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Central Intelligence Agency

DDI-01591X-89



Washington, D. C. 20505

11 AUG 1989

The Honorable Bill Bradley
United States Senate
Washington, D.C. 20510

Dear Senator Bradley:

I read with interest your comments in the Newark Star-Ledger concerning our analysis of events in China over the last few years and your perceptions about the need for CIA to anticipate major change. I want to assure you that we take both your comments and the issues you raised very seriously.

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(b)(3)

In the process of reviewing our China reporting over the past year I have reread a number of the assessments our analysts prepared well before the events of May and June. Some of them do indeed "question what everybody else is saying," which you note is a prime part of our job. I enclose three such papers for your consideration. All were disseminated to key people in the policy community. All reflected our perception of the volatility and uncertainty of the political situation in Beijing. I believe that these products show that our analysts were tracking major economic and political change in China very closely.

In the aftermath of the crisis, our China analysts have begun to look ahead and address the implications of what has taken place. Their research for the coming year will focus on such topics as the impact of international sanctions on Chinese foreign policy, the growing role of the military in political decision making, the new leadership balance, and the future of economic reform. Much of their work will be done in close consultation--and even competition--with colleagues in other offices and with outside experts. On the wider fallout from the situation in China, conferences

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will be held and views exchanged with noted academic specialists on the new balance in Sino-Soviet-US relations and on how change elsewhere in the Communist world might be influenced by events in China. In all of this work, be assured that we will look both at the most likely outcomes and those less likely but of potentially great importance to US security interests.

I agree completely with your fundamental point about the need for our analysts to give careful consideration across the board to the possibility that a status-quo will be altered. We have been stressing exactly that responsibility to our analysts for several years, and your expressions of interest enable us to prove that consumers notice when we succeed in this and when we need to do more. To ensure that the message gets through, we have a separate staff of senior intelligence officers who are charged with evaluating our products using a variety of criteria, including how well they address the possibility and likelihood of alternate outcomes. We believe the fact of the internal evaluation serves as a constant reminder to analysts of the importance management attaches to flexible thinking.

This emphasis has a strong impact on our assessments of another country in which you have a high interest--the USSR. A look at our work being planned for the upcoming year shows considerable attention to the shape and direction of change in the Soviet Union. Our Soviet analysts are debating the key question of the reversibility of Soviet reforms with Soviet experts from academia. One of our analysts is currently drafting a key National Intelligence Estimate on the prospects for the success of Gorbachev's reforms over the next several years. A typescript memorandum will soon be published underlining the volatility of the current Soviet political scene and examining some of the possible outcomes. An array of cleared academic experts whose views range across the ideological spectrum is available to critique our work on these important subjects.

This competitive interplay of ideas and institutionalized consideration of likely and unlikely outcomes is complemented by an extensive program of overseas assignments and travel that is intended to give analysts a good feel for the countries they watch, and by training courses designed to improve their ability to identify the

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early signs of dramatic change. An analytical methodology is taught in one of these courses that stresses the development of the broadest possible range of hypotheses at the inception of analysis.

None of these measures guarantees that we will always meet the difficult analytic challenge you discussed in your comments, but I can personally assure you it is uppermost in the minds of our managers as they review the papers we write. We know that we do not have a corner on the market for constructive suggestions for improving intelligence analysis. I would be happy to hear more about your ideas. Deputy Director for Intelligence John Helgerson and I would enjoy discussing these issues with you at your convenience.

Sincerely,

[REDACTED]

William H. Webster
Director of Central Intelligence

Enclosures:

1. [REDACTED]
2. [REDACTED]
3. [REDACTED]

P.S. It would be glad to discuss with you the review of our China product conducted by our Senior review board of outside experts.



DIRECTORATE OF INTELLIGENCE

7 February 1989

China's Political Landscape: Between Reform and Uncertainty [REDACTED]

Summary

During the past decade of Deng Xiaoping's reformist regime, China's real GNP has doubled, and its total foreign trade has more than quadrupled. The standard of living of both urban workers and peasant farmers has, until recently, steadily risen, generating broad support for reform. Deng restored rationality and a measure of institutionalization to a political system that, during the Cultural Revolution (1966-1976), had degenerated into Byzantine intrigues. Deng and his allies reduced the military's hold on politics and ended China's foreign policy isolation. [REDACTED]

Beijing's reform program, however, is now at a crossroads. China's leaders face the much more difficult task of liberalizing the economy while trying to maintain party supremacy. Progress has been slow as Beijing has encountered recurring economic problems--especially inflation--that have generated social discontent as well as dissension within the

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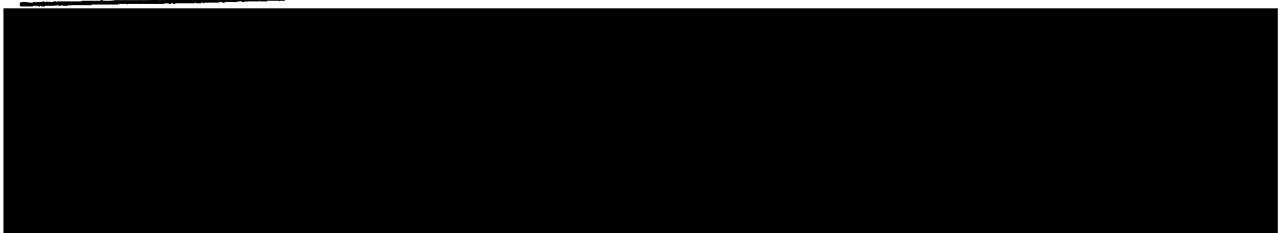
leadership over the pace and direction of reform. Jockeying for position in anticipation of Deng Xiaoping's passing has also contributed to a cautious, temporizing approach to policy over the past two years. [REDACTED]

The inability of Zhao Ziyang--Deng's chosen successor and the strongest proponent of market reforms--to forge a consensus behind an effective plan of action suggests that China faces a drawn-out, difficult period of uncertainty and wrangling. Zhao's problems could worsen if, when Deng dies, a battle for power ensues--as seems likely. Under those circumstances, reform at best would have to mark time while new power sharing arrangements are worked out. [REDACTED]

No Consensus at the Top

Although Deng Xiaoping remains China's paramount leader, at 84¹ his role and influence are waning as a younger, more technocratic elite begins to take over. As these leaders maneuver for position in a post-Deng era, we believe they face the most formidable challenge yet to China's reform effort. An overheated economy and runaway inflation have already forced them to retreat from price reform--still the key in our view to laying a sound foundation for China's transition to a market economy. As economic problems have mounted, the leadership has also had to contend with growing popular discontent over inflation and corruption. Whipsawed by conflicting pressures to stabilize the economy and push ahead with critical but potentially destabilizing reforms, the leadership reportedly is divided, confused, and uncertain. [REDACTED]

