

Essays in Economic & Business History

2021, 39: 17-44

Published January 31, 2022



Grassroots and Local Initiatives Versus the Architect's Design During China's Reform and Opening Process

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Abstract

China's rapid economic growth since 1978 has been mainly credited to the leadership of the Communist Party of China (CPC), especially Deng Xiaoping, in the official narratives. This article examines key events before and during China's reform and opening, and concludes that the enterprising spirit of ordinary Chinese people and grassroots initiatives are the real driving forces of China's rapid growth. The main role of Deng and the CPC leadership was permissive to the grassroots initiatives. Deng Xiaoping's "Uphold Four Cardinal Principles" has shut the door for political reform and kept state control of key economic sectors.

JEL Classifications: N15, N95, O53.

Keywords: China miracle; household contract responsibility system; private enterprise; state owned enterprise; township and village enterprise.

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ISSN 0896-226X LCC 79-91616 HC12.E2

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Introduction

China's rapid economic growth since 1978 has often been hailed as the "China Miracle" (Lin Justin Yifu, Fang Cai, and Li Zhou 2003). From 1978 to 2018, China's real gross domestic product (GDP) grew at an average annual rate of around 9.5 percent. The official narratives by the Communist Party of China (CPC) have credited Deng Xiaoping with initiating China's reform and opening policy at the Third Plenum of its Eleventh Central Committee (3P11CC; December 18-22, 1978), and called him the chief architect of China's reform and opening (Ye Yonglie 2014). Scholars generally concur with the view that Deng initiated or shaped China's reform and opening (Jack W. Hou 2011; Barry J. Naughton 1993; Clem Tisdell 2009; Ezra F. Vogel 2011). However, except for a few frequently quoted phrases such as "no matter if the cat is white or black, it is a good cat as long as it catches rats" (sometimes called cat theory), "crossing the river by touching the stones" (also called stone theory), "let some people get rich first" and "development is the cardinal principle", it is difficult to associate any reform measures specifically with him. Vogel (2011) views Deng's role more as a general manager guiding the transformation than as an architect with a grand design. As China's paramount leader with the final say since 1981, Deng had allowed, or acquiesced to, most grassroots and local initiatives in the economic field, which eventually led to the privatization of most state-owned enterprises (SOEs) and a thriving private sector. In contrast, some other CPC leaders such as Hu Yaobang, Zhao Ziyang and Wan Li had taken a more proactive role in supporting grassroots initiatives and advancing China's reform and opening (Hu Jiwei 2000; Wu Xiang 1996; Zhao Ziyang 2009).

Although many scholars think that China has found a new road to economic prosperity, the China Model or Beijing Consensus (Joshua Cooper Ramo 2004), China's reform and opening actually undid many of the institutions and systems imposed by the CPC during the 1950s and re-introduced market mechanisms and private entrepreneurship. When political suppression was loosened after the death of Mao Zedong, CPC Chairman, and the arrest of his widow and her three senior supporters (the Gang of Four) in 1976, ordinary people began to try practices such as contracting production to households that had proved effective in promoting productivity during the 1950s and the early 1960s (Du Runsheng 2000; Liu Yuhua 2009). Deng Xiaoping's cat theory and stone theory encouraged ordinary people to try new ideas or return to old effective ways, which occurred without active enforcement by Deng. Deng Xiaoping proactively restored pre-Cultural Revolution CPC policies and prevented grassroots initiatives from weakening the CPC's leadership status.

The official CPC narratives often give an impression that China was entirely closed to the outside world before the 3P11CC in December 1978, although massively importing advanced Western technologies and equipment started in 1972 (Chen Jinhua 2005). Using foreign technology and foreign funds to develop China's economy had been a consensus among the CPC leadership well before December 1978 (Zhu Liang 2008). Moreover, other leaders such as Hua Guofeng, Hu Yaobang and Zhao Ziyang have not been given sufficient credit for their role in advancing reform and opening, and the enterprising spirit of ordinary Chinese people in driving China's phenomenal growth is not fully acknowledged. In fact, it is the grassroots and local initiatives that perseveringly broke through policy constraints and forced the CPC Central Committee to adopt market principles and privatize the majority of SOEs (Ma Qing-Ping 2019).

The aim of this article is to examine the events that really affected China's economic development in the past four decades, to find the real driving force behind China's success, and to discuss how to assess the contribution to economic growth of a political leader in an authoritarian state. This study will combine historical and comparative method with politico-economic analysis to understand China's reform and opening process. Reform here means changing the established economic and political systems; opening (up) means loosening or

lifting restrictions on the entry of foreign products, technologies, capital, investments, culture and people (and outflow of people and capital as well as exports). Opening up is actually a part of reform. This article focuses more on economic reform. The CPC leadership refers collectively to the CPC members who have a major influence on its policies, especially members of the Politburo Standing Committee and the nominally retired veteran leaders who still pull the strings, such as Deng Xiaoping and Chen Yun during the 1980s and early 1990s. Although Deng was a dominant figure in the CPC leadership, other leaders such as Chen Yun and Zhao Ziyang also had important influences on the policy-making of the CPC leadership. This article examines the role of the CPC leadership collectively as well as that of Deng Xiaoping when a decision is clearly his.

The rest of this article is organized as follows: the first section introduces activities of opening-up and commune-run enterprises before October 1976; the second section looks at how farmers and grassroots cadres in many locations spontaneously contracted production to households amid the political transition during 1976-1978; the third section looks into the emergence of private enterprises during the economic adjustment between 1979 and 1981; the fourth section analyses the unsuccessful reform attempts to reinvigorate the SOEs and the rise of private enterprises between 1982 and 1991; the fifth section examines the privatization of most SOEs during 1992-2001; the sixth section reviews briefly China's development since 2002 and the stalled reform process; and the seventh section discusses the findings and concludes. An appendix summarizes the key events and developments during 1972-2001.

Opening-up and Commune-run Enterprises before October 1976

China's opening to western technologies and equipment began in the early 1970s. In 1969, the United States (US) President Richard Nixon decided to improve the Sino-US relationship and noted that "we don't want 800,000,000 living in angry isolation" (Steven E. Phillips 2006). The military pressure from the Soviet Union following the border conflicts between the two countries in 1969 also forced China to rethink its relations with western countries, especially the US. The Ping-Pong Diplomacy in 1971, the replacement of Taiwan by the mainland as China's sole representative in the United Nations on October 25, 1971, and the visit to China by President Nixon during February 21-28, 1972 improved the international conditions for China to embrace the outside world.

Mao Zedong and Zhou Enlai, Premier of the State Council, initiated a new wave of importing advanced foreign technologies and equipment in 1972. After one of Mao's service staff told Mao that she queued for hours to buy some Dacron fabric, Mao had a conversation with Zhou about buying Western technologies for producing chemical fibers. Then Zhou instructed the State Council Working Group and the State Planning Commission (SPC) to prepare a report on importing chemical fibers and chemical fertilizer producing equipment. The *Report on Importing Complete Sets of Chemical Fibers and Chemical Fertilizers Producing Equipment* proposed to import four complete sets of chemical fiber producing equipment with capacity of 240,000 tons, two complete sets of 300,000-ton synthetic ammonia-producing equipment, and key equipment, spare parts and steel for construction or renovation of other chemical fertilizer factories, with a budget of US\$400 million. Zhou and Mao approved the plan in February 1972. The Ministry of Light Industry and the Ministry of Fuel and Chemical Industries were responsible for implementing the plan (Chen Jinhua 2005).

Other ministries also wanted to import advanced foreign equipment in their fields and proposed more projects. Zhou Enlai instructed the SPC to combine their proposals into a single plan. The SPC submitted the *Request for Instruction on Increasing Equipment Import and Expanding Economic Exchange* to the State Council on January 2, 1973. It proposed to import complete sets of equipment worth US\$4.3 billion in the next 3 to 5 years, hence it was

called the 43 Plan. It included 26 projects to build 7 petrochemical complexes for producing chemical fibers (240,000 tons) and plastics as well as chemicals, 13 chemical fertilizer plants (with capacity to produce 4 million tons of ammonia and 6.3 million tons of urea), 3 power stations (with a total capacity of 870,000 kilowatts), and 1 steel rolling plant (with capacity of 2 million tons), 1 chlorinated pellets plant for iron and steel production (with capacity of 300,000 tons), and 1 alkyl benzene plant (with capacity of 100,000 tons). It also included 43 sets of fully-mechanized coal mining machines, and many other machines for various industrial sectors. The proposed imports were completed between 1976 and 1982, and the chemical fibers, fertilizers and electricity produced by those plants and factories played a key role in meeting the demand for clothes, food and electricity in the early 1980s (Chen 2005). The large increase in grain output after 1978 was accompanied by large increases in fertilizer consumption (see Table 1). This was the second wave of importing foreign equipment and technologies, in which Deng Xiaoping was little involved, while Hua Guofeng played a part as member of State Council Working Group. The first wave had been the 156 industrial projects assisted by the Soviet Union in the 1950s (Chen Xi 1999; Li et al. 2006; Tang Rimei 2004).

