

CHINESE COMMUNISTS IN GLOBAL CAPITALIST MARKETS:
INTERNATIONAL COMMERCE AND THE RISE OF “NEW CHINA,” 1937-1964

A Dissertation

Presented to the Faculty of the Graduate School
of Cornell University

In Partial Fulfillment of the Requirements for the Degree of
Doctor of Philosophy

by

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May 2017

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CHINESE COMMUNISTS IN GLOBAL CAPITALIST MARKETS: INTERNATIONAL
COMMERCE AND THE RISE OF “NEW CHINA,” 1937-1964

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Cornell University 2017

This dissertation examines the overlooked commercial relationships that linked Chinese communism to international capitalism from the early days of the Pacific War to the aftermath of the Great Leap Forward. By exploring the diversity and continuity of these relationships, this dissertation challenges the stark themes of socialist solidarity and capitalist hostility that frame much of the literature on communist China’s international experience under Mao. Instead, what emerges is an adaptive mode of CCP engagement with capitalism that transcended the Cold War ideological divide. Understanding the larger historical significance of this engagement requires thinking about these commercial transactions as more than the transfer of goods, services, and currencies. Business deals also served as sites for the exchange of ideas, habits, and beliefs, and as venues where individuals, institutions, and the logics that guided them underwent subtle but lasting transformations. These latent influences lie at the heart of this dissertation, which is as much a political, diplomatic, social, and cultural history of communist China in the world during the mid-twentieth century as it is an international history of Chinese communist business and trade.

These findings contribute to several veins of historical scholarship. They advance debate over the significance of ideology to Cold War international relations by tracing how CCP foreign-policy ideas transformed through sustained contact with foreign capitalists. The project

brings Mao's China into the field of transnational history by moving beyond high politics to explore working-level ties between the CCP and foreign firms, smuggling rings, and other nongovernmental organizations. Finally, this dissertation reorients the study of capitalism in China by challenging the longstanding presumption that "liberation" in 1949 marked China's withdrawal from global capitalism. As the dissertation shows, China's ties to capitalism transformed under Mao, but never broke off entirely.

The dissertation draws from a variety of sources not typically associated with scholarship on Mao's China. In addition to fresh documents produced by Chinese officials at the central, provincial, and municipal levels, the project also draws from advertisements, corporate statements, ship manifests, and other materials from commercial and state archives in China, Hong Kong, the United States, Japan, and Great Britain.

BIOGRAPHICAL SKETCH

Jason M. Kelly has taught, studied, researched, and worked in China since 2002. He holds an M.A. in history from Cornell University (2014), an M.A. in international relations from Yale University (2006), and a B.A. in economics from Dartmouth College (2001).

ACKNOWLEDGMENTS

Many people and institutions supported me throughout the writing of this dissertation. I am deeply grateful to my advisor, Professor Chen Jian, whose passion for history, inexhaustible generosity, and deep expertise have shaped my view of what a model historian should be. On my committee, Professor Fred Logevall inspired me to push for clarity as I wrestled with my ideas and arguments, and I couldn't be more thankful to have spent so many hours talking about writing with someone whose work I admire so much. Professor Vic Koschmann taught me more about teaching and collegiality than he perhaps realizes. Our directed reading in the spring of 2014 was one of the highlights of my time at Cornell, and I'll never forget it. Professor Karl Gerth offered invaluable feedback as the dissertation was coming into its final form. I can't thank him enough for his many helpful questions, critiques, and suggestions.

I started writing this dissertation in Ithaca, where I benefited from the wisdom and camaraderie of faculty and fellow graduate students in the History Department at Cornell. I am particularly obliged to Sherman Cochran, Victor Seow, and Jiang Huajie for thoughtful comments and suggestions during that time. I have been lucky to spend the past year finishing the dissertation at the Harvard Kennedy School in Cambridge, Massachusetts, an environment even more stimulating than I imagined it would be. I am grateful to the faculty and fellows at the Belfer Center for welcoming me into this wonderful community. Special thanks to Professor Arne Westad for valuable feedback on the project, and to Calder Walton, my office mate and counterpart Ernest May Fellow, for regular encouragement and occasional commiseration, which made the last few months of writing smoother than they otherwise may have been.