The tense atmosphere and high stakes in the succession have contributed to a cautious, temporizing approach to reform over the past two years--few younger leaders are willing to push bold, risky new initiatives that could hurt their futures. The one notable exception is General Secretary Zhao Ziyang, who remains Deng's chosen successor. Zhao is the natural leader of those reformers who fear the consequences of stagnation and are willing to risk economic and social instability to maintain reform momentum. Although widely respected, he does not have a strong central power base. Moreover, his policies have suffered serious setbacks in recent months. For example, although Zhao had virtually announced that last September's party plenum would formulate a strategy to introduce price reform, in fact the plenum communique emphasized retrenchment and declared that there would be a two-year moratorium on price reform. Although Deng's support has ensured Zhao's survival, Deng's continued dominance has also made it more difficult for Zhao to establish himself as an independent leader. [REDACTED]



China's Overheated Economy Not Slowing Yet

China's leaders are searching for ways to dampen inflation and slow excessively rapid industrial growth that is intensifying shortages of raw materials and energy. Retrenchment policies adopted over the past five months have been largely ineffective, and industrial production, which was up 17 percent in 1988, grew at a faster rate in December than in November. Beijing recently has imposed new taxes, spending controls, interest rate hikes, and restrictions on exports of scarce goods. [REDACTED]

We believe these policies are not likely to cut urban inflation in 1989 from much below its current level of more than 30 percent in some cities, the highest in nearly 40 years:

- Beijing has avoided addressing some of the most serious causes of inflation. Concerns about worker unrest in urban areas have led Chinese leaders to boost government subsidies for food and rent. Beijing also continues to make low-interest loans available to state factories and refuses to close enterprises that use raw materials wastefully.
- Beijing has had only partial success controlling the money supply; interest rates have been raised twice in the last five months but remain less than half the inflation rate. In addition, powerful provincial and municipal leaders often override Beijing's orders to restrict loans and proceed with their pet construction projects. [REDACTED]

Moreover, pressures will build this spring to reverse at least some of the austerity measures. For example, these measures are facing stiff resistance from budget authorities who fear that a slowdown in industrial growth will reduce government revenues at a time when expenditures are growing. Beijing also is concerned with the intense criticism peasants leveled last fall, when credit shortages in the countryside forced the government to purchase the fall harvest with IOUs instead of cash. China's leaders have ordered rural banks to increase lending for agricultural production, but the budget deficit will keep them from significantly boosting grain prices, probably the most effective way of stimulating production. The anticipated rollback of credit restrictions would funnel even more money into the economy and accelerate inflation. Even if controls remain in place and growth in the money supply slows in the second and third quarter, however, the infusion of funds in the first three quarters last year will keep inflation at about its current level during all of 1989. [REDACTED]

Reform at a Standstill

Since former General Secretary Hu Yaobang's ouster in January 1987 some promising economic experiments have continued, but on balance reform has stalled. The sense of purpose and general agreement on goals that Chinese leaders shared in the early days of reform have diminished as policy choices have become more complex and as new market-oriented measures--price reform, a bankruptcy law, labor and wage reforms--have begun to demand sacrifices from large segments of the population. Recent economic problems have worsened the reform malaise: stagnating grain production, excessively rapid and poorly coordinated industrial growth, shortages of energy and raw materials, and especially inflation, which exceeds 30 percent in some cities. [REDACTED]

The overheated economy and runaway inflation forced Beijing last fall to retreat from price reform and impose price and credit controls instead. These retrenchment policies, however, have been largely ineffective. Reformers' efforts over the past decade to dismantle the central planning apparatus and decentralize decisionmaking authority to spur development have sharply reduced Beijing's control over the economy. Power has shifted from the center to provincial party and state officials, who have become less responsive to Beijing's direction. [REDACTED]

The growth of local powers has profoundly altered the political landscape and is likely to remain a key factor in Chinese politics. The economic success of such areas as Wenzhou in Zhejiang Province and the southern coastal province of Guangdong has given them a measure of political independence that Beijing will have difficulty curbing. This trend toward local autonomy is likely to trigger greater centra.-local confrontations, and may contribute to political tensions as tradition-minded leaders blame reform and reformers for eroding central control. [REDACTED]

The Public Mood

Persistent economic and social problems and political uncertainties have fostered growing feelings of pessimism and discontent. While most people remain supportive of reform in a general way, they are beginning to doubt that Zhao and his supporters have the political clout and the competence to carry off reform. Foreign observers have commented on the prevalence of a "get-it-while-I-can" mood; one referred to it as "almost nihilistic." [REDACTED]

China has also begun to have serious problems with a range of social tensions arising from the strains of rapid modernization. Crime has become a major worry, with major crimes up by 35 percent, according to Chinese statistics. Nearly 10 percent of the population of major cities such as Beijing and Shanghai consists of illegal migrants from the countryside, giving these cities a pool of around one million restive, difficult-to-control residents. Stubborn resistance to breaking the "iron rice bowl"--the system of guaranteed lifetime employment--coupled with resentment over income disparities that economic reforms have brought about have obstructed Beijing's efforts to introduce further reforms. [REDACTED]

China's Intellectuals--Questioning Time-Honored Truths

In the freer atmosphere under reform, China's intellectuals have begun to ask, and to discuss publicly, a number of interesting, disturbing, and--to some in the regime--potentially threatening questions. [REDACTED]

One question that stubbornly reappears is whether Marxism is any longer an appropriate philosophy for China. Taking reform rhetoric about adapting to present circumstances a step further than even most reformist party leaders feel comfortable with, younger intellectuals have raised the question about whether China should simply admit that Communism has had its day. Some of these radicals look to capitalism and democracy, some propose a search for a socialist solution in words that echo the reform slogan "socialism with Chinese characteristics," but what they have in common is a rejection of the political forms of Communism and the state-centered economic model inherited from the Soviet Union. [REDACTED]

Other intellectuals are asking whether China's difficulties stem not just from misguided Communism, but rather from flaws in Chinese culture. A recent television series, "River Elegy," explored this theme using the Yellow River as a metaphor for Chinese culture, and struck a responsive chord among many Chinese who, it seems to us, are hungry for answers to the questions the program raised. It also precipitated strong but contradictory reactions from Chinese leaders. Party elder Wang Zhen was so incensed he succeeded in getting it temporarily banned. [REDACTED]

