



China in 1989: The Crisis of Incomplete Reform

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CHINA IN 1989

The Crisis of Incomplete Reform

_____ Lowell Dittmer

The People's Republic of China (PRC) for the past year or so has been afflicted by a severe case of what we might term, in a preliminary diagnosis, a partial reform syndrome. That is, the system, in the course of its transition from a Maoist variant of command planning to "socialism with Chinese characteristics" qua "socialist commodity economy," is experiencing serious difficulties. Solutions are obviously called for, but from which system should these solutions be derived? From the standard repertoire of techniques used to manage centrally planned economies with which the leadership is experienced and comfortable? Or from the new set of techniques typically used to manage other commodity (i.e., market) economies? If the problems are political, whence can the leadership muster sufficient legitimacy to command obedience and order? From the old doctrines of proletarian dictatorship, the leading role of the party, and democratic centralism? Or from emerging notions of a political market, parliamentary democracy, and civil society? Amid this uncertainty, there is a tendency for the elite to split, precipitating a crisis. Under crisis conditions, mass constituencies gravitate to elite proponents of either "new" or "old" solutions based on their own material and ideal interests, exacerbating tensions and leading to polarization.

A partial reform crisis at the system level is analogous to a succession crisis at the leadership level. In both cases, difficulties in the context of a change in decision-making parameters crop up, bringing underlying problems to the surface and shifting the focus from one set of issues to another. The situation becomes doubly complicated if these two crises happen to coincide—as they did in China in 1989. In the context of rather severe transitional difficulties enroute to market socialism, an anticipatory succession crisis flared up to bedevil the situation further. This "pre-

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mortem” struggle was touched off by several factors, chief of which was Deng Xiaoping’s long-heralded intention to step down in the context of encouraging his cohorts to do likewise. The two crises became so thoroughly intertwined that their violent resolution may have dealt the reform effort a lasting setback.

But before speculating further in this vein, it is necessary to recount just what happened. Chronologically, the year divides itself neatly into two equal periods, the first of which covers the genesis and consummation of the crisis itself, the latter its denouement and repercussions.

The Crisis

As 1988 drew to a close, the reform coalition was in serious disarray and attempting to regroup. After emerging in an apparently strong position from the 13th Party Congress in the fall of 1987, the reformers the following summer introduced an apparently premature attempt to free retail prices, touching off an inflationary binge and general financial panic of unprecedented severity. Although Deng Xiaoping seems to have originally proposed this initiative, when it ran into difficulty he quickly distanced himself from the policy. Zhao Ziyang, on the other hand, seems to have advocated a “damn the torpedoes, full speed ahead” posture. He brought with him to the CCP’s annual summer retreat at Beidaihe a bold plan called the “New Order for the Socialist Commodity Economy” that proposed ending all state price controls within four to five years while devaluing currency to encourage exports. To allay inflationary fears, he sent a fact-finding delegation to Latin America, which returned with the news that growth could indeed be achieved despite high inflation. Over Zhao’s objections, it was decided at a series of meetings climaxing at the Third Plenum of the 13th Central Committee (held in September 1988 in Beijing) that price reform would be indefinitely postponed, that capital construction would be sharply retrenched, and that ideological rectification and administrative recentralization would be pursued. Zhao was obliged to make a self-criticism and his role in economic policy making was substantially curtailed; Yao Yilin and Li Peng would henceforth have primary responsibility for economic issues, Qiao Shi would supervise party affairs, and Hu Qili would continue to handle culture, propaganda, and ideology. Rumor had it that only Deng’s unwavering support had saved Zhao from the fate of his forerunner, Hu Yaobang.

Thus Zhao, the leading reformer, emerged without any reform programs he was able to push, obliged to support a retrenchment program he did not believe in and which threatened the interests of his economic constituency. He lapsed perforce into a passive position, seeking to defend existing beachheads against those he suspected of using retrenchment to roll back

reforms. It was at this time, however, that Zhao's intellectual constituents opened a new front by raising (for the first time since Hu's demotion) the issue of political reform. In December 1988 Hu Qili, Wang Renzhi, and Hu Sheng jointly planned and convened a seminar of reform intellectuals to commemorate the decennial of the famous Third Plenum of the 11th Central Committee. More than 300 participants appeared, including Yu Guangyuan, Wang Ruoshui, Yan Jiaqi, Su Shaozhi, Tong Dalin, and other firebrands. Su Shaozhi made a bold speech in which he attacked the campaigns against spiritual pollution and bourgeois liberalism and called for a reversal of verdicts on one of their leading victims, Wang Ruoshui. The authorities in charge of propaganda, Hu Qili and Wang Renzhi, decreed that Su's article should not see the light of day, but it nonetheless appeared in Qin Benli's outspoken Shanghai newspaper, *World Economic Herald* (Shijie jingji daobao). About the same time, a *Guangming Ribao* editorial writer published an article contending that "there is a need courageously to draw lessons" from "modern democratic forms" that "have developed in Western capitalism" in building socialist democracy.¹

