

**Shifting development Strategies in Post-Maoist China : A Research  
into the Interplay of Politics and Economic Strategy (1976-1979)**

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## INTRODUCTION

The spectacular growth of the Chinese economy from the beginning of the 1980s to the present day has fascinated many scholars. Puzzled by the reasons behind the breath-taking speed of this economic take-off, they initiated profound analyses of the fundamental political and economic logic behind this phenomenon. They soon diverged over a many-fold of topics, but on one issue, most scholars seemed to agree: the decision to implement a new development strategy during the Third Plenum of the Eleventh Party Congress in December 1978 was the crucial turning-point that led to the economic liberalisation. However, with this fact agreed on, another important issue led to a panoply of diverging thoughts. Was the shift in development strategy primarily caused by economic or political factors? In other words, did the Chinese leadership implement the new development strategy because the chronic problems in the Chinese economy necessitated them, or did they do so because they politically found it more appropriate?

Some scholars contend that the development strategy was altered in December 1978 because the prevailing economic situation desperately called for change. They claimed that in the aftermath of the Cultural Revolution, the chronic problems inherent to the existing system had reached an unbearable level, and that therefore economic reforms were inevitable. To back up their viewpoint, they mostly emphasised two problems at the end of 1978: first, the living standards in China had not increased for twenty years. Second, the Four Modernisations Program, which was implemented in 1977 faced major set-backs.

Other scholars counter this theorem by stating that the economic problems at the end of 1978 had been exaggerated and that rather political factors had led to economic reforms. They argue that these reforms were initiated because the pragmatic Deng Xiaoping replaced the Mao loyalists during the Third Plenum. Consolidating his victory, by replacing the existing policies with his own cherished directives, he eventually shifted the development strategy.

Both explanations seemed convincing when I was initially confronted with them. Having thoroughly studied the premises and conclusions of a broad group of scholars, however, a more comprehensive model to analyse why development strategies are shifted gradually emerged. This model, which incorporates both economic and political tendencies, is based on the following

principle: *the leading coalition will always try to pragmatically solve the prevailing economic problems with a development strategy that it finds opportunistically optimal.*

In this thesis, this model will be used to examine the shifts in development strategy that occurred from 1976 to 1979: it will be explained why the Four Modernisations Program was reiterated in 1977, and why ultimately the retrenchment strategy was called for during the Third Plenum.

The following road map will be used to analyse these shifts:

- In the historical survey, which is presented in section 1, the new model will be briefly tested on the shifts in development strategy between 1959 and 1976. Concurrently, the increasing political hostility between the bureaucrats and the anti-bureaucrats will be highlighted.
- In section 2, it will be explained how the bureaucrats eventually won the factional strife at the end of 1976.
- In section 3, it will be investigated how the bureaucrats tried to solve the existing economic problems with a development strategy that would at the same time strengthen their power base.
- In section 4, the economic problems caused by the newly implemented strategy are elaborated.
- In section 5, it will be explained how, before the economic problems became apparent at the end of 1978, a new political struggle in the central leadership emerged between the dogmatic *Whatever Faction* and the anti-dogmatic *Practice Faction*.
- Finally, in section 6, it will be analysed what the true economic and political logic was behind the shift in development strategy in December 1978.

## 1. HISTORICAL BACKGROUND

Before evaluating the political logic behind the 1977 and 1979 shifts in development strategy, it is necessary to explain the historical background that had been leading to these events. In this preliminary historical overview special attention will be paid to two interrelated policy-making trends which occurred between 1958 and 1976. The first rather political trend concerns the increasing hostility between two major political factions, the anti-bureaucrats (*instigators*) and the bureaucrats (*survivors*). The second more economical trend concerns the intrinsic correlation between the political faction in control, and the economic development strategy that is implemented. This introduction will clarify that, when a political faction (re)gained control over economic decision-making, it pragmatically attempted to solve the acknowledged economic problems with a development strategy that it perceived as opportunistically optimal. In other words, when implementing a new development strategy to solve perceived economic problems in a pragmatic manner, the allies of the faction in power gained control of the economic decision-making power, while the allies of the losing faction lost it.

This historic survey starts with the political reaction of the bureaucratic leaders Deng Xiaoping (µËÐ½) and Liu Shaoqi (ÁõÉÛÆæ) against Mao's Great Leap Forward at the end of the 1950s. This event has purposefully been chosen for two reasons. First, this period can arguably be identified as the moment when the true origins of the factional strife between the bureaucrats and anti-bureaucrats emerged. Second, during this period, the economy was shaped by officials who would regain control over economic decision-making in 1979.

Another group of officials, who rose to influential political positions in the economic hierarchy during the post-Leap period, was the Petroleum Group (*shiyou pai* Ê-ÓÍÅÉ). As the members played a leading role in the 1977 shift of development strategy and were the national scapegoats for the economic problems that emerged in the second half of 1978, the historical events will be axed on this influential group.

### *1.1 The Petroleum Group's Rise to Power*

The Petroleum Group was a cluster of economists and technocrats who had risen to political prominence because of the successful exploitation of the Daqing oil field. The huge oil field was discovered in Heilongjiang in 1960, and was successfully developed in the following years under the leadership of Minister of Petroleum Yu Qiuli (ÓàÇĩÀĩ) and his lieutenants Kang Shien (¿μÊÀ¶÷), Tang Ke (ÌÆ¿Ë) and Song Zhenming (ËÏÕñÃ÷). The initial results of the new oil field were staggering: after only three years, Daqing already provided for 68 percent of China's domestic oil production.<sup>1</sup> As a result, in just a few years time, China had evolved from being a gross petroleum importer to a country that was self-reliant in the energy sector.<sup>2</sup> Daqing unmistakably grew out to be one of China's major economic success stories.

What made the project even more sensational, was the fervour and audacity with which the workers and technicians constructed the oil plants. The natural environment and material conditions in the Daqing area were most unfavourable. The work conditions which prevailed on the inhospitable barren lands of Heilongjiang, were unbearable. The local population often had to labour in sub-zero temperatures. Furthermore, as the developers were refrained from relying on foreign technicians, capital or equipment, the workers were only equipped with the most primitive tools.<sup>3</sup>

The successful Daqing project came to existence at a crucial moment for Mao Zedong (Ã«Ôó¶«). In the aftermath of the disastrous Great Leap Forward (1958-1961), his Great Leap Strategy, based on a high rate of accumulation, social mobilisation and administrative decentralisation, had been discredited in the eyes of most political leaders.<sup>4</sup> Mao had decided to retreat to the sidelines of leadership,<sup>5</sup> and the bureaucratic leaders Liu Shaoqi and Deng Xiaoping had taken over the control of the economy.<sup>6</sup> In order to recoup the economic crisis and rebuild public morale, these two political heavyweights had committed themselves to the proposed retrenchment strategy of Chen Yun (³ÂÔÆ), which was a reaction against the major economic

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<sup>1</sup> Lieberthal & Oksenberg, p. 176.

<sup>2</sup> Twitchett & Fairbank, vol. 14, p. 393; Riskin, p. 155.

<sup>3</sup> Lieberthal & Oksenberg, pp. 177-178.

<sup>4</sup> Riskin, pp. 148-150.

<sup>5</sup> Twitchett & Fairbank, vol. 14, p. 332.

<sup>6</sup> Salisbury, p. 179.

imbalances that had occurred during the Great Leap Forward. Chen's main criticism was that during these disastrous years an excessive amount of resources was assigned to heavy industry and interrelated sectors, while the agricultural and light industry sector were left with only a limited amount of means. As this led to one of the greatest human-induced disasters, drastic measures were taken to rectify the situation. Macro-economically, investment in capital construction was cut back to the benefit of the weak links in the economy, agriculture and light industry.<sup>7</sup> Micro-economically, the communes were decollectivised and material incentives were increased to induce the people.<sup>8</sup> Finally, organisationally, the central leadership moved to reassert strong central control over the economic actors. For example, the authority over the resource allocation with regard to industry, commerce, finance, and labour, which had been decentralised in 1958, was now recentralised.<sup>9</sup> (As will be explained in section 6, the economic thought behind this retrenchment strategy also formed the logic behind the 1979 economic readjustment.)

Initially, Mao Zedong backed Chen Yun's retrenchment strategy.<sup>10</sup> During the first half of 1962, however, he contended that the country had recovered sufficiently and thus urged that the time had come to begin moving China along the socialist path again. He wanted to resume his own version of the Stalinist strategy, i.e. to attempt to catch up with the West through collectivisation, stress on heavy industry, and strong social mobilisation. Some provincial officials, the military leader Lin Biao (ÁÖ±ë), and the officials responsible for the heavy industry sector supported Mao's stance.<sup>11</sup> Liu Shaoqi, Deng Xiaoping and Chen Yun, on the contrary, advocated continuing Chen's retrenchment strategy, pleading that the economic situation remained desperate and that it was too early for the central leadership to re-assume the initiative.<sup>12</sup> A heated debate developed. This debate arguably was one of the first signs of the factional strife that would unfold during the Cultural Revolution.

As Mao could not convince the bureaucratic leaders of the correctness of his strategy, he was obliged to seek other ways to regain control over economic decision-making power.

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<sup>7</sup> Riskin, p. 149.

<sup>8</sup> Hsu, p. 694.

<sup>9</sup> Lieberthal & Oksenberg, p. 70; Riskin, p. 150.

<sup>10</sup> Twitchett & Fairbank, vol. 14, p. 325.

<sup>11</sup> Twitchett & Fairbank, vol. 14, p. 330.

<sup>12</sup> Twitchett & Fairbank, vol. 14, p. 329; Riskin, p. 150. In fact, Riskin argues that the leading economists, such as Chen Yun, rejected Mao's view on economic development and sought to permanently substitute balanced and proportionate development for rushes and retreats. These economists thus preferred to continue to implement the balanced approach even after the recovery period.



Consequently, the political leader moved ahead to obtain support for his economic stance through a strong media campaign. The prestige of the Daqing oil field played an important role in Mao's campaign. Living off the public image of this project, Daqing (among others) was stamped as a national model.<sup>13</sup> The official explanation for the remarkable success of the oil field clearly emphasised Mao's ideological propensities. The prestigious achievement of Daqing was attributed to the correct political thought of the mass workers. It was stressed that the high motivation of the Daqing pioneers stemmed from their patriotism, their dedication to Mao Zedong and the other leaders of the country, their confidence in the Communist Party, and their belief that stamina and determination could triumph over all difficulties.<sup>14</sup>

After having gained sufficient political support for his development strategy through the media campaign, Mao moved ahead to implement it. One of the first steps he took, was to restructure the allocation of decision-making power so as to eliminate the power base of the leading economic officials that were disloyal to his ideas, while granting his loyalists more power. In late 1964, Mao had felt that the economic planners had insufficiently executed his directives to build a "Third Front" in Southwest China. They allegedly also had failed to accelerate the planned pace of economic growth by refusing to set higher planning targets, when drawing up the Third Five Year-Plan.<sup>15</sup> Consequently, Mao resolved to curb the power of the installed economic decision-making agencies (especially the State Planning Commission and the State Economic Commission) and to eventually replace the leading officials (Li Fuchun (李富春) and Bo Yibo (薄一波)) with officials even more loyal to his ideas. Mao succeeded in this move during the National Planning Conference convened from September 21 to October 19, 1964 by putting the government on a longer leash but keeping the leash in the party's grip (see 6.4).<sup>16</sup> The meeting decided upon a long list of measures developed to simplify and decentralise the Chinese planning system, which *de facto* resulted into a repudiation of the decision-making power of the principal economic agencies. Concurrently, the idea was endorsed to establish a "National Economic Supreme Command" (also called the Small Planning Commission *xiao jiwei* 小计划委员会)

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<sup>13</sup> Lieberthal & Oksenberg, p. 185. On December 26, 1963, the slogan "In Industry, Study Daqing" was raised in the newspapers.

<sup>14</sup> Lieberthal & Oksenberg, p. 186.

<sup>15</sup> Lieberthal & Oksenberg, p. 187.

<sup>16</sup> Lieberthal & Oksenberg, p. 188; Shirk (1994), p. 16

at the top of economic decision-making power, directly under the central party leadership.<sup>17</sup> This implied that the ‘unloyal’ planners lost their position at the head of economic planning, and were subordinated to a Small Planning Commission that paid immediate respect to Mao’s powerful coalition in the party leadership. Finally, Mao had gained full economic decision-making power with his personal planning commission in control of the economy.<sup>18</sup>

It was logical for Mao to turn to the loyal Petroleum Group, led by Minister of Petroleum Yu Qiuli, to play the leading role in the newly established “Small Planning Commission”. The Chinese leader undoubtedly had valued highly the support of the Petroleum Group for his cause. As Mao stated during a speech in March 1964 “ I say that the great achievements of the Ministry of Petroleum are attributable to its cultivation of people’s revolutionary spirit.”<sup>19</sup> Yu was joined in the Small Planning Commission with other “loyal” officials that would later be identified as members of the “Petroleum Faction”: vice-chairman of the State Economic Commission Gu Mu (顾慕), Beijing’s vice-mayor Jia Tingsan (贾庭善) and Zhejiang party official Lin Hujia (林胡嘉).

Comfortably seated at the head of China’s principal economic decision-making agency, the Petroleum Group was granted an enhanced position to advance its own ‘rational’ view on economic development. However, they were not totally in control as the economic plans that it elaborated, had to be drawn along the directives of the top leadership. If the plans they drew up, corresponded to the views of the leading coalition, they might gain protection from it. If, however, the most influential leaders found that the plans did not comply to their directives, the economic planners risked to fall into discredit.

The developments following the Petroleum Group’s emergence to the national scene, clarify this mechanism. On October 30, 1964, not long after the Petroleum Group gained control over the Small Planning Commission, the 1965 annual plan was approved and disseminated by the State Council. In this plan Mao clearly had received the response he had sought from his economic specialists. Emphasis was put on investments necessary to develop the “Third Front”; and on the achievement of higher production targets. But the Petroleum Group had also included

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<sup>17</sup> Lieberthal & Oksenberg, p. 188. The two sinologists stated that there is no direct evidence indicating that the “*xiao jiwei*” was the same as the National Economic Supreme Command, but circumstantial evidence points in this direction.

<sup>18</sup> Shirk (1993), p. 59.

<sup>19</sup> Lieberthal & Oksenberg, p. 186.

some of its own perceptions. As a result, the petroleum sector was elevated to the pace-setting sector of growth.<sup>20</sup> This trend recurred in the final draft of the Third Five-Year Plan that was promulgated in September 1965.<sup>21</sup>

### ***1.2 Decentralisation during the Turbulent Years of the Cultural Revolution***

During the turbulent years of the Cultural Revolution (1966-1969), the constellation of the top of Chinese leadership changed once more. Still confronted with severe opposition in the Party and bureaucracy in 1966, Mao and his newly-found allies, led by his wife Jiang Qing (½-Çà)£– decided to strike a final blow against their bureaucratic opponents.<sup>22</sup> Mao called upon the masses to clean up the ‘bourgeois elements’ in China’s major political institutions. This ultimately led to the purge of leading bureaucrats such as Liu Shaoqi, Deng Xiaoping and Chen Yun.

As this anti-bureaucratic trend was necessarily combined with a decentralisation of economic decision-making power, this change in the political environment severely tampered the prestige of the Petroleum Group. Mao and his allies focused on issues for which the Group bore little responsibility,<sup>23</sup> and, thus, the State Planning Commission ceased to play a guiding role in the economy. The members became marginal to Mao’s concerns, to the point that they became politically dispensable. This clearly emerged from Mao’s guidelines for the annual plans and Fourth Five-Year Plan that were endorsed in 1969-70. First, just like in 1964, decentralisation of state planning was called for, thus curbing the power of the Petroleum Group. Second, in contrast to the Petroleum Group’s pragmatic-opportunistic view on economic development, the coalition of Mao stipulated that projects had to be “small scale, indigenous and labour intensive” (rather than large scale, foreign and capital intensive).<sup>24</sup> Jiang Qing and her fellow anti-bureaucratic *instigators* used the opportunity to attack the Petroleum Group members, accusing them for the alleged priority that they attached to production and expertise.<sup>25</sup> The Petroleum Group survived

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<sup>20</sup> Lieberthal & Oksenberg, p. 189.

<sup>21</sup> Lieberthal & Oksenberg, p. 190.

<sup>22</sup> MacFarquhar, p. 152.

<sup>23</sup> Lieberthal & Oksenberg, p. 192.

<sup>24</sup> Lieberthal & Oksenberg, pp. 195-196.

<sup>25</sup> Lieberthal & Oksenberg, p. 45.

the political storm thanks to the protection of the influential bureaucrat Zhou Enlai (周 恩 来) and some members of the People's Liberation Army (PLA).<sup>26</sup>

### 1.3 Recentralisation of Economic Decision-Making Power

At the end of the 1960s, the balance of power at the political top once more shifted.<sup>27</sup> Mao had become increasingly dissatisfied with some of his anti-bureaucratic allies. As a result, some of the most enthusiastic supporters of the Cultural Revolution, such as the influential ideologue Chen Boda (陈 伯 达)<sup>28</sup>, suffered political reversals at Mao's hand in several high level meetings in 1969-71.<sup>29</sup> In addition to Mao's increasing discontent, one of the leading *instigators* and concurrently Mao's assigned successor, Lin Biao, had allegedly attempted to assassinate Mao and seize power in a military coup in 1971.<sup>30</sup>

In the highly charged aftermath of the 1971 "Lin Biao affair", Mao had lost his trust in his anti-bureaucratic colleagues and feared retaliation from the regional military commanders in the People's Liberation Army,<sup>31</sup> who had displayed an alarming tendency to defy Beijing's responsibility.<sup>32</sup> Visibly concerned, Mao Zedong gave the military-bureaucrats Marshal Ye Jianying (叶 剑 英) and premier Zhou Enlai the responsibility to restore order in the military. In December 1971, the two set upon purging Lin Biao's allies in the party by initiating the "Criticise Lin, Criticise Confucius" (*pilin pikong* 批 林 批 孔) campaign.<sup>33</sup> At the same time, the two immediately used the opportunity to rebuild the power base of the military-bureaucrats, which had been wavering significantly since the "February Adverse Movement" (*eryue niliu* 二 月 逆 风 浪 浪) in 1967.<sup>34</sup> Using their renewed power position, they pressured Mao to reinstall some of the senior officials who had been purged by Lin Biao. This eventually resulted in the full

<sup>26</sup> Lieberthal & Oksenberg, p. 192.

