduct of the meeting and considered that the way the administrative punishments were handed out to him were in total violation of the Party Charter and Rules of the Party. He was going to make a statement before the voting took place, but he restrained himself because he did not want to offend many of the elders, such as Deng Xiaoping and Marshal Nie Rongzhen, who attended this session of the meeting. A stony silence greeted Zhao as he raised his hand to vote against the resolution and simultaneously exclaimed 'I do not take issue with being dismissed from my positions, but I do not agree with, nor do I accept, the two accusations!'

Zhao was mentally prepared to be punished for his difference in opinion with Deng on the nature of the student demonstrations, and his refusal to implement Deng's decision to crack down on the demonstrators. He was also willing to take the calculated risk of defending his beliefs at the above meeting. Zhao regarded stepping down as a certainty. He thought the worst-case scenario might be his expulsion from the party, which did not worry him. He considered imprisonment was unlikely, but what he did not expect was the revival of the old Cultural Revolution methods to which his critics resorted, in building a case against him. They did not seem to care about the harm these backward steps would do to China's political culture.

During the last week of June 1989, the Fourth Plenum of the Thirteenth Party Congress passed the political and administrative judgment made at the above-mentioned enlarged Politburo meeting against Zhao, stripping him of all his official positions, and resolving to continue the investigation. According to the Party Charter, a two-thirds majority of a secret ballot in a plenum was necessary to dismiss a member of the Central Committee, but the vote to oust Zhao was by a show of hands. Immediately before and after this congress, the Cultural Revolution style of attack against Zhao was the order of the day. A large amount of background materials was gathered in China and abroad to implicate Zhao as a 'conspirator representing counter-revolutionary forces in the country and overseas aimed at overthrowing the Chinese Communist Party and Deng Xiaoping'. Included in these materials were also false accusations that Zhao's staff 'cooperated with the students, sent information to them, and revealed the military secrets of the plan to impose martial law'. Zhao thought the purpose of such materials was to 'create a general impression that he was indeed guilty of the most heinous crimes and was unpardonably wicked'. Some of the speeches delivered at the Central Committee meeting were full of slanders and lies, quotes taken out of context, and exaggerations of personal offences.

A Special Investigation Group, directed by Wang Renzhong, was to continue to investigate whether Zhao had manipulated the turmoil, and had leaked information to the outside world. Zhao was also asked why he 'had taken a stand and developed a policy that was contrary to Deng's.' They suggested that Zhao had 'suspicious motives' and 'personal ambition' and demanded that he admit his wrongdoing. Zhou stood his ground, explaining that he and Deng held different opinions on the nature of the student demonstrations and the consequences of the crackdown. Perhaps no one reminded Deng of how he had had to step down after he refused to accept Mao's evaluation of the Cultural Revolution as 70% versus 30% in terms of rights and wrongs. Zhao also denied Wang's suggestion that he had manipulated the students to gain political capital, because his image was tarnished by the poor economic situation. Zhao stated that the ten-year economic reform which he had conducted had done a great deal to increase the Chinese people's standard of living and China's economic power. He also claimed that the 'inflation in 1988 was neither all that grave, nor so difficult to resolve'.

The investigation lasted for a period of three years and four months, while Zhao was under house arrest. Eventually, Zhao was given a draft of The Investigative Report with 30 points in it to buttress the official judgment on Zhao, for 'supporting turmoil' and 'splitting the Party'. These points summarized the activities of Zhao and his aid, Bao Tong, which were regarded as evidence for the official judgment against them. It also accused Zhao of praising, protecting, and giving heavy responsibility to people such as Yan Jiaqi and Chen Yizi, who stubbornly maintained bourgeois liberalism. Zhao insisted that many of the points were inaccurate and contradicted facts. He also argued that even if they were all true, they were insufficient to

support the judgment against him. To people with a liberal democratic frame of mind, the 30-point draft report that was intended to condemn Zhao, actually made him look praiseworthy.

On 8 October 1989 two members of the post-Zhao Politburo Standing Committee, Qiao Shi and Song Ping, met Zhao to inform him that the Central Committee had decided to end the investigation, and to uphold the political and administration judgment against him which had been decided at the Fourth Plenum of the Thirteenth Central Committee. Zhao declared to his former colleagues that he continued to disagree with the official judgment that he was 'supporting turmoil' and 'splitting the Party'. Zhao demanded that the Central Committee announce its decision to support the original judgment to appropriate levels within the Party in a formal document, together with the facts on which the judgment was based. If the facts were the 30 points raised, Zhao demanded that these be included in the formal document. He also requested his colleagues to report the points he had raised to the Central Committee. Zhao argued that since the Central Committee had made a public announcement of his investigation, there should be a report to the public at the end of the investigation.

Unlike Hu Yaobang, who underwent a self-criticism, documents were published relating to Zhao's 'resignation'. Since Zhao remained defiant, the party was not able to distribute a document inside the party, or publish one in the country, that supported its accusation of Zhao's wrongdoing with his cooperation. Zhao did not make a self-criticism as had been demanded, and he insisted that he had done nothing wrong. Zhao learned that during the plenum of the Central Committee which announced the end of the investigation, there was no report or document released, the 30-point Investigation Report included.