In February and March 1989, the issue shifted to human rights as the regime imposed martial law on Tibet for the first time since 1959; international human rights organizations censured China and domestic intellectuals echoed their concerns.² Fang Lizhi wrote a letter of petition to Deng Xiaoping (simultaneously released to the Western press) calling for the release of all "political prisoners" (the regime denies their existence). Two young literati, Bei Dao and Chen Jun, collected the signatures of some 33 scholars and writers, including prominent overseas Chinese, demanding amnesty for Wei Jingshen, a Democracy Wall activist imprisoned since 1981 in connection with his crusade for the "Fifth Modernization." Another "letter of opinion" signed by 44 scientists and scholars was submitted to the Standing Committee of the National People's Congress (NPC) demanding the release of political prisoners and calling for political structural reform.

These protests put Zhao in a difficult position, for he wished to inherit Hu's mantle (and constituency) as leader of the reform movement, but he was highly vulnerable at this time and needed Deng's support to survive—and Deng's support was contingent upon repudiation of any form of mass participation that even remotely reminded him of the Cultural Revolution.

1. "New Realm in the Emancipation of Thinking," *Guangming Ribao* [Enlightenment daily], December 29, 1988.

2. Martial law was imposed in Lhasa in March following the violent suppression of riots touched off when the police opened fire on a small group of monks involved in a peaceful demonstration in favor of Tibetan autonomy. Some 60,000 PLA troops were brought in to help the police with mass arrests and house-to-house searches.

Zhao was vulnerable not only because he was held responsible for the hyperinflation of the past summer, but because as Deng's heir apparent and the leading reformer he became the next logical target of all who held misgivings about the reform course and/or harbored their own ambitions. To muster sufficient power for the purge of Hu Yaobang in 1987, Deng had been obliged to reverse the retirement of senior veterans who continued thereafter to participate actively in the policy process. By dint of their seats on the Central Advisory Committee (CAC), they could sit in on extended Politburo or Central Work Conferences, throw their considerable weight into the fray, and according to some reports, even cast votes.³ Those who lacked any formal position might still be invited to sit in, and in any case they could always buttonhole former colleagues informally.

Their anomalous position, without high formal posts but with great prestige and informal influence, gave these senior cadre power without responsibility. Though not necessarily career military officials, all were Long March veterans with much more extensive experience in the use of violence than their younger colleagues. No doubt their views of reform varied, but all were inclined to be skeptical of new departures and to place a high priority on professions of due respect for the status hierarchy of which they formed the apex. It is important to point out that their power was by no means the inevitable byproduct of some deeply rooted cultural reverence for age; as in previous succession struggles—Deng Xiaoping vs. Hu Yaobang, Mao Zedong vs. Lin Biao or Liu Shaoqi—there have been those in the younger generation quite willing to put the old people away and leave them there. Decisive in this case were two political factors. First, what the senior veterans had extracted as the price of their retirement was the right to name their successors, who were expected to remain loyal to them; thus Yao Yilin was beholden to Chen Yun, Zhao Ziyang was beholden to Deng, Li Peng to Deng Yingchao (and to Chen Yun), Qiao Shi to Peng Zhen, and Hu Qili, an “orphan” of Hu Yaobang's China Youth League group, was “adopted” by Zhao. Second and more specifically, a secret agreement was made at the 13th Congress that, despite Deng's retirement from the Politburo, all major decisions must receive his approval. This meant that the power balance could not be calculated simply on the basis of formal posts; moreover, the commonly held assumption

3. I base this inference on the fact that authoritative decisions issue from such “expanded” meetings, at which nonmembers are reported to play an influential role. Thus, an expanded Politburo meeting was held May 22–24 at which Deng Xiaoping, Chen Yun, Li Xiannian, Peng Zhen, Yang Shangkun, and Wang Zhen, all “older veterans with great prestige” (but only one of whom is a Politburo member), decided to reaffirm the hard-line April 26 editorial and to denounce the May 4 speech. (*Far Eastern Economic Review* [hereinafter *FEER*], June 15, 1989, p. 13; *Ming Pao*, May 30, 1989.)

that the younger generation was more sympathetic to reform was not necessarily so, as one had to take patron-client ties into account. Under the circumstances, Zhao's position was even more precarious than it looked.

