

Deng Xiaoping reaches an unstable truce with the army-industry faction

by Richard Katz

An uneasy truce reigns in Peking. The recently ended National People's Congress (NPC) left a tenuous balance between the ruling faction of Deng Xiaoping and the opposing faction of army and heavy-industry leaders. Deng has found futile his early-1982 hope of eliminating his opponents through a massive purge in the army, party, and state bureaucracy. Instead, the Dengists have had to give way to their opponents on both organizational and policy questions.

For the past two years, Deng and his allies had waged a pogrom against heavy industry along with Maoist ideology; his opponents, by contrast, had demanded both the use of modified Maoist ideology to control the Chinese masses, and a resuscitation of heavy industry. The heavy industry sectors and the more technologically oriented groupings in the army formed a coalition around the view that industrialization was the indispensable basis of national power and military strength.

Now the two sides have reached a truce best shown in the NPC speech of Dengist Premier Zhao Ziyang, a speech in which Zhao repudiated the policies he had insisted upon only a year earlier. Zhao's speech, which presented China's Five-Year Economic Plan, was the epitome of compromise. At last December's NPC, a constant theme in Zhao's speech was a demand for indiscriminate "closing down, shutting down, suspending operations" of allegedly redundant or inefficient factories. This year, Zhao reserved such sentiments for one small section of his report and greatly qualified them.

Last year, Zhao railed against what he called "the one-sided drive to get bigger percentages of students into higher education." This year, Zhao called for *quintupling* by 1985 the number of students entering postgraduate education—to the still pathetic level of 20,000—and raising by 40 percent the entering class at college level to 400,000. Last year, Zhao said coal would be expanded almost exclusively by expanding existing mines. This year, Zhao proposed opening new mines in the next 10 years with a total capacity of 220 million tons.

On the other hand, possibly as a trade-off for these concessions to the heavy-industry proponents, Zhao insisted on pursuing—albeit in a slower, more careful manner—the decentralizing "reforms" long desired by the Dengists, including going so far as to propose restoring private individual ownership over *small* presently state-owned factories. Zhao

also stipulated that the total level of investment under the current Five-Year Plan would be no higher than in the 1976-80 plan, and that heavy industry would be kept at a lower rate of growth than light industry, 3 percent and 5 percent respectively.

Prelude to the congress

One of the most remarkable aspects of Zhao's speech was that it was given at all. During the past two years, as the Dengist versus anti-Dengist fight raged, unity around the most basic day-to-day policies had been impossible—aside from unity against total maniacs such as the Gang of Four. A Five-Year Plan that was to have begun in January 1981 could not be agreed upon until just now, two years later, as Zhao himself mentions in his speech. For nearly two years, until this September, Peking was unable to convene the long-awaited Twelfth Party Congress that was supposed to finally end the residue of the Cultural Revolution. A new non-Maoist Constitution for China also had to be put off, until now.

At the beginning of this year, Deng hatched a scheme to rid himself of his opponents through a planned (but never fully implemented) purge of hundreds of thousands of government officials and millions of party members along with hundreds of thousands of military men. Going into the Twelfth Party Congress, when it was finally called in September, Deng hoped to clinch his organizational supremacy, throw his opponents out of leadership bodies, and downgrade the power of the ideologically oriented Communist Party in favor of the more technocratic state apparatus, e.g., the NPC.

Deng failed on virtually all these counts. Instead, the army-industry coalition gained more power than they had had in years. The army, which previously had held only 6 of the 28 Politburo seats (25 full members and 3 alternates) rose to 9 seats. A Dengist move to put the army under a State Military Commission instead of the Party Military Commission failed. Finally, Deng had to leave on the Politburo one of the most stalwart heavy industry proponents, former Vice-Premier Yu Qiuli, whom Deng had transferred in 1981 from his post as head of the Planning Commission to a downgraded Energy Commission, only to dismiss him from the latter post in May of this year.

The Party Congress seemed to initiate the beginning of

the delicate truce between the Dengists and the army-industry grouping, as both groups agreed to the demotion of the staunch ideological Maoists led by former Party Chairman Hua Guofeng. A few weeks after the Party Congress, the semi-Maoist Army Chief Political Commissar Wei Guoqing was ousted for allowing the *Liberation Army Daily* to print a prominent ideological piece highly critical of Deng. However, Wei's replacement was not a Dengist, but Yu Qiuli himself who declared to the *People's Daily* a few days after the Party Congress that the Army must stay under the control of the party "forever," i.e., not under Deng's proposed State Military Commission.