The series dramatically argues that traditional Chinese culture remains a serious obstacle to China's modernization, and calls for a change in viewpoint. Over images of the river and the sea, the piece calls for China to abandon its continental, inward-looking past and open up to the world, modernize its political structure and cultural concepts and embrace such Western ideas as capitalism. Implicitly, the series attacks 40 years of Communist rule for failing to free China of its past. "River Elegy" is perhaps the most striking and poetic expression of the dissatisfactions and doubts of many Chinese as their country enters its second decade of reform. [REDACTED]

Probably the most volatile and politically sensitive social issue is corruption, fed in large part by a system that allows officials access to cheap goods through state sources, which they then can resell at large profits outside state channels. Bribery has become commonplace, involving foreigners as well as Chinese; indeed the US Embassy has been asked by American businessmen on more than one occasion whether a requested "commission" would actually be considered a bribe under US law. [REDACTED]

Abuse of power is widespread, and nepotism is rife. The leadership is acutely sensitive to these issues. [REDACTED]

Ironically, Beijing is also running into trouble from those who do not believe reform has gone far enough. Dissident intellectuals and activist students have become a headache for the leadership. According to a fairly reliable source, even Zhao and his reform-minded supporters reacted angrily to student demonstrations last spring. They resent students' impatience and fear the conservative backlash that campus disorder might cause. [REDACTED]

The Next Decade

China faces a rough, potentially lengthy period of uncertainty. Wrangling over the new power lineup after Deng goes will probably absorb much of the leaders' attentions and energy at a time when serious economic and social problems need to be addressed. At both popular and leadership levels, there is widely shared recognition that the present system does not work, but little consensus on what to do next. Pervasive disillusionment, leading to indifference and passive resistance to government initiatives, will probably persist, and further progress toward a national market economy and a more open political system is likely to be slow. Reforms made so far have generated strong pressures to move in these directions, but counterpressures are mounting. Until one group can dominate the center, a final choice between fundamental reform and tinkering with the existing system probably cannot be made, and it may be several years after Deng's death before a clear winner emerges. [REDACTED]

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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

09 February 1989

China: Potential for Political Crisis [REDACTED]

Summary

Although Party General Secretary Zhao Ziyang remains powerful, his standing has slipped as a result of the reversal of his economic policies at the party's plenum last September. This memorandum speculates on the circumstances that could lead to his removal, his possible successors, and the broader implications of a change in leadership. It is admittedly a worst case scenario, but if Zhao is unable to forge a consensus to deal with current economic problems, and they persist or worsen, we believe Zhao's critics could make him the scapegoat for the reform program's many shortcomings. [REDACTED]

If Zhao fell, Deng and other party elders probably would turn either to a member of their own generation to restore discipline within the party and Chinese society at large, or more likely in our view, a younger party leader not tainted by corruption and the ills of the floundering reform

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program to take over as general secretary. Having no one of Zhao's stature and reformist credentials to turn to, we speculate that Deng and other reformers would, with misgivings, accept Politburo Standing Committee member Qiao Shi as a compromise choice. Other younger leaders, such as Premier Li Peng, lack the institutional base or managerial ability to win broad party support. No matter who succeeded Zhao, however, we believe a successor would find himself hamstrung by conflicting views within the leadership, the party's declining prestige, and the general weakening of the central government; he would thus be unable to pursue anything but the most cautious course on reform. [REDACTED]

Zhao: Down But Not Out

By all accounts, Zhao's economic policies took a beating at last fall's leadership meetings. According to a variety of sources, conservative reformers--especially Premier Li Peng and Vice Premier in charge of economic affairs Yao Yilin--sharply criticized Zhao's inflation-generating, high-growth policies and won endorsement for a period of "readjustment" to cool China's overheated economy. [REDACTED]

According to US Embassy sources, Zhao himself made a formal self-criticism of his management of the economy and probably ceded some direct authority over the economic reform program to Yao and Li. At a minimum, we believe that Zhao has had to acquiesce to the adoption of outmoded administrative controls while trying to protect and promote market-oriented reforms. [REDACTED]

Officials close to Zhao assert his position remains secure, and that he continues--with Deng's support--to have a key say in both domestic and foreign policy. Deng, in fact, publicly reiterated on 7 November to Uruguayan President Sanguinetti that Zhao and Li Peng are responsible for China's affairs. Even if Deng has lost some confidence in Zhao, we believe he would be reluctant to dump his designated successor for fear of weakening his own authority and shaking foreign confidence in China's stability and reform program. Moreover, in our judgment, there is no one else that Deng could turn to who both shares his reformist vision and possesses the prestige necessary to bolster domestic and foreign confidence in the leadership the way Zhao was able to do when Hu Yaobang fell. [REDACTED]

Nevertheless, we suspect that Zhao could become increasingly vulnerable and even fall within the next 12 to 18 months if China's economic and social problems persist or worsen. Although Zhao is reputed to have a strong base in the provinces, because of his support for the decentralization of authority and promotion of a high-growth, loose-credit policy, his support within the Politburo and other central party organs still appears to be fairly weak. As best we can judge, Zhao remains heavily dependent on the backing of Deng and the acquiescence of other party elders who, according to US Embassy reporting, continue to exercise considerable behind-the-scenes influence. Were some of Zhao's more powerful critics among party elders such as Bo Yibo to join forces with senior military and security officials against Zhao in a crisis, as they did against Hu Yaobang, we doubt that Deng would be able or even willing to save him. [REDACTED]

Glimpses of a Crisis

We speculate that any one of several scenarios could trigger such a crisis. Zhao could become a scapegoat if:

- The economy deteriorates sharply, with soaring inflation--already at its highest rate in nearly 40 years--eroding public confidence in the party.
- Popular discontent, already high because of inflation and growing official corruption, sparks widespread student and/or worker unrest that party elders perceive as a challenge to the party's authority.
- Party elders, including Deng, perceive the reform program to be adrift and slipping into the trap of stagflation that has crippled reform in Hungary and Yugoslavia. [REDACTED]

Even though all of China's leaders share responsibility, Zhao remains most closely identified with market-oriented and political reforms that lie at the root of today's problems. His critics have long had reservations about Zhao's efforts to liberalize the economy and open the political system, fearing that these steps could undermine the party's authority and by extension threaten their own power and privileges. They would have little difficulty constructing a list of charges to justify his ouster. [REDACTED]

Should there be widespread unrest, Zhao would be especially vulnerable to the charge that under his direction, the party has lost its ability to maintain social order. Conservative party leaders, who place a high value on social discipline, are already disturbed by rising crime rates and the breakdown of conventional mores. Corruption has grown rapidly under Zhao's market-oriented reforms, reaching the point where little business can be transacted without resort to bribery, badly tarnishing the party's image. Zhao's ability to combat corruption has also been hurt by widely believed charges that Zhao's own children are among the more avaricious of the leadership's princelings. [REDACTED]

Zhao probably would also be blamed for problems in China's economy. Critics, because of personal grievances as well as policy differences, could capitalize on his advocacy of a high-growth, high-inflation policy to blame Zhao for popular discontent with the reform program and the party's handling of China's modernization program. Under Zhao, reformers have dismantled much of the central planning apparatus but have yet to establish strong fiscal and monetary tools to take its place. Thus, industrial growth reached 18.8 percent in the fourth quarter of 1988 and appeared to be accelerating despite the institution of austerity measures last September. [REDACTED]

Alternatives to Zhao

In a crisis, Deng and other senior leaders might be tempted to turn to an experienced elder in order to reassert central government and party control (see inset).