Throughout the spring of 1989, the gerontocrats faulted Zhao repeatedly, often in league with their younger clients, adding to their complaints of economic mismanagement a critique of his lack of vigorous ideological leadership. Around the turn of the year, Chen Yun circulated "Eight Opinions" that held Zhao responsible for "failure to do public opinion, ideological and theoretical work properly," claiming that "the entire ideological front is occupied by the bourgeoisie and nothing proletarian is left." Bo Yibo, who had prepared the indictment of Hu Yaobang in January 1987, submitted a "letter of appeal" to Deng Xiaoping focusing on the recent decennial conference (which he characterized as an "attack on the Party CC") and calling for suspension of the *Herald* and public criticism of its editor, Qin Benli. Wang Zhen and Bo Yibo reportedly proposed three times to Deng that Zhao make a self-criticism for his mistakes in work. Li Xiannian flew to Shanghai for secret consultations with Deng, in which he urged that Zhao be required to make self-criticism for his errors and step down at the Fourth Plenum; Li Peng might then move into the general secretary slot, while Yao Yilin would become premier, with Zou Jiahua (another Soviet-returned student) set to replace Yao; Zhao might stay on for six months as CMC vice-chair, as a sop. Thus the Fourth Plenum, originally scheduled to convene immediately before the NPC and party CC sessions, was postponed; Deng wanted no reshuffle until after the Sino-Soviet summit in mid-May.

Impaled on the horns of the dilemma whether to protect his constituency or placate his high-level critics, Zhao equivocated, taking a tough rhetorical stance while holding the line against sanctions with teeth in them. Only thus could he retain the protection of Deng, who shared his interest in salvaging reform achievements (e.g., he gave a speech on January 19 castigating the "trend toward taking the road back"). Zhao and Hu Qili thus summoned Qin Benli to Beijing for a reprimand after he published Su Shaozhi's article, and Hu Qili announced a six-month moratorium on publishing anything written by the 33 protest signatories. But Su Shaozhi was not evicted from the party and the case of Yu Haocheng, a jurist who had written an article in defense of human rights, was not investigated.⁴ Zhao decreed that Chen Yun's Eight Opinions need not be "transmitted throughout the country" as Chen had stipulated, and he remarked with regard to Bo's protest: "Intellectuals have their own under-

4. Yu Haocheng, "Defending Human Rights" *Shijie Zhishi* (World knowledge], no. 23, 1988.

standing of problems. What is there to be surprised at?" Although the Propaganda Department compiled a list of targets for public criticism, at the last minute Zhao told them to ignore it. On the other hand he convened the Politburo several times in the wake of the Bush visit to denounce Fang Lizhi (whom the Chinese had gone out of their way to exclude from an embassy reception) and the various petition drives as tools of international human rights organizations. He also gave an "important speech" at an enlarged Politburo meeting March 5 lambasting critics of China's Tibetan policy. Large public security stations were established at major university campuses in Beijing, Shanghai, Tianjin, Xian, Wuhan and Chengdu (Peking University boasted the largest such facility in the nation). The State Council's Education Commission was encouraged to send work teams to various college campuses to see what the students were up to and prevent signature-gathering petitions, inflammatory wall posters, or protest movements. Apparently reconciled to the need to go along to get along, Zhao kept a low profile; at the second session of the NPC and CC in March he played no role, in contrast to the way he had dominated the first session the previous year.

Hu Yaobang picked this seemingly inauspicious time to resurface in Chinese public life. Still a full member of the Politburo though he had taken no part in political decisions since his demotion, Hu seems to have resolved to attempt a comeback. He returned to Beijing from Nanning and on April 8, when the CC convened an enlarged Politburo meeting to discuss problems in education, Hu not only registered to attend but to speak in the meeting. He reportedly delivered an impassioned plea for greater support for education, but some forty minutes into the meeting—according to rumor, during an altercation with his old nemesis, Bo Yibo—Hu was stricken with a heart attack, hospitalized, and on April 15 died of an infarction.

Hu's dramatic reappearance and untimely death disconcerted the CCP leadership but inspired the reform movement. In preparation for his funeral, the leadership became divided over two questions: how Hu's resignation could be assessed (i.e., could there be a reversal of verdicts?), and whether Hu could be deemed a "great Marxist." The antireform coalition who had deposed the late general secretary stood to lose face in any such verdict reversal and they opposed it. Seeking compromise, Zhao suggested that Hu might be praised as a "great Marxist" but that the issue of his forced resignation be shelved. The memorial speech had to go through many drafts before winning approval and the final product did not satisfy the students who, since Hu's demotion for failing to crack down on them, had become his most ardent supporters. Protesters began to gather in large numbers even before the funeral and although demonstrators were

prohibited from entering Tiananmen Square on April 22 when the memorial service was held in the Great Hall of the People, thousands of students staged a sit-in in the Square during the night of April 21 and remained there in defiance of the ban. On April 24, students declared a strike of classes of indefinite duration and establishment of a “national students’ federation preparatory committee”—the first step toward establishing autonomous student and labor unions (obviously modeled after Solidarity). Meanwhile, Zhao Ziyang departed on a week-long trip to North Korea (April 23–30), leaving only vague instructions on how to cope with the situation.

