

# THE ORIGINS OF CHINA'S PRO-DEMOCRACY MOVEMENT AND THE GOVERNMENT'S RESPONSE: A TALE OF TWO REFORMS

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The brutal crackdown of the pro-democracy movement in early June 1989 shattered China's decade-long image in the West as a stable country evolving toward greater economic and political liberalization. Much of the optimism about China's future had stemmed from that country's diligent efforts to reform its command economic system and antiquated political structure. Twice in the last decade, *Time* magazine selected Deng Xiaoping as its "Man of the Year," exalting him as one of the great reformers in the annals of history. Scholars foresaw a "historic compact" coming whereby political and economic elites in Chinese society would cede each other considerable autonomy.<sup>1</sup>

The wrenching question after the Tiananmen Massacre is, Where did things go wrong? The central paradox is twofold: how, amidst seeming economic prosperity, could there be so much social discontent that it threatened to rock the foundation of the regime; and, how could a regime customarily viewed as progressive and enlightened resort to the medieval approach of wanton killings to solve modern problems? The origins of the spring 1989 Chinese pro-democracy movement and the factors that shaped the government's response shed light on the interactions between economic and political reform processes launched during the so-called "decade of reforms" (1978-1988) and why and how they went astray.

In tracing the origins of the social crisis that led to the events of Tiananmen, a common explanation offered is what might be called the "disjunction theory." This theory holds that the disjunction between political and economic reforms — the progress of political reforms lagging behind that of economic reforms — was largely responsible for the explosion of the pro-democracy movement in the spring of 1989. The argument is that the successes of the economic reforms are marked by the emergence of divergent and pluralistic social and economic forces in Chinese society such as private entrepreneurs and the managerial elite. The emergence of new social and economic forces generated

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1. Michel Oksenberg and Kenneth Lieberthal, "Forecasting China's Future," *National Interest* Fall 1986, 21.

new political demands which the traditional one-party system could not meet. Herein lie the roots of the social crisis.<sup>2</sup>

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Contrary to conventional wisdom, it was the failures of the economic reforms, rather than their successes, that contributed to a sense of social crisis and political discontent.

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This explanation must be rejected on two grounds. First, the leaders and the most active participants in the pro-democracy movement of 1989 were not members of new social classes created in the course of reforms, but were students and intellectuals. Students and intellectuals also dominated the previous democracy movements, such as challenges against the Chinese Communist Party (CCP) during the "Hundred Flower Campaign" of 1956-1957, the April 5th Movement in 1976 and the Democracy Wall Movement in 1978-1979. Secondly, the themes of the movement — freedom of speech and assembly, greater participation in the political process and respect for human rights — as well as the protest tactics (class boycott and hunger strike, etc.) could all find their precedents in the pre-reform period and therefore were not products of the economic reforms.<sup>3</sup>

An alternate explanation is that the economic and political reform programs themselves were flawed fundamentally from the very beginning and later on generated forces that sowed the seeds of destruction for the reformers themselves. Contrary to conventional wisdom, it was the failures of the economic reforms, rather than their successes, that contributed to a sense of social crisis and political discontent. These failures resulted from the nature of the economic reform programs. Furthermore, the failures of the political reforms, which, like the economic reforms, were due more to the manner of their implementation than to lack of effort, significantly shaped the way the government responded.

### ECONOMIC REFORMS

The most glaring symptoms of the failures of the economic reforms are corruption and rampant inflation. Corruption probably was the issue that featured most prominently in the student demonstrations. According to a

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2. This view is especially prevalent in the press. A commentary on the student demonstrations in *The New Republic*, for example, proclaimed, "[A]n absence of *glasnost*, not *perestroika*, is what brought 150,000 angry students into Tienanmen [sic] Square on April 22 and is what threatens to unleash massive new protest — and perhaps, massive repression — on May 4, the 70th anniversary of China's most famous student-led protests" ("The China Syndrome," *The New Republic*, 15 May 1989, 7).

