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INTERDEPENDENCE AND THE PROBLEMS OF ADAPTATION:

THE CASE OF CHINA IN THE 1980S

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ABSTRACT

This thesis is concerned with certain characteristics of the development of global interdependence as they apply to the case of China. In particular it examines the processes and problems involved in the policies of "reform and opening-up" as they affected China's adaptation to the world economy during the 1980s. The thesis places this examination within a historical context and it considers the ways in which ideological and other legitimating institutions have been challenged as the reformers shifted from a Maoist self-reliant developmental strategy to a more interdependent and outward-looking one. This study is a systematic attempt to examine the problems involved in the pursuit of reformist policies that necessarily entail ever-deepening relations of interdependence with a largely capitalistic international economy on the one hand, and in the Chinese Communist leadership's attempt to maintain and develop a socialist political system on the other.

Instead of focusing on the formation of policy, on the decision-making structures and processes at the higher levels of the system as numerous writings on China's reforms have done, this thesis draws heavily on the dynamic changes in the social base and focuses more on the lower levels, especially the enterprises level, and is based on my field research in China.

This study shows that, after more than a decade of opening-up, China has markedly increased its interdependence with the world economy, which has not only helped China achieve its dramatic economic growth, but also played an important role in generating changes in cultural, political and perceptual areas. As a result, the possibility of China's further integration into the world community is greater than ever. However, the Communist Leadership's fundamentally flawed strategy of seeking to combine economic liberalism with political authoritarianism has caused a series of setbacks in China's development in the 1980s. Their continued refusal to consider fundamental changes in the political system means that China still faces an uncertain future.

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A NOTE ON TRANSLITERATION

Chinese names, terms, phrases and titles used in this thesis are given in Pinyin (Chinese Phonetics), the official system of transliteration in the People's Republic of China. The exceptions are those applying to Hong Kong and Taiwan when Wade-Giles has been used.

ABBREVIATIONS

1. **CCP** Chinese Communist Party
2. **DFI** Direct Foreign Investment
3. **FRE** Foreign-Related Economy
4. **KMT** Kuomintang (Nationalist Party)
5. **MFN** Most Favoured Nation
6. **NIE** Newly Industrialized Economies
7. **NPC** National People's Congress
8. **PLA** People's Liberation Army (Of China)
9. **SEZ** Special Economic Zone
10. **TEDA** Tianjin Economic-Technological Development Area
11. **TUTRIC** Tianjin United Tyre and Rubber International
Co. Ltd.
11. **WFO** Wholly foreign-owned

CHAPTER I. INTRODUCTION

Opening-up to the outside world has been regarded by the Chinese reformers as the key to revitalizing China's economy. But the shift from a Maoist self-reliant, inward-looking developmental strategy to an interdependent, outward-looking one is a very difficult endeavour. In order to participate in the world economy, China has to satisfy certain criteria, adjust to international practice and fit in with the international economic system. That is to say, it has to adapt. The process of adaptation will have to be carried out at two distinct though interrelated levels of the state's institutions: those concerned with external interactions and those involved with domestic arrangements. This is not merely an economic or technical matter; for with increasing integration into the world economy, the existing structures will be more frequently challenged and adaptation in areas of social, cultural and political activity will also become necessary. Moreover, the adaptation has to be continuous simply because the world economy itself constitutes a highly dynamic system. Obviously, for China, adaptation is a huge task of great significance because its capability to adapt will eventually determine whether China will realize its goals of modernization and become a rich and powerful country. Either result, success or failure, would have far-reaching implications both for China itself and for the rest of the world. This thesis examines the processes and problems involved in the policies of "reform and opening-up" as they affect China's adaptation to the world economy during the 1980s.

If adaptation is never an easy process for any country, it was bound to be particularly difficult for China. For about three decades since 1949, China's economy had been organized and run in a very different way from the world economic system to which China now has to adapt. The legacy of the system of economic planning was bound to pose a special set of problems as China sought to enter the international economic and trading system which is largely guided by free market principles.

Besides, as a member of the "third world" -few of which have managed to adapt successfully to the world economy and narrow the gap between themselves and the developed countries since the end of World War II¹ - China faces even more formidable difficulties. These include: a vast and ever growing population; a poor transportation and distribution system; energy shortages; limited supply of arable land and hugely uneven rates of regional development, etc.

Moreover, the attempt to integrate into the capitalist world economy is greatly impeded by the deep seated legacy of the traditional past especially when combined with the influence of the socialist system that has prevailed in the last several decades. By addressing the problems that have emerged in China's adaptation process in the 1980s, this thesis touches upon some of the key issues both in China's recent historical past of the last one and half centuries and in the development of its political economy in the last four decades.

Historically, some deep-rooted and inescapable incongruity between China and the West in terms of value systems, political cultures and philosophies, etc. has made it a continuously frustrating process for the Chinese to find both their rightful position in the world and the right ways to deal with the advanced West and achieve China's modernization programme.

In the last 150 years or so, the prevailing mentality and outlook among the ruling class in particular and in Chinese society in general, has been to try to uphold the basic values of the Chinese system while importing Western technology. This was epitomised in the 1880s by the slogan: "Chinese studies for the framework of values, Western studies for practical purposes". In other words, in order to become prosperous and

¹ As some researches have found, transitions from relatively closed toward more open trading systems by developing countries have collapsed or been partially reversed more often than they have succeeded. See, for example, Michael, Michael. et al. Liberalizing Foreign Trade: Lessons of Experience in the Developing World, Cambridge, Mass.: Basil Blackwell, 1991.

strong, China should make use of the skills and technology from the West. At the same time, it has to preserve its own political system with its distinct values. Therein lies the dilemma. It will be easier for China to preserve its values and political system by closing the door to the rest of the world, but the cost of that course of action would, in the long term, result in China falling farther behind the advanced West: it would become both relatively poorer and weaker, which could lead to the repetition of the 19th century situation whereby China was repeatedly humiliated and oppressed by smaller but more advanced countries. On the other hand, by opening the door and integrating its economy into the world system, China might succeed in terms of modernization but could fail to hold on to some sense of a "Chinese way", be it Confucianism or socialism, and thereby run the risk of China losing her identity.

Of course, the dilemma, complex as it is, should not be regarded as insoluble. Japan's development in the last 100 years has shown China it is possible to modernize while largely retaining one's identity. Even in China in 1949, when the Communists established the People's Republic of China (PRC) in 1949, there was a feeling that this problem had been solved. Mao used socialism and communism to reinterpret China's history, claiming that China's socialist revolution and construction had not only made it possible for China to rapidly catch up with and even surpass the capitalist West but that it had also shown the way for all the third world countries to get rid of poverty and oppression.

By the time of Mao's death, it had become evident that, "His (Mao's) violent attempt at overcoming socioeconomic backwardness in a revolutionary way led to a historical blind alley rather than a deep-reaching modernization securing both national and social advancement".²

It was the recognition on the part of the post-Mao Chinese

² Talas, Barna. Economic Reforms and Political Reform Attempts in China 1979-1989, Berlin: Springer-Verlag, 1991, p.12.

leadership that the economy was failing and the "faith" crisis was deepening (the crisis of faith in the Party, in socialism and in the cadres) that led to the economic reforms and opening up to the outside world. The reforms undertaken since the late 1970s involved jettisoning the dogma of leftism, encouraging the return from collective communes to family farming, legitimating and expanding the role of markets and expanding foreign economic ties so as to obtain advanced technology and investment, etc. In a sense, these reforms can be regarded as the latest attempt in China's history to find a route to modernity. Now, more than a decade later, it is widely acknowledged that China has been uniquely successful in comparison with the other former and existing socialist countries both in reforming the domestic economy and in integrating into the world system. In ten years, China has more than doubled its total industrial and agricultural output, and has become a fairly active participant in the regional and world economy.

Nevertheless, with the deepening of the economic reforms and the expansion of the opening-up, some deep-seated problems have become more and more obvious and the above-mentioned long-standing dilemma has reemerged along with some new features.

Deng Xiaoping and the other reformist leaders have followed a relatively pragmatic line in conducting China's economic changes. Deng attributed China's backwardness to its having closed the door to the outside world and to the failure to focus the central task of socialism on economic construction. Therefore, since the end of the 1970s, he has encouraged bold experiments and reforms in the economic area and has been adamant on keeping China's door open. But in the political and ideological fields he has been much more cautious and conservative, insisting that Leninist political and ideological controls be preserved. After all, the ultimate aim for the Communist leadership to carry out the reforms and opening-up is to defend and strengthen the rule of the CCP, not to weaken or destroy it.

In essence, this is one of the crucial problems confronting

the Communist leadership, i.e. how to handle the relationship between the development of the economic base and the development of the superstructure. According to the cardinal principle of Marxism, which forms the ideological basis of the Communist Party, the development of the economic base will determine the changes in the sphere of the superstructure. And the failure to adjust the latter will fetter the further development of the former. But Deng Xiaoping and many other reformist leaders do not seem to have worried much about or well understood the inevitable consequences in the realm of the superstructure after the economic base has changed.

China's economic practice and development in the 1980s have themselves, however, duly raised such questions as how to make the political system adaptable to the changing social situation and what new values, moral concepts and culture should be fostered in order to justify and shape these reforms and new developments. Moreover, the consequences of the open door policy have inevitably involved a growing interdependence with the largely capitalistic world economy, which has necessarily led to the penetration of influences other than the simply economic. The dynamism of the reforms and the increasing interdependence with the world economy have generated and necessitated more and more changes and constant adaptation. As a result of this, elements of the so-called socialist economy have been shrinking; the driving force of the reforms has been moving away from the centre and the central government's control over both the economy and society has been weakened. This trend clearly poses a serious threat to the existing system, and to the leadership of the Party in particular, and it is something which clearly cannot be tolerated by this same leadership, especially by the conservatives and those with a vested interest in the old system. Accordingly the question arises as to how the Communist regime has addressed and dealt with the challenges to their attempt at maintaining and developing a socialist political system. Beyond the historical and political factors mentioned above, the fact that what China is undergoing now is

not a revolution but a reform movement also determines the very hard and complex nature of the adaptation process. Unlike a revolution in which the existing elite are overthrown and replaced by new people and new institutions, a reform is carried out largely by the "old" people on the basis of the old institutions. So to establish and sustain a consensus among the leadership is crucial; the elite would have to agree on what ought to be preserved, improved and reformed, and how this should be done. The last decade has shown that even if the Chinese leadership as a whole were agreed on the necessity of carrying out changes and reforms in the post-Mao era, they have often disagreed over how to proceed and how far to go. So, ironically, the rapid economic development and the increasingly unstoppable reform and opening-up have often intensified the underlying conflicts and political struggles among the leadership and these have sometimes led to dramatic political changes. This, plus the fact that the reform and opening up are a pioneering enterprise which can always go wrong, means that the adaptation process must inevitably be wrought with difficulties.

How then has China actually adapted and what are the main obstacles encountered in the adaptation process during the 1980s? It is impossible for this thesis to conduct a thoroughly comprehensive examination of the adaptation process, since, as was stated earlier, the adaptation is an extremely complex process involving both internal and external aspects and affecting every area of social life. I have therefore chosen to explore how China's foreign-related economy (FRE)³, especially the joint ventures have adapted in the opening-up to the world

³ In this thesis, foreign-related economy (FRE) refers to the part of the economy involving, in various ways, foreign investors. This includes: wholly-foreign owned ventures (WFOs); equity joint ventures; cooperative joint ventures; processing and assembly arrangements; and compensation trade. (More detailed description is provided in the first footnote of Chapter IV). Foreign-invested firms in this thesis refer to wholly-foreign owned firms (WFOs) and joint ventures.

economy. I have done so because China's FRE has been the most successful aspect in China's development in the 1980s. By examining the process and problems of the adaptation in this aspect, I believe, this study can provide a uniquely important perspective both in understanding China's overall domestic development, as well as its economic foreign relations in the 1980s, and in foreseeing its development in the near and medium future.

China's interactions with the outside world have played an increasingly significant role in China's development because of many factors including the decline of the military threat from the Soviet Union from the beginning of the 1980s; the continuous supply of considerable investment by the overseas Chinese; China's reasonably successful cooperation with the World Bank; the reformers' determination and ability to keep the door open, etc. But the following two factors, I believe, have been crucial. First, unlike its previous efforts to modernize, China's reforms in the 1980s were carried out in a much more interdependent world environment. Therefore, it has been much more easy to accept that China's future lies in its integration into the world community. Second, the 1980s witnessed unprecedented growth and success in the market economy and, at the same time, the rapid decline and collapse of socialist economic and political systems in most parts of the world. These factors undoubtedly made an impact on China's reform process through the policy of opening-up. Indeed I would argue that China's contact with the outside world is much more than a mere ingredient of the whole reform package and a means of obtaining foreign technology and investment. With the deepening of the reforms and the intensification of China's foreign contacts, the opening-up strategy also gained in significance. In various ways the opening-up has exerted its influence on the top level decision-making process, on the balance of power in political struggles, on popular modes of thinking and on the direction of China's reforms and future development. To sum up the major consequences of opening-up:

Firstly, the opening-up has greatly strengthened the argument that China's reform was both necessary and urgent. In the past, isolated from knowledge about the outside world and subject to biased propaganda from the official media and press, both the elite and the general public were easily persuaded that China was doing well especially when compared with the "old China". Exposure to the outside world did not only greatly shake the normal complacency in officialdom but it also shocked the public into realizing how far China had fallen behind the enormous economic and technological advancements of the last several decades, achieved not only in the U.S. and Japan, but also in countries and regions nearer to home such as South Korea, Taiwan, Hong Kong and Singapore. The most telling comparison of all, as noted by Hamrin, was that of vibrant Hong Kong and stagnant Shanghai, "whose current respective roles as Asia's financial and trade centre and a sleepy backwater had been just the reverse at the start of the century."⁴ So although the economic reforms were first inspired by the domestic economic crisis, the opening-up and comparison with the outside world, especially the economic success elsewhere in East Asia, greatly reinforced the necessity and urgency for changes and helped to convince people that without reforms China cannot prosper.

Secondly, the opening-up and the ever deepening links with the Western world inevitably resurrected some century-long dilemmas and revealed more obviously the incompatibility between China's politico-economic systems and the world economic system to which it has to adapt. This has strengthened the call for more fundamental transformations.

It is true that China's domestic economic reforms and opening up to the outside world have often interacted. The need to develop foreign trade and a FRE has been one of the most significant driving forces behind many economic, managerial and

⁴ Hamrin, Carol Lee. China and the Challenge of the Future, Boulder & London: Westview Press, 1990, p.52.

legal changes. Some market-oriented reforms did not only make it possible to open up to the outside world, but also provided new directions for the domestic economy as the nature of the global economy was better understood. In other words: "Economic reforms in China did lead to major reforms in foreign policy, and of course the greater openness to international economy then had a major impact on China's domestic reforms."⁵ However, with the fast expansion of the FRE, the incompatibility between China's politico-economic system and the international practice and system became gradually more evident, as the Vice Director of China's Economic Structural Reform Commission, Gao Shangquan once pointed out: "The current economic system and structure do not only pose serious obstacles for further and deeper development of the foreign-related economy, but also make it very difficult for the foreign ventures to have their multiplying and demonstration effects for Chinese enterprises surrounding them, which, after all, is the ultimate aim of the opening-up policy".⁶ Accordingly, successful and especially long-term Sino-foreign economic activities urgently call for fundamental political, institutional as well as economic reforms.

Thirdly, the opening-up has influenced the political elite as well as ordinary people's understanding of China's relations with the outside world and their views on a series of fundamental political and economic issues. With the continuation and broadening of China's foreign relations, there emerged a new understanding among the leadership of China's place in the world. "The new appreciation within the political elite of China's basic weaknesses that had emerged from research on China's economic, science, and education needs led to a greater willingness by the leadership to work within the international

⁵ Segal, Gerald. (ed.), Chinese Politics and Foreign Policy Reform, London & New York: Kegan Paul International, 1990, p.4.

⁶ Gao, Shangquan. China's Economic Structural Reform in the Last Nine Years, Beijing: People's Publishing House, 1987, p.84.

status quo."⁷ The more radical reformers, especially many local officials, as I found out during my field research, became increasingly enthusiastic and positive about integrating China's economy with the international system. They intended to use the Special Economic Zones (SEZs) as models for a national transformation to a market economy and urged reforms in the direction of "modelling after the international investment environment" and "acting according to international practice." Moreover, despite various difficulties, the rapid development, and largely effective performance of China's FRE has presented a sharp contrast with the ailing state-run enterprises. As one commentator has summed up: "Where [the Southern coast and Yangtze delta] the state's ability to exercise macro-control is already tenuous, the economy is working reasonably well, where the state's control is stronger, the economy is a disaster."⁸ And according to Chinese official figures, by the end of May 1991, 38.4% of the state enterprises within the budget plan were making a loss.⁹ This contrast has deeply influenced the public's views on a series of fundamental issues such as the ownership of the means of production, the relations between market and plan, and the relative advantages and disadvantages of a market economy and a socialist economy. These perceptual changes are of crucial importance to China's future development.

Fourthly, the opening-up and growing interdependence with the outside world has been one of the most crucial elements that have ensured that it would be more and more difficult to reverse the whole reform program.

After more than a decade of opening-up, the level of dependence of China's national economy on international trade

⁷ Hamrin. op. cit., p.144.

⁸ The Economist, 30.3 - 5.4.1991, pp.56-57.

⁹ "Forecast and Analysis of the Economic Situation in the Second Half of 1991.", Section of Economic Situation Analysis of the National Economic Structure Reform Commission, China Youth Daily, 5.8.1991.

has risen sharply; the more than 30,000 foreign-invested firms [by early 1991], belonging to the most healthy part of China's economy, are playing an increasingly important and indispensable role in the economy. China's South-Eastern coastal economies especially have become considerably entwined with the international market. (See figures and analysis in Chapter V). Although reforms suffered several serious setbacks and entrenchments during the course of the 1980s, the FRE, especially that in the South-Eastern coastal areas, have not been badly affected. And FRE's overall stronger performance, in comparison with that of the state-owned enterprises, has vindicated the reform and opening-up policies.

That China's reform is more likely to be sustained is also due to the fact that the opening-up and expanding contact with the outside world has made more and more leaders and ordinary people keenly realize that unless China adapts quickly and consistently to the international economic system, the rapid global technological revolution will leave China even further behind. Besides, the fact that geographically China is in the middle of dynamic East Asia also means that "unless China does sustain quite remarkable growth rates, it is likely to fall even further behind its neighbours."¹⁰

In order to find out more about the actual adaptation process and the difficulties involved in China's opening-up, especially in the development of the FRE, I visited Tianjin in early 1991, and conducted a series of interviews with local officials, managers, academics and foreign businessmen working in the FRE in the Tianjin area. This thesis will highlight the information obtained from these interviews. I have attached a great deal of importance to the fieldwork in the belief that by examining the problems of adaptation at the enterprise level, I am looking at the heart of the problem. If the policies of the reforms are to succeed, they must be able to effect positive

¹⁰ Goodman, David and Segal, Gerald (eds.), China at Forty, Oxford: Clarendon Press, 1989, p.7.

changes at the enterprise level. So far, numerous writings on China's reforms have focused on the formation of policy, on the post-Mao decision-making structures and processes at the higher levels of the system and tended to overlook the changes at the enterprise level. This thesis draws heavily on the dynamic changes in the social base and focuses more on the lower levels.

Tianjin is a very suitable place to conduct this fieldwork. First, Tianjin is an important city, one of the three municipalities directly under the jurisdiction of the Central Government (the other two are Beijing and Shanghai), and therefore it enjoys the status of a province and thereby a large degree of autonomy. Secondly, if one were to classify China's foreign-invested firms into two broad categories, namely those established on the "green field" sites, such as in the SEZs, and those with established PRC partners in the industrial centres, then Tianjin, an industrial centre second only to Shanghai playing a special role as one of the major centres open to the world economy, is therefore representative of the second category of the foreign-invested firms in China. What is more, the conflicts arising from the pursuit of reformist policies that necessarily entail ever-deepening relations of interdependence with a largely capitalistic international economy on the one hand, and the attempt to maintain and develop a socialist political system on the other are much more obviously demonstrated in the old established industrial centres than in the newly-built SEZs. Thirdly, being from Tianjin myself, I know the city well and have extensive contacts there.

Basing my study on the literature on interdependence and on China's reforms and opening-up, I identified the important issues that were to be examined in the fieldwork. Given the conditions of China, it was not possible to go for a representative sample survey. Instead, I conducted a series of intensive in-depth interviews. And accordingly, a guided interview schedule rather than a detailed questionnaire, was used and the interviews were allowed to follow their own course so as to lead into areas of particular interest to each

interviewee.

By looking at the specific difficulties the practitioners have encountered, this thesis hopes to shed light on the problems in China's adaptation and integration into the world economy and the interplay between its opening-up to the outside world and the carrying out of the domestic reforms. Moreover, by analysing the adaptation process in China's particular circumstances, this thesis also hopes to contribute to the understanding of the wider and common issues faced by "third world" countries in their efforts to enter into the world economic system.

OVERVIEW

This thesis begins, in Chapter II, with a conceptual account of the characteristics of interdependence relevant to the problems I identify in this thesis. Besides briefly identifying the general problems involved in the development of interdependence worldwide, the chapter will describe the dramatic changes in China's developmental strategy in moving from a self-reliant, inward-looking country towards a more interdependent and outward-looking one. It will examine the problems arising, among other things, from China's much more thoroughgoing historical sense of independence and its socialist political identity.

Before the discussion and analysis of the materials obtained from the interviews, which form the basis of the thesis, Chapter III will undertake an examination of the ideological developments in the 1980s and see how China's leaders have tried to address the problems involved in the reforms and opening-up. Though the Chinese reformers have followed a relatively pragmatic approach towards economic reforms, many debates did take place in the ideological area. Under a unitary Leninist political system, ideology was and is extremely important especially in terms of determining medium and long-term national strategies and direction. And for the

purpose of reducing the incompatibilities between its domestic systems and those of the Western world and facilitating the rapid modernization of its economy, it is both necessary and urgent to work out a new and coherent ideology. So in order to appreciate the importance of my fieldwork, it is important first to trace the evolution of Chinese-ideological treatment of the issues, and then to understand how the ideological development has both positively and negatively influenced the actual implementation of the reform and opening-up policies in the 1980s.

Chapter IV is a detailed description and analysis of my interviews with the key managers, officials and academics of various enterprises and institutions. With these, I seek to illustrate the difficulties and obstacles in the adaptation process within the FRE and show how the FRE has influenced the reforms of the state-run enterprises.

Also with close reference to the fieldwork, Chapter V will attempt to measure the impact of China's increasing interdependence with the outside world. In addition to illustrating briefly the influence of this growing interdependence on China's economic development, this chapter will focus on the changes that the ever-closer foreign contacts have brought on popular modes of thinking and attitudes toward a series of fundamental issues. The chapter examines, among other things, how the general public, especially those working in the FRE understand the advantages and disadvantages of using direct foreign investment to the development of China's national economy; what they see as the main obstacle to furthering the opening-up process and economic reforms; and what their views are on some of the fundamental issues such as ownership and the relationship between a market and a planned economy. Obviously, these changes in ways of thinking, in the long term, have significant social and political implications.

Finally, with reference to the latest dramatic developments (1989-1992), the concluding chapter, chapter VI will examine further the fundamental problems faced by the opening-up and

economic reforms and see what implications they might have for China's domestic development and its relations with the outside world in the near and medium future.

CHAPTER II. INTERDEPENDENCE AND CHINA

I. INTERDEPENDENCE

In Western literature, interdependence refers to a pattern of interacting relationships between two or more units (in this case, nation-states) wherein the interactions, exchanges and transactions between and among these units are relatively equal or symmetrical and have reciprocal effects upon all the interacting entities. As Keohane and Nye defined: "Interdependence means mutual dependence. Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries."¹¹

Many of the important articles and books on interdependence have derived their inspiration from dissatisfaction in the 1970s with the Realist assumptions.¹² The basic Realist claims challenged by Keohane and Nye, whose work has been of major importance in the development of the interdependent theory, are: that states are unitary actors and dominant in world politics; that force is a usable and effective instrument in the relations between states; and that there is a clear hierarchy of issues dominated by the need of states for security.¹³

Against the assumptions of the Realist model of world politics, Keohane and Nye characterize world politics by complex interdependence. This assumes multiple channels of contact between societies, an absence of hierarchy among issues and a minor role for the use of force. This complex interdependence

¹¹ Keohane, R.O. Nye, J.S. Power and Interdependence, World Politics in Transition, Boston: Little Brown, 1977, p.9.

¹² See Smith, M.; Little, R.; Shackleton, M. Perspectives on World Politics, Groom Helm London in association with the Open University Press, 1981, p.117.

¹³ See Keohane, R.O. Nye, J.S. op.cit.

also gives rise to some distinctive political processes including linkage strategies, agenda control and coalition building .

Some other major issues extensively discussed in the interdependent literature include: the independent role that transnational and international organizations can play;¹⁴ the dramatic changes in the character of foreign policy and the way in which it is formulated due to the advances in modernization in the industrial societies;¹⁵ the relationship between the maintenance of the symbols of sovereignty and independence and the growth of interdependence;¹⁶ and the need to establish 'regimes'¹⁷ to cope with the new problems on the world agenda, where states are not the sole managers.

All these and many other arguments and analyses can be seen as an attempt "to assert a more differentiated set of assumptions about the way in which world politics operate."¹⁸

But distinctive from the common assumption that interdependence is on the rise, some scholars hold rather different or even opposite views. For example, writing within

¹⁴ See Pentland, Charles. International Organizations and Their Roles in World Politics, J. Rosenau, K. W. Thompson and G. Boyd (eds.), New York: Free Press, 1976, pp.631-656.

¹⁵ See Morse, Edward. The Transformation of Foreign Policies: Modernization, Interdependence and Externalization, in World Politics, Vol.XXII, No.3, Princeton University Press, 1970, pp.371-392.

¹⁶ See Sprout, Harold and Sprout, Margaret. Tribal Sovereignty vs. Interdependence, in Towards a Politics of the Planet Earth, New York: Van Nostrand, 1971, pp.401-426.

¹⁷ There are various definitions of "regime", but the one generally agreed upon is the definition accepted at the Conference of International Relations held in Oct. 1980 in Los Angeles. "A regime is composed of sets of explicit or implicit principles, norms, rules and decision-making procedures around which actor expectations converge in a given area of international relations and which may help to coordinate their behaviour."

¹⁸ Smith, Michael, et al. op. cit., p.117.

the Realist tradition, K. Waltz argues that: "Interdependence is low and, if anything, is on the decrease."¹⁹ Drawing on the history of trade and investment since the end of the nineteenth century, he asserts that interdependence characterizes much of the European state system before WWI. By contrast, the world today displays more independence and dependence. Waltz points out that, on the one hand, "large and economically well developed countries, the very ones that are crucial in world politics, can more quickly move toward an autarkic condition ... The low cost of disentanglement is a measure of low dependence"²⁰. On the other hand, "low economic capability easily leads to dependence upon another state of higher economic capability. The higher the costs of disentanglement, the higher the degree of dependence; the lagging state will only get weaker if foreign capital and technology are excluded."²¹

Whether or not K. Waltz agrees that interdependence is on the rise, what he has argued touches upon the key issue in regard to the discussion of interdependence: the asymmetry of interdependence means very different things to different actors. In Power and Interdependence, Keohane and Nye, the non-Realists, argued that "asymmetrical interdependence can be a source of power."²² In line with this thought, they distinguished two kinds of interdependence: sensitivity interdependence and vulnerability interdependence. "Sensitivity means liability to costly effects imposed from outside before policies are altered to try to change the situation. Vulnerability can be defined as an actor's liability to suffer costs imposed by external events even after policies have been altered".²³ No interdependence

¹⁹ Waltz, K. "The Myth of National Interdependence".

²⁰ Ibid., pp.9-10.

²¹ Ibid., p.13.

²² Keohane, R.O; Nye, J.S. op. cit., p.12.

²³ Ibid., p.13.

could be totally symmetrical and completely equally beneficial to each party.

However, the interacting relation between the developed countries is more likely to be sensitive interdependence, while the relationship between the developed countries and the developing countries is usually one of vulnerable interdependence. In fact the phenomenon of international interdependence is the consequence of the advances in international communication and transportation in the industrialized countries, and the theory of interdependence was originally formulated to describe and analyze this phenomenon in the developed countries. In other words, the theory was not, in the first place, meant to deal with the relationship between the developed countries and the developing ones, for the interdependence between and among the modern, industrialized states is an effect of modernization, while "among poorer, less developed countries, the causal connection between modernization and interdependence often seems reversed."²⁴ And interdependence for them is often regarded as a developmental strategy to achieve the goal of modernization. As Morse puts it, this is a developmental strategy that opts for "the fostering of domestic goals through international behaviour."²⁵

Then, how feasible is this "interdependent developmental strategy" for the developing countries? Different scholars have expressed different views. Some have argued that in an international system characterized by interdependence, only through a strategy of interdependent development can a developing country find the quickest route to reduce the gap between itself and the industrialized world and eventually catch

²⁴ Frederich, W. Wu. "From Self-Reliance to Interdependence? Developmental Strategy and Foreign Economic Policy in Post-Mao China", Modern China, Vol.7, Issue 4, Oct. 1981, p.448.

²⁵ Morse, Edward L. Modernization and the Transformation of International Relations, New York: Free Press, 1976.

up. For example, Eckstein argued that foreign economic infusion to a weak, developing country does not automatically reduce the latter to a dependent status in the international hierarchy. On the contrary, there are positive gains for a developing country from participating in, or "taking advantage" of, the capitalist world-economic structure of an international division of labour and from engaging itself in the give and take of the world economy.²⁶

As against this, other scholars have looked more at the costs incurred to the developing countries in pursuing an interdependent developmental strategy.

Firstly, the structure of the world economy determines that the developing countries cannot obtain what they want. As Gourevitch, of the Radical Dependency School, elaborates in his article:

What the [radical critics] stress is the matrix set up by the advanced capitalist countries, a system of pressures which sharply constrain, indeed, wholly determine the options available to developing countries. Since capital, organization, technology and military preponderance are in the hands of the core, the core countries are able to set the terms under which skill, capital, and market will be provided to the periphery. The core forces others into subservience: suppliers of raw materials, purchasers of finished goods, manufacturers of whatever the core allows them to do. The developing countries are unable to allocate resources according to their internal needs, following some alternative vision of development. As a result, they are locked into a structure where the benefits of growth accrue disproportionately to the core. Countries in the periphery develop dual economies : an expanding modern sector tied to the needs of the core, and a stagnant, miserable sector, irrelevant to the needs of international capitalism, hence abandoned and ignored.²⁷

Secondly, closely linked to the first point, the autonomy

²⁶ See Eckstein, Alexander. China's Economic Revolution, London: Cambridge Univ. Press, 1977.

²⁷ Gourevitch, Peter. "The Second Image Reversed: the International Sources of Domestic Politics", International Organization 32 (Autumn) 1978, pp.888-889. Quoted in Frederich, W. Wu. op.cit, p.451.

of developing countries can be very much restricted. For once a developing country involves itself in the world system, it is constrained by the system itself. As Scott points out: "As the system-central interests of a nation increases, so does its dependence in the system". And as "an actor's dependence is related to the extent of its involvement in the global system, the more it is caught up in the system, the more constrained its behaviour will tend to be"²⁸ What is more, since international transactions and cooperation are conducted under certain regimes, a country's commitment to the regimes also tends to "reduce the flexibility of governments and in particular limit their ability to act on the basis of myopic self-interest". This is because

to do so is likely to be costly not only to the regime itself but to the state's reputation. To a government that values its ability to make future agreements, reputation is a crucial resource, and the most important aspect of an actor's reputation in world politics is the belief of others that it will keep its future commitments even when a particular situation, myopically viewed, makes it appear disadvantageous to do so.²⁹

So, when one uses the term interdependence to describe the relationship between developing countries and developed countries, one should note the substantial differences between this kind of relationship and that between the developed countries. Generally speaking, in dealing with the developed world, the less developed countries have to face a series of particular problems, which include, among other things, the fact that their bargaining position is generally weaker and more disadvantaged, their political systems tend to be more fragile and they are bound to be more conscious of the danger that

²⁸ Scott, A. The Dynamics of Interdependence, Chapel Hill and London: the Univ. of World Carolina Press, 1982, p.145 p.149.

²⁹ Keohane, R. O. After Hegemony, Guildford, Surrey: Princeton Univ. Press, 1984, p.116.

interdependence could well become dependency.

II. CHINA AND INTERDEPENDENCE

The concepts of "interdependence" and the closely related "international division of labour" were not accepted in China until the end of the 1970s. Although from 1949 to the end of the 1970s China never totally isolated itself from the rest of the world and its trade and other interactions with the outside world were never wholly stopped, the Maoist doctrines of "self-reliance" and "independence" played the dominant role.

If the developing countries' interdependent developmental strategy could be understood as aiming at making full use of the comparative advantage in the international economy and in the international division of labour, and obtaining from the advanced West technology and investment and so on in order to quicken their own modernization, then Maoist self-reliance advocated an almost completely different path towards modernization - a path that mainly relied on China's own internal regeneration. As an article in a 1965 Beijing Review expounded:

First, self-reliance means to rely on the strength and diligent labour of our people to carry on economic construction... Secondly, to build socialism self-reliantly means to make full use of all available resources in our country... Thirdly, to build socialism self-reliantly means to get necessary funds for construction through internal accumulation... Fourthly, self-reliance in building socialism also means that we must gain and accumulate our experiences in building socialism and get to know the laws of socialist construction through our own efforts instead of copying the experience of other countries. In building socialism self-reliantly our goal is to establish an independent, comprehensive and modern national economic system in accordance with the conditions and needs of our country.³⁰

Although Maoist self-reliance "excludes neither the development of international economic and trade relations on the

³⁰ Beijing Review, 18.6.1965.

principles of equality and mutual benefits nor the mutual support and assistance given on the same basis",³¹ foreign trade always played a secondary role. Imports should take place only when a product could not be produced locally, and moreover, the imports should be able to facilitate domestic production of the product. Similarly, exports should be carried out only when the local needs have been satisfied. In those years, Chinese spokesmen on international affairs openly opposed the concept of interdependence.

The Chinese representative at the United Nations in the 1970s, Huang Hua, for example, contended once that the concept of interdependence between rich and poor countries works ultimately to the advantage of the former against the latter. Using a vivid Chinese metaphor, he held that: "Interdependence in the contemporary world economic system could easily turn into an interdependence between a horseman and his mount."³²

Linked to its stand on interdependence, China also rejected the concept of "international division of labour". As far as China's relationship with the then Communist Bloc was concerned, China was adamantly against the idea of "economic cooperation" and "interdependence" as advocated by the Soviet Union, seeing it as a means for the Soviet Union to control the other Communist countries. Besides, the concept was regarded as a label designed to perpetuate the old economic order, with its lopsided and abnormal development of national economies throughout the world. Huang Hua pointed out that the term "might be used by the superpowers to push under that name their self-seeking 'economic division of labour' and 'economic integration' and to maintain the most unjust and abnormal state of world

³¹ Beijing Review, 14.7.1972.

³² Cited in Kim, S. S. China, the United Nation and World Order, Princeton, New Jersey: Princeton Univ. Press, 1979, p.265.

economic order."³³ In Mao's own words:

We advocated all round development and do not think that each [country] need not produce goods which other [countries] could supply... The correct method is each [country] doing the utmost for itself as a means toward self-reliance for new growth, working independently to the greatest possible extent, making a principle of not relying on others, and not doing something only when it really and truly cannot be done... Relying on other countries...is most dangerous.³⁴

Since the 3rd Plenum of the 11th Central Committee of December 1978, China has gradually abandoned its highly ideologically-oriented and inward-looking socio-economic development policies, realizing that in order to become modernized, China had to open its doors to the rest of the world, especially the developed West.

This new perspective also led to a reappraisal of the concepts of international economic interdependence and the international division of labour. As early as 1978, in the speech to the National Conference on Finance and Trade, Hua Guofeng, the Chairman of the CCP at that time, remarked that: "in the new period... the gradual realization of the four modernizations and the growth of the division of labour and co-ordination among various specialties will inevitably expand the scope of exchange and call for more and more contacts with the world market and constantly widen technical and material interchange at home and abroad."³⁵

In April 1980 Red Flag stated: "It is evident that the deepening of economic interdependence between and among

³³ Cited in Ibid., p.265.

³⁴ A Critique of Soviet Economics by Mao Zedong, (Trans. Robert, M.) N.Y. and London, Monthly Review Press, 1977, p.102. Cited in M. Yahuda's "Contemporary Chinese Concepts of Self-Reliance, Independence and Alignment", p.23. (unpublished).

³⁵ Beijing Review, 28.7.1978.

countries is an inevitable trend in world economic development."³⁶ An article in Social Sciences in China entitled "International Division of Labour and China's Economic Relations with Foreign Countries" also argued that "Socialist countries must fully utilize the international division of labour, which is determined by objective economic law... Full utilization of the international division of labour means a series of our enterprises and departments will forge more extensive and closer ties with the world market."³⁷ In the author's view, by participating in the international division of labour, China could save labour and at the same time speed up the development of the country's productive forces. Also, as Harding has observed: "Chinese reformers have also accepted the proposition that a universal set of international economic mechanisms and instruments exists, which China should learn to employ."³⁸

Though the concept of "interdependence" began to be positively accepted and even advocated in China, as a developing country, China's interrelationship with the industrialized West was not the kind of relationship that the Western interdependent theory had meant to describe in the first place, as argued earlier.

"Interdependence" is used in this thesis in a dual sense. It is used to describe both China's new foreign economic developmental strategy itself and also the effects of that

³⁶ Cited in Frederich W.Wu "Socialist Self-Reliant Development Within the Capitalist World Economy: the Chinese View in the Post Mao Era", Globalist Perspectives, Vol.1, no.1, Spring 1983, p.252.

³⁷ Yuan, Wenji, Dai, Lunzhan and Wang, Linxing. "International Division of Labour and China's Economic Relations with Foreign Countries", Social Sciences in China, March 1980, p.37 p.45.

³⁸ Harding, Harry. China's Second Revolution, Washington, D. C. the Brookings Institution, 1987, p.133.

strategy. In other words, China's outward looking new developmental strategy - the core of which is to make best use of foreign investment, technology, know-how and China's comparative advantages in the international division of labour to quicken China's modernization tempo (drastically different from its previous self-reliant, inward-looking approach) - could be described as an interdependent strategy. And one of the effects of this strategy is China's increasing interdependence, albeit still in its initial stages, with the world economy in the 1980s.

However, since an interdependent relationship always involves costs, especially, as discussed before, for a developing country, in shifting from the self-reliant developmental strategy toward an interdependent one, China has exposed itself to a series of costs and risks. Although some of these were shared by many other developing countries, a series of particular factors have made the problems accompanying "interdependence" uniquely complex and grave for China.

A. A More Thoroughgoing Sense of Independence of the Chinese

It is true that even in today's increasingly interdependent world, independence and sovereignty are still the most cherished traits for all nation states. Yet few states have demonstrated a sense of independence as keenly as the Chinese have. Even among other newly independent Third World states, many still tended to maintain a variety of ties with the former colonial metropolitan centre especially in the early years of independence.

Such a keen sense of independence was shaped by various factors. The bitter experiences in Chinese modern history has been the most fundamental. Although technically China never lost its status as a separate sovereign state under international law, ever since the 1840s the Chinese witnessed the imposition of unequal treaties, invasion by foreign forces, a carving up of China proper into spheres of influence and finally occupation by Japan. And this sensitivity regarding independence was further

enhanced by the lively memory of a long and powerful tradition of imperial greatness and by a determination that this greatness should again receive recognition and be revived.

By 1949, with the establishment of the People's Republic of China, the world's most populous nation did regain its independence and sovereignty, and the central government could once again enjoy full control over its foreign relations. However, the sensitivity over the problem of independence was as keen as ever. This was not only because the Chinese were, as ever, still confronted with the massive difficulties of securing their broad sweep of land against unfriendly powers, but also because China's social and economic underdevelopment still left China in a fundamentally vulnerable position. Chinese leaders have repeatedly held that their country's independence can only be sustained by a China that is strong enough to defend it against challenges by the great powers and they have consistently demanded recognition and treatment by them as an "equal". The sense of independence has always been closely linked with a sense of pride and dignity. In exploring the psychological roots of the Chinese people's strong sense of independence, Allens Whiting once observed: "Long the primary power in Asia, she (China) has been cut deeply, during the past century, by an induced feeling of inferiority. Her fear of Japan followed a defeat caused by material inferiority. Her resentment against the West followed a capitulation caused by sensed political and ideological inferiority."³⁹ It was this inferiority complex that made the Chinese people's sense of pride and dignity and the sense of independence all the more delicate.

It was, to a great extent, due to this particularly keen sense of independence and dignity that Mao Zedong chose the self-reliant developmental strategy for his "New China", though

³⁹ Whiting, Allens S. "Foreign Policy of Communist China" in Roy C. Macridis (ed.), Foreign Policy in World Politics, 5th edition, Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1976.

the adverse international environment also an important factor in this decision. Mao's powerful sense of nationalistic dignity and self-confidence nurtured by his success in defeating all his enemies and establishing the PRC made him firmly believe that, through self-regeneration and a series of massive campaigns, his country could surely catch up with and even surpass the major capitalist countries and take the lead in achieving Communism, so that China could play a bigger role in the world and "contribute more to mankind."⁴⁰ In analysing the causes leading to the Sino-Soviet split, Michael Yahuda once observed that: "What Mao later found objectionable about Sino-Soviet relations during this period (the 1950s) was less the economic aspects than the uncritical copying of Soviet institutions and the passivity and self generated psychological dependency to which it gave rise."⁴¹

The last 150 years of Chinese history have shown that the combination of material weakness and an inferior position in world politics together with the strong emphasis on upholding independence and national dignity has made it very difficult for China to establish cooperative relations with the outside world.

⁴⁰ Mao's self-confidence was, to a great extent, gained through the unique experience of the Chinese Communist revolutionary movement in the 1930s and the 1940s, particularly during the Yan'an era. During this extremely difficult period, local self-reliance and decentralization in economic and military production in each of the region's areas became a strategy for survival. This strategy enabled the Chinese Communist revolution to make it through a very challenging time and thus must have left a permanent impression on the Communist leaders. See Frederick W. Wu. op.cit. Also see Oksenberg, Michael. "Mao's Foreign Policy of Self-reliance", Columbia Univ. Seminar on Modern East Asia, 4.3.1970.

⁴¹ Yahuda, M. op.cit., p.21. Some scholars have argued that in the 1950s, the Soviets did not use their commanding position for coercive purposes. Alexander Eckstein noted, "there is no evidence to suggest the Soviet great bargaining power resulted in economic exploitation of the Chinese." Alexander Eckstein. China's Economic Revolution, London: Cambridge Univ. Press, 1977, p.137. Quoted in Yahuda, M. op.cit., p.21.

To shut her door and to conduct minimal relations with the outside world proved to be counter-productive: not only did that fail to preserve China's independence and dignity, but it further weakened and damaged them. On the other hand, extensive contact with the outside world, especially with the powerful West, exposed China's independence as well as its identity to a series of threats. China has always had a strong sense of separate identity from the rest of the world: Confucianism in the 19th century and Socialism since 1949. The ruling elites have always feared that with detrimental external influence, China's separate identity could be lost. Hence the dilemma that has perplexed successive generations of the Chinese.

Although interdependence is a rather new concept, some of the phenomena and problems it describes existed long ago, especially when one talks about the interdependence between the advanced and undeveloped countries. The problem of how the backward countries should deal with the advanced and make themselves strong without becoming dependent and losing their identity is endemic to the international system. China's bitter experiences with the Western powers since the 1840s and its strong sense of independence, among other things, have made the dilemma the most continuous and acute one in modern history and remains unsolved even today. The last 150 years have seen various debates and struggles between the so-called nativists and metropolitans, such as the reform and self-strengthening movements in the late Qing Dynasty. They gave rise to the ill-fated approach of trying to preserve Chinese systemic values through the selective adaptation of Western technology as epitomised by the slogan "Chinese studies for the framework of values, Western studies for practical purposes." In the newest efforts for reform and opening-up to the outside world in the 1980s, struggles and conflicts between various factions and ideas in the Communist leadership as to how China should conduct relations with the West still exist and occasionally they have become very fierce.

B. Socialism and Interdependence

The establishment of a Communist regime and a socialist system in China has made the "interdependence" problem particularly complicated.

In its relations with the outside world, especially the Western powers, China has always been sensitive to the possibly detrimental effects of outside influences upon its identity and essence. While the main avowed aim of most of those concerned with retaining a Chinese essence before 1949, had been to maintain the Great Tradition of China - Confucianism,⁴² the Communists, after they came to power, launched campaign after campaign against "remnants of China's feudal past", behind which they attempted to crystallize a new identity around the notion of "China as a revolutionary socialist society."