<sup>27</sup> Lieberthal & Oksenberg, p. 196.

<sup>28</sup> Chen Boda was one of Mao's secretaries, who became a major figure in the Cultural Revolution in alliance with the chief of the secret police, Kang Sheng, and Jiang Qing. Chen Boda was responsible for some of the cruelest acts of the Cultural Revolution. He fell from grace in 1970.

<sup>29</sup> Lieberthal & Oksenberg, p. 196.

<sup>30</sup> MacFarquhar, p. 272-275; Li Zhisui, pp. 536-541;

<sup>31</sup> Li Zhisui, p. 533.

<sup>32</sup> Baum (1994), p. 29.

<sup>33</sup> Han, pp. 586-587.

<sup>34</sup> The two senior officials had in common that they all up to a certain extent had opposed the Cultural Revolution, but that they had not been purged because they had kept quiet.

restoration of the leading members of the “February Adverse Current” in 1972.<sup>35</sup> It even led to the official reinstatement of one of the strongest opponents of the anti-bureaucratic Cultural Revolution, Deng Xiaoping, in April 1973.<sup>36</sup>

With the power expansion of the military-bureaucrats in 1970-72, the atmosphere at the political top changed in favour of the Petroleum Group, and its members were restored to good graces. In July 1972, Zhou Enlai strived to recentralise economic decision-making by re-establishing the power of the State Planning Commission.<sup>37</sup> Yu Qiuli and his associates were asked to resume an active role as leaders of these principal economic agencies.<sup>38</sup> The political leadership, led by Zhou Enlai and Deng Xiaoping, assigned itself the grandiose task of dismantling some of the more radical political innovations and to revitalise the economy. It gave the Petroleum Group the directive to work out a Four Modernisations strategy (*sige xiandaihua* 四个现代化) based on extensive imports of foreign technology and equipment from the West and Japan. The Petroleum Group launched the idea to finance the high-technology industrial imports with the profits from petroleum export.<sup>39</sup> This strategem resulted in the Four Modernisation Program, which was promulgated in 1975. (The major lines of this development strategy were reiterated in the 1977 development strategy, see section 3).

#### ***1.4 The Petroleum Group Discredited***

The Four Modernisations Program was short-lived. In November 1975, it became clear that the economic policy would result into a large foreign trade deficit (just like in 1978, see section 4). This gave the anti-bureaucratic *instigators* of the Cultural Revolution the impetus to cast away the Four Modernisations policy and to criticise the officials responsible for the plan. They derided the three policy documents out of which the Four Modernisations Program consisted as “Three Poisonous Weeds” and sharply criticised the supporters of the program for

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<sup>35</sup> MacFarquhar, pp. 206-211. The “February Adverse Current” was an attack on the whole concept of the Cultural Revolution launched by a group of senior Party leaders from both the civilian and the military spheres in February 1967. These officials included premier Zhou Enlai, Marshals Ye Jianying, Nie Rongzhen and Xu Xiangqian; vice premiers Chen Yi, Li Fuchun, Li Xiannian and Tan Zhenlin; and Petroleum Group members Yu Qiuli and Gu Mu.

<sup>36</sup> Han, p. 586.

<sup>37</sup> Han, p. 586.

<sup>38</sup> Lieberthal & Oksenberg, p. 196.

<sup>39</sup> Baum (1994), p. 55.

selling out the interests of China.<sup>40</sup> The leading *instigators* criticised the four political leaders Zhou Enlai, Deng Xiaoping, Ye Jianying and Li Xiannian (ÀÏÈÄÏ); and Petroleum Group members Yu Qiuli and Kang Shien for their involvement. In contrast to Deng Xiaoping, however, the Petroleum Group, Li Xiannian and Ye Jianying did not lose their political functions but officially remained in their positions, regardless of their loss of decision-making power.<sup>41</sup> Thus, the members of the Petroleum Group still were in charge of the principal economic agencies when Mao Zedong passed away on September 9, 1976.<sup>42</sup>

### ***1.5 Conclusion***

The political and economic trends which have been emphasised in the historical narrative need to be recalled. First, during the 1960s and the first half of the 1970s, an increasingly violent factional strife between the anti-bureaucrats (*instigators*) and the bureaucrats (*survivors*) emerged. As we shall see, the outcome of this struggle fully reshaped the economic development strategy in 1977. Second, through the years, there was continuously an intrinsic correlation between the political faction that gained control over economic decision-making, and the development strategy that was implemented. When Mao Zedong, supported by many provincial leaders and officials in heavy industry, was not satisfied with the retrenchment strategy of Liu Shaoqi and Deng Xiaoping in the beginning of the 1960s, he called for a decentralisation of decision-making power toward the provinces as to take away the power of the ‘disloyal’ state planners and give it to the more ‘loyal’ regional leaders. At the same time, he put the ‘loyal’ Petroleum Group in control of economic planning. During the Cultural Revolution, Mao Zedong, supported by mass movements, launched a full-fledged attack against the bureaucrats and consequently decentralised decision-making power. In the aftermath of Lin Biao’s death, Mao called in the help of the major military-bureaucrats to restore national order. These bureaucrats used their renewed power position to reinstate their fellow-bureaucrats and recentralise the

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<sup>40</sup> Lieberthal & Oksenberg, p. 204.

<sup>41</sup> Lieberthal & Oksenberg, p. 205.

<sup>42</sup> Chang, p. 5; Baum (1994), p. 55. The key members of the Group continued to head top government posts in the energy sector and several principle economic agencies, such as the State Economic Commission, the State Planning Commission, the State Capital Construction Commission and other heavy industrial ministries under the State Council.

economy. In 1975, the tide turned again in favour of the anti-bureaucrats, and the *instigators* of the Cultural Revolution decentralised economic decision-making again.

## 2. THE MILITARY- BUREAUCRATIC COALITION'S RISE TO POWER

### 2.1 Political Model

In the historical analysis of the situation between 1958 and 1976, it has been contended that during the Cultural Revolution, essentially the political strife between the bureaucrats (*survivors*) and anti-bureaucrats (*instigators*) had led to shifts in the economic development strategy. In this section, it will be asserted that a new change in the balance of power between the two political factions was the immediate cause for the renewed adherence to the Four Modernisations Program in 1977.

The political situation on the eve of Mao's death was more complicated, however, than the two factions theory makes it appear. Thus, to correctly understand the political struggle that incited the change of the economic development strategy in 1977, the political situation at the time of Mao's death has to be analysed with a more suitable political model.

In working out a workable model, I will follow Lieberthal & Oksenberg's viewpoint, and distance myself from the *factionalism model*.<sup>43</sup> This widely applied political model essentially subdivides the political leadership into several contending factions, with rather tightly and permanently drawn boundaries. It uses the knowledge acquired from subdividing the political groups to explain the logic behind a certain political event.<sup>44</sup> Although this theoretic approach has significant advantages, it also has two interrelated shortcomings. First, it does not sufficiently distinguish the difference between an *opinion group* and a *faction*. Second, the continuous fluctuation of the political allegiances are strongly neglected, due to a strong emphasis on the existence of many long-standing coherent factions.

To clarify the distinct elements that differentiate a *faction* and an *opinion group*, it is necessary to define a *faction*. Lieberthal & Oksenberg explains:

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<sup>43</sup> Lieberthal & Oksenberg, p. 59. The two authors cited the following works as examples of the factionalism model: Andrew Nathan, "A Factionalism Model for CCP Politics", *China Quarterly* 53 (1973), pp. 34-66; Lucian Pye, *The Dynamics of Chinese Politics*, Cambridge, Oelgeschlager/Gunn and Hain, 1981; Tang Tsou, Prolegomenon to the Study of Informal Groups in Chinese Communist Party Politics", *China Quarterly* 65 (1976), pp. 98-114.

<sup>44</sup> Lieberthal & Oksenberg, p. 59.



“Analysts usually define a faction or a clique - *pai* [派] in Chinese - as a group bound by shared background, intertwined careers, and current bureaucratic responsibilities whose members evidently feel some loyalty and obligation toward one another and who have a common destiny. A faction rises and falls together. Although a faction may share similar policy orientations on at least some major issues, its members attach primacy to promoting the political fortunes of one another rather than advancing their policy preference.”<sup>45</sup>

According to this definition, two elements identify a *faction*. First, all members have a shared political background and career; second, all members have attached their political destiny to the survival of the other members of the group and the group as a whole, and have therefore orchestrated their political preferences to the political fortunes of the group. An *opinion group* on the other hand is a much less coherent cluster of leaders who merely have the same point of view on one or a few individual issues.<sup>46</sup> Thus, factions need to be identified as extremely coherent opinion groups, which many political leaders do not belong to.

A number of analysts have used this insight to prompt an alternative model, which I call the *individualistic approach*. This model does not put emphasis on the strong political clusters, but rather searches for the reasons behind the continuous fluctuations in the composition of the opinion groups:

“[...] [P]olitics [are] a struggle among a number of strong willed individuals, each of whom has his distinctive vision of the appropriate route to modernity. *Clusters* of such leaders come together because of their shared views on one or several issues. The group is not tightly cohesive and not bound by personal ties.”<sup>47</sup>

This view of an *opinion group* as a cluster of strong willed individuals who have a common pragmatic or opportunistic vision on a specific issue is a more realistic approach than the factionalism model mentioned above. It sees the politicians as pragmatic-opportunistic individuals with various political functions, contacts and views, who continuously disagree over individual issues across as well as within the borders of the *perceived* political groups.

This approach does not deny the existence of *factions*. Because the political leaders are strong-willed individuals who make their political decisions according to their pragmatic-opportunistic views, they do not join the same line-up of forces in every consecutive controversy,

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<sup>45</sup> Lieberthal & Oksenberg, p. 59.

<sup>46</sup> Domes, p. 475.

unless they deem it opportunistically necessary. The question is, when or why does a politician consider it necessary to form a faction with other leaders. To understand this, we have to return to the definition of a faction. What the above-mentioned definition may have implied, but certainly has not emphasised, is that factions mostly are formed under temporary, special circumstances. Lieberthal & Oksenberg reacted against this problem and explained in the case of the Petroleum Faction in 1979 that:

“[They] were initially viewed as a faction by non-members rather than by members. Their identity was bestowed upon them rather than self-assumed. It was not clear how cohesive the cluster felt until it acquired a label and began to be perceived by others as a faction. At that point they began to share a common destiny and therefore had to act on each other's behalf.”<sup>48</sup>

This explanation clarifies, in accordance with the individualistic approach, that political leaders are not inherently a part of a faction. They only become faction members during exceptional circumstances in which they find it opportunistically necessary to put all hope on the rise or survival of their colleagues. In other words, politicians form a faction when they are entangled in a factional strife. Whether being challenged by or opportunistically challenging another group of leaders, the members collectively dispute the adverse faction's standpoint on a large number of issues covering different policy areas, hoping to weaken the power base of the opposing faction and to obtain an all-round victory over them.

To recapitulate the elements of the working model: All politicians are *strong willed individuals* who base their political decisions and standpoints on specific issues according to their pragmatic-opportunistic vision. When a group of politicians has the same point of view towards one or a few political topics, they form an *opinion group* concerning that issue. When a group of politicians deems it necessary to join the same line-up of forces in every consecutive political controversy, because it is engaged in a political power struggle with another political cluster, *factions* are formed.

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<sup>47</sup> Lieberthal & Oksenberg, p. 59-60.

<sup>48</sup> Lieberthal & Oksenberg, p. 60.

## 2.2 *Political Landscape*

With the acquired model, the power struggle, which unravelled in the immediate aftermath of Mao's death, can be understood. In the month following Mao's death, China's central leadership tentatively consisted of two factions that were entangled in a struggle for overall power, and one opinion group that opportunistically chose to side with one of the factions. I have purposefully named the two factions the anti-bureaucratic *instigators*<sup>49</sup> and the military-bureaucratic *survivors*. The largely incoherent opinion group has been called the opportunistic *beneficiaries*.

### 2.2.1 *Survivors Faction*

The *survivors* were the remnants of the senior bureaucratic and central military cadres who had held high political posts before the onset of the Cultural Revolution. As allies of the purged military-bureaucratic cadres such as Deng Xiaoping and Liu Shaoqi, they almost certainly had opposed the main thrust of the Cultural Revolution, but nevertheless had managed to hold on to or regain their political position in the Chinese central leadership by staying on the sidelines during the severe factional struggles.<sup>50</sup> From the periphery of power, they nevertheless awaited an opportunity to end the anti-bureaucratic trend of the Cultural Revolution and reinstall the idealised strong bureaucracy that existed in the First Five-Year Plan and the beginning of the 1960s. As mentioned in the historical narrative, the survivors had a period of glory during the Cultural Revolution, when in the aftermath of the Lin Biao-affair in 1971 Mao called for the military-bureaucrats to restore order in the country (see 1.3). The survivors wasted no time to strengthen their power position by purging all their enemies in the clique of Lin Biao, rehabilitating previously purged faction members, and implementing the bureaucratic Four Modernisations Program. At the end of 1975 and the beginning of 1976, however, they were pushed back to the periphery of decision-making power, when the campaign against Deng Xiaoping reached its height (see 1.4).

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<sup>49</sup> The conventional names for this faction such as *ultra-leftists*, *radicals* or *Gang of Four* have not been used for two reasons: negatively, the label *radicals* or *ultra-leftists* has a negative connotation. Positively, the name *instigators* fits in the same category as *beneficiaries* and *survivors*.

<sup>50</sup> MacFarquhar, pp. 278-279.

The *survivors* consisted of senior military and bureaucratic officials. The military survivors who had remained in power during the whole duration of the Cultural Revolution included defence minister and vice-chairman of the Military Affairs Commission Ye Jianying; PLA generals Xu Shiyou (徐锡禹) and Wei Guoqing (韦国清), and alternate Politburo member Su Zhenhua (苏震华). The bureaucratic survivors included vice-premier Li Xiannian, vice-premier Wang Zhen (王震) and alternate Politburo member Saifuding (赛福鼎).<sup>51</sup> Their ranks were filled with the rehabilitated cadres Chen Yun, Tan Zhenlin (谭震林) and Li Jingquan (李景权).<sup>52</sup>

The military-bureaucratic *survivors* also received the backing of the purged military-bureaucrats who remained in disrepute, including Beijing's ex-mayor Peng Zhen (彭真), former director of the General Office of the CCP Central Committee Yang Shangkun (杨尚昆), senior economic strategist Bo Yibo and, above all, former CCP secretary general Deng Xiaoping.<sup>53</sup>

### 2.2.2 *Instigators Faction*

The greatest enemy of the *survivors* was the anti-bureaucratic faction of *instigators*. The members formed the hard-core of the leftist forces in the Party. They had rallied around Mao Zedong to uphold the politics and ideals of the Cultural Revolution. Relying on the backing of Mao, being strongly supported by the local mass organisations and having a strong control over the media, they tried to get rid of the remaining influences of the military-bureaucratic officials who still opposed the Cultural Revolution.

During the last years of the Cultural Revolution, the *instigators* were unambiguously lead by the four officials Jiang Qing, Wang Hongwen (王洪文), Zhang Chunqiao (张春桥) and Yao Wenyuan (姚文元), who in the aftermath of Mao's death would be labelled the Gang of Four (*siren bang* 四人帮).<sup>54</sup>

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<sup>51</sup> Baum (1994), p. 28.

<sup>52</sup> Baum (1994), p. 28. Tan Zhenlin and Li Jingquan were rehabilitated after the Lin Biao incident in 1971. Although Chen Yun had never been formally purged during the Cultural Revolution, he was removed from the Politburo due to a series of long-standing policy disputes with Mao, dating back to the late 1950s. Chen past the most tumultuous of the Cultural Revolution safely in hospital, where he was gone for treatment of an undisclosed - and allegedly not very serious - ailment. He returned to political prominence in 1976.

<sup>53</sup> Baum (1994), p. 28.

<sup>54</sup> MacFarquhar, p. 278.

### 2.2.3 The Opinion Group of Beneficiaries

While the anti-bureaucratic *instigators* faction and the military-bureaucratic *survivors* faction were entangled in a continuous political struggle, a third loose opinion group ultimately chose to side with the *survivors*. They can be identified as the *beneficiaries*. It was led by premier and first vice-chairman Hua Guofeng (»<sup>a1</sup>ú·æ), and included the following strong-willed leaders: Beijing mayor Wu De (ÎâµÂ), Beijing military commander Chen Xilian (³ÂÛÁ<sup>a</sup>), Mao's long-time bodyguard Wang Dongxing (Íô¶«ÐË), Politburo member Ji Dengkui (¼ÍµÇü), and vice-premier Chen Yonggui (³ÂÓÀ'ó).<sup>55</sup>

The *beneficiaries* were not even close to forming a faction. On the contrary, the most significant aspect that linked the assumed members of the opinion group, was that none of them had openly and continuously identified themselves with any of the two struggling factions. On many issues the members had a divided opinion, some members agreeing to side with the *survivors*, and others following the lead of the *instigators*. In certain occasions, however, all members decided to go along with one faction. In 1975, for example, the leading *beneficiaries* backed the growth-oriented policies that were put forward by the *survivors* (see 1.3). From late 1975 until July-August 1976, however, the *beneficiaries* changed camp and openly backed the campaign of the *instigators* to oust the at that time leading *survivor* Deng Xiaoping from his political positions (see 1.4).<sup>56</sup> And as will be explained extensively, in September 1976, the *beneficiaries* once more moved away from the *instigators* to form a coalition with the *survivors*.

