

# 8

## **‘Whatever It Takes’: The Political Economy of the Chinese Communist Party**

Shaun Breslin and Giuseppe Gabusi

Providing an overview of 100 years of the political economy of the Chinese Communist Party (CCP) is not an easy task. This is not, however, because a century is an excessively long era to study. On the contrary, the problem is how short the period is. Or, more correctly, the problem is how quickly and how many times things have changed – and often rather dramatically – in such a relative short time scale. Studying all the changes in the post-Mao era alone would be enough to fill the pages of a number of books. But, if anything, the pace and extent of change in the first decade of the People’s Republic of China (PRC) was even faster and more dizzying. And, as we are studying the CCP and not just the PRC, we should not forget that over a quarter of this century had passed before it even came to power.

Nevertheless, while it entails providing a broad-brush and, at times, stylised analysis of different eras, we argue that it is possible to identify unifying strands that cut across all of these 100 years (albeit at times in different ways). We do this by focusing on three fundamental issues that have been at the heart of the political economy of Chinese Marxism. The first is how the Party dealt with the missing (more or less) industrial base that Marx and Engels thought would be the determinant of the ideational change that would bring about a Communist revolution. The second is the Chineseness of Chinese Marxism. Since its very birth, the CCP incorporated in its DNA a nationalistic approach: the emphasis on the Party delivering China back

to its rightful place in the world provides a thread that runs through the years. Moreover, rather than seeing the writings of Marx and Engels as providing a blueprint that had to be followed, there has instead been an emphasis on the need to treat Marxism as a rather flexible and malleable guiding theory. It is the specifics of the Chinese case that should dictate exactly what can and should be done at any moment in time and not the revolutionary expectations of the original Marxist texts. Our third constant is the importance of identifying the ‘primary contradiction’ facing the Party and the revolution at any given time.

We combine these three in a single emphasis on ‘Whatever It Takes’. This, in part, refers to an overarching objective to do what it takes to regain full sovereignty (that had been stolen by the colonial powers) and to ‘catch up’ with the West by turning China into a major modern(ised) economy. All China’s leaders have shared these goals.

But there is more to Whatever It Takes than just national rejuvenation. Once the primary contradiction has been established, then anything and everything is justified in dealing with it and warding off the potential existential threat to the Party and the regime. In the earlier years of the CCP, the revolutionary and then state consolidation goals of the Party resulted first in a rather pragmatic, results-driven political economy epitomised by the idea of a ‘New Democracy’, and then conflicting ideas over how best to move forward in the 1950s. But once Mao identified class conflict as the primary contradiction threatening the regime, this justified whatever it took to eliminate those counter-revolutionaries.

In Deng’s era, the identification of underdevelopment as the primary contradiction resulted in a dramatic shift from politics to economics in command, and doing whatever it took to spur development. In the 1990s, as Jiang Zemin promoted growth at all costs (but not at the expense of the CCP’s monopoly of power), the economy became unbalanced. Addressing overinvestment, indebtedness and inequality was the main focus of the Hu Jintao-Wen Jiabao era. Finally, Xi Jinping has been concerned more with the contradiction between unsustainable growth and satisfying the people’s needs for a better quality of life. Here, while Xi is trying to move on and do something new, he justifies innovation by explaining that he is repeating what his predecessors did when they applied Marxism–Leninism to China’s specific conditions in earlier eras. In the differing emphasis on being more ‘Communist’ or more ‘Chinese’ at any moment in time, we find evidence both of change and continuity at the same time.

## Revolution and (Pre-)Industrialisation

From the outset, Chinese Marxism faced three significant political economy problems that generated the need to focus on whatever it took. The first was capacity: what could be realistically achieved given the nature of the Chinese economy at the time, the extent of support for the Party and the nature of the international order. The second was survival. This was a party, after all, that spent much of the period from 1927 to 1949 in various forms of internal exile, trying to repel both domestic and foreign threats to its existence. After 1949, the challenge shifted to existential threats to the new People's Republic. How best to fend off external threats was a challenge for all China's leaders; how best to fend off and defeat domestic challenges to the revolution was a particular focus for Mao.

And both of these are effectively a function of the third and, in our view, more important problem: underdevelopment and the lack of industrialisation. The Marxism of Marx and Engels was a (materialist) revolutionary ideology of post-industrialisation. How was the CCP meant to lead a revolution in a country where industrialisation was still in its very early stages (at best) and the industrial working class represented a tiny percentage of the population?<sup>1</sup> And if a revolution was possible (as it turned out to be), then how was such industrialisation to be subsequently generated without fostering the very oppression, alienation and revolutionary class consciousness that Marx and Engels thought were the inevitable consequences of this shift in the dominant mode of production, particularly as much of the population did not share the Party's ideological goals, and, as Johnson (1962) argues, even many of the people who actively supported the Party were inspired by national liberation goals rather than Marxist ones?

Of course, the CCP was not the first Communist party to face this dilemma. By the time the CCP was formed, Marxism had already been modified to become a revolutionary ideology for a pre-industrialised society in the still new Soviet Union. Indeed, Gregor argues that it was Lenin, not Mao, who first 'compromised' Marxism by having to 'fabricate the entire missing industrial base', thus detaching Marxism from its original post-industrial origins (Gregor 1995). Gregor's observations formed part of a broader conversation over whether Mao's ideas were so far removed from

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<sup>1</sup> Scholars disagree over the specific figures, but a figure of less than 10 per cent for the entire urban population covers most of the evaluations, which was, in turn, still only 10.6 per cent of the total in 1949. See Chan and Xu (1985).

the Marxist original that they represented an entirely new theory rather than, as claimed by Mao and the CCP, a modification of it (Knight 2007). Many might agree. But this justification has been a foundational principle of the nature of Chinese Marxism. Even before Mao formally called for the 'sinification of Marxism' in 1938 (Wylie 1979), one of China's foundational Marxist thinkers and activists, Li Dazhao, had already argued for the need to develop a distinctive Chinese form of Marxism. He also saw no contradiction between being a Marxist and being a patriot (Meisner 1967). While Marxism–Leninism provides the theoretical foundational guiding principles and the basic mode of analysis, it needs to be applied to the specifics of the Chinese case to provide a framework for effective political action. Real world and contemporary practice (rather than dogmatic adherence to the original texts) has to be the sole criterion of truth. So Chinese Marxism simply had to be as much about China – at the very least – as it was about the writings of Marx and Engels.