3. For a description of the Democracy Wall Movement in early 1980s and the tactics used, see Andrew J. Nathan, *Chinese Democracy* (New York: Alfred A. Knopf, 1985), 1-30, 209-219.

survey of the public's attitude toward the student demonstrations, students' anti-corruption slogans received the most enthusiastic support among all the social groups and an overwhelming majority of the respondents (around 70 percent) viewed corruption as the most likely cause of social unrest in China.<sup>4</sup>

Corruption is viewed commonly as a political and legal phenomenon, but first and foremost it is a function of the way economic resources are allocated in the society.<sup>5</sup> Chinese economic reforms started out without a particularly well-defined agenda or clear visions and objectives and proceeded on a trial-and-error basis.<sup>6</sup> The partial, piecemeal nature of the reform measures had the twin effects of undermining disciplinary supervision of economic officials and infusing powerful profit incentives into normal bureaucratic functions. Large-scale corruption became prevalent as a result.

Two examples are relevant here. One is enterprise decision-making; the other is price-setting practices in the Chinese economy. In both areas, the leadership wanted to delegate control to the forces of the market, but were not willing to relinquish control completely.<sup>7</sup> The result is a hybrid economic system that combines the worst aspects of the two worlds: economically the system did not produce efficient outcomes, especially as measured by economic stability; politically the system created the potential for abuses of power that undermined the sense of legitimacy and trust people had in the system in general and the reform process specifically.

What China has attempted so far in both enterprise decision-making and price-setting is known as "administrative decentralization." Administrative decentralization, as opposed to genuine economic decentralization, transfers decision-making powers from a higher level bureaucracy to a lower level bureaucracy, rather than to enterprise managers. Since 1979, in the area of enterprise decision-making powers, the central government gradually has delegated considerable controls over investment, allocation of raw materials and production inputs and personnel appointment to provincial governments, which, in turn, have surrendered another round of controls to county and district governments.<sup>8</sup> In the area of setting product prices, China adopted a "dual-track" system, in which products under administrative allocation orders are sold at state-listed prices and products outside administrative allocation

4. "The Attitude of Five Categories of Urban Occupational Groups Towards the Student Movement" and "The Attitude Toward the Student Movement of Those Working in Specialised Trade and Professions, and Technical Personnel in Beijing City," *China Information* Vol. 4, No. 1 (Summer, 1989): 104, 118.

5. For different approaches to an analysis of corruption, see James C. Scott, *Comparative Political Corruption* (Englewood Cliffs, N.J.: Prentice-Hall, 1972), especially 10-23.

6. For a good description of the partial nature of the reform measures in China, see Cyril Zhiren Lin, "Open-Ended Economic Reform in China," eds. Victor Nee and David Stark, *Remaking the Economic Institutions of Socialism: China and Eastern Europe* (Stanford: Stanford University Press, 1989), 95-136.

7. See Christine Wong, "Between Plan and Market: The Role of the Local Sector in Post-Mao China," *Journal of Comparative Economics* 11 (1987): 385-398. For a piece tracing the history of the reform process, see Hua Sheng, Zhang Xuejun and Luo Xiaopeng, "Ten Years in China's Reform: Looking Back, Reflection and Prospect," *Jingji yanjiu (Economic Research)*, September 1988, 13-37 and November 1988, 11-30.

8. For a spirited critique of this approach to economic reforms, see Wu Jinglian, "The Strategic Options of Reform and the Evolution of Economic Theories," paper presented to the Conference on Reforms in Socialist Countries, Vienna, December 1988.

orders are sold at market prices. Since many of these products are scarce raw materials and intermediate goods (or rights to buy and sell premium goods), the discrepancy between state-listed prices and market prices can be huge.<sup>9</sup>

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China's vast size and the built-in conflicts of interests in the dual leadership structure already make it difficult to detect and catch erroneous behavior on the part of local officials.<sup>10</sup> The administrative decentralization multiplied the scope of the problem by giving discretionary authority in allocating economic resources to local officials and bureaucrats. This led to pervasive abuses of power in the system. The Chinese press is full of examples. Common practices include selling investment and foreign trade permits, selling administratively allocated goods at market prices, allocating scarce production inputs in exchange for privileged positions for relatives and friends and arbitrarily altering tax rates to extort favors. There were reports that even police bureaus charged service fees for providing protection.<sup>11</sup>

