
CHINA - SINCE THE FOUNDING OF THE PEOPLE'S REPUBLIC IN 1949

by
Michael Cole

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My objective in this paper was to look generally at the problems China has experienced in trying to implement political, social, and economic reforms over the last 40 years.

I've tried to show how China, in spite of what would seem to have been catastrophic failures in its reform programs, continued to steadfastly adhere to four basic principles: socialism, the proletarian dictatorship; leadership by the Communist party; and promotion of the thought of Marxism, Leninism, and Mao Zedong.

This paper will also emphasize the cyclical pattern during these 40 years, of periods of ruthless control followed by periods of ambiguous liberalization. This pattern was once again very clearly demonstrated in the events of Tiananmen Square 18 months ago.

For those of us doing business in China and trying to plan for future potential business in this region, this historical perspective strikes a cautionary note.

My sources for this paper are primarily journal articles, for example, America, published by the Jesuits of the United States and Canada, had an

excellent series of articles on China this year. In addition, I've drawn extensively from Jonathan Spence's recent publication "The Search for Modern China."

The period following the end of the war with Japan in 1945 was one of massive disorganization in China. The Chinese people, during this period, gradually lost confidence in the policies and economic performance of the nationalist Government under the leadership of Chiang Kai Shek.

It was against this background that the Communists forged their conclusive victory in 1949 and Mao Zedong declared the founding of the New People's Republic of China.

The new regime focused immediately on addressing inflation and establishing a totally new government bureaucracy integrating the Communist Party. Progress in both of these areas were complicated by China's involvement in the Korean War.

It was not until 1953 that the People's Republic of China embarked on its first five-year plan modeled after a similar planning process common in the Soviet Union at that time. This plan achieved a dramatic increase in industrial production across a broad section of goods.

This economic advancement was in stark contrast to the prior period of industrial disruption brought about by the Japanese War, and Chinese Civil War.

A very obvious indication of this period of expansion in China was its population growth during this short period. In 1953, the first full-scale Chinese census was taken using comparatively modern methods. The results showed that the Chinese population had grown by well over 100 million since 1912 and in 1953 was 583 million. By 1957, the population had risen to 647 million.

This five-year planning period was accompanied by very close collaboration with the Soviet Union. Thousands of Soviet technical advisers helped China implement the five basic elements of the Soviet formula for rapid industrial growth. These were:

- An emphasis on the need for high growth across the entire plan period
- A focus on building heavy industry as the index of meaningful growth
- Insistence on high rates of savings and investment to make the growth possible
- Institutional transformations in agricultural methods, and
- A bias towards capital intensive methods

To these the Chinese also added a rigorous policy of "primitive accumulation." This policy, involving procurement quotas was designed to force the peasantry to sell more than a quarter of their total grain production to the State at extremely low prices. This left the peasants often at subsistence level while it enabled the government to guarantee food supplies in the cities and keep inflation and thus wages down.

While these measures achieved impressive economic growth, they also generated tremendous pressures on the social and political fabric of the country.

For example, the procurement quotas levied on agriculture broke landlords and allowed broad land reforms which at the outset encouraged peasants to join together in what were called mutual aid teams to increase the production of their small farms. Encouraged by the early increases in productivity which these teams of six or seven family holdings achieved and driven by the necessity to have agriculture provide most of the investment needed for industrial growth, the government continued to promote the structuring of larger cooperative farming organizations though their actual productivity was questionable. At the same time, peasants could retain the produce from up to 5% of their land. This land, called a private plot, of course, became highly productive and over time created the paradox of a very well fed peasantry and an increasingly hungry urban population.

In 1958, Mao Zedong, based on what later proved to be very exaggerated reports of the success of the policies promoting cooperative farming organizations, promoted the formation of massive cooperatives as part of the movement he called "The Great Leap Forward." At the same time, policies were enacted to do away with private plots. In a very short period, the government was reporting that a new social organization had been formed across China where 740,000 agricultural cooperatives had been merged into 26,000 communes, comprising 120 million or 99% of all rural households.

However, all was not what it seemed to be. Agricultural production figures in reality were disappointing. Indeed, though the first five-year plan had met its quotas well enough, it had revealed disturbing imbalances in the prevailing economic system. While industrial output rose at about 19% per year during the plan period, agricultural production rose only about 3.8%.