As Knight (2005, 1–2) explains, when Marxism was first being debated within China and formalised into the guiding ideology of the CCP, one of the key debates (and contestations) was the emphasis on economic determinist understandings of revolution on the one hand, and the agency of humans to bring about change on the other hand. The former could potentially result in what he calls 'passivity' – waiting for the inevitable progress of history to unfold – while the latter instead pointed to humans' ability to 'accelerate the momentum of history' through revolutionary activism and mobilisation. Influenced by the Soviet Union and the Communist International, many members of the newly founded party in, and after, 1921 believed that a Marxist revolution was neither imminent nor feasible. The initial emphasis was on working with and within the Guomindang (GMD) to bring about a much-needed national liberation revolution that was an inevitable precursor to a (distant) socialist one (Liu 2000). It was as part of this alliance with the GMD that Mao was asked to investigate the peasant uprisings in Hunan Province in the midst of the Northern Expedition that 'unified' China under GMD rule. As Schram (1989, 39–41) notes, Mao was not alone in thinking about the revolutionary potential of the peasantry, but he certainly went further than others in shifting his revolutionary focus away from the cities and to the countryside. According to Schwartz (1951, ch. XII), this investigation left Mao convinced that the peasants (and particularly poor peasants), if correctly organised and mobilised, could form a revolutionary class that

would overthrow the imperialists, warlords, corrupt officials, 'local tyrants, and evil gentry'.<sup>2</sup> The mode of analysis was a Marxist one, but the guide to action came from the specifics of the Chinese case study at the time.

The extent to which principles and preferences dictated the political economy of those areas under CCP control in the revolutionary period is questionable. As Saich (1997) argues, collectively, academic research on this period shows that the main task was survival, and what *should* be done was less important than what *could* be done given the nature of political alliances and political economies in the different rural areas that the CCP found itself controlling. Even after the adoption of a formal 'land to the tiller' policy in 1946, there was no overall pattern, but rather an 'anything goes' environment and 'considerable opportunism within the Party'. In some areas, landowners only had to sell land that was not essential to support themselves to the local authorities; however, in others, 'the landlords and rich peasants lost their lives as well as their property to mobs' (Klein 1961, 62).

The more moderate approach emphasising the need to work with non-Communist groups was outlined by Mao in 'On New Democracy' long before the CCP looked likely to become a ruling party (in 1940). This was both a theory of Marxist revolution and an idea of how a post-revolutionary political system and political economy might function. Given the nature of China at the time, elements of the bourgeoisie could become allies with the working classes (including the peasantry) in overthrowing feudalism and colonialism. These were the major forces of oppression in China at the time rather than, for example, the oppression of a capitalist bourgeois system, as was the case in more advanced industrialised economies in America and Europe. After the revolution, while it would be important, Mao noted, that the private sector could not 'dominate the livelihood of the people', this did not mean the end of the private sector per se. Major enterprises and banks would be brought under state control, but otherwise the private sector would be allowed to contribute to economic reconstruction and development. This might not be a true socialist revolution, but neither was it a European-style transition from feudalism to capitalism; it was something distinct and different and a result of China's distinct and specific circumstances.<sup>3</sup>

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2 Mao Zedong, 'Report on an Investigation of the Peasant Movement in Hunan', 1927, [www.marxists.org/reference/archive/mao/selected-works/volume-1/mswv1\\_2.htm](http://www.marxists.org/reference/archive/mao/selected-works/volume-1/mswv1_2.htm).

3 Mao Zedong, 'On New Democracy', January 1940, [www.marxists.org/reference/archive/mao/selected-works/volume-2/mswv2\\_26.htm](http://www.marxists.org/reference/archive/mao/selected-works/volume-2/mswv2_26.htm).

## Defining a Political Economy for the New People's Republic

Capacity, pragmatism and existential threats combined to provide the basis for China's new political economy after 1949 as well (Brugger 1981, ch. 2). This was a country that had suffered governance deficiencies since at least the arrival of the British in 1839. The evolution of the national economy had been distorted by confrontation with foreign powers, the economic priorities of external colonial powers, uprisings and rebellions, a fractious and unstable transition from empire to republic, the fragmented and competing development strategies of different warlords and the GMD regime in Nanjing, civil war(s) and war with (and partial occupation by) Japan.

And even this does not tell the full story. Add on the US-led economic and diplomatic embargo on China and the only partial nature of the victory in the civil war,<sup>4</sup> as well as the uneven distribution of support for the CCP across the country, and the challenge for China's leaders becomes clearer. It was not long, of course, before the outbreak of the Korean War further highlighted the importance of building the economic means of ensuring national defence and regime survival.