The socialist doctrine, if thoroughly and faithfully followed, would rule out the possibility of the socialist countries establishing cooperative and interdependent relationship with the capitalist countries. According to the doctrine, capitalism worldwide had come to the stage of imperialism, which was regarded as the last stage of the capitalist system. Imperialism, it was claimed, was doomed to deadly crisis in all fields and had largely become decadent and moribund. In a word, it was said to be dying. By contrast, socialism was said to be incomparably superior to capitalism and the former would eventually replace the latter. In practice, according to Mao, the capitalist world economy would be replaced by a socialist one through "not only competition but also fierce, broad-ranging struggle"⁴³ In fact during Mao's era, especially during the periods when ultra-leftism ran wild, as

⁴² Oksenberg, Michel and Goldstein, Steven. "The Chinese Political Spectrum" in Problems of Communism, March - April 1974, p.4.

⁴³ Mao Zedong. A Critique of Soviet Economy, Moss Roberts (trans), New York: Monthly Review Press, 1977, p.105.

during the "Cultural Revolution", anything tainted by so-called feudalism, capitalism and revisionism was severely attacked and destroyed. The notions of "international interdependence" and "international division of labour" were publicly criticized (as described before) for they supposedly served to perpetuate the irrational and exploitative world economic system which benefited only the capitalist and imperialist countries. The goal for socialist China was to help create a new socialist world economic order to replace the capitalist one. Under the guidance of this ideology, China's economic development was highly inward-orientated and its external economic relations (after the break with the Soviet Union at the end of the 1950s) were kept to a very low level.

Confronted by an ever-deepening political and economic crisis, and also due to the economic imperatives generated by the Four Modernizations program, the post-Mao leadership headed by Deng Xiaoping opted for a development strategy that in relations with the outside world resembles closely what is being described in Western literature as interdependence. Although it is wrong to conclude that the post-Mao Chinese leadership has relinquished the long-standing national goal of making China a self-reliant and totally independent country, what the shift does imply is that to attain this goal, the new leadership is willing to make some radical modifications in its internal developmental policy and its external relations with the world economy.

As the last decade has shown, under the guidance of Deng Xiaoping's "Seeking Truth From Facts" pragmatism, a great number of radical changes have taken place in China. The highly ideologically-oriented policies were replaced with more practical and down-to-earth ones. The idea of interdependence was not only positively accepted but also actively advocated. Extensive economic relations with foreign countries have been established. Behind all these changes, however, some fundamental questions remain: is it possible for a socialist country to establish genuine interdependent relations with the capitalist

countries? When, in actuality, a socialist country is trying to get aid from the West and is rebuilding its economy according to a capitalist developmental model, how can that socialist country interpret and justify such propositions as "Socialism is incomparably superior to capitalism" or "Socialism will eventually replace capitalism", with a view to ensuring the people's commitment to socialism? Is it possible for the Communist leadership to follow an interdependent developmental strategy in which only economic benefits could be retained while simultaneously preventing "pernicious" elements of the outside world from "contaminating" and "alienating" its people? Will it not lead to new social forces inside China? Will the strategy not lead to a weakening of the CCP power? All these and many other questions have come to the fore with the pursuit of the interdependent developmental policy.

If interdependence involves some particular difficulties and costs for all the socialist countries, these problems have demonstrated themselves more dramatically in the last ten years' development in China. This is because, among other things, China's reforms and opening-up policies were adopted and implemented when both the politics and economics had run into grave crises, and the "Three Beliefs Crisis" (lack of belief in the Party, lack of confidence in socialism and lack of trust in cadres.⁴⁴) was clearly manifest. In addition, after almost everything tainted by the past had been attacked and destroyed under Mao's leadership, by the late 1970s and the early 1980s the Chinese Communist Party began to repudiate whole aspects of its revolutionary Maoist tradition as well. As a result, as Schell put it, "by the mid-eighties what it meant to be a citizen of the People's Republic of China was once again up for grabs. These repeated paroxysms of cultural and political self-immolation left China not only intellectually and spiritually confused, but also extremely vulnerable to all sorts of outside

⁴⁴ See Orville Schell. Discos and Democracy, New York: Pantheon Books, 1988, p.212.

influence" ⁴⁵

The policies of "emancipation of the mind" and of the "opening-up" naturally led to new evaluations of the distinctions between socialism and capitalism. As a result of the "open door", more and more people saw that the capitalist countries as a whole, no matter whether the old or the newly industrialized, were much more prosperous than they had been led to believe before, and none of the socialist countries had been able to develop as rapidly.

Under these circumstances, it was hard, if not impossible, to stop or repel the capitalist political and cultural influences. Moreover, the economic and trade cooperation with the outside world also generated a series of challenges to the core practices of the socialist economy as embodied in the state-owned enterprises. These were officially described as "shock waves". As an article in World Economy noted:

With the proceeding of the open-door policy, the emergence of the 'wholly foreign-owned or half foreign-owned' enterprises could generate a series of 'shock waves' to the state-owned enterprises. For example, the wage gap between the two kinds of enterprises would affect the initiatives and the level of living standards of the workers in the state-owned enterprises. Also, with foreigners accepted as the managers or co-managers in the foreign-owned enterprises, the concept of labour commodity takes shape naturally, which obviously does not match the nature of a socialist country. Although the high efficiency in the foreign-owned enterprises is definitely a good thing, with the numerous difficulties in reforms, the state-owned enterprises could not easily raise their efficiency, and faced with this sharp contrast, people would reduce or lose their confidence and hope in the system of public ownership and socialism. In a word, the capitalist relationship of production would exert considerable influence on socialism.⁴⁶

So the interdependent developmental strategy seems to pose

⁴⁵ Ibid., p.72.

⁴⁶ Zhang Youwen and Sun Xianjun. "The International Economic Environment for the Primary Stage of Socialism" in World Economy, March 1989, pp.11-12.

more problems for socialist countries than for the non-socialist ones. And the problems appear to be much more thorny and serious in the political and cultural fields than in the economic, which was best illustrated by Deng Xiaoping's boldness and confidence in liberating the economy and coupled with grave concern and steadfastness in "upholding" the "Four Cardinal Principles" and opposing "the bourgeois liberalization".

Looking back at the 1980s, Deng Xiaoping has indeed gone a long way from Mao's self-reliant, development strategy to his opening-up and outward-looking strategy. However, Deng's seemingly pragmatic approach characterized by "crossing the river by feeling the stones" is still underpinned by his conviction and determination that liberalization and opening-up should only be limited to the economic field; bourgeois liberalization must be opposed and Leninist political control must be upheld. So while Deng's strategy has brought about great benefits and progress to China in the last decade, his approach has shown to be fundamentally flawed. As I will discuss in detail in the following chapters, economic liberalization and growing interdependence with the outside world have inevitably given rise to a series of social, ideological and political changes. Ironically, it is the great dynamism and success of the reforms and the increasing interdependence with the world economy that have generated and necessitated more and more changes in the social, ideological and political fields. Consequently, the elements of the so-called socialist economy have been shrinking, the motor force of the reforms has been moving away from the centre to the local levels and the central government's control over the economy as well as the society has been substantially weakened. All of this fundamentally threatens the existing socialist system and the leadership of the Communist Party.

The reform of socialist countries in general and of China in particular has been examined in many aspects, including the domestic problems of their adaptation, the development of new institutions, the external demands of market forces, some of

these themes in the context of bilateral relationships, such as with Japan and U.S.. As yet, there has appeared no systematic attempt by a Communist leadership to examine the problems involved in the pursuit of reformist policies that necessarily entail ever-deepening relations of interdependence with a largely capitalistic international economy on the one hand, and the attempt to maintain and develop a socialist political system on the other.⁴⁷

Based on the series of interviews I conducted with managers and administration personnel working in the FRE area of one of China's principal externally-oriented centres, this thesis attempts to examine the processes and problems involved in the policies of "reform and opening-up" as they affected China's adaptation to the world economy during the 1980s. In addition, this thesis will also attempt to describe and measure the changes that the reforms and increasing interdependence with the outside world have brought about in China's economic, social and political life and particularly to popular modes of thinking and outlook, all of which, I believe, are of crucial importance to understanding China's long-term development.

⁴⁷ The few articles that did concentrate on some aspects of the problems involved in China's attempt to move away from the self-reliant strategy to a more outward looking one include: "From Self-Reliance to Interdependence? Developmental Strategy and Foreign Economic Policy in Post-Mao China" (Frederich, W. Wu. Modern China, Vol.No.7, Issue No.4, Oct.1981). "Economic Reform and Foreign Economic Relations: Systemic Conflicts in a Theoretical Framework" (Yuan-li Wu. in Changes and Continuities in Chinese Communism, Yuming Shaw (ed.) Boulder & London: Westview Press, 1988). "Contemporary Chinese Concepts of Self-Reliance, Independence and Alignment" (Michael B Yahuda, 1987, unpublished).

CHAPTER III. IDEOLOGICAL ADAPTATION AND DIFFICULTIES

In China's unitary Leninist political system ideology is extremely important in spelling out the regime's claims to legitimacy and in providing the framework for determining medium and long-term national strategies and directions. Accordingly if the incompatibilities between its domestic systems and those of the Western world are to be reduced and if the rapid modernization of its economy is to be effected, a new and coherent ideology may be regarded as vital. So before I discuss the actual adaptation process based on my fieldwork in China, it is important first, to consider how China's leaders have sought to come to terms, conceptually, with the problems involved in the reforms, and second, to evaluate the impact of these ideological developments upon the actual process of reforms and the opening-up in the 1980s. But first it is necessary to explain how the term ideology is understood for the purpose of the thesis.

I. IDEOLOGY OF THE CHINESE COMMUNIST PARTY (CCP)

A. Ideology

Ideology is perhaps one of the most difficult concepts to define. Definitions differ enormously between writers, and explanations of the phenomenon are based on a wide variety of principles.⁴⁸ Just look at a few examples:

In the International Encyclopedia of the Social Sciences,

⁴⁸ For example, see Raymond Bourdon. The Analysis of Ideology (Translated by Malcolm Slater), France: Polity Press, 1989. Hans Barth. Truth and Ideology, Berkeley: University of California Press, 1976. Bernard Williams. "Democracy and Ideology" in M. Rejai (ed.), Democracy: The Contemporary Theories, New York: Atherton Press, 1967.

Edward Shils ⁴⁹ distinguishes ideologies from other belief systems by the following criteria as summarized by Bourdon Raymond:

They (ideologies) are distinguished by: the explicit nature of their formulation, their wish to rally people to a particular positive or normative belief, their desire to be distinct from other belief system past or present, their rejection of innovation, the intolerant nature of their precepts, the affective way they are promulgated, the adherence they demand, and finally, their association with institutions responsible for reinforcing and putting into effect the belief system in question.⁵⁰

Franz Schurmann defines ideology as "a manner of thinking characteristic of an organization."⁵¹ He explains:

If organization is a rational instrument engineered to do a job, then the human beings who create and use it must do so on the basis of a set of ideas. However abstract these may be, they must have action consequences, for the purpose of organization is action. The more systematic organization becomes, the greater is the need for a systemic set of ideas to govern it.⁵²

John Plamenatz in his Ideology defines the term as referring to "a set of closely related beliefs or ideas, or even attitudes characteristic of a group or community".⁵³

If ideology, as a whole, is conceived in many, often conflicting, ways, the Marxist ideology, under which the ideology of the CCP that I am dealing with in this chapter should be categorized, is by no means any more coherent or clear. While Marx in The German Ideology defines ideology as "false consciousness", which, according to J. Plamenatz's

⁴⁹ Shils, Edward, "The Concept and Function of Ideology", International Encyclopedia of the Social Sciences, vol.7, pp.66-76.

⁵⁰ Bourdon, Raymond. op.cit., p.20.

⁵¹ Schurmann, Franz. Ideology and Organization in Communist China, Berkeley and Los Angeles: University of California Press, 1966, p.18.

⁵² Ibid., p.18.

⁵³ Plamenatz, John. Ideology, London: Pall Mall, 1970, p.15.

explanation refers to: "illusions that those who have them cannot do without if they are to behave in ways typical of the class, profession, trade or community they belong to."⁵⁴ Lenin saw ideologies as systems of ideas, or theories used by protagonists in the class struggle. To Lenin, the important thing for an ideology was its usefulness; its usefulness does not necessarily depend on its truth.⁵⁵

I do not intend to look into the myriads of definitions of ideology. My main concern with ideology in this thesis is that concerns with the present Communist Party of China and I shall examine how the CCP's ideology provides the crucial basis for the regime's claims to legitimacy. Later, through the detailed examination of the ideological changes in the post-Mao period since 1978, this chapter will evaluate the impact these changes have upon the actual process of the reforms and opening-up in the 1980s.

B. Marxist Ideology vis-à-vis the Legitimacy of the CCP

The CCP's ideology is defined in this thesis as the official doctrine of Marxism-Leninism, Mao Zedong Thought to which the Chinese leadership, party and state are all formally

⁵⁴ Ibid., p.12. John Plamenatz further explained: "He (Marx) appears to have believed that these false beliefs were necessary to enable the state to carry out its real functions. If the state is to be what it really is, if it is to favour the interests which in fact it does favour, there must be false beliefs more or less widely accepted about what it is, about the interests it favours. For example, it must be widely held that it favours interests common to all who are subject to its authority, whereas in fact, according to Marx, it favours the interests of one class to the detriment of others." Ibid., p.24. Actually Marx and Engels did not call their own theory an ideology, presumably because, again as J. Plamenatz explained, "they did not think of it as a form of false consciousness. The proletariat, according to them, is in one respect a uniquely privileged class: the beliefs about society and the course of social change that favour its interests are true beliefs." Ibid., p.27. Also see the analysis of Marx's definition in Raymond Bourdon op.cit., pp.17-33.

⁵⁵ For example, see Lenin's What Is To Be Done?, London: Lawrence & Wishart, 1944.

committed. Three different levels of this ideology can be distinguished: first of all, general philosophical assumptions, for example, dialectical materialism; second, doctrinal elements indicating the general direction of political action in a given historical period, for example, the dictatorship of the proletariat; and thirdly, 'action programme' or programmes of political action specifically tied to particular historical and socio-economic conditions, for example, the four modernizations programme.

The most important role of this ideology is to legitimize the rule of the Communist Party. "Legitimacy", following Sternberger's definition is the foundation of such governmental power as is exercised both with a consciousness on the government's part that it has a right to govern and with some recognition by the governed of that right⁵⁶. "Legitimation" can be seen as the process encompassing the articulation of the leadership's awareness of the validity of its authority and the attempt to secure some recognition of that validity on the part of those it rules.

The ideology legitimates the authority of the Communist Party in a number of ways:

Fundamentally, the Party's rule is validated in its claimed infallible insight into the course and goal of history. According to Marxist 'historical materialism' and 'scientific Communism', there is an objective law of development, as a consequence of which human history is effected in a historical sequence of social formations (primitive society, slave society, feudalism, capitalism, socialism-communism). On the historical agenda of the present phase of development there stands the transition from capitalism to socialism-communism. While it is the historical mission of the working class to carry out the socialist revolution, to set up a dictatorship of the proletariat and to exercise leadership during the construction

⁵⁶ International Encyclopedia of Social Sciences, vol.9, 1968, p. 244.

phase of socialism-communism, it is the Communist Party who is the incarnation of progressive social consciousness and has the monopoly of knowledge. In other words, inspiration by a higher will of history functions as the source of legitimacy for the Communist party.⁵⁷

Based on their claim to global knowledge of social processes and the capacity to act as defenders of general social well-being, the Communist party describes itself as the vanguard of the most progressive social forces and as the representative of the great majority of the people in society. In China's particular case, through the Sinicization of Marxism, the CCP claims that only she can solve China's problems and only she can save China. In a word, it is legitimate for the CCP to rule China.

Besides providing this normatively postulated legitimacy, the Communist ideology also identifies the goals of a socialist society, such as "to each according to one's contributions" and "common prosperity"; it identifies the way that the Party and the State are organized, that is, the "democratic centralism", and identifies the instruments of realizing the goals of a socialist society, that is, "public ownership" and "planned economy", etc..

Since Marxist ideology is so important in spelling out Communist regimes' claims to legitimacy, all Communist parties place great emphasis on propagating their ideology. They believe that "they cannot long retain power unless the doctrines are widely accepted. They believe, too, that they must be a united party if they are to gain power and keep it, and that to be a united party they must be united in the creed."⁵⁸ Therefore, they consciously exploit ideology for political purposes, for example: secure in people's mind the identity of the new social

⁵⁷ See Brunner, George. "Legitimacy Doctrines and Legitimation Procedures in East European System" in Political Legitimation in Communist States, T. H. Rigby and Ferene Feher (eds.), Oxford: The Macmillan Press Ltd., 1982, pp.28-31.

⁵⁸ Plamenatz, J. op.cit., p.140.

order; legitimate the Party's rule; to integrate society and to mobilise the masses for the tasks of national construction. Besides, as John Plaménatz points out, the ideology is also exploited for the purpose of "inducing people to make great sacrifices for causes which have meant much more to their leaders than to them."⁵⁹ And ideology has also been used inside a party or other organizations by people "endeavouring to get or to retain control of it."⁶⁰ Accordingly, all Communist regimes set up a huge and powerful propaganda department charged with packaging and propagating the official ideology, and filtering or suppressing rival ideas.⁶¹

C. A Brief Survey of the Evolution of the CCP's Ideology

In China's case, ever since the CCP came to power in 1949, ideology has always been of crucial importance both as a legitimating doctrine and as a political tool. And thanks to a combination of factors, during most of the 50s the CCP did enjoy great support and trust. These factors include: enthusiasm for building a New China, popular approval of both gradual improvements in living standards and the emergence of the PRC as a major international actor. However, since the late 1950s the influence of Stalinist Marxism and Maoist ultra-leftist ideology time and again combined to bring disasters to China's development. The first major setback came with the economic crisis following the failure of the "Great Leap Forward", a crisis so severe as to shake the faith of the peasantry in the Party and Mao. Even more disillusioning were the consequences of the "Cultural Revolution", which alienated a whole range of groups including intellectuals who suffered severe and often violent attacks, urban youth who were sent to confront

⁵⁹ Ibid., p.143.

⁶⁰ Ibid., p.143.

⁶¹ See Michael Waller, "What is to Count as Ideology in Soviet Politics?" Ideology and Soviet Politics, Stephen White and Alex Pravda (eds.), London: Macmillan Press, 1988, pp.21-42.

conditions of extreme poverty in the countryside, and ordinary Party members and bureaucrats who were puzzled and shocked by such political turnabouts as the fall of Lin Biao (Mao's designated heir apparent).

So by the time of Mao's death in September 1976, the Chinese Communist leadership faced a serious crisis of confidence and "the official ideology had lost much of its ability to mobilize and sustain popular support"⁶² Faced with such a situation, the post-Mao leadership headed by Deng Xiaoping decided to carry out a series of radical reforms in order to "bring order out of chaos" and rebuild support and legitimacy for the regime.

Apparently, the task was enormous and formidable. And since in a Leninist unitary political system, ideology is so important, Deng and the other reformers had to begin by smashing the trammels of the old ideology and working out a new and coherent ideology so as to pave the way for the economic reform and opening-up programmes. As I shall discuss in detail later, in the 1980s the reformers did manage to carry out a series of important ideological modifications and put forward a number of new theoretical formulations to justify the reform policies, which is one of the chief reasons that have helped bring about many remarkable changes in Chinese society in the last decade. However, the post-Mao reformist Communist leadership failed, or rather were unable, to thoroughly break away from the old Maoist ideology and establish a cogent and coherent new ideology for the reform and opening-up programmes. Up till the end of the 1980s, after more than ten years of reforms, many crucial ideological issues had still not been clearly addressed and many obvious discrepancies or conflicts between the ideology and the practice had not been solved. That is one of the crucial reasons why the reform of the 1980s has proceeded in waves or cycles and also why many people are still deeply concerned and uncertain about China's future

⁶² Harding, Harry. op.cit., p.172.

developmental orientation.

The fundamental reason why the reformist Chinese leadership could not work out a new ideology is because the Communist ideology, as argued above, provides the very legitimacy for the CCP regime. It was for the purpose of consolidating the regime, not to undermine it, that the reformers in the CCP leadership carried out reforms. And in order to stay in power they would certainly retain certain fundamental principles of Marxism, Leninism and Mao Zedong Thought.

As we saw at the end of the 1970s, in order to get the modernizations and economic reforms on course, Deng Xiaoping and other reformers had, first of all, to break through the then dominant ideology of "taking class struggle as the key link" and negate the "Cultural Revolution". That obviously brought forward the question of how to treat Mao and his Thoughts. As I shall describe and analyze in detail later, though Mao was chiefly responsible for all the major disasters since 1949, including the catastrophic "Cultural Revolution", the reformist leadership only went as far as acknowledging that Mao made some serious errors in his late years. They were still committed to upholding "the banner of Mao Zedong and Mao Zedong Thought". In Deng's own words: "Without Chairman Mao, the Chinese people would probably still be struggling in the darkness, and without Mao Zedong Thought, there would not be today's Chinese Communist Party"⁶³ The Dengist reformers treated Mao and Mao Zedong Thought in this way because as the chief founding father of the regime, Mao, through the prominent role he played in the early successes of the CCP and the personal cult cultivated for him in the later years, embodied the goals and achievements which the top elite had pursued for decades. "From this perspective, to have denied Mao's authority would have been tantamount to denying the

⁶³ Selected Works of Deng Xiaoping, Beijing: People's Publishing House, 1983, pp.138-139.

meaning of a nearly lifelong commitment."⁶⁴ What is more, the prominent place accorded to the leader on the myths which developed around the foundation of the CCP regime, "made it difficult to separate the legitimacy of the system as a whole from that of the place of the leader in it."⁶⁵

As the last decade has shown, while Deng tried to retain the Party's political control, the key priority for him was to shift the Party's main role to economic development. Through this, Deng, to some extent, turned the basis of the CCP's legitimacy from Marxism-Leninism Mao Zedong Thought to the party's performance in developing the country's economy and raising people's living standards.

But that strategy proved to be a risky and potentially dangerous one for the CCP. This is not only because failing to perform well would undermine both the political support and legitimacy of the regime, but more significantly, in order to perform well, the measures taken to liberalize the economy and increase contacts with the outside world in the long run could serve to challenge the very claims on which the regime's legitimacy rests. As we saw, shortly after the reform programme was launched at the end of 1978, official sources increasingly spoke of crises of faith, confidence and trust.⁶⁶ These crises reflected not only the lingering disillusionment with the Maoist era but also problems generated by the emerging post-Mao policies. Out of the necessity for a modernization programme, the central leadership began to loosen its control over the economy and open up the door to the outside world. As contacts

⁶⁴ Teiwes, Frederick C. Leadership, Legitimacy, and Conflict in China, London: Macmillan Press, 1984, p.49.

⁶⁵ Righy, T. H. and Feher, Ferenc. (eds.). Political Legitimation in Communist States, Oxford: Macmillan Press, 1982, p.99.

⁶⁶ See Alan P.L. Liu. "Political Decay on Mainland China: On Crises of Faith, Confidence and Trust", Issues and Studies, August, 1982.

with the outside world grew, both populace and cadres became increasingly aware of the superior living conditions not only in the capitalist West but also in some neighbouring states and regions, including Taiwan. Particularly damaging to faith in the system was widespread bureaucratic corruption. As a result of these and related factors, post-Mao society has been marked by open disbelief in the superiority of socialism, widespread contempt for those wishing to join the Party, a view of officials as a self-seeking exploitative class, and otherwise pervasive political indifference. At the same time, some radical democrats began to emerge and advocate ideas such as democracy and the rule of the law as demonstrated in the Democracy Wall Movement in 1979 (which I shall describe in detail later).

These developments sounded the alarm for Deng, and prompted him to impose the Four Cardinal Principles in 1979 (Adherence to the Socialist Road; the Leadership of the Communist Party; the Dictatorship of the People's Democracy and Marxism, Leninism, Mao Zedong Thought) and take a very conservative and wary attitude towards political reforms.

For Deng Xiaoping, liberalizing the economy and opening up the door serve the purpose of rebuilding the legitimacy of the CCP, and imposing the Four Cardinal Principles and holding back on political reforms also serve the purpose of defending the rule of the CCP. But there are built-in tensions between his economic liberalism and political authoritarianism. On the one hand, the lagging behind or indeed, the lack of political reform would pose obstacles to the development of the economic reforms and opening-up, as was demonstrated by the disruptive waves, cycles or even crises in the last decade; on the other hand, the economic liberalism and increasing contact with the outside world made it more and more difficult for the leadership to defend its unreformed political and ideological systems. This tension could become intensified or even explode, as was demonstrated by the series of anti-bourgeois liberalism campaigns and acute political struggles among the top leadership in the last decade.

In a sense, it can be said that the process of economic reforms and opening-up is the process of eroding the ideological formulations upon which the CCP's legitimacy rest: the achievements of the reforms and opening-up could hardly be regarded as a vindication of the socialist system and Marxist principles, but rather evidence of the success and effectiveness of the principles of a market economy. As time went on, it became increasingly evident that where the principles of a market economy were applied, such as in the agricultural sector, and in foreign-related and private enterprises, great progress has been made, whereas where the Socialist system was still fully or partly in place, as in the state enterprises, the situation has got worse. These facts made people even less convinced not only of the superiority of Socialism but also of the possibility of reforming Socialism. What is more, through the pervasive official corruption, malpractice and localism accompanying the reforms and opening-up, the public no longer believe in the official propaganda such as that of the CCP serving the interests of the people not themselves, and Learn From Lei Feng (a model set up by the Party to embody the noble qualities of a Socialist New Man, such as total personal devotion to the Party and the people, altruism, etc.). The public could now see that the Communist officials themselves did not believe in these doctrines. As the Polish Communist Party periodical Życie Partii pointed out in 1983, "The moral standards of the authorities...are a condition for the existence of people's power under socialism, a moral expression of its political essence. Infringement of these standards is equivalent to a denial of this essence, it leads inevitably to social conflicts."⁶⁷ Related to this further loss of faith in socialism and the leadership of the CCP, the new social forces emerging from the reforms began to look for ways to protect their own interests.

⁶⁷ Życie Partii, 13 and 17, 1983. Quoted in Lewis Paul G. (ed.), Eastern Europe: Political Crisis and Legitimation, London & Sydney: Croom Helm, 1984, p.32.

All these factors, plus the worsening of the economic situation and the acute power struggle, precipitated the June 4 Events in Tiananmen Square in 1989. The use of military means by the Party to preserve power ran counter to the establishment of popular legitimacy and undermined any claim to popular support. As in the case of the military coup of General Jaruzelski in Poland in 1980, the June 4 Events marked the clinical death of the official Marxist ideology. The June 4 Events were a watershed for the CCP. It was made plain then that the CCP had only one authentic ideology: power.⁶⁸

If the fundamental reason why the Communist leadership cannot embrace the reforms whole-heartedly is because they can only go so far as not to undermine the basis of the regime, another very important factor is the existence of many factions of different beliefs and interests within the post-Mao leadership. In order to make my later description and analysis clearer, I shall conduct a very brief survey of the political spectrum in the post-Mao leadership. The post-Mao leadership could by and large be divided into three groups.

Group I. The "whateverists" represented by Hua Guofeng, the hand-picked successor of Mao. Their legitimacy was dependent on Mao and therefore they insisted on the dictum: whatever policies Chairman Mao devised should be resolutely supported and whatever directives Chairman Mao laid down should be observed forever. These remnants of the "Cultural Revolution" leadership were removed by the early 1980s. Many in this group who had advanced up the career ladder during the "Cultural Revolution" resented their loss of power and interest and were against the reforms as seen during the "Anti-Spiritual Pollution" campaign.

Group II. The conservatives represented by Chen Yun, Li Xiannian, Hu Qiaomu and Deng Liqun, etc.. These leaders were not against all reforms. On the contrary, Hu Qiaomu, for example, played a very important role in the political struggle against

⁶⁸ Also see A Macierewicz, "Obstacles to the Establishment of Political Legitimacy in Communist Poland", British Journal of Political Science, vol.12, 1982, pp.125-47.

the whateverists and in justifying the reform programmes. However, the people in this group only favoured limited and moderate reforms. Chen Yun and Bo Yibo, who represented the old state planning apparatus, recognized the role of the market but intended to allow it to operate only within the limits of socialist planning. They upheld the concept that the state is there to feed the people. Hu Qiaomu and Deng Liqun, together with Chen Yun, worried about the consequences of liberalization for the social fabric of China. They intended to maintain a Leninist Party and ideological control. For this reason, they are also called "leftists". This group also includes the generals symbolized by Wang Zhen, who would not tolerate any challenge to the authority of the Party and were ready to preserve the power of the Party in the most brutal way.

Group III. The reformers represented by Hu Yaobang and Zhao Ziyang and their followers of the younger generation. They were prepared to carry out bolder and more radical reforms. Besides being committed to removing bureaucratic constraints on economic activity and creating a market-driven economy, they were also more willing to carry out some reforms in the cultural, ideological and political fields.

Deng Xiaoping acted as the paramount leader by arbitrating among the various factions in his political coalition. His ideas were characterized by pragmatism in the economic field and conservatism in the political and ideological fields.⁶⁹

II. SOME MAJOR IDEOLOGICAL DEVELOPMENTS IN THE 1980S

A. The Mind Emancipation Campaign

In 1977, Deng Xiaoping returned to power. Now, with Mao gone, it was possible for Deng to carry out his own social and

⁶⁹ The post-Mao leadership is divided into three groups only for the sake of simplicity in the study. Actually it is difficult to find terms that adequately take into account both policy preference and personal loyalties. See Hamrin, Carol Lee, op.cit., p.5 p.9.

economic developmental programmes. Yet Deng keenly realized that "the four modernizations do not have a future without breaking ideological rigidity and greatly liberating the thought of the cadres and masses."⁷⁰

Thus, a mind emancipation campaign was launched under the advocacy and with the support of Deng Xiaoping, Hu Yaobang and some other like-minded leaders, which helped make it possible for Deng to set his economic reform and opening-up programmes into motion.

(1) Comprehensive and Precise Understanding of Mao Zedong Thought

Deng opened the first breach in the Maoist ideology by challenging the rigid adherence to Mao's writings. He argued that they required interpretation in the light of current circumstances. To this end he raised the slogan "Comprehensively and precisely understand Mao Zedong Thought". For at that time, the main manifestation of the ideological rigidity was to deify Mao and treat his words as absolute truth, which was best illustrated by the "two whatevers" advocated by Hua Guofeng and Wang Dongxing. It was obvious that, with the sanctity of Mao Zedong Thought unchallenged, it was not possible to negate the "Cultural Revolution", nor was it possible to make the historic shift in the central task of the CCP, that is, from class struggle as the key link to the economic modernizations. Therefore, in 1977, before and after his return to power, Deng strongly advocated the slogan of "Comprehensively and precisely understand Mao Zedong Thought".

To sum up Deng's arguments: first, Mao Zedong Thought was a system in which each part was organically related. Therefore, "We cannot explain Mao Zedong Thought only based on some of his particular words. Instead, we must understand it as a whole

⁷⁰ Deng Xiaoping. The Selected Works of Deng Xiaoping, Beijing: Foreign Language Press, 1987, P.133.

system."⁷¹ Second, both Mao himself and Mao Zedong Thought had different destinies in different periods. In the period of the Democratic Revolution, Mao Zedong Thought played the key role in all the successes of the CCP, while after the establishment of the PRC, Mao made serious mistakes, especially in his theory of "the continuous revolution under the dictatorship of the Proletariat" which proved to be completely wrong, and therefore, one should follow the correct and criticize and abandon the wrong.⁷² Third, and the most important point was that Mao Zedong Thought should be developed in accordance with the new circumstances and new situations. Mao Zedong Thought was never one man's thought, but the crystallization of collective wisdom.

By presenting Mao Zedong Thought in this way, Deng and the others could move beyond Mao's own words to Deng's interpretation of them. Mao Zedong Thought was thus relativised or modified to suit Deng and his group. In essence, the debate about how best to understand Mao was actually about the current policies.

(2) Practice is the Sole Criterion for Testing Truth

If ideological rigidity began to break down by the call for people to "comprehensively and precisely understand Mao Zedong Thought", then the debate on "practice criterion" became a much wider attack on the old ideology.

At the end of 1977, according to the opinion of Hu Yaobang, the Party School of the Central Committee clearly laid down two principles for the study of the history of the CCP. One was to explain Mao's directives comprehensively and precisely. The other was to take practice as the criterion for evaluating the political struggles. On May 10, 1978, an article of historic significance "Practice is the Sole Criterion for Testing Truth" was published in the internal magazine of the Party School. The next day, the article was published in Guangming Daily under the

⁷¹ Ibid., p.40.

⁷² Ibid., pp.138,139.

name of "Special Commentator".⁷³ The crucial point that the article contended was that social practice should be regarded as the sole criterion for testing truth; the integration of theory with practice is one of the basic principles of Marxism. Thus, any theory must be constantly tested by practice; anything proved, by practice, to be erroneous should be changed or abandoned.⁷⁴ Not surprisingly, the publication of the article and the ensuing debate on the criterion of truth was strongly opposed by Wang Dongxing⁷⁵ and Hua Guofeng, the "whateverists", whereas it was firmly supported and encouraged by Deng Xiaoping, Hu Yaobang and the other reformist leaders. On June 2, Deng Xiaoping gave an important speech at the PLA's Political Work Conference in which he emphasized the basic Marxist principle of proceeding from the facts and combining theory with practice. At the same time he severely criticized the phenomenon of doing everything according to previously laid down rules and regulations and not allowing people to study new situations and put forward solutions to new problems. He concluded: "It is vitally important to break spiritual trammels and truly liberate our mind."⁷⁶ Around this time, numerous articles were published in many newspapers and the debate spread nationwide.⁷⁷ In essence the debate on "practice criterion" at that time was more political than ideological (which severely undermined the legitimacy of Mao's successor, Hua Guofeng and ultimately led to his demise), however, it did serve as the basis and means for

⁷³ The author was Professor Hu Fuming. See Schram, Stuart R. Ideology and Policy in China Since the Third Plenum, 1978-84, London: Contemporary China Institute, School of Oriental and African Studies, 1984, p.2.

⁷⁴ See Guangming Daily, 11.5.1978.

⁷⁵ One of the then Vice Chairmen of the CCP.

⁷⁶ Selected Works of Deng Xiaoping, 1987, p.114.

⁷⁷ Also see Jin Yu, Chen Xiankui. Grand Thought in Today's China - Deng Xiaoping's theory and practice, Beijing: The publishing house of the People's University, 1988.

the mind emancipation movement.

(3) Seeking Truth from Facts

In one of Deng Xiaoping's most important speeches, "Emancipate the Mind, Seek Truth from Facts and Unite as One in Looking to the Future,"⁷⁸ made at the December 1978 work conference of the Central Committee which made the preparations for the well-known Third Plenum of the 11th Party Congress at the end of 1978, Deng Xiaoping laid down "Seeking truth from facts" as the basis of the Party's new ideological guideline. "Seeking truth from facts" means: people should not proceed according to books but act upon reality, that is, China's concrete conditions. Therefore, the criterion for formulating and judging a policy is to see whether the policy suits the development of present-day Chinese society and whether it is conducive to the development of productive forces. Deng's pragmatism is typified by his famous dictum: "It does not matter whether the cat is black or white as long as it catches mice." It was greatly to the credit of the slogan "seeking truth from facts" that the past ten years have seen so many bold experiments and so many dramatic changes which would have been inconceivable in Mao's era.

(4) Socialism Is to Develop Productive Forces

With the "mind emancipation" campaign and unfolding of the "practice criterion" debate, Deng and his supporters pushed the offensive further into the sphere of economic theory. Deng said "whether the Party's line is conducive to the development of the productive forces... is the only arbiter of the correctness of this line"⁷⁹ This was a clear repudiation of Mao's views in the Culture Revolution, and it made it easier for the reform-minded leaders like Zhao Ziyang, Wan Li, Hu Yaobang, to carry

⁷⁸ Maxwell. Robert (ed.), Deng Xiaoping: Speeches and Writings, London: Pergamon Press, 1984, p.62.

⁷⁹ Beijing Review, 28-14.7.1978, p.8.

out experiments and reforms.

As far as the ideological adjustment in the economic sphere was concerned, two articles by Hu Qiaomu at the end of the 1970s played a significant role.⁸⁰ The first one "Thoroughly carry out the socialist principle of payment according to work" was published on 5 May 1978 in the People's Daily, under the pseudonym of "Special Critic". The article stressed the importance of the re-establishment of the basic socialist principle of "payment according to work". The second article, which was regarded as 'a turning point' in China's economic guidelines,⁸¹ was published on 6 October 1978 under the title "Observe Economic Law, Speed Up the Four Modernizations". The article was originally a speech made by Hu at a meeting of the State Council in July 1978. The delay in its publication of the article was due to the fact that Hu's speech constituted a direct criticism of the plans for the quasi-leap announced by Hua Guofeng in February 1978.⁸² In the article, Hu argued that the task of leadership was to ensure that economic work proceeded in accordance with "objective economic laws". Since the establishment of a socialist system in China had resolved the major political problems, the remaining problems were "scientific": how to run the economy more successfully. Under the slogan of "doing everything according to objective economic laws", material incentives began to be widely introduced, the "iron rice bowl" began to be challenged and a series of economic reforms aiming at increasing efficiency and efficacy began to be carried out.

⁸⁰ At the end of the 1970s, the chief struggle among the top leadership was between the whateverists and the reform-minded leaders. Chen Yun, Hu Qiaomu, Deng Liqun etc. at this stage could all be regarded as reformers, basically agreeing with Deng's approach. Their differences with Deng and the other more radical reformers became greater and sharpened later.

⁸¹ For example, see Schram, Stuart R. op. cit., 1984, p.5.

⁸² See Bill Brugger. (ed.). Chinese Marxism in Flux 1978-84, London & Sydney: Croom Helm, 1985, p.77.

B. Socialist Economy Is Still a Commodity Economy

Marxist theory on commodity economics for a long time restricted the paths that socialist countries could choose in order to develop their national economies. According to Marxist theory, commodity production, currency, and profit should no longer be allowed to exist after the enforcement of the socialist public ownership system, for otherwise there would re-emerge the exploitation of man by man. However, China's socialism was not built on an economy of the highly developed capitalism as envisaged by Marx and Engels; instead, it emerged from the "womb" of a semi-colonial and semi-feudal society, in which the economy was still dominated by the semi-natural economy, and the capitalist commodity economy was never well developed. After the leap from a semi-feudal to a socialist system,⁸³ Mao and many of his communist colleagues wished to skip the historical stage of commodity economy as well,⁸⁴ hence one movement after another from the "great leap forward" to people's communes. In those years highly-centralized economic and political systems were established; the planned economy was pitted against the commodity economy. Externally, the principle of "self-reliance" and "independence" was carried to the extreme. Of course, the largely hostile international environment was an important factor. Foreign economic relations

⁸³ Deng once observed that: "To practice socialism, we need a highly developed productive forces, pauperism is not socialism... Although we say that we are practising socialism, in fact, we are not qualified yet. Only till the next mid-century, when we reach the level of the middle-developed country, can we say we are indeed practising socialism, can we justly and forcefully say that socialism is superior to capitalism. Now, we are only moving in the direction." See Jin Yu, Chen Xiankui. op.cit., pp.152-153.

⁸⁴ To say "the commodity economy is a stage of development which cannot be skipped" implies the human society will develop the stage in which the commodity economy no longer exists. However, whether future society (or communism as the communists call) will be one free from commodities is debatable. For example, see Jiang Yiwei "On Socialist Commodity Economy and Capitalist Commodity Economy", Xinhua Digest, No.4, 1990, pp.41-43.

were reduced to a very insignificant level, especially in the period before 1972. As a result, although China made obvious progress compared with its own past, its economic development was seriously hindered, and China lagged far behind not only the industrial western countries, but some of its small neighbours as well.

After a few years' ideological debates and economic experiments, by 1984 the reformers succeeded in putting the following formulations into the important "Decision on Reform of the Economic Structure" approved by the Third Plenary Session of the Twelfth Party Congress held in October:

The socialist planned economy is a planned commodity economy based on public ownership, in which the law of value must be consciously followed and applied. The full development of a commodity economy is an indispensable stage in the economic growth of society and a prerequisite for our economic modernization. It is the only way to invigorate our economy and prompt enterprises to raise their efficiency, carry out flexible operations and promptly adapt themselves to complex and changing social demands.⁸⁵

So, if the reality of the ever-increasing internationalization of production and the internationalization of economic activities all over the world served as the external basis for China's opening-up strategy, the understanding and recognition that a socialist economy is still a commodity economy and that without the full development of commodity production and commodity circulation economic modernization will never be realized became the internal theoretical basis for China's opening-up and economic reform policies. As one of China's chief economists, Ma Hong, once expounded:

whether a country needs to develop its economic and technological exchanges with the outside world is decided by the level of its commodity economy. In pre-capitalist

⁸⁵ "Decision of the Central Committee of the Communist Party of China on Reform of the Economic Structure" adopted by the Twelfth Central Committee of the Communist Party of China at its Third Plenary Session on 20.10.1984. People's Republic of China Year Book 1985, Beijing New China, Hong Kong, Xinhua Publishing House, News Ltd., p.78.

society there was little international economic and technological exchange. This was due to the fact that the natural economy was dominant at that time while the commodity economy was not yet highly developed. International economic relationship did not develop far until the commodity economy had made tremendous advances in the capitalist society.⁸⁶

In speaking of the economic motivations for the capitalists to actively open up the world market, Mr. Ma quoted Marx and Engels: "The need to continuously expand the market for their products drives the capitalists to run to every part of the world."⁸⁷ Ma Hong went on to argue:

Although both the objectives and essence for the socialist countries to develop a commodity economy and open up to the world market are different from those of the capitalist countries, the development of a socialist commodity economy will enable us to get rid of the isolationism and narrow-mindedness which are characteristic of the producers of the natural economy, then to make use of foreign capital and introduce into our country advanced technology and managerial methods and try to enter into the world market so that we can benefit from the international division of labour and the international commodity exchange.⁸⁸

So, the positive revaluation of the commodity economy was intended to provide the justification for the practice of opening up to the world market, introducing market mechanisms into China's economic system and borrowing effective managerial methods to run the economy. If China's socialist economy is also a commodity economy as the capitalist countries and as the "Decision" states: "a full development of a commodity economy is an indispensable stage in the economic growth of society and prerequisite for our economic modernization"⁸⁹, then it is both desirable and justifiable for China to establish extensive

⁸⁶ Wang Mengkui & Xin Junfang (eds.), Commodity Economy and Socialism, Shen Yang: Liaoning People's Publishing House, 1986, p.33.

⁸⁷ Selected Works of Marx and Engels, Vol.1, p.254.

⁸⁸ Wang Mengkui, et al.op.cit., p.33.

⁸⁹ "Decision on the Reforms", op. cit., 1984.

relationships with the world market and borrow all the effective managerial methods from the West which have ensured a high speed of development of their commodity economy.

C. Chinese Society Is Still in the Primary Stage of Socialism

In his report to the 13th National Congress of the Communist Party of China in October 1987, Zhao Ziyang, the General Secretary of the CCP at that time gave a much more complicated interpretation of the idea "Chinese socialism is still in a primary stage." He regarded a correct understanding of the present historical stage of Chinese society as "something of primary importance for building socialism with Chinese characteristics" and as "the essential basis on which to formulate and implement a correct line and correct policies".⁹⁰ The proposition developed by Zhao was so important that Michel Oksenberg once commented: "The report is likely to be remembered for its key ideological formulation: Chinese socialism is still in a primary stage."⁹¹

The idea that "Chinese socialism is still in a primary stage," is not totally new. It appeared in the "Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China" adopted by the Sixth Plenary Session of the 11th Central Committee of the Communist Party of China on June 27, 1981. The 33rd Section of the Resolution says: "Although our socialist system is still in its early phase of development, China has undoubtedly established a socialist system and entered the stage of socialist society. Any view denying this basic fact is wrong".⁹² At that time the sentence was to emphasize the socialist nature of the Chinese society,

⁹⁰ Beijing Review, No.45, Nov.1987, p.3.

⁹¹ Oksenberg, Michel. "China's 13th Party Congress", Problems of Communism, Nov-Dec. 1987, p.12.

