Two outstanding issues regarding China’s reforms will be examined in this chapter—policy conflict within top leadership and the progress of national reform policies during 1978–1994. Top leaders occupy central positions and wield a primary and even overriding influence in policy making. They were, however, divided into contending factions. This division affected the progress of reforms, resulting in cyclical changes of policies.

This chapter examines conflict within the top leadership over reform, reformist management of the conflict, and political business cycles. It analyzes the rise of pragmatic leadership, subsequent division between orthodox and moderate reformists and between reformists and conservatives, consequential political business cycles, and the decline of the cycles after 1994.

In explaining policy cycles, I will review existing explanations of cycles, use empirical evidence to verify these arguments, uncover the dynamics of cycles, and discuss periods of the cycles. My first argument is that reformists and conservative factions strove to meet popular demands for fast growth and low inflation, respectively, and triggered political business cycles. My second argument suggests that reformists adopted a flexible strategy that allowed them to sustain reforms. They took on favorable occasions to push through liberal policies. When the results of the policies were unfavorable and when backlashes against reforms were intense, they made tactical retreats, leaving conservatives a larger voice in policy making. Through this strategy of two steps forward one step backward, reformists, especially Deng Xiaoping, kept the marketization program alive despite repeated and even catastrophic setbacks. In addition, Deng had avoided open and violent clashes among top leaders and ensured political stability,
though at the price of permitting a delay of political reform. At the end, despite cyclical change, China’s economic liberalization progressed incrementally.

The rest of this chapter has the following sections. In the first and second sections I will first examine top leadership and its factions in China during the reform era, and then analyze reformist strategy of managing elite conflict. In the third section I will review the periods of cycles and cyclical changes in China’s reform policies. I will then investigate the sources of cycles by examining and verifying existing arguments on the topic.

**Top Leadership and Factionalism**

China’s political system is centralized and hierarchical. At the apex of China’s power pyramid is the top leadership that had a vital say in policy making. The importance of leadership arises from the fact that the Chinese political regime is authoritarian, centralized, and Leninist. This point is stressed at times by China scholars. Tang Tsou (1986), for example, argued that political elites played a very critical role in integrating China into a political community.

Until the 1990s the tremendous influence and even the rank order of top leaders was based not just from their formal positions, but more importantly, on their long careers in the political system, their seniority, their prestige, and their extensive personal connections. Strategic reform decisions were made by top leadership. According to Lieberthal and Oksenberg (1988: 35–37), top leaders in the 1980s and the early 1990s might comprise 25 to 35 leaders and could be categorized into the following four types—the paramount leader, Party elders, generalists, and functional specialists. First was the paramount leader, namely, Deng Xiaoping. Deng was a close ally of Mao since the 1930s and was highly trusted by Mao until the early 1960s and during 1973–1975 (Gao 2003). Deng had extensive experience in both the Party and the military (J. Huang 2000). He was a political commissar of one of the four field armies in the civil war and was regarded as the Eleventh Marshall who did not receive the military rank due to his civilian background (Teiwes 1995: 68). During 1954–1966, Deng was one of the top leaders of the Party, serving as a General Secretary of the Party. In the post-Mao period, Deng became the most influential leader. He took charge of most senior personnel appointments, specified ideological guidelines, and identified primary tasks for the state (Lieberthal and Oksenberg 1988: 36).