This helps explain why 'leaning to one side' (i.e. the Soviet Union) for a security umbrella made immense sense. It also helps explain why New Democracy principles seemed to be adopted after 1949, with the private sector not only tolerated, but, in some places, actively encouraged to grow; China's leaders seemed to be philosophically quite happy with the 'compatibility between the private economy and a state-owned and command economy' (So 2002, 684). Land reform was also conducted in different ways in different places; for example, there was a rather zealous and violent implementation of land reform in northern China (where the CCP had a history of control before 1949) but a more moderate policy in the newly liberated areas (where the CCP had not previously had extensive control or influence) (Kung 2008).

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4 With fighting continuing in Tibet and the south-west beyond 1949 and the GMD ensconced on Taiwan.

The original expectation was that this phase would be a relatively long-lived one, allowing for extensive national economic reconstruction. All this changed with the large-scale nationalisation of the industrial economy after the outlining of the 'General Line for the Transition to Socialism' in October 1953. As Li (2006) argues, it was at this point that China moved to what he calls the 'Economic Stalinisation of China' as Mao sought to not just emulate the Soviet experience, but to make an even faster transition than the Soviet one. The First Five-Year Plan contained the sort of large industrial projects establishing the basic heavy industrialisation deemed necessary for laying the foundations for future growth and providing for national defence. It also signalled the end of the private sector – or at least the end of the private sector for roughly three decades.

## Political Economy, Existential Threats and Class Struggle

With the benefit of hindsight, there appears to be a distinction between those who focused on doing whatever it took to win the class war on the one hand, and those who focused on doing whatever it took to grow the economy on the other. However, it is wrong to draw such a distinction for two reasons. First, because Mao thought that his approach would result in even faster economic growth than alternative proposals (Gray 2006, 662). It was not a case of either ideational or economic progress, but that getting the former right would then get the latter right as well. Second, it is wrong because there was not just one alternative to Maoist preferences/convictions. Wang Ning (2015), for example, points to two very different approaches on the non-Maoist side of the divide: a more statist, Soviet-influenced, centrally planned political economy, and one that allowed a greater role for market forces and incentives, including not just the toleration but also the promotion of some forms of private ownership.

Such a 'two-line' approach, though, reflects the way that Mao saw – or at least, explained – the world in black-and-white terms. It was essential to identify 'who are our enemies and who are our friends'<sup>5</sup> and then to defeat the enemies. To be sure, there should be a distinction between mistaken and

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5 Mao Zedong, 'Directives Regarding the Cultural Revolution', 1 June 1967. This part of the selected works is a list of various short statements made between 1966 and 1969, see [www.marxists.org/reference/archive/mao/selected-works/volume-9/mswv9\\_84.htm](http://www.marxists.org/reference/archive/mao/selected-works/volume-9/mswv9_84.htm).

misguided positions, and malign and deliberately counter-revolutionary ones. But it was essential to take whatever action was necessary to defeat an enemy that would otherwise defeat you. The most significant, violent and chaotic of these justified actions was, of course, the Cultural Revolution. But it was far from the only one (Teiwes 1979).

At the Eighth Party Congress in 1956, the Party formally stated that classes had disappeared as everybody now had the same relationship to the newly socialised means of production. But in Mao's writings, his understandings of class began to change, becoming more like a state of mind than anything else. This included what we might call attitudinal hangovers in which 'reactionary thought ... inherited from the past, still exists in the minds of a considerable number of people ... even after the socio-economic system has been transformed'.<sup>6</sup> It also came to include the idea that Party members themselves might become agents of oppression. The routinisation and bureaucratisation of the revolution, as had occurred in the Soviet Union, could result in the Party exercising a form of dictatorship over the people, rather than with and for them.<sup>7</sup>

Mao's thinking on class and class struggle evolved over the early years of the PRC as he struggled with his colleagues to assert his views and witnessed the consequences of early policy initiatives (Starr 1971). Despite the initial success of the land reform movement in giving land to the tiller (if not always totally successful under other definitions), this was just the first step – and, crucially, not necessarily a socialist one. Indeed, Mao came to argue that land reform could potentially lead *away* from socialism. Changes that were based on giving peasants what could be conceived of as private property could generate ideational consequences that ran against the CCP's ambitions.<sup>8</sup>

To counter this, it was important to keep persuading and educating the people about why socialism and the CCP's agenda were in their best interests. It was also essential that the pace of revolutionary change was maintained to prevent the emergence of new relationships and certainties that could generate new unequal power dynamics. As a result, in the space

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6 Mao Zedong, 'Directives on the Cultural Revolution', 26 August 1967, [www.marxists.org/reference/archive/mao/selected-works/volume-9/mswv9\\_84.htm](http://www.marxists.org/reference/archive/mao/selected-works/volume-9/mswv9_84.htm).

7 Mao Zedong, 'Twenty Manifestations of Bureaucracy', February 1970, [www.marxists.org/reference/archive/mao/selected-works/volume-9/mswv9\\_85.htm](http://www.marxists.org/reference/archive/mao/selected-works/volume-9/mswv9_85.htm).

8 Mao Zedong, 'Talk on Questions of Philosophy', 18 August 1964, [www.marxists.org/reference/archive/mao/selected-works/volume-9/mswv9\\_27.htm](http://www.marxists.org/reference/archive/mao/selected-works/volume-9/mswv9_27.htm).

of five or six years, most of the rural population underwent three major transformations. The initial process of land reform was quickly followed by a push to build on some of the organic self-help mutual aid teams that were forming in parts of the countryside. But even before this transition had been completed in all of the country, a further move to cooperatives had begun. Mao then favoured a further transition to collectives, which were not just bigger than the cooperatives, but were also based on socialist distribution principles of 'from each according to his deeds'. Mao's views were opposed by key figures within the Party elite who argued that without modern inputs from the industrial sector, cooperatives could not flourish.<sup>9</sup> The priority had to be production, and this meant that the pace of collectivisation should be gradual.