The misguided policy of decentralizing industrial resources into local backyard steel mills, for example, also proved to be a failure. Thousands of small steel mills had been established across the country, but very soon became redundant as they could not produce a high-quality product.

The Great Leap forward did bring several fundamental changes to China. The grouping of huge numbers of Chinese rural and city workers for joint irrigation, terracing, and construction projects changed the face of China's landscape and brought prosperity to previously infertile regions. In Beijing, the last of the great city walls were demolished to create wide new boulevards, and the city was honeycombed with a maze of underground shelters in case of nuclear attack from the United States.

In spite of the great chaos caused by the great leap forward, there was little attempt to censure Mao. However, he did step down as head of state in 1959 while remaining chairman of the Chinese Communist Party and of the Military Affairs Commission.

Mao publicly took a bellicose and self-justifying position on the great leap forward and the communes. Confucious, Lenin, and Marx all had made mistakes, he said, so why be surprised that I have too.

Chinese investment in industry rose to 44% of national income in 1959. Grain exports to the Soviet Union also rose to pay for more heavy machinery. The average amount of grain available to each person in China's countryside, which had been 205 kilos in 1957 before the great leap forward began, dropped to a disastrous 183 kilos in 1959, and a catastrophic 150 kilos in 1960 and fell

again to 154 kilos in 1961. The result was a famine of a gigantic scale. It claimed between 20 and 30 million lives in the three years 1959 to 1962 with many deaths of young people following later as a result of the years of progressive malnutrition.

During the early stages of the first five-year plan, the Chinese leadership became bitterly divided over how to deal with their demoralized intellectuals.

Those who believed that intellectuals could be trusted saw them as essential to the success of the desired surge in the Chinese level of productivity.

Mao at this time was a strong advocate for reaching out to involve intellectuals. He spoke in favor of promoting better relationships between party members and nonparty members. He urged Chinese Communist Party members to consider any reasonable views expressed by outsiders, to pay more attention to minority needs in China and to study more about the West and even to learn foreign languages.

The opposing view, however, was that the Chinese Communist Party was paramount, that they had led the revolution against the nationalists, and could not now be criticized from outside without fatal consequences for the party's effectiveness and morale.

In two speeches during 1956, Mao developed the idea of letting a hundred flowers bloom in the field of culture, a hundred schools of thought contend in the field of science.

The intellectuals of China understanding that they had permission to air their grievances against the Chinese Communist Party responded with enthusiasm between May and June 1957.

The famous "Democratic Wall" was established in the heart of Beijing University and was covered with posters critical of the Chinese Communist Party. All over China, it's most famous scholars began to publish articles of astonishing frankness.

However, by late June 1957, a backlash started, and by the end of the year, over 300,000 intellectuals had been branded "rightists" and their careers in China ruined. Many ended up in jail or labor camps. They were forbidden to teach, publish, or conduct research. Many were driven to commit suicide.

Three students in the Hanyane First Middle School who had triggered a bitter protest against the Chinese Communist Party school administration were tried and shot at the start of the new school year in the presence of 10,000 people including their fellow students.

The blooming of a hundred flowers had ended with a vengeance and the stage set for a new era of revolutionary struggle.

Towards the mid-1960s, Mao began to challenge his own entrenched party bureaucracy aided by the People's Liberation Army and by Defense Minister Lin Biao. Invoking the energy of the youthful Red Guards against their elders, Mao and his closest supporters launched The Great Proletarian Cultural Revolution which was an immense and contorted movement that wrought terror and disorder on China for at least 10 more years.

The leaders of the cultural revolution called for a comprehensive attack on the "four old" elements within Chinese society; old customs, old habits, old culture, and old thinking. It was left to the local Red Guards to interpret these terms. They turned on anybody who tried to hold them in check. Those who had a Western education or who dealt with Western businessmen, missionaries, and all intellectuals. Complex and painful techniques of public humiliation were used. Victims were forced to parade through the streets in dunce caps or with self-incriminating placards around their necks and to stand for hours with backs agonizingly bent and arms outstretched in what was called "the airplane position."