Still another victory for the army-heavy industry faction came with the late-November replacement of Geng Biao as Defense Minister by Zhang Aiping. Geng Biao, a non-army man, had been put in by Deng in 1981 against the wishes of the army and had implemented Deng's 25 percent budget cuts in the military from 1979 through 1982. Zhang, on the other hand, was a career military man whose most recent post was as chief of the military's science and technology commission, where he helped develop China's submarine-based nuclear missile capacity.

A final reflection of the newfound power of Deng's opponents has been the marked shift in the last few months of China's foreign policy: away from Deng's previous close ties to Washington and toward more normal state-to-state ties to the Soviet Union. This switch in policy was underscored by the replacement of Foreign Minister Huang Hua, a fervent advocate of the pro-Washington view, with Wu Xueqian. Wu, who has often represented China in dealing with developing countries and with Soviet bloc communist parties, is suited to China's new "non-aligned," pro-Third World orientation. Wu is by no means a partisan of the anti-Deng groups, having been a longtime protégé of Dengist Party Chairman Hu Yaobang. However, the new foreign policy adopted by Peking is in part an accommodation to the views of Deng's opponents who have long felt that China should concentrate on building up its national power and avoid getting into a confrontationist situation with the Soviet Union for the "sake of" the United States.

There is currently a lull in the faction fighting, at least enough to settle day-to-day policy for the time being. To be sure, the Dengists retain organizational and policy primacy, but they can no longer run roughshod over their opponents.

The tenuous balance and uneasy truce between Deng and his opponents produced the compromise Five-Year Plan presented by Zhao at the early-December National Peoples Congress. The NPC is China's nominal legislature, whose power Deng has been trying to increase. Zhao's most explicit statement of the compromise came in his declaration that the goals of Deng's "readjustment" program had been "basically" achieved. Deng's shutdown of heavy industry, which resulted in an admitted 5 percent drop in heavy industry in 1981 and the unemployment of millions, was carried out under the slogan of "readjustment" which was intended to lower the

ratio of heavy to light industry, and lower the rate of investment. Whereas in December 1981, Zhao said such readjustment would go on for several more years, in this speech, Zhao said instead that these ratios were "basically in balance."

Zhao also gave much greater lip service to Marxist ideology relative to material incentives, saying, "we must combat all such unhealthy tendencies as sheer irresponsibility, putting money above all else, asserting departmentalism and anarchy. . . . It is essential to do everything to combat and check the shameful practice of selling one's moral integrity . . . and commercializing human relations, as is common in capitalist society."

Zhao's quadrupling plan

The basic purpose of the Five-Year Plan (two of whose years have already passed) is to *quadruple* China's total agricultural and industrial output by the year 2000. If every year's growth were equal, it would require an average 7.2 percent rate of growth. However, Zhao proposes to achieve this goal by a 4-5 percent growth rate in 1983-85, a 5-6 percent growth in 1986-90, and then to zoom to a 10-11 percent growth in the 1990s. Naturally, many Chinese, victims of previous promises, are quite doubtful.

One of the most remarkable aspects of Zhao's speech was that it was given at all. During the past two years, unity around the most basic day-to-day policies had been impossible—aside from unity against total maniacs such as the Gang of Four. A Five-Year plan that was to have begun in January 1981 could not be agreed upon until just now. . . . Once the plan runs into snags and political unrest emerges as in 1981 . . . a new master plan must be created, and a ferocious fight will break out over what it should be.

Zhao bases his program on four premises: infrastructure investment; technical upgrading of existing enterprises; "free enterprise" administrative reform; and a projected 8-9 percent annual growth in exports in the 1980s. The program is the product of political compromise rather than sound economic planning and thus contains many features that could doom it.

Thirty-eight percent of the total investment in the Plan will go to transport and energy infrastructure, a higher rate

than previously; this includes an escalated nuclear energy program. Peking hopes that this investment will break the bottlenecks that keep Chinese industry operating so far below capacity, and that this will produce "takeoff" in the 1990s.