The second symptom of the failures of economic reforms is inflation, which took a significant turn for the worse in 1988. The official cost of living for thirty-two large- and medium-sized cities increased by 18.5 percent between 1987 and 1988. Unofficial sources put it at a much higher rate, possibly in the 40-50 percent range. This was a considerable acceleration over 1987 (7.3 percent), 1986 (6.0 percent) and 1985 (8.8 percent). In China, inflation always has been politically sensitive; the CCP itself often traced the origin of its support to the hyper-inflationary period of the Nationalist government. Economically inflation was also hard hitting because most Chinese urban residents live on fixed incomes. The Chinese government itself acknowledged the eroding effect of inflation on people's living standards. In the words of a communiqué released by the State Statistical Bureau, the acceleration of the

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9. For example, the ex-factory price for No. 6.5 steel wire was 610 yuan per ton in 1985 but its market price was 1,500 yuan during the same year. See Wu Jinglian and Zhao Renwei, "The Dual Pricing System in China's Industry," *Journal of Comparative Economics* 11 (1987): 313.

10. Dual leadership structure refers to the way subordinate officials are appointed and promoted. Under the dual leadership structure, a local official is appointed both by his immediate superior in his territorial jurisdiction and by his functional superior in Beijing, usually with the local superior having more say. For a description of this system, see Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes* (Princeton: Princeton University Press, 1988), 141-142. For an analysis of the problems of control generated by this system, see Lawrence Sullivan, "The Role of the Control Organs in the Chinese Communist Party, 1977-1983," *Asian Survey* Vol. 24, No. 6 (June 1984).

11. See *Jingji ribao (Economic Daily)*, 17 December 1986, 1.

inflation rate in the first three quarters of 1988 “contributed to the decline of real incomes of substantial numbers of residents.”<sup>12</sup>

There were two reasons for the acceleration of inflation in 1988. One was systemic: the economy was operating in a chronic shortage environment and the initial reaction to any loosening of bureaucratic control was a rise in the general price level. In many ways, this kind of price change is necessary and inevitable in the reform process. The second reason has to do with macroeconomic policies that were unduly accommodating to the inflationary pressures generated by the system, for example, expansive monetary and fiscal targets. Over the years, however, the importance of policy factors in causing price rises has increased. According to a World Bank study, half of the price increases up to 1987 were due to adjustments in relative price levels, but in 1988, only one-third of price increases were due to price adjustment and two-thirds of the price increases resulted from policy-related factors.<sup>13</sup>

Two developments were responsible for enhancing the role of policy-related factors in bringing about the inflationary situation. First, as in the areas of enterprise decision-making and price determination, the partial nature of the economic reforms accentuated rather than alleviated many of the old problems that plagued the centrally planned economic system. One of the major problems in a planned economy is “investment hunger” — the pervasive tendency on the part of economic bureaucrats and managers to acquire and invest in new projects.<sup>14</sup> This was the case with the Chinese government’s attempt to reform the tax system. The Chinese tax reforms, beginning on an incremental basis from 1980, institutionalized a contract system that specified tax obligations, achieved through intense bargaining between the central and local governments.<sup>15</sup> This arrangement, known as “tax farming” in medieval Europe, stripped the central government of almost all tax collection responsibilities and gave tremendous financial autonomy to local authorities.

Secondly, the central government became more and more accommodating to local governments’ appetites for investment projects and adopted relatively loose fiscal and monetary policies when caution and austerity were appropriate. Here Zhao Ziyang was directly to blame. Zhao, largely out of political imperatives (discussed below), was consistently in favor of faster economic growth rates and argued for loose expenditure and monetary policies as a means to stimulate growth. At the beginning of 1988, a debate took place between Zhao and Li Peng over the appropriate pace of economic growth for 1988. Zhao eventually overruled Li Peng by asserting that economic reforms had produced a “virtuous circle,” whereby fast economic growth could be achieved without upsetting stability.<sup>16</sup> As a result, fiscal expenditures and

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12. See *Renmin ribao* (People’s Daily), 19 October 1988, 1.