This opposition was enforced in an official State Council directive in March 1955, which called for a cautious approach. Mao's preferences were again put to one side at the Party congress the following year. So what became the Great Leap was not formally sanctioned by the Party through its institutionalised decision-making system. It was through more ad hoc ways that Mao's ideas prevailed: a tour of the country in an attempt to build a wide base of support for his ideas among local leaders.<sup>10</sup> That said, while MacFarquhar (1983) sees the Great Leap as a primarily Mao-driven strategy, he also notes the relative lack of opposition from other leaders once it began to unfold, with even those who were later vocal critics playing at least some role in its implementation.

In theory, not only would the Great Leap show the superiority of socialism and Marxist thinking, but also would generate more rapid growth than any other strategy under consideration. Further, it would break down some of the key divisions in society and the economy that could result in the re-emergence of oppression and alienation, such as divisions between town and county, cleavages between factory managers and workers, and the separation of the experts from the masses. Another theme of the Great Leap was the importance of self-sufficiency. This was very much related to concerns about national defence and survival. With communes and the countryside providing for themselves, this would create a form of cellular communism, which meant that the country could survive an invasion or foreign attack in ways that it could not if industrial production was concentrated in the

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9 Notably by Liu Shaoqi, Chen Yun, Ma Yinchu and Li Fuchun.

10 And initially also via a special ad hoc meeting in Beijing in July 1955. For detailed accounts of elite competition and Mao's goals before and during the Great Leap, see Teiwes and Sun (1999) and Bachman (1991).

cities. The same logic subsequently inspired what became known as Third Front industrialisation. Fearing that tactical nuclear strikes could quickly and easily destroy China's entire industrial capacity, the decision was made to establish 'a strategic defence in the rear' by moving industrial capacity and manpower away from supplies and markets in the more developed regions of the east to the safer havens of the west (Liu 1987, 258). The economic costs were enormous (Naughton 1988) but were considered a price worth paying because the calculation was that some sort of major military conflict was not only possible but also inevitable.

With the Great Leap resulting in mass famine and economic collapse in many areas, revolutionary goals gave way to what MacFarquhar (1997, 23) calls a series of 'emergency measures' based on 'seat-of-the-pants decision-making'. By 1961, the ideas that Chen Yun had been advocating five years earlier as an alternative to Mao's came back to the fore. Under this pragmatism that turned a deaf ear towards Maoist ideology, planning was revitalised, targets vastly reduced, rural industry scaled back, some power recentralised and the communes more or less reverted back to collectives, even though the name 'people's commune' continued until 1982. Whereas Mao wanted to mobilise the peasants through revolutionary zeal, Chen thought that material incentives were more important. Where Mao put his faith in the initiative of local cadres, Chen thought that only through central control – viewing the country as a single chessboard – could the Party ensure measured and logical development. Managers and experts were brought back into positions of influence, and academic ability and the correct political background became increasingly important for gaining university entrance.

Chen's ideas are often referred to as the 'birdcage' theory (Naughton 1995). The bird is the free market and the cage is the state system. Without the cage, the bird would fly away, but if the bars of the cage were too restrictive, then the bird would be unable to move and would die. The challenge, then, was to ensure that the cage was strong enough to keep the bird in and large enough for it to flourish. Private activity and the market were entirely legitimate as long as they did not dominate the economy and do things that the state and the collective sectors could not do (or could not do as well). If the private sector started doing things that the Party did not like, including reducing the Party's ability to control the economy as a whole, then its legitimacy to act could be and would be curtailed. While the scope for the private and the market has increased significantly in the post-Mao era, this basic philosophy remains more or less in place today.

The limits of space and the focus on political economy here do not allow for an in-depth investigation into the causes and evolution of the Cultural Revolution.<sup>11</sup> The extent of the political and societal chaos in 1967 and 1968 would surely have been enough in itself to highlight the need to bring the chaos under control. But the economic decline witnessed in 1967 and 1968 must have also been worrying, following as it did not long after the famine and decline brought about by the Great Leap. Thanks to the military, a form of order was restored across the country, and for the final years of Mao's life, two conflicting visions of political economy vied for predominance: on the one side, the more pragmatic approach now supported and promoted by Deng,<sup>12</sup> and on the other, a reformed Maoist approach associated with the Gang of Four. The former wanted to place economics and economic reconstruction as the main priority, while the latter still argued that politics and political struggle should be in command.

## Opening Up and Reform

After Mao's death in 1976, it took two years before Deng Xiaoping emerged from the succession struggle within the CCP as its prominent and charismatic leader.<sup>13</sup> Deng put forward a policy of economic reform that was officially adopted by the Party at the Third Plenum of the Eleventh Central Committee in December 1978. However, neither Deng nor anybody within the CCP elite had in mind a coherent strategy for China's economic development. There was a very clear idea of what China needed to transition *from*. What Deng knew was that the Cultural Revolution had destroyed the country's social fabric and capital, and that the CCP was striving to gain a new legitimacy; indeed, this was implicitly acknowledged by the CCP in its 1981 'Resolution on Party History' condemning Mao's 'grave left errors'. Consequently, Deng would do whatever it took to increase productivity and raise the standards of living of the population. Rather than class struggle, economic modernisation and growth became an absolute priority. In 1981, during a trip to Japan, Deng set the target of quadrupling the country's per

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11 Joseph, Wong and Zweig (1991) contains a number of chapters that assess different aspects of China's political economy during the Cultural Revolution.