Table 1

GDP, Growth Rate, Fiscal Deficit, Income, Grain Output and Fertilizer Consumption, 1975-1986

Year	GDP	GDP per capita	Growth Rate	Fiscal Deficit	Per Capita Income (CNY)		Grain Output	Chemical Fertilizers Consumption
	billion CNY	CNY	(%)	billion CNY	Rural	Urban	million tons	
1975	304.0	332.0	8.7	-0.5			284.5	5.4
1976	298.9	321.0	-1.6	-3.0			286.3	5.8
1977	325.0	344.0	7.6	3.1			282.7	6.5
1978	367.9	385.0	11.7	1.0	133.6	343.4	304.8	8.8
1979	410.1	423.0	7.6	-13.5	160.2	405.0	332.1	10.9
1980	458.8	468.0	7.8	-6.9	191.3	477.6	320.6	12.7
1981	493.6	497.0	5.1	3.7	223.4	500.4	325.0	13.3
1982	537.3	533.0	9.0	-1.8	270.1	535.3	354.5	15.1
1983	602.1	588.0	10.8	-4.3	309.8	564.6	387.3	16.6
1984	727.9	702.0	15.2	-5.8	355.3	652.1	407.3	17.4
1985	909.9	866.0	13.4	0.1	397.6	739.1	379.1	17.8
1986	1,037.6	973.0	8.9	-8.3	423.8	900.9	391.5	19.3

Source: National Bureau of Statistics of China.

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In 1976, Hua Guofeng, then Premier of the State Council and First Vice-Chairman of the CPC, proposed to send a Chinese Agricultural Delegation to the US to investigate agricultural mechanization, which was approved by Mao Zedong. The delegation led by Xiang Nan, Director of the Agricultural Machinery Bureau of the Ministry of First Machine Building Industry, visited the US during August and September 1976 (Gong Huanwen 2016; Xiang Nan 1979). At the beginning of 1977, Xiang reported their findings to Hua Guofeng, by now CPC Chairman as well as Premier of the State Council. Hua was surprised by the prosperity of the US and its agricultural mechanization (Han Gang 2011), which might be one factor in persuading Hua to become a strong supporter of importing advanced foreign equipment and technologies.

Mao Zedong was not a dogmatist. He advocated “seek truth from facts”, which was further promoted by Deng Xiaoping and Hu Yaobang to become the theoretical justification for discarding wrong policies and trying new approaches. Mao approved imports of foreign equipment and sending delegations to the US because he knew that western technologies were more advanced. Since importing foreign equipment and technologies required foreign exchange, the Chinese government had taken measures to promote exports. As early as in 1959, Baoan County (the predecessor of Shenzhen city) was designated as one of the production bases for exports to Hong Kong. However, the state-planned exports became a heavy burden on the livelihood of Baoan people. In 1961, the CPC Baoan County Committee led by Secretary Li Fulin proposed to restore the right of production teams for cross-border production, allow small quantities of private trade, and relax control over entry and exit, which were approved by the CPC Guangdong Provincial Committee in September 1961. Those measures markedly improved the local economy and people's livelihoods, but were criticized by the CPC Guangdong Provincial Committee Working Group in 1963 and revoked in 1964 (Wang Shuo 2011).

The SPC proposed to the State Council in July 1973 to establish fresh food and livestock exporting bases in Baoan and Zhuhai. In August 1974, at meetings on establishing export bases organized by the SPC and the Ministry of Foreign Trade, it was suggested that Baoan and Zhuhai should also assemble other goods for export. Baoan County submitted its report on establishing export bases to the CPC Guangdong Provincial Committee in 1975. In 1975, Yumin Village Production Brigade and Luohu Production Brigade secretly built fish ponds of about 9 hectares in the New Territory of Hong Kong for fish farming and sold fish in Hong Kong with good profits (Wang 2011), thereby revealing ordinary people's entrepreneurial potential.

Mao Zedong had enthusiastically promoted the development of commune-run enterprises and called them ‘our great bright hope’ in 1959 (Feng Hui 2007). The commune, production brigade and team-run enterprises (CBTEs) usually arose from grassroots initiatives to provide services to local communities, such as flour mills, tofu workshops, tailor shops, home appliance repair shops, and agricultural machinery repair factories, which appear to corroborate Mao's idea that masses of people make history. Under Mao's instruction, the People's Daily reprinted the Henan Daily's report on CBTE development in the Huiguozhen Commune of Gong County in Henan Province under the title *The Great Bright Hope* on October 11, 1975, with a commentary *Enthusiastically Running Well Commune, Brigade and Team Enterprises*. By the end of 1976, there were 1.115 million CBTEs whose industrial output reached CNY 24.35 billion, which was 3.8 percent of the national industrial output (Mo Yuanren 1987). Those CBTEs were predecessors of the flourishing township and village enterprises (TVEs) in the 1980s and 1990s.

Importing foreign equipment, establishing export bases, and developing CBTEs demonstrated that many activities attributed to opening and reform after the December 1978 3P11CC actually originated before October 1976 (Chen 2005). Mao Zedong often sought to mobilize and encourage the masses to create economic miracles and he made “serving the people” the mission of the CPC. Importing foreign equipment and promoting CBTEs are a

reflection of his philosophy (Pang Xianzhi and Jin Chongji 2003). However, the destalinization in the Soviet Union led by Nikita Khrushchev after Stalin's death in 1953 worried Mao who thought that this might represent capitalist restoration and Mao became distrustful of his fellow revolutionaries. This distrust deepened after the debacle of the Great Leap Forward, a mass movement during 1958-1960 launched by Mao Zedong and the CPC Central Committee to accelerate China's economic growth, and the ensuing criticisms within the CPC leadership. Mao worried that a "Chinese Khrushchev" would carry out a "de-Maoization" after his death, so he took measures to prevent it. He was also concerned that private entrepreneurship, with covert support from "capitalist roaders" within the CPC, would lead to capitalist restoration in China (Pang and Jin 2003). Therefore, he suppressed the entrepreneurial spirits of ordinary Chinese people, concentrated decision-making power to himself, and eventually launched the Great Cultural Revolution to consolidate proletarian dictatorship and mobilized the masses to seize back the power usurped by the so-called capitalist roaders, i.e. the CPC cadres suspected of disloyalty to Mao. Mao Zedong's preoccupation with preventing the so-called capitalist restoration severely hindered private entrepreneurship and China's economic growth and the Cultural Revolution caused severe damage to China's economy. His monopoly of decision-making stifled the creativity and talent of other CPC cadres.

Political Transition and Spontaneous Contracting Production to Households during 1976-1978

In a totalitarian country, economic activities are often constrained by political power, therefore political changes usually precede important economic changes. The death of Mao Zedong on September 9, 1976 provided China with an opportunity to pursue a different path. Mao's dominance in the CPC leadership since the early 1940s made the transition of power to a new leader unavoidably eventful. Mao had taken down two of his chosen heirs, Liu Shaoqi and Lin Biao, and humiliated many veteran revolutionaries, which was carried out mainly by the "Gang of Four" and their likes promoted by Mao during the Cultural Revolution. In Mao's final years, there were roughly three forces in China's political landscape: the radical left, the pragmatic new elites, and the veteran revolutionaries. The radical left represented by the "Gang of Four", the most devout followers of Mao's policies, embodied Mao's theory of Continuing Revolution under the Proletarian Dictatorship to prevent capitalist restoration and cared little about China's economic performance. The pragmatic new elites represented by Hua Guofeng, who were mainly responsible for economic affairs and government operations, rose to high positions during the Cultural Revolution. The veteran revolutionaries, represented by Deng Xiaoping and Marshal Ye Jianying, who became prominent during China's civil war, still controlled the armed forces and most government functions, although many of them had been purged and even imprisoned during the Cultural Revolution. Probably fearing that his succession by a veteran revolutionary would reverse his Cultural Revolution policies and that succession by the radical left might lead to a coup by the veteran revolutionaries to remove them immediately after his death, Mao promoted Hua Guofeng, who was not a member of the Politburo Standing Committee, to the No. 2 position in the CPC and removed Deng Xiaoping from all his positions in the months before his death (Pang and Jin 2003). Wang Hongwen, once the heir apparent, No. 3 in the CPC (behind Mao and Zhou Enlai before Zhou's death on 8 January 1976) and one of the Gang of Four, was by-passed. Mao might have hoped that Hua could maintain the balance of power and his Cultural Revolution policies.

Deng's removal strengthened the influence of the Gang of Four but provided Deng with political capital for his future comeback. Deng's main responsibility in the CPC had been party and political affairs after 1949 and he helped Mao manage political movements such as the Anti-Rightists movement in 1957 (which he always insisted was necessary), before being purged during the early days of the Cultural Revolution. Mao "liberated" Deng in 1973, and he

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began to preside over the routine operations of the State Council and the CPC Central Committee in January 1975 because of Zhou Enlai's severe illness. Deng tried to improve China's economic performance by rectifying leftist activities that undermined production, which angered Mao. Mao launched his final political movement, "Counter the Rightist Trend to Reverse Verdicts (of the Cultural Revolution)" in October 1975. When Deng was formally dismissed in April 1976, the movement became "Criticize Deng and Counter the Rightist Trend to Reverse Verdicts" (Ye 2014). Deng's efforts in 1975 won him a reputation for promoting production and resisting radical leftists, which became his most important political capital after 1976.

The Gang of Four, who were unhappy with Hua's meteoric rise, often challenged him at politburo meetings. Their brashness and tactical ineptitude pushed the pragmatic new elites to the side of the veteran revolutionaries. Hua was concerned that the Gang of Four might plan to seize the top position after Mao's death, so he decided to remove them by force and seek support from veteran revolutionaries for his decision. Marshal Ye Jianying, CPC Vice-Chairman and Vice-Chairman of the CPC Central Military Committee, and his supporters joined forces with Hua and his supporters. The arrest of the Gang of Four in the evening of October 6, 1976 initiated China's transformation process. Hua became CPC Chairman and Chairman of the CPC Central Military Committee at an emergency politburo meeting in the early morning of October 7, 1976 (Zhang Gensheng 2004). The Gang of Four were mainly accused of two crimes: 1) undermining China's economy and thus keeping people in poverty; and 2) carrying out a fascist dictatorship to persecute veteran revolutionaries and ordinary people. These two justifications for removing the Gang of Four obliged the new leadership to develop the economy to improve people's lives, to rehabilitate purged veteran revolutionaries, and loosen control over ordinary people, which are the true causes of China's reform and opening. If we do not consider the approval and implementation of the 43 Plan as the beginning of China's reform and opening, October 6, 1976 is its real beginning. The changes were caused by the pursuit of state power by a tiny minority of "movers and shakers" in society (Kent G. Deng 2011).