Such an appointment, however, would send a clear signal that they were backtracking from their commitment to regenerate the party leadership--a key reform objective. We believe, therefore, they would be more likely to choose a younger man they could trust and initially dominate. They probably would want a younger leader to be a man of order--a strong advocate of party discipline and tighter social controls. [REDACTED]

Of the younger leaders--Li Peng, Qiao Shi, Hu Qili, Li Tieying and Tian Jiyun--we believe Qiao Shi would be the most acceptable to senior leaders, and indeed all wings of the party. The selection of Qiao, who is neither a radical reformer nor a hardline ideologue, would not unduly disturb the leadership's delicate balance between party interest groups. Qiao, who has spent most of his career in the party bureaucracy and is intensely loyal to it, probably could count on the support of ideological conservatives, military politicians, and other cautious party elders concerned about the decline in the authority of the Communist Party. At the same time we believe his earlier, close association with Hu Yaobang probably would give him some credibility with reformers. [REDACTED]

Qiao has a good institutional base, and has a reputation as an effective behind-the-scenes manager. In 1985, party leaders turned to Qiao--then head of the party's Organization Department--to handle personnel appointments for the important September Party Delegates Conferences. And in 1986, they again turned to Qiao to revive the flagging party rectification campaign. As a measure of their trust, Qiao was picked at the 13th Party Congress to lead the party's powerful Central Discipline Inspection Commission, and since then has taken control of personnel and patronage within the party, as well as united front work, according to the US Embassy. Qiao is also head of China's foreign intelligence and domestic security services and presides over the legal system. In short, Qiao has quietly positioned himself as a logical alternative to Zhao and would be able to capitalize on his control of key party institutions to impose stricter discipline. [REDACTED]

[REDACTED]

Longer Shot: Premier Li Peng

Of the remaining younger leaders, Premier Li Peng probably has the best chance of succeeding Zhao (see inset). With his authority over the economy and foreign policy recently enhanced, Li is now in a better position to build patronage networks in the government, shape the economic agenda, and gain foreign affairs experience. Like Qiao Shi, moreover, he is trusted by powerful members of the old guard, especially the clique

led by Central Advisory Commission Vice Chairman Bo Yibo; in part, we believe, because he is sympathetic to their conservative views on reform. No senior elder worries--in our judgment--that Li Peng would inadvertently undermine the power of the party by pursuing bold reform strategies. Li Peng probably can also draw support from the still powerful heavy industrial ministries, which feel threatened by market-oriented reforms and free competition. [REDACTED]

[REDACTED]

Implications

Even if Zhao does not fall, we believe his ability to forge a consensus to get China's reform program moving again has been hurt. With Zhao weakened and the rest of the leadership so delicately balanced, we question whether China's leadership will be able to reach agreement soon on key reform measures, especially in sensitive areas such as price reform and political structural changes. [REDACTED]

If Zhao is ousted, we believe his successor would be even more constrained by conflicting views within the leadership. The declining prestige of the Communist Party, now increasingly perceived as riddled by corruption, and general weakening of the central government to the benefit of the provinces only exacerbate the difficulties a successor would face. [REDACTED]