12 Over the years, Deng's pragmatism has become a myth that he himself contributed to creating. See Naughton (1996).

13 For the often forgotten or swiftly dealt with interim years, see Weatherley (2010).

capita gross national product by the year 2000 (Yeh 1996, 11), and this goal became a CCP commitment at the Twelfth Party Congress at Party Secretary Hu Yaobang's suggestion.<sup>14</sup>

Addressing underdevelopment as the primary contradiction in Chinese politics meant pursuing a 'reorientation of development strategy' (Naughton 1995, 76–7) that would 'involv[e] a dramatic reduction in industrial investment and a shift of resources toward the household sector' (Naughton 1995, 59). But Deng did not have a clear blueprint for the economy, and it was this lack of vision that made him let economic experiments unfold (Naughton 1995; White 1984; Hamrin 1990). After all, he was not new to reform attempts. Although he had initially been a Mao loyalist, between 1962 and 1965 he tried to introduce incentives within the economic system aimed at improving the low performance of enterprises. While Mao was interested in mass (macro) mobilisation projects, Deng insisted on the (micro) link between incentives, delegation of authority and individual motivation (Naughton 1995, 83). From his personal experience in the 1960s, he learnt two lessons: economic suffering would bring politically dangerous consequences for the CCP's (socialist) legitimacy, and market incentives could set off powerful dynamics of growth. It was time to try again, without dismantling the command system of the economy and the CCP monopoly of power. Undoubtedly, state institutions were rationalised and modernised (Zheng 2004; Peerenboom 2007), but bureaucracy was actually strengthened and party-state capacities (the 'Leninist *apparat*') enhanced (Naughton 1996, 68).

Reforms were introduced gradually – in agriculture, industry and in international trade and foreign investment. Ex-post, key to reforms was the implementation of 'responsibility systems' across economic sectors, whereby the government partially and progressively delegated authority to economic and even institutional actors (provinces, local governments, firms, managers, cadres, households and even individuals), who were made responsible for their decisions regarding expenses, savings and investment.

The desire to create a more efficient and sustainable economy was accompanied by serious concerns about the consequences of any transition on unemployment and social stability. Therefore, the willingness to use market forces was constrained by the necessity to control them. The CCP

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14 See Zhao Ziyang, 'Advance along the Road towards Socialism with Chinese Characteristics', *People's Daily*, 4 November 1987.

had to strike a balance between growth-enhancing market economic reforms and the political necessity to protect those who might suffer from the introduction of these reforms; at least until 1994, and with the partial exception of the period immediately before Tiananmen (see below), the CCP quite succeeded in generating 'growth without losers' (Lau, Qiang and Roland 2000). That is the reason why reforms implemented a 'dual-track system' in which market elements coexisted with the plan: had experiments failed, it could have been possible to return to the old economic pattern, without causing any existential disruption of the system. Experimentalism and 'seeking truth from facts' were in line with the CCP's longstanding adaption of Marxism–Leninism to China's actual conditions. As times had changed, what the Party should do had to be rethought by once more applying the guiding theoretical principles to concrete circumstances. That much was clear and agreed. But which specific policies could best serve China's need to grow remained the subject of considerable internal debate.<sup>15</sup>

For Deng, plan and market were just economic means: deprived of their ideological meaning, market incentives were new instruments that could be utilised even in a socialist context (the white cat/black cat story). Once incentives were introduced to the system, they followed a capitalist logic, but it was contingent capitalism, as Deng never put into question the supremacy of the Party. The whole point was doing whatever worked to attain centrally mandated goals – which revolved around the rate of GDP growth. If the private sector could achieve results that the state sector could not, then it would be encouraged. Private actors were increasingly allowed to pursue their own economic objectives as long as they conformed with 'higher' party-state goals, but their freedom to act and the parameters of action could be and were changed if they were deemed to not be doing what the party-state wanted them to do. The CCP drew the 'red lines', which economic actors knew they could not cross without suffering serious consequences. In this sense, China can be defined as a peculiar form of developmental state (in line with the experiences of Japan, Korea and Taiwan), in which the CCP has been the developmental agency in charge of economic policies (Gabusi 2017). Economic nationalism and a certain obsession with the necessity of 'catching-up' with industrialised countries have always been among the main features of East Asian developmental states, and China is no exception.

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15 The intra-party discussion in those years is often portrayed as a struggle between reformists and conservatives, see, for instance, Howell (1993). However, we should always bear in mind that this binary distinction is a simplification, as neither group is a coherent bloc.

The reform process was given a new boost in 1982–83, with the first significant removal of price controls on more than 500 small consumer goods. In September of the same year, Prime Minister Zhao Ziyang wrote a letter to the Politburo Standing Committee members and to the three most important elders (Deng Xiaoping, Chen Yun and Li Xiannian). The main point in his message was that the Party would maintain ‘a planned commodity economy with public ownership’, moving away from command planning to guidance planning, the latter allowing economic actors to choose the means to reach set targets (Naughton 1995, 178). But targets had to be met, implying a state preparedness to intervene when the market could not deliver what it was meant to. In other words, the state would retain the commanding heights of the economy: officially, the 1984 ‘Decision on the Reform of the Economic Structure’ was still characterising China as a planned ‘socialist commodity economy’ (*shehuizhuyi shangpin jingji* 社会主义商品经济).

Zhao Ziyang himself made an ex-post justification of the use of private capital and private entrepreneurship as a means to an end in his speech on the primary stage of socialism at the Thirteenth Party Congress in 1987. With at least some echoes of Mao’s conception of New Democracy from nearly five decades before, Zhao argued that:

China [had to] go through an extremely long primary stage so that it [could] achieve the industrialisation and the commercialisation, socialisation, and modernisation of production that other countries have secured through capitalistic means.<sup>16</sup>

In this primary stage, non-state actors could help expand productive forces and build socialism. More than 40 years of the ‘reform era’ have not yet revealed how long this primary stage will last, whether it will ever end and, in the affirmative case, what the secondary stage will consist of.