To understand why the *beneficiaries* continuously moved their alliance toward the other faction, and more importantly why they chose to back the *survivors* in the aftermath of Mao's death, it is necessary to analyse the similarities in political background and function of the members. It will be asserted that in political background, the *beneficiaries* resembled the *instigators*; and in function and standpoint, they tended to correspond to the *survivors*. It has to be recalled however that despite these similarities, they did not form a faction in 1976.

Similar to the members of the Gang of Four and the Petroleum Group, and in contrast to the *survivors*, none of the members of the *beneficiaries* had held an important political post on

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<sup>55</sup> Baum (1994), p. 27.

<sup>56</sup> Domes, pp. 483-484.

national level before the power struggle unravelled between Mao Zedong and Liu Shaoqi in the aftermath of the Great Leap Forward. All beneficiaries only rose to political prominence after the debacle of 1964, and especially during the Cultural Revolution (1966-1976). They climbed up to high political positions by successfully performing in accordance to Mao's will, i.e. purging their military-bureaucratic seniors and manipulating their way through the turbulent politics of the late 1960s and early 1970s.<sup>57</sup> For example, Chen Yonggui had risen to political prominence after successfully leading the rural brigade Dazhai, the agricultural counterpart of Daqing; Hua Guofeng, Ji Dengkui and Wu De had seized the highest provincial position by joining radical mass organisations and seizing power from 'unloyal' superiors. The military generals Chen Xilian, and Wang Dongxing had gained political power in the wake of the Lin Biao Incident. As all these politicians had risen to political power at the expense of the purged military-bureaucrats, they knew that a coalition with the *survivors* was not without risk. If it is also taken into account that some leading beneficiaries had played an active role in suppressing the demonstrations on Tiananmen Square in April 1976 and in accusing the influential *survivor* Deng Xiaoping for inciting the protest, their distrust of a cooperation with the *survivors* was even strengthened.<sup>58</sup>

The *beneficiaries* also had to be distinguished from the *instigators*. As Ding Wang acknowledges, a great deal of the leading members of the *beneficiaries* were or had been closely associated with China's security system. Hua Guofeng had been minister of Public Security before he became prime minister in 1976; Wang Dongxing was in charge of security for the CCP elite and was commander of the prestigious 8341 unit; Ji Dengkui had joined the security apparatus during the post-Lin clean-up and headed the political and legal group of the Central Committee in 1976; and Chen Xilian had risen to power in 1971 when he had been member of the "Lin Biao anti-party clique investigation group".<sup>59</sup> This fact convinces Ding Wang that the interest and the political standpoint of the *beneficiaries* resembled the one of the *survivors* to a certain extent.<sup>60</sup> Both groups held high positions in the bureaucratic hierarchy and thus had an aversion against the chaotic attacks against the bureaucracy during the Cultural Revolution, and against the *instigators* who were the immediate cause of it. Both groups preferred a reestablishment of order and stability.

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<sup>57</sup> MacFarquhar, p. 280.

<sup>58</sup> Baum (1994), p. 43.

<sup>59</sup> Ting [Ding], p. 124; MacFarquhar, pp. 279-280.

<sup>60</sup> Ding, p. 42.

The political background of the *beneficiaries* clarifies that the leading members were only prepared to side with the survivors under the circumstances that Mao's legacy would not be attacked.

### ***2.3 Collaboration of the Survivors and Beneficiaries***

With the elements of the model worked out, the political struggle in September 1976 can now be explained. In the immediate aftermath of Mao's death, the factional strife between the *instigators* and the *survivors* intensified. The first assault was made by Jiang Qing and her followers. They did not recognise any great political opponents, and believed that the road to China's highest political power was being unfolded in front of them. Their greatest political opponent Deng Xiaoping had been successfully purged in 1976; the most important *survivors* Ye Jianying and Li Xiannian had remained on the sideline; and the most important *beneficiary* Hua Guofeng had not had the time to obtain a strong political and military power base.<sup>61</sup> As a result, in the course of the predawn Politburo meeting just after Mao's death, Jiang Qing resumed her political attacks, by demanding the immediate expulsion of Deng Xiaoping from the Communist Party. As Fan Shuo argues, Mao's wife appeared to be more interested in securing Deng's immediate expulsion than in settling Mao's funeral arrangements during the meeting.<sup>62</sup> But Jiang Qing met with resistance of the leading *survivors*, Ye Jianying and Li Xiannian, and premier Hua Guofeng who had decided to side with the *survivors*.<sup>63</sup> The *instigators* reacted a few days later. During a speech at the Qinghua University, Jiang Qing tried to gain popular support by mentioning disapprovingly that some Politburo members did not want to expel the number one capitalist roader Deng Xiaoping and even wanted to reverse his verdict,<sup>64</sup> thus clearly criticising Hua Guofeng, Ye Jianying and the other central and local officials who had supported Deng. The political attacks intensified in the following few weeks, when the members of the Gang of Four

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<sup>61</sup> Fan, p. 190.

<sup>62</sup> Fan, p. 190; MacFarquhar, p. 308.

<sup>63</sup> Fan, p. 190; Wang, pp. 157-159; Domes, p. 490. Domes asserts that Hua Guofeng and his "Public Security Faction" initiated their collaboration with the survivors somewhere between the Tangshan earthquake on July 28, 1976 and Mao's death on 9 September, 1976. The following argument convinced Domes why Hua Guofeng collaborate with the survivors: Hua Guofeng was a political opportunist. During the anti-rightist campaign in the Summer of 1976, he noticed that the local party and military leaders had lost the vigour to organise the mass movements. In the aftermath of the Tangshan earthquake, he realised the necessity for the pre-eminent leader to have full support of the military. The survivors could provide him with the needed party and military support; the Gang of Four could not.

tried to start a political campaign against “Capitalist Roaders such as Deng Xiaoping” and “Revisionist Top Officials”, in which Ye Jianying and Hua Guofeng among others were undisguisedly singled out.<sup>65</sup>

Defending themselves against their mutual enemy, the *beneficiaries* joint ranks with the *survivors* faction. As Fan Shuo describes:

“[In September 1976], Hua Guofeng’s situation became increasingly precarious. Ye Jianying understood Hua Guofeng’s predicament and attitude towards it, and resolutely supported him. In their combined effort to crush the Gang of Four, both [political leaders] had the same thought and standpoint. They supported each other; frequently contacted each other; and held secret meetings to discuss which strategy had to be taken to purge the Gang of Four.”<sup>66</sup>

During one of the secret meetings, Hua Guofeng and Ye Jianying decided to arrest the Gang of Four. Many important questions surrounding the detention of the Gang remain unanswered. It is, for example, not clear who came up with the initial idea to arrest the Gang of Four. Most of the sources assert that the idea was launched by Ye Jianying.<sup>67</sup> The personal doctor of Mao Zedong, Li Zhisui, however, claims that Hua Guofeng raised the issue.<sup>68</sup> Second, it is not certain how many Politburo members were actively involved in planning the arrest the Gang of Four. The minimum amount of Politburo members that have been recorded is three, namely Hua Guofeng, Ye Jianying and Mao’s bodyguard Wang Dongxing. Other sources, however, state that four to five politburo members had been approached, adding Li Xiannian and Chen Xilian to the list.<sup>69</sup> What is certified, is that the decision to apprehend the Gang of Four was backed by at least two political leaders: Hua Guofeng and Ye Jianying, and that the task was carried out by Wang Dongxing. This was asserted by Wang Dongxing during a speech that he gave on June 15, 1984. In the speech he stated that

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<sup>64</sup> Fan, p. 191.

<sup>65</sup> Ding, p. 39; Fan, p. 190.

<sup>66</sup> Fan, p. 265.

<sup>67</sup> Ye, p. 32; Salisbury, p. 372. Ye Yonglie claims that the idea came from Ye Jianying. “After observation and reflection, Ye Jianying came to the conclusion that, for the commanding task of crushing the Gang of Four, [Hua Guofeng’s] support has to be obtained [...]. Salisbury agreed. “The marshal had a harder time with Hua Guofeng that the army and the old comrades would back him if he came with them.”

<sup>68</sup> Li Zhisui, p. 631. Li Zhisui asserts that Hua Guofeng made the first move: “Hua had raised the issue with Marshal Ye Jianying. He agreed to take control of the army.”

<sup>69</sup> Fan, p. 270.



“[t]he struggle to crush the Gang of Four was organised by Hua Guofeng and Ye Jianying. I was merely responsible for the execution.”<sup>70</sup>

The co-operation of the two political leaders Hua Guofeng and Ye Jianying was vital for the detention of the Gang of Four. None of the two leaders had a strong enough power base to execute the purge of the politically powerful Gang of Four without the support of the other leader and, therefore, both were obliged to compromise.

On the one hand, Hua Guofeng needed Ye Jianying’s support. As Li Zhisui stated:

“[Hua Guofeng feared] that he did not yet have enough power within the party and [knew] that he did not control the army.”<sup>71</sup>

As vice-chairman of the Military Affairs Commission and minister of national defence, Ye Jianying could supply Hua with the needed support in the army; and as leading representative of the survivors, he was in an enhanced position to convince the remaining members to acknowledge Hua Guofeng’s leadership.<sup>72</sup> But to gain the support of the *survivors*, he would have to distantiate himself from the Cultural Revolution and accept a switch to a more military-bureaucratic economic and political system.

On the other hand, Ye Jianying could not execute the detention without Hua Guofeng’s support. Hua Guofeng was publicly the assigned successor of Mao Zedong, holding the posts of prime minister and the first vice-chairman.<sup>73</sup> Thus, arresting the Gang of Four without the consent of Hua Guofeng, could be seen as an illegitimate coup that was not in line with the actions of the central leadership. Ding Wang stated:

“Ye Jianying had no alternative. He was obliged to install Hua Guofeng in the leading position. He could plan a military coup to bring down Jiang Qing and her henchmen, but it would have been inappropriate of Ye Jianying to push aside Mao Zedong’s public idol, Hua Guofeng, who Mao Zedong openly had assigned as his successor. Removing Hua Guofeng would have been the same as in ancient China planning a palace coup and removing the crown prince. Hua Guofeng could be the symbolisation that Mao Zedong’s legitimism would be continued. Ye Jianying had no desire to take over Mao Zedong’s position. He merely wanted to avoid

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<sup>70</sup> Ye , p. 29.

<sup>71</sup> Li Zhisui, p. 631.

<sup>72</sup> Ye, p. 30; Fan, p. 96; Ding, p. 53; Salisbury, p. 372. All four authors write that Ye Jianying allegedly assured Hua Guofeng that the army and the survivors would back him if he supported the Marshal. Ye Jianying was quoted by Salisbury to have said: “You will be one of us.”

usurpation from power; and to demonstrate his sincerity, because bringing down the group of Jiang Qing was seen as profitable for the whole Communist Party. Ye Jianying had no intention to become chairman.”<sup>74</sup>

But to win over Hua Guofeng and his fellow *beneficiaries*, Ye Jianying and Li Xiannian would have to accept the official rule of Hua Guofeng and would have to refrain from attacking Mao’s past policies.<sup>75</sup>

The collaboration of Hua Guofeng and Ye Jianying eventually resulted into the arrest of the Gang of Four on October 6, 1976. The same evening, a Politburo meeting was held, during which the arrest was approved by the other Politburo members.<sup>76</sup> During the meeting, Hua Guofeng was assigned to be the next Party chairman, and the chairman of the Military Affairs Commission.<sup>77</sup>

#### **2.4 Military-Bureaucratic Coalition**

By choosing for a collaboration with the military leader Ye Jianying and the economic bureaucrat Li Xiannian, Hua Guofeng chose to lead a military-bureaucratic coalition. Consequently, in the aftermath of the October Coup, the country was *de facto* led by a military-bureaucratic troika.<sup>78</sup>

The newly formed coalition was burdened with the urgent task to subside the remaining resistance of the anti-bureaucratic *instigators*; to restore order and reinstate a strong central bureaucracy; and to install renewed confidence in the communist rule according to the new bureaucratic standards.<sup>79</sup>

The leadership moved swiftly in purging the remaining military insubordination of the anti-bureaucratic *instigators* in the Gang’s stronghold Shanghai and other provincial cities. As MacFarquhar exclaimed: “Fortunately Shanghai turned out to be a paper tiger.” After merely a

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<sup>73</sup> Ye, p. 30. Mao Zedong allegedly had scrawled on a piece of paper “With you in charge, I am at ease” (*ni banshi, wo fangxin*), thus conveying his wish to have Hua succeed him as chairman of the Party Central Committee.

<sup>74</sup> Ding, p. 53.

<sup>75</sup> Misra, p. 21.

<sup>76</sup> Ye, p. 47; Fan, p. 305. The following Politburo members were present: Hua Guofeng, Ye Jianying, Wang Dongxing, Li Xiannian, Chen Xilian, Su Zhenhua, Ji Dengkui, Wu De, Ni Zhifu, Chen Yonggui, Wu Guixian.

<sup>77</sup> Fan, pp. 304-305. Hua Guofeng allegedly wanted to give Ye Jianying the chairmanship, but Ye Jianying turned it down.

<sup>78</sup> Baum (1994), p. 42.

week of light armed resistance, the Gang's militia were successfully disarmed, and the key instigators were rounded up and placed under house arrest.<sup>80</sup>

After having broken the military resistance, the time had come for the coalition to provide the country with a leadership.<sup>81</sup> The political elite immediately recentralised the bureaucracy and military, thus effectively curtailing the power bases of the *instigators*, who were mostly in charge of the local mass organisations and revolutionary committees, and strengthening the power base of the central military leaders and bureaucrats.

With the restoration of order and the recentralisation of the decision-making power, the military-bureaucratic coalition had created a favourable environment to resume the initiative and to take the measures that they deemed necessary to restore the popular confidence in the Communist Party. The coalition perceived that, in the wake of the for many traumatic Cultural Revolution, an improvement of the economic performance were an essential requirement to enhance the party prestige.<sup>82</sup> This new goal of the new coalition would eventually result into the implementation of the Four Modernisations Program. But before elaborating on the economic development strategy installed in 1977-1978, one more political factor that influenced the development of the strategy needs to be explained, namely the reinstatement of Deng Xiaoping.

### ***2.5 Rehabilitation of Deng Xiaoping (Breach of Harmony)***

Although the arrest of the Gang of Four once and for all shifted the balance of forces in the central leadership away from the anti-bureaucrats to a military-bureaucratic coalition, it did not immediately redound to the benefit of Deng Xiaoping. To win over Hua Guofeng's support

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<sup>79</sup> MacFarquhar, p. 311; Lieberthal & Oksenberg, p. 206.

<sup>80</sup> Baum (1994), p. 41.

<sup>81</sup> MacFarquhar, p. 311.

<sup>82</sup> Baum (1994), p. 52; Solinger (1993), p. 35; Shirk (1993), p. 23. Baum states that "Hua also sought to fashion a reputation as a forward-thinking leader and economic strategist", implying that the Ten-Year Plan was entirely developed by Hua Guofeng and his fellow beneficiaries. Solinger's point of view that the plan was made up by all leaders of the military-bureaucratic coalition, however, sounds more persuasive: "[...] the plan was the product of the highest authorities in China. [...] It must have received Deng's sponsorship." Shirk asserts that "By the time of Mao's death in 1976, members of China's political elite did agree that restoring the CCP's prestige required improving economic performance and raising living standards. The traumatic experience of the Cultural Revolution had eroded popular trust in the moral and political virtue of the CCP. The party's leaders decided to shift the base of party legitimacy from virtue to competence, and to do that they had to demonstrate that they could deliver the goods." There is a lot of truth in the words of Solinger. However, I would like to stress that not only the traumatic

needed to arrest the Gang of Four, the main advocates of the *survivors* Ye Jianying and Li Xiannian had promised not to attack Mao's past policies. As one of Mao's last policies was to purge Deng Xiaoping, they were refrained from urging for his reinstatement.<sup>83</sup>

Nevertheless, Deng's old comrades in the central leadership remained in contact with their old ally. In the immediate aftermath of the arrest of the Gang of Four, Ye Jianying and Li Xiannian supposedly advised Deng Xiaoping to strike a conciliatory pose, and write a personal letter to Hua Guofeng and the Central Committee. Deng did so on October 10, humbly congratulating the party centre on the victory against the Gang of Four and enthusiastically hailing the appointment of Hua Guofeng as Party chairman.<sup>84</sup>

Hua Guofeng is said to have cast Deng's letter aside.<sup>85</sup> He had compelling reasons to distrust his flattery. Unlike the senior members of the survivors faction, Hua and his fellow *beneficiaries* had played an active role in suppressing the demonstrations on Tiananmen Square in April 1976 and in accusing Deng Xiaoping for instigating the protest. Thus, deeply implicated in the purge of Deng Xiaoping in 1976, the *beneficiaries* had a good reason to oppose any reconsideration of the Tiananmen Incident, or of Deng's putative role in it. Conveying the leadership's decision not to reopen Deng's case, Wu De in the course of the October 24 anti-Gang rally, announced that "We shall continue to criticise Deng". Two days later, on October 26, Hua Guofeng issued four instructions to the leading members of the party's propaganda apparatus, which included the directive that "The Gang of Four and Deng Xiaoping have to be criticised simultaneously."<sup>86</sup>

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experience of the Cultural Revolution had convinced Hua's coalition to start an economic development plan, but also the inherent elements of the coalition's development strategy.