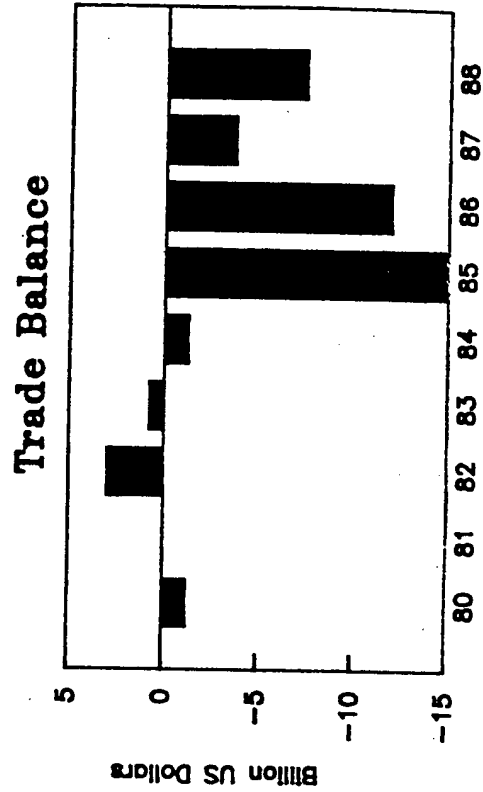
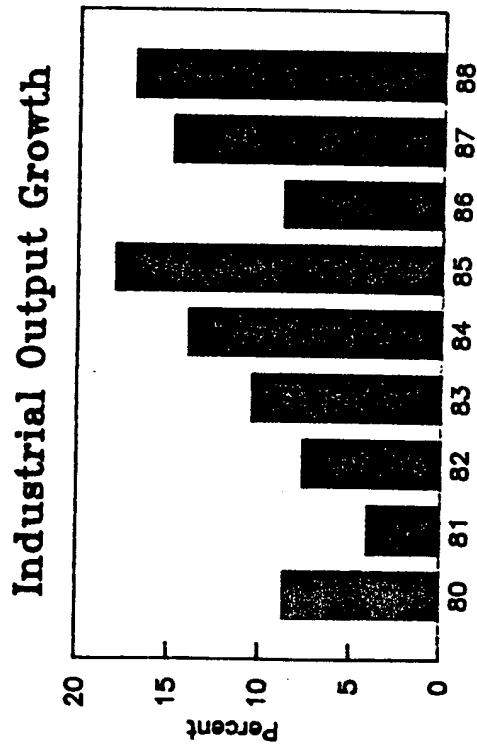
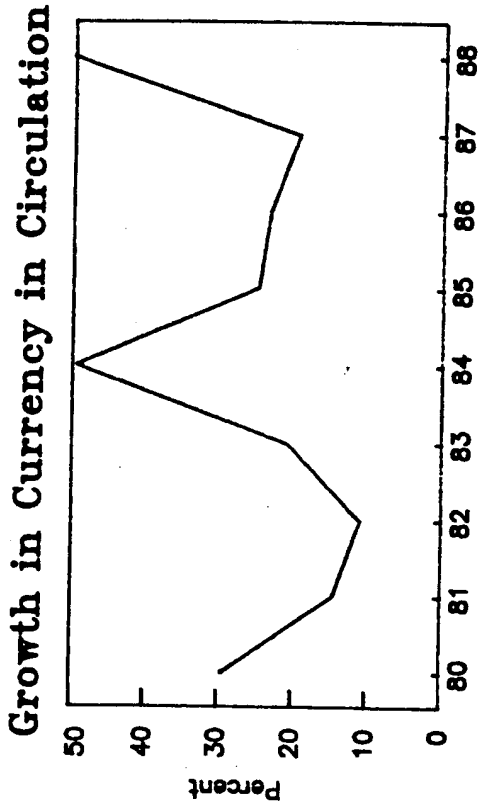
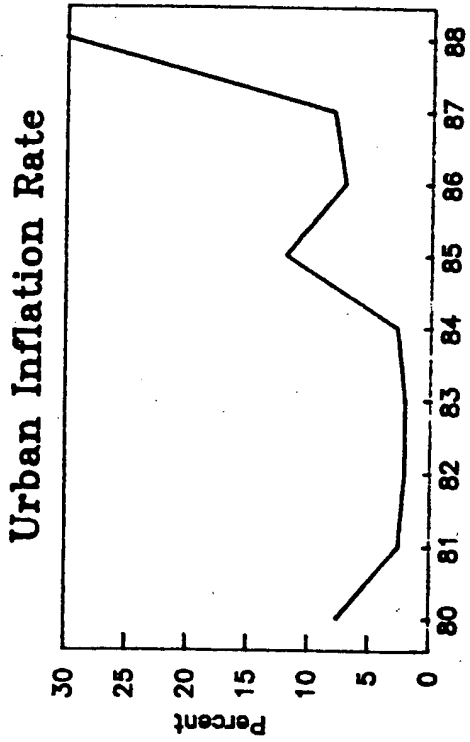
The character of the leadership initially probably would be more conservative regardless of Zhao's successor. We believe any successor's first task would be to restore order and strengthen social discipline. He would be under considerable pressure to rely on traditional means to do so, including possible witchhunts directed against dissenting intellectuals. A limited purge of some reform leaders would be likely, though we expect any new leadership to try to coopt and employ many of Zhao's younger advisers. [REDACTED]

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Lip service to economic and political reform experiments would probably continue in such circumstances--partly to reassure foreign investors--but the primary market-oriented economic and political reforms would be put on hold. A more conservative leadership probably would tighten conventional administrative controls to rein in the economy, abandoning price reform and other radical methods of systemic change. Such controls, in our view, would not solve China's economic problems, though they might mask them for a time. [REDACTED]

We would expect a post-Zhao leadership to proclaim its continued support for the open door and strong economic relations with the West. We believe, however, that China's investment climate would deteriorate. More conservative leaders would probably be less likely to favor genuine reform of the foreign trade system or other moves needed to make China's economy compatible with the GATT. At the local level, cautious officials would probably place greater restrictions on foreign investment or control of enterprises out of fear of committing political errors. [REDACTED]

China: Portrait of an Overheated Economy*



*Official Chinese statistics. Data for 1988 are estimated.
Industrial output growth is real, rather than nominal.

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Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

18 March 1987

Deng, Hu, and the Future of China's Reforms: A Speculative Essay [REDACTED]

Scope Note and Summary

The leadership turmoil exposed by the recent purge of General Secretary of the Chinese Communist Party Hu Yaobang has been followed by an uneasy calm, during which the principal party and government leaders, Deng Xiaoping and Acting General Secretary Zhao Ziyang, have tried to portray a business-as-usual atmosphere. Our view of the situation within the leadership is cloudy, but observers both inside and outside China share a perception of great uncertainty and fluidity. [REDACTED]

Our analysis has become more than usually dependent on scanty public disclosures, information from those Chinese officials who have the wherewithal to leak party documents (such as those recently read to The Washington Post correspondent), and rumors of questionable authenticity repeated by Hong Kong newspapers and magazines. Facts about the current state of affairs are so rare that any assessment of longer term prospects for political stability and policy continuity remains highly

[REDACTED]

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conjectural. What follows, then, is a speculative essay that presents two alternative analyses of Deng Xiaoping's role in recent events, and his gains and losses in each. One view posits that Deng showed political strength in purging Hu, and removed a major obstacle to the longer term survival of his reform policies and coalition. The other considers that Deng paid a heavy price in purging his successor, and that China's leadership stability and cohesion have been seriously damaged. [REDACTED]

This paper, thus, is not a record of events or a detailed explanation of what has happened, but rather a preliminary attempt to sort out what remains a rather murky and uncertain situation. It has not been coordinated with any other office of CIA, or with other components of the Intelligence Community. [REDACTED]

Developing Leadership Strains

China's recent leadership shakeup involved far more than just the removal of General Secretary Hu Yaobang. In a very real sense, events of the last three months constitute a major leadership crisis within the Chinese Communist Party--one that has been brewing for several years--and, despite leadership assurances that very little has changed in China's policy intentions, ensuing events will be of critical importance for the future of China's experiments with economic and political reform. [REDACTED]

The Chinese official press has attempted to portray the purge of Hu as a proper systemic response to increasingly aberrant behavior on the part of the feisty General Secretary. In Central Document (zhong fa) No. 3 of 1987, which was read to three Western reporters in late February by an unidentified party official,¹ Hu was accused of six major mistakes:

- Encouraging "bourgeois liberalization" within the party.²

² "Bourgeois liberalization" is a catch-phrase for a multitude of sins. Indeed, it has been a central issue dividing the party at all levels ever since reform began in 1980. Basically, it means allowing dissent within the party over major issues of ideology and principle. Hu was well known as one who thought that criticism and even satire of party performance by students, writers and artists was not only permissible, but actually helpful. More traditional Leninist party members claimed this more permissive attitude would only lead to further challenges of the party's authority, and

- One-sidedly criticizing "leftism" within the party, but not "rightism."³
- Promoting erroneous economic policies, such as high growth rates, encouragement of consumption over production, and other ideas that allowed the economy to get out of control in 1984.
- Disrupting the development of China's legal system by insisting that political decisions were more important than laws.
- In diplomacy, "saying things he should not have said" on numerous occasions.
- Failing to respect decisions made by the National People's Congress, not consulting with other party leaders on important decisions, and making unauthorized comments about major policy issues.

