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DIRECTORATE OF INTELLIGENCE

9 July 1986

China's Conservatives: The Old Guard at Bay [Redacted]

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Summary

Tensions between leadership groups generally identified as conservatives and reformers have dominated Chinese politics and economics since Deng Xiaoping assumed power in 1977. Our analysis suggests that in recent weeks the conservative wing has suffered a major setback and for the present has lost its ability to obstruct the reform program. The diminishing of conservative influence, in our estimation, will lead to even more activism in reforming the economy, greater freedom to experiment, and higher tolerance for open debate about implementing economic reform. [Redacted]

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This memorandum was prepared by [Redacted] Office of East Asian Analysis. Information available as of 9 July 1986 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Domestic Policy Branch, China Division, OEA [Redacted]

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The Conservatives in Retreat

A variety of evidence suggests to us that the so-called conservative group in China's leadership has suffered a defeat in recent months that has left it unable for the present to interfere with the reformist agenda.¹ **Chen Yun**, the dean of China's economic planners and a leading conservative critic of recent reforms, has withdrawn to the south of China, where he is in apparent semiretirement. His recent appearances have been ceremonial. Press summaries of a recently published edition of Chen's works have had a reformist twist; one article highlighted a speech Chen made in 1962 stating that China should look to foreign models, among others, for solutions to economic problems--significant because one of Chen's consistent criticisms of reform has been that it leans too heavily on foreign concepts. [redacted]

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Politburo member **Peng Zhen**, a powerful conservative figure because of his strong ties to the security apparatus and long party career, has begun singing a reformist song. He recently praised the contributions to China's development made by the Rong family of Shanghai, one of China's wealthiest capitalist families before 1949 and now prominent in marketing and investment strategies for the reforms. In a speech published in March, Peng argued that those who label a stress on Marxist study "conservative" mistake the intent of those who--like Peng--have called for more attention to Marxist fundamentals because the essence of Marxism is reformist. We also believe, based on press [redacted] reports, that Peng's influence in the security [redacted] organs has slipped badly, further evidence of his declining political fortunes. [redacted]

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President **Li Xiannian**, the third party elder usually identified as a conservative leader, has made no appearances for over a month, cancelling some scheduled meetings with foreign visitors. The Chinese press reported that he is in the hospital recovering from a cold. Given Li's age--77--these reports could be true, but political illnesses are common in China. The timing of Li's "cold" suggests that he may simply have sought a face-saving way to retire from the political scene. Whatever the case, Li's absence weakens conservative influence in policymaking. [redacted]

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An additional indication of reformist strength is the number of reform initiatives now being debated. Some of these--enterprise bankruptcy, unemployment insurance and labor mobility, for example--are radical reforms in the Chinese context. We view the absence of conservative carping or statements "qualifying" reform initiatives--commonly heard as recently as last winter--as particularly significant. [redacted]

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¹ Although analysts of Chinese politics commonly speak of two competing groups--reformers and conservatives--it is important to note that all of the top leaders came to their positions as reformers, intent on undoing the damage of the Maoist years. Although two camps gradually emerged as the reforms progressed and disagreements over the scope, pace, and specifics of reform arose, the spectrum of disagreement is much narrower than previously. [redacted]

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How It Happened

We believe the anticorruption campaign that began in January was particularly damaging to the conservatives. The reformers had two goals in their management of the campaign beyond the obvious one of attacking economic crime:

- To coopt the campaign and deny the issue to the conservatives, who were trying to use charges of corruption to discredit the reforms.
- To manipulate the campaign to bring direct personal pressure on conservatives and their supporters.

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The reformers adopted stringent measures to bring corruption under control, particularly in the central party and government apparatus. Prosecutions for economic crime were stepped up, and reform leaders warned that officials would not be spared if they--or their family members--were found guilty of crimes. Through a series of personnel moves, reformers asserted organizational control over the anticorruption drive.



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Bringing the campaign home to the conservatives, reformers first investigated the children of some senior conservative leaders--including Peng Zhen and Chen Yun--and, through leaks to Chinese controlled papers in Hong Kong, made these investigations public knowledge. Peng's daughter had been questioned and possibly arrested. Rumors appeared suggesting that Chen Yun's son--a municipal party official in Beijing--was under suspicion for using his position for personal gain. The son of a former Shanghai party secretary, a steadfast opponent of liberalization policies while in office who was rumored to have had Chen Yun's support, was executed. Children of other central leaders who supported the conservatives, such as theorist Hu Qiaomu, were also reported to be under investigation for corruption.

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Significantly, none of the openly announced targets of the anticorruption drive have been identified with the reformist group, even though there is evidence to suggest that some reformers' family members have been involved in questionable economic activities. In our view, this is an important indication of the strength of the reformers; they have managed to take credit for the crackdown, protect their families, and threaten opponents who persist in criticizing reform. For instance, Peng's daughter was reportedly cleared of charges, but we speculate that Peng struck a bargain with the reformers on her behalf. His dramatically altered public statements coincide with the reported moves against his children.

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Some conservatives were still willing to take on the reform policies, however. In March, 1986, the conservatives began another attack on reformist theories by criticizing an article written the previous November by a little-known philosophy professor under the pseudonym Ma Ding. The Ma Ding article had harshly criticized traditional Marxist economic theory and argued that economists should concentrate on pragmatic, policy-oriented studies. According to pro-reform Hong Kong journals, the conservative

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attack--which accused Ma Ding of having sold out to capitalism--was orchestrated by central-level conservative ideologues Hu Qiaomu and Deng Liqun.

