# China: Economic Transformation Before and After 1989

**Barry Naughton**

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The year 1989 in China marked the defeat of a group of reformists in the Communist Party leadership and shattered widespread expectations of continuing broad liberalization. In retrospect, 1989 marked the end of one era of cautiously managed economic reform. Economic reforms resumed in earnest around 1992, but they took on a much harsher form that exposed some social groups to major losses and widened inequality. The post-1989 model of economic reform was a model of concentrated power wielded more effectively. Thus, 1989 was important because it brought to the surface latent tensions over the direction of China's reform process, and led within a few years to the crystallization of a new reform model.

This paper primarily addresses the economic aspects of the change in China's reform and development model before and after 1989. I argue that while marketization characterizes both periods, there are important differences in the reform model that can be understood in terms of the priority given to government interests and the willingness to allow specific social groups to bear the costs of marketization. Before engaging that discussion, I begin with a more speculative section that describes the intellectual and international context within which these reform models developed. International events crucially shaped the way China's elites conceived of the reform process, in very different ways before and after 1989. Before 1989, China had an unusual degree of international space, or room for maneuver. After 1989, China frequently felt "crowded" by the United States. These different frameworks affected the calculations of policy-makers and correspond to the different models of economic reform that they adopted. Although China and the other Communist countries were going in opposite directions in 1989, they still exerted strong gravitational forces on each other. The 1989 events in China were shattering on their own. The *after-effects* of the 1989 turmoil were strongly conditioned by events in Russia and Eastern Europe. As a result, instead of being a temporary setback for reform, Tiananmen and 1989 ended up permanently altering China's reform trajectory.

## Trading Places: The Intellectual Framework of Reforming Communism

1989 was the year when China definitively traded places with the Soviet Union. For a decade before 1989, China's leaders had maneuvered in a policy space carved out by Deng Xiaoping. This policy space was defined by the distance between the Soviet Union and the United States. In this space, Chinese elites could see themselves as more liberal, more pragmatic, and more realistic than Soviet elites, while still maintaining an obvious distance from the United States and its capitalist allies. Moreover, this position also meant that China was *favored,* in the sense that its form of socialism was seen in the US as being evidently superior to that of the Soviet Union. For the US, China was both a strategic partner (against the Soviet Union) and the pioneer of a version of socialism that would be more open and market-oriented, and might even evolve into a liberal society over a prolonged period of time. As a result, the US

was willing to accord favorable policies to China, and the US-China relationship was not controversial in the US. The US, in turn, was not seen by China as a threat, and was plausibly seen as a protector against a lingering Soviet threat. This alignment of international and domestic policy "space" was quite favorable to the evolution of Chinese economy and society.

While it is a common error to ascribe too much of China's transformation to Deng Xiaoping personally, it is appropriate to attribute the creation of "room to maneuver" to Deng's personal efforts. Only Deng Xiaoping had sufficient political capital—due to his multivalent experience and patronage networks—to re-orient *both* the international and domestic policy environment. Deng Xiaoping was not an economic specialist, nor was he particularly self-confident about economic issues. However, he was extremely confident in his judgment about individuals and his mastery of strategic issues. During a two-year period from mid-1977 to mid-1979, Deng re-oriented nearly every aspect of China's policy *around* the key area of economic policy. Thus, Deng personally pushed to rehabilitate the education and science and technology sectors, most critically reinstating the fundamentally meritocratic nationwide college entrance examinations in 1977. Then, Deng aligned China with the United States, permitting China to "punish" Vietnam without fear of retaliation from the Soviet Union. Although the actual war against Vietnam was not a success, the strategic reassurance that Deng achieved emphatically was. Shortly thereafter, Deng proclaimed peace was essential for China's development, and