⁹² Beijing Review, No 27, 6.7.1981, p.35.

not the "early phase of socialism". The idea also appeared in Hu Yaobang's report to the 12th Party Congress in September 1982: "Our socialism is still in its initial period, the material civilization is still not highly developed."⁹³ Again, at that time the proposition was still understood mainly with regard to the "productive forces", and was not yet linked with the multiple economic elements in the productive relations, let alone being treated as the theoretical starting point for the ongoing reform and opening-up.⁹⁴

The phenomenon whereby the idea "Chinese socialism is still in a primary stage" suddenly became the focal point in the theoretical discourse in the summer of 1987, on the eve of the 13th Party Congress, was obviously closely related to the political and economic situations in the latter half of 1986 and the first half of 1987. Both in the Beidaihe summer meeting and the Sixth Plenum of the Twelfth Congress in the autumn of 1986, intense arguments and confrontations took place between the reformists and the conservatives⁹⁵. In the anti-bourgeois liberalization campaign from late 1986 to early 1987, the conservatives not only attacked the "liberalization" tendencies in the political, ideological and theoretical spheres, but also severely criticized the "liberalization" tendency in the economic sphere. Evidently the reformists were faced with the ideological difficulty of having to justify the necessity of allowing multiple economic elements to exist, and the task of establishing a rationale in Marxist terms for the reform and opening-up policies.

To address the obvious discrepancy between some of China's new policies and the Marxist doctrine, Zhao contended in his report:

⁹³ Beijing Review, No.37, 1.9.1982, p.11.

⁹⁴ The origins and evolution of the phrase are traced in People's Daily, 5.11.1987, p.4.

⁹⁵ See The Nineties, No.11, 1987, p.22.

Building socialism in a big, backward Eastern country like China is something new in the history of the development of Marxism. We are not in the situation envisaged by the founders of Marxism, in which socialism is built on the basis of highly developed capitalism, nor are we in exactly the same situation as other socialist countries. So we cannot blindly follow what the books say, nor can we imitate the examples of other countries mechanically.⁹⁶

As for the "primary stage of socialism", Zhao described it as follows:

... the specific stage China must necessarily go through while building socialism under conditions of backward productive forces and an underdeveloped commodity economy. It will be at least 100 years from the 1950's... to the time when socialist modernization will have been in the main accomplished, and all these years belong to the primary stage of socialism... It is a stage in which an agricultural country... will gradually turn into a modern industrial country...⁹⁷

The reason the formulation of the "Primary stage of socialism" was given so much attention and emphasis by Zhao and the other reformists was mainly because it seemed to offer an intriguing alternative solution to the ideological difficulty. First, this conceptualization repelled the argument that because the communist-led revolution came prematurely and socialism came too early to China, capitalist practices should be allowed to flourish with a return to socialism later, which as Oksenberg said "remained an anathema to committed Marxist-Leninists"⁹⁸. In his report, Zhao made it clear that China would not abandon the essential attributes of a socialist society: the continued rule of the Communist Party, public ownership of the main means of production, a planned economy, and commitment to the ultimate Marxist-Leninist goal of a classless society.⁹⁹ Secondly, the concept provided a kind of rationale and justification for the

⁹⁶ Beijing Review, No.45, Nov. 1987, p.4.

⁹⁷ Ibid., p.5.

⁹⁸ Oksenberg, Michel. op.cit., p.12.

⁹⁹ Beijing Review, No.45, Nov.1987, p.4.

reform and open policies that might otherwise be interpreted as abandoning socialism.

Proceeding from the realities of "the primary stage of socialism" Zhao set out the main tasks for the Communist Party as concentrating on modernization; persisting in a comprehensive reform; adhering to the opening-up policy and vigorously developing planned commodity economy with public ownership playing the dominant role. Zhao said: "The basic criterion for judging all our work should be whether it serves the end of expanding the productive forces."¹⁰⁰ According to the theory of the primary stage of socialism, a free market, stock exchange and bankruptcy need not exist exclusively in capitalist societies: they can also exist in a society that has already entered a socialist era and is in the process of attaining a fully modern economy.

In developing this proposition, the reformists hoped to be able to reject the accusations and attacks from the leftists and conservatives and to acquire a freer hand to carry out their opening-up and economic reform policies.

III. CONTRADICTIONS AND PROBLEMS IN THE IDEOLOGICAL DEVELOPMENTS

The three major ideological developments, or breakthroughs, as briefly described above, ie. the calling for the emancipation of the mind; the reevaluation of the commodity economy and the conceptualization of "China's socialism is still in the primary stage", were all intended to justify and pave the way for the economic reform and opening towards the outside world. Although the reformers did achieve some success in providing guidelines and creating the driving force for the modernization, these ideological developments contained many self-contradictory and conflicting elements.

¹⁰⁰ Beijing Review, No.45, Nov 1987, p.5.

A. Emancipating the Mind vis-à-vis the Imposition of the New Ideological Principles

The leadership headed by Deng Xiaoping did not unleash the mind emancipation campaign for the sake of restoring people's freedom of thought and speech. It was launched to undermine the authority of the Maoists and to enable the changes they wanted to take place. Therefore, when the mind emancipation went beyond the limits they were ready to tolerate, the leadership immediately imposed certain restrictions on the freedom of speech.

By the end of the 1970s, two events precipitated the first great turning-point in the zig-zag ideological evolution since 1978. First, Deng's initial support of the "Xidan Democracy Wall" movement soon led to far-reaching criticism: a large number of big-character posters appeared criticising the Party and some of its leaders and calling for democracy and legality. Second, in the Theoretical Work Conference held by the CCP Central Committee in early 1979, some radical viewpoints were put forward. For example, by condemning the 'leftist' mistakes of the 'Cultural Revolution', some people suggested that China should not have gone in for socialism so early; it should make up the missed lesson of capitalism. And by criticizing Mao Zedong's mistakes in his late years, some people intended to negate Mao's whole life and Mao Zedong Thought. In addition, some people strongly advocated the slogans for freedom, democracy and human rights.¹⁰¹

This situation not only caused alarm to the CCP's remaining "Old Guards" and the radical leftists, but also went beyond the limitation that Deng and the other reformists could tolerate. As a result, on the closing day of the Meeting of Theoretical Work, March 30 1979, Deng Xiaoping set out the Four Cardinal Principles (adherence to the socialist road, to the people's democratic dictatorship, to the Communist Party's leadership and

¹⁰¹ Also see Wan Renzhi. "Opposition to Bourgeois Liberalization", Beijing Review, April 1990, p.3 & p.13.

to Marxism-Leninism and Mao Zedong Thought) as the criteria to define the limits of the "liberation of thinking".

Commenting on the proclamation of the four principles, Liao Gailong, one of Deng's proteges said in October 1981 that:

It was necessary not only because some elements among the people had abused the call for the liberation of thought to attack Marxism-Leninism and the socialist system, but because those comrades whose thinking is ossified,... and who obstinately support the erroneous line of the 'two whatevers' took advantage of the opportunity to attack the correct line of the Third Plenum ..., saying that the decisions of the Third Plenum had brought about a mad attack by the bourgeois rightists,... consequently, the Party Central Committee considered that, ... in order to continue to implement thoroughly the correct line of the Third Plenum calling for liberating thought, and seeking truth from facts, and to continue liquidating the influence of the erroneous line of the 'two whatevers', it was necessary to reaffirm the four principles.¹⁰²

This explicitly revealed not only the limit of the reformists' tolerance but also the severe struggles over the ideological problems in the leadership.

In the political development since 1978, despite the repeated claims by the CCP leadership that no political campaigns would be waged in the course of constructing a socialist society, a number of political campaigns, mainly in the ideological sphere, were launched. Among the major campaigns were: the anti-spiritual pollution campaign in the winter of 1983, the theoretical study campaign in 1985, the anti-bourgeois liberalization campaign in early 1987 which brought down the General Secretary of the CCP, Hu Yaobang, and the overall counterattack after June 1989 Tiananmen Events, in which Zhao Ziyang, another General Secretary of the CCP was ousted. During these campaigns, ideological control was tightened, outspoken theorists, writers and scientists were persecuted, high level reformist leaders were removed and replaced, and open-door and

¹⁰² Liao Gailong. "The Road to the All-round Edification of Socialism", Yunnan Social Science, No.2, 1982, pp.6-7.

reform policies were attacked.¹⁰³ Chen Yun, for example, at the National Conference of the CCP held in September 1985, gave a severe warning about the decline of the Communist ideology:

There are now some people, including Party members, who have forsaken socialist and communist ideals and turned their backs on serving the people. In pursuit of their own selfish gain, they put money above all else without regard to the interests of the state and people, even to the extent of violating the law and discipline These problems can be attributed to the relaxation of ideological and political work and the decline in the function and authority of departments in charge of such work.¹⁰⁴

B. Commodity Economy vis-à-vis Socialist Planned Economy and Social Values

The "Decision on Reform of the Economic Structure" approved by the Party Central Committee in 1984 clearly stated that: "The full development of a commodity economy is an indispensable stage in the economic growth of society." However, two important questions remained unresolved: the first was the relationship between the commodity economy and the socialist planned economy based on public ownership; the second concerned with the incompatibility between what was called socialist ethics and the values developed under the circumstances of a commodity economy.

Briefly speaking, the commodity economy in the capitalist countries is based on the protection of private property, free market, open trade, exchange at equal pricing, free competition and an independent judiciary, etc; Stalinist socialist economy, on the other hand, is based on public ownership and central planning, with production, market, trade and price, etc.. all controlled by the government.

¹⁰³ However, it should be noticed that all the campaigns were not on the same scale as those that took place before 1976 and were quite short-lived as well; the public could no longer be mobilized to support the campaigns.

¹⁰⁴ Beijing Review, No.39, Oct. 1985.

Although the disastrous consequences of the ineptitude of the state planner and the rigid structure of the planned economy were keenly felt, it was very difficult for the communist leadership to abandon the planned economy and opt wholeheartedly for a market economy. A genuine shift toward a market economy would ultimately require fundamental changes in the ownership of property and the reorganization of the national economy according to the free market regulations. This would not only mean the abandonment of the public ownership, which the communists regard as the cornerstone of socialism, but also means the loss of central control over the economy and therefore the substantial loss of power and legitimacy, none of which could possibly be accepted by a Communist regime.

Therefore, despite the acceptance of a "commodity economy" in the mid 1980s, the CCP still insisted: "the socialist commodity economy is a planned commodity economy based on public ownership... not a market economy that is entirely subject to market regulation." More specifically: "Production and exchange completely subject to market regulation are confined mainly to certain farm and sideline products, small articles of daily use and labour services in the service and repair trades, all of which play a supplementary but indispensable role in the national economy."¹⁰⁵ It is evident that, the juxtaposition of concepts such as the "planned commodity economy", "socialist commodity economy" is itself absurd and self-contradictory.¹⁰⁶

It is true that, in today's world, no market economy is an absolutely free economy; even in the West, governments regularly intervene in the development of the economy through various

¹⁰⁵ P.R.C. Yearbook, 1985, op. cit., p.78.

¹⁰⁶ Another big step forward was indeed made when the formulation of "Socialist Market Economy" was accepted in the 14th Party Congress held in October 1992. However, the juxtaposition of "socialist" and "market economy" is still awkward. And the Report made by the Party's General Secretary Jiang Zemin at the Congress still stressed the importance of maintaining the dominant position of the state economy. People's Daily, 13.10.1992.

measures and to different degrees. However, when the communist leadership said that China's economy should be a socialist planned commodity economy with "planned economy" and "market economy" combined together, they were by no means convinced that it was a more practical and more feasible model for China's economic development,¹⁰⁷ rather it would conform better to their official ideology. This argument could be supported by two sets of facts: one was that after the "Decision of Reform of the Economic Structure" was adopted, quite a number of articles were published which aimed to rationalize the "socialist commodity economy" in terms of the official doctrine and to explain away the obvious discrepancy between the idea of a "socialist commodity economy" and the classical statements on commodity economics by Marx and Engels, who envisaged that socialism should be a society in which commodity production was eliminated and the anarchic state of production replaced by production which was consciously planned and organized. The other was the lack of discussion and specification as to how the socialist commodity economy could work. Actually, as late as 1990, Wu Shuqing (one of China's more conservative economists, president of Beijing University appointed after the June 1989 events) had only this to say:

The orientation of the reform should meet the needs of the development of a socialist commodity economy, therefore, we must search for a kind of mechanism which can organically combine both the planned economy and market regulation.... To create a new operative mechanism - which can suit China's concrete conditions, combine both a planned economy and market regulation and meet the needs of developing a socialist commodity economy - is an unprecedented great undertaking. All those who are determined to bring about a great advance in China's economy and realize China's modernizations... should make concerted efforts in

¹⁰⁷ I think it does make sense economically when they say: "Meanwhile, we must also realize that the extensive growth of a socialist commodity economy may also lead to certain disorder in production, and there have to be guidance, regulation and administrative control through planning." See "Decision on the Reform", 1984, op. cit..

searching for the solution to the problem.¹⁰⁸

The other problem arises from the conflict between the so-called socialist values and those developed in the environment of a commodity economy. The reformists regarded the development of a commodity economy as a way of making it possible to "invigorate the economy, to prompt enterprises to raise their efficiency, carry out flexible operations and promptly adapt themselves to complex and changing social demands".¹⁰⁹ However the practice of a commodity economy both required and produced a series of changes, some of which could come into conflict with the Communist ideology and therefore damage fundamental interests of the Communist Party.

Commenting on the danger of "bourgeois contamination", an article in a 1985 issue of Red Flag, the magazine of the Central Committee of the CCP, discussed why the "commodity exchange" mentality must not be allowed to "pervade the Party's political life". The kind of marketplace commodity exchange that Marx and Engels denounced in The Communist Manifesto, it noted, was too money-oriented and too materialistic for the members of the Communist Party, who should be dedicated to the welfare of the people, and for whom personal utility returns should be moot and immaterial¹¹⁰.

The conflict also fully presented itself in the ups and downs of the campaign of "learning from Lei Feng". Lei Feng was set up by the Communist Party as a perfect example of being altruistic and dedicating oneself whole-heartedly, to the state and to the Party. As the 1980s saw, whenever the leadership wanted to tighten up on ideological control or a campaign against "bourgeois" ideas was unleashed, Lei Feng would return into the limelight in the official press. The problem was when

¹⁰⁸ People's Daily (Overseas edition), 23.1.1990, p.2.

¹⁰⁹ "Decision on the Reform", 1984, op. cit..

¹¹⁰ "Why the Commodity Exchange Principle Must Not Pervade the Party's Political Life", Red Flag, No.16, 1985, pp.44-45.

the Party called on people to "Learn from Lei Feng" and his altruistic dedication, how could it at the same time justify its reformist policies such as encouraging "some people to become rich first"? In a speech on the ideological and political work, Li Ruihuan, a standing member of the Politburo in charge of ideological work, once acknowledged the conflict between the two. In his words:

For quite a long time, the economic policies were 'tailored' and judged according to Communist ethics. As a result, those which were conducive to the development of the productive forces were condemned and negated as something immoral and heretical, which led to the prevalence of egalitarianism. In recent years, however, although our economic policies are correct, we have slackened the ethical education and sometimes the current policies are equated with the ethical principles, as a result, individualism of benefitting oneself at the expense of others: money worship of 'doing everything for money' have become prevalent. We should learn a lesson from the past experience. The two dimensions, strengthening moral education and carrying out the current economic policies should be able to help each other forward. One of the most important tasks in the ideological sphere is to search for the way in which the two could be in agreement with each other.¹¹¹

This kind of conflict was fully demonstrated through the fuss and controversy caused, in the early 1980s, by the slogan "Time is money and efficiency is life" which appeared and was advocated in Shenzhen, one of China's SEZs.¹¹²

¹¹¹ Li Ruihuan. "Some Problems on Ideological work in the Enterprises", People's Daily (overseas edition), 19.5.1990. p.4.

¹¹² Shenzhen Special Economic Zone Daily, 5.4.1984. "There used to be a lot of controversy over this slogan", as Mr Zou Erkang, Secretary-General of the Shenzhen Special Economic Zone, once described: "The concept of 'money' was often wrongly, or one-sidedly, interpreted due to the 'Leftist' influence. Some people equated 'money' with capitalism. They turned a blind eye to the value of commodities and never cared to improve economic results." Mr. Zou strongly defended the slogan, saying "There is nothing wrong with the Shekou slogan, because it only reminds people to be time-conscious, improve their efficiency and create more material wealth for the state. In the past, however, efficiency was neglected, and much time was wasted on buck-passing and delays. That gravely slowed the growth of the forces
(continued...)

The leadership would like to have both the benefits of economic liberalization and the economic contact with the outside world and socialist, communist ethics. But the new circumstances of what is neither a planned economy nor a free economy have often combined the weaknesses of both systems and accentuated the corruption and maladies in society.

In China's ten years' economic reform and opening-up, a lot of Western technology was introduced, and a great number of economic and managerial reforms were carried out partly according to the capitalist models. However, in the meantime, the so-called "bourgeois" ideas, values and political systems had been severely attacked and criticized. This touches on a fundamental issue: could the capitalist techniques be used disjointedly from the system from which they had evolved? Some could contend that, social techniques "must be applied as a system, their organic interconnections unbroken. Capitalist social techniques, it can be argued, are the products of a pluralistic culture and as such need a pluralistic, competitive, free-wheeling, free-choice environment to do their job of efficient resource allocation."¹¹³

C. The Primary Stage of Socialism vis-à-vis the Adherence to the Socialist Road and the Idea of Socialist Superiority over Capitalism

One of the most important characteristics of China's reform and opening-up in the 1980s is that spontaneous experiments and practice have often taken the lead and left policy-making and theoretical justification far behind. At the end of the 1970s, some provincial leaders associated with Deng Xiaoping began to push for agricultural and industrial reform before any policies,

¹¹²(...continued)
of production. In that sense, the Shekou slogan is a repudiation of our recent past." Shenzhen SEZ Daily, 10.10.1984.

¹¹³ Prybyla, Jaw S. "China's Economic Experiment: from Mao to Market", Problems of Communism, Jan-Feb 1986, Vol. XXXV, p.23.

let alone theories on reforms, had been formulated. Wan Li, in Anhui Province, promoted experiments to reform the rural incentive system; Zhaó Ziyang, in Sichuan Province, began decentralizing controls over industry, granting more autonomy to industrial enterprises.

Faced with massive and often dramatic changes such as the rapid growth of individual business, extensive economic relations with capitalist countries, etc, the theorists as well as the general public often have to try hard to understand, analyze or justify the new developments. For example, having stated that: "We are firmly upholding the socialist system of ownership but, as required at this stage of socialist development, allow individual economy and other operational patterns as supplements", an article in Democracy and Law in early 1981 questioned: "Can the socialist system admit capitalist ownership? Do our present joint enterprises constitute state capitalism?"¹¹⁴

Even Xue Muqiao, one of the well-known veteran economists in China demanded serious consideration of the limits to capitalist forms:

Individual ownership has been recognised by law, and enterprises jointly operated with Chinese and foreign capital and even a small number of foreign enterprises have also been recognized. Now that we may take in foreign capital and welcome investment by overseas Chinese, are people who have large deposits with the bank permitted to invest in state enterprises? At present, some enterprises encourage their staff and workers to join them as partners, many co-operatives have been newly established by commune members raising funds themselves and they issue bonuses to labourers according to work done and to investors according to the amount of capital contributed. Some well-off rural people's communes have also set up enterprises outside the original scope of their businesses, or have invested in state enterprises. In some localities, some enterprises have been established with the capital of individuals and each hires ten or more staff members and workers. To what extent can these semi-socialist or non-socialist sectors of the economy develop? This question is very important and

¹¹⁴ Democracy and Law, April 1980.

complicated and needs serious discussion.¹¹⁵

In the last decade, the discussions and debates on the stage of China's socialism never stopped. Some scholars, including Su Shaozhi, the former Director of the Marxist-Leninist Institute of Chinese Academy of Social Sciences in the early 1980s, argued that China's socialism was still an underdeveloped socialism.¹¹⁶ Even Deng Xiaoping once called it an "unqualified socialism"¹¹⁷.

However, many of the discussions, including the idea that "China's socialism is still in the primary stage", tended to be very general and vague, unable to provide an adequate analysis and specific guidelines for the practice. For example, in speaking of the distinction between socialism and capitalism, Feng Wenbin, Vice President of the Central Party School in the early 1980s, wrote an article in which he distinguished between the principles which defined a socialist system and the form of public ownership. He wrote: "So long as public ownership of the means of production was dominant, so long as exploitation had been brought to an end with labour power no longer a commodity and so long as distribution was according to work done, one might talk about the existence of a socialist system."¹¹⁸ Yet, adherence to the formal principles defining the socialist system, whilst allowing great variety of forms of ownership, offered no guide as to just how far the reforms ought to go.

Once it was accepted that the only arbiter of the correctness of the Party's line is to see whether it is conducive to the development of the productive forces,¹¹⁹ and

¹¹⁵ Guangming Daily, 19.5.1982.

¹¹⁶ Su Shaozhi. Marxism in China, Nottingham: Spokesman, 1983.

¹¹⁷ See Jin Yu, Chen Xiankui. op.cit., p.152.

¹¹⁸ Beijing Review, No.23, 8.6.1981, p.21.

¹¹⁹ Beijing Review, No.28, 14.7.1978, p.8.

that relations of production might be too far in advance of the productive forces, then it became possible to go back to earlier forms of social organizations without acknowledging that one was fostering capitalism. For example, it was even argued that although the individual economy and the 'SEZs' are not socialist, they contribute to increasing output and thus contribute to consolidating the socialist system.¹²⁰

The conceptualization of the idea that "China's socialism is still in the primary stage" therefore could be understood as the attempt to provide a kind of justification for any practice that is conducive to the development of the productive forces and the earlier realization of the four modernizations.

Together with the discussion on China's developmental level and attempt to justify the reform policies, efforts were made in helping people to rethink and reevaluate capitalism.

In Mao's era, people were told that imperialism (the last stage of capitalism, according to Lenin) was decadent and moribund, that the Western capitalist countries were all caught up in deadly crisis in all fields, that the socialist system would eventually replace the capitalist system, etc.. However, when people had the opportunity to see capitalism for themselves through the "open door", they found that their understanding of capitalism was utterly different from the realities in the capitalist world. This naturally prompted them to think again about the nature of current capitalism. Among a series of articles on this theme, the essay by the director of the Hong Kong branch of the Xinhua News Agency offers a frank and systematic exposition on modern capitalism, which was published in Beijing Review in November 1988. In this essay, the author called for the rejection of stereotyped views of capitalist societies, acknowledged that major changes have taken place in their social and economic practices and that they still possess a large potential for developing productive forces. Among other things, the following argument received wide attention: "As well

¹²⁰ Academic Magazine of Jilin University, Feb.1981, p.19.

as developing the productive forces, capitalism has also made some historical contributions to the ideological and political superstructure of capitalist societies." He argued: "It has to be noted, however, that capitalist material advances, as well as those parts of its cultural wealth which are of positive significance, were created by the whole of mankind: the bourgeoisie, the proletariat, intellectuals, farmers and so on. Thus they are the common wealth of the human race." Based on this understanding the author contended:

As socialism can only be built on the foundations of previous social development, and the two systems will exist side by side for a considerable period to come, we should and must learn from capitalism and inherit all the outstanding cultural achievements of human history. Only in this way can socialism be consolidated, improved and developed. Without the cultural heritage of capitalism, there would be no socialism. Socialism can never cut its historical and present ties with capitalism and succeed by isolating itself from the development of world civilization.¹²¹

This viewpoint clearly implies that given that socialist countries are also striving to develop their productive forces and a commodity economy, they should not only employ the capitalist economic system which manifests the objective demands for the socialization of production and the development of the commodity economy, but also accept and assimilate the capitalist social systems and values which better suit the productive forces and the commodity economy.

In brief, one of the results of the reevaluation of socialism and capitalism was that the distinction between socialism and capitalism became very hazy, which could not but deepen the crisis of faith in socialism. Throughout the 1980s, comments and discussions as to which road China was following were never absent for long. Some people, Chinese as well as non-Chinese, would judge that China was going capitalist. The conservatives would accuse the reformists of practising

¹²¹ Xu Jiatun. "Reevaluating Capitalism", Beijing Review, Nov.14-20. 1988, pp.18-20.

capitalism only behind the facade of socialism. However, what should be noted is that the blurring of the distinction between socialism and capitalism and the crisis of faith in socialism, especially among the young people, were not beneficial to the fundamental interest of the reformists either. Therefore, during the ten years, whenever the situation developed to the point that the reformists thought things were going too far and the radical leftists could amass adequate power to unleash an attack, backlashes would occur, which certainly disrupted the on-going economic reform and opening-up.

IV IDEOLOGICAL INFLUENCE ON THE OPENING-UP AND ECONOMIC REFORM

In speaking of the ideology vis-à-vis the opening-up and economic reform, many people raise the question whether ideology really mattered in China's development in the 1980s? Without carrying out the kind of ideological and political transformations that Mr. Gorbachev did in the Soviet Union, had not China done quite well in the economic reforms and opening-up?

Undeniably, with the shift in the central task from class struggle to economic construction in the post-Mao era, official ideology can no longer dominate all aspects of people's life, people now care more about effects and aims rather than principles and means. As Orville Schell observed:

While a few older Party cadres still struggled to rationalize these radical changes in Marxist terms, most younger cadres (many of whom had been abroad to study) seemed not only uninterested in the contradiction from a theoretical perspective, but a little irritated at being reminded of China's continued insistence that it was a socialist country. In their rush to a new future, they brushed aside China's socialist past as if this aspect of their country's persona were a bothersome, somewhat embarrassing detail they now wished everyone would forget. What interested them was managing and using the exciting new financial instruments of bankruptcy and stocks and

bonds to create maximum productive power.¹²²

Many radical reformers, and the liberal economists and political theorists, such as those once gathered by Zhao at the Institute for Structural and Economic Reform, obviously favoured the strategy of inconspicuously and quietly taking the necessary steps to shift China's economy towards a market-oriented one without rousing too much public discussion concerning economic theory and systems and without going into open confrontations with the hard-line conservatives and leftists. They hoped "such a strategy would allow them to weaken the old ideology to the point where it would ultimately topple of its own accord before anyone got around to labelling what they were doing as the theoretical heresy that it actually was."¹²³

While I agree that China did achieve remarkable successes in the 1980s, I would argue that ideology did matter and could still have a crucial role to play in China's future.

It mattered because, firstly, without having broken through the ideological forbidden zones and jettisoned the leftist dogmas at the end of the 1970s, the radical shift from Maoist development strategy to the reformist and opening-up policies would have been inconceivable.

Secondly, if the younger generations tended to ignore or make light of the significance of ideology, the older generations, especially the first generation of the revolutionaries (in their late 70s and 80s in the 1980s), did care a great deal about ideology; it mattered very much to them as to which road China was following. Given that in the ten years it was still these "old revolutionaries" who made the most important and final decisions in the country, their ideologically oriented world outlook and the intense debates and

¹²² Schell, Orville. Discos and Democracy, New York: Pantheon Books, 1988, p.53.

¹²³ Ibid., pp.54-55.

struggles over the ideological problems in the top leadership certainly exerted great impact on the formulation and implementation of the economic reform and opening-up policies.

Thirdly, the tactics adopted by some more radical reformers of avoiding political and ideological confrontation but quietly carrying out the practical changes, conversely, proved the crucial significance of the ideology. And while this piecemeal, pragmatic tactic had its advantages and had worked quite well, the costs and weakness of it were also obvious. To a great extent, it deprived the reformers, as well as China, of a public stage on which to think out loud and formulate a comprehensive and understandable vision of China's economic future. Again as Schell observed:

China's economy was being rebuilt in a very piecemeal fashion. But what the design of this new economy was ultimately going to look like, how all (the economic mechanisms) borrowed from other economic systems were going to fit together to create a new and operable whole, remained an imponderable, so that sometimes it seemed that the whole process of economic reform would end up as nothing more than a chaotic jumble of spare parts, each adopted from elsewhere to solve a specific problem, but with no internal consistency.¹²⁴

So when the cause of opening-up and reform ran into grave difficulties in 1988, with inflation rapidly soaring up to double digit figures, with corruption running rampant and with social disaffection and tension becoming increasingly intensified, people began to ask why the reform and opening-up had got into such a state and what had gone wrong. Among the discussions and debates, more and more people, especially the young and middle-aged intellectuals came to believe that what was lacking was the fundamental transformation of the basic political and economic systems as well as the cultural value system.

¹²⁴ Schell, Orvill. *op.cit.*, pp.53-54. Of course, some people would argue that the "piecemeal fashion" is both a strength and a weakness.

Having discussed the process and difficulties in the post-Mao ideological adaptation, the next part of this chapter will examine how this difficult ideological adaptation process and the half-reformed ideology have influenced the development of the reform and opening-up. First, through the examination of the development of Shenzhen, one of the SEZs, I hope to show how ideological differences and struggles in the leadership could affect both the formulation and implementation of the major decisions and policies concerning the opening-up and reform. Then, through an exploration of the relationship between political reform and economic reform, together with a brief survey of the ups and downs of the political reform, I attempt to show that by impeding the fundamental changes in the basic political system, which were desperately needed for the success of the economic reform, the half reformed and self-contradictory ideology has often thrown the whole opening-up and economic reform cause in doubt.

A. Ideological Impact on the Formulation and Implementation of the Major Policies of Opening-up and Economic Reform - The case of Shenzhen Special Economic Zone

Shenzhen was chosen as the case to show the ideological impact on the formation and implementation of the major policies of opening-up and economic reform for the following two reasons: Firstly, the establishment of the SEZs was the boldest and most significant decision in the ten years, and the SEZs were widely regarded as "the primary vehicles" of the open door and economic reform policy.¹²⁵ Secondly, Shenzhen, which experienced the most rapid development among the SEZs, has been drawing the most attention, and the ideological debates and struggles over its establishment and development have also often been intensive and overt. Therefore, by examining the development of Shenzhen and the ideological struggles over it, I think the ideological

¹²⁵ Huan Guocang. "China's Opening to the World", Problems of Communism, Nov-Dec. 1986, Vol. XXXV.

impact on the opening-up and reform could be well illustrated.

The idea of establishing SEZs was first put forward in 1978, when China began its modernization drive.¹²⁶ The National People's Congress formally approved the special zones of Shenzhen, Zhuhai and Shantou in Guangdong Province in August 1980 by promulgating the "Regulations for the Guangdong Special Economic Zones" and the Xiamen Zone in Fujian province two months later.

During the 1980s, the policy of creating SEZs proved to be one of the most controversial aspects of China's opening-up to the outside world, although it had been advocated and even initiated by no other than Deng Xiaoping himself.¹²⁷

It was quite natural for the development of the SEZs to raise some doubts, debates and disagreements since the establishment of a SEZ in a socialist country is a totally new phenomenon. In fact, in the course of the development of the SEZs, and Shenzhen in particular, a series of problems did arise, and therefore the policies had to be adjusted and changed accordingly.

But what should be noticed is that some of the opposition to the creation of SEZs did not so much stem from the practical problems which had emerged in the process of development as from different visions and beliefs, which questioned or challenged the very legitimacy of the SEZs. And because much of the criticism and attacks originated in the ideological divisions of the top leadership and were aired by some of the top level leaders, the impact on the formulation and implementation of the SEZ policies was substantial.

¹²⁶ Liang Xiang. "China's Special Economic Zones", Beijing Review, Vol.27, No.4, 1984, p.24.

¹²⁷ According to Liang Xiang, then mayor of Shenzhen, Deng Xiaoping, during his inspection of Shenzhen, stated that: "It is I who proposed running the special economic zones...." See "Liang Xiang on Background to Deng Xiaoping's Remarks." Wen Wei Po, 13.7. 1985. p.3. Also see Zeng Jianhui. "The Birth of an Important Political Decision - A New Step in Opening the Country to the Outside World", Outlook, No.24, 11.6.1984. pp.9-13.

In the tortuous development of Shenzhen SEZ from 1979 to 1988, 1984 and 1985 witnessed the most dramatic episodes, therefore my examination will mainly concentrate on the development of these two years while giving some general description of the other periods.

(1) The Initial Period from 1979 to the End of 1983

During this period, Shenzhen's development was surprisingly fast, it developed from a small border town of 20,000-30,000 people into a city of some 300,000. Some 1.9 billion yuan were invested in capital construction, and some 2,500 contracts were signed with foreign investors.¹²⁸ During this period, although the ideological debates over Shenzhen did not reach the fierceness as seen in 1985, opposition and criticism from the leftists were frequently heard. The SEZs were regarded by some people, for example, as "enclaves of capitalism", "self-made concessions"; the policies carried out in the SEZs were condemned as "introducing capitalism into China" and "going capitalist"¹²⁹. In the latter half of 1981, when a nation-wide crack-down on economic crime was launched, some officials from the central government were immediately sent to Shenzhen. On arrival, they asserted that 80% of the cadres in Shenzhen had gone "rotten", and 80% of their income was illegal.¹³⁰ The accusation and attacks were intensified in the short-lived "anti-spiritual pollution" campaign in the winter of 1983. During those days Shenzhen was condemned as a "large dye vat and source of spiritual pollution", and The newspaper of Shenzhen was also severely criticised for its passive and indifferent

¹²⁸ Liang Xiang. "The Policy of Developing Special Economic Zones is Entirely Correct", People's Daily, 29.3.1984.

¹²⁹ Liang Xiang. "China's Special Economic Zones", Beijing Review, Vol.27, No.4, 1984, p.24. Also see Zheng Ming, No.3, 1984, p.6.

¹³⁰ See Zheng Ming, No.3, 8.9.1984.

attitude toward the campaign.¹³¹

A unique phenomenon accompanying the development of Shenzhen was that a great number of visitors from various levels of society and parts of China were attracted by its particularity as well as the controversies over its development. The reactions and assessments of these visitors, especially those from the national top level leadership, would certainly have significant impact on Shenzhen's development.

(2) The Golden Year of 1984

The year 1984 could be regarded as the "golden year" in the development of Shenzhen. In January 1984, Deng Xiaoping made a personal visit to Shenzhen and left with the following comment the "development and experience of Shenzhen prove that our policy for setting up the economic zones is correct". This gave the first most authoritative evaluation of the SEZs, and a national "learn from Shenzhen" campaign was immediately unfolded.

Numerous complimentary articles appeared in the press all over the country. People's Daily published a special issue on Shenzhen. Even Red Flag Publishing House put out a special book on Shenzhen, praising it as "the vanguard of urban reform" and "a miracle in the 1980s China". Shenzhen became so popular that at the Beijing observance of the 35th Anniversary of the Founding of the PRC on October 1, 1984, there was even a Shenzhen float in the parade proudly displaying the slogan of that city's Shekou industrial zone: "Time is money, efficiency is life."

Moreover, in April, justified largely by reference to Shenzhen's experience, the leadership decided, again at the initiative of Deng Xiaoping, to open 14 additional coastal cities to foreign investment on a preferential basis. Besides, the opening-up of three deltas - Chang Jiang (Yangtze River) Delta, Zhu Jiang (Pearl River) Delta and a triangular area in

¹³¹ See Zheng Ming, No.3, 1984, pp.6-10.

southern Fujian province - were also under consideration.

It appeared that the policies of creating SEZs and opening to the outside world had won a decisive victory and that from then on Shenzhen could develop in a much more favourable environment. But this view soon proved to be unduly optimistic.¹³² In fact, 1985 turned out to be the most difficult year for Shenzhen.

(3) The Difficult Year of 1985

The difficulty started with the rapid deterioration of China's foreign exchange situation. During the last quarter of 1984 and the first quarter of 1985, the rapid increase in imports of both production and consumer goods produced a large deficit in China's foreign trade, and the nation's foreign exchange reserves dropped drastically, falling one third within six months¹³³. This weakened the central government's control over the conduct of foreign trade in general and the expenditure of foreign exchange in particular.¹³⁴ Under these circumstances, the central government took a series of measures to regain control over the foreign exchange situation.¹³⁵ Likewise, the operations of the SEZs were also coming under closer, critical

¹³² Actually, from the content of Deng's inscription for Shenzhen, one would have perceived that until then some people, especially among the top leaders, still doubted or opposed the policy of setting up the SEZs, therefore it required no other than Deng himself to claim the correctness of the policy. This clearly indicated that the strength of the opposition was formidable and the policies of opening-up could come under severe attack at some or any time.

¹³³ Zhang Weiyong and Li Jiange. "The Proposal of Depreciation of the Renminbi and Opening to the Market of Foreign Exchange", Research Reports of Economic System Reforms, No.6, Beijing, 1985, pp.1-18. Noted by Huan Guocang in "China's opening to the world", Problems of Communism, Nov-Dec 1986, Vol.xxxv, p.59.

¹³⁴ See John Stuermer, "The Foreign Exchange Situation", China Business Review, Washington, D.C., Jan-Feb 1986, pp.14-17.

¹³⁵ See Fewsmith, Joseph. "Special Economic Zones in the PRC", Problems of Communism, Nov-Dec 1986, Vol.xxxv, p.80.

scrutiny. Some articles began to expose the fact that none of the SEZs had been able to balance its international payments, and all had depended heavily on the central government's supply of foreign exchange¹³⁶. Besides, since the current foreign exchange rate "often makes export trade gain limited profits or even cause huge losses" while making it possible for "import trade to gain huge profits on the domestic market", as concluded by a seminar on the theory and policy of opening to the outside world held in Guangzhou on April 4-9 1985¹³⁷, the SEZs, had reportedly speculated in foreign exchange and made huge profits on the domestic market.¹³⁸

The heaviest blow, however, came from the national leadership. And the most unexpected and alarming comment came from Deng Xiaoping himself. On June 29, 1985, in his meeting with an Algerian delegation, Deng Xiaoping described Shenzhen SEZ as "a new phenomenon of Socialism, an experiment, the success of which remains to be proven", adding "We hope it will succeed, but if it fails, we can draw lessons from it".¹³⁹ Deng's rather reserved attitude compared with his previous full support to the SEZ, indicated the intensity of the debate over policy on the SEZs at the highest level and the pressure that the reformers were facing.

To illustrate this, we could briefly examine Hu Qiaomu's (Chief ideologue in the Party for most part of the 1980s) attitude toward the SEZs. In one of his articles in 1985, Hu sharply criticized the zones, evoking their similarities to the

¹³⁶ Chen Zhaobing. "On Some Criticism of Special Economic Zones", Academic Study, Guangzhou, No.4, 1985, pp.40-48.

¹³⁷ Lin He. "Roundup of the Seminar on the Theory and Policy of Opening to the Outside World", People's Daily, 17.5.1985. p.5.

¹³⁸ Zhang Ge. "On Several Issues of the Special Economic Zones and Coastal Open Cities", Development Research, No.2, 1985, pp.22-24.

¹³⁹ Xinhua. 29.6.1985. (trans.) in SWB 1.7.1985. FE/7991/A4/2.

foreign enclaves in the 19th century treaty ports. He wrote,

SEZs are not Special Political Zones. Foreign-owned enterprises are not concessions. No matter the enterprises are joint ventures or foreign-owned, they must all abide by Chinese law. The concessions in Old China were also created by foreign companies and factories at the beginning. The Qing dynasty's indifferent attitude toward the concessions made it possible for the concessions to evolve into the extraterritorial concessions.¹⁴⁰

Hu even suggested that the present Chinese government had also gone too far in yielding to the "inordinate demands". Again, during his inspection of Xiamen in early 1985, Hu said, "The Communist Parties in the West are all legal except in the United States, and they can organize activities in the enterprises." He asked: "why are Party organizations prohibited from being set up and organizing public activities in the foreign investment enterprises in socialist China?" He urged: "Do not yield to the inordinate demands so readily, it is both unnecessary and meaningless. Moreover, Hu condemned some foreign businessmen show no respect for Chinese unions and "forget even the laws of their own countries when they come to the SEZs"¹⁴¹

Hu Qiaomu's remarks about the Party's leadership in the foreign owned enterprises were also seen as being directed against Hu Yaobang, then General Secretary of the CCP, for at that time, Professor Chen Shubai from Hong Kong was making preparations for the setting up of an experimental university in Shenzhen, in which no Party committee would be established, and this project had been approved by Hu Yaobang.¹⁴²

In view of some people's concern that, some day, Shenzhen would become Hong Kong, Guangdong would become Shenzhen and the

¹⁴⁰ See Zheng Ming, No.8, 1985, p.10.

Hu's article first appeared in the internal publication Bulletin of Organization and Personnel. It was picked up first by Ming Pao(Hong Kong)and then excerpted in Chinese Legal Affairs Newspaper, Beijing. See Fewsmith Joseph. op.cit., p.81.

¹⁴¹ See Chinese Legal Affairs Newspaper, Beijing, 28.6.1985. Zheng Ming, No.8, 1985, pp.10-12.

¹⁴² See Zheng Ming, No.8, 1985, pp.10-12.

whole country would become Guangdong, Hu Qiaomu reportedly wrote to Xi Zhongxun and Hu Qili, two of the Politburo and Party secretariat members, noting that

Nowadays many magazines catering to vulgar interests, some of which are published in the name of Taiwan, can easily be found in the news-stands in Beijing. They sell well and have a widespread influence. The situation all over the country can be easily imagined. This, in fact, is helping those people who want to turn the mainland into Hong Kong and Taiwan. We must clearly realize that in the realm of ideology, there is a problem of who influences whom between Hong Kong and Taiwan and us. Is it us who influence Hong Kong and Taiwan with socialist and patriotic ideas or is it the capitalist decadent ideas and life style which influence us through the channel of Hong Kong and Taiwan? The answer should only be the former.¹⁴³

The divergence of opinion over the policies of the SEZs and the opening-up at the top level was also revealed by Chen Yun's attitude toward the SEZs. Chen Yun was the only top leader who had never inspected any SEZs. In the initial stage of Shenzhen's development in 1980 and 1981 when the radical reformers gave it their fervent support, extolling it as "the roc that is taking off", Chen Yun's cool comment was: "The primary task for the SEZs is to sum up the experience". And in 1983 and 1984, when Hu Yaobang appraised Shenzhen as "having opened up a new prospect" in his inspection in early 1983 and Deng Xiaoping gave his full support in his inscriptions during his inspection of the SEZs in early 1984. Chen Yun noted: "There are no 'fist'¹⁴⁴ products in the SEZs now, Shenzhen does not have any 'fist' products either".¹⁴⁵ And in the middle of 1985, when China's opening-up policy suffered a number of serious setbacks and Shenzhen was under great pressure, Chen Yun gave his strongest warning to the Party leadership in his written speech to the Disciplinary Committee of the CCP on June 29; he stressed:

¹⁴³ See Zheng Ming, Jan.1986, p.10.

¹⁴⁴ "Fist" products refers to products which can break into the world market and hold ground.

¹⁴⁵ See Nineties (Hong Kong), No.8, 1985, pp.50-58.

We are building socialism and the ultimate aim is the realization of communism. This is extremely important. Under the leadership of the Party Central Committee, the economic construction that our country is carrying out is socialist economic construction; the economic structural reform is also the socialist economic structural reform. Each Communist Party member must always bear in mind that we are striving for the socialist four modernizations, not any other modernizations. What we are engaged in is a socialist cause.¹⁴⁶

In the midst of the 1985 policy debate over the SEZs and opening-up, two historical allegories were published in the central press which also reflected the widely divergent views on the opening-up policy. The first article, written by Chen Xulu, seemed directed against Hu Qiaomu's views, declaring that patriots in modern Chinese history included "those who became the targets of attack for advocating the need to make temporary concessions to foreign countries"¹⁴⁷ The second article written, by Liao Zonglin, rebutted Chen's view, stating that the peaceful attitude of the Qing Court in the years after the 1894-95 Sino-Japanese War had, in fact, encouraged further foreign aggression, "making China a laughing stock in history" and "failing to play the slightest role in protecting state sovereignty and territorial integrity".¹⁴⁸

It is clear that in the 1985 wave of criticism of the SEZs, and Shenzhen in particular, not much was directed against the actual problems that emerged in the process of economic development, and therefore the motive and aim did not seem to uncover the problems and overcome the obstacles so that the SEZs could develop more "healthily" and more smoothly. Instead, much of the criticism centred on ideological problems and it was

¹⁴⁶ People's Daily, 1.7.1985. p.1.

¹⁴⁷ Chen Xulu. "Patriotism in China's Modern History", People's Daily, 2.8.1985.

¹⁴⁸ Liao Zonglin. "On the Question of Patriotism and National Betrayal During the Boxer Rebellion", Guangming Daily, 27.11.1985. See Joseph Fewsmith. op.cit., p.82.

often heavily involved with power struggles among the top leadership. Since in China, "determining national strategy or direction involves deciding fundamental - moral and ideological - principles, not merely adopting a practical policy framework for problem solving,"¹⁴⁹ these criticism and debates couched in ideological terms could produce a significant impact on the practical policies and actual economic development.

