Despite the assertion in the previous chapter that the divide between the global and the national no longer holds true, this chapter will deal where possible with the domestic context of change, leaving policy towards the global economy and the international context to Chapter 3. It deploys a somewhat blunt tripartite periodisation of the reform period: 1978 to 1984 is characterised as a period of policy reformulation; 1984 to 1994 as abandoning the old system; and the period after 1994 represents the (as yet) incomplete attempt to build a new system of macro economic control based on law and regulation rather than through state planning control.

It is not intended to provide a comprehensive account of domestic reform in China – that would take a book in itself. The first half of the chapter does contain some rather basic information that anybody familiar with the Chinese case will no doubt skip over, and is primarily conceived as providing an understanding of the domestic context for those interested in IPE but who are not familiar with the specifics of the Chinese case. The second half of the chapter returns to the theme of the relationship between the public and the private established in the previous chapter. It shows how different interests influenced the emergence of a public-private relationship by focusing on three factors – the changing bases of CCP legitimacy, formal policy relating to the socialist nature of the Chinese economy and state, and reform of the financial structure. It aims to show that China has moved from a state planned and state owned economy towards state regulation of a hybrid economic system with the existence of a private economic sphere that remains very close to the state system that spawned it. The form of capitalism that has materialised in China is one where state actors, often at the local level,
remain central to the functioning of an economic system that has
dysfunctionally emerged to suit their interests.

Changing bases of legitimacy

The start of the reform process in China is usually dated from the third
plenum of the 11th Central Committee in December 1978. Although
Mao had died over two years previously, the continuation of Maoism
without Mao – with modifications – under the leadership of Hua
Guofeng means that the concept of the ‘post-Mao era’ often implicitly
also starts in December 1978 rather than September 1976. Even though
Hua Guofeng retained his chairmanship of the Party until 1981 (and
the position of Premier until 1980) the third plenum marked the *de
facto* transfer of power to Deng Xiaoping.

To be sure, Deng was not the only leader who favoured a rejection of
the extremes of Maoism, and he was never an all powerful leader. His
own return to power after a second purge in 1976 owed much to the
support of key military leaders, and Deng, like Mao, recognised the key
relationship between political power and ‘the barrel of a gun’.¹ Nor was
he the only key political leader in the post-Mao era – much of his skill
as a political leader was in balancing the conflicting demands and
interests of different groups of leaders (Bachman 1986, 1988, Dittmer
1990). Nor was he the personal architect of specific reforms in the eco-
nomic system, and he did not hold the most important formal posi-
tions of power for most of the period from 1978 to his death in
February 1997. But in terms of dictating the overall direction of
China’s political economy and in being a key arbiter of who got pro-
moted and who fell from grace, it is entirely understandable that the
first two decades of reform are most associated with Deng Xiaoping.

Two key factors should underpin any understanding of post-Mao
China. First, no matter what the party has done in loosening its
control over the economy, and to a lesser extent society, loosening
party control was never conceived as the road to the end of party rule.
On the contrary, loosening control was only countenanced as it was
perceived to be the best way of ensuring the party’s grip on power.² In
theory, of course, a communist party only exists as a means to an end –
to act on behalf of the proletariat to create a classless communist
society. But maintaining the party’s monopoly on power and the posi-
tion of its members as societal elites has become an end in itself in
China. Mao’s alternative strategy for building a revolutionary society
might not be palatable, but in many respects he was correct in fearing