Of course, such reforms had the same negative effects as any market reform in a transition economy: (limited) laid-off workers in the state sector,<sup>17</sup> rising inflation and rampant corruption. The protests that culminated in the bloody repression in Tiananmen Square in June 1989 had much to do with post-reform economic insecurity as well as with post-Mao youth aspirations

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16 Zhao Ziyang, ‘Advance along the Road of Socialism with Chinese Characteristics’, Speech at Thirteenth Party Congress, 4 November 1987, *Beijing Review* 30, no. 45: 1–27.

17 ‘In 1989, 423,000 permanent and contract state workers (0.5% of the total) were laid off, quit, or were on contracts that were not renewed’ (Naughton 1995, 212).

to a freer political environment. From 1989 to 1990, and in line with Premier Li Peng reintroducing elements of state control at the Third Plenum of the Thirteenth Central Committee in September 1988, the Central Committee tried to reverse the marketisation of the economy by adopting preferential policies for state-owned enterprises (SOEs), and planning was given renewed consideration. The cost of slowing down reforms nevertheless proved to be higher than the benefits of accelerating them: macroeconomic austerity brought recession because agents were already responding to price signals, and conservatives faced political resistance (especially from the CCP coastal elite) to proposals of discriminating against township and village enterprises (Naughton 1995).

Probably feeling threatened by the spectres of economic failure and by the collapse of the Soviet Union and its satellites in Europe, and sensing that conservatives were being weakened by the economic stalemate, in January 1992 Deng relaunched his reform campaign during a 'Southern inspection tour' (*nanxun*) that included the success stories of the Shenzhen and Zhuhai special economic zones and Shanghai. In the same year, the Fourteenth CCP Congress would declare the construction of a 'socialist market economy' as the objective of the reforms – an economy where public ownership would still dominate. Since then, and probably until Xi Jinping seemed to solve the dilemma, China was in transition from socialism, 'crossing the river by feeling the stones', but not knowing where the other bank of the river was and what it would look like. How long would Zhao Ziyang's 'primary stage of socialism' last?

In the meantime, the 1993 Third Plenum resolution on the 'Establishment of a Socialist Market Economic System' marked a 'consensus' in the elite to offer society a social pact: more economic freedoms in exchange for absolute loyalty to CCP rule and guidance. Under the policy of 'grasping the large, letting go the small' (*zhuada fangxiao* 抓大放小), the state was to consolidate and corporatise large SOEs, while different bureaucracies were encouraged to reorganise their industrial apparatus and to get rid of the most unprofitable enterprises. Private businesses were allowed to emerge and thrive in most sectors, international trade was increasingly liberalised and foreign investors were invited to contribute to China's new economic bonanza. Jiang Zemin consolidated Deng's reforms, including the process (which had started in 1991) of transforming SOEs in big conglomerates: a new policy directive selected 65 large enterprises to form a 'national team' (Sutherland 2003, 11, 39). Also, Jiang sealed the corporatist alliance with private entrepreneurs in his Three Represents theory at the Sixteenth

Party Congress in 2002, allowing them to join the CCP rank and file. Zhu Rongji, Jiang's premier, convincingly led the negotiations that would lead China to join the World Trade Organization in 2001. To the eyes of the West, this was the event that would definitively confirm that Beijing was set on a path of capitalist transformation that would one day cause China to finally embrace democracy and free its market from state interference. After a period of *interregnum*, the end of the liberal illusion would become evident with Xi Jinping's rise to power.

## Addressing Imbalances

While it was Xi Jinping who formally changed the primary contradiction at the Party congress in 2017, previous leaders had already acknowledged that the rapid growth mode of the 1990s was reaching the end of its useful life, and that a new direction was needed. Hu Jintao had first signalled the importance of a greater focus on what was done with growth (rather than just generating it) by 'putting people first' (*yi ren wei ben* 以人为本) and building a harmonious society (*hexie shehui* 和谐社会). There was a recognition that the previous emphasis on going all out for growth could not solve all of China's socioeconomic problems; indeed, more than that, it had actually exacerbated a number of tensions, such as growing inequality and environmental damage.

A number of steps were taken to start the shift to a new set of policies, or, at the very least, to try to draw back from the rush for growth. From 2004 until quite late in 2008, macroeconomic policy focused on slowing the growth in fixed assets investment (which had been exceeding GDP growth) and reducing the problem of overcapacity in a number of industries. Steps were also taken to reduce China's competitive advantage as a cheap export production platform in an attempt to emphasise higher quality value-added exports.<sup>18</sup>

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18 Including the reduction of the export tax rebates, the firm implementation of labour laws, and the appreciation of the RMB by around 20 per cent in the three years from the end of the currency peg in July 2005.

The problem for the leadership was that these measures worked. One consequence of them working was complaints from provincial leaders in coastal provinces (where the processing export trade was concentrated) about an increase in laid-off workers. And, in fact, many of the policies that had been implemented were subsequently reversed.

This episode demonstrates the key dilemma between doing what is thought to be right and logical for economic sustainability in the long run, and what is deemed to be politically acceptable in the short term. Top of the list of politically unacceptable – or at least risky – outcomes was a large increase in unemployment. This dilemma became more evident when the impact of the global financial crisis saw Chinese exports collapse,<sup>19</sup> with as many as 26 million migrant workers in export industries being laid-off. Perhaps ironically, the Chinese response, while highly successful in its own right in ensuring that growth was maintained and a crisis of the real Chinese economy averted, actually exacerbated many of the problems that the pre-crisis policy was trying to overcome: overcapacity increased as did the reliance on debt-funded investment to generate growth.