The first impact was on people's confidence in the destiny and prospect of the whole cause of economic reform and opening-up. In spite of the numerous declarations by many Chinese leaders that China's policy of reform and opening-up would not be changed or abandoned, many people, both Chinese and foreigners, knew that there existed fundamental differences and conflicts among the leaders over the orientation, pace and scope of the reform and opening-up. These differences and conflicts could, someday, lead to the reorientation or even the abandonment of the economic reform and opening-up. As Lin Li, a journalist from People's Daily, found out, very few cadres at the bureau level in Shenzhen had brought the family with them, for they were not sure what lay in store for Shenzhen and for themselves.¹⁵⁰ A factory manager in Shenzhen once talked about the difficulties he had in making the decision to go to work in Shenzhen. In the "Cultural Revolution" he had been criticized as a "capitalist roader" and suffered a great deal both mentally and physically. So when in 1982 he was to go to Shenzhen to run a joint venture with a foreign partner, his wife would not let him go. It took him a long time to persuade her.¹⁵¹

The debates and struggles over the SEZs in 1985 brought the differences and conflicts among the national leadership into the open. Besides Hu Qiaomu's fierce criticism and attack on the policy regarding SEZs, Deng's sudden backing out of full support

¹⁴⁹ Hamrin, Carol Lee. op. cit., p.1.

¹⁵⁰ Ming Pao, Hong Kong, No.8, 1985.

¹⁵¹ Beijing Review, July 1985.

to a much reserved evaluation about Shenzhen had an effect little short of an "earthquake". People began speculating whether Beijing was about to make some substantial changes in the policies over SEZs. Foreign investors wondered what would happen. And the leaders of the SEZs were put under great pressure.¹⁵²

Although, in retrospect, one could say that Deng made the remarks at that time intending to check and placate the disaffection among the opposition; in claiming that Shenzhen was an experiment, he could be saying that since it was a new phenomenon, mistakes were inevitable, and the experiment should be allowed to continue. At any rate, Deng's retreat, at least, strongly indicated the strength of the opposition and their potential capabilities to challenge the reform and opening-up policies. And therefore, people's lack of confidence in the prospects of the opening-up was well justified.

Secondly, the wave of criticism in 1985, together with the problems emerged in the development of the SEZs, forced the leadership to rethink and redefine the role of the SEZs. Before 1985, the radical reformers tended to regard the SEZs as pivots both for foreign imports and domestic coordination. For example, during his inspection of the Pearl and Yangtze River deltas in November 1984, Zhao Ziyang made it very clear:

The special economic zones, open cities, and economically open zones are the bridgeheads in our opening to the outside world, and they should play the role of a springboard. On the one hand, they should import advanced foreign technology, equipment, and management and operations methods; absorb and digest them; apply them in innovations; and transfer them to the interior. On the other hand, they should sell commodities produced in the coastal areas with foreign technology to the interior, and export the latter's raw materials and produce, with added value after processing here, to the international market, in order to achieve better economic results. In a figurative sense, the special economic zones and open cities are like the intersection of two lines, forming two fan-shaped sectors, embracing the introduction of foreign

¹⁵² For the response to Deng's remarks, see Zheng Ming, No.7-8, 1985, Nineties, No.7-8, 1985.

technology and cooperation with the interior.¹⁵³

However, during the summer of 1985, a series of discussions and decisions concerning the future developmental path of the SEZs rejected the "double-track" orientation endorsed by Zhao, and concluded that the SEZs should be built strictly in line with the requirements of an outwardly oriented economy and industry should be taken as the leading factor.¹⁵⁴ What is being addressed here is not the argument concerning a more rational strategy,¹⁵⁵ but the fact that during the implementation of the reform and opening-up policies major and fundamental reorientation, not just minor adjustment, could occur due, in part at least, to non-economic reasons.

Thirdly, ideological and political factors often made it impossible for localities and enterprises to genuinely and fully concentrate on the economic construction and run the economy in a rational and efficient way. Though the liberation of the economy had been regarded by the reformers as the key to the success of the modernizations, for example, after his 1984 inspection of the SEZs, Deng concluded that the SEZs had made such impressive achievements simply because they had been given a little more autonomy, (and largely in line with this judgment,

¹⁵³ Xinhua, 25.12.1984.

¹⁵⁴ For example, see Liu Guoguang "The Strategic Objective of Developing the Shenzhen Special Economic Zone", People's Daily, 9.8.1985. p.5. Liang Xiang, "Construction and Development in the Shenzhen Special Economic Zone", Economic Daily, 11.12.1985. p.3.

¹⁵⁵ Some people did not agree with the idea of an exclusively outwardly oriented future. Someone argued that if a wall was erected between the zones and the interior, then the SEZs could hardly play their proper role as a "window" for introducing technology, management and knowledge. For example, see Wang Zhuo (of the Guangdong provincial government's Commission for Reform of the Economic Structure) "A Probe into Some Questions on Special Economic Zones", People's Daily, 7.10.1985. and "Have a Clearer Understanding of the Special Economic Zones from Shenzhen's Experience", Economic Daily, 25.1.1986. p.1.

he advocated to open more cities and delegate more power to the regions and enterprises), however, the emergence of the economic difficulties and the policy debate in 1985 led the leadership to quickly tighten its control again. In late June 1985, Gu Mu, a member of the State Council who was in charge of the coastal economic development, announced that China would "give priority" to only four of the 14 open cities, - Shanghai, Tianjin, Dalian and Guangzhou - and temporarily "slow down" the development of foreign cooperation in the other ten.¹⁵⁶ Furthermore, the capital construction budgets of the SEZs were sharply scaled down. In Shenzhen, the funds for economic construction were cut by one third, from an originally budgeted 2.5 billion yuan to 1.6 billion yuan.¹⁵⁷ The leadership of Shenzhen were also reshuffled. In August 1985, Li Hao, previously a deputy secretary of the State Council, replaced Liang Xiang as mayor of Shenzhen. Li Hao was the first leader sent from Beijing rather than from the Guangdong government, which suggested Beijing's interest in tightening central control over Shenzhen.

Also indicative of the change of the ideological and political environment, the once widely publicized and controversial slogan "Time is money, efficiency is life" was, again, seldom heard. Instead, the leaders of the SEZs were found talking about socialist spiritual civilization on many occasions. For example, in a report to a meeting of cadres of organs directly subordinate to the central government held in late autumn 1985, countering the charges of poor management, economic crime, and of allowing Shenzhen to be a "weak link" in the construction of spiritual civilization, Liang Xiang stressed that an "Outline for Construction of Socialist Spiritual

¹⁵⁶ Xinhua, 29.6.1985.

¹⁵⁷ South China Morning Post, 2.7.1985. Cited in Joseph Fewsmith. op.cit., p.81. On April 25, 1985, during his inspection in Shekou Industrial District, Vice Premier Yao Yilin said the SEZs could not continue to depend on "blood transfusions" from the state. Now it is time to remove the syringe needle. See Ming Pao, 4.6.1985. Ming Pao's account was based on coverage in Shekou News.

Civilization in the Shenzhen Special Zone" had been compiled, and that more attention should be paid to the role of trade unions, the Communist Youth League, and women's federations in foreign-invested firms.¹⁵⁸

(4) A Brief Survey of Shenzhen's Development After 1985

By the end of 1985 and the beginning of 1986, various signs showed that Shenzhen had survived the flurry of criticism, and a compromise regarding the orientation of the SEZs had been worked out. Liang Xiang, the replaced former mayor, now the Party Secretary, published a long article in Economic Daily, one of the central dailies, recalling Shenzhen's development in the past and looking forward to its future, putting forward the guideline of "Relying on the hinterland, serving the four modernizations, facing Hong Kong and Macao and Marching toward the world".¹⁵⁹ People's Daily also published a commentator article entitled "Take Business Overseas - Special Economic Zones Should Develop an Externally Oriented Economy", stating that "the outward-oriented economy and the hinterland economy are complementary to each other".¹⁶⁰ The conference on the SEZs convened by the State Council at the turn of 1985/1986 adopted the "outward-orientation" strategy.¹⁶¹ And soon afterwards, the central ministries began to establish some high-technology firms to help the Shenzhen SEZ set up an outwardly-oriented industry.

Generally speaking, the development of Shenzhen after 1985 was steadier. With tighter control over foreign trade and the stepping up of ideological and political work, Shenzhen had been

¹⁵⁸ Liang Xiang, "Construction and Developing in the Shenzhen Special Economic Zone", Economic Daily, 11.12.1985. p.3.

¹⁵⁹ Economic Daily, 11.12.1985.

¹⁶⁰ People's Daily, 1.2.1986. Actually, the Commentator article was the first such authoritative treatment of the SEZ in the Party Daily in over a year.

¹⁶¹ Xinhua, 6.1.1986.

making efforts to strengthen and expand its industry and export capacity. However, criticism and opposition against the policy and development of the SEZs could still be heard now and then and there were always some people looking at and evaluating the SEZs from the point of view of the rigid official ideology.

Just take one of the most widely noticed events, the so-called "Shekou accident", for example. On August 6, 1988, three "experts" in the ideological education of youth from Beijing came to talk to the local youth in Shekou, an industrial area in the Shenzhen SEZ. At the beginning of his speech, Educator Qu Xiao,¹⁶² assured the audience that "Shenzhen is not a kite lost through a broken string in the sky of the socialist motherland; Shenzhen is a magnificent eagle flying through the skies following the socialist navigation lane," the young audience were definitely not impressed. One of them immediately stood up and interrupted him: "There is definitely no market for you to come here and propagandise. We will never listen to what you have to say, we are here to make money. There is no such thing as ideals or making contributions to the state." According to the People's Daily, as the debate grew heated, one "expert" confronted a youth and asked: "Would you dare to tell me your name?" The audience laughed and the youth immediately presented his business card.¹⁶³

What was striking about the "Shekou Incident" was the boldness of the youth and the change of attitude brought about, at least partly, by the economic reform and opening-up. As a youth in Shenzhen said to a reporter from the People's Daily : "We have more freedom here, and the central government is far away. Even if I swear at you, no one will come to interfere. My

¹⁶² Qu Xiao, a vice professor in Shenyang Industry College, was put in prison during the Cultural Revolution. He became famous by giving speeches to the youth all over the country after his release in the early 1980s, expressing his unchanged loyalty to the Party despite the ill-treatment by the Party.

¹⁶³ See People's Daily, 14.9.1988. As for the comment on the event, see Far Eastern Economic Review, 27.10.1988. p.14.

Hong Kong boss will not fire me for this."¹⁶⁴ The discussion and debate generated by this incident not only explored the problems of generational conflict and its implications for the Party's political work, but also raised the question, once again, of the impact of the reform and opening-up, especially on the young generation. The educators' comments clearly revealed the psychological threat reforms have posed for many Party cadres. When Qu Xiao was described by some as "a typical obedient tool", he said: "Even today, I do not believe that my concepts are outmoded."¹⁶⁵ And conceivably, the incident provided ammunition for some to criticize and attack the policies of the SEZs in particular, and the opening-up strategy in general.

To conclude, Shenzhen's experience clearly shows that in the process of China's economic reform and opening to the outside world, ideological debates and struggles never ceased and could sometimes be very fierce. And since many of them occurred among the top leadership and were closely related with power struggles, the ideological conflicts have exerted their impact on the formulation and implementation of the major policies of economic reform and opening-up. As the above examination and analysis of Shenzhen's experience suggests the impact could bring about a major re-orientation of the developmental strategy; a slow-down or abandonment of some important plans, and a diversion of the whole-hearted attention on the economic construction. The most significant and long-term impact, however, was on people's confidence in the prospect and future of the reform and opening-up. Through the serious controversy over the policy regarding the SEZs, one can see that the challenge from these conservatives on important aspects of

¹⁶⁴ See Far Eastern Economic Review, 27.10.1988. p.41.

¹⁶⁵ People's Daily received thousands of letters following its initial account of the incident, some of which were published on 14.9.1988.

the reforms remains significant. And since the long-term viability of Deng's program rests heavily on scoring continuous and impressive economic achievements and on the ability to control effectively the problems arising in the course of the reform and opening-up, any major economic setbacks and serious social crisis could jeopardize the whole reform cause.

B. Ideological Constraint on the Fundamental Political Reform and its Impact on the Economic Reform and Opening-up

The 1980s has often been called the decade of building the four modernizations (agriculture, industry, defence and science and technology). But these four are only part of modernizations China needs. To build China into a prosperous and powerful country, an over-all transformation is needed including the economy, politics, culture, education, etc.. Economic reform alone is far from enough. Firstly, the post-"Cultural Revolution" crisis was an over-all crisis. Secondly, the communist rule was a highly centralized system; there was no genuinely independent economic system to speak of and therefore, without simultaneous institutional and political reforms economic reforms in the long run could hardly be sustained.

Although in the 1980s the reformers had largely managed to sustain the momentum of the economic reform and opening-up and made many impressive achievements, many social and political problems worsened. Indeed, by 1988, the crises had become so severe that "the Communist Party's rule was compared - in the public mind at least - to the last years of Kuomintang (KMT) rule in the late 1940s."¹⁶⁶ And the Third Plenum of the 13th Party Congress held in September 1988 adopted the policy of retrenchment, which marked the virtual stopping of the large-scale economic reform process, although "the deepening of the economic reform" was also talked about at the same time.

The causes of the economic difficulties were undoubtedly multiple and varied. Certain problems were bound to occur, and

¹⁶⁶ Far Eastern Economic Review, 27.10.1988. p.36.

should be regarded as the basic costs any country must pay in the process of transforming its rigid economic system into a (even partly) market-oriented one and transforming its society from a relatively closed to an open one. But some problems were undoubtedly caused or exacerbated by the old political structure and system, which failed to meet the requirements of the changing economic situation.

Through a very brief survey of the ten years' development of both the economic and political reforms, this section seeks to show: (a) the phenomenon of the political reform lagging-behind the economic reform; and (b) the economic consequences caused by this gap. Then, by looking into the main factors that had caused the delay and wavering of the political reform, I seek to argue that the rigid Communist ideology was one of the most important factors that had impeded and restricted the political reform and therefore, indirectly, constrained the economic reform and opening-up.

(1) The Faltering Political Reform and its Impact upon the Economic Reform

China's ten years' reforms since 1978 can be divided into three periods.

a. The first period from 1978 to October 1984

During this period, the economic reform was chiefly carried out in the countryside. "The system of contracted responsibility for production with remuneration linked to output" was gradually established throughout the countryside. At the same time, in the cities, some preliminary experiments in the economic structural reform were also carried out, with the stress put on giving localities and enterprises more autonomy in decision-making."¹⁶⁷

In the political sphere in this period, China experienced the first high tide of political liberalization in 1978-82.

¹⁶⁷ Zhang Yanning "China's Economic Structural Reform", People's Daily, 5.11.1988. p.3.

Besides seeing an economic rationale for a transformation of the political structure, Deng and some other leaders also realized that despite the purge of the "Gang of Four" and the restoration of political stability, there was still a serious "crisis of confidence" throughout the society. And without reshaping the structure of political life in ways that would create a greater degree of democracy and legality, popular support for the regime could not be rebuilt.

In August 1980, at an expanded session of the Politburo, Deng Xiaoping made an important speech entitled "The Reform of the Leadership System in the Party and the State", which was widely regarded as the programmatic document for political reform. In the speech Deng severely attacked the Party's ossified and stultifying structure: "As far as the leadership and cadre system of our Party are concerned, the major problems are bureaucracy, overconcentration of power, patriarchal methods, life tenure in leading posts, and privileges of various kinds." Besides, Deng also alluded to the need to develop a high degree of democracy, arguing that it was important to make sure that the people genuinely had the power of supervision over the state in a variety of ways. In particular they were "to manage the state organs at all levels, as well as the various enterprises and undertakings."¹⁶⁸

Accordingly, during the early 1980s a number of initiatives were taken to reform the political system, including the adoption of the new Party and State Constitutions, measures to trim the bureaucracy, attempts to improve the quality of the cadre force, and steps to promote effective citizen participation.¹⁶⁹

However, due to the interaction between the attempts by conservative leaders to check and suppress intellectual deviance

¹⁶⁸ Deng Xiaoping. Selected Works of Deng Xiaoping 1975-82, Beijing: People's Publishing House, 1983.

¹⁶⁹ See Benewick, R. and Wingrove, P.(eds.). Reforming the Revolution, Macmillan Education 1988, Chapter 3, "Political Participation" by Robert Benewick.

and the corresponding efforts by more reform-minded officials to limit the effects of political liberalization and democratic movements, and the fear of losing power by both of these groups, substantial political reform never really got under way. Actually several major events happened at the beginning of the 1980s, both internally and externally which helped to dissuade Deng Xiaoping from pursuing the political reforms.

Internally two events took place. The first was the grassroots democratic movement, the so-called "Xidan Democratic Wall" movement, at the end of the 1970s. Although allowed to flourish for a while, it was finally suppressed in the spring of 1981 with its main activists sentenced to terms of up to fifteen years' imprisonment. And a campaign against "bourgeois liberalization" was unleashed in the summer of 1981.

The second was the unexpected development of the local municipal elections in late 1980. There were at least twelve elections in which Democracy Movement activists participated.¹⁷⁰ The most spectacular of these took place in the election district constituted by the Hunan Teachers' College in Changsha, where unlawful interference in the election by Party officials led to serious unrest as students boycotted classes, went on hunger strike and held public demonstrations.¹⁷¹ Consequent upon the experience of the 1980 elections, the election law was hastily revised. Among the revisions, the ambiguity about the right to campaign was noticeably removed; the right to campaign is now restricted to nominators being allowed to brief group meetings only.¹⁷² As a result, the 1984 election was treated as a low-key affair.¹⁷³

Externally was the outbreak of the Polish crisis, as

¹⁷⁰ Nathan, A.J. Chinese Democracy, New York: Alfred Knopf, 1986.

¹⁷¹ Benewick, R. and Wingrove, P. op.cit., p.65.

¹⁷² "Electoral Law for the NPC and Local People's Congresses", National People's Congress, 1986. See SWB: FE 8437

¹⁷³ Nathan A,J. op.cit., p.223.

described earlier in the chapter. The Solidarity Trade Union Movement posed a powerful challenge to the leadership of the Polish Communist Party, who had to impose Martial Law in the end to defend its rule.

Until 1984, since the economic reform had been mainly carried out in the countryside -- vast but peripheral area in China's political life - and many dramatic and very impressive achievements had been made, the national leadership, especially the radical reformers among them still enjoyed the wide support of the general public. This was spectacularly demonstrated by the banner of "Hello, Xiaoping" held by the Beijing University students in the 1984 National Day parade in Tiananmen Square.

Nevertheless, the delay and wavering with regard to the genuine political reform in the first half of the 1980s did not only lose many precious opportunities of fundamentally transforming the old political system in the post-Mao era, but failed to prepare the right political environment for the overall urban economic reform. Therefore, once the focus of the economic reform was shifted to the cities - the centre of the national political life - a great number of problems cropped up in rapid succession and the whole program of reform and modernizations itself was immediately put under great pressure and even threat.

b. The second period from October 1984 to September 1987

This period began with the October Central Committee decision on urban reform of 1984. From then on, great attention was focused on urban reforms, with the aim of creating a "socialist planned commodity economy". Enterprise autonomy was vigorously emphasized and planning was shifted even more towards a guiding as opposed to a directive role. The enterprise director's role was to be strengthened through the introduction of the "factory director responsibility system". Change in the wage system was advocated to bring pay more into line with enterprise and individual performance. Price reform was seen as an essential component of the reform. It was quite evident that

urban economic reforms would be much more complicated and difficult. Actually, almost immediately after the reform program was set in motion in the final quarter of 1984 and the first quarter of 1985, the economic reform and opening-up policies suffered a number of serious setbacks: the economy was over heating; inflation soared, especially in cities, as a result of the decontrol of meat and vegetable prices; both investment and consumption rose rapidly, fuelled by internal bank credits, wage rises and a rundown of foreign exchange reserves as the import of consumer and capital goods increased sharply.

Together with these economic difficulties, various maladies and malpractice became more and more severe and widespread. Abuse of power, corruption, speculation and profiteering by officials and their offspring ran rampant, which not only severely impeded the smooth development of the economic reform and opening-up but also dampened the enthusiasm of the ordinary people for the reform and deepened the crisis of confidence in the leadership.

The constraining effect of the political and institutional system on the economic reform was also obviously demonstrated in the bitter experience many reformist entrepreneurs encountered. It was common sense that without a great number of ingenious and brave entrepreneurs putting theories and policies into practice and blazing new trails, the success of China's economic reform was inconceivable. Yet reality showed that neither the emergence nor the survival of the entrepreneurs that the economic reform badly needed was an easy thing. Wen Yuankai, a well-known reformist intellectual of the Chinese Science and Technology University, conducted a survey in 1986 on the "national best young and middle-aged factory directors" elected in 1985; he was surprised to find that, except for a few who had really violated the law, half of the young directors had been removed from their posts by 1986.¹⁷⁴

The problem had become so severe that the first half of

¹⁷⁴ See Zheng Ming, September 1986. pp.8-10.

1986 saw a spate of press reports describing cases of hindrance and even outright persecution of enterprise reformers. Just take one example: on April 24, Economic Daily described the experience of Yang Mingjian, director of Taiyuan Solvent Factory. Shortly after he became the director in 1979, Yang carried out a series of bold reforms and the factory soon took on a new look. For three years, his factory was named a "model enterprise". Just as the factory was making greater progresses under Yang's management, in 1984 a work team was suddenly sent to the factory by Taiyuan Chemical Rubber Industry Company. They came to inquire into Yang's so-called "economic problems" as alleged in an anonymous letter. The conclusion of the investigation was that Yang had accepted a bribe of more than 600 yuan and should be removed from his office. In January 1985 Yang lost his job. This event evoked wide repercussions and began to worry many other directors and managers in Taiyuan worrying. Then, in September 1985, according to the directives of the leaders in Taiyuan Party Committee and Shanxi People's Procuratorate, Taiyuan People's Procuratorate reexamined the case and found out that the allegation of bribe-taking was "absolutely groundless" and Mr. Yang was reinstated in his former office. In covering this affair, Economic Daily published a commentator's article. It pointed out that: "Recently, in some places and departments, many reformers have run into great difficulties. Some were censured and reproached, some were caught by rumours and slander, and some were even removed from office or transferred to some other posts." The commentator urged people to give much more concern towards the destiny of the reformers.¹⁷⁵

The question remains as to why many reformers could be so easily victimized through anonymous letters, slander and frame-up? The chief cause lay in the political structure and system. Despite the efforts and progress in the democratization and legalization of the political life since the end of the 1970s,

¹⁷⁵ Economic Daily, 24.4.1986.

China was still a country ruled by man, not by law. That is why many so-called economic crimes in the enterprises were not investigated and dealt with by the legal departments, but by the Party organizations. Considering that in China there does not exist a set of rational and effective procedures for the supervision, promotion and demotion of cadres, all of whom are dependent on the nature and degree of relationship a cadre has with his superior and how much trust he enjoys. Therefore, the best way for a rival to knock down his opponent is to do something to damage the opponent's reputation and image in the mind of the superior authorities. That is why rumours, slander, framing, anonymous letters, etc. are so prevalent and effective. Those high-ranking officials who are very much divorced from reality, are often fond of listening to reports from various channels. To show their authority and serious concern about the matter, high-ranking leaders would send an investigation team to the specific unit. Sometimes the investigators could be biased or simply failed to get at the whole truth, thus reaching the wrong conclusions and making some unjust verdicts.

By mid 1986, the environment for the economic reform had become so unfavourable, the obstructive effect of the political structure and system had become so obvious that Deng Xiaoping himself began to reemphasize the political reform which had been held in suspension from 1982. In his speech at the Standing Committee of the Politburo of the Central Committee on June 28, 1986, Deng pointed out:

In the final analysis, all our other reforms depend on the success of the political reform, because it is human beings who will - or will not - carry them out. For instance, we encourage devolution of powers, but other people take powers back. What can we do about it? ...The reform of the political structure and the reform of the economic structure are interdependent and should be co-ordinated. Without political reform, economic reform cannot succeed, because the first obstacle to be overcome is people's resistance.¹⁷⁶

¹⁷⁶ Deng Xiaoping. Fundamental Issues in Present-day China, Beijing: Foreign languages Press, 1987, pp.147-148.

Deng's speech demonstrated that the main reason for his renewed willingness to talk about political reform was the fear that the economic reforms were in danger of reaching an impasse. Reform of the political system was seen as necessary for the development of the economy. "Such thinking", as Saich pointed out "while opening up the potential for reform, immediately set limits to the nature of that reform. Reform was seen as a tool for the development of the economy, so that the only political reforms necessary were those which oiled the wheels of economic modernization."¹⁷⁷

Compared with Deng, many academics, Party theoreticians and even some radical reformers in the leadership would rather go further. Besides recognizing the necessity and significance of the political to the economic reform, they also believed that further political reform and liberalization were needed to prevent the abuse of power by Party and state officials, to create greater stability, and to make government more responsive to the will of the citizens, so that the confidence of the general public in the government and the system could be restored and sustained.

So with Deng's reemphasis on the political reform (in fact, he resurrected his own speech made in August 1980, as mentioned before), with the other Party leaders' advocacy and support,¹⁷⁸ and coinciding with the thirtieth anniversary of the setting

¹⁷⁷ Benewick, R. and Wingrove, P. op.cit., p.29.

¹⁷⁸ For example, at one of the April ceremonies commemorating the Double Hundred Flowers Movement in 1986, Hu Qili, a member of the Politburo called for "the creation of a democratic, harmonious, and mutually trusting environment." See Xinhua Digest May 1986. At a May Day speech, Hu Yaobang, then the General Secretary of the Party, also described modernization not just as an economic phenomenon but as a "comprehensive, far-reaching revolution" that ought to affect "people's thoughts and concepts, spiritual state, and ways of thinking" See People's Daily, 2.5.1986.

forth of the "double hundred" principle,¹⁷⁹ the spring and summer of 1986 witnessed a rapid unfolding of a discussion and debate on political reform throughout the country. To show its unprecedentedness and boldness, let us just examine some of the speeches given by some radical reformers in the central leadership.

In a speech published in the Party journal Outlook analysing the relationship between discipline and the need for creative freedom in art and literature, Zhu Houze, head of the Propaganda Department, said "As our country has not yet outstripped the world's most advanced capitalist countries in many different fields, it is difficult not to wonder whether we can believe in socialism and communism, and whether the social, economic, and political problems we face can be solved better than by the ways found by capitalist countries." Then, after some obligatory rhetoric about the need to adhere to the Four Cardinal Principles as general concepts, he went on to admit that China still confronted the "problem of choosing a political road to follow."¹⁸⁰ As Orvill Schell commented:

For China's chief of propaganda even to intimate that China's political direction was still unchosen was a startling admission, to say the least, and a clear signal to China's intellectuals that such free thinking was now in order on China's road to modernization. Zhu seemed, after all, to be saying that it was all well and good to keep the Four Cardinal Principles around as a kind of socialist comfort blanket, but that the real question of what kind of political system China should adopt was still up for grabs.¹⁸¹

¹⁷⁹ "Let a hundred flowers blossom and a hundred schools of thought contend", a policy set forth by Mao for promoting the progress of the arts and the sciences and the development of a flourishing culture.

¹⁸⁰ Outlook (Overseas Edition), No.18, 1986. Zhu Houze was removed in early 1987 during the anti-bourgeois liberalization campaign.

¹⁸¹ Schell, Orville. op.cit., p.26.

In August, Vice-Premier Wan Li, another staunch reformer, and a member of the Politburo, gave a speech entitled "Rendering the Decision-making Process Democratic and Scientific Is an Important Task of the Reform of the Political System." In this, he strongly argued that:

The style of subjectivism, opinionatedness and authoritarianism in past decision-making must make way for the spirit of research and study, democratic discussion, and collective leadership. ... In a modernizing society, science and democracy are inseparable. ... Without democracy, there can be no respect for knowledge, human talent, or creativity. ... We have not yet established a rigorous system and procedure for making policy. We do not yet have an adequate support system, consultancy system, appraisal system, supervision system, and feedback system for that purpose. As a result, there is no scientific way of testing the soundness of a policy decision.... and [without changes] our socialist system will remain imperfect and the national economy will not be able to develop continuously and steadily.¹⁸²

Yet when the discussions and debates touched upon controversial issues such as the extent to which the modernization process should entail the absorption of values and institutions from the West; the relationship between economic modernization and democracy; the way to reform the paramount leadership of the Party and the introduction of political pluralism etc., political reform became a divisive issue among the top leadership. At the Beidaihe meeting in August 1986, some veteran leaders expressed the view that they could agree on the need to reduce what had become the Party's own stranglehold on power, but did not think it proper to specify the division of power between the Party and government, which, they argued, could lead to the weakening and negation of the Party's leadership and the violation of the "Four Cardinal Principles". Some even contended that China's current political system was basically suited to the needs of economic development.¹⁸³ As a result, instead of making a decision on political reform, as had

¹⁸² Xinhua Digest, No.10, 1986, pp.1-6.

¹⁸³ Nineties, No.200, 1986.

been widely expected, the Party's Sixth Plenum in September 1986 passed a resolution on the need to improve work in the ideological and cultural spheres. In the course of the drafting and redrafting of the report, both the liberals and conservatives tried to shape the document in ways that would support their position. One of the heated bouts of negotiation was over whether or not to insert criticism of "bourgeois liberalization", and the final resolution was a compromise.

The wave of spontaneous demonstrations that swept through a score of China's largest cities in December 1986 precipitated the showdown in the intense political struggle. When the student demonstrations shifted focus from local campus issues to the theme of "freedom" "democracy" and political reform, the Party moved quickly to suppress the protests. Several intellectuals, famous for their outspokenness in their criticism of the Party and their demands for political liberalization, were expelled from the Party. The ensuing intense propaganda campaign against "bourgeois liberalization" "complete Westernization" and "national nihilism" and the forced resignation of Party General Secretary Hu Yaobang in January 1987 did not only lead to the collapse of the arrangements for the succession to Deng Xiaoping but also disrupted and stopped the political reform process that had barely begun.

c. The Third Period from Oct. 1987 to Sept. 1988

Largely thanks to the resistance by the radical reformers represented by Zhao Ziyang, the anti-bourgeois liberalization campaign did not disrupt too badly the economic reform and opening-up process.

By September 1987, when the 13th Congress of the CCP was held, the reformers seemed to get the upper hand again. The Congress approved a detailed political reform programme and set about the task of carrying out comprehensive political as well as economic reforms for the whole Party. Soon after the Congress, radical prices and wages reforms speeded up, new experiments in building stock and bond markets and transforming

China's enterprises into limited companies on the basis of the contracting system were also under way.

However, by this time, many of the deep-rooted and chronic economic and social problems had become even more exacerbated; moreover many of the new malpractice that had emerged during the reform and opening-up process were also rampant. The situation came to a head when the price reform sent most of the cities throughout the country into panic purchasing in the summer and early autumn of 1988, which forced the leadership to bring the price reform to an abrupt halt. Conceivably, the reformers, especially the radicals like Zhao Ziyang, were put under great pressure. The whole political environment turned extremely unstable, and some serious overall social crises were soon to break out.

(2) Communist Ideology Is One of the Main Constraints on China's Political as Well as Economic Reforms

The above description has demonstrated that the tension between conservatives and reformers and the faltering political reform were among the most important reasons that gave rise to a series of cycles, or waves, in the economic reforms and opening-up in the 1980s. Here I would further argue that without a fundamental transformation of the old Communist ideology, real political reform can hardly be successfully carried out. By real political reform, I refer to, among other things, the replacement of rule of man by rule of law, the establishment of mechanisms that can effectively supervise and check the power of the Party and the state, and the institutionalization of political pluralism, etc., rather than administrative and organizational adjustments such as the division of the functions of the Party and the government, the streamlining of the institutions and bureaucracy, etc.. Only real political reforms can sustain and ensure the progress and success of the administrative reforms as well as the economic reforms.

Then, what are the main factors that prevented ideology from being fundamentally transformed?

a. The limitations of Deng Xiaoping, China's Chief Architect of the reforms

In a Communist state, such as China, all the major and most significant decisions are made by a small number of senior leaders. Moreover, there is always a paramount leader who has the final say. In post-Mao China, Deng Xiaoping emerged as China's paramount leader, or as he is often called, "the chief architect of China's modernization cause", although he did not possess absolute authority as Mao had done. Evidently, a paramount leader's determination, courage, and especially his vision can exert crucial influence on the overall orientation of a country's development.

In the post-Mao decade starting from 1978, two great events should chiefly go to Deng Xiaoping's credit. First, he initiated the mind-emancipation campaign and put China on the path of the economic modernizations. Second, he opened China's door to the outside world and set China onto the initial stage of integrating its economy with the world economy.

But, as one of the first-generation Communist revolutionaries, Deng's philosophy and vision determined that it was beyond him to bring about the fundamental ideological changes that were essentially required by the political and economic reforms.

Firstly, Deng helped smash some of the old ideological taboos and enter forbidden zones but set some new ones himself.

Reviewing Deng's speeches and writings, one could see that if at the end of the 1970s and the beginning of the early 1980s, he was advocating and emphasizing the importance of "emancipating the mind, seeking truth from facts", then later, especially after the mid-1980s, he was often found to be emphasizing the significance of adhering to the "Four Cardinal Principles" and the necessity of opposing bourgeois liberalization and spiritual pollution. Accompanying this, the leadership was found, on many occasions, to be going against the principles and ideas advocated earlier by Deng.

For example, in his famous speech "Emancipating the Mind,

Seeking Truth from Facts and Unite as One in looking to the Future"¹⁸⁴ Deng expounded the causes that led to the rigidity of the mind. He said, because Lin Biao and the Gang of Four set up ideological taboos or "forbidden zones",

no one was allowed to go beyond the limits they prescribed; anyone who did was tracked-down, stigmatized and attacked politically. In this situation, some people found it safer to stop using their heads and thinking questions over.... Also because democratic centralism was undermined and the Party was afflicted with bureaucratism resulting from over-concentration of power. This kind of bureaucratism often masquerades as 'Party discipline', 'Party leadership', 'Party directives', 'Party interests', but actually it is designed to control people, hold them in check and oppress them. At that time, many important issues were often decided by one or two persons. The others could only do what these few ordered.¹⁸⁵

In talking about the attitude and policy toward the masses and the ideological problem, Deng said:

The masses should be encouraged to offer criticism.... One thing a revolutionary party does need to worry about is its inability to hear the voice of the people. The thing to be feared worst is silence.... In dealing with ideological problems we must never use coercion but should genuinely carry out the policy of 'letting a hundred flowers bloom, a hundred schools of thought contend'. We must firmly put a stop to bad practices such as attacking and trying to silence people who make critical comments - especially sharp ones - by ferreting out their political backgrounds, tracing political rumours to them and opening 'special case' files on them.... No leading comrades at any level must ever place themselves in opposition to the masses.¹⁸⁶

Anyone who is familiar with China's past ten years, would be somewhat amazed to detect similarities between what the leadership was doing in the late 1980s and what Deng opposed at the end of the 1970s.

Just take one of Deng's speeches at the end of 1986 for example. It is a talk made to some leading members of the

¹⁸⁴ Maxwell, Robert (ed.). op.cit., p.ix.

¹⁸⁵ Ibid, p.63.

¹⁸⁶ Ibid., pp.65-67.

Central Committee of the CCP at the time of the students' movement at the end of 1986. At the very beginning of this talk Deng said: "Firm measures must be taken against any student who creates trouble at Tiananmen Square. We must resolutely impose sanctions on Fang Lizhi, Liu Binyan and Wang Ruowang,¹⁸⁷ who are so arrogant that they want to remould the Communist Party." He criticized those leaders both at the local and central level who "took a laissez-faire attitude towards bourgeois liberalization." "When a disturbance breaks out in a place, it is because the leaders there did not take a firm, clear-cut stand. We have to admit that on the ideological and theoretical front both central and local authorities have been weak and have lost ground." Instead of advocating "emancipating the mind," Deng lay special emphasis on "the need for high ideals and strict discipline."¹⁸⁸

Secondly, if Deng had adopted a relatively pragmatic attitude towards China's economic reforms and had demonstrated great boldness and confidence by initiating many economic changes, in the ideological and political spheres he had adopted a much more reserved and cautious attitude. And even when he did talk about ideological and political reforms, he always viewed them from the angle of serving the economic reforms.

After all, Deng began all the post-Mao changes by so-called "Bo Luan Fan Zheng" (putting right things which had gone wrong). To Deng and many other Communist leaders, China's political system was basically good; the problems were created by mistakes and the destructive policies of Lin Biao and the "Gang of Four". Therefore, by redressing the problems and returning to the correct Party line, China could become a powerful and prosperous socialist country in the foreseeable future.

Even when the politically obstructive effects on the economic reforms had been so manifestly demonstrated and Deng

¹⁸⁷ These are well known Chinese dissidents.

¹⁸⁸ Deng Xiaoping. Fundamental Issues in Present-Day China, Beijing: Foreign Languages Press, 1987, pp.161-166.

himself had to admit in 1986 that "whenever we move a step forward in economic reform, we are made keenly aware of the need to change the political structure. If we fail to do that, it will stunt the growth of the productive forces and impede our drive for modernization."¹⁸⁹, Deng's political reform still referred to administrative reform, with the aim of overcoming bureaucratism and stimulating the initiative of the masses for the economic reforms. So any words or deeds that went beyond these limitations were not tolerated by Deng, as the ten years had shown.

Thirdly, as a Communist who had devoted all his life to the revolution, Deng would not abandon his faith and alter his whole world view and his faith in socialism. And moreover, as a socialist country born out of the womb of semi-feudal and semi-colonial society, Chinese-style socialism is tied in a hundred and one ways with feudalism. Some of Deng's views could illustrate this point clearly:

1) If China's history could simply be described as disorder and order existing alternatively, then the chief task of each ruler was to restore or defend "order". And "in times of order, China was inclined to orthodoxy and those who ruled China were only too ready to try and define this orthodoxy as soon as possible."¹⁹⁰ At the end of the 1970s, Deng and his colleagues put an end to the disorder of "the Cultural Revolution". Since then, keeping order, defending the stable and united situation, has been the primary concern for Deng. Like his historical predecessors, Deng put forward "Four Cardinal Principles" as the orthodoxy. All the other theories and ideas, especially those imported from the West, that might challenge the orthodoxy are stifled. People who believe or spread these ideas are criticized or punished.

2) In China's history, there were, generally speaking, two

¹⁸⁹ Selected Works of Deng Xiaoping, 1987, op.cit., p.72.

¹⁹⁰ Wilson, Dick (ed.). Mao Zedong in the Scale of History, Cambridge: Cambridge University Press, 1977, p.283.

kinds of rulers: the tyrannical and the "enlightened" emperors. An enlightened ruler might show some concern for the living conditions of his subjects, might accept some suggestions and adopt some new policies, or he might be more tolerant of some of the fresh and different ideas.

In the 1980s what Deng and the other leaders are proud of is that they have granted the people some limited freedom of speech, have tolerated some degree of criticism in the press and have given people some opportunities to influence the election of the lower level leaders.

In talking about the political reform, Deng made it clear, that in essence, the purpose of political reform is to stimulate the initiative of the people. He said: "Without political reform, economic reform cannot succeed, because the first obstacle to be overcome is people's resistance."¹⁹¹ These words fully indicated how Deng and the other leaders look at their relationship with the masses. As a Chinese theoretician, Hu Jiwei, (who was criticized in 1989), pointed out: "Actually, the wording of 'stimulating the initiative of the people' is not correct. As people's servants, what we should do is not to stand above the people and stimulate their initiative but adhere to the stipulations of the constitutions and respect and assure people's rights and their position as masters in the society."¹⁹²

3) The most predominant feature of feudalism, autocracy, is also shared by socialism. Deng, instead of denying this, publicly acknowledged it as an advantage of the socialist system. "The greatest advantage of the socialist system is that when the central leadership makes a decision it is promptly implemented without interference from any other quarters....

¹⁹¹ Deng Xiaoping. Fundamental Issues in Present-day China, op.cit., p.147.

¹⁹² Hu Jiwei, "Economic Reform and Political Reform Must Be Conducted Together", Economic Weekly, 2.4.1989. p.4.

from this point of view, our system is very efficient."¹⁹³ Deng negated the Western systems of the balance of the three powers and multi-party selection; he said: "If we place too much emphasis on a need for checks and balances, problems may arise."¹⁹⁴

So, although during the last decade Deng has been remarkably liberal-minded and bold in pushing forward China's economic reform and opening-up programmes, his communist and feudalism-ridden outlook and vision prevented him from grasping some historic "golden" opportunities to bring about more fundamental changes to China. Moreover, his very reserved and wavering attitudes towards the political reform and his intolerance and crushing of the democratic movements had, on many occasions, strengthened the conservative camp and weakened the reformist camps, which could not but severely affect the economic reform and opening-up programmes that he had been advocating all the time.

b. Opposition from the vested interests and the conservatives

The vested interests refer to those who felt threatened by the policies of the 1980s, such as large sections in the PLA and those who advanced up the career ladder during the "Cultural Revolution". They opposed the reforms mainly for personal rather than ideological reasons. However, they would always use the official ideology as their guise or shield to launch their attack on the reforms. A vivid example of their ability to cause the reformers embarrassment and trouble came in 1983-1984 when Deng initiated the campaign to oppose "spiritual pollution". If this campaign was intended to stop some of the unwelcome developments which had accompanied China's opening-up, then leftists, especially those in some grass-root units, fully exploited this opportunity to extend the campaign in a manner frighteningly reminiscent of the "Cultural Revolution" by, for

¹⁹³ Deng Xiaoping. op.cit., 1987, p.192.

¹⁹⁴ Ibid., p.153.

example, attacking scientists for studying western journals and women for sporting foreign 'perm'.¹⁹⁵

But the strongest opposition came from the hard-line Party leaders, who believed in the old revolutionary precepts and who were still powerful. They were deeply wary of the pace and scope of the changes. While the younger, more radical reformers of the Party heralded economic incentives, a commodity economy, market mechanisms, price reform, and reform of the political structure, the older hard-line conservative leaders continued a discourse in the rhetoric of the bygone revolution on centralized control, evil winds, socialist spiritual civilization and spiritual pollution. Just take one example. In September 1986, while radical reformers and intellectuals were strongly calling for democracy and political reforms, Wang Zhen, member of the Politburo and one of the hard-liners, published an article in Red Flag marking the tenth anniversary of Mao Zedong's death and the publications of a new edition of his selected works. In a style redolent of the past, Wang wrote:

To my mind, the best way to commemorate Comrade Mao Zedong is to earnestly study and propagate Mao Zedong Thought, to draw wisdom and strength from its valuable spiritual wealth, and to guarantee the success of the building of socialist material and spiritual civilization. China has a civilization of close to five thousand years. The Chinese nation has a revolutionary tradition and spiritual wealth worthy of our pride, of which the most valuable part is Mao Zedong Thought.¹⁹⁶

It was natural for people to have different views and visions, but differences from the key figures at the highest level of decision-making could exert significant policy implications. This was even more so in post-Mao China when nobody including Deng, could wield power as arbitrarily as Mao once had. In the ten years, the repeated campaigns against so-called "spiritual pollution" and "bourgeois liberalization", the

¹⁹⁵ See Schram, S.R. op.cit..

¹⁹⁶ Red Flag, No.9, 1986. Cited in Orville Schell, op.cit., pp.20-21.

ups and downs of political reforms and especially the removal of Party General-Secretary Hu Yaobang in January 1987, and the ouster of Zhao Ziyang, another General Secretary of the CCP in June 1989, all well indicated the extent of the opposition and the capacity of the conservatives to disrupt the reforms.

C. Weakness and Incapability of the Radical Reformers in the Ideological Sphere

Many of China's radical reformers believed in "Crossing the river by feeling the Stones", i.e. carrying out the reforms in a trial-and-error manner, making constant adjustments and adaptation as practice required. But without a new and cogent ideology, reform policies and measures could not be justified and rationalized; the gains and achievements of the economic reform and opening-up could not always be maintained and defended and attacks and opposition from the conservatives and leftists could not be adequately and forcefully countered.

As this chapter has shown, although the more radical reformist leaders were ready to take bolder and riskier measures that would launch China in the direction of a market economy, new forms of public ownership, and a more pluralistic political order, they did not succeed in bringing about the ideological transformations that the radical reforms badly needed. When various maladies in the old structure were not systematically and drastically dissected and many fundamental questions, such as why reform is necessary and what needs to be reformed, were not convincingly expounded in terms of theory, both reforms and reformers were bound to be placed in a vulnerable position. Therefore, once difficulties and problems emerged in the process of reform, reformers would always be confronted with censure and criticism from those upholding the traditional theories. Since the reformers were not well armed with counter theories, they could not justly defend themselves and the reform measures.