13. The International Bank for Reconstruction and Development (IBRD), *China: Country Economic Memorandum* (Washington, D.C.: IBRD, forthcoming) Vol. I, 10.

14. For the concept of investment hunger, see Janos Kornai, “Bureaucratic and Market Coordination,” *Osteuropa Wirtschaft* Vol. 29, No. 4 (December 1984).

15. See IBRD, *China: Revenue Mobilization and Tax Policy, Issues and Options* (Washington, D.C.: IBRD, forthcoming), 5-6.

16. For Zhao and Li’s contrasting perspectives, see Zhao Ziyang’s “Work Report at the Second Plenum of the

money supply increased at an alarming rate in 1988. In the first six months of 1988, income expenditures increased 23.7 percent and administrative spendings increased 46.5 percent. During the same period, the money supply increased 22.7 billion yuan, even though the increase target for the whole year had been 20 billion yuan.<sup>17</sup>

These pressures greatly strained the balances between aggregate demand and supply and, coupled with the most inappropriately-timed announcement of price reforms, provided the straw that broke the camel's back. The Chinese public reacted with massive panic runs on banks and panic buying in August 1988, which drove prices to unprecedented levels. The government retreated by shelving scheduled price reforms, having suffered losses in prestige and public trust.<sup>18</sup>

### POLITICAL REFORMS

There were two periods of political reform programs. During the first period, political reforms were set in place principally in reaction to the traumatic experiences of the Cultural Revolution and were designed to restore the Party's normative framework — rule by collective consensus and intra-Party democracy — that was said to govern the leadership style in the early 1950s. The official verdict on the origins of the Cultural Revolution, passed by the Sixth Plenum of the Eleventh Central Committee in June 1981, stated that Mao Zedong, as the *primus inter pares*, sought too much personal power, violated the majority principle of decision-making and imposed his tempestuous and arbitrary will on the Party.<sup>19</sup>

Between 1982 and 1984, reform programs were under way in earnest to curb the personality cult and concentration of power, starting with the central agencies of the Party and the government and then proceeding with reforms at the local level. Measures taken during this period ranged from such symbolic acts as banning the display of individual leaders' pictures in public, to more substantive decisions to replace the chairmanship of the CCP with the position of General Secretary of the Party, which would possess relatively limited and well-specified powers, and prohibit one person from simultaneously holding the top post of the Party and the government.<sup>20</sup>

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Thirteenth Party Congress," *Renmin ribao (People's Daily)*, 21 March 1988, 1 and Li Peng's "Spring Festival Address," *Xinhua News Bulletin*, 24 August 1988.

17. See *Xinhua News Bulletin*, 24 August 1988.

18. For a description of the government's decision to reform prices and the public reaction, see W. L. Chong, "Price Reform in China: The Heated Summer 1988 Debates," *China Information* Vol. 3, No. 2 (Autumn 1988): 1-11.

19. See "Zhongguo gongchandang zhongyanguweiyuanhui guanyu jianguo yilai dangde ruogan lishi wenti de jueyi" ("Resolution on Certain Questions in the History of Our Party since the Founding of the People's Republic"), *Sanzhong quanhui yilai zhongyao wenxian xuanbian, (Selections of Important Documents Since the Third Plenum)* (Beijing: People's Publishing House, 1982), 808-819.

20. For more details, see Lawrence R. Sullivan, "Leadership and Authority in the Chinese Communist Party: We Don't Need Another Hero," *The Pacific Review* Vol. 2, No. 2: 115-119 and David S. G. Goodman, "China: The Transition to the Post-Revolutionary Era," *Third World Quarterly* (January 1988).