Upon Zhao’s departure, the hard-liners seized upon the nonviolent but growing protests as a national emergency and hunkered down in a crisis decision-making mode. Li Peng convened an expanded session of the Politburo Standing Committee on April 24 to discuss the situation, and he and Yang Shangkun reported to Deng the next day. The latter fully reciprocated their sense of urgency: “We must take a clear-cut stand and forceful measures to oppose and stop the upheaval,” he said. “Don’t be afraid of students, because we still have several million troops.” A tacit consensus seems to have been reached at this time to use troops if the demonstrators did not respond to warnings, but first a warning was issued. Based largely on Deng’s comments, an editorial was published in *People’s Daily* on April 26 that prohibited the protests as a “chaotic disturbance” [*dongluan*] and warned that “troops will be dispatched when necessary.” Nevertheless, security forces made only token efforts to halt some 50,000 to 100,000 students who marched for 17 hours through the streets of Beijing, finally breaking through police lines to surge into Tiananmen Square; although the security forces were only following marching orders, their avoidance of violent confrontation gave the protesters an illusory sense of invulnerability. An estimated million Beijing residents poured out of their offices and factories to cheer the demonstrators. In deference to the warning, the protests remained peaceful and in fact tightly disciplined, the demonstrators interlarding their protests with patriotic songs and slogans and forming a human chain on either side of their march to maintain order and prevent outsiders whom they could not control from joining in.

Although Zhao Ziyang had approved the April 26 editorial by telegraph from Pyongyang, he took a few days upon his return to reassess the situation. The leadership had become polarized between those urging a crack-down and those favoring a more conciliatory stance, and most of Zhao’s constituency gravitated to the latter position. Taking advantage of his discovery that the editorial had been altered in several respects between his approval and its publication, he decided now that it had been too “strident,” and he made a special trip to Beidaihe to apprise Deng of his feel-

ings. Perhaps chastened by the miscarriage of his own preferred solution, Deng seems to have provisionally approved a shift of course. On this basis, Zhao made an impromptu speech to representatives of the Asian Development Bank in which he set forth a new, soft line: the students were well-intentioned and patriotic, and their input might contribute to the furtherance of the reforms.

For the next two weeks, Zhao's soft line was in effect; there was no attempt to crack down and Zhao permitted the Chinese media to cover the protests, which they proceeded to do with considerable accuracy, even sympathy. Although Zhao was unable to marshal a majority in support of further concrete concessions he reportedly had proposed *in camera*, the withdrawal of regime opposition seems to have placed protest mobilizers at a disadvantage and the movement experienced a lull. Several dialogues were held, at students' request, between various regime officials and selected student delegations, usually ending inconclusively.⁵ Student demands were both procedural and substantive and tended to shift, but eventually they focused on a repudiation of the April 26 editorial (which would imply amnesty for all participants), some liberalization of speech and press rights, and movement against corruption. Regime spokesmen were conciliatory but noncommittal.

In mid-May both the mass movement and the regime response changed course for at least three reasons. First, the protesters escalated tactics, adopting mass hunger strikes (beginning on May 13) that raised the stakes, enhanced their credibility, and attracted more widespread support. Second, the Gorbachev summit visit, May 15–18, attracted international media to Beijing and the protesters realized they could share this limelight with minimal danger, at least during the visit. Both of these factors caused the number of participants in the Tiananmen sit-in to burgeon, and as the international media began to report on these events and broadcast the news back into China, protest metastasized, spreading to most provincial capitals and college towns. Finally, it was during the summit that the leadership decided to crack down hard on the protesters, partly because they had embarrassed the regime before outsiders and partly because the protest was gathering momentum. This, however, opened a public cleavage in the leadership, which in turn had a feedback effect on protest dynamics.

The decision-making dynamics within the leadership are still somewhat unclear, but enough has leaked out to be able to at least hazard a sketch. As far as the hard-liners were concerned, Zhao's soft line had now demon-

5. See Corinna-Barbara Francis, "The Progress of Protest in China: The Spring of 1989," *Asian Survey*, 29:9 (September 1989), pp. 898–915.

strated its bankruptcy and the only possible solution was armed force. Zhao argued that his approach had never really been given a chance, as he had been restrained from making concessions. Thus, the argument came down to the April 26 editorial, which Zhao argued should be rescinded as the students demanded, versus Zhao's May 4 speech, which Li Peng argued was a deviation from the party line (as represented by the April 26 editorial). Zhao's proposal was voted down within the Politburo Standing Committee on May 16—reportedly by a 4-1 vote—at which time it was also decided to invoke martial law. It seems to have been at this point that Zhao's strategy, hitherto an ambiguous search for balance between hard-liner and student demands, shifted. Zhao exploited his public appearance with Gorbachev—to what must have been the latter's astonishment—to reveal the arrangement whereby Deng retained ultimate veto power over Politburo decisions. This infuriated Deng; not only was Zhao blaming him for the failure to make concessions to student demands, he was also confirming suspicions of backstage string-pulling that made a mockery of formal structure. From attempting to engineer the protesters' departure from the Square, Zhao seems to have shifted to encouraging and even identifying with their demands. Thus, he made several unauthorized personal visits to the Square after his intraparty defeat to hold heart-to-heart talks with protest leaders. If his intention was indeed to mobilize the protesters against the Politburo majority, as the latter subsequently maintained, this was in clear contravention to the rules of democratic centralism—though not dissimilar to Deng's exploitation of the Democracy Wall protests to facilitate his replacement of Hua Guofeng in December 1978.