I am also indebted to the archivists and librarians at Cornell University's Rare and Manuscript Collections, the Fung Library at Harvard University, the Baker Library Historical

Collections at the Harvard Business School, the Universities Service Center for China Studies at the Chinese University of Hong Kong, the U.S. National Archives at College Park, the Diplomatic Archives of the Japanese Ministry of Foreign Affairs, the Japan External Trade Organization Business Library and Archives in Tokyo, and the Hongkong and Shanghai Banking Corporation (HSBC) Archives in Hong Kong. I am especially thankful to Nancy Hearst of the Fairbank Center for Chinese Studies and to Garfield Lam at the HSBC Archive in Hong Kong, both of whom went out of their way to put me in touch with valuable materials. Professor Chen Bo and the Center for Cold War International History Studies at East China Normal University generously helped me to get my bearings when I began my archival research in mainland China, and I am grateful to the courteous staffs of various archives in the People's Republic of China for their assistance in locating helpful documents.

Generous funding from many sources supported me throughout my research and writing. I am grateful for financial support from the Ernest May Fellowship in History and Policy at the Harvard Kennedy School's Belfer Center for Science and International Affairs, the Hu Shih Fellowship in Chinese Studies at Cornell University, the Mario Einaudi Center International Research and Travel Grant, the Cornell East Asia Program Japan Studies Travel Grant, the Judith Reppy Institute Graduate Fellows Program at Cornell University, the Cornell University Sage Fellowship, the Association for Asian Studies China and Inner Asia Council Research Grant, the U.S. Department of Education Foreign Language and Area Studies fellowship program, and the Kathryn Davis Fellowship for Peace.

Fellowships and grants generously paid for the airline tickets, the rooms, and the meals away, but it was my family that kept me going through it all. Thanks and love to both sides, in California and in Maine, for all the support over the years. My deepest gratitude, however, is to

Rebecca and Abigail. Thank you so much for your support, your patience, and your love, and for all the wonderful memories, from our quiet hillside days in Ithaca to our noisier adventures here in Cambridge. I couldn't have done this without you.

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ABBREVIATIONS

BLJ	<i>Balujun Xinsijun Zhu Ge Di Banshi Jigou</i> [Eighth Route Army and New Fourth Army Administrative Bodies Throughout the Country]
CCP	Chinese Communist Party
CFEC	Central Finance and Economics Committee
CHINCOM	China Committee of the Coordinating Committee for Multilateral Export Controls
COCOM	Coordinating Committee for Multilateral Export Controls
CCPIT	China Committee for the Promotion of International Trade
CPSU	Communist Party of the Soviet Union
CYNP	<i>Chen Yun Nianpu</i> [A Chronology of Chen Yun]
FMA	Foreign Ministry Archive of the People's Republic of China
FRUS	Foreign Relations of the United States
FPA	Fujian Provincial Archive
FYP	Five-Year Plan
GAC	General Administration of Customs
GLF	Great Leap Forward
HPA	Hebei Provincial Archives
HSBC	Hongkong and Shanghai Banking Corporation
HuPA	Hubei Provincial Archive
ISI	Import Substitution Industrialization
ITA	China International Trade Association
JDYL	<i>Jiandang Yilai Zhongyao Wenxian Xuanbian</i> [Selected Important Documents Since the Founding of the Chinese Communist Party]
JETRO	Japan External Trade Organization

