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**Seeking Truth from Facts: The Institutionalization of Economic Reforms in China**

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An outside observer answering the question as to why the Chinese Communist Party (CCP) was able to sustain and institutionalize its reform process over the past thirty years would probably answer as follows: the one-party state recognized that socialism was not leading to growth, so they instituted capitalist reforms, which worked, and were therefore self-sustaining. Elements of this answer could be supported by anecdotes from various moments in the reform history, but the statement belies the complexity of the reform process at each stage of its evolution. Yet the question is worth asking—what enabled a Marxist-Leninist-Maoist party to transform a planned economy into a market-oriented one without undermining the very legitimacy of the party itself? A survey of the crisis in agriculture in the late 1970s in China yields some explanation as to why the reforms were initially undertaken, but not as to why they were continued, and much later, institutionalized.

Closer inspection of the events from 1978 to Fourteenth Communist Party Congress in late 1992 reveals a far more nuanced picture of the reform process. The institutionalization of the reforms was not the cause-and-effect result of the success of the initial rural Household Contract System reform, though that success certainly buttressed support for further reforms. Rather, it was the result of a wide range of dynamic processes, including, ideological wranglings, the interplay between the strategies of politically differing revolutionary elders, and decisions and actions taken by different leaders at critical junctures. Also, the statement referred to in the opening paragraph makes no room for a major defining feature of the reform process, namely, the initiative taken by leadership at the local level to spur reforms that were later formally endorsed in Beijing. Indeed, “popular” support and the central government’s responsiveness to it have been drivers behind the reform process, more so than many outside commentators are aware.

This paper will examine the contribution of several of these dynamic processes, while maintaining that this list is by no means exhaustive. It will examine the nature of the ideological adaptation, the gradualist approach that was both bottom-up and top-down, and the decisive stand taken by Deng Xiaoping in the Southern Tour of 1992.

## **IDEOLOGY: IS IT CAPITALIST OR SOCIALIST?**

When General Secretary Gorbachev formally favored “social democracy,” the foundation on which the Communist Party rested vanished from under his feet. How could a communist party legitimately exist and govern if it rejected the ideological underpinnings of Marxism?<sup>1</sup> The Chinese leadership was keenly aware of this danger, but also aware that reforms undertaken had to be promoted and defended somehow. For some within the party, those usually identified as either “conservative” or “left” in line with party elder Chen Yun, reforms were too capitalist in nature and risked undermining the revolution itself, not to mention the party’s hold on power. Since the beginning, the revolution had rested on three main pillars: the planned economy, public ownership, and distribution to “each according to his work.”<sup>2</sup>

After the successful reforms of the 1980s, the CCP was faced with the reality of an economy that was much larger, more complex and quite different from the one of 1978. While the 1980s was a decade characterized by cautious, less decisive reforms, the 1990s would become a period of

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<sup>1</sup> Shambaugh 2008, 105.

<sup>2</sup> Shambaugh 2008, 113.

greater decisiveness on the part of the central government.<sup>3</sup> In large part, this change in posture can be attributed to the elders' self-removal from politics, which resulted in fewer veto players at the top leadership levels.<sup>4</sup> But also, this was aided by the casting of a long-term vision for the party's mission that did not officially abandon Marxist-Leninist-Maoist Thought. Deng Xiaoping himself clearly articulated what the CCP's governing principles and vision should be, thus providing an ideological underpinning and a roadmap for future reforms. He did so not by rejecting the party's founding principles per se, but by utilizing ideology for a different purpose, that of adapting Marxist principles to justify policy decisions taken on pragmatic grounds.<sup>5</sup>

In order to accomplish this, Deng utilized Mao's insistence to "seek truth from facts," placing development at the center of the CCP's mission. In this sense, the introduction of market-oriented reforms was not subverting socialism, rather, it was being put to use by socialism. He argued for pragmatism verses purity, "A planned economy is not equivalent to socialism, because there is planning under capitalism too; a market economy is not capitalism, because there are markets under socialism too."<sup>6</sup> Therefore, the CCP could implement market-oriented reforms and allow them to continue based on the results —"facts"— they had towards fomenting development.

The shift from decisions based on ideological consistency to decisions based on pragmatism and justified using ideology had been present since the beginning of the reforms. For example, Deng qualified intellectuals as "thought workers" as early as the late 1970s. By the time of the 1992 Southern Tour, he regularly spoke of intellectuals as being part of the working class. Perhaps the most dramatic reinterpretation of core socialist principles by restating their essence was this: "liberation and development of the productive forces, elimination of exploitation and polarization, and the ultimate achievement of prosperity for all."<sup>7</sup> Deng's reforms and their economic results are quite socialist when understood in the light of this interpretation.