China's economic situation in 1976 required urgent action to improve the living conditions of ordinary people especially in rural areas. For example, Wan Li, First Secretary of the CPC Anhui Provincial Committee, found in 1977 that some adult members of many rural households could not go out because they did not have clothes to wear, 10 percent of the production teams were on the verge of starvation, and 90 percent of them were not adequately fed or clothed (Han 2009; Pan Fei 2018). Rural areas in other inland provinces had similar situations. Because of severe shortages of nearly all consumer goods, urban residents used ration books or coupons from the government to buy them. The decision by Mao Zedong to import chemical fiber and fertilizer equipment reflects that he understood the problem and wanted to improve people's lives. The majority of his fellow veteran revolutionaries represented by Zhou Enlai and Deng Xiaoping wanted to focus on economic construction and improving living standards. However, Mao's preoccupation with preventing capitalist restoration by suppressing private entrepreneurship and promotion of the radical leftists to launch political campaigns to purge "capitalist roaders in the CPC" undermined China's economic growth. The purge of the radical leftists by Hua Guofeng and his supporters cleared the way to concentrate on economic development. Many of the purged or sidelined veteran revolutionaries supported dividing farmland among households and private entrepreneurship in the 1950s and early 1960s, so that their political rehabilitation brought back CPC officials who would allow such activities. A key message Hua and his supporters announced to win popular support was that socialism should improve people's lives rather than make people poorer, which became the rationale for many CPC cadres to support grassroots initiatives for adopting production-promoting measures. This life improvement criterion made it almost

impossible for future leaders to revert to Mao's era. Hua was also keen to use foreign technologies to accelerate China's growth.

Improving living standards and blaming the Gang of Four for ordinary people's poor conditions were also good political strategies for the new leadership to win public support and consolidate their power. The masses had become discontent with Mao's policies and the Gang of Four by 1976, as shown by the unofficial remembrance of Zhou Enlai and protests in Beijing and other cities around April 5, 1976, later called the "April 5 Movement", which were suppressed by the government as a counterrevolutionary event. The protesters called for pursuing the goal of realizing Four Modernizations (modern agriculture, industry, defense, and science and technology) by the end of the twentieth century pronounced by Zhou Enlai in 1975, and denounced those CPC leaders who tried to undermine Zhou's aspiration and influence. The necessity to promote production to satisfy people's need for food and clothes and other goods had been recognized by many among the new leadership. On October 10, 1976, Hu Yaobang, who was removed from the position of vice-president of the Chinese Academy of Sciences in early 1976 because he tried to improve its performance, made three proposals at the request of Marshal Ye Jianying on governing the country: 1) stop criticizing Deng Xiaoping, 2) redress miscarriages of justice, and 3) promote production (Hu 2015). Marshal Ye thought highly of Hu's proposals, which might be one reason why Ye and Hua appointed him to important positions (Ye 2014).

The leadership under Hua reaffirmed the objective of realizing the Four Modernizations by the end of the twentieth century, and set forth a series of new policies to promote political stability and economic recovery. Hu Yaobang was appointed the executive vice-president of the Party School of the CPC Central Committee in March 1977. He used the Party School as a platform to mobilize theorists to prepare public opinion for redressing the unjust, false and erroneous cases made during or before the Cultural Revolution. Deng Xiaoping was restored to his previous positions in July 1977 and was mainly responsible for education, science and technology. He presided over the discussion and proposal to restore national university entrance examinations, which was approved by the politburo meeting on October 5, 1977. On December 15, 1977, Hu was also appointed Director of the CPC Central Committee Organization Department, whereby he began to be responsible for redressing past miscarriages of justice. He was credited with having helped 3 million people get justice (Hu Jiwei 2000). Hu's work strengthened the force of veteran revolutionaries who suffered from Mao's decisions and wanted to rectify Mao's legacy.

China's new leadership was eager to import advanced technologies and equipment. In July 1977, the SPC proposed to import US\$6.5 billion-worth of complete sets of equipment, machines and patented technologies, in addition to completing the 43 Plan projects. The Politburo approved the proposal in principle, and Deng Xiaoping thought there should be more. The SPC later submitted a plan of importing US\$15 billion-worth of equipment and technologies (Han 2011). Several delegations were sent to developed countries in late 1977, including an economic delegation to visit the United Kingdom (UK) and France and a delegation to investigate Japan's iron and steel industry. Baosteel was planned in 1977 (Chen 2005).

At the Fifth National People's Congress (February 26-March 5, 1978), Hua Guofeng presented an ambitious ten-year plan for fast economic growth during the 1976-85 period. The plan included 120 projects that would require massive imports of foreign technologies. More delegations were sent abroad in 1978, including the Economic Delegation to Japan (March 28 to April 22, 1978); the Hong Kong and Macau Economy and Trade Investigation Group (April 10 to May 6, 1978); and the Economic Delegation led by Vice-Premier Gu Mu to France, West Germany, Switzerland, Denmark and Belgium (May 2 to June 6, 1978) (Han 2011).

The three economic delegations reported their findings to the Politburo and made proposals on China's economic development. The delegation to Japan proposed to learn from

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Japan's experience and bring in advanced foreign technologies. The delegation to Hong Kong and Macau proposed to establish special zones as production bases for exports, which led eventually to the four special economic zones and the opening of 14 coastal cities, Hainan province and Shanghai Pudong area (Han 2011, Naughton 2018). The 25-member delegation led by Gu Mu to Western Europe were shocked by the high living standard of ordinary people there. They reported their findings to the Politburo on June 30, 1978, and the Politburo members were so affected by their report that the meeting lasted from 3.30pm to 11pm (Liu Yan 2014; Yuan Xiaojiang 2017). Hua Guofeng commented that "our current superstructure really doesn't fit in, so we have to reform" and "our mind should be emancipated a bit further" (Han 2011). Deng Xiaoping was not at the meeting. Following their report, the State Council held a Four Modernization Plan Discussion Conference (July 6 to September 9, 1978). Li Xiannian, CPC Vice-Chairman and Vice-Premier, announced at the closing session that China would import goods and equipment worth US\$18 billion between 1978 and 1985 (Li 2010).

The visits by top CPC leaders to foreign countries enabled them to see the gap between China and developed countries. Hua Guofeng visited Romania and Yugoslavia (August 15-29, 1978) and became interested in their use of foreign investment for economic development (Zhu 2008). This reflects Hua's pragmatism because he had been responsible for economic affairs including preparation for the 43 Plan, and understood the difficulties China was facing at the time. Deng Xiaoping visited Japan (October 22-29, 1978), and remarked "now I know what modernization is" (Liu Jintian 2018). He was very impressed by Singapore's economic growth during his visit to Thailand, Malaysia and Singapore (November 5-14, 1978). Vice-Premier Wang Zhen was surprised by the living standard of ordinary workers and social welfare during his visit to the UK (November 6-17, 1978), and remarked that he would consider the UK a communist society had it been led by a communist party (Xin Ziling 2008, Liu 2014).

The new leadership was a coalition between the veteran revolutionaries who had been prominent during the civil war and the pragmatic new elites who were promoted by Mao Zedong during the Cultural Revolution. The two camps differed on how to deal with Mao's legacy. Hua Guofeng's supporters, the new elites, advocated in February 1977 to follow whatever Mao had decided or instructed ("two whatevers"). The publication of the article *Practice Is the Sole Criterion for Testing Truth* in the Guangming Daily on May 11, 1978 and its reprinting by the People's Daily the following day triggered a debate on the criterion of truth, which became a rallying call for rectifying Mao's legacy. Hu Yaobang was behind its publication (Michael Schoenhals 1991). The media act as key channels of communication between ordinary people and the CPC leadership; ordinary people and grassroots CPC cadres usually seek clues from news and articles in newspapers for personnel and policy changes, and may act on their understanding of these clues. The major news outlets such as the Xinhua News Agency and the People's Daily also compile Internal References with different levels of secrecy classification for senior CPC cadres to inform them of domestic and international developments (Li Cheng 2017; Sohu 2013). The Internal References are more truthful than the media available to the general public and those with the highest secrecy classification are for the CPC leadership only. The publication of the article *Practice Is the Sole Criterion for Testing Truth* appeared to ordinary people and grassroots cadres to say that they may try approaches that have proved effective in practice.

The article's publication and the ensuing debate also encouraged civilian activists in expressing their views. Big character posters on the wall of Xidan Street in Beijing became more political in October 1978 and evolved into the Democracy Wall Movement during November 1978 to December 1979. From October to December 1978, the posters mainly criticized Mao's mistakes as well as the Cultural Revolution and called for more democracy, which paved the way for such discussions within the CPC and received positive comments from senior leaders such as Ye Jianying and Deng Xiaoping (Wu Jiang 2001). Although the Democracy Wall Movement criticized Mao and some contemporary policies, in a certain sense

the posters represented initiatives by the masses, which were encouraged and praised by Mao Zedong who believed that “masses make history”. Using such posters to participate in political discussions was a citizen’s constitutional right until April 8, 1980, when it was removed from China’s constitution after Deng Xiaoping became the de-facto supreme leader.