Before the end of the prolonged investigation, Zhao wrote to Deng to hasten its end. He also wrote to the members of the current Politburo Standing Committee, including Li Peng and Jiang Zemin, asking for an end to his house arrest, which he considered unlawful, and which contradicted what both these leaders had told Chinese and foreign reporters – which was that he was free. He received no reply. During the visit of Qiao Shi and Song Ping, Zhao demanded that his freedom be restored immediately, since the investigation had ended. They equivocated.

After the Tiananmen crackdown on 4 June, the leaders of the CCP were determined to erase this incident from history, and to shut Zhao away from public view. He remained under house arrest for sixteen years, longer than the decade when he oversaw China's reform. He never saw Deng or received any reply to his letters from Deng, whose funeral he was prohibited from attending. Although he was not absolutely confined to his house, where he was permitted to go, what he could do, and who were or were not permitted to visit him, or whose funerals he could attend, were all strictly controlled. Over the years, his letters to his former colleagues who then led the regime were all ignored, in which he pointed out to them that his house

arrest was a violation of the Party Charter and laws of the state and urged them to restore his freedom of movement.

When Deng passed away on 19 February 1997 at age 92, the party leaders evaded Zhao's request to attend Deng's memorial service. In September of that year, Zhao wrote a letter to nine top leaders of the party and the representatives of the Presidium of the Fifteenth Party Congress through the General Office Service Bureau, laying out the reasons why the leaders of China should re-evaluate the student demonstrations and the 4 June incident, on the principle of 'not fussing over details' and instead 'focus on the lessons to be learned rather than individual blame'. He argued that resolving this difficult historical issue would help to remove the negative impact of military repression between the party and the Chinese people, and improve China's relations with Taiwan and other foreign countries. Although Zhao claimed not to have disseminated this letter, somehow overseas media learned about it. The immediate result was a further restriction on his movements and on visitors to his house.

Zhao died on 17 January 2005 aged 86. Those who confined him to his lonely courtyard house, controlled his freedom of movement and visits outside, might have believed that they had successfully smothered Zhao's voice of dissent. Zhao took his stand against Deng because he felt that he had a responsibility to history. Zhao fulfilled this responsibility through recording, in a secret journal, what had transpired during the decade when he was in active charge of China's economic and political reform, and during the 16 years of his incarceration, in the hope that his voice would be heard by posterity. This journal[5] is an immensely valuable resource for those who strive to gain insight into the economics and politics of the first decade of China's reform and opening up. It is a story told candidly, without pretension, by the principal architect of China's transformation during that momentous time.

Zhao's legacy, and international reactions

On the political side, Zhao at first advocated step-by-step reform, which involved curtailing the power of the party in the affairs of government, administration, and businesses; a less tightly controlled press; more freedom of expression for the people; greater security of private property; and the implementation of the rule of law above all. He believed that without political reform to accompany the economic modernization, the market would remain distorted by corrupt officials with shady dealings, and corruption would remain

[5] *Prisoner of the State: The Secret Journal of Premier Zhao Ziyang, translated and edited by Bao Pu*, Renee Chang and Adi Ignatius (Simon and Schuster Paperbacks, New York, London, Toronto, Sydney) 2010.

largely unchecked. Without the rule of law, the rights of the people could all too easily be trampled on by officials abusing their power. In his journal, he repeatedly pointed out that he was a victim of such abuse.

During the years of his incarceration, while he saw China's economy grew by leaps and bounds, he also saw increasingly severe corruption accompanying this growth. This coupling had the ill effect of crippling the system and undermining the people's belief in the government's ability to improve their lives. After Zhao left office, the political reforms passed by the Thirteenth Party Congress in 1987 fell by the wayside. From the point of view of a pragmatic problem solver rather than an ideologue or visionary, who had plenty of time to reflect on the direction China should follow, Zhao concluded that a Western-style parliamentary system would serve China best.

Despite Zhao's rivals' efforts to make him into a nonperson, the publication of his secret journal may help his compatriots one day to give him proper recognition as a man of principle, who struggled hard, made difficult choices, and succeeded in improving the lives of millions of people in China, in a critical period of China's reform and opening up to the world. As the twenty first century unfolds, a chorus of Chinese voices are now being heard, joining Zhao's voice from beyond the grave, calling for democracy and the rule of law for China. Liu Xiaobo, who received the Nobel Peace prize in 2010, was a prominent advocate for democracy and the rule of law in China. From December 2008 to September 2010, 10,000 signatures were collected in China for the Charter 08, a manifesto released on the sixtieth anniversary of the Universal Declaration of Human Rights, calling for China to adopt, among other things, more democratic elections, freedom of expression, human rights, and economic liberalism.