The six "errors" tell only part of the story, and cover up other reasons, not stated in the official record or only hinted at, for Hu's ouster. As was the case with former party Chairman Hua Guofeng, Hu is being made the scapegoat for most of the regime's problems. That there was a "Hu Yaobang problem," however, has been evident for some time: his abrasive and impetuous personality, enmity of the party's old guard, failure to gain the confidence of the Army, propensity to challenge Leninist dogma--all had raised questions about whether he was the right man to succeed Deng. Rumors of alternative succession scenarios in the summer of 1985 suggested that Deng had decided that Hu would have to go, and planned to accomplish the change at the 13th Party Congress, scheduled for late 1987. Events of late 1986--including, but certainly not primarily, the student demonstrations in Shanghai, Beijing and other cities--caused Deng to advance his timetable, disregard the party procedures he had worked so hard to reestablish, and purge his own chosen successor in a brutal power play.

The Deterioration of the Deng-Hu Relationship

Party documents and rumors agree on one point, that it was Deng Xiaoping who masterminded Hu's ouster. There is no credible evidence to suggest that the initiative to relieve Hu as General Secretary came from anywhere else. Deng decided on the course of action, organized the Military Commission and expanded Politburo meetings that made the key decisions, personally leveled the harshest criticisms of Hu's performance, and managed the drafting of the explanatory documents.

were vindicated by the December 1986 student demonstrations in China, which were the proximate cause of Hu's downfall.

³ Heavy reliance on very slippery Marxist-Leninist concepts suggests the case against Hu was largely trumped up. Essentially, however, "leftism" here signifies dogmatic Maoism, while "rightist" errors comprise such things as promoting "capitalist" economic ideas, permitting nonparty criticism of party matters, etc.

Despite their close association, Deng and Hu did not hold identical views on all issues, and Hu disagreed openly with Deng on occasion. As he became more comfortable with his powers as General Secretary, Hu began to take noticeably different positions from Deng on questions involving foreign policy, adopting, for example, a somewhat more anti-US position than Deng. More serious disagreements arose over the issue of nonparty criticisms of party policy, which Hu supported and encouraged, while Deng fulminated against "liberalism" and any perceived decrease in the party's authority. Hu also began to push harder than Deng wanted on the issue of forced retirement of the party old guard. Conservatives took advantage of these issues to criticize Hu and raise Deng's suspicions of him. [REDACTED]

Things appeared to come to a head at leadership meetings in the resort town of Beidaihe during the summer of 1986. According to generally reliable reporting, Hu and his supporters directly challenged Deng on ideological issues, and Hu urged Deng to set an example by retiring from the Central Advisory Commission.* Conservatives rallied to Deng's support, and Hu retreated. Subsequently, however, a Youth League newspaper in the Shenzhen Special Economic Zone appealed to Deng to carry through on his 1980 promise to retire, [REDACTED]

There is no reason to believe that Hu directly fomented the student riots of late 1986. Indeed, Hu himself was denounced by some of the demonstrators. Later criticisms of Hu charged that he encouraged student dissent in Shanghai by attacking

* Interestingly, Hu aspired not to Deng's Military Commission post, in which he probably believed he would wield little influence, but to the Central Advisory Commission, where he stood a better chance of inheriting some of Deng's power. [REDACTED]

the municipal party committee for its tepid support of political reform. In the end, Hu accepted the blame for not taking sufficiently resolute action against the students, but that was hardly the key issue. [REDACTED]

In the final analysis, Hu was ousted because Deng needed to reestablish his authority over the party and the party's authority over society. Deng evidently saw Hu as a dangerous maverick whose undisciplined actions and faction-building threatened the party's cohesion. For his part, Hu may have begun to see Deng as part of the problem, unwilling and unable to move decisively against the conservatives, playing rival groups off against each other in a way reminiscent of Mao. The denouement was quick, and Hu went quietly. In mid-December, Deng convened the largest-ever meeting of the party's Military Commission. Accounts of the meeting are sketchy, but the PLA's antipathy for Hu was made clear, as was its whole-hearted support for Deng's leadership. Subsequently, Deng privately told Hu he would no longer support him as General Secretary, packed an expanded Politburo meeting with key supporters from the Central Advisory Commission, and rammed through resolutions removing Hu as General Secretary and kicking off a campaign against "bourgeois liberalization." [REDACTED]

In the Aftermath: Alternative Viewpoints

The timing and the manner of Hu's ouster have raised questions among both Chinese and Western observers about the stability of China's political system, about whether Deng acted out of strength or weakness, and about the effect recent events will have on further economic and political reform in China. What follows are two alternative perspectives on the state of China's political system in the aftermath of Hu's purge. One considers that Deng showed political strength in purging Hu, and removed a major obstacle to the longer term survival of his reform policies and coalition. The other viewpoint is that Deng paid a heavy price in purging his successor, and that China's leadership cohesion has been seriously damaged. [REDACTED]

Deng Dominant

One way of making sense out of recent events is to presume that Deng acted from strength to curb dissension in the Politburo over reform policies and leadership. Deng's precipitous move against Hu should be seen as a means of avoiding a much more bitter and potentially more destabilizing fight at the 13th Party Congress. Deng had already decided on a new succession arrangement that did not include Hu. When Hu balked, and began organizing his supporters to oppose Deng's plans, Deng decided to act. Furthermore, his ouster of Hu served the additional purpose of removing the one personnel issue over which conservatives in the party and army appeared willing to unite. [REDACTED]

Under this interpretation, Deng probably has strengthened his own position, and by extension, that of other reformers, by purging Hu. Hu's unpredictable behavior, tendency to promote radical policies without concern for their side effects, and

undisciplined leadership style damaged the entire reform wing of the Politburo. Removing Hu improved reform's image by showing Deng's own strength and resolve, and by establishing the smoother, steadier Zhao Ziyang as the successor. It also bought time for reformers to close ranks and to seek a modus vivendi with other elements of the leadership. Zhao has moved quickly and effectively into his new role, and seems to be in a good position to maintain the momentum of the reform program. Although conservative critics may shift their ire to Zhao, he has demonstrated a better ability than Hu to forge a policy consensus and project an appropriate leadership image. Moreover, he has been respectful and solicitous of the views of the party elders, and has won their personal respect, if not wholehearted support. Moreover, Zhao is committed to reforms, and clearly more aware than was Hu of the constraints imposed on reform by China's backward economic conditions and divided leadership. [REDACTED]