<sup>83</sup> MacFarquhar, p. 313; Zhang, p. 1272. It is not quite sure what the standpoint of Ye Jianying and Li Xiannian was on the reinstatement of Deng Xiaoping. MacFarquhar states that: "[Ye and Li] must have been ambivalent about [the return of Deng] in 1977. With Deng absent, they dominated the political picture as elder statesmen guiding Hua; with Deng back, they would at the very least have to cede part of the role to him." Zhang Taozhi on the other hand maintains that Ye Jianying urged Hua Guofeng to reinstate Deng Xiaoping, but that Hua answered: "Marshal Ye, [the campaign against Deng] was decided upon by Mao Zedong himself. What would people think if we would rehabilitate Deng Xiaoping after we have just purged the Gang of Four? For the moment, we have to continue to criticise Deng and the return of Rightist tendencies. Let's reanalyse the situation after a while."

<sup>84</sup> Baum (1994), pp. 42-43.

<sup>85</sup> Ye, p. 94.

<sup>86</sup> Baum (1994), p. 43. The four directives were (1) the Gang of Four and Deng Xiaoping have to be criticised simultaneously; (2) the line pursued by the Gang of Four had been ultra-Rightist rather than Leftist; (3) the media should avoid all mention of the Tiananmen incident; and (4) there should be absolutely no criticism of "whatever Chairman Mao instructed or approved."

Even as the *beneficiaries* reaffirmed their determination not to rehabilitate Deng or reverse the Tiananmen verdict, new voices were rising demanding reconsideration of the cases of veteran cadres who had been wrongfully persecuted by the Gang of Four during the Cultural Revolution. The first prominent victim to have his reputation restored after Mao's death was marshal He Long (何龙), a hero of the Chinese revolution who had died in prison at the hands of the radical tormentors in 1969. His posthumous rehabilitation in the winter of 1976-1977, which was promoted by Ye Jianying, Wang Zhen and other senior military leaders, was followed during the succeeding months by the reinstatement of a number of other previously disgraced officials. Several of those were now promoted to leading positions in the State Council and provincial governments, replacing purged collaborators of the Gang of Four.<sup>87</sup>

As the power base of the victims increased in the late fall and winter, the national media gradually ceased publishing articles critical of Deng Xiaoping's "counterrevolutionary line" and "Right deviationist wind".<sup>88</sup> The last major condemnation of Deng by a central leader appeared in Wu De's speech to the Standing Committee of the National People's Congress, delivered on 30 November, 1976.<sup>89</sup> Meanwhile, the first signs of public support for Deng Xiaoping surfaced. On January 8, 1977 - the first anniversary of Zhou Enlai's death - pro-Deng posters appeared at small public mourning ceremonies in Nanjing, Shanghai, Guangzhou and Beijing.<sup>90</sup>

In the central leadership the power forces also started to change. Rehabilitated cadres replaced the accomplices of the Gang of Four, and the supporters of Deng Xiaoping became more outspoken in their cause to reinstate their ally. An anecdote that Ye Yonggui tells, clarifies the increasing support for Deng Xiaoping. According to Ye, on February 18, 1977 - Chinese New Year- , the political heavyweights Ye Jianying, Li Xiannian, Wang Zhen, Hu Yaobang and Wan Li (万里) all paid their respect to Deng Xiaoping.<sup>91</sup>

The struggle for Deng's reinstatement reached its zenith during the central work conference held from 10 to 22 March 1977. When Ye Jianying was asked to revise the draft of Hua Guofeng's opening speech, he found that the appropriate time had come to call for the

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<sup>87</sup> Baum (1994), p. 43-44.

<sup>88</sup> Baum (1994), p. 44.

<sup>89</sup> Baum (1994), p. 44; Ye, p. 230.

<sup>90</sup> Baum (1994), p. 44; Ye, pp. 233-244. Li Dongmin appears to have been responsible for the pro-Deng posters.

rectification of the Tiananmen incident and a conditional rehabilitation of Deng Xiaoping.<sup>92</sup> Hua Guofeng allegedly first accepted the two comments, but later backed down and dropped the two points from his speech. The survivors Chen Yun, Wang Zhen, Xu Shiyou and Wei Guoqing were furious and attacked Hua Guofeng in the middle of the meeting.<sup>93</sup> They pleaded for an immediate rectification of the Tiananmen Incident and rehabilitation of Deng Xiaoping, claiming that it was universally demanded. At any rate, Hua once again rejected the demands of the survivors and even refused to allow their speeches to be printed in the conference record.<sup>94</sup>

Perhaps persuaded by Ye Jianying and Li Xiannian, Hua Guofeng must have realised after the August working conference that resisting the Deng tide could be politically disastrous. Consequently, in April 1977, Hua had worked out a workable compromise to resolve the deadlock over Deng Xiaoping's rehabilitation: he agreed to rehabilitate Deng Xiaoping on the condition that Deng would refrain from undermining his reputation and legitimacy.<sup>95</sup>

With the bargain sealed, Deng Xiaoping was reinstated in all his offices in the course of the Third Plenum of the Tenth Party Congress, convened from 16 to 21 July 1977. He regained all the positions that he had lost in April 1976: Party vice-chairman and member of the Politburo Standing Committee; vice-chairman of the Military Affairs Commission; vice-premier; and PLA chief of staff.<sup>96</sup> He thus became responsible for education science, military and foreign affairs.<sup>97</sup>

Although, Deng Xiaoping was only reinstated conditionally, his presence demonstrated that cracks started to appear in the military-bureaucratic coalition. Continuously feeling the scrutinising eyes of Deng Xiaoping on their back, the *beneficiaries* increasingly became aware that the only way to remain in power on the long run, was to successfully lead China to a higher

<sup>91</sup> Ye, p. 252. I have not found any other source to confirm this event. Whatever may have been the case, the description of the event shows that in the beginning of 1977 the visiting survivors had played an important role in rehabilitating Deng Xiaoping.

<sup>92</sup> Ye, p. 255.

<sup>93</sup> Baum (1994), p. 45; MacFarquhar, p. 313; Ye, pp. 257-259. MacFarquhar and Ye Yonglie do not include Li Xiannian, Xu Shiyou and Wei Guoqing on the list of survivors who attacked Hua Guofeng. In addition, MacFarquhar states that "there is no suggestion in Chinese accounts of this work conference that Ye Jianying and Li Xiannian joined in their old comrades' criticisms of Hua's position.

<sup>94</sup> Zhang, p. 1276; MacFarquhar, p. 313.

<sup>95</sup> Baum (1994), p. 46. Baum discusses in detail the set of conditions that Deng had to comply to to be rehabilitated. Deng was required not to attack Hua's "Two Whatevers" policy nor to undermine Mao's reputation and legacy. As Hua Guofeng's political legitimacy was based on those two vague ideological principles, I have tried to concretise the conditions by stating that Deng was obliged to refrain from undermining Hua Guofeng's reputation and legitimacy.

<sup>96</sup> Baum (1994), p. 46.

level of material welfare. Thus, the leaders increasingly realised that their legitimacy required not only virtue, but also on competence.<sup>98</sup>

## 2.6 Conclusion

The gist of the above-mentioned political developments, that occurred in the aftermath of Mao's death, manifested itself during the famous First Plenum of the Eleventh Party Congress convened in August 1977.<sup>99</sup>

First, the Congress formally brought an end to the Cultural Revolution and purged the anti-bureaucratic *instigators* from their functions. This move became clear in the thorough change in composition of the Central Committee: all leftist supporters of the Gang of Four were purged (but were only reluctantly replaced by rehabilitated cadres). As MacFarquhar observes:

Out of this Congress there emerged a leadership that was purged of the left but that did not particularly favour the left's victims. One third of the Central Committee elected at the Tenth Congress disappeared, which included 75 percent of its representatives from mass organisations, presumably from leftist sympathies. Another category of probable leftists, the more recent entrants into the party, also suffered heavily, being reduced by more than 70 percent.

Second, a new military-bureaucratic coalition with fresh aspirations based on bureaucratic standards had replaced the Cultural Revolution leadership. This is demonstrated by the following events: first, the Plenum was the first Central Party Congress held since 1973; second, the new era was announced with the approval of a new Party constitution; third, a new Central Committee and Standing Committee was elected, with a majority of the members in favour of the military-bureaucratic coalition. MacFarquhar explains:

The Politburo was also a compromise, but weighted in favour of survivors and beneficiaries of the Cultural Revolution [the military-bureaucratic coalition], with only six of twenty-six members drawn from the ranks of the victims [supporters of Deng Xiaoping]. [...] In the new five-man Politburo Standing Committee, Deng was the only one who would later emerge as a strong critic of Hua and the Whatever Faction [*beneficiaries*]. Hua was now buttressed by his key supporter

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<sup>97</sup> Evans, p. 247.

<sup>98</sup> Shirk (1993), p. 23.

<sup>99</sup> Baum (1994), p. 48.

in that grouping, Wang Dongxing, [...]. Ye Jianying was joined by his joint guarantor of Hua's position, Li Xiannian.<sup>100</sup>

Third, the leaders of this coalition did not only base its legitimacy on its ideological virtue, but also on its aspired competence. As Zhang Taozhi remarks, the central leadership proclaimed that the basic task of the Party in the new era was to develop China into a strong and modernised socialist country.<sup>101</sup>

Fourth, although Deng Xiaoping had agreed to refrain himself from undermining Hua Guofeng's reputation and legitimacy, it was clear that this measure could only hold on the short run. Already during his closing speech, Deng distanced himself from the central ideological principle of the beneficiaries, the "Two Whatever"-policy. As will be explained in section 5, this would eventually lead to a new factional strife in the second half of 1978.

In the next part, the influence of these political tendencies on the nature of the 1978 development strategy will be demonstrated. It will be exemplified that not only the objective economic situation, but also the nature of the leading economic coalition had a strong influence on the choice of development strategy.

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<sup>100</sup> MacFarquhar, p. 316. Ye, p. 227. Ye Yonglie demonstrates the strong factional alliance between Hua Guofeng and Wang Dongxing by calling them the Hua-Wang system (*Hua Wang tizhi* »«íôîâÖÆ). He further explains that after the arrest of the Gang of Four, Wang Dongxing became Hua Guofeng's assistant.

<sup>101</sup> Zhang, p. 1278.



### 3. FOUR MODERNISATIONS PROGRAM

#### *3.1 Economic Situation during the Cultural Revolution*

The official statistics published by the Chinese authorities in 1981 show that from 1965 to 1975, China's industry had grown 10 percent per year, agriculture 4 percent, grain output 3.7 percent and the BNP 6.5 percent.<sup>102</sup> These figures show that the Cultural Revolution had not been the widely perceived economic fiasco. Riskin points out that "these figures even put China at the top among the low-income countries in growth performance."<sup>103</sup>

#### *3.2 Recentralisation of Economic Decision-Making Power*

Notwithstanding the good growth rates, there still were some elements in the Cultural Revolution's development strategy, which the military-bureaucratic coalition for a combination of pragmatic and opportunistic reasons regarded as far from ideal.<sup>104</sup> In particular, Mao's strategy of retrenching functional bureaucracies, decentralising economic power, and mobilising the population under central ideological guidance countered the viewpoint of the main economic and political decision-makers in the Central Committee.<sup>105</sup> The leading officials perceived that these anti-bureaucratic measures had resulted into an inability for the planners to guide the economy, and thus in a severe slowdown of economic growth.<sup>106</sup> As Li Xiannian stated:

"[During the Cultural Revolution], the interference and destruction of the Gang of Four was serious on every domain. Especially our comrades in the economic departments are confronted with the damage that the Gang has caused by dislocating the economy."<sup>107</sup>

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<sup>102</sup> *Zhongguo jingji nianjian* (1981) 中国国民经济年鉴 (1981); Riskin, p. 185. I am aware of the fact that Chinese official figures are renowned for their inaccuracy. In this case, however, it is quite certain that the economic growth was relatively fast. The statistics namely were presented in the post-1978 period. During this period, officials did everything to criticise the bad results of the Cultural Revolution development strategy.

<sup>103</sup> Riskin, p. 257.

<sup>104</sup> Hua Guofeng and his consorts appropriately ascribed all the previous negative policies to the national scapegoats, the Gang of Four, and not to Mao Zedong.

<sup>105</sup> Riskin, p. 259.

<sup>106</sup> Naughton, p. 51.

<sup>107</sup> Li, p. 311. Li Xiannian asserted this during a speech held in January 1977.

To counter these tendencies, the leaders saw the re-establishment of the Soviet-type command economic system with strong centralised state planning and administration as the essential prerequisite for a fast and healthy economic development.<sup>108</sup> Therefore the members of the Petroleum Group were fully restored at the economic helm under the leadership of Hua Guofeng and Li Xiannian in late 1976.<sup>109</sup> They were given the order to elaborate an economic development plan according to the above-mentioned bureaucratic standards.<sup>110</sup> In January 1977, the planners set out to work out the details of a workable plan.<sup>111</sup> This led to a resurrection of the Four Modernisations Program in March 1977. It was formally adopted by the government and was included into the Constitution of the Chinese Communist Party during the First Plenum of the Eleventh Party Congress in August 1977, as well as in China's National Constitution during the First Session of the Fifth National People's Congress (NPC) in January 1978.<sup>112</sup>

### ***3.3 Four Modernisations Program***

The Four Modernisations Program was a reiteration and expansion of the development strategy that premier Zhou Enlai had revealed during the Fourth National People's Congress in January 1975 (see 1.3).<sup>113</sup> It was based on an optimistic two-stage modernisation scheme that would enable China to reach the front ranks of the world economy at the end of the century. The central idea of the program was that the first stage of economic development was to build an “independent and relatively comprehensive industrially oriented economic system” through massive investment in heavy industry by the year 1985. After the completion of the initial stage, the second stage was to accomplish the modernisation of agriculture, industry, national defence

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<sup>108</sup> Naughton, p. 64; Riskin, p. 202, 256; Ho & Huenemann, p. 3. The Stalinist growth strategy argues that economic growth is determined by the size and level of development of the capital goods sector and related infrastructure. Therefore, according to this theory, increased economic growth can only be attained by rapidly developing the capital goods sector through a massive increase of the scale of capital construction.

<sup>109</sup> Lieberthal & Oksenberg, p. 208.

<sup>110</sup> Riskin, p. 259; Baum (1994), pp. 54-55.

<sup>111</sup> Lieberthal & Oksenberg, pp. 208-209. In January 1977, the Petroleum Group seriously started to address economic issues. They convened a series of meetings under Party and government aegis both at the top level and at the bureaucratic level, beginning with a preparatory work conference from January 12 to 24, 1977, to discuss the 1977 economic plan. Drawing on this meeting, the State Planning Commission drafted a summary report which it submitted to the Politburo. The top leaders in turn disseminated this document to a March Central Party Work Conference for further discussion. Simultaneously, the 1977 National Planning Conference met from 3 to 17 March, and considered the same document. Both meetings agreed on the same thing: the Four Modernisations program that had been promulgated in 1975, would be resurrected.

<sup>112</sup> Ho & Huenemann, p. 6.

and science and technology - in short, the Four Modernisations - before the millennium.<sup>114</sup> By then, China was to achieve parity or superiority with respect to the advanced industrial countries in output of major industrial products, basically automate their production, and mechanise 85 percent of major farm tasks.<sup>115</sup>

### ***3.4 Ten-Year Plan (1976-1985)***

In the Ten-Year Plan, promulgated by Hua Guofeng at the Fifth NPC in February 1978, the specific targets of the first stage of the Four Modernisations Program were assigned to the various sectors and industries. In order to complete the initial stage of development by 1985, the eclectic plan called for the construction of 120 large-scale industrial projects, including 10 major iron and steel complexes, 9 non-ferrous metals facilities, 8 large-scale coal combines, 10 new oil and natural gas fields, 30 major hydropower stations, 6 new trunk railways, and 5 key harbours. Major sectorial targets of the Ten-Year Plan included a projected doubling of steel production to 60 million tons per year, a 125 percent increase in gross industrial output, and a 50 percent increase in annual food production.<sup>116</sup>

To achieve these ambitious targets, a substantial increase in capital accumulation and investment in the capital goods sector was deemed necessary. China's leaders estimated that the modernisation program would require capital investment totalling at least U.S.\$600 billion between 1978 and 1985.<sup>117</sup> This is an incredible amount if we acknowledge that this figure roughly equals China's total industrial investments over the entire twenty-eight years of its prior existence.<sup>118</sup>

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<sup>113</sup> Solinger (1993), pp. 35-36.

<sup>114</sup> Gray & White, p. 121; Baum, p. 21.

<sup>115</sup> Riskin, p. 259.

<sup>116</sup> Riskin, p. 259.

<sup>117</sup> Baum (1980), p. 5.

<sup>118</sup> Baum (1980), pp. 5-7, Ho & Huenemann, p. 7.

### *3.5 Great Leap Outward*

To supply China with the needed high-technological equipment and plants, an equally ambitious scale of planned large-scale technological imports and assistance from the West and Japan was called for.<sup>119</sup> Indeed, Prysbyla points out that foreign trade had become the key link in the chain of modernisation.<sup>120</sup> MacDougall adds that just as in 1975 the import of technology and equipment had formed the very backbone of the modernisation plan.<sup>121</sup>

Thus, the Chinese government decided to use a substantial part of its total investment budget to import foreign technology, plants and equipment. In July 1977, the National Planning Conference called for spending 8 to 9 billion RMB a year - about one fifth of China's capital construction budget - on importing technology and complete plants.<sup>122</sup> Prysbyla mentions that the total cost of importing foreign technology was tentatively put at U.S.\$ 40-50 billion, but that this estimate was probably on the low side.<sup>123</sup> Baum calculates that the figure more probably would be U.S.\$ 60 billion, or ten percent of total capital investment.<sup>124</sup> According to Riskin, the Japanese economists in touch with Chinese planners at that time estimated that over U.S.\$70 billion of important plant, equipment, and technology imports would be required by the Plan's various projects.<sup>125</sup>

China's commitment to substantially increase imports had far-reaching implications for its export and international financing strategy. The rising amount of imports raised the question on how to pay for the increasing foreign exchange obligations.