The response to the global crisis was, perhaps, the prime example of doing Whatever It Takes to address China's economic weaknesses in the dialectic spirit of the CCP's conception of Marxism–Leninism. It was a case of doing things in the short term that the leadership had previously identified as being the source of the problem, not the solution. It was a case of acting to avert a short-term crisis, and worrying about the long term later. And it was a case of Wen Jiabao handing over an economy to Li Keqiang that he called 'unbalanced, uncoordinated and unsustainable', in part because of what had come before the Hu–Wen era, and in part because of what happened in, and after, 2008.

## Xi Jinping: Making the CCP Great Again

Upon coming to power in 2012, Xi Jinping adopted a nationalistic narrative, arguing that the time had come for the 'rejuvenation of the Chinese nation' and for the fulfilment of the 'Chinese Dream'. At the beginning, nobody knew what 'Chinese Dream' meant, but it increasingly became clear that 'the need to confirm a sense of national identity seemed to call for a clear developmental choice: affirming socialism' (Dittmer 2021a, 5). The literature

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19 When totalled up, exports in 2009 as a whole were down 16 per cent on 2008.

has long argued over whether China owes its economic success to the state presence and guidance in the economy or whether China has developed because markets have been working *despite* inefficiencies and distortions created by state meddling in resource allocation, credit, and both private and public companies' production choices. The epitome of the latter voices – all praising Dengist policies – is Huang Yasheng, who in 2011 argued that earlier marketisation and liberalisation, not state intervention, had laid the ground for China's development (Huang 2008; Coase and Wang 2012; Nee and Oppen 2012). Along the same lines, Nicholas Lardy (2014) wrote that China was not an example of state capitalism, but rather that the private sector was 'the major driver of growth'. Later, Lardy (2019) would take note of the increasing support of the state sector, arguing that the retreat of markets would, in the end, undermine the long-term sustainability of the economy.

In essence, state capitalism directs the market to 'further empower government' (Bremmer 2010, 179). Although China's economic rise undoubtedly strengthened Xi Jinping's claim to the superiority of 'socialism with Chinese characteristics in the new era' (a label first introduced at the Nineteenth Party Congress), this definition can be misleading, because state and markets in the post-1978 PRC have never been separate entities: they interact with each other in a symbiotic way, empowering both bottom-up entrepreneurial activities and a top-down steering of the economy, unleashing a peculiar form of 'Sino-capitalism' (McNally 2012). If 'patrimonial capitalism' has been defined in the 'varieties of capitalism' literature as a system in which the boundary between the state and firms is not clearly defined and the economic environment is highly politicised (Becker 2009, 2014), perhaps this definition would define today's China even better. It is the combination of state and markets, in a mutually reinforcing dynamic, that has driven China's growth. But it was the CCP that set the boundaries within which the markets could operate.

In recent years, this principle has become increasingly evident in finance. Controlling credit is, in fact, another way to govern markets in the 'right', regime-friendly direction. For decades, financial repression has been the norm in China, rewarding investment at the expense of savings. Not only have reforms strengthened the four largest and oldest state banks (they are now ranked among the largest 50 companies in Global Fortune 500),<sup>20</sup> but

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20 See 'Global 500', accessed 12 June 2021, [fortune.com/global500/2020/search/](https://fortune.com/global500/2020/search/).

also they have made it clear that the national interest must prevail in all banking activities, private or public. Article 34 of the Chinese Commercial Bank Law, while stating that banks should make commercial considerations before adopting loan decisions, requires them to 'conduct their business of lending in accordance with the needs of the national economic and social development and under the guidance of the industrial policies of the State' (Szamoszegi and Kyle 2011). Within an institutional setting characterised by the absence of the rule of law, rules and regulations can be interpreted, swiftly changed or selectively implemented to obtain an outcome in line with CCP wishes and interests.

The CCP firmly believes that markets cannot be completely trusted. In particular, finance is subject to conformity with CCP goals. For instance, the 2014–16 ups and downs on the Shanghai stock market prompted the state to rein in further development of private capital markets, as they had become an evident source of instability. The logic was the same in August 2015, when capital flight followed the partial liberalisation of capital accounts, pushing up the value of the RMB: the government simply backtracked (Dittmer 2021a, 29). Private actors must be controlled and put into line, especially if they have become too big, too powerful or too (relatively) dissenting; the regulatory takeover of Anbang Insurance or the last-minute and financially devastating stop to the multi-billion dollar Shanghai IPO of Ant Financial, a company of the Alibaba Group (whose founder, worldwide celebrity Jack Ma, had criticised the sclerotic banking system just a week before), are cases in point.<sup>21</sup>

Thus, what to make of Xi Jinping's announcement at the Third Plenum of the Eighteenth Party Congress in 2013 that the market would play a 'decisive role' in China's future evolution of the economy? The gap between rhetoric and reality reflects the dilemma that the CCP has always faced in its existence, especially in the post-1978 era: what if markets are needed for growth but they move China into a direction not compatible with social stability – a prerequisite for the persistence of the CCP's monopoly of power? What if the 'new normal' announced by Xi Jinping at the Eighteenth Party Congress – a new attention to 'growth quality', trying to escape from the excesses of 'GDPism' and from the post-2008 debt trap – implies *less* growth along with job losses? This dilemma forces the

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21 Katie Canales, 'Jack Ma Hasn't Been Seen in Public since Ant Group's IPO was Pulled. Here's How Chinese Regulators Slammed the Brakes on the Firm's Would-Be Record-Breaking \$37 Billion IPO', *Business Insider*, 4 January 2021.