In the course of the previous week, Deng Xiaoping, Yang Shangkun, Li Xiannian, and others made arrangements for the requisite transfer of troops, with Deng Xiaoping apparently playing a decisive role both in pushing through the decision and in persuading regional military commanders to comply. On May 19 martial law was proclaimed in a public meeting that clearly exposed the split within the leadership: Zhao Ziyang, though he had withdrawn his resignation, failed to appear, claiming illness. The Politburo moved to strip Zhao of his power, including the right to transfer troops (Zhao was still nominal vice-chair of the Central Military Commission), and place him under virtual house arrest. Yet, in contrast to 1986, the purge of the general secretary did not break the back of the protest movement, and when troops set out for the Square on the morning of May 20, they were impeded by an outpouring of support from the citizenry as an estimated two million people clogged the streets.

For the next two weeks, the leadership seemed bewildered. The students remained camped on the Square—although their numbers were diminishing—still avoiding any pretext for a crackdown. In making

preparations for the postponed Fourth Plenum, now necessary to formalize the leadership reshuffle, the Deng-Li-Yang troika found it difficult to persuade people that Zhao was guilty of "crimes," and the latter's refusal to resign left the issue in some doubt. In fact, there was an unprecedented defection rate from the party line; over a hundred military officers led by several generals signed a petition to the CMC calling on troops not to fight civilians, and some 57 members of the 135-seat National People's Congress Standing Committee called for an emergency session of the NPC. Zhao apparently urged Wan Li, Standing Committee chairman, to return home from his trip to the U.S. and Canada with that prospect in mind; the latter, however, avoided committing himself.

Thus, the leadership decision to crack down more harshly, in which Deng Xiaoping, Yang Shangkun, and Li Peng again played leading roles, seems to have been motivated by several factors. First, if martial law could be countered by widespread passive resistance, it would be necessary to employ more forcible means. Second, in view of the pervasive lack of respect for the existing political structure, it would be useful to underscore the regime's willingness to use violence to defend its interests. Third, to criminalize the Democracy Movement by, in effect, decreeing capital punishment would also discredit the factional opposition within the Central Committee and intimidate would-be sympathizers. As is now well known, this decision was carried out with lavish brutality on the night of June 3-4, resulting in the deaths of around a thousand people, according to best available estimates, most of whom were citizens who had again interceded to block the troop advance.

The Tiananmen massacre was followed by a brief hiatus during which few members of the central leadership were to be seen. Then on June 9, Deng made a surprise TV appearance, his first since the Gorbachev summit, together with other senior officials and military officers gathering to pay tribute to the soldiers who had been "martyred" defending the capital from anarchy. His speech at that time, though delivered with some evidence of health difficulties, has been quoted more extensively than any such document since the days of Chairman Mao. As in 1987, the crack-down was immediately generalized throughout the country, accompanied by a skillfully edited propaganda campaign depicting the protest as a "counterrevolutionary revolt." The number of officially reported arrests as of early July exceeded 2,500, but unofficial estimates put it at over 10,000. The official list of executions at last count was around 26. Secret lists of intellectuals whose thinking was considered to be a source of the protesters' misdeeds were compiled for criticism and purge, and an "underground railroad" soon developed through which designated victims sometimes managed to take flight to Hong Kong and the West. Former

protesters proceeded to France, where they were welcomed on the third centenary of the French Revolution, to establish a Chinese Democracy Federation.

The Aftermath

The Fourth Plenum of the 13th Central Committee was finally convened on June 23; despite intensive propaganda preparation, more than 50 members and alternate members asked for sick leave or leave of absence. The formal disposition of the general secretary was the main item on the agenda. Zhao's request to speak at the plenum was denied, but earlier an expanded Politburo meeting had been convened (June 14) at which he made a statement in his defense. "First, I did not make a mistake," he asserted. "Second, I still hold that the starting point of the student movement was good. They were patriotic."⁶ In direct defiance of the victorious majority, he insisted that the April 26 editorial was mistaken, that there was no social foundation for "turmoil" in China, and that those who imposed martial law should be held accountable for intensifying contradictions. Arguing that there was no Zhaoist antiparty clique within the party, he sought to protect the "large numbers of innocent, good comrades" who had gotten involved.⁷

Fittingly enough, Zhao's indictment came in a report by Li Peng, on behalf of the Politburo, to the Fourth Plenum. He was expelled from all posts in the party and (later) government, and a special group (Yang Shangkun, Li Peng, and Qiao Shi) was established to "look further into his case," which suggested that he might later be evicted from the party and placed on trial, the former being a precondition to the latter. Despite recurrent criticisms, the investigation group reportedly found no reliable proof that Zhao had participated directly in the protest movement or that he had led an antiparty group in the party; however, more to the point, Deng apparently felt that any further prosecution of Zhao might endanger remaining reforms, and 84-year-old Chen Yun, chairman of the Central Advisory Committee, agreed that controversies over problems at the top levels should be shelved for two or three years.⁸