So in the last decade, what the radical reformers were trying to do in the ideological sphere, was to create a kind of "Kuan Song" (tolerant and relaxed) political environment so that

the economic reforms could develop smoothly. When faced with the challenges and attacks from the conservatives, the radicals' attitude was to try to avoid direct ideological confrontations and restrict and quell the debates and campaigns by administrative methods. This course of action by the radical reformers, although on some occasions effective in the short term, in the long run only exacerbated the problems. Since ideological emancipation was a pre-condition of political transformation, the scope and extent of ideological emancipation determine the scope and extent of political transformation, often making all the difference between success and failure. Moreover, like one falling domino knocking down another, a continuing lack of a coherent ideological guideline could only imperil political reform, and a lack of political reform would in turn imperil even those economic reforms already successfully underway.

CHAPTER IV. PRACTICAL ADAPTATION AND DIFFICULTIES

Having described the unsuccessful attempt at working out a sound and cogent ideology for the new developmental strategy and the impact of this failure on opening-up and reforms on the macro-level in previous chapters, in this chapter, besides providing a brief survey of the development of direct foreign investment (DFI) in China's opening-up in the 1980s, I will seek to examine how well the adaptation process has gone in the actual implementation of the opening-up policies, especially in the area of the foreign-related economy (FRE). Two main questions to be addressed in this chapter are: what are the difficulties and obstacles in the practical adaptation process, especially those resulted from the old and half-reformed economic structures and system? And how good a demonstration role has the FRE played for the state economy?

In order to obtain first-hand, reliable materials, I went back to the city of Tianjin in China and conducted a series of interviews with local officials, managers, academics, foreign businessmen and journalists, all of whom are closely involved with the development of China's FRE. I have explained why I chose Tianjin for the fieldwork and described the method used in the interviews in Chapter I. The following discussion will draw heavily upon the materials obtained from this fieldwork.

I. A SURVEY OF THE DEVELOPMENT OF DIRECT FOREIGN INVESTMENT IN THE 1980S: CHINA IN GENERAL, TIANJIN IN PARTICULAR

A. The Evolution of Direct Foreign Investment (DFI)

The opening-up of China's economy since 1978-9 has been one of the most dramatic policy changes of recent years. The opening-up policy has altered China's developmental strategy from one based on self-sufficiency to one of active participation in the world market. One of the most important aspects of the opening-up policy has been to attract DFI into

China.¹⁹⁷ Since the discussions in this chapter will be chiefly based on examples in this field, a brief survey of the evolution of DFI in the 1980s is appropriate and necessary.

The strategy of attracting DFI began in 1979 when the government's ten-year-plan (1976-1986), based upon taking out foreign loans and importing equipment and technology appeared to be failing, and more radical economic reform began to be implemented. The 1979 "Law on Joint Ventures" permitted foreign investment. However, the volume of foreign investment grew very slowly during the early 1980s. This was due to several factors the most important of which were that the legal environment for foreign investors was not well defined, the negotiation process was long and uncertain and little attention was paid to actually attracting foreign investors. 1984 and 1985 saw the first foreign investment boom resulting from a series of implementation regulations in 1983 which greatly clarified the legal environment for joint ventures. But this boom was short-lived and foreign investment slipped back again in 1986 due to dissatisfaction with the way in which joint ventures were working out in practice.

According to Ho and Huenemann's survey of early foreign investors' experiences, a few common problems were: the high cost of doing business in China due to an outdated communications and transport system, high valuations of land, labour and other Chinese-contributed inputs, labour practices, etc.; perhaps, most restrictive of all was the requirement to earn foreign exchange, which limited access to the billion-

¹⁹⁷ The types of contracts under China's opening-up policy include: a) 100% foreign owned ventures; b) Equity joint ventures, where some contributions are allowed from the Chinese side in kind, c) Cooperative (or contractual) joint ventures, where the Chinese contribution is mainly in kind, normally land and buildings; d) Processing and assembly arrangements (for which fees are charged); e) Compensation trade, where the foreign side supplies machinery and equipment, and is repaid in instalments of the product. For the detailed description of these different types of contracts see John T. Thoburn et al. Foreign Investment in China Under the Open Policy, Hong Kong, Avebury Aldershot. 1990, pp.16-19.

person domestic market which had attracted many foreign investors' interest to China in the first place.¹⁹⁸

The promulgation of the "Provisions for the Encouragement of Foreign Investment" in October 1986 and the announcement of their implementation regulations over the next year were a turning point. They marked a shift in the government's attitude from allowing foreign investment to actively encouraging it. The new measures improved the investment climate both by adding new incentives and by removing past uncertainties. Now explicit encouragement was given to joint ventures which involved advanced technology and export production. Besides the extension of tax holidays, these enterprises also received priority in obtaining the services of public utilities and various other concessions. All joint ventures and wholly foreign-owned (WFO) enterprises received the right to exchange foreign exchange among themselves. They were to be subject to simpler import and export licensing procedures. And they also received the right to refuse to pay "unreasonable" fees.

Promulgation in April 1986 of the "Law on Enterprises Operated Exclusively with Foreign Capital" indicated a more relaxed attitude towards foreign control of DFI projects. And the long-awaited "Law on Co-operative Ventures" was also passed in April 1988, providing the legal framework for this type of foreign investment. So in order to reduce the legal gap between China and developed countries and improve China's legal environment for the DFI, since 1980 the Chinese government has passed over 200 laws and regulations pertaining to trade and foreign investment in China and signed investment protection agreements with over twenty Western countries.¹⁹⁹

The SEZs have been granted special rights in attracting DFI

¹⁹⁸ See Ho, S. and Huenemann, R. China's Open Door Policy; The Quest for Foreign Technology and Capital, Vancouver: University of British Columbia Press, 1984. Also see Pomfret, Richard. Investing in China, New York, London: Harvester Wheatsheaf, 1991, pp.23-24.

¹⁹⁹ Outlook Weekly, No.32, 1985, pp.21-23.

ever since they were established in the earlier 1980s. For instance, the SEZs enjoy great autonomy in signing joint venture contracts with foreign companies. The corporation tax rate is only 15% in the SEZs. It is 33.3% in the rest of China. Managers in the SEZs have full responsibility in making decisions about production and marketing, and they do not have to follow the government plan. Prices are determined by supply and demand and are directly related to the international market. In the WFO enterprises, foreign investors enjoy full control of management. The government guarantees foreign investors the right to transfer their profits into foreign exchange. It does not charge import duties on production goods needed by the SEZs.

Most of these policies have been implemented in the District of Hainan Island (now Hainan Province). And, as noted, in 1984 the Chinese government announced the decision to open fourteen coastal cities, which hold roughly 40% of China's total industrial capacity, to foreign investors. In 1987, the government further opened the entire coastal areas to foreign investors. The two largest industrial cities, Shanghai and Tianjin, enjoy the right to approve contracts with foreign investors worth up to \$30 million²⁰⁰ without permission from the central authority, while the limits for Guangdong and Fujian provinces and the city of Dalian are \$10 million. Other provinces can approve contracts with foreign corporations for up to \$5 million.²⁰¹ By early 1991, the total number of foreign-invested firms came to more than 32,000, with \$17 billion actually invested and another \$30 pledged.²⁰²

B. A Brief Survey of Tianjin and the Development of Direct Foreign Investment in Tianjin

Tianjin is a major industrial centre, the communication hub

²⁰⁰ All references in dollars are to U.S. dollars.

²⁰¹ Beijing Review, Vol. 27, No.48, 26.11.1985, p.48

²⁰² People's Daily, 27.6.91.

and trading port city in North China. It is the main export outlet for Hebei Province and the entire north-west region. Total population is around 8.5 million, including 3.5 million in the city area and the rest in surrounding counties within a total area of 11 thousand square kilometres.

Tianjin has an industrial history of more than 120 years. It has 6,154 industrial enterprises, a workforce of over 4 million and 100,000 types of products. The total output value in 1988 was 36,256 billion yuan (excluding that of the individually owned industrial enterprises). Tianjin is the largest industrial base in North China.

Tianjin is a city with a long history of foreign contacts. The port started handling foreign trade in 1860. At present, it has close trade relations with over 12,000 overseas clients in more than 160 countries and regions.

Since the policy of opening to the outside world was implemented in 1979, DFI in Tianjin has been increasing every year. The Tianjin government has been making great efforts to improve the investment environment. Established in June 1987, the Tianjin Foreign Investment Service Centre exercises exclusive administrative authority on behalf of the Municipal Government of Tianjin and provides a social service, i.e. integrated administration and service for foreign investments from project approval to actual construction as well as matters concerning management after a project has gone into operation.

In April 1987, the State Council authorized the municipality of Tianjin to use \$1 billion of foreign funds in addition to the original amounts allowed by the central government for the period of the Seventh Five Year Plan (1986-1990) in order to facilitate the opening to the outside world and promote the modernization of Tianjin. At the same time, Tianjin municipality was given greater authority to examine and approve projects. Moreover, more favourable terms for the submission of revenue to the state and foreign exchange retention were also approved.

Up to the end of March 1991, Tianjin had approved 609 joint

ventures and joint cooperation contracts signed with investors from more than 20 countries and regions. The total pledged investment reached about \$1.2 billion, 241 enterprises were in operation.²⁰³

As a result of the import of foreign advanced technology and management and also through the efforts of Chinese and foreign staff, some high quality and highly competitive products have gained prestige on the international market, such as "Dynasty" brand wine produced by the Sino-French Joint Venture Winery Ltd., "Wella Balsam Shampoo" and a range of hair care products produced by the Sino-German Joint Venture, Liming Cosmetics Industrial Co., a whole range of intravenous injection products produced by the Sino-Japanese OTSUKA Pharmaceutical Co. Ltd., etc.

As one of the 14 coastal open cities, Tianjin established its own Tianjin Economic-Technological Development Area (TEDA), a specific region wherein preferential policies and flexible measures, similar to those now exercised in the SEZs, are offered to foreign investors for setting up manufacturing enterprises of Sino-foreign equity joint ventures, Sino-foreign cooperative ventures and wholly-foreign-owned enterprises.

TEDA is located to the southeast of Tianjin, more than 50 kilometres from the centre of the city, close to Tianjin Harbour and the coastal district Tanggu. By October 1990, 206 contracts of Sino-foreign joint ventures were signed between TEDA and foreign firms from 21 different countries and regions, including the USA, Japan, the then Federal Republic of Germany, France, Belgium, Denmark, Singapore, the Philippines, etc.. 109 enterprises had already started production, more than 90% of which were manufacturing projects, and 40% of the total products were exported. In 1990, the gross industrial output was 780 million yuan, and the annual growth rate since 1984 had been an average of 30%.²⁰⁴

²⁰³ Evening Daily, Tianjin, 16.4.91, p.1.

²⁰⁴ People's Daily (overseas edition), 5.4.1991.

II. ADAPTATION AND DIFFICULTIES

A. Difficulties in Adaptation Arising from Lack of Experience

After three decades of being all but cut off from the West, it naturally took time for Chinese business managers, administrators and workers to get used to cooperating with foreign businessmen. When I went back to Tianjin to conduct my fieldwork in early 1991, more than ten years had passed since the opening up policies had begun to be implemented; Chinese society had become much more open, Chinese businessmen had become much more experienced and self-confident in conducting business with foreign investors. But many things had been learnt the hard way, and much was still left to be desired. Here, I shall just take two examples to illustrate the difficulties in this regard.

The first example is the Tianjin United Tyre and Rubber International Co. Ltd. (TUTRIC), a Sino-Canadian joint venture, the largest joint venture in Tianjin. This company produces giant engineering tyres mainly for the mining industry. The overall investment was \$30 million, the largest manufacturing joint-venture in Tianjin and was built on the green field. The Chinese side, providing 75% of the investment, placed high hopes on it because China could not produce giant tyres for mines but had to import them at a cost of tens of millions of dollars each year till late 1980s. But the experience of cooperation was fraught with frustrations and difficulties.

The root of the difficulties lies in the fact that the Chinese side did not know and had not made an attempt to know enough about the foreign partner at the very beginning.²⁰⁵ From

²⁰⁵ In the interview with Manager Sun of Tianjin Sino-IBM joint venture in Tianjin China, April 1991, he repeatedly stressed the importance of choosing a good partner. He said: "Generally speaking, small medium-sized foreign companies tend to be short-sighted. They are concerned more about making money than helping you to establish a sound business while the large, especially the well-known, transnational corporations could have a longer-term commitment". He took his joint venture for example: Since it went into operation in August 1989, IBM had

1983 to 1985, throughout the long process of negotiations, the Chinese side did not know that the Canadian partner was a company already operating at a loss. This was only discovered when they visited Canada in 1986. As a matter of fact, the Canadian company originally only wanted to sell its equipment, but the Chinese side insisted on setting up a joint venture. Part of the Canadian company's investment was its equipment, the designed capacity of which was said to be over 14,000 tons a year. But the actual capacity was later found out to be only around 9,000 tons, and this became a bone of contention.

After the newly-built factory went into operation in 1988, the question of exporting its products soon emerged as the major source of disagreement. According to the contract, 60% of the products were to be sold abroad and the foreign partner had the exclusive sale rights in the foreign markets for the first three years.²⁰⁶ But in the implementation of the contract, the two sides could not agree on the price. The Canadian side argued that the products produced by a new corporation could only be sold at a lower price, while the Chinese side stressed that the new corporation could not afford to sell at a price that was too low because the output was small, and the cost was high. A series of meetings of the board of directors were convened, which, as Manager Zhang described to me, became "meetings of bitter wrangling", but still the problem could not be solved. As time passed, products were kept long in stock, interest on loans was going up as the corporation's predicament set deeper and deeper. Under such circumstances, the Chinese side decided

provided \$1.4-2 million interest-free working capital each month. He said: "The foreign partner is not gazing at the present profit but its share of the Chinese market and profits in the long term".

²⁰⁶ From my interviews, I found that due mainly to lack of experience and self-confidence in dealing with the foreign market, many Chinese partners would very willingly give the exclusive sale rights in the foreign market to its foreign partner. In many cases, this subsequently caused a lot of displeasure or dispute over the problems of price and profit.

to sell abroad itself, which caused further quarrels and bitterness.

Not until the seventh meeting of the board of directors in September 1990, more than two years after production began, did the two sides come to an agreement. The Canadian side gave a guarantee to sell no less than three thousand tons a year; and the Chinese side could also sell abroad. "Only after such a long and hard time," Manager Zhang said, "did we win back the sale right which we gave up so lightly at the beginning. It is a bitter lesson. Although the Canadian side had only 20% investment, it had been able to control us all along."²⁰⁷

Another setback was over management. According to the agreement, a manager from the Canadian side became the General Manager of TUTRIC in 1989. Although he was an overseas Chinese and, as in many other instances of Sino-foreign joint ventures, such people had a good understanding of how China worked, he did not have much experience in management. So, under his management, 1989 turned out to be the worst in terms of the quality of products, according to Manager Zhang. (Manager Zhang did recognize that besides the personal qualifications of the foreign manager, the problems were caused by many other factors on the Chinese side, which will be discussed later). By the end of 1989, the two sides had agreed to choose another general manager.

By the time I visited this corporation in early 1991, it had managed to increase both its output and exports. It could make as many as 390 types of tyres, many of which had previously had to be imported. However, because of the earlier difficulties with its exports, the economic retrenchment at the end of the 1980s and its ever-increasing outstanding loans, the corporation still had huge debts, and it was in great

²⁰⁷ Of the total investment the Chinese side has 75%, the Canadian side 20%, and a Hong Kong company, which acted as middleman, has 5%.

difficulties.²⁰⁸

The difficulties met by TUTRIC were by no means unique. Many other joint ventures experienced similar problems due to lack of experience and self-confidence. The second example is concerned with the very first joint venture in TEDA, the Sino-Danish Enterprise Co. Ltd., which ran into great difficulties over a seemingly very minor technical point immediately after the factory went into operation. The Chinese side agreed to import bicycle parts at a unit price of RMB 128 yuan from the Danish company. But the Chinese manager did not make it absolutely clear it was at RMB 128 yuan and only to find that the Danish company were selling the parts at a unit price of \$128. The problem was not solved until both the Chinese and Danish governments intervened. The Chinese manager was later removed.²⁰⁹

However, the more technical and practical problems as I have just illustrated proved to be the easiest to overcome. Indeed, Chinese administrators and managers have become much more experienced and mature as time goes on. Many stupid mistakes are less likely to recur. As Pomfret found:

There are still complaints on both sides about partners' misbehaviour, but they tend to be associated more with the older joint ventures. The newer joint ventures are more careful in partner selection and perhaps the partners are more aware of potential traps.... Since 1986 the Chinese ability to find suitable partners has markedly improved.²¹⁰

Compared with more technical and practical problems, structure and system-related problems proved to be much more complicated and difficult. However, in the end, China's overall adaptation

²⁰⁸ Interview with Manager Zhang of Tianjin United Tyre and Rubber International Co. Ltd. Tianjin, China, April 1991.

²⁰⁹ Interviews with Mr. Han Bing, General Manager of Sino-Danish Enterprise Co. Ltd. and Mr. Li Linshan, Director of the Policy Research Office of Tianjin Economic-Technological Development Area. Tianjin, China, April 1991.

²¹⁰ Pomfret, Richard. op.cit., pp.124-125.

capability must be chiefly judged by the capability and effectiveness of overcoming these systemic and structural obstacles.

B. Difficulties in Adaption: Waste and Loss of National Interest Caused by Incompetence, Bureaucracy and Regionalism

If the mistakes and losses as mentioned in the previous section were mainly caused by lack of experience, then many others have to be attributed to the economic system and management structure-related factors. In a market economy under private ownership, the capitalists and their managers, bent solely on profits, have to be calculating and shrewd. Even if they make some sacrifices in the short term, they definitely attempt to maximize their profits in the long term. After all, whether or not they can make money is a matter of life and death for their business. In contrast, the administrators and managers under the socialist public ownership and management system do not need to be very calculating since the survival of the state enterprises are guaranteed by the state regardless of their performance.

When China's door was opened and the socialist administrators and managers were exposed to the changeable world economy and astute capitalists, the weakness and defects in the socialist managerial system immediately became evident. It is clear that without substantial improvement in economic management and administration, the hope of speeding up the modernizations through the opening up policy can hardly be realised.

In the last decade, a series of measures have been taken to loosen the government's rigid control over the economy, to vitalize the enterprises and delegate more autonomy to enterprises. Undeniably, managers now have much more say over the development of the enterprises, and they have accordingly begun to pay much more attention to the interests of their individual enterprises and have become more profit-oriented and cost-conscious. However, this is still far from enough because

for Chinese administrators and managers making money or losing it is still not a matter of survival, neither for their enterprises nor for themselves.

As the manager of the TUTRIC said to me: "People often say that you need not worry at all when borrowing money from the Communist government, for whatever happens to the loans, what can they do to you?"²¹¹

The particular circumstances of the reform period, however, as some commentators have noted, gave rise to another kind of "calculation". For example, in view of the scarcity of China's foreign exchange, the government allows export enterprises to keep a certain percentage of the foreign exchange they earn in order to stimulate the growth of exports. In order to obtain more foreign exchange (which would enable them to import more), many enterprises export as much as they can at any cost. Because they do not have to be responsible for the loss, they can afford to compete with other Chinese enterprises in price cutting the result being that benefits are just handed over to foreign buyers. Besides, in order to get an opportunity to visit abroad or line their own pockets, some administrators and managers would lightly give concessions in the negotiations at the expense of national interests.²¹²

In the course of the interviews I was also told some cases of incredible waste and losses caused either by incompetence and bureaucracy or by individuals seeking personal benefits. One of the Assistant Managers of Tianjin Huamei Garment Co. Ltd. (a joint venture with an Overseas Chinese corporation) described to me a case which had occurred in their company.²¹³ In 1985-86,

²¹¹ Interview with Manager Zhang.

²¹² "The International Economic Environment in the Initial Stage of Socialism" by Zhang Youwen and Sun Xianjun. World Economy, March 1989, p.11.

²¹³ In China, the enterprises that produce the same or similar types of products in a city form an industrial company; similarly a number of companies in a city form an industrial bureau.

the General Company of Garments in Beijing allocated a quota of \$500,000 of foreign exchange to the No.29 Cotton-Padded Clothes Factory in Tianjin to enable it to import some equipment. The factory did not use the whole amount. The General Company decided to use the rest of the foreign exchange to import some other equipment; any factories belonging to the Company were allowed to buy some of the imported equipment with RMB. But what was the equipment that the factories needed? Without necessary research and consideration, some managers in the General Company decided to buy a whole set of sewing equipment from a certain Japanese Company. The Assistant Manager said to me: "It is true that some of the equipment especially the double-needle machines were much better than ours, but we did not need to buy the whole set. As a result, one third of the imported equipment has been kept in the warehouse since then. Nobody knows why the leaders in the company decided to buy that equipment from that Japanese company, but what is known is that a large amount of hard-earned foreign exchange was wasted."²¹⁴

During my meeting with this Assistant Manager, we also discussed one of the somewhat peculiar features in the development of China's joint ventures: a Chinese enterprise that cooperates with a Chinese state enterprise abroad. The Huamei Garment Co. Ltd. is a joint venture between the former Tianjin Fur Coat Factory and the Chinese Textile American Company which is registered in the United States. The "foreign" partner holds a 30% share of the investment but takes no part in the management and provides no new technology. I was curious to know the intentions and the benefits of establishing such a joint venture and the differences between past and present. The manager was very frank: The intentions were to get the benefits granted to the joint ventures such as a tax holiday and export-import rights. Besides, during the boom of foreign-invested firms, it was a fashionable thing to do. As for the differences

²¹⁴ Interview with Assistant Manager Li of Tianjin Huamei Garment Co. Ltd. Tianjin, China, April 1991.

between then and now, he said, since there was no real foreign partner to take part in the management, there were no very obvious changes except that "We always remind ourselves and the workers that ours is a joint venture. We should be able to create higher productivity." He admitted that the previous management was almost intact. During the interview he repeatedly compared his joint venture with the neighbouring joint venture Tianjin Jin Tak Garments Co. Ltd., a Sino-Italian joint venture run by an Italian manager. Though both are joint ventures, the latter was obviously much better managed. So in some of these Chinese-Chinese cases, "the joint ventures become little more than a device to secure greater freedom of action for a Chinese company."²¹⁵

The deep-rooted regionalism that reemerged with the economic reforms and opening-up sometimes caused tremendous waste and serious impairment to national economic interests. With more powers being delegated to the local level but without the corresponding establishment of an effective national macro-administrative mechanism at the same time meant that each province or city fiercely vied with the others in the importation and setting up of joint ventures without concern for the overall economic effects and making best use of its own advantages while avoiding the disadvantages. Local governments have competed to expand the scale of their investment in order to achieve a growth rate as high as possible. They have often been sufficiently powerful and influential to be able to instruct the local banks to finance local construction projects by issuing loans, since the banking system has not yet become independent of the government. The local authorities have usually paid greater attention to short-term benefits. They have been eager to invest in processing industries with a high profit and quick return on capital rather than in basic industries and infra-structure construction, thus intensifying the imbalance of the industrial structure. For example, in 1985,

²¹⁵ Thoburn, John T. op.cit., p.28.

China produced approximately 400,000 motor vehicles in as many as 1,300 factories, or an average of about 3,000 vehicles per factory.²¹⁶ Another example are the huge losses caused by many of the imported 113 production lines of colour TV sets and 97 production lines of refrigerators which ended up idle.²¹⁷ In the late 1980s, in order to develop local industries, some local authorities broke off the traditional economic connections so as to protect local markets through blockades and other trade barriers. The normal circulation of commodities was obstructed and led to so-called "Silkworm Lococon Wars", "Tea Wars" and so on.

A talk given to a Japanese business delegation by Tianjin's Deputy Mayor Zhang Zhaoru can well illustrate the way many regional leaders behave when they try to attract foreign investors and compete with other regions:

Tianjin enjoys various advantages over other areas. Dalian, of course, is an oil centre, but it suffers from a chronic water shortage. The northwest region is far inland, and supplies from abroad have to come through Tianjin anyway. Shanghai's port facilities are already overloaded, it has no more undeveloped industrial land nearby, and the quality of water from the Huangpu river is far from good. As regards Guangdong and Fujian, Japanese investors may not mix too well with the large number of overseas Chinese and Hong Kong entrepreneurs already there. Water from the Pearl River is not good and transportation in inland Fujian is difficult.

By contrast, Tianjin port handles a large variety of imports and is equipped with container berths. The area has a first-class water supply in the Luan River, 230 kilometres away. When the Tianjin-Beijing Expressway is completed in 1990, it will take only an hour and 40 minutes to commute between the two cities, instead of the current three hours. Tianjin also has an extensive railway network linking it with inland areas.²¹⁸

²¹⁶ The example was given by Jonathan K. Woetzel in China's Economic Opening to the Outside World - the Politics of Empowerment, London: Praeger, 1989, pp.118-119.

²¹⁷ Guangming Daily, 21.9.1990.

²¹⁸ "Case Studies of Joint Ventures in China (IV)" in Satoshi Imai. China Newsletter, No.77, p.17.

Put simply, the inefficiency of the old and half-reformed economic system, incompetence, bureaucracy, regionalism, etc. have caused considerable waste and often damage to national interests and have in many ways prevented China from gaining the most possible advantages from its foreign economic activities.

C. Difficulties in Adapting to Modern Management Techniques Arising from Structural and Systemic Factors

(1) Interference from the Bureaucracies

It is true that boards of directors are set up in accordance with the laws and regulations pertinent to foreign-related firms; however, in practice, it is almost always the industrial company manager (the immediate superior leader of the enterprise manager) who becomes the chairman of the board. So the relationship between the Chinese managers in the foreign-related firms and their superior leaders at the industrial company or bureau level is still crucial. Just as before, the managers of the joint ventures can be appointed, dismissed, replaced and transferred as the "superiors" think fit. Certainly, all of these practices are normal if the decisions made are based on the performance. But the facts show that this is not always the case. For example, the chief Chinese manager of China Tianjin Otis Elevator Co. Ltd. had just been removed when I began my fieldwork, not because of his performance, since his was widely known to be one of the most successful joint ventures in Tianjin, but because of his poor relationship with his Chinese superior, as I was told by a cadre in Tianjin Foreign Investment Service Centre.²¹⁹

In the interview with a cadre of Tianjin Jin Mei Beverage Co. Ltd. (a Sino-American joint venture), she said: "One cannot expect managers to be far-sighted because they are not sure how long they can work in one place and where and when they will be

²¹⁹ Interview with Mr. You of Tianjin Planning Committee and Tianjin Foreign Investment Service Centre, Tianjin, China, April 1991.

reassigned.²²⁰

During the fieldwork, I visited Tianjin's Economic Technological Development Area (TEDA) twice and managed to talk to several leading officials in the TEDA, including Mr. Yan Zheng, Chief of the Administrative Bureau of Enterprise and Bureau of Industry and Commerce; Mr. Li Linshan, Director of the Policy Research Office of TEDA; Mr. Han Bing, Director of the TEDA's Association For Enterprises Board. In the course of our conversations, I paid special attention to the managerial structure of the TEDA.

TEDA was set up in December 1984. From the very beginning the founders were keen to establish a new structure and system of administration and management. The guidelines they set forth for themselves included: to act according to international practice; strive to create a "small climate" favourable to foreign investment; set up the administration according to the principle of "small government and large society".

After more than six years' development, TEDA has been recognized as one of the most successful development areas among the fourteen coastal areas opened in late 1984. For example, after his visit to the TEDA, Mr. Chenxin Lee, an official of the Financial Section of the American Embassy in Beijing, reportedly made a proposal to the American government that all prospective American investors in China should visit the TEDA, because it was one of the most promising areas in China for foreign investment and its investment environment is second only to Shekou of Shenzhen SEZ. And in August 1986, both Deng Xiaoping and Zhao Ziyang inspected the TEDA and gave their approval and praise.²²¹ By 1990, more than 70% corporations were making profits. The total tax collected in 1990 was 70 million yuan. Work efficiency is much higher than that outside TEDA. For

²²⁰ Interview with Miss Mao of Tianjin Jin Mei Beverage Co. Ltd. Tianjin, China, April 1991.

²²¹ Pi Qiansheng. Exploration - Tianjin's Development Area in Progress, Tianjin: Tianjin People's Publishing House, 1988, p.166.

instance, in TEDA, the administration guarantees to finish dealing with a project proposal within ten days, while in other parts of Tianjin, outside TEDA, it usually takes at least three months, and often half a year.²²²

An improvement on the "Old Tianjin", TEDA has, nevertheless, encountered many problems in the effort to improve its management. Firstly, the mechanism of "small government and large society" has not been stabilized by regulations and legislation. Without these there can be no guarantee that the newly established administrative system will not be overwhelmed by the old system and the worries of foreign investors can hardly be eased and dispelled. Secondly and related to the above point, some signs of regression to the old system have already appeared.²²³ Mr. Han said: "Since the old and new systems are crisscrossed all over the country, it is impossible for the old system not to infiltrate into the TEDA. After all, work is done by people, policies are operated by people. Since almost all the cadres in the TEDA used to work in the old system, it is inconceivable that they are not influenced by the old conceptions and work style."²²⁴ Thirdly, obstacles come from the departments-in-charge and a variety of functional bureaux such as Finance and Labour Bureaux. It has all along been the common practice that administrative departments-in-charge control and intervene in the operation and management of the enterprises. The departments can have direct access to the factory floor without going through the manager. So "joint ventures", as once noted by Woetzel, "faced a real challenge in getting local functional bureaux to sever their links with venture departments and instead go through the general manager.

²²² Interview with Mr. Yan Zheng, April 1991.

²²³ During my interview with Mr. Yan, he showed me an internal document of TEDA, in which administrators and managers are warned of the phenomenon of regressing to the old system, and the legalization of the managerial system has been put high on the agenda.

²²⁴ Interview with Mr. Han Bing, April 1991.

One foreign general manager in Tianjin had to personally place an advertisement for personnel in the China Daily before his own Chinese advertising manager would consent to bypass the Labour Bureau."²²⁵ Many departments-in-charge are not familiar with the idea that in the joint ventures, major business affairs are dealt with and decided by the general managers and the boards of directors of the corporation. Instead, sometimes, they would issue some instructions directly to the managers. When they are told that the issue has to be discussed and decided by the board before being dealt with, some leaders are furious and call the managers to account for disobedience. Understandably, this would exert massive pressure on the administrator or manager since their whole career could be placed in jeopardy. For instance, a Chinese administrative department-in-charge, which is also the investor in a joint venture in the TEDA, became very dissatisfied with the General Manager and the Deputy General Manager, and without bothering to inform, still less consult the board of directors, the department issued an order to the corporation, declaring that a working team would be sent there to take over the management of the joint venture.²²⁶ Sometimes trouble could also arise from the fact that leaders and managers working in the TEDA generally enjoy much better pay and benefits than their counterparts or even superiors in the government organs and enterprises outside TEDA. The so-called "red-eye disease" (being bitterly envious) is very disruptive especially when the "patient" is the former or current superior leader.²²⁷

What should be noted, however, is the fact that despite the defects and problems, generally speaking, the management level in the TEDA is much higher than that of the state enterprises mainly for the following reasons: first, the enterprises in the TEDA are much more exposed to foreign management expertise. In

²²⁵ Woetzel, Jonathan R. op.cit., p.118.

²²⁶ See Pi Qiansheng, op.cit., p.47.

²²⁷ Interview with Mr. Han Bing.

the TEDA, out of 206 approved projects related to 21 countries and regions, 109 have already gone into operation. Among these, more than 40% of enterprises have foreign investors directly involved in the management.²²⁸ Second, the majority of the administrators and managers in the TEDA are in their late thirties or early forties. Both Mr. Yang and Mr. Han, for example, are in their thirties.²²⁹ The generation of the thirty and forty year olds are playing an increasingly significant role in China's economic development. Many of them are liberal-minded, creative and bold. In terms of management, they tend to be more keen on learning and practising modern management techniques. Of course, the even younger workforce (most of whom are high school graduates in their twenties) provides the favourable condition for them to put the new management techniques into practice. Third, the TEDA is established on the green field, and in most cases, the managers are newly appointed and workers newly employed. So in the case of these enterprises, they have not inherited the old practices that need to be changed or replaced, a problem all the joint ventures built upon old enterprises face and always find a daunting or even impossible task.

(2) Difficulties in Creating the New out of the Old in the Cases of "One-Plant-Two-System" Model Joint Ventures

It seems the further away they are from the old administrative and management structure, the easier it is for the managers of foreign-related firms to adopt modern management techniques and act according to the international practice. I shall attempt to specify and illustrate the argument with the

²²⁸ See Chen Yue and Pi Qiansheng. (ed.), Research on China's Economic and Technological Developmental Area, Tianjin: Bohaiwan Publishing House, 1989, p.377.

²²⁹ The former Director of the Administrative Management Commission of TEDA, the No.1 figure, Zhang Wei, was only in his early thirties when he was given the job. He resigned immediately after the 1989 June event.

example of the so-called joint ventures of the "one-plant-two-system formula".

The "one-plant-two-system formula", created for the purpose of transforming existing plants, especially the state enterprises, means turning part of the plant into a joint venture with a foreign company, so that the introduction of new technology and modern management techniques in the joint venture could serve the purpose of raising the whole plant to a higher level of production. Obviously, the adjustment and adaptation task for this kind of joint venture is much more pressing and complex than for the other kinds of joint ventures. In addition to the relationship between the Chinese and foreign partners, there are also the relations between the Chinese joint venture part and the non joint-venture part, the relations between the foreign investors and the Chinese non-joint venture side. Since one of the main purposes of my fieldwork was to examine the adaptation capabilities of the Chinese managers and the causes of difficulties involved in the adaptation efforts, I naturally paid special attention to the "one-plant-two-system formula" joint ventures. In the interview with Mr. You of the Tianjin Foreign Investment Service Centre, he confirmed that there were definitely more problems with the "one-plant-two-system" joint ventures than with the other types of foreign-invested firms. One of the examples he gave was the case of the Tianjin Glass Factory. The conflicts between the two parts of the factory once became so tense that the manager of the old factory, who was also the chairman of the board of directors of the joint venture and the Party Secretary, first cut off both water and electricity supplies to the joint venture side, then sent in the workers of the non-joint venture side to carry all the furniture away from the joint venture. The incident was reported to the municipal government, but nobody could do anything about it. The Director of the Tianjin Economic and Trade Commission could only suggest turning the whole plant into a joint venture, but

that was unacceptable to the foreign investor.²³⁰

In the interview with Mr. Gao Luan, Deputy Chief of the Project Department of the Tianjin Foreign Investment Service Centre, he recommended me that I visited the Tianjin Jin Rong Co. Ltd, which, he said, was the most successful joint venture of the "one-plant-two-system formula" so far.²³¹

Tianjin Jin Rong Co. Ltd. is a Sino-Japanese joint venture invested and established by Tianjin Jin Hua Radio Factory, Japanese Matsuki Giken co. Ltd, Senbogi Seiko Co. Ltd., and K C Co. Ltd.. The company engages in the development and production of cassette recorders, cassette tape deck mechanisms, and assemblage mould and related electronic products. As for the management structure, the chairman of the board of directors is the manager of the former Jin Hua Radio Factory, now the manager of the non-joint venture part. The general manager of the joint venture side is a former vice manager of the old factory, and the deputy general managers are a Japanese businessman and a former vice manager of the old factory. My interview was with Mr. Sun Xingwen, Vice General Manager and Mr. Cai Jinbo, Director of Head Office, who is also the Chairman of the Trade Union and Secretary of the Party branch.

During the interview, I realized that when Mr. Gao evaluated the joint venture as quite successful, he must have referred mainly to the following three facts: First, no serious conflicts ever occurred either between the managers of the two Chinese sides or between the workers. Second, in terms of its economic performance, the joint venture managed to recoup its capital outlay within four years, 80% of the raw and processed materials have been produced in China rather than imported from Japan, and exports have been increasing. And third, the old factory has also benefited by using the products produced by the

²³⁰ Interview with Mr. You Qilu.

²³¹ Interview with Mr. Gao Luan, Deputy Chief of the Project Department of the Tianjin Foreign Investment Service Centre, Tianjin, China, April 1991.

joint venture side and as a result improve the quality of its own products.

Indeed, judged by the above achievements, the joint venture is quite successful. Yet as far as the transformation and modernization of the old managerial system is concerned, the success of Jin Rong Co. Ltd. is not as impressive as it appears to be. It is the management transformation that can ensure the long term economic success.

Firstly, what kind of administrative structure should be set up, the Japanese or Chinese models? There was, initially, some disagreement over this between the two sides. However the Japanese side soon realized that a concession had to be made simply because there was no way of wholly copying the Japanese model. As Director Cai said, in Japanese companies it is the managers who decide all the business affairs, therefore only an accountant and a few secretaries and assistants are needed. But in China, enterprises are of public ownership, the superior departments-in-charge frequently issue various directives and documents, demanding that the enterprises send in various kinds of forms and materials, and now and then some people are sent down to check up on the work. To meet all those requirements, you cannot but set up various sections. So altogether 14 administrative sections were set up, almost as many as on the non-joint venture part. I asked whether there was any differences at all between the two sides in this respect. Director Cai said:

there are some changes, for example, we do not have to attend as many meetings as managers of the state enterprises have to since joint ventures enjoy more autonomy than state enterprises. Besides, although we have all kinds of sections, we have fewer staff. Apart from being Director of Head Office, I am also the Chairman of the Trade Union and Secretary of the Party Branch. In the other part of the factory as well as the other state enterprises, those are three separate organizations and are staffed by at least ten people. Here, we have only three

people including me.²³²

In short, there is an increase in efficiency and simplification of the administrative body. But the state enterprise model is still clearly visible and the one-plant-two systems model is far from meeting the requirement of better staff and simpler administration in a modern corporation, with which the interviewees themselves agreed.

Secondly, what are the relations between the two parts of the factory really like? And how do they deal with the problems arising from the development of the joint venture? The Chinese managers of the joint venture knew very well that they could not avoid the interrelations with the other part, and they would have to handle the relationship well, for the two parts are still very closely interlinked: the joint venture building is rented from the old plant; the workers of the joint venture still use all the common facilities such as the canteen and the bath house and all the workers of the two parts are still allocated housing on the same conditions by the old factory, except that the joint venture pays the money for the workers of its part who are allocated housing; the non-joint venture side is one of the main users of the products made by the joint venture and last but not least, the manager of the non-joint venture part is the chairman of the board of directors of the joint venture and the current managers of the joint venture were all his deputies before.

Under such circumstances, the managers of the joint venture take a very careful attitude in its relations with the other part. In view of the fact that both the management personnel and the workers in the joint venture have a much higher intensity of work - fewer staff have to do the same load of work done by many more staff in the other part and the productivity has been almost doubled - the staff and workers there should be

²³² Interview with Mr. Cai Jinbo, Director of Head Office, Chairman of the Trade Union and Secretary of the Party Branch of Tianjin Jin Rong co. Ltd. Tianjin, China, April 1991.

paid much higher, which both accords with the regulations pertinent to foreign-invested firms and the principle of "distribution according to work". Nevertheless, the workers in the joint venture only get 35% more wages than those in the other part. The bonus is also extremely moderate, just 8-10 yuan more each month. No wonder then that some workers even declined to be assigned to work in the joint venture, since the intensity of work there is almost twice as much. And quite unlike the other foreign-related corporations, the managers here in the joint venture also get a mere 35% higher salary than those in the other part. Yet according to the regulations and laws they should be able to receive a salary commensurate with that of the foreign investor. "This", as Vice General Manager Sun said, "is the direct consequence of putting the enterprise under the leadership of the old factory".²³³

Knowing that the pay differences between the joint venture and the other part are always the chief cause of all the troubles and conflicts, the managers in the joint venture from the very beginning set the principle and tactics regarding wages and welfare. The principle is: "To take a magnanimous attitude and make strenuous efforts." The tactics are: "Small steps and walk slowly". Manager Sun told me: "With these efforts, so far no serious rifts or quarrels have occurred since the establishment of the joint venture." Then I asked the manager: "But has not your conciliatory and careful attitude prevented the workers and staff in the joint venture from getting what they deserve, which also seems to be against the principle of distribution according to work?" Manager Sun said: "You are right, but in practice, we have to take the endurance capacity of the other side into consideration."²³⁴

Another big issue was the relationship between the managers of the two sides. Again the managers in the joint venture took

²³³ Interview with Mr. Sun Xingwen, Vice General Manager of Tianjin Jin Rong Co. Ltd. Tianjin, China, April 1991.

²³⁴ Ibid..

a very conciliatory and cautious attitude and set the principles and tactics for themselves. As Manager Sun described to me, the principles and tactics in the case of disagreements, disputes or arguments were, first, to try to skirt round difficulties and avoid clashes; and second, wait for both sides involved to calm down and then try to find a solution and always be ready to compromise.²³⁵

However, even with that conciliatory attitude, some rifts and discontent did accumulate and come to a head. As a result, the former General Manager of the joint venture side had to resign and went on to find a job in Shenzhen SEZ.²³⁶ The rift was caused mainly by the "interventionist" attitude of the managers and party secretaries of the old factory. The joint venture was often not left to run its own business. On this issue, Manager Sun said that the managers in the joint venture naturally took the regulations and laws concerning the foreign-invested firms quite seriously because, firstly, they had to deal with foreign investors and worked together with foreign managers; secondly, the enterprises were not their own, and no manager wanted to violate the laws.²³⁷ Nevertheless some of the managers of the old plant did not have such a strong legal consciousness. Sometimes, when their opinion or requirement were turned down for legal or regulatory reasons, some managers would become very angry and question why it was always so difficult to get something done in the joint venture side. The conceptions and leadership style formed in the last several decades were by no means easy to change.

The Vice General Manager admitted that from the point of view of modernizing the management, the achievements of his

²³⁵ Ibid.,

²³⁶ I was told about this not by the managers themselves, but by somebody in the Tianjin Foreign Investment Service Centre.

²³⁷ These are the original words of Manager Sun. I think this well illustrates how at present many Chinese people look at the relations between laws and privately and individually run business.

joint venture were less than impressive. On the whole, the enterprise was still under the somewhat looser control of the superior department-in-charge and under the still firm control of the old plant. More often than not, it was the joint venture side that accommodated itself to, or yielded to, the old system, rather than the other way round. The modern management method barely stood a chance of being fully applied, let alone becoming dominant. At the initial stage of the joint venture, six Japanese took part in the management, and their opinions and suggestions were better heeded and followed. Later, especially after 1988 when the capital outlay had been recouped and the foreign management personnel withdrawn, it was virtually the Chinese managers who ran the business, with a Japanese Vice Manager visiting the corporation once in a while. Under such circumstances, there was a higher possibility of being overwhelmed by the old managerial system.

As for the "demonstration effect" on the non-joint venture part, Manager Sun agreed that except for the fact that productivity had been increased (from a shift output of 600-800 pieces to 900-1100 pieces) any influence on the management structure was minimal. As to why it is so difficult to adopt modern management techniques, the manager went deeper. He said that the crux of the problem lay in the system of organization and public ownership. When a manager was always appointed by his superiors and when he did not own any part of the enterprise and did not even know how long he could be in charge, he certainly dared not offend his superiors and would not like to displease his staff and workers. Of course, he said, there were some better managed state enterprises, the qualities of the managers did make a difference; however, the structure and conceptions formed in the last several decades still prevented modern management techniques from being successfully applied.²³⁸

Another obvious problem for the "one-plant-two-system formula" is how to decide who is to work in the joint venture

²³⁸ Interview with Assistant Manager Sun Xingwen.

and who is to stay in the state-run part. Related to that is the question of what to do with people who cannot adapt to the new code of work in the joint venture and how to handle the troubles resulting from the gap, sometimes a huge one, between the wages and benefits of the two sides. These proved to be the most thorny problems for many "one-plant-two-system" joint ventures.

Through my interviews I observed two patterns: one is that the joint venture part is managed by foreign investors. In these enterprises, the workers would normally be chosen on the basis of interviews or tests. And the state-owned part functions as a pool for workers not needed by the joint venture part. There are larger gaps in the wages and benefits between the workers of the two parts in this sort of joint venture. Complaints and displeasure do arise from the workers on the state-run side. However, the joint venture side, generally speaking, are much more strictly managed, the work intensity and productivity are much higher, and last but not the least, as the joint venture is run by foreign investors, the discontent generally does not run wild and become too disruptive.²³⁹ Another pattern is the joint venture part run by Chinese managers like Tianjin Jin Rong Co. Ltd. In such enterprises, the problems mentioned above tend to be much more complicated and serious. As a result, many enterprises tend to take a conciliatory attitude often at the expense of blurring the boundary between the two sides, compromising with the old management and giving up some of the benefits to which the staff and workers in the joint venture are entitled. As in the case of Tianjin Jin Rong Co. Ltd., it is the managers of both sides who choose and decide who go to work in the joint venture. Since the wages and benefits on the joint venture side have been deliberately kept low, there is not much bitterness and displeasure; but on the other hand, there is not much incentive on the joint venture side either.