As euphoria, fear, excitement, and tension gripped the country, violence grew at a devastating pace. Thousands of intellectuals and others were beaten to death or died of injuries. Thousands of others committed suicide. Some, after making futile attempts to avoid red guard harassment by destroying their own libraries and art collections.

Thousands more were imprisoned, often in solitary confinement for years. Millions were relocated to purify themselves through labor in the countryside.

During this period, China turned its back on both the Soviet Union and the Western powers. It sought to call on its own resources to create a new and purified society and to implement a creative form of Marxism imbued with the vigor of Mao Zedong's thought.

Instead, the credibility of the Chinese people had been stretched to the limited. The most violent strains in Chinese society had been given free rein and the basic organizational structures stretched to the breaking point.

The great leap forward had at least had a meaningful economic and social vision at its heart. The Great Proletarian Culture Revolution showed that neither Mao nor the Chinese Communist Party seemed to know how or where the nation should be heading.

The void left in Chinese society by the ten disastrous years of the cultural revolution have been described as "a loss of cultural and spiritual values, loss of hope and ideals, loss of time, truth, and life, loss in short of nearly everything that gives meaning to life."

There was a profound "crisis of faith" - a loss of faith in communism, a loss of trust in the Communist Party, and a loss of confidence in the future of the nation's objectives to achieve its so-called four modernizations in industry, agriculture, defense, science, and technology.

With the deaths of Zhou Enlai (Joe-Uhn-Lye) and Mao Zedong in 1976, Deng Xiaoping emerged as China's chief architect of future reforms. He regarded reform as equivalent to the making of a revolution and essential if there was to be a future for the four modernizations, the Chinese Communist Party, and the nation.

Economic reform was initiated through the introduction of the agricultural responsibility system which consisted of two elements: first was the focus on the relationship between the amount produced and the individual reward; second was the move to greater autonomy for decision making concerning production and distribution. As a result, agricultural production increased dramatically and the economy in the countryside was revitalized. The annual grain production

during the period of 1979-84 increased by 2.3 times as much as the average annual increase recorded in the period 1953 to 1978.

Encouraged by such productivity, yet faced with the gradual leveling off of incremental gain, the government sought to extend the economic responsibility system in an effort to shift the country's economic system away from the rigid Stalinist-type central planning to a system characterized by the slogan "The State Regulates the Market and the Market Guides Enterprise."

Through the gradual reopening up to the West, which started with the period of Ping Pong diplomacy and Nixon's visit of 1972, the Chinese leadership had become acutely aware of just how far China has fallen behind other developing countries since 1949.

Mao, for example, had vowed that China would overtake the United Kingdom economically by the early 1970s. But, by 1979 they were still far from doing so. More embarrassing for them, however, was the progress made by the newly industrialized countries such as the four Asian dragons which as recently as the early 1970s had not been thought of as candidates for serious industrial development.

The building of a diverse and modern technology based, industrial infrastructure, was seen as key to reestablishing China's economic strength.

Entering the 1980a, China was almost debt free, its biggest obstacle was how to overcome its long tradition of self-reliance and how to embrace the help of other industrialized nations without creating the kind of dependencies it had suffered from since the time of the Opium Wars.

The decision was to pursue the acquisition of technology through equipment purchase and technology licensing agreements. It was expected that the necessary foreign exchange would come from exports of raw materials, like oil from the South China Sea and later products produced with the newly acquired technologies. The assumption was that this policy would avoid the need for China to rapidly open up its domestic markets to foreign firms and the inevitable influences this would have on Chinese institutions and culture.

Off-shore oil did not materialize in the abundance expected, and Chinese manufactured goods could not meet the quality standards of the West. As a result, foreign exchange remained in very short supply. The Chinese answer was to adopt a policy of pursuing joint ventures, and the inevitable dependence that these would create.

Over the next ten years, the Chinese economy was to change from 100% planned to being about 50% open.

By 1983, there was broad spread optimism over China's growth. Direct foreign investment that year amounted to about \$1 billion and the country had borrowed a further \$1 billion in international loans.

Close to 1 billion foreign visitors had come to China since 1979 and 18,000 Chinese students were studying in 54 foreign countries. 11,000 of these were studying overseas at the Chinese government's expense.