Despite his efforts on their behalf, Zhao's fall also spelled political oblivion for those closely associated with him. Hu Qili was purged from the Politburo, though he did retain a seat in the CC. Removed from the Secretariat were Rui Xingwen, formerly in charge of ideology, and United Front chief Yan Mingfu, who had overall responsibility for negotiations

6. *Bai Xing* (Hong Kong), no. 203 (November 1, 1989), pp. 18–24.

7. *Zheng Ming*, no. 142 (August 1, 1989), pp. 9–10.

8. *Ibid.*, pp. 6–7, and no. 144 (October 1, 1989), pp. 6–8.

with the demonstrators. Occupants of a number of other important posts apparently were also out⁹ and beneficiaries of these purges included new Politburo members Song Ping, the 72-year-old former vice-minister, then minister of the State Planning Commission (a Cultural Revolution survivor and protege of Chen Yun); Li Ruihuan, 55, an energetic ex-mayor of Tianjin (rumored son-in-law of Wan Li), who was given the propaganda portfolio and promptly initiated a purge of the *People's Daily* staff; and hard-line Beijing Party Secretary Li Ximing.

In the selection of a new general secretary, Chen Yun reportedly nominated Yao Yilin while Peng Zhen recommended Qiao Shi, resulting in a stalemate broken by Deng with his nomination of compromise candidate Jiang Zemin, the former party secretary of Shanghai. Jiang had studied electrical engineering in Moscow in the early 1950s (where he was almost certainly a classmate of Li Peng) and is close (rumored to be a son-in-law) to Li Xiannian. When the vote was taken, Jiang only managed to win a bare majority. As a former minister of the electronics industry, he is believed to understand the need for new technology and is reputed to have supported urban economic reform in Shanghai, though he came to Deng's attention for the hard line he took against the *World Economic Herald* and his successful yet unostentatious suppression of Shanghai's democracy movement. His meteoric ascent is sometimes attributed to Deng's desire to counterbalance a hardline majority on the Politburo Standing Committee with an advocate of reform. If so, the strategem seems to have gone awry, for Jiang has emerged since June as a leading spokesman of ideological orthodoxy. He has given a number of important speeches, foremost among them his National Day speech, "by far the most ideologically conservative general statement of national policy to appear in more than a decade,"¹⁰ and has made well-publicized pilgrimages to the revolutionary meccas of Yanan and Jinggangshan where he celebrated the values of plain living and hard struggle. Although Deng Xiaoping attempted to designate Jiang Zemin as his third heir apparent in three years, referring to him in October as the "core" of the leadership, few consider his position secure. Premier Li Peng has consolidated his hold on the economic portfolio, while chairing the party's Leading Group on Foreign Affairs. Chief-of-State Yang Shangkun, a vigorous 82-year-old, remains a factor to be reckoned with; his challenge to Deng's selection of Jiang as the new chair of

9. These included Wang Jiabao (head of the CC's General Affairs Department; Du Rensheng (director of the CC's Rural Policy Research Center), An Zhiwen (vice-minister of the State Commission for Reform of the Economic Structure), and Bao Tong (head of the Institute for Reform of the Political Structure). Minister of Culture Wang Meng was forced to resign.

10. Robert Delfs in *Far Eastern Economic Review (FEER)*, November 9, 1989, pp. 14-15.

the CMC when Deng finally stepped down at the Fifth Plenum in November was unsuccessful, but by retaining his position as executive vice-chair and having his brother, Yang Baibing, step in as secretary, Yang Shangkun's sway over the PLA was clearly enhanced.

International Response and the PRC Economy

The immediate and almost unanimous international repudiation of the June bloodbath may actually have eased the leadership's reassertion of political control, as it provided a convenient pretext for limiting China's cultural contacts with "bourgeois liberal" countries who were held responsible (in part correctly) for the protesters' libertarian aspirations. Thus, censorship of international mail has been emphatically reimposed, FAX ties cut or carefully guarded, and Chinese-language VOA and BBC broadcasts electronically jammed; needless to say, the liberalization of the Chinese media that Zhao introduced in early May is gone with its sponsor. Despite recurrent reaffirmation of the policy of "opening to the outside world," the indignantly unapologetic Chinese response to foreign criticisms does not suggest great eagerness to repair the breach in relations.