Simply adapting ideology so that it could be used to cast market-oriented reforms as essentially socialist was not convincing for everyone at the highest levels of government. Chen Yun and Deng Xiaoping were reportedly unable to agree on a policy direction even when meeting during Deng's speaking tour. Yet, it provided a rationale, a rallying cry, and a vision that was adequate for reformers in Deng's mold to finally organize themselves around Deng's "one center" ideology, the idea that the party's central goal was to pursue growth. In September of 1992, the Fourteenth Communist Party Congress officially adopted the creation of a "socialist market economy" as its *raison d'être*.<sup>8</sup>

By the time Jiang Zemin launched the "Three Represents" campaign in 2001, the dust appeared to have settled so much that it is difficult to convey the precarious position in which the reform process found itself in high-level discussions after the Tiananmen incident in 1989.<sup>9</sup> Yet present Chinese leaders do not appear to struggle with the kind of ideological battles faced by Deng in

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<sup>3</sup> Naughton 2008, 92.

<sup>4</sup> Naughton 2008, 115.

<sup>5</sup> Shambaugh 2008, 105.

<sup>6</sup> Deng Xiaoping 1992, 3.

<sup>7</sup> Ibid.

<sup>8</sup> Naughton 2008, 115.

<sup>9</sup> Du Runsheng 2006, 11.

the 1980s. Hu Jintao is free to build on Deng's Southern Tour framework, adapting it to present conditions with his own concept of the "Harmonious Socialist Society."

## GRADUALISM

There appears to be a consensus among analysts that the reforms in 1978 were precipitated by crises. The system by which the CCP was able to maintain power through utilizing "patronage resources" such as goods, positions, income and promotions, had been damaged during the final period of Mao Zedong's rule.<sup>10</sup> This was the case in the structure of the government itself, which had suffered various purges in an environment of shifting policies and priorities. Outside of the government, and particularly in the countryside, there was a food crisis. China was not self-sufficient in grain production. It had to import grain and faced challenges in generating the foreign exchange necessary to do so. Yet when Du Rensheng first proposed the "Household Responsibility System" (HRS) in 1978, it was criticized as being a betrayal of Maoist principles.<sup>11</sup>

Reform-minded leaders were not in a position to advocate for a top-down reform that would apply across the country. It was too radical of a break with the CCP's history and the system in place at the time. According to Du Runsheng, the strategy of gradualism was adopted out of the need to reduce opposition to the reform as much as possible.<sup>12</sup> Deng, guided by pragmatism, preferred to avoid ideological arguments in favor of acting. It did not matter at first if the act in question was bold and wide reaching. Simply acting was enough, and facts would speak for themselves. According to other commentators, the reforms began in agriculture because it was in crisis and it was not a sector that would significantly undermine the central government's control over rents, which it used to maintain its power. Farmers, after all, were outside of the "big pot" system that urban workers enjoyed.<sup>13</sup> Following this line of reasoning, allowing TVEs to pursue new lines of business to make profit was allowed because they were "initially small, dispersed, and technologically backward" so releasing them did not pose a high risk of them creating space from which the state could be challenged.<sup>14</sup> Both of these reasons probably came into play in forming what would become the incremental approach to reform that characterized Chinese liberalization.

For these reasons, the first reforms were approached with caution. Reformers did not call for abandoning people's communes, they allowed for the contracting (or responsibility) system to take various reforms and local populations could choose their preference, and finally, the reform began in a limited area and widened from there.<sup>15</sup> This is an example of the reform process bubbling up from the grassroots as well as coming from the top down. The contracting system first began in the Anhui Province in 1978 when, in response to a drought, the Anhui Provincial Committee decided to allow farmers to keep the harvest they planted.<sup>16</sup> This was called "contracting out" production to individual farmers.

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<sup>10</sup> Naughton 2008, 93-94.

<sup>11</sup> Du Runsheng 2006, 2.

<sup>12</sup> Ibid.

<sup>13</sup> Wu 2005, 114.

<sup>14</sup> Naughton 2008, 98-99.

<sup>15</sup> Du Rensheng 2006, 3.

<sup>16</sup> Wu 2005, 110.

By 1979, the number of production teams practicing this contracting out arrangement for agriculture had reached 10 percent of the Anhui Province. That same year, the CCP declared that the “enthusiasm” of the country’s 800 million farmers should not be restrained, though it did not allow for the individual distribution of land as property.<sup>17</sup> By 1983, 93 percent of production teams were using some variation of the contracting system. Soon after the rural contracting system was adopted as formal CCP policy.

Reforms in the era generally shared several features. First, particular firms were allowed to enter into individual contract agreements. Later, there was a dual-track strategy adopted in which firms were allowed to choose whether or not to adopt the more market-oriented strategy. Also, the reforms were decentralized, coming from the provinces and local leadership before spreading across the country.<sup>18</sup>

Going back to the hypothetical answer given in the first paragraph of this essay, it is important at this point to highlight that the reforms were not initially the first steps of a fully articulated long-term strategy. Rather, they were responses to crises and the demand to deliver short-term growth to maintain and strengthen the CCP’s hold on power. “Development is the only hard truth,” said Deng. By that he meant both economic growth, and also institutional development at the party and government level.<sup>19</sup> But overtime, these first introductions of market forces into the Chinese economy grew so much that they required a more comprehensive strategy and vision. They required, in essence, to be named (see previous section on ideology).