The second period of political reforms was marked by attempts to rationalize government institutions and properly structure the state-society relationship so as to reduce the CCP's excessive interventions in people's lives. The reforms during this period were driven principally by the imperative of economic reforms — the recognition that efficient administration and some degree of political pluralism had to be allowed for the economic reforms to proceed smoothly and rapidly.

These attempts to rationalize government institutions and better define the Party's role and functions in society reached their climax during the Thirteenth Party Congress in 1987 when Zhao Ziyang announced that political reforms were high on the CCP's agenda. The measures announced at the Congress were to further separate functions of the Party and the state. This was to be achieved by strengthening the professionalism of the state bureaucratic apparatus by the creation of a civil service system and the abolition of "Party groups" (*dangzu*) in the National People's Congress (NPC) to enable some degree of legislative autonomy.

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The student demonstrations and the government's brutal suppression demonstrated, in a graphic manner, the futility of all these reform efforts. In a moment of crisis, the CCP easily reverted to its old ways; rule by men triumphed over rule by law and the Party's normative framework was revealed to be in as much disarray as it was during the Cultural Revolution. The formal and legalistic power of the NPC came to no avail in nullifying the martial law order and the sponsors of the motion to convene an emergency session of the Standing Committee of the NPC are believed now to be under severe political persecution.<sup>21</sup>

The troubles with the political reform programs, however, did not start with the student demonstrations and the government's groping for a response; they were fundamentally flawed from the very beginning. Like the economic

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21. Li Peng, in an internal report to the Fourth Plenum of the Thirteenth Party Congress, stated that the motion to convene an emergency session of the NPC, a constitutionally guaranteed power, was "an important tactic on the part of the turmoil initiators to overthrow the current government." See Li Peng, "Guanyu Zhao Ziyang tongzhi zai fandang fanshehuizhuyi de dongluan zhong suo fan cuowu de baogao," ("Report On Comrade Zhao Ziyang's Errors during the Anti-Party and Anti-Socialist Turmoil,") *Shijie ribao*, (*The World Journal*), 17 July 1989, 16.

reforms, the political reforms failed not so much because of their purposes or lack of efforts, but the manner of their implementation.

There were two major problems with the approach employed in the political reforms. First, the reformist leaders, driven by their pragmatic ideology, always emphasized substance over the sanctity of process and the consistency of procedures. In the name of weeding out anti-reform elements in the leadership, reformers successfully engineered large-scale personnel changes. In 1985, they forced the retirement of over one hundred senior leaders, including ten members of the Politburo and sixty-four members of the Central Committee. This was hailed by those watching the developments in China as a crowning achievement of the reformist leaders.<sup>22</sup> What received scant attention, however, was that these personnel changes were effected before the ground rules for making personnel changes were firmly set in place and therefore the retired leaders were able to negotiate, into their "retirement package," promotions of their relatives and friends into key positions.<sup>23</sup> It was from this date that cronyism and nepotism acquired semi-legitimacy in Chinese politics, which not only had corrosive effects on the reputation of the CCP but also compromised the institution-building efforts of the reformist leaders themselves.<sup>24</sup>

The second major problem with the political reforms was the role of Deng Xiaoping. Although Deng understood the need for and initiated many of the measures to institutionalize Chinese politics, in effect he was the most obstinate barrier to their implementation. He did this by remaining the *de facto* supreme leader without occupying a formal position commensurate with his power. Initially his decision not to seek top Party and government posts was hailed both inside and outside China as his sincere effort to curb the personality cult, but its actual effect was to move the center of power away from the Politburo and the Central Committee where it should have belonged. Worse still, Deng made the Party revolve around his own preferences, as demonstrated by an amendment made to the Party Constitution in 1987 that struck out the original restriction that the chairman of the Military Affairs Commission must be a member of the Politburo's Standing Committee. The authority of the Party as an institution was undermined.

The failures of the political reforms to strengthen the importance of the political process and the Party as an institution had disastrous effects on the implementation of the economic reform programs. As mentioned before, Zhao's impatience with the pace of economic growth and reforms led him to

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22. John Gardner, "China Under Deng" (London: The Center for Security and Conflict Studies, No. 197, 1987), 15-16.