The decline in tourism, economic aid, commerce, and investment that accompanied China's ostracism from the international community—motivated in part by moral scruples, in part by prudence—was another matter, exacerbating the regime's economic difficulties. The tourist industry, worth US \$2.2 billion in 1988, is likely to net only half that this year. After President Bush called on international lending agencies to postpone new loans, the World Bank and Japan froze aid projects worth some US \$10 billion, the Asian Development Bank postponed a decision on new loans worth around \$1 billion, and the IMF followed suit.¹¹ Joint ventures have either cut back production or postponed new investment; some investors have reportedly shifted from China to Southeast Asia, a reaction that may, of course, be only temporary. By August foreign commercial banks had quietly resumed making new loans, albeit small and short-term, to Chinese institutions; concessional and bilateral lending remained on hold in late 1989, but loan sanctions are scheduled for review early in 1990. If the World Bank resumes lending, it will trigger another wave of lending from commercial banks, and Japan's Overseas Economic Cooperative Fund is also expected to take its cue from the World Bank.

China will need the money. The government in March forecast a \$2 billion budget deficit for the year, but this has been bid up by expenditures

11. The World Bank froze a number of projects and postponed consideration of some loans. Japan suspended a \$5.5 billion, five-year loan due to start in April 1990, and Denmark froze a loan as did the ADB. France suspended loans.

for maintenance of martial law troops, agricultural and urban price subsidies, and worker bonuses; in addition, the attempt to cool the "overheated" economy will reduce government revenues. The inefficient state industries that pay the bulk of tax revenues incurred rmb 6.9 billion in losses in the first half of the year, more than they lost in the whole of 1988 and more than the various taxes the government had planned to collect from them (totaling rmb 5.6 billion). As growth of labor productivity (measured in renminbi output per worker) in state enterprises declined from 8.3% in 1988 to 3.1% in 1989, these losses may be a direct consequence of the decline in worker morale that has followed the crackdown.

Foreign debt has continued to grow; in early October China disclosed that its outstanding foreign debt had risen from \$15.8 billion in 1985 to \$40 billion in 1988, and was then estimated at \$47 billion.¹² And the debt is not only domestic, but external. Export growth was down to 6.5% in the first half of 1989 while import growth was up 26.7%, creating a \$5.7 billion trade deficit, over four times larger than the deficit for the corresponding period in 1988 (\$1.2 billion). If these trends continue, they will have precipitated a \$30 billion trade gap by the end of the year. As this is larger than the combined total of gold and foreign exchange reserves, the gap would have to be plugged by a huge increase in external borrowing. Already by the fall of 1989, Beijing had begun to siphon wealth from the public via compulsory purchases of some rmb 12 billion worth of treasury bonds and also by launching a vigorous tax collection campaign that focused particularly on rural and private enterprises.

Constraining as the international economic environment has become, its impact simply reinforces the thrust and intensity of the policies pursued by the new leadership since the crackdown. These policies, as outlined at the Fourth Plenum and reaffirmed at the Fifth, stress that the new leading body must grasp four matters of primary importance: (1) completely stopping disturbances and stabilizing the situation everywhere; (2) rectification of the economic environment; (3) strengthening political and ideological work; and (4) strengthening party building.¹³ Most heavily emphasized in implementation of this new line have been a continuing drive against inflation in the economic sphere, and a rectification and reeducation campaign in the political realm.

The drive against inflation, in progress since the Third Plenum in 1988, has been pursued with a vengeance, as well as considerable success through a combination of tight money and administrative recentralization.

12. *FEER*, November 2, 1989, pp. 48–50.

13. See Lin Wei article in *Jiushi Niandai* [The nineties], no. 235 (August 1, 1989), pp. 27–29.

Administrative recentralization has had the coincidental (or perhaps not so coincidental) effect of reversing many of the reforms introduced over the past five years or so. Emerging in a much stronger position, for example, are the central planning and ministerial authorities—the State Planning Commission (SPC), the People’s Bank of China (PBOC), the Ministry of Finance, the Materials Ministry, and the Ministry of Foreign Economic Relations and Trade (MOFERT); the State Economic Commission (SEC), abolished by Zhao in 1988, has also been reinstated. The SPC and SEC lay down detailed production and earnings targets that individual companies must observe, and the SPC is regaining control of supplies, punishing those who fail to comply by accusing them of corruption. MOFERT and its subsidiaries are recovering control of exports and the foreign business dealings of localities and enterprises. The PBOC will keep a tight rein on credit, while the Finance Ministry will get extra authority to collect taxes, increasing the central government’s share of national tax revenues from 50% to more than 60%.

Those who will suffer the most damaging fallout from this retrenchment will be local governments, rural collective and private enterprises; those most benefited (aside from the central ministries) will be state-owned enterprises. Local governments, which previously had the power to approve capital construction projects up to a certain magnitude and keep them afloat through discretionary loans, will lose that power to the SPC, SEC, and PBOC in Beijing. Resistance at provincial and municipal levels has been weaker than expected by many outside observers, as twelve months of financial austerity has drained them of the assets required to operate independently. Private enterprises have come under siege for tax evasion and corruption; some 15 million self-employed entrepreneurs are now ineligible to join the party. Rural collective industries, which for the past five years have constituted the fastest growing sector of the economy, will be subjected to “screening and supervision,” including strict collection of taxes (three-fourths of them are accused of evading taxes) with the goal of lowering their growth rate from more than 30% in the past five years to less than 10%. At the same time, the nearly 5,000 large and medium-sized state enterprises will have priority access to loans, raw materials, energy, and transportation. The new leaders believe that these “backbone” industries, from which the state derives some 75% of its revenue, had been unfairly neglected by the reformers.