As the Chinese government historically had a strong aversion against foreign debt, the main earner of the needed foreign exchange was to be the export sector. During the First Session of the Fifth NPC in February 1978, Hua Guofeng stated that the export of agricultural and sideline products and of industrial and mining products, would be the main source of foreign

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<sup>119</sup> Baum (1980), p. 7.

<sup>120</sup> Prysbyla, p. 423.

<sup>121</sup> Gray & White, pp. 157-158.

<sup>122</sup> Fewsmith, p. 58.

<sup>123</sup> Prysbyla, p. 421.

<sup>124</sup> Baum, pp. 6-7.

<sup>125</sup> Riskin, p. 259.

exchange.<sup>126</sup> Dernberger, however, stresses that the combination of the relatively low rate of growth of agricultural production and the need to increase the domestic standard of living had caused China's export capacity of agricultural products to grow relatively slow.<sup>127</sup> Naughton adds that, as agriculture was still the bottleneck holding back the economy, petroleum export was planned to be the crucial incremental earner of foreign exchange. Naughton goes on explaining that the Chinese leadership's confidence in the petroleum industry was based on its annual 20 percent growth rate between 1969 and 1979.<sup>128</sup> Anticipating a continuation of this growth rate, the Ten-Year Plan targeted petroleum exports to double by 1985. To reach this goal, Hua announced in May 1977 that China would build ten new oil fields comparable in size to China's largest oil field, Daqing.<sup>129</sup>

In addition, as the magnitude of planned imports made it practically certain that the import bill could not be paid totally by current exports until 1985,<sup>130</sup> China broke with its traditional unwillingness to incur long-term external debt, and took into account a variety of deferred payment procedures.<sup>131</sup> However, Chinese leaders remained cautious on this matter.<sup>132</sup>

### ***3.6 Conclusion***

The Four Modernisations and its Ten-Year Plan was an ambitious intensive development program, which the military-bureaucratic coalition for a combination of pragmatic and opportunistic reasons adopted to turn back the anti-bureaucratic policies of the past, which it alleged had caused enormous economic losses.<sup>133</sup> To make up for lost time, economic decision-making was recentralised, leaving the leading bureaucrats Li Xiannian and the members of the Petroleum Group in charge of elaborating a new development strategy. The economic leaders

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<sup>126</sup> Baum (1980), p. 48.

<sup>127</sup> Whiting & Dernberger, pp. 149-150.

<sup>128</sup> Naughton, p. 69.

<sup>129</sup> Naughton, p. 71; Baum (1980), p. 25.

<sup>130</sup> Prysbyla, p. 423.

<sup>131</sup> Prysbyla, p. 423. The author gave a list of six deferred payment procedures: (1) acceptance of seller-arranged deferred payments; (2) foreign bank deposits in branches of the Bank of China; (3) project-related foreign bank loans; (4) syndicated international credits; (5) bank loans unrelated to specific projects (purely financial borrowing); (6) and government to government loans.

<sup>132</sup> Gray & White, p. 160.

<sup>133</sup> Riskin, p. 259.

used this opportunity to reinstate the Four Modernisations Program, calling for a massive increase of investment into capital construction and import of advanced foreign technology and large-scale plants in order to break or circumvent the bottlenecks in agriculture, industry, and transport.

## 4. ECONOMIC IMBALANCES

Hua Guofeng's economic program did yield relatively high rates of growth. Total industrial and agricultural output value in 1977 and 1978 rose by an annual 11.5 percent, with agriculture increasing by 5.3 percent and industry with 13.9 percent.<sup>134</sup> But the targets had been far too ambitious and the cost of these achievements was considerable, with a creation of external as well as internal imbalances.

### *4.1 External Imbalance*

In 1978, the rapid growth of imports was not fully matched by the increase of exports. Imports increased with 41.1 percent, while exports only rose 20.0 percent.<sup>135</sup> Consequently, China ran a trade deficit of RMB 3.12 billion,<sup>136</sup> its largest since the First Five-Year Plan in the 1950s.<sup>137</sup> As the Chinese leadership did not want to incur too much external debt, it was obliged to use part of its foreign currency reserves to offset the trade deficit. However, the U.S.\$ 3 billion in foreign reserves left in mid-1978 was clearly not enough to pay cash for all imports.<sup>138</sup>

The main causes for the huge trade deficit were two. First, the lack of control mechanisms of the planning system combined with an overconfidence of the planners had resulted into an uncontrolled spending spree. Second, the ten additional oil fields needed to subsidise the imports were never to be found.

The planners lacked the anticipated control over the economy. As Kokobun explains: "The same equipment was purchased at the same time, and there was a failure to study the equipment and master and spread the knowledge of its use."<sup>139</sup> Baum agrees with Kokobun's stance: "in many cases, the plants were designed, sited, and contracted in great haste, without

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<sup>134</sup> Ma, p. 26.

<sup>135</sup> Gray & White, p. 147.

<sup>136</sup> Xu, p. 55.

<sup>137</sup> Bell, Khor & Kochhar, p. 7.

<sup>138</sup> Gray & White, p. 160.

<sup>139</sup> Kokobun, p. 31.

adequate consideration of technical feasibility, infrastructure requirements or cost-effectiveness.”<sup>140</sup> As a result, in the first full year of the Ten-Year Plan, China’s net capital investment rate exceeded 38 percent of the national budget.<sup>141</sup>

The trade deficit on itself should not have been the main cause of worry for the Chinese leaders. As Prysbyla points out, a short-term import surplus should have been anticipated.<sup>142</sup> However, in 1978, it became apparent that the main source of foreign currency earnings in the Ten-Year Plan, the petroleum industry, started to abate. It appeared that the Petroleum Group did not know where the promised ten additional oil fields were to be found.<sup>143</sup> They merely assumed that their string of successes in developing new fields during the early 1970s would continue.<sup>144</sup> By the end of 1978, China’s planners faced the uncomfortable reality that the crucial target for the success of the Ten-Year Plan could not be reached. Petroleum output only grew 2% in 1979, and even fell in 1980.<sup>145</sup>

The growing trade deficit combined with the pessimistic prospect that China would not be able to significantly increase its exports in the near future raised concerns at the Chinese top. To keep on importing technology and equipment necessary for the successful accomplishment of the Four Modernisations, without enlarging the external debt, China would have to rely on sources of foreign exchange other than petroleum and agricultural products.

#### ***4.2 Internal imbalance***

Exporting light industry goods or handicrafts would have been the apparent alternative to solve the impending balance of payments crisis in the short run, without having to call off the contracted imports. The domestic economic situation, however, did not allow a large surge in the export of light industry goods. With the reiteration of the Four Modernisations Program, the maximum volume of resources had been pumped into capital construction according to the

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<sup>140</sup> Baum (1994), p. 55.

<sup>141</sup> Baum (1994), p. 55.

<sup>142</sup> Prysbyla, p. 423.

<sup>143</sup> Naughton, p. 71; Twitchitt & Fairbank, vol. 15, p. 496.

<sup>144</sup> Naughton, p. 71.

<sup>145</sup> Perkins, pp. 50-51.



method of “active balancing (*jiji pingheng* »ý¼«Æ½°â)”.<sup>146</sup> Since almost all free resources were mobilised to the heavy industry sector, only a limited amount was available for the light industry and agricultural sector.

The statistics of 1978 clarify this situation. The active balancing policy resulted into a 31% increase of total capital construction investment reaching RMB 50.1 billion in 1978<sup>147</sup>. 48.7% of that figure was allocated to heavy industry, while light industry only received 5.8 percent<sup>148</sup>. The lack of attention that was paid to light industry and agriculture resulted into shortages of raw materials necessary for production, and of consumer goods essential for the livelihood of the people.<sup>149</sup> Consequently, the accumulation rate in the national income rose from 32.3 percent to 36.5 percent, while the share of consumption in the national income dropped from 67.7 percent to 63.5 percent.<sup>150</sup> In other words, the active balance strategy had failed to alleviate the prevailing bottleneck in agriculture,<sup>151</sup> and had led to an overall shortage of and a deficiency in the range of consumer goods offered.<sup>152</sup> Thus, although the economy grew 11 percent, the living standards of the people lagged behind.

With the prevailing shortage of agricultural and light industry products domestically, the government was confronted with the impossible task to increase the exports needed to pay for the contracted imports of foreign equipment and technology.

### 4.3 Conclusion

The implementation of Hua Guofeng’s Ten-Year Plan created interrelated internal and external imbalances. Externally, the lack of control of the central bureaucrats over the economy,

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<sup>146</sup> Hsu, p. 97. *Active balancing* implies that the planners set the highest possible output target in the key sector, heavy industry, and supply sufficient resources to accomplish these goals. Based on these high targets, the planners then assign production quotas for the remaining sectors, light industry and agriculture, often however with deficient supply of resources. Consequently, the latter sectors have to strive to fulfill their production quotas, pursuing to “accomplish 100 percent of the task with 80 percent of the materials”.

<sup>147</sup> Ma, p. 27.

<sup>148</sup> Ma, pp. 26-27.

<sup>149</sup> Lardy and Lieberthal, p. 48.

<sup>150</sup> Ma, p. 27.

<sup>151</sup> Naughton, p. 75.

combined with a pessimistic forecast of petroleum output growth and the uncomfortable situation in the agricultural sector led to a balance of payments deficit. Internally, the agricultural and light industry sector were neglected to increase the amount of resources invested in the heavy industry sector. Thus the Four Modernisations Program and the Ten-Year Plan were on the brink of collapse.

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<sup>152</sup> Solinger (1991), p. 54. Reference to *China Daily*, September 10, 1984; and Ma, Hong, *Jingji jigou yu jingji*

## 5. POLITICAL STRUGGLE

Even before the downside effects of Hua's Ten-Year Plan had begun to materialise, a new factional strife unfolded. This time however, the political struggle was not between bureaucrats (*survivors*) and anti-bureaucrats (*instigators*), but rather between dogmatists (*Whatever Faction* (*fanshi pai* 反势派)) and anti-dogmatists (*Practice Faction* (*wushi pai* 务实派)). As we shall see, the outcome of the factional strife, would once again strongly influence the shift in development strategy in 1979.

### 5.1 Political Landscape

To understand the undercurrent of the political struggle that unwound in the second half of 1978, the main principles of the above-mentioned political model need to be recapitulated:

All politicians are *strong-willed individuals* who base their political decisions and standpoints on specific issues according to their pragmatic-opportunistic vision. When a group of politicians have the same point of view towards one or a few political topics, they form an *opinion group*. When a group of politicians deems it necessary to join the same line-up of forces in every consecutive political controversy, because it is engaged in a political power struggle with another political cluster, *factions* are formed.

With this insight, it can be claimed that in the second half of 1978, two political factions became involved in a political struggle. The anti-dogmatic *Practice Faction*, led by Deng Xiaoping sought to undermine the political power base of the *beneficiaries* by challenging their leading ideological principle.<sup>153</sup> Pushed into the defence, the *beneficiaries* closed ranks, forming the *Whatever Faction*, and did everything possible so as not to lose political support. As the two factions initiated their struggle, an increasing amount of central and regional leaders, who were not part of one of the two factions, opportunistically agreed on siding with the *Practice Faction*, thus forming a strong supportive opinion group.

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*guanli* 经济结构和管理 (Economic Structure and Economic Management), Beijing, Renmin chubanshe, 1982.

<sup>153</sup> Baum (1994), p. 56.

### 5.1.1 *Whatever Faction*

When negotiating the terms on which the *beneficiaries* would work together with the *survivors* in the aftermath of Mao's death, they undoubtedly recognised the dangers of working together with a group of officials who had severe reservations against the Cultural Revolution. As explained, all the prominent beneficiaries rose to political prominence after Mao Zedong had initiated his campaigns against the bureaucrats Liu Shaoqi and Deng Xiaoping, and obtained their high political positions by successfully performing in line with Mao's will. Thus, they fully understood that any direct attack on the real ideological orientation of the Gang of Four, and any reassessment of past events or policies would logically extend to a criticism of Mao himself. Such a development would be catastrophic for the *beneficiaries*, as they owed their political advance to the Cultural Revolution and based their legitimacy on being Mao's chosen successors.<sup>154</sup> As a result, they wrapped themselves in the cloak of Mao's infallibility and invoked the dogmatic "Two Whatever's" principle (*liangge fanshi* 两个凡是) to back up their claim. Thus, they pushed through that the leading Party principle would become: "We must adhere to whatever policies were set by chairman Mao and implement whatever instructions were given by him." Because of their dogmatic adherence to the double principle, the *beneficiaries* are renamed as the *Whatever Faction*.

### 5.1.2 *Practice Faction*

Deng Xiaoping could never abide to the "Two Whatever's". Mao Zedong had personally declared in April 1976 that Deng was the main agitator of the so-called "counterrevolutionary" Tiananmen Incident in the beginning of that month, and declared that he immediately should be relieved from all his political posts.<sup>155</sup> Thus, if the "Two Whatever's" policy was consistently followed, Deng Xiaoping could never be reinstated. And even if he would be reinstated, he would never agree to label a movement that he perceived as "revolutionary", as a "counterrevolutionary riot".

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<sup>154</sup> Misra, p. 21.

<sup>155</sup> MacFarquhar, p. 305.

As a result, when Hua Guofeng presented Deng Xiaoping the conditions for rehabilitation in April 1977, Deng did not accept them. He was prepared to acknowledge Hua Guofeng as his superior, but adamantly challenged the appropriateness of Hua's "Two Whatever's". As Deng Xiaoping stated:

[W]hen two leading comrades of the General Office of the Central Committee came to see me, I told them that the "Two Whatever's" are unacceptable. If this principle were correct, there could be no justification for my rehabilitation, nor could there be any for the statement that the activities of the masses at Tiananmen Square in 1976 were reasonable. [...] Comrade Mao Zedong himself said repeatedly that some of his own statements were wrong. [...] that he too had made mistakes and that there had never been a person whose statements were all correct.<sup>156</sup>

During the months following his reinstatement, Deng continued to act according to these terms. He dutifully honored his agreement to tone down his criticism on Hua Guofeng's policies, but nevertheless refused to embrace the *Whateverist* dogma. Instead of the "Two Whatever's", he subtly advocated a less dogmatic ideological principle, which averred that it was necessary to treat Chairman Mao's writings "as an integral system instead of just citing a few specific words or sentences" when using his past instructions as a guide to present policy.<sup>157</sup> Following up on this theme, Deng increasingly sought for an anti-dogmatic principle appropriate to challenge the "Two Whatever's". He found a worthy ideological contestant with the slogans "Seek Truth from Facts" (*shishi quishi*) and "Practice is the Sole Criterion for Testing the Truth" (*shixian shi jianyan zhenli de weiyi biao zhun* 实践是检验真理的唯一标准). Unobjectionable in itself, they were phrases that would eventually be used as weapons to disarm the "*Whateverists*" and nullify important parts of the Maoist legacy.

The two slogans challenged the "Two Whatever's" in the following fashion. They advocated that, instead of dogmatically adhering to existing principles, it would be beneficial to continuously put ideological principles to the test of experience and practice to ascertain whether or not they correspond to reality.<sup>158</sup> In other words, the *Practice Faction* claimed that the correctness of political, economic, and social policies could not be deduced *a priori* from

<sup>156</sup> "The 'Two Whatever's' Do Not Accord with Marxism" (May 24, 1977), in Deng, p. 51.

<sup>157</sup> Baum (1994), p. 46.

<sup>158</sup> Baum (1994), p. 58.

doctrinal guidelines or dogmas, but rather had to be derived from practical experience.<sup>159</sup> Thus, as is needed for a factional strife, this principle was the opposite of the “Two Whatever”, which stated that Mao’s policies were *a priori* correct.

### 5.1.3 Opinion Group

While the *Whatever Faction* held on to their dogmatic principle for sheer life, and the *Practice Faction* did everything possible to obtain political support to claim ideological legitimacy, a group of influential central and regional leaders remained on the sidelines, including Li Xiannian, Ye Jianying and many others. As their position was in no way endangered by the factional strife, they chose to keep out of the ideological debate until they were forced to take one or the other stance, or opportunistically chose to take a side. As we shall see, this eventually would lead to a full-fledged support for the *Practice Faction*. To understand how the *Practice Faction* gained their support, however, the political developments in the second half of 1978 need to be analysed.

## 5.2 Practice Faction in Control of the Media

The unavoidable conflict between the *Practice Faction* and the *Whatever Faction* remained dormant for roughly ten months after Deng’s rehabilitation. In Mid-May 1978, however, the political struggle broke loose. The immediate cause was the publication of the article “Practice Is the Sole Criterion for Testing the Truth” in *Guangming Ribao* on 11 May 1978.<sup>160</sup> The article, which was written by an unnamed “special correspondent”, was allegedly approved for publication by Deng Xiaoping’s influential supporter Hu Yaobang (胡耀邦).<sup>161</sup> In the article, the author clearly intended to expose and exploit the principal theoretical weakness of

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<sup>159</sup> Baum (1994), p. 58.

<sup>160</sup> Ye, p. 415, 422.