Although tensions within the Politburo have been heightened, Deng without Hu may be in a better position to divide and conquer conservatives on both policy and personnel issues. Politburo member Peng Zhen is a serious problem for Deng, but other old guard leaders do not appear anxious for a fight. Deng and Zhao between them--coopting willing members of Hu's faction for support--have an excellent chance of promoting more young leaders committed to cautious, orderly reform at the 13th Party Congress. Deng's control of the military stands as the ultimate guarantor of political stability. [REDACTED]

By removing Hu, Deng may have improved the prospects for restoring consensus within the leadership. With the combative Hu in the party's top spot, reaching agreement on key reform issues was becoming impossible, because he was so unwilling to work with the old guard. Deng and Zhao appear to agree with conservatives that cautious and cooperative policymaking stands the best chance of success. Deng in the past frequently has adopted conservative slogans in order to push his own political agenda, and it is likely he will do so again. There probably still is consensus within the leadership that they need to avoid the appearance of dividing into competing factions, and Deng may be able to make the case that differences need to be ameliorated for the sake of unity and stability. Conservative strength in propaganda is probably less than it appears. The current campaign against "bourgeois liberalization" will probably damage China in the eyes of foreign investors, reporters, and academics, although not seriously. Deng eventually will be able to make the case, as it was made in terminating the 1983 "spiritual pollution" campaign, that these noisy affairs hurt China by reducing prospects for gaining needed technology, by scaring off buyers of Chinese products and investors in Chinese industries, and by raising the specter of another Cultural Revolution. [REDACTED]

China's reform policies were slowing down already because of implementation problems, and that process will not necessarily get worse. Deng himself probably has always believed that reforms--while necessary as an overall objective--need to be carried out gradually, and experimentally. He has always stressed the need for stability and orderliness. Hu and a few of his radical supporters were the odd men out on this point. With Hu gone, Deng and Zhao can probably more easily coopt conservatives by easing their concerns over the pace of reform, while at the same time reminding reformers not to get too far ahead of the pack. [REDACTED] on Zhao Ziyang also suggests that he has a better appreciation than did Hu of the need for a moderate pace of reform. [REDACTED]

Finally, although intellectual disenchantment with the regime has grown, the current campaign against "bourgeois liberalization" may aid domestic stability. Deng has sent a message to students and intellectuals that the party will not tolerate threats to stability or party control, while at the same time reassuring workers--who have been growing restive about inflation, wage reform, and rent reform prospects--that the party will not rush headlong into policies that threaten their purchasing power, job security, and related concerns. Deng is probably trying to persuade ordinary Chinese that the party will seek an "appropriate" mix of centralization and decentralization, a gradual improvement in economic conditions, a moderate growth in foreign contacts, and a limited extension of democracy and freedom of expression. This "golden mean" approach probably still has a deep philosophical resonance in China. [REDACTED]

Deng Damaged

[REDACTED]

It has always been a mistake to underestimate Deng. He has taken his share of political gambles and usually has been successful. Compared with other "victories" Deng has won in party and policy infighting, however, this one may turn out to be Pyrrhic. Deng and what remains of the reform coalition have paid a heavy price. In practical terms, the reform coalition--and Deng himself--have been weakened, though not incapacitated. There is a widespread perception that Deng moved against Hu to mollify ever-more-powerful conservative leaders, who may try to exact further concessions. Recriminations against certain youthful leaders closely associated with Hu Yaobang already have resulted in the demotions of Propaganda chief Zhu Houze and Secretariat member Wang Zhaoguo. Others, such as Hu Qili and Qiao Shi, have tried to distance themselves from Hu and have survived the immediate threat, but are still subject to attack. Zhao Ziyang's position is secure for now, but his support base within the party is thin. Zhao concentrated on running the government in the past, and is widely respected as a talented administrator and effective bureaucratic maneuverer. He has eschewed establishing a personal power base in favor of seeking to conciliate different interest groups involved in policymaking. That approach has won him favor from party conservatives. Now, however, Zhao is the principal spokesman for still-controversial reforms, and he will be called to account for whatever problems arise. Without Hu as a lightning rod for conservative dissatisfaction, Zhao will be the focal point. Zhao is heavily reliant on Deng's personal support to maintain a steady course.

[REDACTED]

[REDACTED]

Arranging an orderly succession seems to have receded as a goal of political reform, and a post-Deng power struggle may be more likely. Hu's purge has left Deng more than ever the linchpin of the political system, supported by all factions within the party as the one indispensable man. He retains the firm loyalty of the military, and, insofar as it can be gauged, the populace at large. [REDACTED]

But at 62, he may not have enough time to rebuild the political groundwork that Zhao will need to avoid a damaging power struggle. As the 13th Party Congress approaches, conservatives and reformers alike will be lobbying Deng to enhance their power positions. Conservatives can be expected to try and weaken Zhao and promote their own successors. Even Hu Yaobang--with his extensive network of pro-reform bureaucrats--may yet have a role to play. [REDACTED]

Within the Politburo, it appears that the struggle is not yet over. The intensification of personal animosities over the last two years probably has not abated with the removal of Hu, and that could lead to further problems. The 13th Party Congress will be a critical showdown, with many political "prizes" at stake. One of the hallmarks of Deng's political leadership has been his ability to suppress factionalism at the Politburo level. That requires a great deal of time, effort, and patience. Over the last two years, the leadership's cohesion has been severely strained by both political/economic issues, and by considerations of personal power. It remains to be seen whether Deng can restore calm and cooperation to the system. The conservative wing of the Politburo appears considerably strengthened as a result of the recent political battles. Hardliners such as Peng Zhen, Deng Liqun and Hu Qiaomu have returned to active participation in running important bureaucracies--particularly the propaganda apparatus--and have stepped up their attacks on reform policies. They appear even more determined than before to limit Deng's policy choices on reform questions, and they may work to slow implementation of reforms through their supporters at the middle levels of party and government bureaucracies. Although they are in no position to move against Deng himself, they may seek to further wound him by attacking his key supporters. [REDACTED]

The conservative resurgence has contributed to an impression of policy drift at the top. Zhao Ziyang and Deng have publicly insisted that reform policies and the opening to the West will not change, but there is growing skepticism both in China and overseas about whether some of the more controversial policies will be maintained. It has become clear, for example, that plans laid last year to move ahead with some aspects of price reform have been shelved as a result of recent events. Conservative critics of reform have become more vociferous in proposing alternatives to reform policies they consider to have failed. Enhancing grain production has replaced diversification as the focus of agricultural policy, and propaganda has advocated "plain living and arduous struggle" to replace "get rich" as the appropriate slogan for China's economic development. [REDACTED]