During this period, the absence of a creditable legal framework to protect foreign investors was addressed. Previous laws had been indistinguishable

from administrative regulations and were rarely publicly available in written form. The concept of judicial process was difficult to explain to the Chinese who had a Confucian preference for harmony which made litigation a hazardous undertaking for both parties to a dispute.

Special economic zones were growing in number and success. The Shenzhen economic zone, for example, was reported to have made 2,500 agreements of various kinds with foreign firms, bringing an estimated \$1.8 billion into the area. Custom duties on trade between Shenzhen and neighboring Hong Kong were also abolished. Shenzhen, in fact, was developing successfully as a kind of buffer/or transition zone between the hectic economy of Hong Kong and the tediously slow economic activity of most of China outside of the economic zones.

The increase in economic activity brought its own set of problems, four of which were particularly serious. First was a leftist reaction to the new incentive programs in the countryside which were seen as in direct violation of Communist principles. Second was the movement of workers responding to new labor opportunities which swelled the population of urban areas. New policies were developed to restrict movement, and identity cards were required for every citizen over 16. Third, the emphasis on development of the coastal cities and the island region of Hainan began to prompt serious worries that the vast inland regions of China would continue to loose out in the new economic expansion. Finally, the new economic incentives had led to an alarming rise in "economic crimes."

Contributing to all of these was an overriding problem of a rapidly growing population.

A full national census in 1982 confirmed China's total population exceeded 1 billion and showed that the many previous measures to control population growth had not been successful. Ironically, the economic success of the early 1980s further compounded this issue. Since the household incentive system put a premium on the productivity of family-based work, many rural families came to the conclusion that it was more important to have several children to work on the land and care for them in old age than to follow the State's call for a limit of one child per family.

The State introduced several penalties for families who violated the one child limit. Special economic, educational, and housing benefits were available to the families with one child. Whereas those with several children were punished with fines and the withholding of rights to housing and education. Practices involving forced abortions, the selling of female babies, and female infanticide were carried over from the 1960s and 1970s. Some analysts of China's demographics have suggested that up to 200,000 female babies were effected by this practice in a single year.

The explosive growth in China's population gave little solace to government planners. Conservative projections based on the birth rate in 1982 showed China's population growing to 1.3 billion by the year 2000. Feeding this population would present an enormous task given that the per capita level of cultivated land stood at 0.25 acres compared with 2.10 acres per capita here in the USA. The land area of China is larger than that of the U.S., 960 million Hectres compared with 930 million Hectres in the U.S. (a Hectre = 2.47 acres). However, the area of cultivated land in China was 99 million Hectres against 186 million in the USA. The potential for a rapid increase in the

area of cultivated land in China was low due to earlier disastrous policies. These had included indiscriminate deforestation on a huge scale, massive industrial pollution, and poorly planned hydroelectric dams, all of which affected China's ecology and environment.

Given the economic incentive to have children in the work force and the influence of the cultural revolution, it is not surprising that the 1982 census classified 28% of the Chinese work force as illiterate; 34% with primary school education, 26% with junior to middle school education, 10% with middle to senior level education, and 0.8% with college level education.

In the context of China's new ambitions for achieving its rightful place in the world economy through advancements in industry, agriculture, defense, and science and technology, or the four so-called modernizations, these demographic statistics would appear to make the challenge a daunting one.

The reforms in the industrial sector were affected by excessive bureaucracy and "egalitarianism" (a term now carrying the negative connotation of resistance to incentives). Whether it was the overriding influence of socialist principles or just plain lack of initiative, by 1985 only 15% of medium size enterprises were judged to have made good progress in invigorating the productivity of their organizations. The negative effects of economic development were also becoming clearer. In 1985, the government announced the first bankruptcy case to occur in China since the nationalization of the economy in the 1950s.

With the general lack of initiative and the threat of bankruptcy, corruption or economic crimes spread as the economic opening to the west continued. Local officials had new opportunities for controlling imports of consumer goods that appealed to huge potential markets among newly affluent Chinese peasants and workers.