The veteran revolutionary camp won the ideological battle and prepared to rectify Mao’s legacy and take control of the party’s top power from Hua Guofeng and his supporters. The CPC’s decision-making system follows the Leninist principle, with the Politburo Standing Committee and the General Secretary (or Chairman) being the highest authority and the whole party obeying the Central Committee which in turn obeys the Politburo and its standing committee. However, the top leader needs majority support at each level of the party hierarchy, firstly in the Politburo Standing Committee. The CPC Central Committee Work Conference held from November 10 to December 15, 1978 created a political atmosphere that eventually forced Hua’s key supporters to surrender their control of essential party functions and enabled the election of previously purged or sidelined veteran revolutionaries to the Central Committee, Politburo and its Standing Committee during the milestone 3P11CC, for which it prepared the ground. Thus, Hua lost majority support in the Politburo Standing Committee. The CPC Central Committee Work Conference was scheduled to discuss agricultural production and national economic plans, but Chen Yun’s speech at the Northeast Group discussion on November 12 led the conference to discuss past wrongs. He proposed to rehabilitate the April 5 Movement and many prominent CPC figures who were purged by Mao and to review the mistakes of Mao’s lieutenants. Many participants supported his proposal and began to discuss Mao’s mistakes, two whatevers and past activities of Hua Guofeng’s key supporters. Hu Yaobang played an essential role in raising these topics in the Northwest group (Yu Guangyuan 1998a). On December 13, 1978, Deng Xiaoping delivered a closing speech (*Emancipate the Mind, Seek Truth from Facts, Unite and Look Forward*) in which he called for increasing the decision-making powers of local governments, firms and production teams and strengthening responsibility systems (Yu 1998b, 1998c).

Although the 3P11CC is thought to mark the beginning of China’s reform and opening, it is more significant politically and ideologically. It made no economic policies that were substantially different from those before it. Hua and his supporters did not differ from Deng and his supporters in terms of economic policies at the time. Economic development had become the CPC’s main work focus by 1977, besides cleansing supporters of the Gang of Four and criticizing their interpretation of Marxism. Hua announced on the opening day (10 November 1978) of the Central Committee Work Conference that the entire party’s work focus would shift to economic development from January 1, 1979 (Han 2011). Thus, the 3P11CC’s official pronouncement to shift the work focus from class struggle to developing the productive forces and modernizing the country is a decision that was made well before the 3P11CC and the Central Committee Work Conference while Hua was still in charge. Historically, the arrest of the Gang of Four in the evening of October 6, 1976, which brought about all the subsequent changes, is more significant than the 3P11CC, hence the real beginning of China’s transformation, i.e. reform and opening. If emphasis on economic development marks the beginning of China’s reform, it began with the reiteration by the CPC leadership in October 1976 to achieve Four Modernizations by the end of the twentieth century, which was called the New Long March at the time. It had become the consensus of society as well as the CPC leadership by then that China should achieve Four Modernizations and improve people’s lives. In contrast, the 3P11CC was more a stage for a review of progress during China’s long transformation from a centrally planned economy to a market economy.

The 3P11CC marked the beginning of Deng’s rise to become the CPC’s paramount leader. As Chen Yun was re-elected Vice-Chairman, veteran revolutionaries dominated the Politburo Standing Committee. Deng, Chen and Li Xiannian shared many views and began to control its political agenda. Choosing the 3P11CC as the beginning of China’s reform and

opening is a consequence of the victory of Deng and Chen over Hua in their power struggle, which seems intended to emphasize Deng's achievements, diminish Hua's contribution, and justify Deng and Chen's political maneuvering to remove Hua. In terms of economic policies, Hua Guofeng might have been more open-minded than Chen Yun and many of Deng Xiaoping's supporters. In terms of inner-party democracy, Hua was probably more democratic than Deng as the top CPC leader (Hu 2006; Yu 1998a). Ideologically, the criterion of truth debate in the Central Committee Work Conference and the 3P11CC removed Mao's aura, which helped politically remove Hua's supporters from key positions later. Hua's key supporters were all heavily involved in implementing Mao's decisions during the Cultural Revolution, but Hua himself was open-minded and receptive to the truth criterion discussion and redressing past miscarriages of justice. Many theorists felt liberated from past ideological shackles and began to reflect widely on past policies and decisions (Yu 1998a), but some would soon be disappointed (Hu 2006; Shang Changbao 2017).

Since the leadership's reform idea was still to increase the efficiency of SOEs and collectively owned enterprises (COEs) within the framework of central planning by giving more decision-making power to firms and production teams, grassroots initiatives preceded policy changes. After Mao's death, many production teams secretly assigned farmland to households for fixed output quotas, which later became the little sparks that kindled the prairie fire of China's economic transformation. The earliest reported case was Gaolongchen village, Wenchang city, Hainan Administrative District in the winter of 1976 (Li et al. 2008). Several cases in other regions also emerged well before the much-publicized cases in Anhui Province (Chen, Chang, and Yuan 2019; Pan 2008; Wang, Li, and Liang 2004; Zhang, Zhang, and Shi 2008). Household production responsibility systems had been widely used in Anhui in the early 1960s to deal with the severe famine (Wang 1999). In September 1978, the CPC Anhui Provincial Committee led by First Secretary Wan Li decided to allow collective-owned land to be lent to farmers as a relief measure against the severe drought, if the land could not be cultivated by collectives. A meeting on September 15 at Huanghua village called by Tang Maolin, the CPC Shannan District Committee secretary in Feixi County, decided to assign most farmland to households. Huanghua villagers divided all farmland by September 18. Xiaojingzhuang village divided its farmland on September 23, 1978 (Ma 2009). The most famous Xiaogang village in Fengyang city divided their farmland on November 14, 1978 (Liu 2009). When this started, neither farmers in Anhui nor the CPC leadership in Beijing knew where it would lead.

Focusing on institutions that protect investment and property rights, Ang (2016) has argued that using weak institutions to generate inclusive growth which in turn promotes building stronger institutions is how China escaped the poverty trap. If the institutions in her analysis refer to all economy-related institutions in China, it would appear not the case in the early days of China's reform and opening. China's institutions were not weak at the time. On the contrary, they were too powerful, not in the sense that they could promote market activity and entrepreneurship, but in the sense that they suppressed and stifled market activity and entrepreneurship. The government could dictate how farmers cultivated their land, where citizens could live and work, and from where shops obtained their supplies. Such powerful institutions were one of the causes of poverty in many rural areas in China before 1978. Therefore, the first step for China to escape the poverty trap was to weaken government control over basic economic activities, i.e. production and market trading, which was achieved by the initiatives of ordinary people in poverty and grassroots cadres who understood the cause of poverty.

Strictly speaking, the CPC leadership did not initiate any real reform policies (i.e. those that would change or reform China's socialist economic system established in the 1950s) before and during the 3P11CC. The push by Chen Yun and Deng Xiaoping to rectify Mao's mistakes facilitated restoring CPC policies prior to the Cultural Revolution or the Great Leap

Forward when they played major roles on economic policies and CPC party affairs respectively. It also consolidated their position in power struggles within the CPC. The “seeds” of real reform were planted by farmers, who divided farmland among households, and lower-ranking CPC cadres who took the first step in the future direction of China’s reform. These grassroots initiatives were far ahead of the 3P11CC, as the *Decision on Several Issues of Accelerating Agricultural Development (draft)* which it deliberated prohibited dividing farmland among households. The formal version approved by the Fourth Plenum of the Eleventh Central Committee on September 28, 1979 still prohibited dividing farmland among households (Yu 1998a). Loosening political control and efforts to promote production by the CPC leadership since October 1976 had emboldened ordinary people to use practices which had proved effective in the past, and this was further helped by discussions on the criterion of truth in 1978.

The main concerns during 1976-1978 for the CPC leadership were economic development and rectification of Mao’s legacy. They, especially Li Xiannian who was in charge of the economy and Chen Yun, still believed in the superiority of socialist planned economy (Zhao 2009). It might be fair to say that China’s economy in the late 1970s was far from reaching the potential of a centrally planned economy (Ma 2019). Without mismanagement and the disruptive political campaigns typical of Mao’s era, China might still have been able to grow at a decent speed under the central planning system. The CPC policy under Hua Guofeng’s leadership was successful during 1976-1978; the economy soon recovered from a decline in 1976 and grew rapidly in 1977 and 1978 with fiscal surpluses (see Table 1). During this stage, Deng Xiaoping joined Hua Guofeng and Li Xiannian in pushing for rapid economic growth. Although Ye Jianying continued to rank No. 2 in the CPC until his death in 1986, Deng actually replaced him as the leader of veteran revolutionaries in 1978.

Adjustment for Balanced Growth and Emergence of Private Enterprises: 1979-1981

The victory for rectifying Mao’s legacy was won jointly by the CPC cadres who mainly objected to Mao’s decisions to purge or sideline them and those who wanted to review Mao’s legacy thoroughly and strengthen democracy. Deng Xiaoping and Chen Yun belonged to the first group who would uphold Mao Zedong thought and defend Mao’s status. After Deng, Chen and Li Xiannian took control from Hua and his supporters, Deng began to suppress the opinions of the second group on Mao and democracy (Shang 2017; Wu 2001). On the economic front, Chen Yun’s return to the CPC core leadership slowed China’s investment-led growth during 1979-1981 (Xiao Donglian 2004). The undisputable output-enhancing outcomes of contracting production to households in agriculture practiced by the pioneering production teams in 1978 or earlier won a following among farmers nationwide and support from some provincial and national CPC leaders. The success of this household production responsibility system can be understood readily from basic economic theory. Given the huge rural labor surplus, the restriction on the movement of this labor force by the residence registration (hukou) system and the lack of capital to develop industry and commerce to absorb China’s labor surplus at the time, contracting production to households was the obvious solution to the free-rider issue. If every farmer wanted to free-ride, they all fell into the prisoner’s dilemma and became poorer in a collective.