²³⁹ Interview with Mr. You Qilu.

(3) The Most Difficult Aspect of All in Adopting Modern Management Techniques: the Relationship Between Managers and Workers

Another important question in adapting to modern managerial techniques is how to deal with the "personnel relations" in the joint ventures, especially those run by Chinese managers. Among the various relations, such as those between the Chinese and foreign partners; between the foreign investor and the superior leaders of the Chinese side; between the managers of both sides and the Party secretary and Party organizations, the most complicated one proves to be the relationship between managers and workers. Although workers in the foreign-invested firms are recruited on contract, those recruited from the state enterprises can preserve their permanent job status. What is more, workers can not be dismissed unless in extremely exceptional circumstances (I will illustrate this later), for in socialist China workers are regarded as the leading class and "masters" of the factory and the country. This point was once again vigorously stressed following the June 1989 events. For example, in a symposium whose participants included leaders of some industrial ministries and enterprises, Song Ping, one of the members of the Standing Committee of the Politburo of the CCP said:

Since the Fourth Plenary Session of the Thirteenth Party Congress (held in mid-1989 after the June Tiananmen Events), the General Secretary, Comrade Jiang Zemin, has emphasized repeatedly that we must rely on the working class whole-heartedly. This is determined by the nature of both our party and our country. Our enterprises are socialist and workers are the masters of the enterprises. Therefore, to revitalize the enterprises and economy, the most crucial thing is to reinforce in the workers' minds the sense of being the masters of the enterprises and the country. With that achieved, we can overcome any difficulties.²⁴⁰

Song Ping's speech obviously touched upon some more sensitive and fundamental issues, which will be discussed further in

²⁴⁰ People's Daily (overseas edition), 13.6.1991.

Chapter V.

Next, I shall describe and analyze some of the major problems concerning the relationship between the management and the workforce:

The recruitment of workers

As far as the foreign-invested firms are concerned, some obvious progress has been made in the recruitment procedures since the mid-1980s. In the 30 years preceding the economic reforms, jobs had been allocated by the official Labour Bureau without always taking appropriate qualifications into account, and once a job had been allocated, the person had it for life. Things began to change at the end of the 1970s, partly due to the requirement of developing foreign-invested firms. But since there was no real free market for labour in China, the government authorities in the early 1980s interfered heavily in the job allocation procedure. According to General Manager Qu Jiapeng of China Otsuka Pharmaceutical Co. Ltd. in Tianjin, "During 1983 and 1984, when we were recruiting workers, we had to file a lot of reports to the authorities, requesting approval as well as supplying data. We were required to keep a balance between the number of male and female workers we employed. So there was not that much real free choice."²⁴¹

Starting from 1987, government involvement has been relaxed. Henceforth, the enterprise is only required to report to the authorities the number of workers needed and it can bypass the Labour Bureau by advertising the jobs in newspapers. There is no longer a quota for men and women. Again, according to General Manager Qu:

Take the case of our new graduate recruits for 1988. In China, the practice is for the government to allocate new graduates to various posts. So we applied to the authorities for eleven graduates. We examined the applications, asked the applicants to take the special test for joint ventures and found that only five of them met our

²⁴¹ "Case Studies of Joint Ventures in China", China Newsletter, No.77, p.13.

requirements. So we employed these five people and turned down the remaining six applicants, who were reallocated to other posts.²⁴²

Obviously, big progress has been made in recruitment. But in the absence of a real labour market or a mechanism allowing for the "free flow of personnel", those wishing to go to work in foreign-invested firms could still be held back by their present units.

The firing of workers

The firing of workers has proved to be the most difficult issue faced by foreign-invested firms as well as the state enterprises. After a decade of economic reforms, so little progress has been made in this respect that in the Fourth Session of the Seventh National Congress held in March 1991, the problem of giving managers "the power of using people" again became one of the central issues under discussion for almost all of the deputies from enterprises. According to a congress report written by the reporters of the Chinese Youth Daily, Mr. Fan Zengsheng, a deputy from Shanghai, said:

Now it is extremely difficult to fire a worker. Two years ago, a worker in our Port Bureau was fired. The worker went to the municipal government and lodged an accusation against the leaders in his unit and caused a lot of trouble there. Then the superior leaders instructed the port authorities to solve the problem immediately. In the end the worker was reinstated after two years. That had a very bad influence indeed. By unduly emphasising social stability, the stability of enterprises has been endangered and production has also been hampered.²⁴³

Many people's deputies stressed that to deepen the reforms often means to be ready to pay a sometimes costly price.²⁴⁴ I found

²⁴² Ibid., p.13.

²⁴³ "Principal Melody - Deepening the Reforms" - a report of the Fourth Session of the Seventh National Congress, Chinese Youth Daily, 27.3.1991.

²⁴⁴ Ibid..

out in the interviews that the issue of dismissals is still a huge barrier that prevents Chinese enterprises from adapting to modern management and overcoming the defects of the current system. The cases of dismissals described to me in my interviews almost all copied the following pattern: first of all, the Chinese managers did not like the idea of firing, or rather, they knew that by no means would it offer an easy solution. So they would try every other means possible to solve the problem without firing anyone. In China's state enterprises, there is no such thing as making people redundant merely for production or cost reasons, or firing people because they failed to prove themselves qualified for the job. Dismissals would only occur, if ever, when some very serious offence had been committed such as frequently staying away from work without leave or good reason, repeatedly quarrelling and fighting with managers or the other workers, etc. Then, when all the managers in the enterprise thought that they could no longer avoid sacking someone, they would always try to find the person another job instead of what is known as "driving him into society". For firing somebody without finding him a way out would always cause more trouble for the enterprise. Since there is no social security system, the fired worker would always go to the local government. What is more, since there is no special government body to deal with this problem, the fired worker would always go to the highest leadership organ in the locality and cause some big disturbance there. And since the priority concern for the superior leadership is social stability, the enterprise would always be ordered to find a solution itself. Among the joint ventures I visited, both the Tianjin International Tyre Co. Ltd. and the Tianjin Hua Mei Garment Co. Ltd. had fired a worker and in each case, it was the manager in each Corporation who found another job for the fired worker.²⁴⁵

Related to the issue of dismissal, workers, technicians of state enterprises and many university graduates usually face the

²⁴⁵ Interviews with the managers of the two corporations.

very difficult choice in deciding whether to go to work in a foreign-invested firm when they have a chance to do so. Although those who work in a foreign-invested firms can earn more, sometimes much more, than those in the state enterprises, the foreign-invested firms might cease to exist when the contract expires or if the firm even goes bust, and the employees would have to find another job by themselves. That possibility has deterred quite a number of people from taking the opportunity to work in a foreign-invested firm, for those who have been working in the state enterprises and university students choosing to work in a state enterprise can be assured a permanent job whatever happens to the enterprise.

To ease these worries recently an agency has been set up in Tianjin, which functions like this: when a person from a state enterprise or institution goes to work in a foreign-invested firm, he can leave his personal files²⁴⁶ with this agency. If he is fired or chooses to change job, especially back in a state institution or enterprise, the agency will help him find a job and guarantees that his working age (years of service) will be given continuity. (In China, promotion, increase in salaries and the granting of benefits are mainly dependent on one's length of service.)

Of course, the above situation mainly occurs in the WFO enterprises. For "one-plant-two-system" joint ventures, the state portion serves as the pool for workers not employed by the other part, while for those enterprises wholly turned into a joint venture, the workers not needed would almost always be given other jobs.

A somewhat special case was found in the Tianjin Jin Mei Beverage Co. Ltd., a Sino-American joint venture. My interviewee, Miss Mao, a medium-level cadre in the joint

²⁴⁶ In China, everyone's personal files are kept by the personnel division of his unit. And the files will follow him all his life. The foreign-owned enterprises do not ask for the person's files.

venture, told me that they had a so-called "double-insurance system" or "guaranteed contractual system". This means that on the one hand, workers in the joint venture (with the Coca-Cola Company and a very lucrative business) enjoy much better conditions and much higher wages than those of the ordinary state enterprises. On the other hand, they need not worry about losing their jobs, for although they are all contractual workers by law, if fired, they will be sent back to the former Beverage Factory, which exists only in name now, and then reallocated to another factory under the jurisdiction of the superior department-in-charge.²⁴⁷

So when people talk about improving China's managerial know-how and adopting modern management techniques, China's employment system has to be taken into consideration. In a market economy, the existence of a pool of the unemployed and the possibility of firing workers, are one of the preconditions of making effective use of modern techniques and enabling the management to orient itself towards the goals of profit maximisation and continuously improving the competitiveness of the company. Under China's current employment system, it is difficult to see how to make the techniques effective. Without the establishment of unemployment insurance, job retraining programmed and job information services, it is difficult for enterprises to implement these decision-making power in hiring and firing employees. Again, as many deputies of the National Congress pointed out in the Fourth Session of the Seventh National Congress held in March 1991: as far as the employment system in the state enterprises is concerned, people call it "the most benign system in the world", as is the distribution system. "Social security" becomes "enterprise security". As a result, many enterprises lose their vitality and competitiveness. After several waves of reforms, the systems of employment, welfare and distribution have become more and more rigid. The most required senses for the modernizations such as

²⁴⁷ Interview with Miss Mao Shihong.

"competition" "free flow of personnel" "survival of the fittest", etc. are getting even more blunted.²⁴⁸

The Role and Status of Managers

In the discussion about the transformation of China's management system and the adaptation to modern managerial techniques in the opening-up process, one has to understand the role and status of China's managers or entrepreneurs. The modern managerial techniques are characterized by giving the manager the central position so that he or she has overall authority over personnel, production, sales, etc. In China, however, the role of a manager and his relationship with the workers are still questions of great dispute. In his article "Ten Theoretical Questions in Dispute in the Economic Field at Present" published in Development of Economics in September 1990, Mr. Xiao Liang listed the eighth disputed question as "Is there a contradiction between giving prominence to the role of entrepreneurs and the master status of workers?" The article says:

Some people have asked: in recent years, has there been a tendency to place undue emphasis on the role of entrepreneurs and neglect the master status of workers? From the evidence revealed recently, one can say the tendency does exist. Therefore, it is indeed necessary to strengthen the propaganda of the master status of the workers which is determined by the nature of our country. But some recent articles have argued against giving prominence to the role of entrepreneurs. They think it is wrong to emphasis the role of managers.²⁴⁹

In the debate over this issue, the author takes the view that:

Giving prominence to the status and role of entrepreneurs is a necessity in developing the socialist commodity economy. The substance of giving prominence to the entrepreneur is giving prominence to management. In the past, we did not admit that the socialist economy was a

²⁴⁸ "Principal Melody - Deepening the reforms", op.cit..

²⁴⁹ Xiao Liang "Ten Theoretical Questions in Dispute in the Economic Field at Present", Developments of Economics, September 1990. Also in Xinhua Digest, December 1990, pp.48-49.

commodity economy. Enterprises were only regarded as production units. Therefore, management was neglected. Now, we have recognised that the socialist economy is a planned commodity economy; enterprises should be transformed into independent commodity producers and therefore management must be given great attention too. In an enterprise, how well the management can be conducted is a matter of survival for the enterprise. The management activities of the directors, managers and contractors in an enterprise involve a lot of creative and complex work. If a great number of entrepreneurs who know how to manage and can manage well emerge, then China's economic development will have a very promising future. Of course, entrepreneurs should rely on and mobilize the initiatives of the workers.²⁵⁰

Related to the status argument, how much an entrepreneur should be paid is another matter of dispute. Before 1989, enterprise contractors could get a salary two to four times as much as the average wage of the workers. Since late 1989, with the urge to mitigate the unfairness in income and distribution, some people suggested the gap should only be at most two times higher. Mr. Xiao Liang argued:

As I see it, if we admit that the work of an entrepreneur is a complex one, that they usually spend much more time on enterprise affairs than the ordinary workers and that they take certain risks, then will it be helpful to bring the initiatives and enthusiasm of the managers into full play and is it in accordance with the principle of distribution according to contributions, if their salaries can only be allowed to be at most two times higher than those of the workers?²⁵¹

As extensively discussed in Chapter III, the confusions and contradictions in the official ideology, first of all, hampered or delayed the formulation of many laws and policies concerning the economic reforms and opening-up and then obstructed or complicated the implementation of the laws and policies. As far as the adaptation to modern managerial techniques is concerned, confusions and disputes over some most crucial aspects of enterprises, such as employment, dismissal, bankruptcy,

²⁵⁰ Ibid.

²⁵¹ Xiao Liang. op.cit, p.49.

relationship of the manager with the Party Secretary and the concepts of status and relationship between managers and workers as discussed above easily put the managers in a very difficult position. Although the long-awaited "Enterprise Law" at last affirmed the principle of the "manager responsibility system", in practice, it is extremely difficult, if not impossible, to pursue it mainly due to two reasons. First, the relationship between many managers and Party Secretaries is most delicate and difficult to deal with. According to the "Enterprise Law", the managing director is required to be fully responsible for managing the business of the firm, while the Party secretary is in charge of supervising and supporting management. In fact the Party secretary is always more powerful and influential than the manager. According to a 1988 survey, over 38% of Party secretaries and factory directors "do not coordinate their management efforts" and "come into conflict too frequently".²⁵² The essence of the problem might be that the difficulties result from power struggle and personal interests, but each side can resort to ideology or law, i.e. the principle of the "manager responsibility system" vis-à-vis the upholding of the Party's leadership. After mid-1989 in particular, talk of "the manager's role as the core" and "the central role of the Party secretary" further complicated the matter. Most recently, the General Secretary of the CCP, Jiang Zemin, thus summed up the guideline for dealing with the relations inside state enterprises at a work conference on the reform of large and medium-sized state enterprises: "The Party organization in the enterprise must fully play the role of a political core; the manager responsibility system should be maintained and perfected; the working class should be relied upon wholeheartedly."²⁵³ It is not easy to understand how this guideline can be implemented in practice. Some enterprises have tried

²⁵² Cited in Jonathan R. Woetzel, op.cit., p.118.

²⁵³ Jiang Zemin. "Speech at the Work Conference of the CCP", Peoples Daily, 22.10.1991.

having one person concurrently in charge as 'manager' and 'Party secretary'. These experiments indicated that such a dual position made it impossible for the person to concentrate entirely on management. Second, enterprises did not get all the autonomous rights granted or delegated by the central government, "because many powers were simply intercepted by various middle levels".²⁵⁴ So, in 1991, when Mr Chen Jinhua, Director of China's Economic Structural Reform Commission, talked about tackling the severe difficulties in the large and medium state enterprises in the 1990s, he said "genuinely giving the autonomy and rights guaranteed by the Enterprise Law and the policies of the central government to the enterprises is still one of the main tasks and keys to revitalizing the state enterprises."²⁵⁵

As for the joint ventures, although, generally speaking, their management level is higher than that of the state enterprises due to the support derived from some special laws and regulations and the direct involvement of foreign managers, there is much left to be desired as far as the adaptation to the modern management system is concerned. Of course, it is not true to say that the Chinese managers are incapable of adapting to the advanced managerial techniques. On the contrary, "Chinese managers and technicians are quite good at absorbing new ways of doing business", as a foreign general manager of a Sino-Australian joint venture pointed out. However, he went on to say that: "they are not trained to make decisions, especially individually. And there are too many interferences from above." When I asked whether he, as a foreign manager, also felt any pressure, he said:

Very much so. It is easier, though, to get along with the senior people, but very difficult to deal with the

²⁵⁴ Gao Shangquan. China's Economic Structural Reforms in the Past Nine Years, Beijing: People's Publishing House, 1987, p.33.

²⁵⁵ Chen Jinhua. "Gradually Establishing the New System of Socialist Planned Commodity Economy", China's Economic Structural Reform, No.3, 1991, p.3.

functionaries. If our joint venture is a free enterprise, then why do they care so much about how we conduct the business, and why do we have to get so many licences? If China wants to compete in the world market more successfully, she has to learn and has to learn quickly.²⁵⁶

It is not easy to make a precise evaluation of the achievements in adapting to modern management in Tianjin's joint ventures. At the risk of being somewhat simplistic and arbitrary, I would say:

Firstly, the joint ventures run by foreign managers tend to be more successful in adopting modern management techniques. Actually some of them are very successful, such as the well-known Sino-American Tianjin Smithkline & French Laboratories Ltd. It is managed by both Chinese and American managers; all the technicians and administration staff have been trained by Smithkline Beckman Corporation either in China or abroad and the management is almost a strict copy of that of the American Corporation. It is not true, however, to say that all the joint ventures run by foreign managers are better than those run by Chinese managers. As mentioned above, a foreign manager, inexperienced in management and having too little knowledge about Chinese enterprises and society, may find himself in a very difficult situation as in the case of the Tianjin United Tyre and Rubber International Co. Ltd. But the joint ventures run by foreign managers only occupy a small proportion. An Australian investor, who is the General Manager of a joint venture said to me: "Only very tough people can stay on. In Tianjin, foreign managerial and technical personnel have dropped from four to five hundred to about one hundred and fifty in the last couple of years (1989-1991)."²⁵⁷

Secondly, it appears to be easier for those joint ventures established on the green field, such as those in the TEDA, to

²⁵⁶ Interview with an Australian businessman, who asked me not to identify him in my dissertation. Tianjin, China, April 1991.

²⁵⁷ Interview with the Australian businessman.

adopt new management techniques because they do not have a set of established rules and practice to get rid of, and both the managerial team and the newly recruited workers are much younger and better educated. But because the Chinese investor is usually a state enterprise and/or the department-in-charge, the head of which is always the Chairman of the Board of Directors, and the manager of the joint venture is often chosen from the managers of the state enterprise, there are two obvious problems with the management in this sort of joint venture: the liability of regressing to the managerial stereotype prevalent in the state enterprises and intervention from the superior leadership.

Thirdly, the joint ventures set up with an established enterprise, such as the "one-plant-two-system" joint ventures, and those cooperating with another Chinese state enterprise overseas and run by Chinese managers, have the most difficulties in adapting to the modern managerial techniques and international practice. This should not be surprising since their relations with the state enterprises are so close, and the economic reforms in the last dozen years have achieved so little in transforming and revitalizing state enterprises.²⁵⁸

III. THE DEMONSTRATION ROLE OF THE FRE FOR THE STATE ENTERPRISES

A. A Demonstrably Better Performance by the FRE

Despite all the drawbacks and unsatisfactory aspects in the development of the FRE as described previously, compared with many of the state-run enterprises, the achievements and merits of the FRE are still very impressive.

Judging by people's perceptions of the FRE, beyond the fact that the central leadership, on the whole, deems the strategy of economic opening-up as a success - which would explain why the pace of DFI accelerated during the 1980s and why the authorities

²⁵⁸ The poor performance of many state enterprises by the end of the 1980s has made this point quite evident. See Part V.

were happy to offer greater inducements to foreign investors²⁵⁹ - the local officials and enterprise managers have an overwhelmingly positive attitude towards the opening-up. During my fieldwork in Tianjin, an official in Tianjin's Economic Planning Commission told me that the Mayor, Mr. Nie Bichu, perplexed by the dire difficulties of many state enterprises in the early 1990s, reportedly said: "Why is there comparatively so little trouble from the workers and enterprises of the joint ventures?"²⁶⁰ Many of the leaders of Tianjin were very enthusiastic about the idea of revitalizing the state economy through economic opening up, which is one of the most important findings in my fieldwork. And the joint venture managers I interviewed, despite various difficulties they were faced with, all gave an unequivocally positive evaluation of the FRE and regarded it as belonging to the most promising part of China's economy. Besides, the simple and manifest fact - that open cities and foreign-invested firms or institutions have become by far the best choice for work and that many of the products produced by joint ventures and WFOs have become best-selling commodities - also adds a very affirmative note to the FRE.

Judging by the economic indicators, the achievements of the FRE are also impressive. First is the development speed of many open areas. Shenzhen is the most obvious example. After ten years, Shenzhen has developed from a small border town into an international city with an annual industrial output of 15 billion yuan by 1991. Guangdong province, being Hong Kong's neighbour, has developed so fast that it had reached the target of quadrupling its gross industrial and agricultural output on the basis of 1980 figures by 1992, eight years earlier than the

²⁵⁹ For example, see "China's Opening-up Trends in the 1990s", People's Daily, 18.4.1991. Also see Pomfret, Richard, Investing in China - Ten Years of the 'Open Door' Policy, New York: Harvester Wheatsheaf, 1991, p.130.

²⁶⁰ Interview with an official of the Tianjin Economic Planning Commission in Tianjin, China, April 1991.

national target.²⁶¹ Second is the ever increasing significance of the FRE in the national and many regional economies. Take China's biggest industrial centre, Shanghai, for example: the four hundred or so industrial foreign-invested firms established up until early 1991 have become a very important force in Shanghai's economic development. According to the statistics issued by the Shanghai Statistical Bureau, in 1990, 60% of the newly increased gross industrial value and 40% of the newly increased export value of Shanghai were created by the foreign-invested firms. The gross industrial output was increased by 46% of the 1989 figure, much faster than the 10% or so of the average growth rate.²⁶² Third is the higher managerial level and higher efficiency compared with most of the state enterprises. As the case of Tianjin United Tyre and Rubber International Co. Ltd. clearly shows, although the joint venture was in considerable difficulties as described previously, compared with its neighbour, the Tianjin Tyre and Rubber Factory, the joint venture's workforce of about 900 has double the productivity of the 3000 workforce in the neighbouring factory, while the workers in the neighbouring factory still have on average 300 yuan more bonus each year.²⁶³

Also, according to the policy analysts of TEDA, in 1987 the average productivity of the twenty enterprises in TEDA was 60,000 yuan, which was more than double the average level of the whole of Tianjin. Comparing the number of workers in the TEDA with the numbers in the state enterprises of the same type, the former is only about one sixth of the latter. For instance, a Lighter Factory in TEDA has a workforce of 131 people, while the Tianjin Lighter Factory which has a similar turnover has a workforce of more than 700 people. A yarn-dyed fabric mill in TEDA has a workforce of a little more than 100 people, while

²⁶¹ People's Daily, 8.8.1992.

²⁶² "The Rapid Development of Shanghai's Foreign-Invested Firms", People's Daily (overseas edition), 23.7.1991.

²⁶³ Interview with Manager Zhang.

Tianjin's Sixth Yarn-dyed Fabric Factory, which also has about the same turnover, has a workforce of more than 800 people. So a much smaller workforce in the foreign-invested firms has been one of the major reasons why productivity in TEDA is much higher.²⁶⁴

B. The Desirability of Having the FRE Play a Demonstration Role

To make the outward-looking and interdependent economic developmental strategy a success, the better performing FRE must be able to play an increasingly active demonstration role for the state-owned enterprises economy. For however important a role the FRE has - indeed, "they are playing an indispensable role in some local economies"²⁶⁵ - taking the national economy as a whole, their role could not be said to be much more than marginal. This is demonstrated most obviously in these figures: by early 1991, the total number of foreign-invested firms was about 30,000, and the average size of a foreign-invested firm in terms of pledged foreign capital was just over \$1 million, while the number of state and collective-owned enterprises was more than 400,000. Among the latter, the large and medium-sized state enterprises, although only amounting to 2.5%, provided more than 60% of the taxes and profits to the state.²⁶⁶

The second World Bank Report on China's development, supportive of Chinese reforms to date, laid emphasis on the potential role of foreign investment: "Direct foreign investment is important less for the foreign capital or advanced technology it brings than for the demonstration effect of exposing Chinese enterprises to modern business and management techniques."²⁶⁷

Also, as C.B. Sung, a foreign investor in China, once

²⁶⁴ Chen Yue, Pi Qiansheng. op. cit., p.396.

²⁶⁵ Speech at a conference on foreign investment by Vice Premier Tian Jiyun, People's Daily, 28.6.1991.

²⁶⁶ Guangming Daily, 28.10.1991.

²⁶⁷ Cited in R. Delfs "Economic Marathon", Far Eastern Economic Review, 29.8.1985. pp.52-53.

noted:

The amount of money China needs to reconstruct is far more than it can possibly get from foreign investors or than it can borrow. The real issue is whether foreign ventures can have multiplying and demonstration effects for Chinese enterprises surrounding it. Through 'demonstration effects', foreign ventures may serve as models for Chinese factories.²⁶⁸

As for the Chinese reformers, many were also keen on making full use of the "demonstration effects" of foreign ventures. As early as December 1978, Deng Xiaoping pointed out:

We must learn to manage the economy by economic methods. If we do not know enough ourselves, we should learn from those who are good at it and learn from foreign advanced management techniques. Not only should the newly-established foreign-invested firms be run according to the foreign advanced methods, the transformation of the old enterprises should also be conducted according to the advanced methods.²⁶⁹

During his well-publicized inspection of Shenzhen in 1984, Deng summarized the role of SEZs as: "SEZs are a window, they are a window on technology, a window on management, a window on knowledge and also a window on our foreign policy."²⁷⁰

The radical reformist leaders such as Hu Yaobang and Zhao Ziyang were more enthusiastic to increase and extend the demonstration effect and leading role of the FRE in the whole process of economic reforms. As already described in Chapter III, after a hiatus in the economic reforms from 1981 to 1984, from late 1984 a set of more radical reform programmes was put on the agenda.

If before 1984 moderate reforms were carried out largely within the context of the traditional planning system, since 1984 more radical market mechanisms were introduced and market transactions began to be allowed to co-exist with "plan

²⁶⁸ International Trade, 27.1.1985. pp.50-52.

²⁶⁹ Selected Works of Deng Xiaoping, 1987, op.cit., p.140.

²⁷⁰ Deng Xiaoping. Building Socialism with Chinese Characteristics, op.cit., p.140.

transactions". And since 1986, more fundamental problems, such as the relationship between enterprise management and economic administration and the ownership status of enterprises, also began to be tackled.²⁷¹ As Cyril Lin has observed: "The period 1986-1988 witnessed an increasing acceptance by radical reformers supported by Zhao of a full market system with 'indicative planning' of the type practised in Japan and the Asian NIES. Thus reform thinking was informed by arguments for capital markets and joint-stock companies."²⁷²

In line with this radicalization of the reforms the radical reformers strongly advocated the extension of the principles and policies of the SEZs to the rest of coastal China and to many interior provinces and encouraged an accommodating attitude toward foreign investment and even broader contacts with foreign societies and international institutions.²⁷³

For after all, to integrate into the world economic system so as to quicken China's modernization required much more than opening up some coastal cities and expanding exports; China's goal of modernization could only be achieved by getting rid of the maladies of the old economic system, revitalizing the state enterprises and bringing economic development onto an effective and sound path.

As Nicholas R. Lardy argued in his China's Entry Into the World Economy, where he talked about China's trade relations with the outside world:

A dynamic foreign trade sector cannot emerge and coexist with a centrally managed industrial sector that fails to exhibit significant positive productivity growth. ... Over

²⁷¹ With reference to Athar Hussain's "Chinese Enterprise Reforms - An Assessment". A paper presented at the first Chinese Academy of Social Sciences - London School of Economics Bilateral Conference held in Beijing, April 1989.

²⁷² Lin, Cyril, Z. "China's Distorted Economic Reform" in the Proceedings of the First Annual Conference of the Chinese Economic Association (UK), 1990.

²⁷³ See the discussion of the development of the SEZs in Chapter III of this dissertation.

the long run, the pace of integration of China in the world economy will also depend on the degree of success of China's urban, industrial economic reforms. The reasons for this relationship are several. First, and most obvious, successful economic reform is likely to lead to more rapid development of the Chinese economy that, other things being equal, will increase the supply of goods for export and increase the internal demand for imports. Second, and probably more important, successful domestic reform would imply that domestic firms had increased substantially their ability to adapt to changing market conditions, to raise product quality, and to control costs - all developments that would increase substantially China's ability to sell manufactured goods on the world market. ... In short, a successful urban industrial reform will both increase the underlying growth of the Chinese economy and increase its competitiveness in international markets and thus likely lead to greater integration in the world economy.²⁷⁴

C. An Evaluation of the Demonstration Effect

So, if the FRE has developed better and faster than the state enterprises, and if a demonstration role of the former for the latter is desirable, then how has this role displayed itself in reality? I put this question to almost all of my interviewees, especially those who used to work in the state enterprises. Mr. Han Bing, Director of the TEDA's Association For Enterprises, said: "Compared with the interference inflicted upon FRE, the rigid administrative structure over the state enterprises has changed little in the last decade, which made it very difficult, if not impossible, for many state enterprises to learn from the experience of the FRE". Mr. Yan Zheng, Bureau Chief of the Administrative Bureau of Enterprise of TEDA, gave an even more blunt answer to the question: "It is impossible to transform the state enterprises. There is no hope. The experience of the last ten years has shown that most clearly." He went on to say: "At the present time, the foreign-invested firms are just like small islands. They are still too weak to exert any substantial influence on the predominant state enterprises. The hope lies in greatly developing the foreign-

²⁷⁴ Lardy, Nicholas R. China's Entry Into the World Economy, University Press of America, 1987, p.2 and pp.45-47.

related market-oriented economy, not in trying to reform the old way of running the national economy."²⁷⁵

Mr. Yan's remarks reflected the views of many people who have a very positive attitude toward the opening-up and a somewhat negative attitude toward the on-going economic reforms in the state sector, which I will discuss further in Chapter V. What I want to reemphasize here is that the issue of the demonstration effect of the FRE upon the state enterprises clearly reveals the intrinsic interrelationship between China's economic opening-up and economic reforms.

Since one of the most significant developments in the last decade has been China's dramatic abandonment of Maoist extreme self-reliance and its extensive participation in world economic activities, the opening-up policy has received massive attention and extensive academic research and analysis. While that is perfectly justifiable, what should also be noted is that although SEZs and foreign-invested firms are always guided by certain special laws and policies, the whole opening-up processes is, from the outset, part of the post-Mao economic reforms programme. Only by placing the opening-up process against the background of the whole economic reform, can people have a more comprehensive and better understanding of the evolution and the problems of the opening-up policies.

In my interview with him, Professor Chen Yue, a distinguished expert on foreign economic policy, took the view that "The biggest obstacle to economic opening-up is economic reform itself."²⁷⁶ Despite some measures taken to loosen the rigid central control over the economy, by the end of the 1980s the state enterprises as a whole were still largely based upon a central planning system and rigid governmental control. The central and local authorities continued to play a key role in

²⁷⁵ Interview with Mr. Yan Zheng.

²⁷⁶ Ibid.

allocating financial, natural and human resources.²⁷⁷ Asked to evaluate the effect of the ten years' economic reforms, a leading official in 'Tianjin's Economic Structural Reform Commission,²⁷⁸ said to me:

Well, it is not a pleasant thing to say, but frankly, in terms of transforming the economic structures and mechanisms, little has been achieved. In the public sector, since the fundamental problem of nobody assuming responsibility for losses is not solved, the business is still substantially conducted as a product economy rather than a commodity economy. Correspondingly, many of the defects associated with a product economy, which the economic reforms are attempting to do away with, not only persist, but even get worse. For example, in many places, the so-called 'iron bowl' for the workers and 'iron chair' for the cadres have become even more fixed. Egalitarianism in wages and bonuses are prevalent...²⁷⁹

Thus, some of the economic problems produced by the command economy are still manifest.²⁸⁰ The dire difficulties faced by tens of thousands of state enterprises in the late 1980s and early 1990s demonstrated this most clearly.

In brief, with regard to the demonstration role of the FRE, the managers in the state enterprises either find it impossible or are reluctant to take pains to adopt modern managerial techniques. The crux of the problem lies in the fact that it is not merely a matter of applying modern managerial techniques in the enterprises, but that it is related to the overall administrative and leadership structures and the more fundamental issues such as the leadership of the Communist Party. In discussing the practice of "importing" foreign managers to help improve management, journalist Su Zhong argued:

²⁷⁷ Lardy, Nicholas R. op.cit., p.xvii.

²⁷⁸ Again the interviewee did not wish to have his name mentioned in this thesis.

²⁷⁹ Interview with an official in the Tianjin Economic Structural Reform Commission, Tianjin, China, April 1991.

²⁸⁰ Also see Market Reforms in Socialist Societies, Peter Van Ness op.cit., pp.8-9.

"It is wrong to say that China does not have people as knowledgeable and capable as Gerich.²⁸¹ The truth is that the Chinese 'Geriches' are tied up by old traditions, by the 'relations snare' they have formed over the years and by the imperfect economic and political system of the country."²⁸²

To sum up, just as the failure of the attempt to work out a sound ideology for the new developmental strategy has brought a negative impact on the development of the opening-up and economic reforms, the half-reformed and hard-to-reform old economic and managerial systems have also hampered the adaptation process in the actual practice of the opening-up policies: many entrepreneurs in the FRE have found it difficult to act according to international practice and adopt modern management techniques, and the state economy, on the whole, has not been carried along in its reforms by the FRE - one of the ultimate aims of the opening-up.

It is true that along with the opening-up, a broader economic reform has been carried out in order to eliminate the malpractice in the old socialist economic system, yet, mainly due to ideological and political reasons, as argued in Chapter III, many fundamental economic issues - such as ownership, bankruptcy, price control, status of entrepreneurs and workers, etc. - have failed to be effectively addressed and solved. It is

²⁸¹ One of the well-publicized "imported foreign managers" is Werner Gerich of the Wuhan Diesel Engine Plant who came from what was then West Germany. He was eulogized in Chinese press in 1986 for taking "an axe in his hand and chopping down many bureaucratic practices and lazy habits".

²⁸² China Daily, 4.12.1986, p.4.

Actually I found myself in such a situation during the fieldwork: a cadre from Tianjin Planning Committee took me to three joint ventures: two are Chinese run and one is foreigner run. When the cadre asked for a car to be sent for us, only the foreigner-run company refused the request. And in my interview with her Miss Mao Shihong of Tianjin Jin Mei Beverage Co. Ltd, told me that the "relations snare" had become such a headache for the Chinese managers, they had very willingly given up the power of appointing middle level cadres to the foreign manager.

this incapability of the leadership to deal with these crucial economic as well as political issues that has fundamentally hampered the adaptation process.

Full of difficulties and frustrations as it is, the FRE, nevertheless, has become part of the most rapidly developing and the most promising section in China's economy. As a well-known saying sums up: "The development of China's economy relies firstly upon 'Lao Wai' (FRE) and secondly upon 'Lao Xiang' (village and township enterprises)."²⁸³ The relatively better performance of the FRE has vindicated the opening-up and the reform policies, greatly strengthened the momentum of the whole opening-up and reform process and profoundly changed popular modes of thinking on many fundamental economic and political issues. This last point is of far-reaching significance, for it is popular modes of thinking and changes in them that will, to a great extent, determine the orientation of China's long term development. The following chapter, besides briefly evaluating the consequences of China's growing interdependence with the world economy, will conduct an extensive discussion on the changes in the popular modes of thinking that have taken place during the course of the opening-up and economic reforms in the 1980s.

²⁸³ Guangming Daily, Interview with Mr. Jiang Yiwei, Director of the Research Association of China's Enterprise Reform and Development. 1.11.1991.

CHAPTER V. THE CHANGES IN POPULAR MODES OF THINKING UNDER THE OPENING-UP POLICY

Despite the problems and difficulties in the adaptation process discussed in the previous chapters, China's economic development and achievements in the last decade have, on the whole, been very impressive. China's economic growth rate has been one of the fastest in the world. The country is well on course for quadrupling its gross output value of industry and agriculture in the twenty year period from 1980 to the year 2000. As a result, the living standards of most of the people have improved considerably, and China has become a much more prosperous country. One of the major contributing factors to China's fairly rapid development has been its increasingly close links with the world economy. China's foreign trade has expanded rapidly, so that it constitutes a much greater share of its total gross national product than was the case in the 1970s; China now welcomes virtually any form of investment, including WFOs, equity and contractual joint ventures and even foreign purchase of stocks; China has also become more active in the major institutions that form the foundation of the world economy - it joined the World Bank and the International Monetary Fund in 1980, more recently, it joined the Pacific Economic Cooperation Conference, the Asian Development Bank and the Asia-Pacific Economic Cooperation Process and it also apply to reenter the General Agreement on Tariffs and Trade in 1986. As Prof. Lardy noted at the Conference of 19th Pacific Trade and Development held in Beijing in June 1991: "One of the most distinctive characteristics of China's reforms, compared with those of the Soviet Union and the East European countries, is that China has become a very important participant in the world economy."²⁸⁴ China's growing contact with the outside world

²⁸⁴ Quoted in People's Daily, 3.6.1991.

over a continuous period of more than a decade has brought about many changes, some of which can be duly regarded as characteristic of interdependence, or more precisely in China's case, initial interdependence. Transnational influences and challenges and the development of the market economy have created forces increasingly beyond the control of the government. China's modernization process and its growing participation in the world system have inevitably set off the classic revolution of rising mass expectations of a better life and have begun to give rise to aspirations to develop a civic society based on justice, democracy, freedom, etc. Sooner or later, the government will have to become more sensitive and responsive to these mass expectations. It seems inevitable that the satisfaction of rising demands by citizens will increasingly become a major source of the state's legitimation and, in the long run, even of a government's continuity in office.²⁸⁵ Already, unlike the pre-1978 period, in dealing with its political or diplomatic relations with the outside world, especially the West, the Chinese government has had to take into consideration the likely impact of any major policy decision on its foreign economic relations as well as on its domestic economic development. For example, one of the important reasons why the communist authorities were keen to convince the world that China's door remained open after the June 1989 events was because they feared that the loss of foreign-economic ties and the help from the outside could be too costly and destructive to the modernization programme.

Of course, interdependence basically means mutual dependence as discussed in Chapter II. Though at the present initial stage of interdependence China's economy on the whole is more dependent upon the developed countries than the other way round, the developed world, especially the newly industrialized economies in East Asia, has also increasingly felt the impact of

²⁸⁵ Also see Perspectives on World Politics, Richard Little and Michael Smith (eds.), (Second Edition), London and New York: Routledge, 1991. p.45.

the fast growing Chinese economy. Indeed, in recent years, the economic relations between mainland China, Taiwan and Hong Kong, for instance, have become so close and interdependent that people have begun to regard the region as a distinct economic entity and call it "Greater China". Let us look at a few figures: by mid-1992, more than three million Chinese workers in Guangdong Province alone were working for Hong Kong companies; Hong Kong manufacturers were employing more workers in South China than they were in Hong Kong itself; by 1990, Hong Kong's cumulative investment in China had already reached more than \$25 billion; 36% of Hong Kong companies had moved to the Pearl River Delta in China. By mid-1992, China's real estate investment in Hong Kong reached \$12 billion. As far as the trade and economic links between mainland China and Taiwan are concerned, in 1991, the total trade value between the two sides was \$5.8 billion, a 43% increase compared with 1990. In 1992, bilateral trade was expected to reach \$7-8 billion. Taiwan's investment in mainland China also reached \$2-3 billion.²⁸⁶

Interestingly, the emergence of the "Greater China" economic entity has indirectly increased China's interdependence with the Western developed countries, especially the U.S. Take Sino-US economic relations for example. Since the U.S. is both a very important source of advanced technology and investment and an important market for China, China is obviously much more dependent on the U.S. than the other way around. That is why China tries very hard to get the "Most Favoured Nation" (MFN) trade status from the U.S. each year²⁸⁷. However, the emergence and development of the "Greater China", means that the U.S. now has to be much more cautious in playing the "MFN" card in dealing with its relations with China, for by withholding the MFN from China, the U.S. will not only seriously affect China's

²⁸⁶ See Nanbei Ji, (Hong Kong), Issue 265, July 1992, pp.29-33.

²⁸⁷ The MFN status is extremely important for China's foreign trade. For instance, China's trade surplus over the U.S. was \$10.4 billion in 1990. See The Economist, 11-17, May 1991, p.17.

trade and economic development, but also harm Hong Kong's economy and thereby its own economic interests could also be harmed. Without the MFN, the Sino-US entreport trade through Hong Kong would be reduced by 35%-47% (which amounts to \$4.6-\$6.2 billion). Taiwan's economy would also be affected. That is why both Hong Kong and Taiwan strongly called on the U.S. to maintain China's MFN. The U.S. cannot afford to harm its economic relations with Hong Kong because it has more than \$7 billion investment there, and Hong Kong is one of its key trade partners; the bilateral total trade value in 1991, for example, was as high as \$17 billion.²⁸⁸

However, as indicated in Chapters I and II, in studying China's opening-up to the outside world in the 1980s, the focus of this thesis is to examine the difficulties and problems resulting from China's domestic ideological, historical and systemic factors and show how the ever-growing interdependence with the outside world has influenced China's economic, social and political development and particularly its impact on popular modes of thinking. That is to say, this thesis has approached the issue of interdependence more from China's domestic aspect than from its external aspect; and more from a political angle than from an economic one. So in this chapter, besides briefly indicating the scope of the growing interdependence in the economic field such as in the areas of foreign trade and DFI, I shall mainly examine and analyze the ways in which this process of growing interdependence has contributed to changing popular modes of thinking.

I. CHINA'S CLOSER LINKS WITH THE OUTSIDE WORLD AND THEIR IMPACT ON HER ECONOMY

Foreign Trade

The openness of China's economy is first and foremost reflected in its rapid foreign trade growth. In 1978, the total

²⁸⁸ Ibid., p.34.

amount of imports and exports was \$20.6 billion. By 1989, it had reached \$111.68 billion.²⁸⁹ The average annual pace of trade expansion was in excess of 15%, over three times the rate of growth of world trade. During this decade, China's role in the world economy grew significantly. In 1978, China ranked thirty-second among the world's exporting countries. By 1989, it shot up to become the thirteenth largest exporting country.²⁹⁰ In the process its share of world trade almost doubled. That means that China's exports surpassed those of several industrial market economies such as Australia, Spain, Denmark as well as several upper middle-income developing countries such as Brazil, Mexico, South Africa and Singapore.²⁹¹

Conventionally, analysts use the trade ratio - the ratio of exports plus imports relative to gross national product or national income - as an indicator of the degree of "openness" of an economy, but because of the uncertainties and complexities involved in measuring China's trade volume and its gross nation product (GNP)²⁹², the calculation of China's trade ratio can be

²⁸⁹ Almanac of China's Foreign Economic Relations and Trade 1990, Beijing: Ministry of Foreign Economic Relations and Trade Publishing House. And Chinese Statistical Yearbook 1990, Beijing: Chinese Statistical Publishing House.

Figures in the Almanac of China's Foreign Economic Relations and Trade compiled by Ministry of Foreign Economic Relations and Trade and those in the Chinese Statistical Yearbook compiled by the General Customs Administration are different because they differ in coverage, valuation and recording times. See Nicholas Lardy. Foreign Trade and Economic Reform in China 1978-1990, Cambridge, New York: Cambridge Univ. Press, 1992, pp.12-13.

²⁹⁰ Almanac of China's Foreign Economic Relations and Trade 1990, Beijing: Ministry of Foreign Economic Relations and Trade Publishing House.

²⁹¹ See Lardy, Nicholas. op.cit., pp.12-15.

²⁹² China compiles its trade data in U.S. dollars, and its GNP in terms of domestic currency. The calculations are likely to mislead mainly for two reasons: one, for China's economy, the relative prices of non-traded goods and particularly services are fixed by the government at unusually low levels; two, the official exchange rate usually underestimates the true value of

highly misleading. For example, in the Almanac of Chinese Economy in 1989, the trade ratio was calculated as 27.9%²⁹³. However, although it is difficult to judge accurately China's trade ratio, by comparing the growth of China's trade and its GNP in the 1980s, one can find that the foreign trade grew faster than GNP after 1978. Indexes of China foreign trade and gross national product show that real GNP more than doubled from 100(1978) to 250.2(1988), whereas the real volume of foreign trade more than tripled from 100 to 320 in the same period.²⁹⁴ Therefore, one can conclude that China's trade ratio did become higher in the last decade and the openness of China's economy did increase considerably. As a result, the influence of foreign trade on China's domestic economy has been greatly heightened. China's imports contribute significantly to increased levels of technological sophistication and production capacity in a number of key domestic industries. At the same time, international markets are a growing source of demand for Chinese goods. Because foreign trade has grown far more rapidly than the domestic economy, in a sense trade has served as an engine of growth.

Likewise, various kinds of foreign aid and loans have gone a long way in alleviating China's dire shortage of capital and investment in its development. Since 1978, the Chinese government have begun to accept massive foreign aid, loans and credits from international financial organizations, foreign governments and commercial banks. By the end of the 1980s, China borrowed more than \$50 billion altogether, most of which was used in the construction of the 100 or so key projects, especially for the improvement of the infrastructure.

the currency as measured by its purchasing power parity. See Lardy, Nicholas. op.cit., pp.150-155.

²⁹³ Almanac of Chinese Economy in 1989, Beijing: Economic Management Publishing House, 1990.