As mentioned previously, Western reporters, who flocked to China to cover Gorbachev's visit, and even more so the Chinese student demonstrations, found, in contrast to what they normally experienced, Chinese who were eager to talk to them instead of avoiding them. The students' call for democracy naturally appealed to these Westerners, whose coverage of the Chinese student sit-ins and hunger strikes won a lot of sympathy from people in the Western democratic countries. They also brought images of the Chinese government's crackdown to Western living rooms. People in the West were shocked by these events, and there were popular calls for sanctions against the Chinese Communist regime.

Immediately after 4 June, American President George H. W. Bush suspended military sales and high-level official contacts with China. Between 1983 and 1989, as anti-Soviet allies, China bought from America, at considerable cost, equipment that included torpedoes, missiles, Sikorsky helicopters, and a radar system for the F-8 fighter. The American suspension of military equipment sales, including parts, to China meant that the Chinese could not use the equipment they had already paid for.

At the G-7 summit that began on 14 July 1989 in France, many heads of state advocated harsh sanctions against China, except for President George H. W. Bush and the Japanese Prime Minister, Sosuke Uno, who both supported milder sanctions. The Western boycott of arms sales led China to source military equipment and defence technology from Russia and Israel. In 1990, at another G-7 meeting, Japan announced that it would not play any part in sanctions against China. In the 1990s, the ASEAN states decided collectively to engage rather than isolate China. By 1995, the EU, viewing China's rise as benign, stopped all sanctions against China, except for arms and the transfer of defence technology.

Good governmental relations, scholarly and business exchanges that Deng had assiduously built up with the United States and Japan, especially during the past decade, were jeopardized by the 4 June 1989 crackdown. The sanctions obviously hurt China's economy and modernizing developments. Endeavouring to keep scientific exchange between China and America open, Deng invited Lee Tsung-Dao, an American Nobel Prize winning physicist of Chinese origin, to visit Beijing in September 1989. Lee's efforts contributed to the cooperation between some American and Chinese scientists in physics.

Because President Bush and Deng had sustained a special personal relationship from as early as 1974, when Deng replaced Zhou Enlai in dealing with foreign leaders, and Bush led the U.S. Liaison Office in Beijing, they managed to keep the door of Sino-American relationship open after 4 June. Immediately after that date, Bush did an unprecedented thing for an American president: he telephoned Deng. Deng did not answer the call for it was not normal for him to conduct a phone conversation with a distant foreign leader. On 21 June 1989 Bush wrote a letter to Deng in his own hand, to explain the reasons why the U. S. had to impose sanctions on China, and he also informed Deng that he was ready to send the National Security Advisor, Brent Scowcroft, and the Deputy Secretary of State Lawrence Eagleburger, as his special personal envoy in a secret mission to speak with Deng.

Deng was pleased with Bush's gesture and received the American visitors cordially. However, he minced no words at what he perceived as American involvement and support for a serious counter-revolutionary movement that aimed 'to overthrow the People's Republic of China and our socialist system'. He explained that the PRC 'was founded as a result of twenty-two years of civil war, with over twenty million lives lost, and that no force could substitute for the Chinese Communist Party in governing China'. Deng also accused American journalists of exaggerating the violence, and of interfering with China's internal affairs. Deng insisted that China did nothing to harm American interests, whereas the United States' actions – referring especially to the sanctions – had threatened Chinese interests. It was therefore up to America to take the initiative of improving the relationship between the two countries.

Although American public opinion made it difficult for the Bush administration to resume high-level official exchanges with China, it did not prevent some high-level officials, such as former secretary of state

Henry Kissinger and former-president Richard Nixon, from visiting China during October and November 1989 respectively. Although Deng had resigned all his official positions by the time he met Kissinger, he still retained the power to guide important developments in both China's domestic affairs and foreign relations. Acting as a go-between for Bush with Deng, Kissinger brought back a letter from Deng with several proposals for making progress on the stalled relationship between China and the United States.

In December 1989, soon after Scowcroft and Eagleburger visited Deng for the second time, the United States made the decision to sell three communications satellites to China, and to support World Bank loans to China for humanitarian purposes. The U.S. move was followed by a Chinese announcement early in January 1990 to end martial law in Beijing, and to release 573 detainees held by the Chinese authorities since the spring of 1989.

In May 1990, a few months after receiving Deng's proposals, the Bush administration granted China the most-favoured-nation trading status, and China did as Deng had promised, which was to allow the dissident astrophysicist, Fang Lizhi, who had taken shelter in the American embassy after the 4 June massacre, to leave for the United States. The improvement of relations between United States and China was, however, later overshadowed by the dramatic breakup of the U.S.S.R. in 1991.

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This account relies heavily on two main sources:

1. *Deng Xiaoping and the Transformation of China*, by Ezra F. Vogel (The Belknap Press of Harvard University Press, Cambridge, Massachusetts and London, England) 2011.

2. *Prisoner of the State: The Secret Journal of Premier Zhao Ziyang*, translated and edited by Bao Pu, Renee Chang, and Adi Ignatius (Simon and Schuster Paperbacks, New York, London, Toronto, Sydney) 2010.

A third important source is:

3. *The Chinese Economy: Transitions and Growth*, by Barry Naughton (the MIT Press, Cambridge, Massachusetts, and London, England) 2007.