The CPC Central Committee organized a National Theoretical Work Discussion Conference (January 18-April 3, 1979) to further emancipate their minds and to find consensus on fundamental issues in Marxist theory. During its first stage ending on February 15, participants raised many issues and criticized past policies of the CPC under Mao’s leadership, which made Deng Xiaoping uneasy such that its second stage was shortened to between March 28 and April 3. On March 30, Deng delivered his speech *Uphold the Four*

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Cardinal Principles, i.e. 1) keep to the socialist road, 2) uphold the proletarian dictatorship, 3) uphold the leadership of the Communist Party, and 4) uphold Marxism-Leninism and Mao Zedong Thought. He proclaimed that “we will never learn from or import the capitalist system itself” because “the socialist system based on public ownership was better than the capitalist system” (Deng Xiaoping 1994a). Many participants were disappointed and some thought that Deng replaced the two whatevers with the Four Cardinal Principles (Shang 2017). Deng's speech delimited the future path of China's reform and opening, with state control of key economic sectors and no fundamental reform in the political system. Deng became the new standard-bearer of Mao's legacy.

Chen Yun and Li Xiannian thought that government finance would incur a large deficit in implementing the ten-year plan. On March 14, 1979, they wrote to the CPC Central Committee, proposing to 1) establish a State Council Financial and Economic Committee with Chen as director and Li as deputy director, and 2) adjust the national economy to solve the severe imbalances. The Politburo meeting held during March 21-23 approved their proposal. Before this meeting, Li Xiannian was responsible for the economy and Chen Yun responsible for party discipline and law after re-entering the Politburo Standing Committee at the 3P11CC. Chen Yun, who had advocated balanced growth and central planning supplemented by market activities since the 1950s, began to play a leading role in China's economic policymaking. He had played this role to some extent in the 1950s and early 1960s and many senior CPC officials in charge of economic affairs had been his subordinates (Jin Chongji and Chen Qun 2005). In contrast, except for a stint in presiding over the State Council in 1975, Deng Xiaoping was mainly responsible for CPC party and political affairs in his career and was unfamiliar with economic affairs, so he deferred to Chen Yun for economic policymaking after Chen returned to the power center. Chen disagreed with the ten-year economic growth plan and objected to the large-scale import of foreign equipment. He won over Li Xiannian and Deng Xiaoping in early 1979 and the decision of the Politburo meeting during March 21-23 was a victory for his view. The CPC Central Committee Work Conference held during April 5-28, 1979 approved the Politburo decision on economic adjustment. The conference reviewed the current economic situation, criticized the existing economic growth plan as unrealistic, and concluded that China's national economy was severely imbalanced between sectors and that the current economic growth plan worsened the imbalance. It decided to adjust, reform, consolidate and improve the national economy in three years, to address the imbalance between light and heavy industry and to overcome key deficiencies. Many senior officials disagreed with Chen Yun's view, but the adjustment plan was enforced vigorously with support from Li Xiannian and Deng (Xiao 2004; 2006). The CPC Central Committee also began to increase the decision-making power of enterprises (Xie Duyang 1983).

The rural household contract responsibility increased output wherever it was used. When it was reported to the CPC Anhui Provincial Committee, Wan Li approved it for trial in early 1979 (Pan Fei 2018; Wu 1996). In March 1980, Wan Li was appointed Director of the State Agricultural Commission which oversaw agricultural reform. Deng Xiaoping commended the output-increasing effect of contracting production to households in a conversation on May 31, 1980 and noted that it would not affect the general trend of developing a collective economy. Hu Yaobang remarked on July 12, 1980 at the National Propaganda Work Conference that working alone or in a team does not affect the nature of the economy and that working in a team under supervision does not make slave labor socialist. Hu's speech removed the ideological constraint on contracting production to households and provided theoretical support to the practice (Zhao Shukai 2018). The CPC Central Committee Document No.75 released on September 27, 1980, *Issues on Further Strengthening and Improving Agricultural Production Responsibility System*, allowed contracting production to households in remote, mountainous or poor areas (Han 2009).

To improve performance of industrial enterprises, the State Council issued on July 13, 1979 five documents on 1) increasing the autonomy of SOE managers, 2) allowing enterprises to keep a proportion of their profits, 3) levying a fixed asset tax, 4) increasing the depreciation rate for fixed assets, and 5) using loans for cash flow. Provincial governments and ministries were instructed by the State Council on August 28, 1979 to experiment with using bank loans for capital investment. The government also experimentally allowed some SOEs to pay tax on their profits and retain the balance for reinvestment and bonuses in 1980. The “profit delivery” system in force then meant that SOEs paid essentially no taxes, but they had to hand all their profits to the government; hence there was no incentive for SOEs to produce profits. The State Council issued on September 5, 1981 the *Ideas on Reforming Industrial and Commercial Tax Regimes* for changing profit delivery to tax payment so that SOEs could retain after-tax profits at their own disposal. Enterprises were allowed to produce unplanned goods for sale on the market and to use bonuses to reward higher productivity in 1980, and the production responsibility system was tried in some SOEs. The State Council released the *Provisional Regulations on Issues in Implementing Industrial Production Responsibility System* on November 11, 1981. These moves were intended to provide the right incentives to managers and workers in SOEs and COEs, to alleviate the free-riding issue caused by a lack of incentive pay.

The end of the Educated Youth Settling in Mountainous and Rural Areas program in 1980 and the return of its participants from 1979 exacerbated urban unemployment. Some unemployed set up their own private businesses to make a living as early as 1977, and later they were encouraged by many local governments as a measure to reduce unemployment. Rural and township fairs existed all along for farmers and handcrafters to sell their products at market-determined prices. In February 1979, the State Administration for Industry and Commerce proposed to allow sole traders in repair, services and handicrafts, and this was approved by the CPC Central Committee and the State Council. Such small businesses existed even during the Cultural Revolution despite the absence of support from CPC policies. The proposal was to recognize them formally so that they could develop further to help alleviate unemployment. The first license for sole trading was issued on October 25, 1979 in Xinchang county, Zhejiang (Yuan Huaming, Yu Linxin, and Hu Dongyi 2018). Many successful private entrepreneurs soon started to hire workers, which was later prohibited by the aforementioned Document No.75.

The hire of workers by private entrepreneurs triggered a debate in 1981 on whether it was exploitation, which would have been contrary to the CPC’s mission to get rid of exploitation. The *Policy Provisions on Urban Non-Agricultural Individual Economy* issued on July 7, 1981 by the State Council allowed private entrepreneurs to employ one or two helpers and those with skills to have no more than five apprentices. The *Instructions on Strengthening Market Management and Cracking Down on Speculation, Profiteering and Smuggling Activities* issued on January 7, 1981 by the State Council prohibited many business activities carried out by private enterprises. Therefore many private entrepreneurs affiliated their firms to townships or villages to make them appear collectively-owned (Wu Dayan and Huang Diankeng 1996). Many SOEs set up subsidiaries owned collectively by employees, which often profited at the expense of their state-owned business, to provide jobs to employees’ dependents and to earn money for employee welfare.

The joint-stock system appeared long before relevant national policies and legislations were formulated by the central government, and would become a vehicle to transfer SOEs and COEs to private ownership. In 1978, farmers in Jinjiang, Fujian province set up joint-stock cooperatives by raising funds through certificates promising dividends in proportion to capital shares. Their firms were nominally affiliated to communes, production brigades or teams (Xu Lianfang 1994). This shows the creativity and entrepreneurship of ordinary Chinese people, who could drive economic growth if unbounded. The joint-stock system arises because it

enables entrepreneurs/investors to aggregate their funds to support larger businesses and to share risk as well as profits proportional to their capital, in accordance with the needs of a market economy. The first formal joint-stock firm, Chengdu Industrial Exhibition Trust Co. Ltd, was approved by the Chengdu municipal government in Sichuan province and established on 15 June 1980 (Xiao Lijian 2016). Zhao Ziyang was First Secretary of the CPC Sichuan Provincial Committee between October 1975 and February 1980, during which time he took many bold measures to support grassroots initiatives in the economy and to promote agricultural production and economic growth.

In 1980 and 1981, the veteran revolutionaries took over Hua Guofeng's power. At the Fifth Plenum of the Eleventh Central Committee (February 23-29, 1980), Hua's four key supporters were forced to resign; Hu Yaobang and Zhao Ziyang were elected to the Politburo Standing Committee; and Hu became General Secretary to head the Central Secretariat that was restored at this Plenum. Deng Xiaoping made a speech on reforming the system of party and state leadership on August 18, 1980, suggesting power should not be concentrated in one person. At the Third Meeting of the Fifth National People's Congress (August 30-September 10), Zhao replaced Hua as Premier. At the Sixth Plenum of the Eleventh Central Committee (June 27-29, 1981), Hu replaced Hua as CPC Chairman, and Deng replaced Hua as Chairman of the CPC Central Military Committee and became the openly acknowledged paramount leader (Ye 2014).