JJDAMY	<i>Zhonghua Renmin Gongheguo Jingji Dang'an Ziliao Xuanbian, Duiwai Maoyi Juan</i> [Selection of Materials from the PRC Economic Archives, Foreign Trade Volume]
JJDAJR	<i>Zhonghua Renmin Gongheguo Jingji Dang'an Ziliao Xuanbian, Jinrong Juan</i> [Selection of Materials from the Economic Archives of the People's Republic of China, Finance and Banking Volume]
JPA	Jilin Provincial Archive
KMT	Kuomintang, Chinese Nationalist Party
MOFT	Ministry of Foreign Trade of the People's Republic of China
MFA	Ministry of Foreign Affairs of the People's Republic of China
MZDJNP	<i>Mao Zedong Jingji Nianpu</i> [An Economic Chronology of Mao Zedong]
MZDQJ	<i>Mao Zedong Quanji</i> [Collected Works of Mao Zedong]
MZDXJ	<i>Mao Zedong Xuanji</i> [Selected Works of Mao Zedong]
PLA	People's Liberation Army
PRC	People's Republic of China
RG	Record Group
SCAP	Supreme Commander, Allied Powers
SMA	Shanghai Municipal Archives
SOE	State-Owned Enterprise
TNA	The National Archives of the United Kingdom
USNA	General Records of the Department of State, United States National Archives II, College Park, Maryland
ZGZYWX	<i>Zhongguo Gongchandang Zhongyao Wenxian Xinxiku</i> [CCP Important Documents Repository]

CHAPTER 1: INTRODUCTION

January 2, 1973, dawned cold and clear in Beijing. There was little hope of the temperature climbing above freezing as the day wore on, but workers at the State Planning Commission (*Guojia Jihua Weiyuanhui*, 国家计划委员会) could find some consolation in the blue skies and sparkling sun that lit their commutes into the office. It was a historic day for these economic planners. Before the workday was through, they would present to the State Council (*Guowuyuan*, 国务院) a request to launch the biggest foray into capitalist markets in the history of the People's Republic of China (PRC). At the center of this sweeping proposal was an unprecedented buying spree: a staggering U.S. \$4.3 billion in new technologies and industrial equipment—including entire production plants—all from the capitalist world, all within three to five years.¹

A touch of anxiety may have tugged at the crafters of this plan as they rode to work that morning. The nation was, after all, still in the shadow of the Cultural Revolution (1966-1976), and Mao's China remained unshakably committed to socialist revolution. That very morning, the *People's Daily* approvingly published a New Year's address by North Korean leader Kim Il-Sung, who urged socialist comrades to “hold high the revolutionary banner of anti-imperialist

¹ Supplemental requests soon increased the price tag to U.S. \$5.18 billion. “Li Xiannian Zhuan” Bianxie Zu, *Li Xiannian Zhuan, xia* [A Biography of Li Xiannian, volume 2] (Beijing: Zhongyang Wenxian, 2009), 768. For a list of the 27 sets of plants and equipment included in the original State Planning Commission proposal, see Chen Dongli, “20 Shiji 50-70 Nian Dai Zhongguo de Duiwai Jingji Yinjin” [Foreign Economic Imports [into] 1950s-1970s China] *Shanghai Xingzheng Xueyuan Xuebao* 4, no. 6 (2004), table 2, 78. The 4.3 project began with a more limited, but still expensive, decision in Beijing on August 21, 1971, to import 1.7-meter rolling mills for steel production to use at the Wuhan Steel Company in Hubei Province. This initial import proposal called for an outlay of U.S. \$600 million. Zhonggong Zhongyang Wenxian Yanjiushi Bian, *Chen Yun Zhuan, san* [A Biography of Chen Yun, volume 3] (Beijing: Zhongyang Wenxian, 2015), 1412.

and anti-American struggle.”² And now, State Planning Commission staff were trundling through the cold into work to put the final touches on a proposal to import billions of dollars’ worth of goods produced, packaged, and sold by capitalists across the imperialist world, including in the United States.³

And yet, any unease the staff may have felt quickly proved unfounded. The proposal sailed through the senior reaches of the Chinese Communist Party (CCP) without a hitch. Vice-Premier Li Xiannian (李先念) backed the program. Premier Zhou Enlai (周恩来) was a vocal advocate. Mao Zedong (毛泽东) himself signed off on the proposal without delay. As it got underway, the “Four-Three Program” (*si san fang’an*, 四三方案), as it was dubbed, became one of China’s largest trade initiatives ever, comparable only to the massive technical and economic assistance that China received from the Soviet Union during the heyday of the Sino-Soviet alliance in the early 1950s.