<sup>161</sup> Ye, p. 422; Baum (1994), p. 58; Zhang, p. 1280; Misra, p. 22. Zhang Taozhi and Kalpana Misra both explain how the article ultimately became published in the *Guangming Ribao*. In the first half of 1978, Vice-Director of the Central Party School, Hu Yaobang, founded the journal *Lilun Dongtai* (Theoretical Trends), a specialised theoretical paper that originally issued articles criticising ultra-leftist ideas, but later was used to refute the “Two Whatevers”. One day, Hu Fuming, a philosophy professor at Nanjing University, privately submitted the article “Practice is the Sole Criterion for Testing the Truth” to Hu Yaobang’s journal. The Journal’s office modified it and arranged it for publication. Hu Yaobang published the article in *Lilun Dongtai* on 10 May 1978. The next day it was published in *Guangming Ribao*.

the *Whateverists*.<sup>162</sup> To the annoyance of the *Whateverists*, the article was reprinted the following day in the two national newspapers *Renmin Ribao* and *Jiefangjun Bao*; and in seven other local newspapers.<sup>163</sup>

Realising the gravity of the situation, the *Whatever Faction* reacted immediately. On the evening of May 12, the editor in chief of *Renmin Ribao*, Hu Jiwei (胡吉伟), received a phone call from Hua Guofeng's henchman Wu Lengxi (吴 Lengxi), who declared that: "This article runs counter to the [Party] orientation. Theoretically, it is wrong, but politically the problems are even greater. It is very bad."<sup>164</sup> A few days later, on May 17, vice-chairman Wang Donxing attacked the article in name of himself and his fellow *Whateverists* Hua Guofeng, Wu De and Ji Dengkui,<sup>165</sup> declaring that "[T]his article is theoretically absurd, ideologically reactionary, and politically undermining."<sup>166</sup> In addition, Wang questioned the practical use of the newly proposed theory, by stating: "If practice is the sole criterion of truth, then should we conclude that the [ideological] line that was put forward during the 11<sup>th</sup> Party Congress is not correct? Do we have to wait until the Four Modernisations have been fully accomplished, and all facts have been proven before we can call [the strategy] genuine?"<sup>167</sup> Finally, he endeavoured to counter the reactionary tendencies in the media by ordering the national newspapers to follow the Party spirit and demanding the Ministry of Propaganda, led by Zhang Pinghua, to restore its control over the media.<sup>168</sup>

Deng Xiaoping personally reiterated the "anti-dogmatism" message of the article in early June during an all-army political work conference.<sup>169</sup> During the speech that he held on June 2, he resolutely spoke out in favour of the theory "Seeking Truth from Facts", stating:

"One can not violate the basic principles of Marxism, Leninism and the Thought of Mao Zedong. However, one always has to proceed from reality, combine theory with practice, sum up the

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<sup>162</sup> Baum (1994), 58.

<sup>163</sup> Ye, pp. 422-423.

<sup>164</sup> Ye, p. 424.

<sup>165</sup> Ye, p. 437.

<sup>166</sup> Ye, p. 437.

<sup>167</sup> Ye, p. 438.

<sup>168</sup> Ye, p. 438.

<sup>169</sup> Baum (1994), p. 58; Ye, p. 446; Misra, pp. 22-23. The work conference was convened from April 27 to June 6, 1978.

experiences of the past, analyse the new historic conditions, and put forward new problems, tasks and policies.”<sup>170</sup>

In his speech he also for the first time implicitly attacked the dogmatism of the “Two Whatever’s” by asserting:

If we don’t integrate Marxism, Leninism and Mao Zedong Thought with reality, then the vitality will be lost. It is the responsibility of the leading cadres to adjust the central directives and the superior orders to the concrete situation in the unit (*danwei*), to analyse the problems and solve them. [It is not enough to reproduce their words mechanically].”<sup>171</sup>

Once again, the *Renmin Ribao* backed the *Practice Faction* by printing Deng’s speech the next day with the glorifying title: “Vice-Chairman Deng Incisively Sets Forth Mao Zedong’s Magnificent Principle ‘Seeking Truth From Facts’.”<sup>172</sup>

The *Whateverists* made frantic efforts to restore control over the media. On June 15, Wang Dongxing convened a meeting with the representatives of the Ministry of Propaganda and of the news agencies directly subordinated to the central authorities, and called upon them to follow the Party spirit.<sup>173</sup> But their efforts were of no avail. The next day, on June 16, *Renmin Ribao* once again defied the authority of the *Whateverists* and published the article “Concerning the Question of the Standard of Truth.”<sup>174</sup> The Xinhua news agency, *Guangming Ribao* and *Jiefangjun Bao* all followed suit and issued the article the following day.<sup>175</sup> The *Whatever Faction* had decisively lost their battle for control over the media.<sup>176</sup>

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<sup>170</sup> Ye, p. 447.

<sup>171</sup> Ye, p. 455. The last sentence literally means: “Don’t be an office for incoming and outgoing mail, don’t copy word for word.”

<sup>172</sup> Ye, p. 447. Ye Yonglie remarked that in the beginning of June, the media was already in hands of the Dengist faction. To bolster his findings, he stated that in contrast to Deng’s speech, which was supplied with a glorifying title and was published in the *Renmin Ribao* the following day, Hua Guofeng’s speech that was presented on May 29, was only published in the *Renmin Ribao* six days later (one day after the publication Deng Xiaoping’s speech) and had received the plain title “The Speech of Chairman Hua during the All-Army Political Work Conference.”

<sup>173</sup> Ye, pp. 460-61.

<sup>174</sup> Ye, p. 463.

<sup>175</sup> Ye, p. 463.



### 5.3 Regional Support for the Practice Faction

In the wake of the Dengist media campaign, an increasing amount of regional leaders openly showed their support for the *Practice Faction*. Between the beginning of Deng's political attack in May, and before Deng's speech in Jilin on 16 September 1978, five provincial committees already had spontaneously backed Deng's principle "Practice is the Sole Criterion of Truth", namely the committees of Gansu, Heilongjiang, Xinjiang, Liaoning and Fujian.<sup>177</sup>

The speech in Jilin, however, truly caused a chain reaction of provincial leaders approving of Deng's principle. During the speech, Deng attacked the whateverists directly:

"Everybody knows, that there is a famous principle called the "Two Whatever". [...] Is this [principle] that holds the banner of Mao Zedong Thought high? No! By upholding this [principle], the Mao Zedong Thought is harmed."<sup>178</sup>

After the speech in Jilin, one province after the other agreed to back Deng's policy,<sup>179</sup> and in December 1978, leading officials in all provinces and military regions had thrown their weight on Deng's side.<sup>180</sup>

An important question pertaining these developments, is why the regional leaders so strongly supported Deng Xiaoping and his principle "Seeking Truth From Facts". The reasons are twofold:

First, throughout 1977, remnant Leftists and collaborators were dislodged from provincial strongholds around the countries, and were replaced by supporters of the military-bureaucratic coalition. As the Whatever Faction had less control in the regional areas, some of the military-bureaucratic followers turned out to be ardent supporters of Deng Xiaoping, and used the media campaign to express their support to the *Practice Faction* and to instigate other regional leaders to follow their suit. The regional leaders Wan Li in Anhui and Zhao Ziyang (赵紫阳) in Sichuan, for example, turned out to be Deng Xiaoping's strongest henchmen.<sup>181</sup>

<sup>176</sup> Ye, p. 519.

<sup>177</sup> Ye, p. 539.

<sup>178</sup> Ye, p. 538; *Deng Xiaoping Wenxuan*, Beijing, Renmin Chubanshe, 1983, part 2, p. 126.

<sup>179</sup> Ye, p. 540. 20/09, Guangdong; 26/09, Zhejiang; 28/09 Jiangxi; 04/10, Hebei; 07/10, Qinghai; 09/10, Inner Mongolia; 12/10, Ningxia; 23/12, Sichuan; 14/10, Shaanxi; 15/10, Hubei; 18/10, Tianjin; 23/10, Jiangsu; 26/10 Guangxi; 27/10, Guizhou; 02/11, Shandong; 03/11, Anhui; 06/11, Shanxi; 08/11, Shanghai; 14/11, Jilin; 16/11, Yunnan; 16/11, Tibet; 24/11, Henan; 8/12, Hunan.

<sup>180</sup> Ye, p. 547.

<sup>181</sup> Fewsmith, pp. 20-21.

Second, Deng's slogan "Seeking Truth from Facts", was to the liking of local government leaders, as it implied a decentralisation of decision-making power to the local governments. If we recall Deng's speech on June 2, 1978:

If we don't integrate Marxism, Leninism and Mao Zedong Thought with reality, then its vitality will be lost. It is the responsibility of the leading cadres to adjust the central directives and the superior orders to the concrete situation in the unit (*danwei*), to analyse the problems and solve them. [It is not enough to reproduce their words mechanically].<sup>182</sup>

In the speech, Deng clearly advocated that the regional leaders should not mechanically follow the directives from their superiors, but rather should implement the policies that they found appropriate. This clearly asserted that the regional leaders should obtain more decision-making power.

#### ***5.4 November Work Conference - Finishing Off the Whatever Faction***

During the Conference to Discuss Principles or Ideological Guidelines (*wuxuhui*) that was held from July 6 to September 9, 1978, the Whatever Faction received another dispiriting blow when the quintessential *survivor*, Li Xiannian, hinted that he was prepared to abandon Hua Guofeng and back the Dengist line.<sup>183</sup>

Thus, before the assembly of the November Work Conference, which prepared the groundwork for the more famous Third Plenum of the 11<sup>th</sup> Party Congress, a great deal of the provincial committees and one of the most influential opportunists in the centre had expressed their allegiance to Deng Xiaoping. These events convinced Deng Xiaoping and his followers that their time had come to openly challenge the supremacy of Hua Guofeng's ideological thought and to plead for a formal recognition from the Central Committee of their anti-dogmatic principle.

During the Politburo Standing Committee meeting, immediately preceding the November Work Conference, the five Chinese leaders were required to fix the conference agenda. Not out of the ordinary, three principle economic topics were placed on the program. It was decided that, first, the question of how to reinvigorate agriculture was to be addressed; second, the 1979

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<sup>182</sup>See note 171.

<sup>183</sup> MacFarquhar, p. 319; Baum (1994), p. 61.

economic plan needed to be assessed and the 1980 economic plan to be approved; and finally Li Xiannian's speech during the Conference to Discuss Principles or Ideological Guidelines (*wuxuhui*) was to be discussed.<sup>184</sup> During the Standing Committee meeting, however, Deng Xiaoping took the initiative and pushed through that, preceding the discussion of the three economic topics, the key responsibility of the Party needed to be determined.<sup>185</sup>

This was a direct blow against Hua Guofeng's "Two Whatever's" dogma. After the detention of the Gang of Four, Hua Guofeng had upheld Mao's principle to take class struggle as the key link. Deng, however, had started to counter that principle by proposing the termination of disruptive political campaigns and a shift in emphasis to economic modernisation.<sup>186</sup> By openly discussing the principle task of the Party, the legitimacy of the "Two Whatever's" was brought to the brink of collapse.

After the opening speech of Hua Guofeng on November 10, in which he enunciated the goals of the meeting, the gathering was split up into six regional groups to commence the discussions.<sup>187</sup> The senior economic strategist Chen Yun took the initiative during his address to the Northeast regional group on November 12. In his speech he indirectly attacked the "Two Whatever's" by asking for the reversal of one of Mao's directives during the Cultural Revolution, namely the verdicts of sixty-one Cultural Revolution purge victims.<sup>188</sup> More provocatively, Chen Yun strongly affirmed the revolutionary nature of the Tiananmen incident,<sup>189</sup> and criticised Wang Dongxing for having maintained illicit relations with the Gang of Four.<sup>190</sup> Chen's speech evoked a wave of affirmative responses in all regional groups, and instigated other Central Committee members to demand for a reassessment of a wide range of Mao's verdicts.<sup>191</sup>

Opposed by the Standing Committee members Deng Xiaoping, Li Xiannian and Ye Jianying (who by now also has chosen to back Deng); and the majority of the Central Committee members, Hua Guofeng had lost an important battle. On November 14, 1978, the Beijing municipality with the consent of the Standing Committee of the Politburo announced that the

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<sup>184</sup> Ye, pp. 579-580.

<sup>185</sup> Ye, p. 580.

<sup>186</sup> Ye, pp. 581-582. Deng Xiaoping had presented this stance during a speech in September 1978: "I emphasise that we must fast and resolutely shift the emphasise to economic development.

<sup>187</sup> Ye, p. 583.

<sup>188</sup> Ye, p. 587.

<sup>189</sup> Ye, p. 590.

<sup>190</sup> Baum (1994), p. 62.

Tiananmen verdict was reversed and that the Incident was “revolutionary”.<sup>192</sup> And on 25 November, Hua Guofeng was forced to present “Ten Decisions”(shítiao juédìng 十條決定), in which he agreed to reverse the verdicts of many purged cadres.<sup>193</sup>

With the promulgation of the “Ten Decisions”, the Dengist faction was ready to strike the final blow against the *Whateverists* and discredit their main ideological principle. The focus of the discussions in the working groups shifted to the determination of the “criterion of truth”.<sup>194</sup> In the speeches, the *Whateverists* were attacked harshly. The four leading *Whateverists* - Wang Dongxing, Wu De, Chen Xilian, and vice-premier Ji Dengkui - all were sharply criticised for various mistakes and shortcomings and were required to make self-criticisms, and even Hua Guofeng got some implicit criticisms.<sup>195</sup> Despite widespread calls to remove the four from the inner core of party leadership, the leaders of the *Practice Faction* argued against such a step, citing the urgent need to preserve inner-party stability and unity.<sup>196</sup>

On 13 December 1978, Hua Guofeng during the closing ceremony accepted his defeat and openly declared that his “Two Whatevers” were wrong:

“The principle “we must adhere to whatever policies were set by chairman Mao, and must curb whatever criticism is raised against Chairman Mao’s image”, which was presented during the March Work Conference, was too dogmatic, The principle “we must resolutely adhere to whatever policies that were set by Chairman Mao, and must steadfastly implement whatever instructions were given by him”, which was put forward in the official editorial “Study the Article, Grasp the Key Link” on July 2 was even more dogmatic, and even less appropriate. In different ways, it ossified everybody’s thinking. At that moment, we insufficiently considered the meaning of the two principles. Now, we have decided that it would be better not to raise the principles anymore.”<sup>197</sup>

The November Work Conference concluded that because the struggle against Lin Biao and the Gang of Four could now be seen as victorious, it was therefore suitable to move the stress of the Party’s work to socialist modernisation.<sup>198</sup> The Practice Faction had won the battle for

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<sup>191</sup> Ye, p. 592.

<sup>192</sup> Ye, p. 602.

<sup>193</sup> Ye, p. 619.

<sup>194</sup> Ye, p. 625.

<sup>195</sup> Baum (1994), p. 62-63.

<sup>196</sup> Baum (1994), p. 63.

<sup>197</sup> Ye, p. 626; Zhang, p. 1281.

<sup>198</sup> Spence, p. 657.

ideological supremacy and could now take the initiative to pursue their own development strategy during the discussions of the three economic issues. As the regional leaders had supported them so strongly, the development logically would lead to a regional decentralisation.

### ***5.5 Conclusion***

In the aftermath of his reinstatement, Deng Xiaoping and his fellow-*Practicists* increasingly defied their promise not to undermine the leadership of Hua Guofeng. In order to gain political support, they challenged Hua's dogmatic "Two Whatever's" with the anti-dogmatic principle "Seek Truth From Facts". Pushed into the defence, the leading *beneficiaries* formed the *Whateverist Faction* and tried to oppress the adversary wind. But it was to no avail. In just a few months time, the *Practice Faction* gained control over the media and obtained the support of the majority of the regional leaders. At the November Work Conference, the *Whatever Faction* lost their battle, and the future course of political decision-making was in the hands of the *Practice Faction*. As we shall see in the next part, the new leaders would show their gratitude to the regional leaders by decentralising the economic decision-making power. This, however, was not to the liking of the Petroleum Group.

## 6. RETRENCHMENT STRATEGY

To understand the reaction of the new coalition, led by the *Practice Faction*, to the prevailing economic situation, it is necessary to recall the imbalances caused by the Ten-Year Plan. As explained in section 4, Hua Guofeng's Ten-Year Plan had created interrelated internal and external imbalances. Externally, China had run a large trade deficit, partly because the planners could not control the buying spree of the localities and partly because the petroleum sector did not reach its expected output. Due to a domestic shortage of agricultural and light industry goods, the Chinese government was not able to alleviate the trade deficit through increased export of these goods, and was even confronted with a stagnation of the living standards.

It is clear that the central leadership faced real economic problems at the end of 1978, problems that needed to be solved as soon as possible. But those imbalances did not necessarily have to lead to a total repudiation of the existing development strategy. Down-scaling the macro-economic targets, without introducing micro-economic reforms and restructuring the economic organisational system, could have been sufficient. As will be clarified in this section, it was rather a strong political calculus that dictated the central government's choice to adhere to a new development strategy in the winter and spring of 1978-79. Taking advantage of the prevailing political weakness of the *Whatever Faction*, the *Practice Faction* namely set about to solidify its political power base. A large amount of new policies were therefore promulgated to break the political influence of the *Whatever* loyalists in the central bureaucracy and to decentralise decision-making power to the more 'loyal' provincial leaders.

In the economic sector, this move to decentralise decision-making power was executed under the guise of Chen Yun's retrenchment strategy. In section 7.2, it will be explained how the economic leaders of the *Practice Faction* gradually sidetracked the 'unloyal' Petroleum Group and cleared the path to implement their own strategy. In 7.3, the economic logic behind the new strategy will be explained, while the structural decentralisation needed to implement it will be elaborated. Before explaining the main lines of the new development strategy, however, the political background of its strongest advocate, Chen Yun, needs to be highlighted.