The adjustment, which was guided by Chen Yun's idea of balanced and planned growth, achieved its objectives to shrink investment in heavy industry and promote growth of agriculture and light industry. GDP growth slowed down, with fiscal deficits in 1979 and 1980 (see Table 1). However, this economic adjustment seems to have had little impact on China's reform and opening in the long run. The more important progress in this period was the rise of private enterprises initiated by the urban unemployed and farmers under the household contract responsibility system, which would change China's future economic landscape. The private enterprises primarily concentrated in the service and consumer goods manufacturing sectors, which was determined by the market rather than adjustment via central planning. During the adjustment, many ongoing development projects were forced to stop or to be abandoned altogether, causing substantial losses (Zhao 2009). During this stage, Deng Xiaoping generally deferred to Chen Yun for economic policy making (Zhao 2009).

SOE Reform and the Rise of the Private Sector: 1982-1991

During the first half of this period, although Deng Xiaoping and Chen Yun pulled the strings from behind the scenes, General Secretary Hu Yaobang and Premier Zhao Ziyang worked together as "first line" leaders to push through many key economic reform measures (Zhao 2009). Most national level policy initiatives came from the first line leaders and ministries to adapt to changing situations at regional levels and were often inspired by practices in Hong Kong, Macau and developed economies. A series of CPC Central Committee No. 1 Documents from 1982 to 1985 endorsed the household contract responsibility system including dividing farmland among households with fixed output quotas, which made the commune-brigade-team cooperative system irrelevant in managing agricultural production. By the end of 1984, all but a handful of communes operating as cooperatives had been dissolved (Angus Maddison 2007). With success in agricultural reform, making SOEs and urban COEs (UCOEs) more efficient became the CPC leadership's main focus.

At its Twelfth National Congress (September 1-11, 1982), the CPC leadership still pursued a planned economy supplemented by market regulation, as long advocated by Chen Yun. However, the industrial production responsibility system enforced from the end of 1981 and the earlier reform measures did not bring about the kind of dramatic improvement achieved in agriculture. To incentivize SOEs to maximize profits, between 1982 and 1984 the

government changed in two steps the system of SOEs handing all profits to the state into a system of SOEs paying taxes. First, SOEs would not need to hand their after-tax profits to the state from 1984 (until 2007). Second, capital investment projects became entirely funded by interest-bearing bank loans from the beginning of 1985. China Construction Bank, which gained independence from the Ministry of Finance in August 1979, was responsible for providing these loans. At the time, all banks in China were state-owned and specialized to a certain extent (Stephen Bell and Feng Hui 2013).

SOE managers wanted more decision-making power and more autonomy. The Fujian Daily published on March 24, 1984 an open letter *Please Untie Us* from 55 SOE managers appealing for more power to enable them to contribute more to economic development. The People's Daily reprinted the letter on March 30, 1984, stimulating a nationwide discussion on SOE reform. The State Council issued on May 10, 1984 the *Provisional Regulation on Further Increasing Autonomy of State-Run Industrial Enterprises*, giving 1) SOE managers the authority to hire and fire workers and to reward workers with bonuses; and 2) SOEs the right to sell extra products at market prices after completing state planned output.

The Third Plenum of the Twelfth Central Committee approved the *Decision on the Reform of Economic System* on October 20, 1984. The leadership still pursued a planned commodity economy based on public ownership. To reconcile with SOEs' right to hire and fire workers, the State Council released on July 12, 1986 four documents to replace lifelong employment with a labor contract system and to establish unemployment insurance. The First Meeting of the Seventh National People's Congress approved on April 13, 1988 the *Law of People's Republic of China on Industrial Enterprise of the Ownership by the Whole People*, which established the manager responsibility system and the operational autonomy of SOEs. However, the CPC leadership had not fully appreciated the agency problem in the corporate governance of SOEs. In SOEs, the people are the principals and SOE managers are the agents, and the government in theory acts as the agent of the whole people in supervising SOE managers on the people's behalf (like the board of directors in a firm supervises managers on behalf of shareholders). Since there is hardly any mechanism for (a member of) the people to monitor the government, the government is the *de facto* principal. Thus, the government increased corporate autonomy and managerial power, but failed to install an adequate monitoring system and incentive pay during this stage of reform. Therefore, many managers benefitted themselves at the expense of SOEs, resulting in heavy losses in such SOEs.

Private entrepreneurs proceeded ahead of the CPC policies and often became targets for crackdowns. The CPC Central Committee and the State Council issued on April 13, 1982 the *Decision on Cracking down Severe Criminal Activities in Economic Field*, targeting long distance transport for trade, speculation, profiteering and smuggling. The crackdown was loosened before long. The CPC Central Committee No. 1 Document in 1983 *Issues in Current Rural Economic Policy* permitted private enterprises to conduct long distance transport for trade, to buy large or medium-sized vehicles and to be engaged in commerce. The CPC Central Committee Document No. 5 *Deepening Rural Reform* issued on January 22, 1987 allowed rural entrepreneurs to hire one or two helpers and those with skills to have three to five apprentices. Since these restrictions were already being exceeded, the State Council's *Provisional Regulations of the People's Republic of China on Private Enterprises* issued on June 25, 1988 removed them. The evolution of CPC policies on private enterprises during this period shows that Deng Xiaoping and Chen Yun had not intended to have a private sector that was the mainstay of China's economy.

Although Hu Yaobang and Zhao Ziyang played important roles in advancing reform and helped Deng Xiaoping remove Hua Guofeng and his supporters, the ideological divide between Hu/Zhao and Deng/Chen Yun was actually larger than that between Hua and Deng/Chen. The confrontation between Hua and Deng/Chen arose more due to a power

struggle than ideological differences, because Deng wanted to become the final decision maker and Chen also wanted to have more say in decision making. Compared with Hu Yaobang's belief in "seek truth from facts" and "practice is the sole criterion for testing truth", Deng's promotion of them in 1977-1978 seems more tactical for the power struggle with Hua. Deng, Chen, Hu and Zhao differed in their attitudes toward universal values and the market. Hu and especially Zhao were more supportive of private entrepreneurship and the market economy. While they were open-minded to universal values and political reform to put the CPC under the law, Deng would not allow open discussion of these issues. Chen was fonder of central planning than market activities (Shen 2010; Zhao 2009).

Following a speech on "spiritual pollution" by Deng on October 12, 1983, the CPC Central Committee Propaganda Department launched the Campaign to Purge Spiritual Pollution which criticized humanism and the bourgeois lifestyle. The campaign was scaled down by Hu Yaobang in December 1983. Because of Hu's more tolerant attitude to different opinions, people with liberal views became more vocal on the issue of political reform in the following years, which worried Deng and some of his fellow elderly leaders. Deng called the CPC to "take a clear-cut stand against bourgeois liberalism" during a conversation with some CPC leaders on December 30, 1986 (Deng 1994b). In January 1987, Hu was criticized by elderly revolutionaries for being soft on bourgeois liberalization and forced to resign at a meeting called by Deng. Zhao Ziyang was appointed CPC General Secretary and Li Peng later became Premier of the State Council (Zhao 2009).

Increasing SOEs' autonomy and raising procurement prices of agricultural products increased the government financial burden to subsidize price control. By the beginning of 1988, Deng Xiaoping and the CPC leadership thought that it was time to remove price control (Yang Jisheng 2009). The State Council announced on April 5, 1988 that price control over pork, eggs, sugar and common vegetables would be lifted, and employers would give employees non-staple food subsidies along with their wages. The price control over 13 famous brands of cigarettes and spirits was lifted on July 28, and their prices increased by about 10 times on that day. The Central People's Broadcasting Station reported in August that the *Preliminary Scheme on Price and Wage Reform* had been approved in principle by the Tenth Politburo Plenary Meeting held during August 15 and 17. The news triggered a nationwide wave of panic buying in which people bought almost every consumer good in large quantities. The consumer prices index (CPI) increased sharply in 1988 and 1989 (see Table 2). The death of Hu Yaobang on April 15, 1989 triggered student protests in Beijing because they felt Hu was a true reformer and had been unfairly treated by the party elders. The protests soon spread to other cities and became a movement for democracy and against corruption in the CPC. The movement won wide support from urban residents because of the popular discontent toward high inflation and "guandao" (official profiteering), i.e. profiteering from the dual-track price system by people with government connections, especially the so-called princelings (Zhao 2009).

The protests in Beijing ended on June 4, 1989 with troops enforcing martial law taking control of Tiananmen Square. Zhao Ziyang was dismissed because of his refusal to support martial law and Jiang Zemin became CPC General Secretary (Zhao 2009). The Fifth Plenum of the Thirteenth Central Committee passed the *Decision on Further Rectification, Consolidation and Deepening Reform* on November 9, 1989. In order to decrease the inflation rate, stricter measures were taken to reduce government spending, money issuance, bank credit, and capital investment, and to inhibit excessive consumer demand. These anti-inflation measures decreased aggregate demand, and slowed GDP growth during 1989 and 1990, but inflation was under control by 1990 (see Table 2).