The first agricultural reforms were truly radical. They represented a break with decades of central planning in agriculture and led to the remaking of China’s agricultural sector. They became institutionalized. This occurred not because of a dramatic break with previous policies, but because reformist policymakers were pragmatic and willing to institute reforms in an incremental fashion, allowing the results to speak for themselves. Also, the reforms were implemented not by central decree, but at first by spontaneous localized responses to particular agricultural conditions. They spread as people willingly adopted the new structure, and in that sense, were democratic.

This was a strong source of momentum for reformist politicians as their policies could be interpreted as strengthening the CCP’s leadership and the loyalty of “winners” of the reforms. This take could suggest that the gradualism allowed the party to achieve its growth objectives, while giving itself time to draw the new interest groups created by the reforms into a client-patronage relationship with the government.<sup>20</sup>

## **DECISIVE ACTION: DENG’S SOUTHERN TOUR**

The Tiananmen Square incident of June 1989 had a traumatic effect on the Chinese leadership. Reformist Premier Zhao Ziyang was dismissed. Deng Xiaopeng officially retired. The more

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<sup>17</sup> Wu 2005, 113.

<sup>18</sup> Naughton 2008, 106-107.

<sup>19</sup> Naughton 2008, 97.

<sup>20</sup> Naughton 2008, 111-112.

ideological “left” in the CCP held sway and threatened to roll back the reform process, though they in practice did not. Though Deng had formally retired from politics, he reserved for himself the right to speak out at critical moments. January 1992, when he began his Southern Tour, was just months before the Fourteenth Communist Party Congress. He feared that the reform process he set in motion was in jeopardy, and by extension, his legacy.

The revolutionary elders, led by Deng, had begun to establish a more formal institutional turnover process so that promotions and advancement within the party would be more predictable. A part of this included retirement for senior leaders, though revolutionary leaders were formally exempted.<sup>21</sup> While that appeared to be more stable than in previous periods, the deepening of the reform process was threatened as third generation CCP leaders lacked Deng’s commitment to the reform project. Also, they were pushed by Chen Yun against it. The articulation of a long-term strategy and purpose was required, along with winning support from numerous societal actors to institutionalize the reform process.

Deng made a series of speeches in southern China tying together the reform history, highlighting the results of his leadership, and setting out a vision for the future. He was firm in his conviction about the direction Chinese policymakers should take, asserting that the CCP should guarantee the reforms already enacted for a hundred years to come. He again laid out his principle of experience-based policymaking, saying, “The reform and the open policy have been successful... because we relied on practice and sought truth from facts. Practice is the sole criterion for testing truth.”<sup>22</sup> He warned specifically against “Left” tendencies, saying that they could destroy socialism just as rightist tendencies could. In fact, he highlighted leftist tendencies as being more threatening in the Chinese case.<sup>23</sup> He went so far as to say that those who refused to support reform should step down.<sup>24</sup> Finally, he asserted that China was able to survive the Tiananmen incident because the reforms had been successful, turning the traditionalist’s logic on its head.

He presented his case in the South, which had benefited from the opening policies and experienced rapid economic growth. At first, his remarks were not publicized nationally, but only in the local press. This is an indicator of the strength of the opposition within the government to Deng’s reforms. But as Deng progressed to Shanghai, the tide shifted. Local leaders began writing Premier Jiang Zemin supporting Deng’s call for accelerating reforms.<sup>25</sup> For analysts who equate gaining media support to a public opinion victory, Deng’s breakthrough came on February 21 when the *Renmin Ribao* published an article titled “Earnestly Stop Formalism,” followed by three others in support of Deng’s policy framework. Crucially, Deng maneuvered at the highest level of the institutional leadership once his campaign had built momentum by calling a personal meeting with Jiang Zemin and other Politburo member in Shanghai. When they returned from that meeting, the tide had shifted.<sup>26</sup>

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<sup>21</sup> Naughton 2008, 113.

<sup>22</sup> Deng 1992, 10.

<sup>23</sup> Deng 1992, 5.

<sup>24</sup> Suisheng Zhao 1993, 747.

<sup>25</sup> Suisheng Zhao 1993, 751.

<sup>26</sup> Ibid.

**CONCLUSION**

While not an exhaustive study of the factors leading to the institutionalization of the reform process, this paper has touched on several of the major factors that allowed the CCP to abandon the basic principles of a socialist economy and formally adopt the “socialist market economy” framework. For this to occur definitively, it was necessary to create an intellectual space in which the CCP could move forward with market-oriented reforms without rejecting Marxism-Leninism-Maoism outright. This was accomplished by creating new concepts to describe the reforms in a manner consistent with the party’s roots. It was also necessary to adopt a gradualist approach to get the reform process started. Once underway, gradualism continued for many reasons, including its suitability to the state as it granted the state time to adapt to the existence of new interest groups and incorporate them into the power structure. It also allowed the reforms to spread and win a kind of popular support among provincial leaders and citizens across the country, making it much harder to reverse them. Finally, the paper looked at how decisive action from Deng Xiaoping was able to consolidate the reformist tide among the third generation of CCP leaders, effectively institutionalizing reform as party policy. The picture painted in this paper is much more complex, nuanced and subtle than the one in the hypothetical “answer” put forth in the introduction.

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