²⁹⁴ See Lardy, Nicholas. Appendix, Table B.2, op.cit., p.154.

DFI

The rapid development of direct foreign investment in the last decade has done more than any other factor to integrate the Chinese economy into the world economy. Its impact on China's development has gone far beyond the economic sphere.

Since China's first joint venture was established in 1979, more than 32,000 foreign-invested firms were established and a total of US \$40.36 billion were invested by early 1990.²⁹⁵ Of the first 500 big enterprises in China, only 6 were foreign-related in 1986; by 1991 as many as 32 were foreign-related.²⁹⁶

Though judging by their share in the composition of the total industrial output value, the role of foreign-invested firms in China's economy still could not be said to be much more than marginal,²⁹⁷ nevertheless the FRE in reality is having a much greater influence than the percentage can suggest mainly for the following two reasons.

Firstly, China's development is very uneven. The gaps between regions are huge. Generally speaking, the East and South-East are much more developed than the other parts of China. With a population of only 19.5% of the national total, the 11 open coastal provinces (from Liaoning to Guangxi and Hainan provinces) accounted for almost 40% of national gross values of industrial output, 33.4% of gross domestic product and

²⁹⁵ Pomfret, Richard. op.cit.

²⁹⁶ Economic Daily, 4.6.1992.

²⁹⁷ China's total industrial value of output consists of four categories: state economy, collective economy, private economy and others. The FRE is included under the item of "others" together with the cooperative enterprises between state and collectives, between state and individuals and between collective and individuals. The percentage of "the others" was 0.48% in 1980 and 4.38% in 1990 (See Almanac of Chinese Economy in 1990, Beijing: Economic Management Publishing House, 1991). Despite a tenfold increase, the percentage was still quite small.

25.91% of all local budget revenue.²⁹⁸

Thus, if it is true to say that the East and the South-East regions are vital to the national economy, then it is also true to say that DFI is playing a very important role in China's overall economy, because it is in these more developed regions that most of the DFI is concentrated and it has been widely recognized as playing an increasingly important and indispensable role there.²⁹⁹

As a commentary in the Economic Daily said: "Though the proportion of San-zi (FRE) enterprises in the overall national economy is still small; they have played a very positive role in absorbing foreign capital, introducing technology and talented people into our country, in increasing exports and in adjusting our industrial structure."³⁰⁰

Secondly, the percentage of foreign-invested firms may still be small, they nevertheless belong to the most healthy and viable part of China's economy and their performance, on the whole, is much better compared with that of the state economy. As late as 1991, one third of state enterprises continued to be loss-making and another third barely broke even.

Out of the some 58 billion yuan deficit in 1991 calculated by international standards, which include foreign and domestic debts, "Subsidies to loss-making state industries cost the government 50.6 billion yuan."³⁰¹

Therefore, it has been widely recognized that it is the private sector, which includes the foreign-invested firms, that has been the main driving force in China's economic development in the last decade. This becomes even clearer by examining the

²⁹⁸ State Statistical Bureau, Economic Research and Statistical Materials for the Economically Open Coastal Areas, Beijing: China Statistical Publishing House, 1989.

²⁹⁹ A speech in a conference on foreign investment by Vice Premier Tian Jiyun, People's Daily, 28.6.1991.

³⁰⁰ Economic Daily, 4.6.1992.

³⁰¹ The Economist, 28.3.1992. p.72.

source of export growth in the 1980s. "By 1990 exports of foreign-invested firms at \$7.8 billion, and township and village enterprises, at \$12.5 billion, accounted for one third of China's exports. Astonishingly, they accounted for almost half of the growth of exports over the decade of the 1980s."³⁰² Thus the credit for China's rapid development should directly go to them rather than the ailing state enterprises. The increasing importance and impact of the FRE can be seen even more clearly through examining the way that the leadership approached the issue of revitalizing the state enterprises at the end of the 1980s.

The national leadership has been calling for and attempting to revitalize the state enterprises ever since the end of the 1970s, however, there is a substantial difference between then and the end of the 1980s and the beginning of the 1990s. At the end of the 1970s, the leadership saw the question of revitalizing the state enterprises as essentially an economic issue and it regarded the challenge to their performance as coming from outside China, especially the four little tigers of Asia. But by the end of the 1980s and the beginning of the 1990s, it has become a political issue as well as an economic one and the challenge or threat to their role comes from within as well as from without. This could be duly regarded as an example of the consequences of China's increasing interdependence with the outside world. To illustrate this point I shall just quote a paragraph from an article written by the Director of the Institute of Economics of the Chinese Academy of Social Sciences. He writes:

To build socialism with Chinese characteristics, to give full play to the superiority of the socialist system, the most important thing, in terms of the economy, is to increase continuously the vitality of the state-run large- and medium-sized enterprises. Only thus can the dominant position of public ownership be consolidated, and people's faith in socialism strengthened. Despite the fact that, if measured in terms of the size of enterprises, the size of

³⁰² Staff reporter, "Exports Boom for Foreign Funded Firms", China Daily, 21.1.1991. Cited in Lardy, Nicholas. op.cit..

the workforce and registered capital, socialist public ownership is still in an absolutely dominant position, the last decade has witnessed a sharp fall in the ratio of the state economy in the national economy. In terms of the value of national industrial output value, the share of state-run industry is falling at the rate of 2% or so each year from the high point of 76% in 1978 to 54.5% in 1990, more than a 20% drop. As against that the collective economy, especially the individual economy, private economy and FRE have been growing very fast. Out of the national gross value of industrial output, from 1980 to 1990 the share of the collective economy went up from 24% to 35.6%, that of the individual enterprises went up from 0.02% to 5.4%, and the other enterprises including foreign-owned and joint ventures went up from 0 to 4.5%. ... If this trend were to continue, the superiority and dominant position of the state economy in the national economy will be lost. The dominant position of socialist public ownership will either be replaced by non-socialist economic elements or by the collective economy.³⁰³

Of course, contacts with the outside world and the impact of interdependence under the opening-up policy are not confined to the economic area alone. During the last ten years, the Chinese government has sent more than 100,000 scholars and students to Western countries and Japan for study and training.³⁰⁴ In turn, thousands of foreign scholars have been invited to China to give lectures and seminars on various academic subjects. Furthermore, the government of China has loosened its control over the flow of information from abroad and it has also made it easier for Chinese citizens to leave the country. China has rapidly expanded its tourist industry and expanded its export of labour to the international market. All these have, to some extent, exerted their influence both on China's domestic social and political development and on China's political relations with the outside world, and the most significant and far-reaching influence is undoubtedly on popular modes of thinking.

³⁰³ Guangming Daily, 20.11.1991.

³⁰⁴ People's Daily, 14.8.1992.

II. THE OPENING-UP AND CHANGES IN POPULAR MODES OF THINKING

In his book China's Crisis, China's Hope, Mr. Liu Binyan, a major critic and perhaps China's best known journalist, writes:

I often speak of two processes in motion at the same time, one a system of organized economic reforms originating in the Central Committee, the other a series of great spontaneous transformations going on at the lower levels of society and spreading into every facet of the people's lives. The latter changes are far more profound than the former, since they involve the people's economic status, political situation, lifestyles, interpersonal relationships, modes of thinking and ethical values. These are the forces that will someday determine the future of China.³⁰⁵

Indeed, one of the most noticeable changes in China's last decade has been the ever growing autonomy, spontaneity and uncontrollability in many aspects of social life. The mind emancipation campaign at the end of the 1970s and the ensuing liberalization of the economy and the opening-up towards the outside world all helped people to break away from the old mental restrictions and made it possible for more and more people to begin to think for themselves. With regard to China's opening-up, the change in popular modes of thinking could be regarded as both an effect and an important measure of China's ever increasing interdependence with the outside world and as the ultimate force driving China into further integration with the world community.

In my interviews with the FRE local elite³⁰⁶, I tried hard to find out how they perceived China's on-going opening-up and economic reforms. For example, what did they think were the advantages and disadvantages in using DFI for the development of China's national economy? How did they understand the concepts

³⁰⁵ Liu Binyan. China's Crisis, China's Hope, Cambridge, Massachusetts, London: Harvard Univ. Press, 1990, p.xix.

³⁰⁶ "FRE local elite" here refers to the local officials, managers, economists and policy advisers who work for the FRE.

and relationships of dependence, independence, self-reliance and interdependence? What did they see as the main obstacles to furthering the opening-up and economic reforms? And what were their views on some of the fundamental issues such as ownership, and the relationship between a market and a planned economy?

The modes of thinking and the changes in them represented by the FRE local elite are of enormous significance, for although the economic reforms and the opening-up were originated by the pragmatic and reform-minded national leaders, it is these people who are carrying out the policies. In this sense, their modes of thinking and vision would, in the long run, determine the success or failure of China's reform and opening-up. As John T. Thoburn and others concluded in their study, Foreign Investment in China Under the Open Policy:

... in practice, the attitudes of local officials have been as important a factor (as tax reduction and other incentives) in Hong Kong businessmen's decision on where to invest. Also, foreign investment into China has been attracted usually by Chinese companies and local authorities who wish to work in partnership with foreign firms, not by the national government. And whether the Hong Kong firm can bring about the required organizational changes within the company depends much on the attitude of the Chinese partner. Whether the Chinese partner in a joint venture can make full use of its status and carry out the required reforms is very much dependent on the vision of the local managers especially in the state companies, one of the least reformed areas of the Chinese economy. For a reform-minded management, a foreign partnership greatly strengthens their ability not only to import foreign technology and find foreign marketing outlets, but also to introduce enterprise reform. All san zi (foreign-related) ventures are supposed to be allowed to employ workers on contract, whose services can be dispensed with if they do not perform adequately, and local managers can learn about modern management techniques.... If the Chinese company is not reform-minded, but simply wants the foreign exchange or the kudos of following the open policy, problems can arise with the foreign partner if the partner wishes to introduce a Hong Kong (or Western) style of management.³⁰⁷

The discussion on the changes in the modes of thinking of

³⁰⁷ Thoburn, John T. op. cit, pp.4-5, 19-20.

the FRE local elite will cover the following three aspects: their attitudes towards the advantages and disadvantages of the FRE; their understanding of independence and interdependence; and their viewpoints on some of the main issues which are crucial to furthering the opening-up and economic reforms.

A. Attitudes Towards the Advantages and Disadvantages of the FRE

In view of the serious damage inflicted upon the Chinese economy by the rigid pursuit of the policy of self-reliance during the "Cultural Revolution", the post-Mao leadership took the approach that the process of modernizing the economy could be accelerated with the help of foreign countries and firms.

In adopting the outward-looking, or "interdependent" developmental strategy, China hoped to benefit from participating in the world economic structure of the international division of labour and from engaging itself in the give and take of the world economy. But it is not a risk-free strategy, for by exposing a poor country's fragile domestic economy to the consequences of foreign economic penetration it could reduce the poor country to a dependent status in the international hierarchy.

As discussed before, the Chinese reformist leaders were aware that there would be a price to pay for opening the door to the outside world. They knew that no foreign advanced technology would be given for nothing, no foreign investment would come unless profits could be gained. And besides that, unwanted Western social, cultural or even political influences would also creep in. Nevertheless, the reformers seemed to be willing to pay a price, believing that gains would far outweigh the losses. Deng Xiaoping, for example, appeared to be confident that the negative aspects of opening up towards foreign investment could be kept under control for the following two reasons:

First, the socialist economy was seen to be the mainstay of the whole economy. In his talk with the Japanese delegation to

the Second Session of the Council of Sino-Japanese Non-Governmental Figures in 1984, Deng stated that:

Our socialist economic base is so huge that it can absorb tens and hundreds of billions of dollars' worth of foreign funds without shaking the socialist foundation. Besides, we adhere to the socialist principle of distribution and do not tolerate economic polarization. Thus, foreign investment will serve as a major supplement to the building of socialism in our country. And as things stand now, this supplement is indispensable. ... Naturally, some problems will arise in the wake of foreign investment. But the negative aspects are far less significant than the positive use we can make of it to accelerate our development. It may entail a slight risk, but not much.³⁰⁸

Later that year, at the Third Plenary Session of the Central Advisory Commission of the CCP, Deng gave a lesson to the old cadres who "are always worried that undesirable things may happen" under the open-door policy. Deng said:

Some of our comrades, ... worry that the country might go capitalist, ... but such a thing will not happen. ... However much we open up in the next 16 years before the end of the century, the publicly-owned economy will remain predominant. Even in a joint venture with foreigners, half is socialist-owned. And we will take more than half of the actual earnings from joint ventures. So, don't be afraid. It is the country and the people who will benefit most from them, not the capitalists. Negative effects are inevitable but we can deal with them.³⁰⁹

And second, the socialist state apparatus was regarded as the guarantor against unwanted influences. In dealing with the negative influence that would arise from the open-door policy, Deng said, "We should be sure not to overlook the role played by the state apparatus." He said: "Our socialist state apparatus is so powerful that it can intervene to correct any deviations. To be sure, the open policy entails risks, some decadent bourgeois things may be brought into China. But with our socialist policies and state apparatus, we shall be able to cope with

³⁰⁸ Deng Xiaoping. Fundamental Issues in Present-Day China, Beijing: Foreign Languages Press, 1987, p.57.

³⁰⁹ Ibid., p.80.

them. So there is nothing to fear."³¹⁰

Yet some in the leadership were not so sure whether the open door policy was 'in the nation's best interests. They feared that the open door policy would weaken the Chinese resolve for self-reliance and lead to dependency on foreign firms and countries.³¹¹ It is against that background that I will consider how the actual practitioners of the opening-up policy, i.e. the FRE local elite, have evaluated the advantages and disadvantages of the FRE.

(1) Advantages

By the beginning of the 1990s, after more than ten years of economic reforms and opening-up, my overall impression is that the local elite working for the FRE have a predominantly positive attitude towards the opening-up strategy. To be sure, in the early years, deeply constrained by the old ideological and historical mentality and the lack of experience in dealing with foreign investors, many local politicians and economic administrators adopted a rather cautious or even suspicious attitude towards foreign investment. At that time the notions of "being exploited", "loss of national interests", "collusion with the West, especially the Japanese, the former invaders of China" did loom very large in people's minds. But with the growing recognition of the current and potential benefits of DFI, a more positive attitude toward foreign-invested firms was formed. Almost all of the managers and local officials I interviewed agreed that DFI had indeed brought a lot of benefit to the Chinese economy and disadvantages have only been secondary. The advantages may be listed as follows:

(a) A closed and inward-looking economic structure has begun to be broken up. As Prof. Chen Yue, a distinguished

³¹⁰ Ibid., p.124.

³¹¹ For example, see Strategies For Joint Ventures in the People's Republic of China, by Ike Mathur and Chen Zai-sheng. Connecticut London: Praeger, 1987, pp.134-136.

academic and senior advisor to Tianjin foreign-related economic development, pointed out:

The most significant and far-reaching advantage of using DFI is that China's economy has begun to be linked with the world economy which will enable us, first of all, to take an active part in the international division of labour and make full use of our comparative advantages of cheap labour; and second, to break free from the beaten track of our economic development, namely, high investment, low output, and the pursuit of high speed rather than efficiency. Both of these can make it possible for China to accumulate wealth more quickly and to strengthen greatly the economic foundation.³¹²

(b) DFI has played an outstanding role, especially in the latter half of the 1980s, in speeding up China's economic development and improving people's living standard. Just consider Tang Gu - one of Tianjin's three coastal districts and where Tianjin's Economic-Technological Development Area is located. In the year 1990, the district's 135 foreign-invested firms turned out a gross value output of 800 million yuan, which is more than a third of the total of the district.³¹³ The leader of Tang Gu district once said: "With the establishment of TEDA in Tang Gu and the modernization of the harbour, Tang Gu has seen rapid development in the 1980s. New buildings, hotels and factories are going up everywhere. Tang Gu has become an important outward-oriented developmental zone bursting with vitality."³¹⁴

The role DFI has played in improving people's living standard is even more evident. Given that products made abroad are either not easily available or beyond ordinary people's purchasing power, many products made by foreign-invested firms have become the next best choice. Advertisements of joint-venture-made products can be seen everywhere, on TV, in newspapers and in the streets. They give people a much wider

³¹² Interview with Prof. Chen Yue.

³¹³ People's Daily, 27.6.1991. P.3.

³¹⁴ Ibid..

and usually a much better choice. A very good example was given by Mr. Han Bing. His Sino-Danish Enterprise Co. Ltd. is a joint venture producing high-grade bicycles. "BuGatti" and many other newly-designed colour bicycles made by this joint venture have become the most sought after bicycles on the market.³¹⁵ The three old brands "Flying-pigeon", "Phoenix" and "Eternity" have lost their more than three decade long dominance of the market in just a couple of years.

Another obvious benefit of developing the FRE is in the area of employment. In Tang Gu, where TEDA is located, the emergence of so many foreign-invested firms has meant that almost all of the high school graduates could easily find a job. As a matter of fact, it has become very difficult for the most recently established joint ventures to hire as many high school graduates as they would like, which is in sharp contrast with the early 1980s when a great number of young people were "waiting for jobs". Moreover, it has become a plain fact that people are materially much better off if they work for joint ventures or live in areas where joint ventures have proliferated.

(c) Closely related to the above point is the positive role played by DFI in accelerating China's technological progress. As the above-mentioned Sino-Danish Enterprise Co. Ltd. has clearly shown, the joint venture has rapidly narrowed the gap in the bicycle industry between China and the developed countries. Again, as Mr Han Bing told me, with the establishment of the Sino-Danish Enterprise Co. Ltd. and the emergence of so many types of better made, better designed bicycles on the market, the Tianjin Bicycle Factory came under huge pressure. This is one of China's largest bicycle producers that produces one of the "old three" most prestigious bicycles - the "Flying-Pigeon". In order to secure its own survival, the Tianjin-Bicycle Factory established a very close relationship with the Sino-Danish Enterprise Co. Ltd. with the aim of absorbing the latter's

³¹⁵ Interview with Mr. Han Bing.

advanced technology and upgrading its own bicycle production.³¹⁶

Another very telling example in this regard is the case of the Tianjin United Tyre and Rubber International Co. Ltd. (TUTRIC) mentioned previously. Although the actual development of the Sino-Canadian joint venture itself was far from smooth, in terms of technology transfer and technological progress, it should definitely be classified as a success. As Vice Manager Zhang said:

The introduction of new technology through the establishment of the joint venture has indeed saved a lot of money and much time. In order to acquire the technology for producing huge engineering tyres, the government invested a great amount of money both in the period of the Sixth Five Year Plan (1981-85) and the Seventh Five Year Plan (1986-90), however the results were far from satisfactory. In contrast, we managed to produce the engineering tyre required within just one year - 1988.³¹⁷

(d) The experience of dealing with foreign investors has facilitated changes in conceptions and ideas which has been regarded by the FRE local elite as one of the far-reaching results of absorbing DFI. As several of the policy advisers of the Developmental Area once noted in an article:

The achievements made in the aspect of conceptual changes are as important as those made in the economic area: a large number of young cadres with new ideas and greater professional ability have emerged; the conceptions and ideas of democracy, legality, competition, efficiency, fairness, the realization of individual value, etc. have been accepted and better understood by more and more people; 'project is life', 'investor is king' and other similar slogans have become widespread and accepted; the democratization of political life has become the demand of more and more people.³¹⁸

(2) Disadvantages

The discussions and debates regarding the advantages and disadvantages of attracting and making use of foreign investment

³¹⁶ Ibid.

³¹⁷ Interview with Mr. Zhang.

³¹⁸ Chen Yue, Pi Qiansheng. op.cit., p.453.

have never stopped in the last decade. The well-publicized article published in all of China's major newspapers and magazines at the end of 1990, "The World Economic Situation and China's Economic Problems - a talk between He Xin and Japanese Economic Professor S" again strongly argued about the dilemma faced by China and the other developing countries in absorbing foreign investment. (I shall give a more detailed analysis of Mr. He's article in the Conclusion.)

The relatively unfavourable position of developing countries in the international division of labour and the features of unpredictability in the international intercourse have been described and analyzed in the theoretical discussion of the relationship between independence and interdependence in Chapter II. Here, it is necessary to examine how the grass-root level practitioners of the opening-up policy looked at the disadvantages in making use of DFI.

What many people concern most is whether DFI could retard the development of domestic industry and in the end damage China's national economy even though it may increase China's export capacity and help obtain badly needed capital, technology and managerial know-how. In this regard, the question often-raised is the competition between DFI and home-made products, and one of the most controversial cases I came across during my fieldwork is the joint venture with the Coca Cola Company.

Before I went to Tianjin to conduct the fieldwork, I was aware that opinions were quite divided on the desirability of the consequences of having a joint venture with the Coca Cola Company and selling the products on China's market. So I was eager to find out more about the development of the joint venture and people's attitudes towards the impact of the establishment of the corporation. Besides talking about this joint venture with officials in the Municipal Planning Commission, who were clear about the decision-making process over the joint venture, I managed to visit the enterprise and had talks with some of its managers and cadres.

Both Coca Cola and Pepsi have established several bottling

operations in China, and Coca Cola has a wholly foreign-owned corporation (WFO) in Shanghai and Pepsi a WFO one in Guangzhou to make the syrup for these joint ventures. Tianjin Jin Mei Beverage Co. Ltd. - Tianjin's joint venture with the Asian Branch of Coca Cola Company - was approved in 1987, the first Sino-American joint venture to produce beverage base in China.

Because the products were considered to be luxuries, soft drink joint ventures were not encouraged by government policy and the approval of these kinds of applications was supposed to be strictly controlled. However, as Prof. Pomfret has mentioned: "To ward off criticism of their luxury aspect, both (Coca Cola and Pepsi - author) have found strong PRC sponsors, as Coca Cola's operations almost all involve CITIC (China International Trust and Investment Corporation) as a partner and Pepsi has good relations with local Guangzhou and Guangdong authorities."³¹⁹ Tianjin's joint venture also had its superior sponsor. In this case it was China's Light Industry Ministry, which has 15% shares in this highly profitable enterprise. The Ministry's share was said to have played a decisive role in obtaining approval for the joint venture.³²⁰

After it went into formal operation in October 1990, it soon proved to be a huge success in terms of profits. In the first year, the gross value of output was as high as more than 110 million yuan and the profit was more than 11 million yuan.³²¹

But the "negative" or "undesirable impact", as some people said, was also obvious. Actually it was even more noticeable to me as I had stayed abroad since 1988. In the shops almost all the previously home-made soft drinks had disappeared. Instead, "Coca" "Sprite" and "Fanta", etc. could be seen everywhere. Four soft drinks factories in Tianjin had either been forced out

³¹⁹ Pomfret, Richard. op.cit., p.118.

³²⁰ Talk with cadres in Tianjin Planning Commission, Tianjin, China, April 1991.

³²¹ People's Daily, 26.4.1991.

of operation or were producing only a very limited number of products due to loss of market. The shrewd move the Coca Cola Company made was to establish the joint venture with the best soft drinks producer in Tianjin which had been producing one of China's best-known soft drinks "Shanghai Guan".

Besides the rapid domination of China's soft drinks market, some other unpleasant aspects have presented themselves. As one of the managerial staff said: "Coca Cola is determined to control China's soft drinks market and dump its goods in China. We in the joint venture can distinctly feel that the foreign investor would not like to see China increase its capability of producing its own concentrate."³²²

As mentioned above, both Coca Cola and Pepsi have established their own WFO in China. This is for the purpose of producing the concentrate so as not to put their secret formula at risk. But in Tianjin's case, the approval of the joint venture was granted on the condition that Coca Cola Company should help China to produce its own beverage base or concentrate. Though a new concentrate called "Jin Mei Le" has been produced and widely accepted on the market, nevertheless, as a member of the managerial staff said, the American side had a very ambivalent attitude towards helping China to produce its own concentrate. They were afraid that China's own concentrate would compete with their own and threaten their markets. She told me:

Last year, Chinese technicians managed to trial-produce a new concentrate which is very similar in its flavour to 'Sprite'. But since Coca Cola company has a share of 50% of the total investment, it has final control over the products. According to the contract, new trial-produced products must be sent for approval to Hong Kong, where the Asian Branch of Coca Cola Company is located. The above-mentioned 'Sprite'-like product understandably was not approved by the Asian branch.³²³

³²² Interviews with some managerial staff of Tianjin Jin Mei Beverage Co. Ltd. Tianjin, China, April 1991.

³²³ Ibid.

The cadre also said: "We have a very strong feeling of being led by the nose, by the foreign partners. Since the American side has half of the investment, they are in full control. We have to rely on them for capital, technology and concentrate."³²⁴

Thanks to the four principles concerning DFI proclaimed by the Chinese government, namely, encouragement, restriction, prohibition and permission, so far there have not been examples of severe competition between home-made products and DFI-made ones on a large scale, but some degree of competition has become obvious, as shown in the case of the Sino-American Tianjin Smithkline & French Laboratories Ltd, one of Tianjin's most successful joint ventures. The joint venture mainly produces tablets and capsules and has an annual production capacity of 1 billion tablets and 200 million capsules. Its manufacturing facility is designed strictly to comply with the G.M.P. standard stipulated by the American Food and Drugs Administration. All the major production equipment, which is computerized and has a high efficiency, were imported from countries such as the U.K., Germany and Italy. Moreover, all of the current products of the joint venture were introduced from the Smithkline Beckman Corporation. Its products are so competitive that the business of China's wholesale departments of drugs have been severely affected.³²⁵

The controversy and debate over absorbing foreign capital and technology and protecting the national economy also occurred over the establishment of Tianjin's Sino-IBM joint venture, whose vice manager described to me the two opposed viewpoints among the ministerial leadership concerning the joint venture.

One was held by the then Minister of Engineering and Electronics, Li Tieying (a member of the Politburo of the CCP and a member of the State Council from 1987), the Chief of the Computer Department of the ministry and some other leaders.

³²⁴ Ibid.

³²⁵ Interview with Mr. You Qilu.

They argued that China had spent many years in developing its computer industry but it had failed to make satisfactory advances. Computer manufacture, had, after all, become an international industry. By establishing joint ventures with a large computer corporation such as IBM, China's computer industry could be brought forward so as to catch up with the advanced technology more quickly, which would benefit China in the long run. The other view was represented by the Vice Minister in charge of day-to-day business, the Chief of the Production Department of the ministry and others. They argued that China already had the "Great Wall" computer company, which was enough for China's limited market. Accordingly, the national computer industry should be fostered, otherwise it would be overwhelmed.

After many debates and much manoeuvring, the joint venture was established in 1990³²⁶. But it still faced certain problems in its development, one of these being the obvious discrepancy between the goals of the Chinese Ministry-in-charge and the IBM Corporation. The Ministry of Engineering and Electronics hoped that: (a) by relying on the technology of IBM, China could export an increasing number of computers; (b) the exportation of Tianjin's software products could also be promoted; (c) within a few years' time, the joint venture could use more than 40% China-made parts; and (d) through the process of increasing the proportion of China-made parts, China's industry of basic computer parts production could be updated. On the other hand, IBM's main goals were: (a) to occupy 25% of China's computer market with Ps2 products; (b) to set up a foothold for the long-term entry into China's computer market, and in support of that aim it recognized the need to train a large number of managerial

³²⁶ Its establishment was badly disrupted and affected by the June 1989 events. When the negotiations were coming to the conclusion, the events took place and the IBM negotiators were immediately called back. Although the agreement was at last reached in 1990, the investment was reduced from the original \$30 million to \$300 thousand. From interview with a Vice Manager of the joint venture.

personnel and workers; (c) to increase the joint venture investment to \$10 million as soon as possible; and (d) they hoped Tianjin could take the lead in using Ps2 computers.

Another problem still faced by the joint venture was that because of the different viewpoints in the ministerial leadership, the managers of the joint venture had to be very cautious in dealing with the interpersonal relationships. Each year, they had to try very hard and do a lot to get permission to import computer parts because the Chief of the Second Department of Provision held the more negative view described above. As for the foreign investors, the Vice Manager said they understood the disagreement among the ministerial leadership very well. They did not expect a very satisfactory development in the short run but saw good prospects in the long run. Every year there would be some senior figures from IBM would arrive in Beijing to undertake some manoeuvring and persuasion.³²⁷

Then how do the local elite view the disadvantages?

They generally agree that there has to be a price, or so-called "tuition fee" to pay. They realized that some foreign investors, especially the smaller ones, tend to adopt a short-term attitude and try to gain benefits by every means, fair or foul, sometimes at the expense of the Chinese partners. It necessarily takes time for Chinese business people to become more experienced and mature in dealing with foreign investors. As one of the officials in TEDA said: "As a weaker partner, we were clearly in a disadvantageous position and could sometimes suffer some losses. But it was by cooperating and competing with the better and stronger, that in the end, we were able to increase our own capabilities."³²⁸

However, in the interviews, what the local officials and managers emphasized most was that many of the mistakes and losses could have been avoided, and that the failure to do so

³²⁷ Interview with Vice Manager of Tianjin - IBM joint venture. Tianjin, China. April 1991.

³²⁸ Interview with Mr. Yan Zheng.

clearly revealed the defects in the decision-making process and in the economic structure. In their views first of all, there was no well thought-out, comprehensive and coherent blueprint for the opening-up from the very beginning. Secondly, no institutionalized or sound decision-making mechanisms had been established. As the well-known economist and former president of Nankai University, Professor Teng Weizao pointed out: "Among the leaders above the bureau level, very few are graduates of economics. They still very much rely on 'patting their heads' to make decisions. When asked about the feasibility and efficiency of a project, they would say 'I did not think of it in that way, what I know is that there must be some advantages for us to have the foreign investment.'" ³²⁹ Thirdly, the losses and failures resulted from the re-emergence of regionalism and from the central government's inability and ineffectiveness in tackling the problems. They agreed that with the liberalization of the economy, regionalism was an inevitable and not totally undesirable phenomenon. But the unchecked regionalism often characterized by "using one's neighbour's field as a drain" (shifting one's troubles onto others) and regional protectionism, could be very harmful and disruptive especially when the respective interests and responsibilities of the centre and regions have not been defined. The problems, many argued, lay in the failure of the government to put adequate emphasis on the national interests from the very beginning of the opening-up and to establish new mechanisms of overall control in good time. Some drastic administrative measures were hastily taken only after a large amount of hard-earned hard currency had already been spent on importing cars and other consumer goods. Dozens of TV and refrigerator production lines had been bought from abroad by many regions³³⁰ and the national reserve of hard

³²⁹ Interview with Mr. Teng Weizao.

³³⁰ By 1985, 113 assembly lines of colour TV sets were set up, of these only 24 were authorized by the central government, while the remaining 89 were approved by local authorities.

currency had plummeted. That was when losses and damages had already been incurred.

The economists I interviewed often compared China with the four NIEs in East Asia. Professor Chen Yue said, for instance:

Many problems that have become prevalent here did not occur in South Korea in the process of modernization. For instance, when South Korea began to export colour TV sets, most of the Korean people were still watching black and white. They also had very strict control on the importation of cars and electric appliances. Unlike China, most of the cars used there were made in South Korea.

He stressed:

Opening-up requires a well-organized and highly effective decision-making system, which is still obviously lacking in China. Besides, the relationship between the central government and local governments must also be sorted out. Under the current system, once the centre loosens its control, the localities would make best use of the opportunity for their own interests, which would always turn out to be in some ways disadvantageous or detrimental to the overall development and interest of the nation.³³¹

As far as the competition between the DFI and home-made products is concerned, the local elite's attitude was somewhat divided and ambivalent. They all agreed that one of the most important aims of absorbing DFI was to facilitate competition so that all the production would be oriented towards quality and efficiency rather than quantity. Even in the case of soft drinks some people pointed out that the joint ventures with Coco Cola and Pepsi Cola Companies had brought China's soft drinks production and consumption to the international level in a very short period of time.

However, some people argued it was wrong to give away the soft drink consumption market to the multinational corporations. No national industry could compete with Coco Cola and the like. The national soft drinks industry was doomed to suffer. Prof. Teng Weizao said: "Our economy is said to be a planned economy,

Economic Daily, 15.1.1992.

³³¹ Interview with Professor Chen Yue.

but in many cases, there is little plan where plan is most needed and little protection where protection is most needed."³³²

The attitudes of many people were determined by their own interests. The officials and workers in joint ventures, for example, usually enjoying handsome wages and bonuses, were naturally happy and supportive. The local government followed a similar approach. As one official said: "What the local government cares about most is how to fulfil the task of turning over required profits to the central government. So long as the joint ventures can make more money and make a contribution to the local economy, all is fine. As for the issue of advantages or disadvantages to the national economy, it is beyond their consideration."³³³

B. Attitudes Towards Independence and Interdependence

Compared with the problem of advantages and disadvantages, the issues of independence, interdependence and the relationship between the two at first sight seem to be too academic and irrelevant to the actual practice of the opening-up policies. But through my interviews I found that the practitioners of the FRE do ponder the issues seriously and hold certain views, and these questions do have their practical implications for the opening-up policy as well. As a theoretical discussion on independence and interdependence was undertaken in Chapter II, I shall further explore the question here by considering several practical issues so as to illustrate how the elite looked at the questions.

(1). DFI vis-à-vis Sovereignty and Independence

As the memory of China being trampled on, her people

³³² Interview with Prof. Teng Weizao.

³³³ Interview with an official in the Tianjin Planning Commission, Tianjin, China. April 1991.

oppressed and her territory seized still remains fresh in the minds of the older generations, every major move in China's process of opening-up towards the outside world, especially the capitalist West, has been questioned, criticized or even condemned by some people. The return of foreign capitalists, especially the Japanese; the establishment of foreign-invested firms, especially the WFO ones; the setting-up of the SEZs and the like, have, in some people's minds, revived the issues of exploitation, sovereignty and concessions, etc.

The debates and criticisms have continued and have sometimes become intensive and severe. To illustrate this, let us look at the matter of land sale, another major move of the opening-up beginning at the end of the 1980s.

To lease land is the latest development in using foreign capital. In 1989, the government of Hainan Island declared at a news conference that the government had decided to lease 30 sq.km. of land in Yangpu Developmental Area of Hainan Island to a contractor for seventy years. A Japanese company registered in Hong Kong offered to buy it at 2000 Yuan per mu (equal to one fifteenth of a hectare). This immediately caused a mighty uproar. Some representatives of the National People's Congress and the Political Consultative Conference questioned: "What on earth are you going to do? Even before Hong Kong has been regained, you are beginning to sell Yangpu Habor to the Japanese?"³³⁴ Some condemned it as "inviting a wolf into the house and opening the door to robbers".³³⁵

³³⁴ Xu Dazhang and Huo Shuangmin "On Losses and Gains of the Lease of Land in TEDA", Research on Developmental Area, April 1990. An internal publication in the TEDA. p.2.

³³⁵ China Youth Daily, 17.10.1991. It was revealed later that the general manager of the company is an overseas Chinese, Mr. Yu Yuanping, who was approached on this matter by the former Party Secretary of Hainan Province, Mr. Xu Shijie and Vice President Mr. Wang Zheng. It was also revealed recently that at the height of the "Yangpu Disturbance" in early 1989, Deng Xiaoping gave his instruction to Hainan through telephone from Beijing: "I think the decision made by Hainan Party Committee is correct. It is a rare opportunity, which brooks no delay. But

While the heated debate was still going on, Tianjin, "risking universal condemnation", signed, along with American MGW Corporation, a contract leasing the latter 5.362 sq. km. land in the TEDA for seventy years on August 8 1989. According to the contract, the area will be built into a "comprehensive industrial zone" with WFO as the main part of it. A large building of 52 stories with a height of 211 m., the highest in North-East China, is to be built.

Conceivably, the signing of this contract evoked strong repercussions. Even some people who were not directly related with it at all raised queries about it. For example, a resident of Anqing City of Anhui Province sent a letter to a newspaper, asking whether the sale of land "would be detrimental to the sovereignty of our country? How much advantage could we actually get from it?"³³⁶ More sharp criticism and queries came from people in political, economic, legal and financial circles.

In regard to economic and technical concerns, the main questions raised included: whether the sale price was set too low (at about 3 Yuan per sq.m.); what the gains or earnings on China's side would be and whether the loss would outweigh the gains?

From the political point of view, the questions were much sharper, and criticism also came from higher levels. In cause of my interviews, I was told that a very well-known people's deputy from Beijing led a group of people to inspect the TEDA shortly after the signing of the contract. Upon his return to Beijing, he strongly voiced his condemnation:

While the Qing Dynasty's evil doing of humiliating the nation and forfeiting its sovereignty is still fresh in people's memory, while Hong Kong and Macao are still not regained, how could Chinese people tolerate this new disgrace? ... Tianjin's New Harbour is the gateway to the

you must explain clearly your stand to those holding different opinions outside the Party. The formalities must be completed and done quickly." But the contract was not signed until September 1991, mainly due to the June 1989 events.

³³⁶ Xu Dazhang and Ho Shuangmin, op.cit., p.2.

capital, Beijing; it was here the Eight-Power Allied Forces³³⁷ landed in 1900. Now you have given up the outpost of coastal defence to the Americans, and allowed them to build a 211 m. high building, they can easily get the secrets of our coastal defence; how can we defend our own territory?³³⁸

This resembles the charges made against the plan of land leasing in Hainan Island: "Even with regard to the small islands and wasteland such as the Spratly Islands (Nansha Islands) and the Paracel Islands (Xisha Islands), we fought for every inch of it and many Liberation Army soldiers died in the process, so how could you cede a large area of land near Yangpu Harbour to foreigners?"³³⁹

Some also questioned the length of the lease, saying: "During the seventy years the foreigners can make a fortune, and then leave us an area in ruins". Some said: "By tying our development onto the cart of Americans, we leave ourselves at the mercy of the foreigners. If they go bankrupt, what a huge loss it would bring to our economic construction!"³⁴⁰

The officials in the TEDA stood firm in the face of the censure and condemnation. Policy researchers and advisers published a series of articles arguing strongly for the latest development in using foreign investment. I noticed that quite a few issues of the internal publication Research on the Development Area were devoted wholly to the debate and discussion over this issue in late 1989 and early 1990, which most clearly demonstrated the views and conceptions of the officials and managers not only on the specific issues of land

³³⁷ The Eight-Power Allied Forces refers to the aggressive troops sent by Britain, the United States, Germany, France, Tsarist Russia, Japan, Italy and Austria in 1900, to suppress the anti-colonial imperialist Yi Hequan Movement of the Chinese people. See Chinese English Dictionary, Beijing: People's Publishing House, 1980, p.9.

³³⁸ Xu Dazhang and Huo Shuangmin, op.cit., p.12.

³³⁹ Ibid., pp.13-14.

³⁴⁰ Ibid., p.16.

sale but also on some broader issues such as sovereignty, independence and interrelations with the world economy, etc. Here are some of their main views expressed in several articles in the Research on the Development Area.

(a) Those who have equated land lease with "selling out sovereignty" and "creating new concessions" have mixed up three key notions: lease of land, ownership of land and state sovereignty. State sovereignty is only impaired or lost when the country is invaded by an external force and part or all of the territory is occupied and the political power is interfered with and manipulated, etc. The sale of the land lease for a fixed period of time, however, is only a kind of commercial civil activity, which has nothing to do with impairing the sovereignty, since the foreign investor is only the leaseholder, the activity would not in any way interfere with or manipulate a country's political affairs, it would not affect territorial integrity and the government's jurisdiction over the residents on the land.³⁴¹

(b) Some people's comments on the lease of land and coastal defence can only be treated as sheer nonsense. In our time when modern military science and technology have become so advanced, anybody suggesting that a beachhead can deter or defend is either ignorant or has ulterior motives.³⁴²

(c) People have to look at the land lease from a longer perspective. As with any other policies of the opening-up, we may lose something or not see the benefits clearly in the short run, but it will be beneficial to our national economy in the long run. As the use of DFI has demonstrated, after a few years' development, we have absorbed some advanced technology and managerial know-how; we have extended our foreign economic activities and more and more products have been exported to the world market. After seventy years, the current saline-alkali

³⁴¹ Wei Jianyie. "On Lease and Ownership of Land and State Sovereignty", Research on Development Area, 15.4.1990.

³⁴² Xu Dazhang and Hou Shuangmin. op.cit., p.4.

wasteland would be turned into a developed comprehensive industrial zone as today's Hong Kong and Macao have proved to be most convincingly. As for the lengths of sale, what should be understood is that foreign investors are very shrewd businessmen, different lengths of contract will determine different plans of investment. Only when the contract is long enough could the investor possibly recoup the capital outlay, and invest in those public service items which are necessary for the development of the industrial zone but take considerable time to produce benefits. In short, the more investment is made with a longer point of view, the more beneficial to our national economy it will be.³⁴³

In the interviews with some younger and better-educated administrators and managers, such as Mr. Yan Zheng, a bureau chief of TEDA in his late thirties, Mr. Han Bing, Director of the Association for Enterprises of TEDA also in his late thirties, Mr. Zhang Bingxue, Vice Director of the United Front Work Department of Tianjin Municipal Committee of the CCP, a man in his early forties, we discussed the issues of self-reliance, independence and interdependence.

Some said that China, being a large country, could not rely on anybody else for its survival and development. The fundamental development strategy should be based on self-reliance. But this principle does not mean China should or can isolate itself from the rest of the world. On the contrary, China's independence could be best guaranteed by its integration into the world economy. In today's world, any country that stays outside the world economic system would lag behind and be left in a vulnerable position. In the long run, the benefits from opening-up would outweigh the losses and disadvantages, and the international division of labour could facilitate the rapid development of China's productive force. As for dependency, many of the younger local officials and managers took the view that it is not that easy for a vast country like China to become

³⁴³ Ibid., pp.15-16; and Wei Jianyie. op.cit., p.3.

dependent. The danger does not lie in foreign multinational corporations or foreign countries, but in our incapability to adapt quickly to the new situations and setting up effective macroscopic adjustment and control mechanisms. So far, the foreign debt only amounts to several percent of the total fixed assets. With effective and strict control, China will not be caught in the deep debts as some other developing countries have been.

They also stressed that after a decade of opening-up, China's economy has become more and more interdependent with the world economy. In the coastal areas especially, China's most developed regions, the proportion of the foreign related economy has substantially increased and its role in some regions' economic life has become undeniable and indispensable. If China were to fail to get MFN from the U.S., its export industry as well as the overall economy would suffer huge losses.

Asked about the phenomenon that at the end of the 1980s and the beginning of the 1990s, "independence and self-reliance" were again given much more emphasis than in the early and mid-eighties, some argued that this reflected the views of some leaders of the older generation. Others argued that it had a lot to do with the rapidly changing international situation. Some in the leadership may suspect that, compared with the 1980s, the world political situation might be more changeable and international economic competition might be more intense in the 1990s. They put more emphasis on the "self-reliance" and "independence" so that China could be better prepared for whatever complicated situation might come.³⁴⁴ Some interviewees held a more critical attitude: the development of the modern economy and the international division of labour have negated self-reliance. In dealing with international relations, one must not forget that nowadays everything is closely linked with economic relations, therefore, one must adopt a realistic and pragmatic attitude, and concessions can be made so long as they

³⁴⁴ Also see Beijing Daily, 17.11.1990. p.3.

will increase the welfare of the Chinese people. One of the crucial reasons why the "four Asian tigers" have become industrialized is that they grasped the opportunity offered by the adjustment of the world economy in the 1960s and 70s. Now there is a golden opportunity for China. She, too, must grasp the opportunity and bravely face the challenge.