More joint-stock firms were formed through start-ups or the transformation of existing firms during 1982-1991. These were usually approved by local governments or local branches of the People's Bank of China (PBOC) without national level regulations and laws for the joint-

Table 2
CPI, GDP Index, Income and Employment in Individual and Private Enterprises, 1987-1997

Year	CPI prior year = 100	GDP index	Income per capita (CNY)		Number of people (millions)			
					Self-employed or employed by sole traders		Employed by private enterprises	
					Urban	Rural	Urban	Rural
1987	107.3	111.6	1,002.1	462.6	5.69			
1988	118.8	111.3	1,180.2	544.9	6.59			
1989	118.0	104.3	1,373.9	601.5	6.48			
1990	103.1	104.1	1,510.2	686.3	6.14	14.91	0.57	1.13
1991	103.4	109.2	1,700.6	708.5	6.92	16.16	0.68	1.16
1992	106.4	114.1	2,026.6	784.0	7.40	17.28	0.98	1.34
1993	114.7	113.6	2,577.4	921.6	9.30	20.10	1.86	1.87
1994	124.1	113.1	3,496.2	1,221.0	12.25	25.51	3.32	3.16
1995	117.1	109.4	4,283.0	1,577.7	15.60	30.54	4.85	4.71
1996	108.3	110.1	4,838.9	1,926.1	17.09	33.08	6.20	5.51
1997	102.8	109.6	5,160.3	2,090.1	19.19	35.22	7.50	6.00

Source: National Bureau of Statistics of China.

stock system. Private trading of the issued shares and informal (illegal) venues for such trading soon appeared in many cities, forcing the opening of formal share trading counters. The first was opened on September 26, 1986 at the Jing'an Office of the Industrial and Commercial Bank of China (ICBC) Shanghai Trust and Investment Company, which was approved by the PBOC Shanghai Branch. Around 4,750 enterprises issued shares of various forms and raised CNY 4.201 billion by 1990. Over 3,200 enterprises were transformed into joint-stock firms by the end of 1991 (Xiao 2016). The Shanghai and Shenzhen stock exchanges opened on November 26 and December 1, 1990 respectively, with the State Council's approval.

This period witnessed the failure of the CPC leadership's original reform plan to revitalize SOEs and build a strong economy based on central planning and public ownership. Individual enterprises, which were allowed as an expedient to solve the urban unemployment issue, and TVEs, most of which had been contracted to individuals or transformed into joint-stock enterprises controlled by individuals, rose strongly to compete with SOEs and UCOEs and squeeze their profit margins. Many SOEs and UCOEs became loss-making, which forced the CPC leadership to rethink their vision of socialism based on public ownership. During this stage, Deng Xiaoping vacillated between support for deepening reform with more marketization, advocated by Zhao Ziyang and Hu Yaobang, or for a "bird-cage economy" (i.e.

a market economy (the bird) within the limits of the socialist central plan (the cage); see Woo Wing Thye 1999), advocated by Chen Yun and his supporters. Deng usually acted as arbiter between the two groups, and often leaned towards more marketization (Zhao 2009).

Privatizing SOEs and Keeping State Control of Key Economic Sectors: 1992-2001

The political events during 1989-1991 in China, Eastern Europe and the Soviet Union led to confusion in the CPC Central Committee Politburo about China's reform, because they were unsure whether Deng Xiaoping (and Chen Yun) wanted to continue reform after the reformist General Secretary Zhao Ziyang was dismissed and put under house arrest. Deng made a series of pronouncements for continuing economic reform during his visit to southern China from January 18 to February 21, 1992, which signaled the Politburo to continue economic reform. The Politburo agreed totally with Deng during its plenary meeting held during March 9-10. A new round of capital investment and economic boom began, with GDP growing 14.2 percent in 1992 (see Table 2). The Fourteenth CPC National Congress (October 12-18, 1992) set creating a 'Socialist Market Economy' as China's key task in the 1990s. In 1992 and 1993, most price controls were lifted. In a conversation on September 16, 1993, Deng noted that the core of the Four Cardinal Principles is the leadership of the Communist Party (Ni Degang 2014; Pan Hong 2010), which may explain his tolerance to market and private entrepreneurs but not to political liberalism.

Fueled by capital construction, the influx of foreign capital and expansion of private enterprises, China's GDP continued to grow rapidly with high inflation rates (see Table 2). Fearing hyperinflation, the CPC Central Committee and the State Council issued the *Opinions on Current Economic Situation and Strengthening Macroeconomic Control* on June 24, 1993, raising interest rates and ordering banks to call back speculative loans and reduce lending. The inflation rate peaked at 24.1 percent in 1994, and dropped gradually to 2.8 percent in 1997. China's economy continued to grow rapidly during 1992-2001 (see Tables 2 and 3), and became the second largest in the world in purchasing power parity (PPP) terms in 1999.

China's rapid growth arose from a thriving private sector (Maddison 2007). The leadership's efforts on industrial reforms failed to increase the efficiency and profitability of SOEs, whose large losses in the early 1990s became a huge financial burden to the government (Sheng Hong 2012). The Fifth Plenum of the Fourteenth Central Committee (September 25-28, 1995) approved the guideline of "grasp the large and let go the small" to reform SOEs. The State Council issued on March 7, 1996 the *Implementation Plan of State-Owned Enterprise Reform in 1996*, whereby 1,000 large and medium-sized SOEs would remain state-owned. The rest were sold, merged, or closed down. Most SOEs bought by their managers at symbolic prices soon turned profitable, in privatizations which transferred huge amounts of public wealth to the managers who were CPC cadres. They became private entrepreneurs alongside those who started as sole traders and TVE managers. Local government officials and CPC cadres at all levels who benefited from the rise of private enterprises and their connections with business people supported and pushed privatization (Chen An 2002; Gordon White 1996).

By making huge losses which the government no longer wanted, or could no longer afford to bankroll, the SOE managers forced the CPC leadership to privatize most SOEs and enriched themselves. According to economic theory, this is a phenomenon where agents make losses to force the *de facto* principal (government) to transfer ownership to agents almost for free. China's economy was so different from that in 1978 and the reform measures in this period would not have been imaginable in the CPC leadership's wildest dreams in 1978.

Table 3
CPI, GDP Index, Exports, Imports and Income, 1998-2010

Year	CPI	GDP Index	Exports	Imports	Per Capital Income (CNY)	
	prior year = 100		US\$bn	US\$bn	Urban	Rural
1998	99.2	107.8	183.712	140.237	5425.1	2162.0
1999	98.6	107.7	194.931	165.699	5854.0	2210.3
2000	100.4	108.5	249.203	225.094	6255.7	2282.1
2001	100.7	108.3	266.098	243.553	6824.0	2406.9
2002	99.2	109.1	325.596	295.170	7652.4	2528.9
2003	101.2	110.0	438.228	412.760	8405.5	2690.3
2004	103.9	110.1	593.326	561.229	9334.8	3026.6
2005	101.8	111.4	761.953	659.953	10382.3	3370.2
2006	101.5	112.7	968.978	791.461	11619.7	3731.0
2007	104.8	114.2	1201.612	1005.923	13602.5	4327.0
2008	105.9	109.7	1220.060	956.115	15549.4	4998.8
2009	99.3	109.4	1430.693	1132.562	16900.5	5435.1
2010	103.3	110.6	1577.754	1396.247	18779.1	6272.4

Source: National Bureau of Statistics of China.

As David Faure (2006) commented, back in 1978 no-one foresaw the extent to which privatization might go. However, allowing people to take initiatives to improve their living conditions will unavoidably lead to a thriving private sector and the decline of SOEs. The path of reform had not been designed by Deng Xiaoping or the CPC leadership, but was an outcome of the interaction between ordinary Chinese people's enterprising activities and the CPC leadership's efforts to contain these activities within the socialist road according to Deng's Four Cardinal Principles.

The Stalled Reform and Building a Moderately Prosperous Society: 2002-Present

By the beginning of 2002, China had transformed its previous planned economy into the current mixed economy. The Sixteenth CPC National Congress (November 8-14, 2002) set the goal of building a moderately prosperous society in all aspects. Exports, boosted by membership of the World Trade Organization which China obtained on December 11, 2001, and the prosperous housing industry, which was stimulated by urban development projects based on the *Regulation on the Management of Urban Housing Demolition and Relocation*, became the two major driving forces for China's economic growth in the next ten years. Exports accounted for about a quarter of the growth. China's GDP grew strongly between

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2002 and 2010 with large increases in per capita urban and rural incomes (see Table 3). The State Council Executive Meeting presided by Premier Wen Jiabao on November 5, 2008, decided to implement a CNY 4 trillion stimulus package by the end of 2010, despite the fact that the economy actually grew 9.7 percent in 2008. China's GDP of US\$6.1 trillion became the second largest in the world in 2010. China's real GDP growth rate has dropped below 8 percent since 2012 and to 6.6 percent in 2018. In terms of PPP, China's economy has been the largest in the world since 2016 (Naughton 2018). China is also the world's largest trading power, with a total international trade value of US\$4.62 trillion in 2018.

China's reform largely stalled in this period because of Deng's Four Cardinal Principles. Firstly, to keep to the socialist road, the so-called strategic sectors monopolized by SOEs are protected from market competition, while there is little to be reformed in other sectors where private enterprises compete fiercely. Secondly, upholding the CPC's absolute control of the government implies that little can be done for reforming the political system. China's rapid growth between 2002 and 2011 cannot be attributed to its reform measures implemented in this period.

Discussion and Conclusion

Many previous studies have examined China's phenomenal growth in the past four decades (Ang Yuen Yuen 2016; Maddison 2007; Naughton 2018). Some researchers have also provided historical perspectives on China's economic development (Deng 2011; Faure 2006). While these studies have deepened our understanding on how China has succeeded in transforming its economy, they are more focused on changes in the economy per se or on how the central government allowed and encouraged regional initiatives. However, China's political and economic system is generally inhibitive to grassroots initiatives and private entrepreneurship, such that even now lobbying for special policies or "reform pilot region" status is still one of the key jobs for regional governments. It was the centrally planned system's failure to provide sufficient food and clothes, to improve the efficiency of SOEs, and resolve severe urban unemployment that forced the CPC leadership to be permissive to grassroots initiatives and private entrepreneurship. This article examines what really happened and what credit should be given to ordinary people and CPC leaders other than top government officials.