It remains to be seen if the investment is sufficient to meet Zhao's claims. The overall investment during 1981-85 at 360 billion yuan (about \$180 billion) is no higher than during 1976-80. Moreover, it is not known how much of the infrastructure is really aimed at building up heavy industry, and how much simply at aiding resource-extraction projects for China's exports, and for its coastal Hong Kong-like Special Economic Zones (SEZs). A big part of the investment goes to increasing China's harbor capacity by 33 percent. Finally, Zhao proposes to keep heavy industry growing at only 3 percent compared to 5 percent for light industry. All these limitations cast serious doubt on the ability of this investment to yield 9-11 percent growth payback in the 1990s.

Zhao also hinged a great deal of the success of the program on the notion of shortening the cycle of depreciation of fixed capital equipment from China's current average of 20-24 years to about 10 years. Zhao proposed a shift of investment from building new factories wholesale to upgrading and renovating existing enterprises with new, more technologically advanced equipment. Zhao's plan will raise the portion of investment going into renovation of existing enterprises from 20 percent to 33 percent. The espousal of modern technology marks a departure from last year, when Zhao charged that advanced technology eliminated jobs. If the policy of shortening the depreciation cycle is indeed carried out, it would certainly aid China's industrial development immensely, as similar policies have in every successfully industrialized country. The only question is whether this initiative is used as a pretext to hold down overall investment and to avoid needed new enterprises.

Balancing these concessions to the heavy industry proponents, Zhao went even further than before in promoting the "free-enterprise" types of economic "reforms" disliked by the army-industry faction. As in the past, Zhao pointed out that, under the current system, factory managers often simply strive to fulfill their quota without regard to whether there is a market for their goods, whether the goods are too shoddy to be used, and whether they so wastefully used material and equipment as to raise the cost of production above the administered sale price. As a result, 30 percent of state-owned enterprises run at a loss.

Zhao's solution was to retain the overall supremacy of the central plan, but to provide incentives for local decisions and efficiency. Rather than having factories turn over profits to the state, Zhao proposed that factories should be taxed, whether or not they make profits, and be allowed to keep and reinvest whatever profits they managed to make. This would force firms to become efficient, Zhao said. Those firms which could not become profitable under a two-year period face the possibility of being shut down or amalgamated.

Zhao also said that "We plan to adopt, by stages and

groups over the next three years, such diversified forms of operations for *small* state-owned enterprises as contracting or leasing them to collectives or to workers and staff members as *individuals*, with the state collecting taxes and the enterprise paying for the use of state funds and assuming sole responsibility for its own profit or loss [emphasis added]." Private ownership of business in communist China!

In the context of proper investment policies, such measures could add a "reality principle" to local factory management. However, all too often in the last two years, as the Dengists slashed investment funds for industry, such "free-enterprise" reforms simply served as a pretext for shutting down firms made unprofitable not by poor management alone but by the woeful lack of industrial infrastructure.

The more ideologically oriented army-industry elements are sure to object to private ownership, even if it is limited to firms with only 5-10 employees.

One of the more crucial parts of the quadrupling plan is the hope for an 8-9 percent annual growth in both exports and imports. China needs to import technology to overcome bottlenecks and obtain technology. But, seeing the experience of other developing countries, it is reluctant to get into debt. Zhao has already said that China will borrow on commercial markets, but this will be limited. Therefore, to avoid deficits, China wants to gear up its exports, and much of the infrastructure investment is directed to export promotion, e.g., railways and ports to handle the coal being developed in Shanxi Province in cooperation with Occidental Petroleum.

Under current world economic and trade conditions, China will be hard-pressed to achieve the 9 percent export growth. China's attempt to increase sales—it now sells 1 percent of total world exports—runs into hard competition with other developing countries. Moreover, importers are already putting limits on China's exports. At U.S.-China talks Dec. 14-15, Peking wanted the U.S. to raise the quotas on shipments of textile and apparel to allow China to maintain 1982's 20 percent rate of increase. Washington, under pressure from domestic textile lobby, wants to lower China to a 5-7 percent rate of increase; the European Community is being even harsher.

Thus it is unlikely that China can meet the goal mandated by the Plan. If it must cut imports, as in 1981-82, then the overall plan will be sharply curtailed and quadrupling of income by the year 2000 will soon be recognized by all as very unlikely.

How long the truce?

The truce between the Dengists and army-industry factions is based on the premise that China can follow the course outlined in Zhao's speech. Perhaps the participants to the truce themselves believe the arrangement can last for some time. This will change once the plan runs into snags and consequent employment problems and political unrest emerge as in 1981. At that point, a new master plan must be created, and a ferocious fight will break out over what it should be.