The Hainan Island case of mid-1985 is a good example of this corruption. A group of officials - some stationed on Hainan Island, others in China's inland provinces - had conspired to exploit the "enterprise zone" aspect of China's economic growth. Using money raised as development loans from Beijing banks, the Hainan officials bought overseas products and then sold them to buyers all over China. The illegally imported goods between January 1984 and March 1985 included 89,000 motor vehicles, 2.9 million television sets, 250,000 video recorders, and 122,000 motorcycles. Overall, this scheme involved sums in excess of \$1.5 billion.

Scandals of this nature raised questions about the feasibility of the special economic zone concept. Yet if Hong Kong was to be successfully incorporated into the People's Republic of China following 1997, and if Taiwan were to be wooed back to the fold, over the long term such economic and social initiatives had to continue.

In spite of the many problems associated with the economic reforms, millions of Chinese were benefiting from them and becoming unabashedly materialistic. A popular slogan at this time, mocking the earlier Maoist inclination to list categories of political behavior by number, suggested that if you were a man in China nowadays, you wanted: "The Three Highs" and the "Eight Bigs" and

that the "Four Musts" were no longer enough - "The Four Musts" which had set the outer limits of materialists yearnings under Maoism had been a bicycle, a radio, a watch, and a sewing machine. In the new world of Deng Xiaoping, they were replaced by the "Eight Bigs": A color television, a refrigerator, a stereo, a camera, a motorcycle, a suite of furniture, a washing machine, and an electric fan. The three highs were what a man needed to get a wife: a high salary, an advanced education, and a height of over 5 feet 6 inches.

Even though it was quite obvious that the reforms in the economic structure could not prevail without corresponding reforms in the political structure, very slow progress was made in this area during the 1980s.

In 1985, Deng Xiaoping did manage to have 140 elderly Chinese Communist Party leaders retire from the politburo and a further 900,000 aged 60 and above from various levels of bureaucracy around the country. He replaced the most senior officials with college educated officials, all 50 years of age or younger. In addition, he retired 47,000 elderly officers from the army and initiated a plan to lay off a further 1 million, or 25% of the armed forces.

China's electoral laws, established in 1953 and modified a 1979, provided for a four-tier system of allegedly representative government. At the base were congresses in each of the communes (by 1986 these had become townships) elected every two years. Above these were 2,757 county congresses elected for three-year periods. Then came the congress with five-year terms in China's 29 provinces, autonomous regions and the three urban areas of Shanghai, Beijing, and Tianjin. At the top was the National People's Congress, which convened in

Beijing. The party defined this system as "democracy under the leadership of centralism" and made sure that all congressional candidates followed the Chinese communist party line.

Students trying to make these elections meaningful had tried to fight for seats at the township level congresses, but even when elected they were prevented from taking their seats with the Chinese Communist Party insisting on their proposed slates. In frustration at this autocratic system, students protested in 1982, 1984, and again in Shanghai in 1986. The Shanghai demonstration involved about 100,000 demonstrators and calling for true democracy finally got the government's attention. Their reaction, however, was not to strike out at the students, but instead, at those who the students found most inspirational - a number of outspoken professors and writers. One of these was Professor Fang Lizhi, who I will return to later. He was dismissed from the Chinese Communist Party and removed from all teaching duties. But also in typical Chinese fashion, a leading senior government officer was made a scapegoat - in this case the Secretary General of the Chinese Communist Party, Hu Yaobang, was not seen in public for some time and after a while it was announced in Beijing that he had resigned after making the appropriate self-criticism of his mistakes relating to political judgment.

The momentum for political change that had been building all through the 1980s culminated in a blueprint of political reform adopted by the 13th party congress held in late 1987. A change in leadership also appeared to be part of the price for these reforms, for at the same time the resignation of Deng Xiaoping from the Central Committee was announced along with two hard liners who had generally been outspoken against reform.

At the same time, Zhao Ziyang was elected secretary general of the Chinese Communist Party and he later named Li Peng acting premier.

The reforms briefly stated, included measures to separate the party from the administration of government and industry, leaving leadership there in the hand of professional civil servants and managers. The guiding principle behind these reforms was first to develop the economy and second to ensure that these reforms and the opening up of China to the rest of the world were achieved while also maintaining the four basic principles of socialism, the proletarian dictatorship, leadership by the communist party, and promotion of the thoughts of Marxism, Leninism, and Mao Zedong.