CCP to continue to experiment with new ways to reconcile the apparently irreconcilable forces in the economy: while announcing the ‘decisive role’ of the market, Xi did not miss the opportunity to restate the ‘dominance’ of the public sector. Thus, the system features what Dittmer calls:

an adaptive Chinese form of state socialism, with limited (and closely monitored) capitalist characteristics ... a theoretically inconsistent hybrid (e.g. socialism as end, capitalism as means, or socialist rhetoric, capitalist practice), its future systemic identity *in statu nascendi*. (Dittmer 2021a, 8)

But the CCP has, since its very birth, adapted Marxism–Leninism to China’s historical conditions – its state socialism has always been fluid and managed according to the (national and international) constraints of any given time, which shaped the identification of different primary contradictions. To many, this ‘inconsistent hybrid’ of doing ‘Whatever It Takes’ to develop China *and* save the regime at the same time cannot be called Marxism–Leninism, but this is the kind of Marxism–Leninism the CCP has always identified itself with.

Both ‘dual circulation’ and ‘common prosperity’ are manifestations of the new variant of the Whatever It Takes attitude of the CCP to pursue a form of development that sustains its legitimacy and does not put into question the logics of Marxist–Leninist state control of the economy. The former stresses the need to rely more on domestic supply and demand than before as an engine of growth, and the latter has a focus on dealing with the worst excesses of inequality, addressing the problems faced by poorer groups and regions, and promoting fairness and a sense of national common purpose. Politics – that is, the CCP – has always been in charge of the fundamental trajectories of the economy throughout the PRC’s history, and the idea that, under Deng, ‘economics took command’ (Dittmer 2021b, 368) might be grounded in the liberal illusion the West had long nurtured about China. Undoubtedly, with Xi Jinping’s current emphasis on ‘enhancing the Party’s leadership over the SOEs’,<sup>22</sup> this illusion has now faded away.

SOEs are indeed the ‘jewels in the crown’ of the CCP, dominating strategic sectors of the economy (Chen 2021, 44). When Xi Jinping came to power, the elite was well aware that the state sector was largely inefficient – even

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<sup>22</sup> ‘On strengthening the Party’s leadership over SOEs’ (论加强党对国有企业的领导), *Red Flag Document*, 2017.

though at that point industrial policies had created several global giants.<sup>23</sup> The 'decisive role of the market' narrative also advocated injecting private and foreign capital into SOEs, accepting forms of mixed ownership (*hunhe suoyouzhi* 混合所有制). However, this further step in liberalisation never truly materialised, for reasons related to the CCP's fears of losing control of the economy and representing another side of the same dilemma haunting the Party since 1949. In fact, previous rounds of corporatisation had turned many SOEs into autonomous centres of personal powers and wealth (Brødsgaard 2012), often enriching managers and their families in both legal and illegal ways and without giving much back to the state coffers. Far from giving SOEs more clout, leverage or influence by engaging private capital, the CCP had to rein in their ambitions and reassert its extractive capacity. In what Chen (2021) labels 'State Capitalism 2.0', and in a reversal of Deng's policy on the matter, Party committees and Party groups are now 'embedded in the corporate governance structure' and involved in daily management operations, ensuring that SOE strategies and decisions are in line with CCP preferences and also with Xi's personal campaign against corruption.

## Conclusion

In June 2021, almost 100 years after the foundation of the CCP, the *People's Daily* published two articles celebrating the achievements of the Party entitled 'Socialism Has Not Let Down China' and 'China Has Not Let Down Socialism'. The articles emphasised how the Party has made an original contribution to Marxism by adhering to the principle of scientific socialism and by promoting the sinicisation of Marxism, thus giving birth to a 'socialist culture with Chinese characteristics'. The articles also celebrated the economy's resilience in bouncing back from the impact of COVID-19 lockdowns. This celebration turned out to be rather premature, as China's zero-COVID strategy, personally associated with Xi Jinping, instead saw many parts of the country subsequently being placed under various forms of restrictions as other major economies were returning to something like normal. Added to this was an increasingly tense set of international relations with a range of Western states (and others too) and the already difficult task of shifting the economic model to deal with the new primary

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23 In 2002, only six SOEs were listed in the Global Fortune 500, but in 2002 that number had risen to 65 (Chen 2021, 49).

contradiction. The CCP might have finished its first centenary celebrating its achievements, but it started its second with Xi cautioning the people to be ‘more mindful of potential dangers, be prepared to deal with worst-case scenarios, and be ready to withstand high winds, choppy waters, and even dangerous storms’.<sup>24</sup>

As we have shown in this chapter, the ‘Communist’ and the ‘Chinese’ elements have always been present in the design and implementation of the Party’s political economy. True, we have seen waves of change over the decades, including periods of liberalisation and privatisation and then greater state control, but the basic philosophy and identification of the dilemmas seems to be constant. In fact, Mao, Deng and Xi all share the view that markets must serve China’s economic catching-up and reinforce the Party’s legitimacy. Of course, if markets and market incentives threaten the Party’s firm grip on power, liberalisation will be halted, regardless of the long-term economic consequences. So what really changes in the political economy of the Party is the way it deals with the dilemmas and the means activated to attain the desired goals. The logic of doing ‘Whatever It Takes’ to lift China out of poverty and to keep the monopoly of power has always been the same, going back to the foundational logic of the Party’s own reading of Marxism–Leninism.

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<sup>24</sup> Xi Jinping, ‘Report to the 20th National Congress of the Communist Party of China’, 16 October 2022, www.fmprc.gov.cn/eng/zxxx\_662805/202210/P020221025833535574835.doc.

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