Intraparty disagreements over ideology may have been exacerbated by events surrounding Hu's fall. Deng's reforms have never been on solid Marxist-Leninist ground, and are even less so now. Hu's cavalier dismissal of the role of Marxist ideology and toleration of the spread of Western ideas put many old party cadre on the warpath. Hu now stands accused of having "prematurely" halted the campaign against "spiritual

pollution" in late 1983, and conservatives are trying to reopen it in the context of the current criticism of "bourgeois liberalization" in the fields of ideology and literature and art work. The 1983 campaign was originally stopped--by Zhao Ziyang, among others--because it was beginning to disrupt the implementation of other reform programs. [REDACTED]

Finally, the party may be losing support from educated elites as a result of the purge of Hu and the current campaign against "bourgeois liberalization." Old scores from the "spiritual pollution" campaign remain to be settled. Several prominent intellectuals already have been punished, and conservative knives are clearly out for many others. Intellectuals--who have been among the most active supporters of the reform program--appear demoralized by the party's seeming sharp turn to the left, and may avoid becoming involved in politics for some time to come. Few are likely to come forward with the kind of new ideas the government has said it needs to accomplish China's modernization. More radical elements of the intelligentsia are probably more convinced than ever that the party is incapable of ruling China effectively. Although student protests have ceased and the party has promised a crackdown against those who participated, the issues that precipitated them have not been resolved, and some students may continue to foment discontent. [REDACTED]

The Implications for Reform

Whichever of these scenarios--or perhaps, some mix of both--holds true, the short-term prospects for reform are very much up in the air. In the period leading up to the 13th Party Congress, still scheduled for October, the party will be increasingly focused on its own internal political struggles. Little by way of new reform policy initiatives can be expected, and some in experimental stages will probably be shelved or rolled back. Implementation of existing policies may be slowed as wary bureaucrats wait to see who prevails in Beijing. Zhao and his supporters have undertaken a damage limitation effort to keep the attacks against "bourgeois liberalization" from harming rural and economic policies, but the pressure can be expected to mount. Personnel vacancies may remain unfilled as the contending forces within the Politburo strive to improve their positions. Foreign policy probably will be maintained on an even keel under Deng's guidance, as it is unlikely that any major policy changes would be agreed to by all.⁵ China can be expected to be somewhat more prickly about foreign trade and investment issues, as more conservative voices attempt to blame foreign capitalists for some of China's problems. [REDACTED]

Over the longer term, reform will depend upon which of the above alternative scenarios prevails. If Deng has indeed gained strength from the purge of Hu, reform will continue to be the chief issue on the party's political agenda. Although some sort of political showdown appears to be in the works, it probably will not result in a

⁵ Although Hu's diplomatic gaffes weighed in the decision to dismiss him, there is no credible evidence that his foreign policy positions did. Public and private statements of China's foreign policy since the Hu purge do not indicate either change or leadership debate. [REDACTED]

conservative victory or in political instability. The conservative wing of the party has not been united around anything but its opposition to Hu and its support for the campaign against "bourgeois liberalization." Its leadership is old and with the possible exception of Peng Zhen, probably not disposed to take on Deng directly. It has little real support in the military, and very few younger cadre to raise up as potential successors.

Moreover, there is widespread support for reform within the party rank-and-file, not simply because Deng has been leading it, but because large numbers of party cadre agree it is necessary. Conservative complaints reflect important concerns within the party, but so do reform proposals, including calls for more inner party democracy, freedom of speech, and institutional change. Personnel changes made at the 1985 Party Delegates Congress markedly strengthened the so-called "progressive" wing within the party, and we would expect any large-scale Central Committee or National People's Congress meeting to demonstrate that strength.

China's economic achievements under reform have been impressive, despite obvious flaws and shortcomings, and most Chinese recognize an improved sense of well-being attributable to reform. "Popular support" has seldom been a critical factor in power maneuvering in Beijing, but it cannot be disregarded entirely. Finally, reform appears to be "catching on" in the Soviet Union and other Communist countries, and publicity-conscious Chinese leaders will be disinclined to dump a set of policies that is finally being recognized as ideologically acceptable.

Reform, however, is being redefined to bring it in line with Deng's original goals of restoring discipline and creativity to a powerful Communist Party. Deng does not desire and will not support reforms that might lead China toward a more pluralistic, open-market society. Reform as a process may, therefore, become narrower in scope, more cautious, and less innovative and dynamic than it has been at times in the past three years.

If the purge of Hu has brought about the more serious fracturing of the political system outlined above, then reform's longer term prospects are less favorable. Deng appears to have conceded so many issues to party conservatives that he may not be able to recoup his losses. Under these circumstances, reform--especially controversial political reform--will be mostly a matter of defending past gains, rather than developing new policies. Reform has moved forward on momentum generated by its success, and is dependent for its continued success on flexible policymaking that allows for correction of errors. That momentum now appears to have been blunted and perhaps has been lost. Criticism, rather than correction, has become the party's response to mistakes. Economic reform is likely to stagnate in such an atmosphere.

Too much still depends upon Deng Xiaoping. His death or incapacitation now probably would cause considerable political disarray. Even without that exigency, however, how Deng chooses to exert his influence will be the most important factor in determining whether the current political dissension is curbed. At this point, he appears to have chosen to support Zhao Ziyang and the continuation of reform. But the purge of Hu has caused some Chinese to question Deng's commitment to reform. For his part,

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Zhao, in addition to the problems inherent in heading both the party and the government, must carefully manage his relationship with Deng. Zhao is a cautious, but committed reformer. [REDACTED]

He has avoided the ideological disputes that have swirled about reform, but he has encouraged consideration of radical economic reforms, and has vigorously supported political reforms. If he continues to push these policies aggressively, he may find himself in conflict with Deng. [REDACTED]

Reform has benefited in the past from the maintenance of general harmony and consensus in the Politburo on the rules of political infighting, and from popular confidence in the party's dedication to modernization. The purge of Hu, however, suggests that Deng has chosen to violate the rules for his own purposes. In so doing, he may have unleashed political forces within the Politburo that he will not be able to control. Mao faced similar circumstances in his waning years, and chose to try and manipulate the players rather than resolve the real issues. If Deng and Zhao cannot dispel the sense of drift that now pervades the leadership, policy issues will probably be put off until after Deng dies and the leadership has resolved its disagreements through struggle. That may be too late for successful reform. [REDACTED]

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