(2) Import Substitution and Increasing the Proportion of China-made Products

As far as the degree and orientation of the opening-up are concerned, put crudely, there are two distinctly differing views. One holds that China is facing an open world and China's development requires fully opening to the outside world; therefore, in terms of the economy, China should fully participate in the international division of labour and make full use of its comparative advantages so as to genuinely integrate into the interdependent world economy. The other concedes that it is true that China's development needs international cooperation, foreign trade and foreign investment, but these are to serve the long term goal of self sufficiency. Accordingly, on the choice of China's foreign economic development strategies, there are basically two kinds of argument: one "takes import substitution as the long-term strategy in catching up with the large industrial countries. The other holds export promotion or export-orientation as the right strategy."³⁴⁵ The difference between the two is wide and the debate is still going on, which definitely bears with it policy implications. As Nicholas Lardy noted:

While China has reorganized its foreign trade apparatus, undertaken substantial changes in its exchange rate system and curtailed export taxes on some goods in order to promote the growth of export, the transition from import substitution to export promotion is still very partial. Although China's highest political leaders frequently

³⁴⁵ He Lianchen, Zou Dongtao, Yang Qiubao. "On China's Foreign Economic Developmental Strategy and Competition Strategy", China's Economic Problems, No.2, 1991. Also in Xinhua Digest, 6.1991. p.55

reiterate their support of what has come to be called the 'open door policy', they have not necessarily fully understood the necessity of transforming their attitude towards international trade. That attitude is perhaps reflected in Premier Zhao Ziyang's report to China's National People's Congress, in the spring of 1986, on the Seventh Five-Year Plan (1986-1990). On international economic issues he began by recounting the successes achieved under the open door policy and spoke of the need to become more competitive in international markets. But, strikingly, he also called for China 'making every effort to produce at home whatever we can and to expand production of import substitutes and to increase the proportion of goods produced at home,' words that could well have been spoken by Mao Zedong in the period of most extreme autarky and self-reliance. Perhaps the emphasis on import substitution and self-reliance does not reflect the true thinking of China's reformist leadership but is intended for those elements within the Chinese leadership who oppose China's opening policy. But whether these formulations represent a dominant or minority view, they are troubling since they have no room for the pursuit of a long-term trade strategy based on China's underlying comparative advantage.³⁴⁶

For the manufacturing industry including foreign-invested firms, the import-substitution strategy, among other things, means increasing the degree of self-sufficiency in the domestic market and the proportion of goods produced at home. This strategy generally requires tariff protection, administrative control and coordination. In my interviews, I found that many joint ventures were required by higher authorities to increase the proportion of home-made parts. And managers generally disliked the system of having targets imposed from above. For example, in the case of Tianjin's Sino-IBM Company joint venture, the Engineering and Electronics Ministry, the ministry-in-charge of the Chinese side's investor, required the joint venture to reach the target of using 40% China-made products within 5-8 years. The manager told me: "It is an unrealistic target and is unlikely to be fulfilled. We have, first of all,

³⁴⁶ Lardy, Nicholas R. op.cit., 1987, pp.44-45.

to ensure the quality of the parts."³⁴⁷

Professor Teng Weizao, an expert on the world economics, also expressed his view on import substitution: "If China's home-made goods are of high quality, of course it is better and cheaper to use them. The point is we should not lower the standard of the products merely for the sake of increasing the proportion of home-made goods."³⁴⁸ He took a joint venture-made car, Santana, for example. At the beginning, all the parts were imported and the joint venture was only to assemble the car. The quality was very good and it sold well both at home and abroad. Later, according to the target set by the ministry-in-charge, home-made parts took up 50-60%, and the parts were produced by factories chosen by the ministry. Since there was no competition the quality of the parts was not stable and as a result the overall quality of "Santana" fell sharply. Professor Teng Weizao said:

This kind of emphasis on self-reliance is narrow-minded and one-sided. It fails to understand that the basic meaning of opening-up is to learn from others' strong points to offset our weaknesses and make the best use of our own comparative advantage. Besides, this kind of protection of home-made products does not help domestic enterprises enhance their competitiveness in international economic activities, and the chronic malady of the old economic system - low efficiency, high cost and poor quality - are not thereby eliminated.³⁴⁹

(3) "Modelling After the International Investment Environment" and "Acting According to the International Practice"

In dealing with foreign investors, many of the local elite interviewed did not seem to be much influenced by the traditional Chinese wariness about what should and should not be absorbed from the West. The overall mentality, especially among

³⁴⁷ Interview with the Vice Manager of the Sino-IBM joint venture in Tianjin, China. April 1991.

³⁴⁸ Interview with Prof. Teng Weizao.

³⁴⁹ Interview with Prof. Teng Weizao. Also see He Liansheng, Zou Dongtao and Yang Qiubao. op.cit., p.55.

the younger generation, was clearly to learn and to integrate. What they cared about more was how to get things done efficiently and properly rather than whether they were politically or ideologically justifiable. "Modelling after the international investment environment" and "Acting according to the international practice", the two slogans that are popular and widely accepted in China's open cities and SEZs, well demonstrate this mentality.

Modelling after the international investment environment

This slogan was first strongly advocated by Mr. Zhang Wei, Director of the Administrative Commission of TEDA, in 1986. It was approved and accepted by the national leaders, Hu Qili, member of the Politburo, Gu Mu, member of the State Council, and Zhao Ziyang, General Secretary of the CCP. It refers to "modelling the building of the developmental areas after the first-class investment environments in the world, at least not inferior to the export-processing zones in Asia, which requires concentrated investment, bold reforms and the granting of flexible policies and adequate autonomous power in some small areas with good conditions so that the various conditions required by foreign investors could be fully provided."³⁵⁰

This idea is based on the understanding that international capital would certainly flow to the regions where the best investment environment is available. The Asian "Four Little Tigers" plus Thailand and Malaysia have all created very good investment environments. If China seeks to compete with them for foreign investment, it should make great efforts to improve its investment environment. And for that purpose, some well-placed coastal areas should take the lead in doing so without waiting for the overall national economic reforms.

The essential condition for this idea to be carried out is to insulate the areas from the larger "climate" outside with special policies so that bold experiments and reforms can be

³⁵⁰ Pi Qiansheng. (ed.), op.cit.

carried out modelled after such areas in other countries.

Now several years have passed, it is generally agreed that a lot of progress has been made since 1984 in respect of overcoming bureaucracy and increasing efficiency. For example, TEDA has reduced the period of project examination and approval from 100 to 30 days. It has also issued more than 40 administrative regulations and rules relating to personnel, land, investment, city construction and administration, etc., which have provided the legal basis to adjust both the business behaviour of the enterprises and people's social behaviour.³⁵¹ And in the process of implementing the laws and regulations, many courses of action which were not in accordance with international practice have been changed.

In the past, the project department conducted a very strict scrutiny over the feasibility report of a project and would not give the approval if they judged that the project would not be profitable. The foreign investors were often puzzled and annoyed by this, for according to the international practice, any firm should be allowed to be set up as long as it is lawful. As for whether it can make money or not, that is exclusively a matter for the investor and the government should not intervene. Later, TEDA made some radical changes and would carry out the examinations only from the perspective of law and the balance of foreign currency.³⁵²

However, the development still fell far short of initial expectations. As one of the officials in the TEDA said: "Now all the open areas up and down the country are still subject to interference and are bound up by the old structures in one form or another."³⁵³ The TEDA is determined to carry on with the efforts, in the belief that China's reforms have been and will continue to be full of difficulties and setbacks; they will have to make their independent efforts without waiting for the improvement of the "larger climate"; moreover, their experiments

³⁵¹ Chen Yue, Pi Qiansheng. op.cit., p.367.

³⁵² Pi Qiansheng. op.cit., p.46.

³⁵³ Pi Qiansheng. (ed.), op.cit., pp.130-131.

and experience can play an exemplary vanguard role in stimulating the overall reforms and opening-up and help make the process of reforms irreversible.³⁵⁴

Acting according to the international practice

This slogan was not officially endorsed until 1987 in the Party's Report to the Thirteenth Congress: "Our country will further amplify the foreign-related economic legislation, implement the preferential policies, improve the investment environment so that foreign entrepreneurs can run their enterprises according to the international practice in our country and we can absorb more foreign investment."³⁵⁵ Since then, there have been some heated discussions and debates about "international practice" all over the SEZs and open areas in the country. This was naturally one of the most popular topics in the First Economic Theoretical Conference of the Developmental Areas in China's coastal cities held in Tianjin Nankai University in November 1988. A number of papers presented at this conference not only reflected the FRE elite's views on this specific issue, but they also represented how their authors understood China's interdependence with and integration into the world economy - the central theme of this thesis.

In the articles, "acting according to the international practice" means to act according to the laws of the commodity economy. And as far as the FRE is concerned, the core of it is to improve the investment environment. This should provide Chinese business people with a new perspective, namely, in the effort to improve the investment environment, they should pay more attention to the international practice that the foreign investors follow. The aim of this is to create the kind of investment environment in which the foreign investors could run their business according to the common practice of the commodity economy. One of the articles noted:

³⁵⁴ Ibid., and interview with Mr. Li Linshan.

³⁵⁵ Beijing Review, Sept. 1987.

In view of the fact that since the end of WWII, the international division of labour has become much more advanced, the world market has become increasingly integrated, the traditional parochial concept of national economy is clearly out of date. What we should do is to take part in the international division of labour actively so that China could share more and more comparative advantages, which is exactly the goal of acting according to the international practice. Because only when we act according to the international practice, can we genuinely play our role in the world commodity economic arena. Therefore, the chief criterion to measure whether we are acting according to the international practice is to see whether our course of action has facilitated deepening our participation in the international division of labour and increasing the 'internationalization' of our national economy.³⁵⁶

But, international practice is undefined and varied, so there is a problem of deciding what practice to follow. Someone else argued:

Two criteria should be followed: we should adopt those that have been followed by most economies, especially the developed countries and the newly industrialized economies (the four little tigers for instance); and those that will help us to sort out problems as they emerge in the field of the foreign related economy. ... A cognitive premise for the principle of acting according to the international practice is: we are a member of the open world, a component of this huge ever-developing organism. Therefore, we must take the whole world in view, emancipating our mind, broadening our outlook and getting rid of parochial arrogance. Only thus can we make continuous progress in integrating into the outside world.³⁵⁷

C. Views on Some of the Major Issues Concerning the Reforms and Opening-up

As repeatedly expounded in this thesis, from the very beginning China's opening-up strategy faced this central dilemma: on the one hand, the implementation of the economic reforms and opening-up opened the way, intended or not, for

³⁵⁶ Shen Kui. "A Tentative Discussion About Acting According to the International Practice", in Chen Yue & Pi Qiansheng (ed.). op.cit., p.278.

³⁵⁷ Ibid., p.279.

China's economy to integrate into the largely capitalistic world economic order; on the other hand, the leadership attempted to maintain and develop a socialist political system. The incompatibility of the two has become more and more obvious with the evolution of the reforms and opening-up in the last decade. And the conflict has frequently obstructed the development and fundamentally threatened the survival of the reforms and opening-up programme. Nevertheless, the last decade's reforms, especially the opening-up and the growing interdependence with the outside world have helped broaden people's vision and enabled them to form their own views on a series of fundamental issues, which will be of crucial importance to China's long term development. Next, I shall examine the local elite's views on two of the most fundamental issues concerning further reforms and opening-up: the question of ownership and the issue of combining planning and the market.

(1) The Issue of Ownership

With the implementation of the economic reforms and opening-up policies, the non-public-ownership elements were allowed to exist and grow in China. Besides domestic individual and private enterprises, Sino-foreign joint ventures, cooperative and wholly-foreign-owned enterprises were also allowed to be established. These are "classified, respectively, as the state capitalist economy, the semi-socialist cooperative economy and the capitalist economy".³⁵⁸ The rationale for this policy is as follows:

Although the existence of these forms of ownership is a challenge to the traditional theory of ownership, because these forms of ownership only amount to a small proportion in our economy, they will not change the dominant role of socialist public ownership in our economy. On the contrary, their existence could set off competition with the public ownership, and help increase the vitality of socialist public ownership, raise the quality of our country's products and increase the competitive capability

³⁵⁸ Gao Shangquan. op.cit.

of our foreign trade.³⁵⁹

In assessing the outcome of the competition after a decade, although socialist public ownership still retains its dominant position, the gap between public and non-public ownership both in terms of speed of development and efficiency, has become increasingly evident. In terms of development speed, the annual average rate of increase of the gross value of industrial output from 1985 to 1990 was, respectively, 15% for the state enterprises, 26% for the township enterprises and 54% for the foreign-related (sanzi) enterprises. As far as efficiency is concerned, take Tianjin for example: the average value of output per capita for 1990 was respectively 26.4 thousand yuan for the state enterprises, 75.4 thousand yuan for the foreign-invested firms; the average profit and tax per capita turned in was 3,800 yuan for the former and 7,400 for the latter.³⁶⁰ The much stronger performance of the non-public-ownership sectors and the generally poor performance of the public ownership sector formed a sharp contrast. The issue of ownership naturally became a focal point again in theoretical and policy debates around the end of the 1980s.

Different and opposing views regarding the significance and course of action of ownership reform have existed both in the decision-making and theoretical circles ever since the beginning of the reforms. If 1986-1988 saw a more radical attempt to reform ownership - the reforms of the "contracting responsibility system" in the medium and large-sized state enterprises and "leasing" in the small state enterprises were implemented aiming at dividing the right of ownership and right of management; and the experiments of changing the state enterprises into stock companies were also allowed - then the end of the 1980s and beginning of the 1990s saw a slowing-down of this reform and the increasing politicization of the

³⁵⁹ Ibid..

³⁶⁰ Economic Daily, 14.1.1992, p.3.

ownership issue.

By early 1991, the serious difficulties many medium and large-sized state enterprises faced could no longer escape the attention of the leadership. Indeed, the central government called a series of meetings and took a number of measures to tackle the problem. However, the matter was treated more as a political issue than an economic one. As Premier Li Peng said during a series of symposia on how to revitalize the state enterprises: "To revitalize the state enterprises is not only an economic issue but a political one. We must approach this question from the high plane of consolidating and developing socialist public ownership."³⁶¹ The Party secretary, Jiang Zemin, put it even more clearly in his inspection tour of Tianjin:

The medium and large-sized state enterprises are not only the main source of our country's finance, but also the pillar of our socialist economy. Whether or not we can revitalize them does not only directly relate to the overall stability of the national economy but also relates to the maintenance of the predominant position of the public ownership economy and the consolidation of the socialist system. Therefore, it is not merely an economic issue, but an important political one as well.³⁶²

In contrast to the national leadership, the local officials and managers do not approach the issue from such high political ground. The views they hold are largely identical: the ownership reforms should continue and without this fundamental transformation, the state enterprises can hardly be genuinely revitalized. Many of the joint venture managers used to be the managers of state enterprises, and through their own experience, they keenly feel that the old public ownership and the economic administrative structures and system built on it are the source of many defects and malpractice in the state economy.

Among many examples in this regard is one given by the Vice General Manager of Jin Rong Co. Ltd., a one-plant-two-system

³⁶¹ Guangming Daily, 10.9.1991.

³⁶² People's Daily, 1.8.91.

model joint venture: "Just beside the gate of our factory, there are two restaurants, one is publicly owned and run by our factory, the other is privately owned. The quality of service is so different that even the workers of our own factory won't go to the factory's restaurant but to the privately run one." This manager pointed out: "The difference between public ownership and individual or private ownership has become so obvious nowadays that everyone agrees something must be done to address the problem of ownership. But the ideological constraints and confusion on what is socialism prevents us from carrying out fundamental reforms."³⁶³

The officials and managers in TEDA seemed to be more open-minded on this issue and often link the problem with the opening-up.

The General Manager of Sino-Danish Enterprises Co. Ltd., Mr. Han Bing, said: "I think it is a good idea to convert the fixed assets of the state enterprises in terms of money and sell them to foreign investors. The history of the last several decades has indisputably shown the failings of public ownership, but why can't we carry out more fundamental reforms in this aspect? Clearly people's minds are still being bound and they are afraid of being accused of 'national betrayal'." He was also in support of the experiments of turning state enterprises into stock companies. He said: "At present, it could be a way out without completely demolishing state ownership. But besides the current practice of raising capital by shares inside and outside enterprises, shares should also be allowed to be sold to foreign investors."³⁶⁴

The Bureau Chief of the Administrative Bureau of Enterprise, Mr. Yan Zheng, regarded auction as a good method. He said: "The fixed assets of the state enterprises could be sold through auctions to foreign investors. Some people doubt whether buyers would be attracted. I don't think there will be

³⁶³ Interview with Mr. Sun Xingwen.

³⁶⁴ Interview with Mr. Han Bing.

any problem if the prices are set reasonably low enough."³⁶⁵

(2) The Issue of Combining Planning and the Market

As mentioned earlier, after the June 1989 events, some of the obviously market-oriented reforms during 1986-1988 were slowed down and the significant slogan "the state regulates the market and the market guides the enterprise" approved at the thirteenth Party's Thirteenth Congress held in September 1987 was seldom mentioned. Instead, combining plan and market became the guideline and was regarded by the leadership as the only correct way for China's economic development.

Again, like the issue of ownership, the relationship between planning and market is a very complex one which I cannot go into an extensive discussion of it here. What I want to point out is that this guideline seems to have been put forward more for ideological and political reasons than out of economic necessity. In other words, the guideline was set down because it was ideologically justifiable and convenient, not because it was economically logical or sound. This argument would appear even clearer when one considers the fact that all the former East European socialist countries took it as their guideline when they carried out economic reforms and none of them succeeded. As Mr. Gao Shangquan, Vice Director of China's Economic Structural Reform Commission, once acknowledged before the Eastern European social upheavals at the end of 1989:

How to combine plan and market is still a problem that socialist countries are exploring in their economic reforms. Hungary's reforms have undergone a process of twenty years. Yugoslavia's about forty years, but both of them find themselves in a state of nondescript, neither planning nor market can duly play their roles. In 1968, Hungary abolished its compulsory plan. However, the large enterprises are still in the monopoly position, enterprises cannot go bankrupt, capital and personnel cannot move freely, competition is inadequate and the functions of the government do not change accordingly; as a result, the

³⁶⁵ Interview with Mr. Yan Zheng.

market cannot duly play its role.³⁶⁶

Apparently, in China, many officials, academics and businessmen are not convinced that the combining of the two will be possible, not to speak of the claim that it is the only correct way forward. In Xiao Liang's article "The Ten Theoretical Questions in Dispute in the Economic Field at Present", the first two most arguable questions enumerated by him are concerned with the relationship of market and planning: "What is the relationship between plan and market?"; "Is a planned market economy a theoretically sound formulation?"³⁶⁷

In an article published in Economy of Special Economic Zones in February 1991, "On the Transition Period of Reforms", the author, Wang Zhuo also predicted that: "Another round of intense debate over the relationship between market and planning is inevitable. The essence of it will be whether the reforms should be market-oriented or plan-oriented."³⁶⁸

In the discussions over this issue, the official who is in charge of Tianjin's enterprise reforms put it bluntly:

It is sheer nonsense and daydreaming to say combining planning and market is the only sound and correct way. It is true that as with anything else, the market has its own defects and failings. Under some circumstances, for instance, the blindness in action could incur loss and waste due to the spontaneous adjustment of the market. But to prevent the blindness with an overall compulsory plan is actually replacing commodity economy with product economy. In the developed countries many companies go bankrupt each year, but many new companies are set up. Their market is directing the flow of resources. In China we do not have this mechanism.³⁶⁹

³⁶⁶ Gao Shangquan. op.cit., p.100.

³⁶⁷ See Xiao Liang. op.cit., p.46.

³⁶⁸ Wang Zhuo. "On the Transitional Period of Reforms", Economy of Special Economic Zones, no.2, 1991. Also in Xinhua Digest, No.7, 1991, p.45.

³⁶⁹ Interview with an official in the Tianjin Economic Structural Reform Commission, who asked not to be identified in the thesis.

Some academics and managers have said that as a result of the attempt to combine the two, in many circumstances the defects of both have been combined rather than their strong points. Governments at each level interfere so much that equal competition conditions can hardly be created. Take some manifestations of the interference for example: (a) Interference in investment: The government has the power to take some capital away from an enterprise for so-called centralized use on a larger scale and the government can also set various restrictions concerning investment and projects. All of these could prevent the enterprise from promptly adapting its production arrangements to the changing market conditions. (b) Interference in price: Enterprises cannot always increase or reduce prices according to the supply and demand on the market, which deprives the enterprises of their flexibility in the competition. (c) Interference in the management and administration of the enterprise: Many decisions, such as the setting up of internal organizations, the appointment of personnel, the laying down of regulations and rules and so on cannot be made completely with the practical needs of the production in mind, which often results in the lack of sound and necessary mechanisms, and the development of a poor competitive capacity. To say that such kinds of state enterprises have the defects of both planning and the market at the same time is because their behaviour is characterized by seeking the protection of the government and increasing its dependence on the government in investment and output on the one hand, and evading the supervision and control of the government on the other.³⁷⁰

Many officials and managers in the TEDA have become deeply convinced of the advantages and effectiveness of a market economy. I asked Mr. Yan Zheng, whether it was also the

³⁷⁰ Interview with Mr. Liu Rongcang, Deputy Director of the Institute of Finance & Trade Economics of the Chinese Academy of Social Sciences. Beijing, China. April 1991. Also, interview with Mr. Han Bing.

guideline for the TEDA to combine planning and market. He answered with a categorical "no":

Our guideline is not even market-oriented. We are genuinely practising market economy. The responsibility of the TEDA Administrative commission and all the departments is only to provide the services and exercise supervision according to regulations and laws. We do not interfere in the management and production of the enterprises at all. When an applicant, either Chinese or foreign, satisfies all the requirements, he can set up an enterprise in the TEDA. Whether the enterprise will thrive or go bankrupt, is absolutely a matter for the enterprise itself.³⁷¹

Mr. Li Linshan, Director of the Policy Research Office of the TEDA described to me: "Once the Governor of Guangdong Province, Mr. Ye Xuanping, was asked why Guangdong had been able to develop so fast. Ye reportedly said, 'Because we are following the principles of a market economy as far as possible. If you do the same, you can also develop fast.'³⁷²

The economists I interviewed, Teng Weizao, Yang Jingnian and Chen Yue, all took the view that there is no pure market economy or planned economy in today's world. The problem is how to define plan and market. It is true that a market economy can involve risks, shake-ups or even turbulence; whether one is ready to transform the economy into a market-economy is dependent on whether one is willing to take these risks. Some leaders, Chen Yun, in particular, prefer stable development. What they care about is that everyone has food to eat and construction can be carried out gradually. They do not seem to care much about efficiency and technological progress. But the problem is whether shake-ups and turbulence can really be avoided if market-oriented changes are not introduced. The current state of the state enterprises has obviously caused a lot of economic and social problems, and without substantial reforms and changes, more troubles or crises cannot be avoided

³⁷¹ Interview with Mr. Yan Zheng.

³⁷² Interview with Mr. Li Linshan.

anyway.³⁷³

To sum up, one of my most important findings in the fieldwork undertaken in April 1991 is that many local officials and entrepreneurs, especially those in their thirties and early forties and who have received a higher education, do have an overwhelmingly positive attitude towards the opening-up policy and the prospect of integrating China into the outside world. They are the generation who tend to be much more open and liberal-minded. Through the opening-up of the last decade their mode of thinking has undergone significant changes and many of them have learned to use their own minds and make their own judgements. Many of them are already in responsible and leading positions. In the medium term, they will surely play an even more important role in deciding China's future.

³⁷³ Interview with the professors: Teng Weizao, Yang Jingnian and Chen Yue.

CHAPTER VI. CONCLUSION

Despite the ideological constraints, historical shadows and systemic obstacles, in the 1980s, China's reformers, especially the practitioners at grass root level, have shown great creativity and adaptability. As a result, today's China has become much more prosperous and active in the regional and global economy. China's increasing economic interdependence with the outside world has also helped to bring about significant changes in the social, cultural and political fields and particularly in popular modes of thinking.

To a certain degree, the opening-up and the economic reforms have taken on a life of their own. The dynamism and momentum of the reforms have exposed more sharply the failings of the existing socio-economic and political systems. In many cases, they have also initiated further changes. It has become increasingly apparent that there can be no half-way house: Adaptation is a continuous process and more fundamental changes need to be carried out.

However, as I set out at the beginning of this thesis, the reform strategies of the CCP are fundamentally flawed. The conflict between its economic liberalism and its political authoritarianism and the incompatibility of opening-up to a largely capitalistic international economy while attempting to maintain political and ideological control over the society not only gave rise to a series of disruptive waves and cycles during the course of the last decade, but it has also fundamentally threatened the future survival of the whole reform programme. Indeed, at the end of the 1980s, the whole reform and opening-up programme was brought to the brink of collapse.

The period during which I did this research witnessed the most dramatic and volatile episode in the post-Mao era. The June 1989 Tiananmen events; the removal of Party Secretary Zhao Ziyang; the strongest counter-offensive by the conservatives since 1978 and the dramatic resurgence of the reforms and

opening-up in 1992 orchestrated by Deng Xiaoping himself, all helped to give immediacy to the research while also vindicating my approach. With reference to the latest developments in the last couple of years, this concluding chapter seeks to examine further the fundamental problems faced by the opening-up and economic reforms and see what implications they might have for China's domestic development and its relations with the outside world in the near and medium future.

I. THE 1989 CRISIS

China's economic reform and opening-up process reached a crossroad when Deng Xiaoping's once seemingly credible and orderly plan for the transfer of power upon his death collapsed with Hu Yaobang removed from the post of General Secretary of the CCP in early 1987. As Harold Jacobson and Michel Oksenberg summed up the situation in their China's Participation in the IMF, the World Bank and GATT:

The new duumvirate - Zhao as general secretary and Li Peng as premier - brought together individuals with quite different orientations to the reform process. Li clearly was the more cautious, sceptical of the rapidity and desirability of many major reforms with which Zhao was identified: price reform, introduction of capital and labour markets, and changes in the government revenue system. The removal of Hu Yaobang also essentially terminated the steps toward political reform. Meanwhile, in 1987-1988, the leaders confronted increasingly severe economic problems: lagging agricultural production, some undisciplined foreign borrowing, government deficits, accelerating inflation, and growing social disorder. The populace perceived also that their leaders were increasingly corrupt and engaged in nepotism. And many among the leaders saw the populace as increasingly corrupted by foreign culture and values. The top leaders became deeply divided over how to respond to these mounting problems. Some, such as Zhao, believed only additional reform could remedy the problem, while others, such as Li and increasingly Deng, believed retrenchment on both economic and political fronts was the only answer.³⁷⁴

³⁷⁴ Jacobson, Harold K and Oksenberg, Michel. China's Participation in the IMF, the World Bank, and GATT - Toward a Global Economic Order, Ann Arbor: The Univ. of Michigan Press,

A series of shocking developments in 1989 - the student-led anti-corruption and pro-democracy demonstrations in more than 80 cities from April to June; the June 4th killing in Beijing; the removal of Zhao Ziyang and some other reformist leaders and the political and economic sanctions imposed by the West, etc. - brought the whole process of reform and opening-up to the verge of collapse.

The launching of China's economic reform and opening-up was based on a consensus on a number of key points among the leadership. These included: the need to improve the standard of living after decades of scarcity and living with shortages; the need to carry out certain economic reforms including expanding China's foreign economic relations and giving the market some role to play; the need for the socialist sector to retain its dominant position and the necessity for continued unchallenged leadership by the Communist Party. Yet it was "a discordant consensus"³⁷⁵. While all the leaders had agreed on the above principles, they differed as to how far and how fast the reforms should be carried out. (See the discussion in Chapter II). Moreover, the principles were not consistent and the disagreements and contradictions between them became more and more pronounced with the evolution of the reforms and opening-up. As Peter Van Ness has noted:

The Party leadership, for its part, wants to achieve greater economic efficiency and is implementing market reforms for this purpose, as we have seen. But introducing a market mechanism means changing the fundamental structure of the economic system, and a market, if it is to achieve the intended benefits, is not something that can be turned on today and shut off tomorrow. Moreover, market operation also requires a decentralization of power (both economic and political power) and if successful, the market will create new political interests within the society that will inevitably present challenges to the Party's monopoly of political power.³⁷⁶

1990, p.161.

³⁷⁵ Robert Benewick and Paul Wingrove. op.cit., p.64.

³⁷⁶ Peter Van Ness. op.cit., p.19.

In other words, a decade of reforms and opening-up challenged both orthodox Marxist ideas about socialist construction and the Party's virtually exclusive hold on political power. The June 1989 events and the ensuing East European revolutions made the threat absolutely clear that reforms could bring to the Communist rule. By political instinct, the leadership, especially the conservatives among them, would try to halt the reforms and regain firm control over the society. For after all, the ultimate aim of Communist-led reforms was to consolidate the socialist system and the rule of the Communist Party.

Indeed after mid-1989, a campaign of "opposing bourgeois liberalization" was carried out on the largest scale since the reforms began; strenuous efforts were made to impose the official ideology and the principles of socialism on the populace, and once again people were told to judge everything according to whether it was socialist or capitalist; warnings against the policies of "peaceful evolution" allegedly pursued by the capitalist and hostile West were sounded repeatedly in the official media and press. All these developments gave rise to fears and speculations about the prospect of completely halting and reversing the economic reforms and the policies of the opening-up process.

II. AVOIDANCE OF THE COLLAPSE OF THE REFORM AND OPENING-UP

The fears of the collapse of the reforms and opening-up as mentioned above did not materialize however. The survival and continuation of the opening-up and reform was, I believe, basically determined by three factors:

A. The Dictates of the Economic Imperatives

It is not true to say that the conservatives were not politically capable of halting or reversing the opening-up and reform policies. Indeed, as Kevin Bucknall noted: "Since 1949 the CCP has demonstrated the capacity to give up economic benefits for ideological goods, be they left-wing Maoist or more

orthodox Soviet-style centralized planning. Such events occurred in 1958-1960, 1966-76 and 1977-78."³⁷⁷ But the deepening of the economic reforms and the expansion of the opening-up in the last decade have made it increasingly difficult for the Communist leadership once more to give up economic benefits for political and ideological reasons. The reformist policies have been demonstrably successful, economic flexibility has increased, and living standards have been markedly improved and even today China's interrelations with the world economy have become so substantial that breaking this link would cause huge losses to the national economy as a whole and some regions, especially the most developed coastal areas, in particular. So the key questions that those attempting to alter or reverse the reforms and opening-up policies have to answer are: what alternative do they have? How can they motivate their citizens to work harder without a return to coercion or terror since the pre-reform system had been seen by the public, even the leadership themselves, as bankrupt? If they reject market reforms, what solutions can they offer to the serious problems of declining competitiveness in socialist societies? For, after all, "The fate of the Party and socialism will be eventually determined by whether socialism can achieve much higher labour productivity than capitalism," as one of the old communists, Bo Yibo, admitted at the seventieth anniversary of the CCP in July 1991.³⁷⁸ So despite the strengthening of political and ideological propaganda and control, the opening-up process has not been badly disrupted. On the contrary, the leadership "is keen to convince the world that China's door remains open."³⁷⁹

³⁷⁷ Bucknall, Kevin. China - The Open Door Policy, Sydney, London: Allen & Unwin, 1989, pp.174-175.

³⁷⁸ Guangming Daily, 5.7.1991.

³⁷⁹ The Economist, 11-17. 5. 1991, p.70.

B. Increased Popular Faith in the Cause of Opening-up and Economic Reforms

The public support for the reform policies has been another important factor that has helped prevent the reforms and opening-up course from being derailed. And since the latter half of the 1980s this faith has been further strengthened by the conspicuously contrasting performances of the state economy and the foreign-related and the private economy. By the beginning of 1991, according to official figures, one third of state enterprises were loss-making and another third barely broke even, the private and the FRE had not only achieved higher efficiency and productivity as demonstrated in a series of economic indicators described previously, but they had also begun to establish the beginnings of an effective alternative economic system. "In the SEZs and many open areas, some effective mechanisms of market, enterprise management and planning have been established, all of which are in accordance with the law of value, which ensure the long-term healthy development of the economy"³⁸⁰

What is even more worthy of notice is that the achievements of the private and foreign-related economy have been seen by many people as a demonstration of the effectiveness of the market economy, and accordingly the least reformed elements of the traditional system of central planning are seen as the main obstacle to further and more successful opening-up and reforms. As the Vice Director of China's Economic Structural Reform Commission, Gao Shangquan, summed up:

The rapid development of the SEZs was achieved through the effort of 'jumping out of the current economic structure' and establishing a new one which enabled people to act according to the economic laws, and to adjust to the changes of the international market. With the development of the four SEZs and the further opening-up of the fourteen coastal cities and Hainan Island, we will face the world market on an even larger scale. However, the present economic structure has increasingly become the main obstacle to the extensive foreign economic relations.

³⁸⁰ People's Daily, 7.6.1991.

That's why we must speed up the tempo of economic reforms.³⁸¹

So, at the beginning of the 1990s, one could clearly discern a trend of calling for the expansion of the private and foreign-related economy and relying on opening-up to revitalize the state economy, including the large and medium-sized state enterprises. Many people now believe that it might be possible to pass by or get out of the current state economic structures and make full and flexible use of the current opening-up policies by encouraging and facilitating as many state enterprises as possible to establish joint ventures or cooperative enterprises with foreign companies.

C. The Key Role of Deng Xiaoping

The crucial role played by Deng Xiaoping in the post-Mao reform process is beyond dispute. As Robin Munroe once commented:

... the entire post-Mao programme has hinged, essentially, on the outstanding presence and commanding support of one man, Deng Xiaoping. This is not to imply that the reforms have lacked either public or official support: far from it. The point is rather that, without Deng, China would almost certainly not have undergone a social transformation remotely approaching in scale that of the 'second revolution' which he has so doggedly pursued over most of the past decade.³⁸²

The most telling example has been Deng's defence of the reforms and opening-up in the aftermath of the 1989 June crisis. As people have seen, immediately after the June 4th events 1989, amid various rumours and speculations, Deng Xiaoping, in his June 9th speech, declared:

The lines, principles and policies formulated since the Party's Third Plenum of the Eleventh Congress are correct; one centre, two basic points, - that is to take economic construction as the central task and the four cardinal principles should be upheld on the one hand, and the reform

³⁸¹ Gao Shangquan. op.cit., pp.83-84.

³⁸² See Robert Benewick and Paul Wingrove (eds.). op.cit., p.78.

and opening-up be carried out on the other, - are all correct. All of them must be continued.³⁸³

As mentioned above, after the June 1989 crisis, while still paying lip service to reforms and opening-up, the conservatives launched a big counter-offensive in the name of opposing "bourgeois liberalization" and resisting the "peaceful evolution" towards a Western-style political and social system. They repeatedly stressed the importance of state enterprises though many of them were loss-making, as described above. They placed unprecedented emphasis on the principle of combining plan and market without actually knowing how to do it. They strongly advocated the principles of independence and self-reliance and even questioned the benefits of making use of foreign investment. In order to reduce the high rate of inflation some austerity measures were indeed needed, however the pace of reforms and economic development slowed down too much. In 1989, the economic growth rate was less than 4%. In 1990 and 1991 the growth rate was only 4% and 7% respectively, the lowest growth period since the early 1980s.³⁸⁴

Deng Xiaoping was not happy about this kind of obstruction to the reforms and opening-up, and not long after the 1989 June Crisis, he began trying to get the reforms back onto the fast lane. The first sign of Deng's reassertion of his reform and opening-up policies was the dramatic publication of a series of bold articles in the first half of 1991 in Shanghai's Liberation Daily.³⁸⁵ The most important one was that of 2nd March entitled "There Must Be New Ideas for the Reforms and Opening-up". The central points of the article include:

³⁸³ People's Daily, 10.6.1989.

³⁸⁴ People's Daily, 22.12.1992.

³⁸⁵ The articles include: "There Must Be New Ideas for the Reforms and Opening-up" (2.3.1991), "The Sense of Extending the Opening-up Should Be Stronger" (22.3.1991), "Reform and Opening-up Need a Large Number of Cadres of Both Ability and Political Integrity" (12.4.1991).

The banner of the reforms and opening-up must be raised even higher. The policy of reforms and opening-up should be carried out in a faster, better and bolder way... The most important thing at present is to encourage people to come up with new ideas and dare to take some risks... For that purpose, we must call for further emancipation of the mind. Emancipating people's mind is not something that can be done once and for all. Take the relationship between plan and market for example: some people tend to equate planned economy with a socialist economy, thinking that behind the market adjustment, there must be a capitalist ghost. With the deepening of economic reforms, more and more people understand that plan and market are only two means and forms of resources allocation. They are not the lines of demarcation to divide socialism from capitalism. There is plan in capitalism and there is market in socialism [Emphasis added by the author of this thesis] The acquirement of this scientific understanding of the question of a socialist commodity economy is nothing short of another major mind emancipation. Under the new circumstances of deepening the reforms and expanding the opening-up, we must guard against degenerating into 'new rigid thinking'. We must not simply equate developing a socialist commodity economy, a socialist market and market adjustment with capitalism; we must not think of employing foreign capital as conflicting with independence, and being overcautious and full of worries in the practice of absorbing foreign investment; we must not pit economic adjustment and rectification against deepening the reforms and dare not uphold and amplify them, or even reverse the reforms which have been proved in practice to be correct and effective; we must not use 'developing the economy in a continuous and steady manner and not being overanxious for quick results'³⁸⁶ as an excuse for becoming slack in the work and not even trying to do those things which can be accomplished. All in all, further emancipating our mind is the indispensable condition for us to fulfil the strategic goal of the second stage of development.³⁸⁷

The series of articles by Huang Fuping focused on the following two issues: the first is concerned with the promotion of cadres. Reformists insist that those widely recognized as

³⁸⁶ This was the very point that has been repeatedly emphasized by some more conservative members in the leadership, for example, the Premier Li Peng. See Li Peng's speeches during 1989-1991 in People's Daily.

³⁸⁷ Liberation Daily, 2.3.1991. The goal of the second stage of development is to double the gross value of industrial and agricultural output 1990-2000. The first stage was to double the gross output value 1980-1990 which has been accomplished.

having made outstanding achievements in the reforms and opening-up should be chosen, while the conservatives maintained that political behaviour or record should be the chief criterion in choosing cadres. The second is concerned with the orientation of reform and opening-up. The reformers strongly advocated expanding reforms and opening-up and absorbing foreign capital on a larger scale so as to deepen the reforms, while the conservatives stood for "self-reliance and hard work" so as to prevent the "peaceful evolution" purportedly intended by the West.

Understandably the sharpness and boldness of the articles touched upon the sensitive nerves of some people. According to the Hong Kong journals Zheng Ming and China Spring, the Vice Editor-in-chief of Guangming Daily and the Director and a Vice Director of the Theory Section of People's Daily all condemned the views expressed in the articles and said the articles should be criticized. Some people from the Propaganda Department of the CCP were reportedly sent to Shanghai to carry out an urgent investigation into the articles. Only when they learnt that Huang Fuping was a writing group standing for Huang Pujiang Review and represented the views of the Shanghai Party Committee, and what is more, the 'backstage boss' was none other than Deng Xiaoping, did they stop the investigation.³⁸⁸

The major dramatic move by Deng Xiaoping was the inspection tour he made in South China at the beginning of 1992. During this inspection tour, Deng put forward several new ideas or new formulations, which include: both plan and market are mere economic means, they are not the lines of demarcation to divide socialism and capitalism, there is plan in capitalism and there is market in socialism; the Party's basic line of "one centre, two basic points" (one centre: take economic construction as the central task; two basic points: the four cardinal principles should be upheld and the reform and opening-

³⁸⁸ See China Spring, 7.1991, pp.10-12. Also see Zheng Ming No.4, 1991.

up carried out) should be followed for a hundred years; the rightist tendencies should be guarded against but the main danger is from the "Left"; reforms and opening-up should be carried out in a bolder and faster way.³⁸⁹ Though Deng's tour and talks were not widely reported until several months later,³⁹⁰ the new wave of reforms and opening-up stimulated by Deng's tour proved to be overwhelming. As the result, the growth rate of the GNP in 1992 was 12% higher than in 1991.³⁹¹ The FRE developed even faster. During 1992, as many as 40,000 Sino-foreign projects were signed, more than three times the number of 1991³⁹². Apart from all these achievements the Fourteenth Party Congress held in October 1992 formally endorsed the key ideological formulation: China should go all out to develop a socialist market economy.

While again convincingly demonstrating the predominant role of Deng Xiaoping, China's latest development has also vindicated one of my chief findings in this thesis: there has been a growing conviction and faith in the cause of opening-up and the market-oriented reforms and, to a considerable extent, China's reforms and opening-up have assumed a life of their own.

III. A STILL UNCERTAIN FUTURE

Although the economic reforms and opening-up have continued after the 1989 crisis, none of the fundamental political and ideological issues that led to the crisis have been seriously addressed. In fact, the leadership seems to be more determined than ever to keep its monopolistic political control over the society and political reforms have been largely moved off the

³⁸⁹ See Economic Daily, 1.4.1992.

³⁹⁰ It was reported that some conservative leaders did not like what Deng had said and resisted the circulation of Deng's talks. See Zheng Ming, Issue no. 3.4.5. 1992.

³⁹¹ People's Daily, 28.12.1992.

³⁹² People's Daily, 31.12.1992.

agenda. Deng Xiaoping does not believe that economic reform has to be accompanied by political reform. For Deng, so long as the economy develops well, the society will be stable and the rule of the Communist Party can be ensured. This strategy of economic liberalism and political authoritarianism is, I believe, fatally flawed on at least two counts as demonstrated in the previous chapters:

Firstly, without making corresponding reforms in the political and ideological fields, the economic reforms would be left unjustified and unprotected. Thus, the reform policies are always in danger of being challenged and even reversed. The conservative counter-offensive in the wake of the 1989 crisis bore this out most clearly. As mentioned above, the period from mid-1989 to 1991 saw the tightening of political and ideological control with the slogans of "opposing peaceful evolution" appearing in the newspapers on a daily basis; the "Proposal on the Ten Year Plan of the National Economy and Social Development" and the "Eighth Five Year Plan" passed by the Seventh Session of the Thirteenth Party Congress at the end of the year gave prominence to the principles of "adhering to independence, self-reliance, building up the country through thrift and hard work", the first most vigorous emphasis on these principles since the early 1980s; the publication of an alarmingly conservative article in People's Daily, "The Situation of the World Economy and China's Economic Problems" by He Xin,³⁹³ in this the author criticized China's economic reforms since 1984 and held that foreign investment and capital were means of capitalist economic invasion which were harmful to the national economies of the developing and poor countries.³⁹⁴

Another article with an awkward title "Ask 'whether its surname is socialism or capitalism'" published in Guangming

³⁹³ A research fellow in the Chinese Institute of Social Sciences, who was one of a few intellectuals seen to be actively supporting the conservative counter-offensive after the June 1989 Crisis.

³⁹⁴ See People's Daily, 11.12.1990.

Daily in August 1991 has also summed up the ideological dilemma:

Our socialist revolution and construction are carried out under the circumstances of having a backward economic and cultural background and being surrounded by international capitalism. The objective social conditions, especially the level of productive forces, determines that the individual and private economy must be allowed to exist and develop to a certain extent. Having a positively supplementary role to play though, their existence and development would unavoidably have a negative impact such as disrupting the socialist economy, giving rise to thoughts of the exploitative classes and even providing the ground for the emergence of the ideological and political representatives of the exploitative class. The development of the current world economy, science and culture also determines the necessity for us to open up to the outside world, absorbing foreign advanced technology, scientific managerial experience and progressive cultural achievements. Nevertheless, the international bourgeoisie, especially the hostile forces, would certainly make use of the opportunity to carry out ideological infiltration and exert both economic and political pressure on us. All of these are the unavoidable and objective contradictions existing on our road of building socialism with Chinese characteristics. We must, therefore, on the one hand, give play to the positive role of the individual and private economy, and on the other, restrict its negative impact. By the same token, we must on the one hand, persist and extend the opening-up, and on the other, resist the capitalist decadent ideology and life style. Without asking if it is surnamed socialism or capitalism, we can not keep sober-minded and deal with the contradictions properly.³⁹⁵

Secondly, without reforming the unitary Leninist political system, which is dominated by personal authoritarian politics at the top leadership level, and without creating more autonomous institutions and more flexible procedures capable of brokering competing interests at the levels of international, bureaucratic and social politics, the tensions and conflicts created by reforms and opening-up can easily intensify or even explode, and the political struggle among the top leadership on national developmental strategy and transfer of power on the death of Deng, Chen Yun and the other powerful octogenarians could still threaten the reform and opening-up policies.

³⁹⁵ Qin Si. "Ask 'whether its surname is socialism or Capitalism'", Guangming Daily, 7.8.1991.

It is true that Deng's determination and great political tactics and skills have played an indisputably crucial role in keeping China's reform and opening-up on track. But ironically, the bigger the personal role Deng Xiaoping seems to play, the greater the worry there is. Deng Xiaoping was 88 years old in 1992. The simple question is what will happen when Deng is gone? Deng Xiaoping's failure to arrange a credible and orderly plan for the transfer of power upon his death has been a source of worry and uncertainty about China's future development.

Of course, Deng's influence and power should not be overstated. The various factions that exist and the capabilities of the conservatives as described before mean that Deng has to manage to make his policies and views prevail through a lot of manoeuvring and even at times a struggle. As I have just described, it took Deng two to three years of efforts to get the reform and opening-up back onto the fast lane after the 1989 crisis.

In brief, economic imperatives, the increasing interdependence between China's economy and the world economy and the changes in popular modes of thinking, all, in the long term, favour the continuation of China's reforms and opening-up, which will lead to a further development of China's market economy and the further integration of China into the world community. That is to say, the increasing interdependence is not only the result of the outward-looking development strategy but at the same time the driving force for further interdependence. However, the tension arising from the CCP's leadership's concern for preserving Chinese political identity while pursuing policies that deepen the interdependence between the Chinese society and the largely capitalist outside world has yet to be resolved. The orientation of China's future development will eventually be determined by internal developments. And the continued refusal to consider fundamental changes in political, institutional and ideological fields could still put the reform programme in jeopardy.

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