To make a preliminary assessment of the retrenchment policy, it may be said to have a positive and a negative side. On the one hand, it has certainly resulted in the “cooling” of an overheated economy. By squeezing money supply growth and reimposing direct administrative credit controls on banks, state investment has been cut sharply. While industrial growth

was around 21% in 1988, it has since declined precipitously. GNP in the first half of 1989 increased only 5.7% over the same period of 1988; if this rate holds for the rest of the year, growth will have halved, with industrial growth playing the major role. But rather than hold, growth seems to have continued to decrease, rising only 0.9% in September over the previous year, and actually declining (for the first time in ten years) in October. Inflation also seems to have declined. The official inflation rate for the first half of the year was 25.5%, higher than the 18.5% recorded in 1988, but there has been a steady moderation since it reached a peak of 27% in the first quarter. The trend is clearly down, although this may be due merely to the reimposition of price controls. Economists project that GNP growth will be only about 6.8% for the year, with an inflation rate roughly identical to last year's due to the high rates early in the year. Despite serious floods on the Yangtze, the harvest was quite good, though not a record. And the lower industrial growth rate appears to be allowing infrastructural construction to catch up—electricity production was up 6% in the first half of the year over the same period of 1988.

There are two negative aspects of the retrenchment. First, the toll in human terms is painful. Some 10% of rural enterprises—whose original *raison d'être* was to soak up surplus labor, employ nearly 100 million people, and have an output value of some \$175 billion per year—may close. Unemployment has already increased perceptibly, although it is difficult to get reliable statistics. Second, the retrenchment seems to have a hidden agenda of punishing those sectors of the economy that most benefited from the reforms while rewarding those sectors that are more “correct” from an ideological perspective. If this is so, it will not result in an enhancement of efficiency but may contribute to waste, low profits, and low worker morale and productivity. Some two-thirds of the state-owned enterprises, which will most benefit from government largesse, are losing money or barely breaking even. State enterprises ate up \$18 billion in subsidies in 1988, and will probably require more than that in 1989.

The anticorruption drive is quite pervasive and multifaceted, though it is hard to find precise evidence of how many it has seriously affected. At the very top level, it consists of a stronger emphasis on ideological orthodoxy that has ironically resulted in the revival of much of the vocabulary of the late Maoist era. Certainly the rhetoric is stiffer than that used during the “antibourgeois liberalization” drive in 1987, and it touches upon the arts, education, the media, and even economic policy. Any discussion of “privatization,” for example, has become taboo. The doctrines of working class leadership, leading role of the Party, worker-peasant alliance have been reemphasized amid a reassertion of the absolute superiority of socialism and the CCP's essential infallibility. The international environment is

depicted in threatening terms—China is surrounded by “hostile” reactionary forces seeking to overthrow the CCP and make China a dependency of capitalism. Western countries, and specifically the US, have been accused of having fomented the June riots. A distinction has even been drawn between “two kinds of reform and opening,” ominously indicating plans to clamp down on the “bad” kind.

At lower levels, the drive against corruption has been used by Li Ruihuan to inveigh against the “yellow river” of pornographic publications. Also targeted have been the once high-rolling trading companies—even Kang Hua, founded by Deng’s disabled son, Pufang, who has severed his connections, has come under attack. A nationwide purge of the party—with up to 10,000 members to be expelled—was to be completed by mid-October in preparation for the 5th Plenum, originally scheduled for the end of that month, but the campaign had to be extended due to popular resistance. The purge will proceed through four steps: first, the study of various documents, including speeches by Deng and Jiang Zemin; second, all members will be required to write self-criticisms and complete party membership registration forms; third, a party branch meeting will be held to make democratic assessments of all members; and fourth, higher-level organizations will examine and approve the results.

In terms of foreign policy, Sino-Soviet normalization climaxed in the summit visit by Gorbachev in May, and in August China participated in an inconclusive peace conference on Cambodia in Paris. Aside from that, the year seems to have been one in which domestic difficulties needlessly aggravated China’s relations with nearly every country in a way similar to, but less extreme than the Cultural Revolution. Hong Kong, of course, was a serious casualty of the crackdown, its future being so closely tied to the future of the reforms; the political situation in Beijing was too clouded for the leadership to be able to reassure Hong Kong citizens. Several smaller countries shifted diplomatic recognition from Beijing to Taipei, perhaps as a result of the latter’s recent adoption of a foreign aid program to alleviate Taiwan’s large foreign reserve surplus.