## 6.1 Rise of Chen Yun

Chen Yun had been the supreme Chinese economic decision-maker in charge of restoring China's post-war economy in 1949.<sup>199</sup> Gradually identified as China's new economic czar, his power base significantly increased during the first years of the Chinese Republic, and he was identified as the fifth-ranking leader of the Communist Party in 1956 (after Mao Zedong, Zhou Enlai, Liu Shaoqi and Zhu De (ÖìµÂ), and before Deng Xiaoping).<sup>200</sup> During the subsequent two decades, he grew out to be the strongest critic of the ills typically associated with the Stalinist imbalanced growth strategy.

Chen's view on economic development took shape in the mid-1950s, particularly in response to the economic problems associated with the "Little Leap Forward" (*xiao yuejin* ¼Û¼½ø) of 1956.<sup>201</sup> At that time, he had become increasingly alarmed at the inflationary pressures that were generated by an excessive allocation of resources into the heavy industry sector.<sup>202</sup> Revealing himself as the leading critic against "rash advance" (*jicao chongjin* ¼«²Û³å½ø), he believed that a more balanced approach to economic development would ultimately bring about faster growth than a one-sided emphasis on heavy industry.<sup>203</sup> His criticism was heard by the central government of that time, and during the second half of 1956, economic policy tended to move in the directions that Chen advocated.<sup>204</sup>

In 1957, however, the power-mad Mao became increasingly dissatisfied with the existing leadership and put his full weight behind a radicalisation of politics.<sup>205</sup> In the economic sector, this led to the Great Leap Forward, a development strategy that was clearly based on "mass mobilisation" and "rash advance". As Mao stated:

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<sup>199</sup> Bachman, pp. 27-29; Spence, p. 521.

<sup>200</sup> Lardy & Lieberthal, p. xiii

<sup>201</sup> Fewsmith, p. 88.

<sup>202</sup> Lardy & Lieberthal, p. xxi. In capitalist economies, *inflation* is defined as a sustained rise in the general level of prices. As in centrally planned economies prices generally are fixed and do not change in the short run, this defined can not be applied here. If the economic logic behind *inflation* is analysed, however, Chen Yun's usage of the term *inflationary pressures* becomes clear. *Inflation* occurs when the total demand for goods exceeds the total supply. In other words, *inflationary pressures* emerge when there is an overall shortage of consumer goods

<sup>203</sup> Fewsmith, p. 88.

<sup>204</sup> Lardy & Lieberthal, p. xxii.

<sup>205</sup> Lardy & Lieberthal, p. xxii.

“Now we must start a technological revolution so that we may overtake Britain in fifteen or more years.”<sup>206</sup>

Because Chen’s economic thought opposed the main thrust of Mao’s Leap, he was pushed off the central stage during the Third Plenum of the Eighth Party Congress in September-October 1957. Fearing retaliation, he largely disappeared from view in 1958.<sup>207</sup>

In late summer and early fall of 1958, it became clear that the Great Leap would turn into an enormous human disaster. Desperately trying to reverse the situation, Mao called back Chen Yun to help restore the economy. In November 1958, Chen was consequently appointed to head the newly established State Capital Construction Commission, and during the Lushan Conference in July 1959, Mao highly praised him as a person who all along had been right in arguing for the need first to arrange the market and then to arrange capital construction.<sup>208</sup> Concurrently, Mao took part of the responsibility of the disaster on him and decided to retreat to the second line of the leadership.<sup>209</sup> The bureaucratic leaders Liu Shaoqi and Deng Xiaoping took over the control of the nation. But as they were obliged to concentrate on the drift in Sino-Soviet relations, they left Chen Yun in charge of orchestrating the economic recovery.<sup>210</sup> Quite naturally, this led to a reinstatement of Chen’s retrenchment strategy.

In 1962, the tide once more turned against Chen Yun. As the harvest of that year marked a significant upswing, Mao believed that the worst of the economic problems were over, and that the time had come to stop the retrenchment strategy and to seek high growth rates.<sup>211</sup> Acknowledging that the situation was becoming increasingly precarious, Chen Yun once again retreated to the background. He reportedly entered a Beijing hospital for treatment at the end of 1962, But as Salisbury claims:

“He was not very ill ; he just thought it a safer place to spend a little time.”<sup>212</sup>

Taking cover before the real factional strife between the bureaucrats and the anti-bureaucrats broke loose in the Cultural Revolution proved to have been a good decision. Despite

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<sup>206</sup> Spence, p. 577.

<sup>207</sup> Bachman, p. 69; Lardy & Lieberthal, p. xxii. Lardy and Lieberthal state that between November 1957 and February 1959, his public appearances and published documents declined sharply.

<sup>208</sup> Bachman, p 70; Lardy & Lieberthal, p. xxv.

<sup>209</sup> Twitchett & Fairbank, vol. 14, p. 332.

<sup>210</sup> Salisbury, p. 179.

<sup>211</sup> Bachman, p. 77.

<sup>212</sup> Salisbury, p. 211.



the fact that he had been one of the most adamant critics of Mao's "politics in command", he did not suffer as badly as did many of his colleagues.<sup>213</sup> He came under heavy wall-poster attack and was purged from his highest political positions, but no physical harm came to him. In addition, he was identified as a member of the Central Committee in 1969, and was assigned vice-chairman of the National People's Congress in 1975.<sup>214</sup>

In the aftermath of the arrest of the Gang of Four in 1976, Chen Yun turned out to be one of the most influential activists in the *Practice Faction*. He was one of the leading *survivors* who severely criticised Hua Guofeng's refusal to rectify the Tiananmen Incident and to rehabilitate Deng Xiaoping at the March 1977 Work Conference (see section 2.5). He was also the person who enunciated the political attack against Hua Guofeng's dogmatic "Two Whatevers" at the November 1978 Work Conference (see 5.4).

Chen Yun had two compelling reasons to turn against the *Whateverists* and join ranks with the *Practicists*. First, Hua Guofeng had continuously blocked Chen's reinstatement as Politburo member. As Baum explains:

"Immediately after the arrest of the Gang of Four, Wang Zhen had proposed to Li Xiannian that Chen should be restored to the Politburo. Li agreed and passed the suggestion on to Hua, who reportedly remained silent on the matter, thereby effectively blocking Chen's reinstatement."<sup>215</sup>

Second, the leading members of the *Practice Faction* were prepared to unanimously back Chen's call to replace Hua's development strategy with economic retrenchment. They found that Chen's strategy was pragmatically and opportunistically appropriate: it gave plausible solutions for the existing economic problems, while promising a decentralisation of economic decision-making power.

The *Practice Faction's* strong support for Chen Yun crystallised during the Third Plenum of the Eleventh Party Congress. Chen was formally rehabilitated to all the positions that he had held before 1969. He regained his positions as Politburo and Standing Committee member, was elected fourth Party vice-chairman, and became the head of the newly created Discipline Inspection Commission. This provided him with the needed starting point to implement his development strategy.

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<sup>213</sup> Lardy & Lieberthal, p. xxxv; Salisbury, p. 368.

<sup>214</sup> Ye, p. 258.

<sup>215</sup> Baum (1994), p. 45.

## 6.2 Abolishment of the Ten-Year Plan

Chen and his allies moved ahead immediately to challenge some of the economic policy directions charted under Hua Guofeng's rule. Acknowledging the remaining opposition of the *Whatever Faction*, however, they refrained themselves from directly attacking the Ten-Year Plan. This is demonstrated by the following fact: during the Third Plenum of the Eleventh Party Congress the flawed annual plan for 1979, which had been part of the Ten-Year Plan strategy, was ratified *in principle*.<sup>216</sup>

The ratification was merely nominal. The leading economists of the *Practice Faction* by no means wanted to continue to adhere to Hua's development strategy. Chen Yun and his supporters rather craved to reinstall their own cherished retrenchment strategy that they had promoted after the Great Leap Forward. Consequently, during the Plenum, they started to undermine Hua's economic policies, by emphasising the chronic problems which existed in the agricultural sector.<sup>217</sup> They claimed that, despite heroic investment rates in heavy industry and rapid measured growth during the period 1956-1978, the Chinese economy was providing living standards that were not quantitatively higher than those of the mid 1950s.<sup>218</sup> His close associate Hu Qiaomu exemplified this fact in the famous speech "Observe Economic Laws, Speed Up the Four Modernisations", which he held in July 1978, stating:

"In the crucial category of grain consumption, average per capita foodgrain availability in 1977 was only similar to the 1955 level."<sup>219</sup>

Dramatising the situation even more by claiming that the agricultural sector was "gasping for breath", they claimed that it could not be starved of resources for a moment longer. The idea was endorsed by the Third Plenum, and significant decisions were made to increase the flow of resources into agriculture. To channel resources to rural producers, the plenum adopted a 20

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<sup>216</sup> Naughton, p. 74.

<sup>217</sup> Naughton, p. 75.

<sup>218</sup> Riskin, p. 261.

<sup>219</sup> Riskin, p. 261.

percent increase in agricultural procurement prices, combined with decreased prices in agricultural inputs, and increased state investment and bank credits for agriculture.<sup>220</sup>

After this initial victory, Chen Yun addressed another interrelated problem in Hua's development strategy, namely the excessively high targets that were put forward in the Ten-Year Plan. Arguing that those targets had led to a trade deficit and had restrained the growth in living standards, he on January 1 called for a revision of the draft 1979 plan to down-scale them. He noted that the state planners personally had acknowledged that certain materials would be lacking and that there were many gaps in the plan. As Chen reacted: "I believe we must not leave gaps. I prefer that we reduce our targets. I would rather reduce some projects."<sup>221</sup> On the basis of this directive the State Planning Commission was obliged to readjust the annual plan. As a result, in February, China suspended many of the large-scale contracts signed in 1978.<sup>222</sup>

In March, Chen Yun won the final battle over the Petroleum Group. On March 14, Chen Yun and Li Xiannian submitted a letter to the Party Centre, suggesting that the State Council would establish a coordinating Finance and Economic Committee (FEC), which would be in charge of establishing the orientation and the policies in the economic sphere. The proposal was ratified the same day, and Chen Yun was appointed to head the FEC. Li Xiannian became vice-chairman; Chen and Li's long time associate, Yao Yilin, took the post of secretary-general. This move put Chen and his allies in control of the economy, eroding the economic decision-making power of the Petroleum Group. Although the Petroleum Group members Yu Qiuli, Gu Mu and Kang Shien were also seated in the FEC, they clearly were subordinate to Chen Yun, Li Xiannian and Yao Yilin.<sup>223</sup>

Comfortably seated at the head of China's most powerful economic decision-making body, Chen Yun found the time was right to openly challenge Hua's development strategy. Addressing a Central Committee Work Conference in April, he openly criticised the Ten-Year Plan, arguing that it had been badly unbalanced due to the overanxiousness of the planners for quick results, and claiming that it led to a serious overinvestment in heavy industry construction,

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<sup>220</sup> Naughton, p. 75. In "China's National Economy (1978-1979)", *Beijing Review* 22:26 (1979), p. 9, it is stated that total investment into the agricultural sector in the 1979 National Economic Plan was planned to rise from 10.7% in 1978 to 14% in 1979 to induce agricultural output.

<sup>221</sup> Lieberthal & Oksenberg, p. 225; Naughton, p. 76.

<sup>222</sup> Naughton, p. 76; Lieberthal & Oksenberg, p. 223. Naughton mentions that the Chinese suspended \$2.5 billion of contracts with Japanese suppliers.

neglect of light industry, and rampant deficit spending.<sup>224</sup> Adding injury to insult, he proclaimed that “today’s proportional maladjustment is much more serious” than the post-Great Leap Forward crisis of 1961 and 1962.<sup>225</sup> These allegations had a serious impact on the central leaders, and the Ten-Year Plan was promptly abolished. Concurrently, the leader of the State Planning Commission, Yu Qiuli, was relieved from his function and reassigned to the inferior position of chairman of the State Energy Commission. He was replaced by Yao Yilin.<sup>226</sup>

With the Ten-Year Plan abolished, the stage was cleared for Chen Yun and his associates to push through their view on economic development. In order to remedy the existing problems, they proposed a three year retrenchment under the aegis of “readjustment, reform, correction and improvement” (*tiaozheng, gaige, zhengdun, tigao* 调整、改革、整顿、提高), a clear reiteration of Chen’s post-Leap strategy.<sup>227</sup> The policy was officially accepted at the Second Session of the Fifth NPC convened in June.<sup>228</sup>

The *Practice Faction* had finally won the battle for economic supremacy, and their development strategy was gradually implemented, leading to a decentralisation of economic decision-making. In the next section, the economic logic behind the retrenchment strategy will be elaborated in order to understand the decentralisation of decision-making power.

## 6.3 Retrenchment Strategy

### 6.3.1 Macro-Economic Readjustment

Chen Yun agreed with the Petroleum Group’s principle that growth of the heavy industry sector should form the core of China’s modernisation strategy.<sup>229</sup> He blamed the economic planners, however, for striving too anxiously for high growth rates in heavy industry, and thus creating inflationary pressures.<sup>230</sup> In order to get rid of the existing economic imbalances, Chen

<sup>223</sup> Lieberthal & Oksenberg, p. 252.

<sup>224</sup> Ye, p. 628.

<sup>225</sup> Solinger (1991), p. 42; Gray & White, p. 129.

<sup>226</sup> Ju, p. 196.

<sup>227</sup> Fewsmith, p. 93. In 1961 the eight-character principle of readjustment, consolidation, supplementation, and improvement” (*tiaozheng, gonggu, chongshi, tigao* 调整、巩固、充实、提高) was implemented to restore the economy.

<sup>228</sup> Ju, p. 196.

<sup>229</sup> Guan, p. 54.

<sup>230</sup> See note 202.

advocated for a macro-economic readjustment. His call for readjustment implied two important changes: first, the amount of resources to the weak sectors - agriculture and light industry - were to be increased; second, the *active balancing* policy was to be replaced by a *passive balancing* policy (*xiaoji pingheng* 小计平衡).

To regain and uphold economic stability, the amount of resources into the weak economic sectors needed to be increased. Chen urged that the scale of capital construction should continuously conform to the material and financial capacity of China.<sup>231</sup> In other words, he claimed that the economic imbalances in 1978 were caused by the investment of an excessive amount of resources into the heavy industry sector, leaving a shortage of means for the weak sectors (active balancing *jiji pingheng*, see 5.2). In order to solve the short-term imbalances and end the chronic stagnation of the living standards, he urged that the planners would refrain themselves from investing in capital construction at the expense of an investment in urgently needed producer and consumer goods. He advocated that the basic consumer goods were to receive first priority in the allocation of fiscal and material resources.<sup>232</sup> Only after a sufficient amount of consumer goods were supplied to the people, could the investment in capital construction be considered. To use Chen Yun's term: a *Material Balance* should always be kept.<sup>233</sup>

In the same line of thinking, he advocated that investment in capital construction should never lead to a fiscal deficit, an inflationary credit growth or a foreign trade deficit, as all these economic defects would lead to an inflationary pressure, which would ultimately lead to a decrease in living standards.<sup>234</sup>

To recapitulate the main lines of Chen Yun's economic thought on readjustment, Chen advocated that the economy should at all times be in a state of *comprehensive balance* (*zonghe pinghe* 综合平衡).<sup>235</sup> To obtain this state of balance, he urged that the national planners adhere to the *Four Great Balances* - fiscal balance, credit balance, foreign exchange balance and material balance - when deciding upon the amount that should be invested in capital

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<sup>231</sup> Lardy & Lieberthal, p. 51.

<sup>232</sup> Guan, p. 32.

<sup>233</sup> Bachman, p. 103

<sup>234</sup> Bachman, p. 103

<sup>235</sup> Guan, p. 28. See note 203.

construction.<sup>236</sup> As the members of the Petroleum Group had neglected the four balances in 1978, a shortage in consumer goods and a foreign trade deficit emerged. To get rid of the imbalances, an increase in resources into agriculture and light industry was needed in 1979.

One of the methods that the planners should adhere to, as to obtain *comprehensive balance* in the economy, is the *passive balancing* method. To make sure that overly confident planners did not overestimate the potential output of the various sectors and put excessively high quotas, Chen claimed that production targets should be set according to the principle of *passive balancing* (*xiaoji pingheng* 小计平衡)<sup>237</sup> instead of *active balancing*. In this method, the production quota for the different enterprises are not set at high levels to incite people to produce more, but are set at a more rational lower level according to the amount of resources allocated. As Chen Yun explains:

“In general, planning targets must be reliable and must leave some margin. We should not worry that the targets are a little low as long as we have comprehensive balance. Though the target is somewhat low, it is much better than an unrealistically high target, and we can master the initiative and avoid being passive.”<sup>238</sup>

### 6.3.2 Micro-Economic Reform

Macro-economic readjustment was needed to supply the agricultural and light industry sector with sufficient financial and material resources so as to provide the people with a constantly rising living standard without creating economic imbalances. However, Chen Yun's economic thought reached further than merely increasing the distribution of resources to the previously neglected sectors. In order to “avoid being passive and to master the initiative”, he argued that economic efficiency in the weak sectors had to improve. Therefore, he advocated that certain reforms were needed to maximise output of agriculture and light industry with the

<sup>236</sup> Bachman, p. 103. Originally, Chen Yun only mentioned “Three Great Balances”. However, in the post-Mao era, foreign exchange balance was added (Deng Liqun, *Xiang Chen Yun tongzhi xuexi zuo jingji gongzuo* 向陈云同志学习做经济工作 [In Doing Economic Work, Learn from Comrade Chen Yun], Sichuan, Zhonggong zhongyang dangxiao chubanshe, 1981, p. 82.).

<sup>237</sup> Hsu, p. 97.