Many researchers often overlooked that China's reform included two parts: 1) restoring pre-Cultural Revolution or pre-Great Leap Forward CPC policies by rectifying Mao's mistakes and 2) breaking away from those policies. Policies made during 1977-1981, including the restoration of the national university entrance examination for which many intellectuals are so grateful to Deng Xiaoping, largely belong to the first category. Deng and later Chen Yun played active roles in restoring pre-Cultural Revolution policies that they had been instrumental in forming at the Eighth CPC National Congress in 1956. However, the really successful reform measures that underlie China's rapid growth for four decades belong to the second category, about which Chen Yun had deep reservations and Deng took a back seat (Zhao 2009). The history of China's reform and opening shows that grassroots and local initiatives have led almost all the successful reform policies made by the CPC leadership. Many national and provincial CPC leaders, such as Hu Yaobang, Zhao Ziyang, Wan Li, Xi Zhongxun (First Secretary of the CPC Guangdong Provincial Committee, 1978-1980), Ren Zhongyi (First Secretary of the CPC Guangdong Provincial Committee, 1980-1985) and Xiang Nan (Executive Secretary, First Secretary, and Secretary of the CPC Fujian Provincial Committee, 1980-1986), were more proactive in supporting those initiatives.

Most grassroots and local initiatives were adaptations of practices in developed countries or returns to practices in China before the 1950s. While the two important pillars of China's economic success, private enterprises and the rural contract responsibility system,

arose from grassroots and local initiatives, the CPC leadership's original reform plan to invigorate SOEs and UCOEs failed so miserably that most of these had to be privatized or closed down. Therefore, China's reform and opening, at least the most successful parts, were not designed by Deng Xiaoping or the second-generation CPC leadership. Deng's Four Cardinal Principles effectively blocked China's political reform as well as economic reform in the sectors where SOEs still dominate due to government regulations. While Hu Yaobang and Zhao Ziyang were probably prepared to let the CPC operate within the constraints of law and not be concerned about their own status, Deng would not tolerate any activity that might affect the CPC's leadership position or his own status. Deng's political dexterity established his paramount position and won him the title of chief architect for China's reform and opening.

China's reform history presents an interesting question: how to evaluate a political leader's contribution to rapid economic growth in an authoritarian state? In a totalitarian state like China during Mao's era, no policy initiative could be implemented without permission from the supreme leader. Should historians credit all the economic successes to the authoritarian leader because nothing would happen without his permission? This article argues that the people who made the initiatives should get more credit than the authoritarian leader. China's rapid economic growth was primarily driven by the Chinese people's enterprising spirit and activities. They started individual businesses, engaged in businesses that were not allowed by government, hired workers in violation of government restrictions, and competed with SOEs and made most SOEs bankrupt. Therefore, the Chinese people's enterprising spirit was the primary driving force behind China's economic success. Deng Xiaoping's great contribution lies in his pragmatic approach toward ordinary people's entrepreneurship, which is reflected in the famous sayings "no matter if the cat is white or black, it is a good cat as long as it catches rats" and "crossing the river by touching the stones". His pragmatism encouraged ordinary people's initiatives, and his authority within the CPC moderated the opposition of those CPC officials who still held Mao's views about private entrepreneurship and dividing farmland among households. Deng and the CPC leadership permitted ordinary people's enterprising activities that were prohibited by the CPC during Mao's era. Compared with Mao, Deng was open to the people's entrepreneurship. However, business innovations and entrepreneurship would be people's legal rights in other countries and ordinary Chinese people would have been even more innovative and creative in a market economy than under Deng's leadership. Had Deng and his fellow elderly leaders truly retired as they openly wished in the early 1980s, the CPC led by Hu Yaobang or Zhao Ziyang might have made more progress in political as well as economic reforms.

In conclusion, ordinary Chinese people's enterprising spirit and activities were the primary driving force of China's rapid economic growth since 1978. Deng Xiaoping and other CPC leaders, who were instrumental in restoring pre-Cultural Revolution CPC policies and rectifying Mao Zedong's mistakes during 1976-1978, have played mainly a permissive role for grassroots initiatives. However, in a different sense, Deng was the chief architect who designed China's current economic and political layout by keeping the SOEs' monopolies in strategic economic sectors and stalling political reform with his Four Cardinal Principles.

Acknowledgements

This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors. The author would like to thank the editors and two anonymous reviewers for their constructive and very helpful comments and suggestions.

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Appendix: Key Events/Developments, 1972-2001

Dates	Events
Feb 7, 1972	Approval by Mao Zedong to import chemical fiber and fertilizer equipment
Jan 2, 1973	The 43 Plan formed to import equipment worth 4.3 billion US dollars
Sep 9, 1976	Mao Zedong died
Oct 6, 1976	Gang of Four arrested; Hua Guofeng became the top CPC leader
July 1977	Deng Xiaoping returned to his former positions
Mar-Jun 1978	Three delegations visited Hong Kong and Macau, Japan, and Western Europe; their reports to the Politburo stimulated China's reform and opening
May 11, 1978	The publication of <i>Practice Is the Sole Criterion for Testing Truth</i>
Jul 6-Sep 9, 1978	Four Modernization Plan Discussion Conference; announcement of import plan worth of US\$18 billion between 1978 and 1985
Sep 15, 1978	Huanghua village in Anhui decided to divide farmland among households
Nov 10-Dec 5, 1978	The CPC Central Committee Work Conference
Dec 18-22, 1978	The Third Plenum of Eleventh Central Committee of CPC
Jan 18-Apr 3, 1979	National Theoretical Work Discussion Conference; Deng delivered his speech <i>Uphold the Four Cardinal Principles</i> on 30 March
Feb 1979	The State Administration for Industry and Commerce proposed to formally allow sole traders in repair, service and handicrafts
Jul 13, 1979	The State Council issued five documents to reform SOE operation
Jun 15, 1980	The first formal joint-stock firm, Chengdu Industrial Exhibition Trust Co. Ltd, is formed
Aug 30-Sep 10, 1980	The Third Meeting of the Fifth National People's Congress; Zhao replaced Hua Guofeng as Premier of the State Council
Sep 27, 1980	Document No.75 allows household responsibility in mountainous or poor areas
Jun 27-29, 1981	The Sixth Plenum of the Eleventh Central Committee. Hu became Chairman of the CPC; Deng became Chairman of the CPC Central Military Committee.
Jul 7, 1981	The <i>Policy Provisions on Urban Non-Agricultural Individual Economy</i> issued, allowing private entrepreneurs to employ one or two helpers.
Jan 1983	Document No. 1 permitted private enterprises to conduct long distance transport for trade, to buy large size vehicles and engage in commerce.
Oct 12, 1983	Deng's speech on "spiritual pollution"; the Campaign to Purge Spiritual Pollution launched
May 10, 1984	The State Council issued the <i>Provisional Regulation on Further Increasing Autonomy of State-Run Industrial Enterprises</i>
Oct 20, 1984	The Third Plenum of the Twelfth Central Committee approved the <i>Decision on the Reform of Economic System</i>
Jul 12, 1986	State Council released four documents to replace lifelong employment with a labor contract system and to establish unemployment insurance

Dates	Events
Sep 26, 1986	The first formal share trading counter opened at the Jing'an Office of the ICBC Shanghai Trust and Investment Company
Dec 30, 1986	Deng called the CPC to "take a clear-cut stand against bourgeois liberalism"
Jan 1987	Hu Yaobang was forced to resign for being soft on bourgeois liberalization
Jan 22, 1987	Document No. 5, <i>Deepening Rural Reform</i> , allowed rural entrepreneurs to hire one or two helpers and those with skills to have three to five apprentices
Jun 25, 1988	The State Council's <i>Provisional Regulations of the People's Republic of China on Private Enterprises</i> removed the hiring restriction
Aug 15-17, 1988	The <i>Preliminary Scheme on Price and Wage Reform</i> approved in principle by the Tenth Politburo Plenary Meeting; nationwide panic buying
Apr 15, 1989	Hu Yaobang died. His death triggered student protests in Beijing and other cities against corruption and official profiteering ("guandao")
June 4, 1989	Troops enforcing martial law took control of Tiananmen Square and ended protests in Beijing; Zhao was dismissed as General Secretary of the CPC
Nov 9, 1989	The Fifth Plenum of the Thirteenth Central Committee passed the <i>Decision on Further Rectification, Consolidation and Deepening Reform</i>
Nov 26, 1990	Shanghai stock exchange opened
Dec 1, 1990	Shenzhen stock exchange opened
Jan 18-Feb 21, 1992	Deng's visit to southern China and pronouncements to continue reform
Oct 12-18, 1992	The Fourteenth CPC National Congress set creating a 'Socialist Market Economy' as China's key task in the 1990s
Jun 24, 1993	The CPC Central Committee and the State Council issued the <i>Opinions on Current Economic Situation and Strengthening Macroeconomic Control</i>
Sep 25-28, 1995	The Fifth Plenum of the Fourteenth Central Committee approved the guideline of "grasp the large and let go the small" to reform SOEs
Mar 7, 1996	The State Council issued the <i>Implementation Plan of State-Owned Enterprise Reform in 1996</i> , to privatize all SOEs except 1,000 large and medium ones
July 3, 1998	The State Council issued <i>Notice on Further Deepening the Reform of Urban Housing System and Accelerating Housing Construction</i>
Jun 6, 2001	The <i>Regulation on the Management of Urban Housing Demolition and Relocation</i> was published on this date
Dec 11, 2001	China became a member of the World Trade Organization (WTO)