23. For example, it is widely believed that Marshall Ye Jianying laid down the appointment of his son, Ye Xuanping, to the governorship of Guangdong province as the precondition for his retirement.

24. Another example of reformers undermining their own efforts to institutionalize Chinese politics is in the area of the separation of functions between the Party and the government. Although he was one of the major champions of the separation of functions of the Party and the government, Zhao Ziyang, as the General Secretary of the Party, did not hesitate to intervene in day-to-day economic management in order to force through the implementation of his reform programs and to preempt the State Council in the initiation of a few major economic reform measures.

adopt loose fiscal and monetary policies that fuelled inflationary pressures and social discontent. This economic imprudence originated from the fact that Zhao probably never felt secure in his position, knowing that the real power did not lie with him. His lack of power and legitimacy as ruler despite his position as the head of the Party made him eager to produce results. As he was most closely identified with economic performance, he needed faster growth rates and reform progress to prove his political worth. Another effect of his eagerness to prove that the reform was working was a tendency to brush aside the problem of corruption too readily, fearing that acknowledging its existence would taint the reforms' reputation. This ostrich approach to corruption provided ammunition to his political foes and animated social discontent.

The failures of political reforms in restoring the Party's normative framework had an important role in shaping the government's response to the student demonstrations. In the face of the gravest challenge to the CCP's power, no emergency session of the Central Committee and, after mid-May, no full meeting of the Politburo was held. Instead, formulating a response was left to palace intrigues and behind-the-door maneuvering among a small group of people who were not even members of the formal decision-making bodies. Yang Shangkun, in his talk to an enlarged session of the Military Affairs Commission on May 24, vividly described the informal and personal style with which a few retired octogenarians decided to back Deng's initial verdict on the student movement as "turmoil" and to order the imposition of martial law.<sup>25</sup> There was evidence that, within the Politburo and the Central Committee, support was sufficient for a more conciliatory response to student demands, and had matters been left to the devices of the formal policy-making bodies, the outcome might have been very different.<sup>26</sup>

### CONCLUSION

The problem with China's reform efforts during the last ten years was not that there was too much in the economic sphere and too little in the political sphere. The reforms in both areas were substantial and real. The story is far more complicated and has to do with the nature and the manner of the political and economic reform programs.

The halfway house between a planning and market-affected system as a result of ten years of economic reforms was inherently unstable; it fuelled open inflation and it made bribery and corruption the requisite oil that greased

25. "Yang Shangkun de jianghua yaodian," ("Excerpts from Yang Shangkun's Speech,") *Zhongguo zhi chun* (*China Spring*) No. 74 (July 1989): 57-58.

26. It is believed that until the octogenarians actively intervened, the Politburo remained deadlocked over whether the government should agree to one of the principal demands of the students and hold dialogues with them (See *Beizhuang de minyun*, (*The Great Democracy Movement*), Hong Kong: Mingbao Publishing House, Inc., 1989, 49). It should be noted that this deadlock was achieved *after* Deng Xiaoping had determined the student movement to be "anti-socialist turmoil." Therefore it was even more of an indication of the support for a conciliatory response within the Politburo as the issue was not just over meeting one of the students' principal demands, but over a possible confrontation with Deng Xiaoping.

its operation. Political reforms, used more as an expedient vehicle to advance reformist goals rather than to establish the sanctity of the rules of the game, only compounded the problem. Cronyism and nepotism became a price the reformist leaders paid to institute a more reform-oriented leadership. Deng Xiaoping, himself the proponent of political institutionalization, contributed further to the personalization of the political process, rather than rectifying the damages left over from Mao's era.

The problems of inflation and corruption generated wide-spread disillusionment and social discontent. The Byzantine manner of Chinese politics, untainted by years of reforms, not only made these problems worse, but guaranteed a paralysis of the Party as an institution in a moment of crisis. The tragedy of Tiananmen happened not because the Chinese Communist Party was too strong but because, as an *institution*, the Party was too weak.