In many ways, the history of the republic of China has been characterized by continuity both in terms of its guiding principles and its practical approaches to political power; new experiments were tolerated by the post-Mao leadership, so long as they remained within the boundary of the four basic principles, though these principles have been defined and perceived in increasingly flexible and sometimes vague terms in recent years.

However, whenever these experiments appeared to have gone beyond the set boundary in any serious degree, ruthless force was employed to suppress the "counter revolutionaries."

This cyclic pattern of control followed by liberalization characteristic of the regime was demonstrated again quite shockingly in the recent events of Tiananmen Square.

Hu Yaobang died suddenly on April 15 last year. He had been a feisty long march veteran and hand picked by Deng Xiaoping for secretary of the Chinese Communist Party until made a scapegoat for allowing the 1986/87 student demonstrations to spread.

A group of students in the party-history department at People's University in Beijing decided to launch a pro Hu Yaobang demonstration demanding a reversal of the verdict against him. Their intent was to raise the issues of the prodemocracy protests which had been suppressed in 1978/79 and again in 1986/87. More specifically, they wished to call for an end to corruption and nepotism in government, for more democratic participation in decision making and for better conditions in the universities.

During the remaining days of April, the student demonstrations spread to major Chinese cities. Student knelt on the steps of the great hall and begged Premier Li Peng to come out and talk to them, but he did not. The students expected that they might also get the attention of Zhao Ziyang, Secretary General of the Chinese Communist Party. However, he was on a state visit to North Korea.

The demonstrators were shocked by a strong editorial in the People's Daily that described their demonstrations as a "planned conspiracy." This was interpreted as representing the views of government hard liners and a clear indication that the battle lines were being drawn.

In early May, Gorbachev arrived in Beijing for the Summit which was expected to mark the end of the 33-year-old rift between the two countries. But the

event was overshadowed by the spectacle of 3,000 student hunger strikers camped in Tiananmen Square and surrounded by tens of thousands of their generation. Gorbachev's visit ensured that the demonstrations got worldwide media coverage and served to escalate the stakes on both sides.

Li Peng had an unsuccessful meeting with leaders of the hunger strikers on May 17. On May 19 Zhao Ziyang visited the hunger strikers urging them to end their fast. However, without further official comment, martial law was declared on May 20.

I'm sure you all remember the media coverage of the next two weeks where the people of Beijing, with tremendous solidarity, effectively blocked the advancing soldiers with makeshift barricades.

Finally, however, on June 3 the tide turned with a vengeance. Deng Xiaoping with the support of government hard liners had ordered seasoned troops from regional People's Liberation Army commands to clear the Square and return order to the city.

The army was ruthless, and the callousness and randomness of their killings had a paralyzing effect on the Democratic movement. And in keeping with tradition, the regime quickly produced its scapegoat in the person of Zhao Ziyang, Secretary General of the Chinese Communist Party.

The brutality of the crackdown and the cynicism of the lies the government tried to tell a shocked world, has seriously set back hopes for a more open China in the near future.

The belief of China's government that it could join the modern world without sacrificing any of its prevailing ideology has been proved unquestioningly wrong.

The popular slogans and wall posters of many past student protests reading:

"No Democratization,
No Modernization"

will surely reappear again and again until justice prevails!

I'd like to finish with just a few brief quotes from Fang Lizhi, the Chinese astrophysicist, who I mentioned earlier in connection with the 1986 demonstrations, and who took refuge in the U.S. Embassy in Beijing until recently.

He made these comments when accepting the Robert F. Kennedy Human Rights Award last year.

In speaking of the 1989 demonstrations, he said, "We can see how passionately the Chinese people want a just, rational, and prosperous society . . . like all members of the human race, the Chinese are born with a body and a brain, with passions, and with a soul. Therefore, they can and must enjoy the same inalienable rights, dignity, and liberty as other human beings."

He goes on to say, "The source of my sorrow is that in this land of my birth, human dignity has once again been trampled upon."

And then he added a note of hope.

"Remember that in the current climate of terror, it may well be that those who are most terrified are those who have just finished killing their fellow human beings. We may be forced to live under terror today, but we have no fear of tomorrow . . . thus we have no reason to lose faith."

MICHAEL COLE
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