<sup>238</sup> Lardy & Lieberthal, p. 208. Reference to “Speech at the Meeting of the Central Finance and Economy Small Group”, *Chen Yun Tongzhi wengao xuanbian* 陈云同志文稿选编 [Selected Manuscripts of Comrade Chen Yun, 1956-1962], Sichuan, Renmin Chubanshe, 1981, pp. 173-180.

minimum amount of resources; to make the supply side of these sectors more flexible in order to accord the goods to the changes in demand; and to improve the quality of the goods.<sup>239</sup>

To improve the efficiency of the supply side, Chen Yun consistently supported a decentralisation of decision-making to the enterprises, combined with a subsidiary role of market indicators to supplement the plan.<sup>240</sup> Concretely, he wanted to relax mandatory planning, decentralise enterprise management, and implement the use of material incentives and market indicators in the neglected sectors agriculture, commerce, handicrafts and light industry.<sup>241</sup>

The first measure that he coveted to take, was to *relax the stringent mandatory planning targets for subsidiary commodities*. He argued that under the unified plan, “the factories manufacturing articles of daily use often concentrate only on the fulfillment of targets relating to value of production and profits, while giving insufficient attention to whether their products meet the needs of consumers.” Therefore, he contended that, in controlling the plan, fewer mandatory targets should be set, and more responsibility should be entrusted to persons in charge of the enterprises. He argued that in these sectors only four mandatory targets should be upheld, namely, quantities of important products, the total number of staff and workers, the total wage bill and profit.<sup>242</sup> Other targets should be considered as non-binding targets, which could be acting as a guiding point for production output, while granting the enterprises sufficient authority to make their own production plans in the light of the changing market conditions.

To increase the flexibility of light industrial establishments, agricultural subsidiary occupations and commercial enterprises, Chen advocated that they should be *reduced and organised into separate units of production under separate management*. With this policy, he reacted against the amalgamation of many small factories and industrial workshops into large “socialist enterprises”. He felt that the small enterprises provided a wider variety of goods at different levels of quality than the larger enterprises and that their products were more attuned to market demand. As Chen stated: “In order to put an end to the uniformity of products and the drop in the quality of service resulting from blind amalgamation and blind implementation of the method of unified management with profit and loss shared in common by the various units drawn

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<sup>239</sup> Guan, p. 73.

<sup>240</sup> Guan, p. 68.

<sup>241</sup> Lardy & Lieberthal, p. xiv.

<sup>242</sup> Lardy & Lieberthal, p. 80.

into a cooperative, many big cooperatives must be reorganised into small ones, and the calculation of the overall profit and loss of the whole cooperative society should be replaced by another system, that is, the different cooperative teams and individual households should themselves shoulder responsibility for their own profit and loss.”<sup>243</sup>

To invigorate the enterprises at issue to pay closer attention to consumer demand and to improve the quality of factory output, they would need *extended material incentives and economic decision-making power*. Chen advocated that enlarging the freedom of the light industrial enterprises to purchase their own raw materials selectively and extending the control over the distribution of their production would significantly fulfill these needs. To increase the enterprises control on the output side, Chen Yun advocated for selective purchasing by state commercial departments. The state commercial departments still would have the priority in buying commodities of subsidiary goods, but, “in case they relinquish the priority, or if certain quantities are left over after they have done their purchasing, the goods will be marketed either by the factory or by the commercial departments acting as their commission agents.”<sup>244</sup> On the input side, the enterprises were given more freedom to purchase needed material resources. They were allowed to retain a part of their profits and foreign exchange,<sup>245</sup> which they could use to purchase needed material resources. As for the material resources, “[w]ith the exception of the raw materials in short supply, which are distributed by the state alone, all other raw materials should be purchased by factories or on the free market.”<sup>246</sup>

Regarding the agricultural sector, Chen supported the introduction of rural free markets for the subsidiary agricultural products. Combined with the free rural markets, Chen wanted to implement an active pricing policy. He supported the use of agricultural prices not only for accounting but also as a tool to influence the allocation of resources. He argued that “we must so frame our price policy as to facilitate production.” Thus, prices should be adjusted to provide incentives to produce the output mix favored by the central authorities.

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<sup>243</sup> Lardy & Lieberthal, p. 14. Chen Yun cited this passage during a speech at China’s Eighth NPC. Referred to *Eighth National Congress of the Communist Party of China*, Volume II: Speeches, Peking, Foreign Languages Press, 1956, pp. 157-176.

<sup>244</sup> Lardy & Lieberthal, pp. 12-13.

<sup>245</sup> Lardy & Lieberthal, p. 82.

<sup>246</sup> Lardy & Lieberthal, p. 13.



### 6.3.3 Organisational Restructuring

Chen Yun called for macro-economic readjustment and micro-economic reform to counter the economic problems produced by the Ten-Year Plan and to create a stable economic basis. He felt, however, that the structure of Chinese economic decision-making made reform and readjustment impossible.

First, due to the specific organisational structure endemic to the Chinese system of economic planning and management, the central planners automatically emphasised the development of the heavy industry sector, while neglecting agriculture and light industry.<sup>247</sup>

Shirk describes why:

“When the Chinese leadership established their government in the 1950s, Communist Party leaders created a structure that enhanced the clout of industrial producers. The State Council had approximately fifteen ministries for heavy industry, but only a few were devoted to agriculture or light industry. According to interviews, the most capable and respected officials were assigned to heavy industry ministries. Heavy industry “owned” most of their factories and ran them directly from Beijing, while light industrial and textile factories were placed under local governments, and farms were collectively owned and managed. The public finance system based on enterprise profits reinforced a policy bias of rich industry and poor agriculture. Whenever a proposal threatened to diminish industrial profits, the ministries had the influential Ministry of Finance on their side blocking it.”<sup>248</sup>

Second, the local leaders were not willing to implement micro-economic reforms without material incentives or political discretion from the central government. The most light industry and textile factories were under regional control, and provided the local governments with a significant amount of budgetary revenues. As the reforms called for profit retention, local leaders thus feared for a serious decrease in industrial earnings.

To clear these obstacles, the allocation of decision-making power in the economic hierarchy needed to be restructured.<sup>249</sup> Economic leaders in favour of the strategy needed to be put in control of macro-economic decision-making, while local governments had to be given sufficient material incentives and political discretion. As Shirk explains:

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<sup>247</sup> Bachman, p. 95.

<sup>248</sup> Shirk, p. 16.

<sup>249</sup> Bachman, p. 95.

“During the decade of economic reform in China, party leaders delegated more discretion to the government in economic decision-making. Putting the government on a longer leash but keeping the leash in the party’s grip was a way to raise the quality of decisions and the performance of the economy. It also was a way to make an end run around some conservative party leaders and tilt policy-making in the direction of reform. Government ministries and provinces were allowed to deliberate on policies, so those that were adopted were acceptable to key sectors and regions.”<sup>250</sup>

Several directives were promulgated in the middle of 1979 to ensure that economic leaders in favour of the strategy were in control of the economy (see 6.2). In March 1979, Chen Yun and his fellow *readjuster* Li Xiannian became the head of the newly established Finance and Economic Committee. In April, Yao Yilin replaced the Petroleum Group leader Yu Qiuli as head of the State Planning Commission. They immediately took measures to provide the local governments with material incentives. In the 1979 Economic Plan, investment into light industry was planned to increase from 5.4 percent of total investment in 1978 to 5.8 percent in 1979. Total investment into the agricultural sector was planned to rise from 10.7 percent to 14 percent.<sup>251</sup>

In addition to these material incentives, many reform policies were promulgated to enhance the economic control of local governments over industrial management.

and were allowed to claim several percentage points of enterprise profits or foreign exchange earnings.<sup>252</sup>

Regarding the distribution of material resources, the planning body still was in charge of the allocation of the resources to the localities, but, under the condition of guaranteeing the fulfilment of the plan, the local governments gained the authority to adjust the quantities, varieties, and time of use of materials applied for and received by enterprises under their jurisdiction.

Accompanying the decentralisation of economic control, the local governments also acquired more financial control and more authority in the distribution of material resources.

Regarding the distribution of material resources, the planning body still was in charge of the allocation of the resources to the localities, but, under the condition of guaranteeing the

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<sup>250</sup> Shirk, p. 15.

<sup>251</sup> “China’s National Economy (1978-1979)”, *Beijing Review* 22:26 (1979), p. 9.

<sup>252</sup> Lardy & Lieberthal, p. 76.

fulfillment of the state plan, the local governments gained the authority to adjust the quantities, varieties, and time of use of materials applied for and received by enterprises under their jurisdiction. In addition, if the output produced by enterprises under their management exceeded the quota fixed by the state plan, the local government could take a certain percentage of the over-quota portion for its own distribution and use.

In addition, the fiscal system was to be decentralised. Of the profits of enterprises that were formerly under the control of various central ministries but are now devolved and put under the management of local governments, 20 percent goes to local authorities and 80 percent goes to the central government. The profits of enterprises that have been under local management from the very beginning still go entirely to the local government.

In order to supply the light-industrial factories with sufficient resources, the State Council promulgated the “Six Priorities”-program in December 1979. This policy, combined with other national directives promulgated since mid-1979<sup>253</sup>, called on local authorities to give priority to providing the light and textile sector firms with raw materials, fuel, and electrical power; measures for tapping potential, renovating and transforming enterprises; capital construction; bank loans; the use of foreign exchange and the importing of new technology; and transport capacity.

#### **6.4 Conclusion**

The *Practice Faction* reacted against the prevailing economic problems at the end of 1978 by strongly supporting Chen Yun’s retrenchment strategy. For the members of the strongest national faction, the development plan that the “economic czar” promoted was pragmatically as well as opportunistically optimal: it gave concrete solutions to solve the existing economic problems, while concurrently promising a decentralisation of economic decision-making power to the ‘loyal’ regional leaders.

To get rid of the foreign trade deficit and to alleviate the strained living standards, two important changes were called for. Macro-economically, the amount of resources allocated to the weak sectors - agriculture and light industry - needed to increase. Micro-economically, the economic efficiency of the enterprises and farmers in these sectors needed to improve. The

prevailing structure of economic planning and management, however, were not appropriate to execute these directives. The Petroleum Group was still in control of China's state planning, and continued to call for a strong emphasise on heavy industr

As a result, the economic leaders needed to decentralise economic decision-making power.

### *Reform*

In addition to the readjustment policy, the Chinese government in 1979 also introduced a reform program to enhance enterprise productivity and to improve economic coordination.<sup>254</sup> The reforms expanded the enterprise autonomy and increased the use of economic levers.

The reforms essentially were embodied into two changes: First, the enterprises had the right to retain a share of its profits. The retained profits had to be deposited into three separate funds - welfare, bonus, and production development (investment).<sup>255</sup> Thus, they had to be used to increase wages, improve living standards or enhance productivity. Second, the enterprises were given the right to sell their above-plan output to customers they located themselves.<sup>256</sup>

In the previous economic structure, local authorities at various levels managed the economic structure under the unified leadership of the central authorities. Production, supply and marketing of the enterprises were under the exclusive control of the central authorities and there was only limited room for the local authorities to manoeuvre. Financially, all revenues of the various localities had to be handed over to the central authorities, while the various localities required to ask the central authorities for budgetary appropriations. The overconcentration of power appeared to be too inflexible.

Reforms in the structure of economic management was necessary. The division of power over economic management between the central authorities, the local authorities and the production units had to be altered.

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<sup>253</sup> Solinger (1991), p. 98.

<sup>254</sup> Naughton, p. 97.

<sup>255</sup> Naughton, p. 101.

### The incentive problem

On 13 July 1979, the State Council formally issued five documents concerning the expansion of the management autonomy, profit-sharing and the introduction of fixed capital tax, raising depreciation rates and retaining more depreciation funds in enterprises, pooling all increased current capital from bank loans.

*Ceding profit:* the companies could remit a part of its profit. The shared profit would be used as a development fund, welfare fund and bonus fund in fixed proportions (60:20:20).

*Transferring power:* If the ceding profits experiment was aimed at introducing an incentive mechanism in enterprises, then allowing enterprises autonomy in production and marketing was the external condition for the fulfillment of enterprise profit incentives.

### *Agriculture*

The Cultural Revolution had convinced the new economic leaders that limited incentives were necessary to stimulate people. In accordance, they viewed the peasants as people willing to respond to the promise of higher incomes through harder work and greater agricultural output. Consequently, rural economic policy was liberalised and the terms of trade of agriculture were improved.

The state leadership also restructured the rural system. First, the decision-making power was decentralised to the production teams.<sup>257</sup> Second, various forms of responsibility systems linking remuneration with output were instituted. Third, diversification and specialisation according to comparative advantage were encouraged.<sup>258</sup>

### *Light Industry*

In contrast to heavy industry, light industrial and textile factories were directed by local governments, not by the central government.<sup>259</sup> Thus, in order to expand light industrial output,

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<sup>256</sup> Naughton, p. 114.

<sup>257</sup> Harding, p. 71.

<sup>258</sup> Harding, p. 102.

<sup>259</sup> Shirk, p. 16.

provincial support for the readjustment drive had to be won.<sup>260</sup> The 1980 fiscal decentralisation, which essentially indicated that the profit or gains of enterprises and establishments went to the authorities which controlled them,<sup>261</sup> was a successful measure to obtain the needed provincial support. Once local authorities were given the incentive that development of the local light industry would expand their revenue base, they supported other reforms that would contribute to local industrial development.<sup>262</sup>

The other reform policies were designed to enhance the resources and economic control of local governments<sup>263</sup> and to enlarge the industrial output.

The reallocation of resources to light industry combined with the enterprise reforms stimulated the light industrial sector, and its output in 1979 increased by 9.6% in 1979, followed by an increase of 18.4% in 1980. Its output value in 1980 accounted for 47.2% of the total industrial output valued as against 43.7% in 1978.<sup>264</sup>

This quantitative rise in light industry's output almost immediately fulfilled the hopes of those who had supported it for its potential effect on the state's coffers and for its ability to provide foreign exchange. In the first half of 1980, the profits that this sector turned over to the state on a national basis increased by 1.9 billion yuan as compared with the same period in 1979.

The institution of bonuses accounted for the bulk of the 14% increase in real urban wages between 1978 and 1980.<sup>265</sup>

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<sup>260</sup> Shirk, p. 30.

<sup>261</sup> Ma, p. 69-70.

<sup>262</sup> Shirk, p. 30.

<sup>263</sup> Shirk, p. 30.

<sup>264</sup> Ma, p. 29.

<sup>265</sup> Naughton, p. 103.

## 7. CONCLUSION

In this thesis, the logic behind the two shifts of development strategy between 1976-79 has been analysed, based on the following basic principle: *the leading coalition will always try to pragmatically solve the prevailing economic problems with a development strategy that it finds opportunistically optimal.*

The first shift in development strategy occurred in the aftermath of Mao's death. In September 1976, the factional strife between the military-bureaucratic *survivors* and the anti-bureaucratic *instigators* had reached its final stage. In the subsequent two months, the *survivors* gained the support of Hua Guofeng and his fellow *beneficiaries*, and were able to defeat their arch rivals. The two victorious groups decided to form a military-bureaucratic coalition, and immediately set out to consolidate their power base. Political decision-making was recentralised and order was restored.

In the economic sector, this move of recentralisation recurred. The leaders argued that mainly the anti-bureaucratic policies during the Cultural Revolution had been the reason why China had remained in its state of economic backwardness. To restore the Chinese economy and to catch up with the West, the Four Modernisations Program was inaugurated. The new development strategy called for two important changes: first, the role of state planning needed to increase significantly; second, the import of advanced foreign technology and large-scale plants needed to increase.

The Four Modernisations Program faced severe problems at the end of 1978. The lack of control of the state planners, combined with a pessimistic forecast of the growth in petroleum output had eventually led to a large trade deficit. The domestic economy was not able to alleviate the situation. As the state planners had starved the weak economic sectors – agriculture and light industry – from resources, the whole plan was on the brink of collapse.

Before these economic problems became apparent, the military-bureaucratic coalition was faced with another major set-back. In the second half of 1978, the political heavy-weight Deng Xiaoping had grown increasingly dissatisfied with his compromised inferior position to Hua Guofeng. He defied his promise not to undermine Hua's leadership, and started challenging the prevailing dogmatic "Two Whatevers" principle by promoting the anti-dogmatic slogan "Seek

Truth from Facts” as an alternative. Deng’s tactic proved to be a success. In just a few months time, Deng’s *Practice Faction* gained control over the media and obtained the support of the majority of the regional leaders. With this strong regional power base, Deng finally broke the leadership of Hua Guofeng and his fellow *Whateverists* during the 1978 November Work Conference and the Third Plenum of the Eleventh Party Congress.

One of the first problems that Deng and his *Practice Faction* needed to address, was the economic problems that had been caused by the Four Modernisations Program. The new political leader, however, was not planning to merely solve the economic problems. He was seeking to implement an alternative development strategy that concurrently could extend his power base. Chen Yun’s retrenchment strategy proved to be ideal: the plan promised to get rid of the foreign trade deficit and to alleviate the strained living standards through macro-economic readjustment and micro-economic reforms. At the same time, it pledged to solve the problems inherent to China’s planning and management system through a decentralisation of decision-making.

Was the decision to implement the economic reforms in 1978-79 a political or an economic decision? It was certainly not only an economic decision. Although the Chinese economic system was confronted with serious economic problems, the economic reforms were far from inevitable. Many less drastic methods could have been adhered to. But the economic situation had an important influence on the nature of the new development strategy. The reforms were not implemented because the eternally pragmatic Deng Xiaoping found that it was time to promote his own cherished view on the economy. They were rather implemented because they pragmatically presented concrete solutions for the existing economic problems, while opportunistically broadening the power base of Deng Xiaoping.



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During one of the Sino-Western meetings organised by the CEIBS, I became fascinated with a certain recurring aspect. All Chinese economists contended that the Chinese RMB would not have to devalue, while the Western scholars claimed the opposite. It became clear that this question was not only analysed according to academic standards. Politics also played an important role. My fascination for the relation between politics and economics had found its origins. Later this idea evolved into a study into the interplay between politics and economic strategy during the period 1976-79.

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