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Reformers again turned the issue on the conservatives, counterattacking with a flood of articles extolling academic freedom and supporting economic debate as necessary to advance modernization. For example, the 30th anniversary of the famous "Hundred Flowers Campaign" of 1956 was marked not only by articles singing the praises of the campaign's spirit of free inquiry but also by unusually blunt attacks on the repressive antirightist campaign that was launched in 1957 in reaction to the enthusiastic outpouring of critical writings during the campaign. Commemorative articles described the repression as a tragic mistake that had cost China the fruits of many of her best minds. The recent pro-reform propaganda barrage--and rapid disappearance from the media of articles critical of Ma Ding and his approach--was a clear demonstration of the strength of the reformist position. Even Hu Qiaomu--whose son has also reportedly been under investigation--recently made a speech in favor of free economic debate.

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The second echelon conservatives may have underestimated the extent to which their leaders' teeth had been drawn, in our view. The conservative coalition was vulnerable because of the tenuous nature of the ties among its leaders. The conservatives, essentially brought together by a querulous distaste for certain side-effects of reform and shared alarm at rapid change, never had an agreed-upon alternative program to propose. Deng, taking advantage of the fragility of their alliance, was able to shatter their unity.



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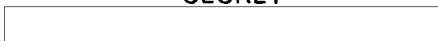
Deng's tough political tactics successfully isolated Chen Yun, potentially the most powerful of the conservative critics because of his immense prestige. Chen continues to receive respectful treatment, and has not--as most of the other conservative leaders have--publicly changed his tune. But he appears increasingly to be treated as a venerable relic, a respected veteran, to be admired but not heeded.

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Our conclusions are admittedly speculative, given the scarcity of information about upper-level political decisions. Nonetheless, we believe the the conservatives exercise far less influence than they did six months ago, and that they are now not a dangerous obstruction to reform progress. Many other potential challenges still exist--resource constraints, scarcity of trained middle-level managers and officials, disgruntled conservatives left in the middle ranks--but in our view the opposition now lacks a leadership around which to coalesce. This development reduces one serious obstacle as the reformers prepare to tackle the very tough economic and political problems the reforms still face.

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Implications

We expect that the reformers will take advantage of their opportunity and move decisively during the rest of the year to reduce even further party and government interference in enterprise management. Freer from considerations of leadership politics than in the past, the reformers can return to their economic agenda. Specifically, we look for the reformers to:

- Curtail the role of government in the economy by restricting the scope of planning.
- Begin experiments with a short-term capital market.
- Implement policies to foster labor mobility.
- Increase foreign borrowing and promote more foreign investment.

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We believe the diminution of Peng Zhen's influence, in particular, also makes Deng's succession arrangements easier. Peng enjoyed great prestige and influence in important sectors of the government, and was not considered a supporter of Hu Yaobang. In the past we have considered Peng a possible successor to Deng's position as power broker should Deng die first, but we now consider that less likely. It is too early to draw conclusions on how the power shift will affect the whole package of succession arrangements. It is possible, however, that the absence of the conservative threat could lead to greater fractiousness within the reform group, which might lead to some rearrangement of the succession package.

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Are the Conservatives Gone for Good?

On several occasions in the past, reformers have successfully countered conservative offensives only to be met with another in a few weeks or months. This time, however, there is reason to believe the reformers have won a more substantial victory. Never before has the reform camp moved as aggressively and personally against conservative targets; the investigations of family members and implied threats of future actions demonstrate a new willingness in reformers to get tough and perhaps signal that their patience with conservative obstructionism has at last run out.

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The reformers, by undermining the conservative wing at the top levels of leadership, have also constrained the ability of middle level conservative sympathizers to interfere with reform. Lacking protection from the top, these officials will, in our view, be much more circumspect about obstructing reform initiatives in future--especially because one tactic in the reformers' current campaign has been to single out for attacks in the press some midlevel cadre who attempted to stifle reform.

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Reformers still face many serious problems, and a severe economic setback could provide conservatives with ammunition to renew their attack on the reform group--which has effectively pegged its legitimacy to economic success. Under these conditions, it is possible that, should Peng Zhen outlive Deng Xiaoping, he might change his tune and make a play to become the power broker among the leadership. To do so, however, would probably still entail significant risks for Peng's family; we believe the reformers would still be in a position to use that threat against Peng. Moreover, because the reform group is now freer to press ahead with institutionalization of reforms--including continued personnel moves to reduce the number of uncommitted midlevel cadre--the conservatives would likely have even less support in the rank and file than at present. It would be premature, considering the nascent state of so many of the reforms and the inherent risks in redirecting a society, to predict that the reformers' problems are over. But we believe their latest victories reduce a significant threat and strengthen the reformers' hand for the future. [REDACTED]

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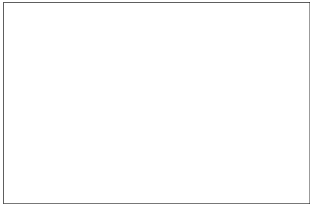


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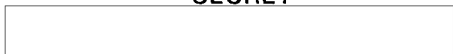
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