How was this possible? Beset by the xenophobia of the Cultural Revolution, economically destitute, and firmly committed to an anti-imperialist, socialist, and revolutionary path to modernity—how was it that *this* China aspired to a multi-billion-dollar trade program with the very capitalists who seemed to embody the imperialist aggression that Mao’s China aimed to crush? The proposal hardly seems in line with the Mao’s China we think we know. The Chairman himself had propounded an uncluttered vision for the future of the People’s Republic in the months before the birth of “new China” (*xin Zhongguo*, 新中国) in 1949. The world was

² “Jin Richeng Tongzhi Fabiao Xin Nian Heci[;] Chaoxian Renmin Qianjin Daolu shang Chongman Shengli he Guangrong” [Comrade Kim Il-sung Issues New Year’s Message[;] The Road Ahead for the Korean People Is Full of Victory and Glory], *Renmin Ribao*, 02 January 1973, 6.

³ The request also specified imports from Japan, Holland, Denmark, France, Italy, and Britain. “Li Xiannian Zhuan” Bianxie Zu, *Li Xiannian Zhuan*, 774.

cleaving in two, he believed, and China had no choice but to pick a side. “[A]ll Chinese without exception must lean either to the side of imperialism or to the side of socialism,” he told his compatriots in June 1949. “Sitting on the fence will not do, nor is there a third road.”⁴ This tidy ultimatum—one road or the other—straight from the lips of the Chinese Communist Party’s chief revolutionary, left no doubt that China’s choice had already been made. The Chinese people would continue the revolution, and China’s rise, by leaning to the side of socialism in world affairs. Mao’s choice in mid-1949—the Party’s choice—embodied the ideological divisions that oriented international politics during the early Cold War.

Since then, historians of modern China have largely taken Mao at his word. The same stark themes of socialist solidarity and capitalist hostility that framed the Chairman’s outlook at the founding of the PRC have guided the literature devoted to explaining how the Chinese communist state came of age in the world.

This dissertation challenges these longstanding views by shifting focus away from the wars, alliances, and clean divisions that typically orient studies of China’s international experience under Mao. Instead, it explores a long-overlooked but crucial dimension of Mao’s China: the commercial relationships that linked Chinese communists to international capitalism from the early days of the Pacific War to the aftermath of China’s Great Leap Forward. A careful look at these commercial ties breaks apart the established narrative of Cold War binaries to reveal an adaptive mode of CCP engagement with international capitalism that transcended the Cold War and linked Mao’s revolution to larger historical currents sweeping the globe.

Beginning in the late 1930s, CCP traders and economic planners struggled to define the nature

⁴ Mao Zedong, “Lun Renmin Minzhu Zhuanzheng” [On the People’s Democratic Dictatorship], 30 June 1949, in *Mao Zedong Xuanji* [*Selected Works of Mao Zedong*], (Beijing: Renmin, 1991), vol. 4, 1473.

and boundaries of Chinese socialism and modernity through everyday commercial transactions with foreign capitalist counterparts. These deals called for continuous contact and routine interactions that survived the turbulence of the Second World War, the building of the People's Republic, the Cold War, and the rise and demise of Sino-Soviet solidarity. Throughout these years, Chinese traders inhabited capitalist markets intellectually, but also physically, in places like Hong Kong, London, and Tokyo, where they struck deals that reached into the hundreds of millions of dollars each year.

These sums raise large questions. Why did Chinese communists turn to capitalist markets in the first place, despite an expressed wariness of foreign capitalism? Why did this capitalist trade persist despite the dramatic expansion in economic cooperation with the socialist bloc that took off in the early 1950s? How did sustained contact with foreign capitalist firms and businessmen influence the relationship between Mao's China and postwar international capitalism over time? In what ways does unearthing this contact alter the narrative of China's postwar international experience, particularly the protracted and fitful historical phenomenon known widely today as "China's rise"?

This dissertation sets out to answer precisely these questions. Trade statistics, balance sheets, and financial figures are indispensable to the story, but the larger aim here is to explore the historical significance behind the tallies on the ledgers. Getting at this deeper level requires thinking about commercial transactions as more than the transfer of goods, services, and currencies. Business deals also served as sites for the exchange of ideas, habits, and beliefs, and as venues where individuals, institutions, and the logics that guided them underwent subtle but lasting transformations. These latent influences lie at the heart of this project, which is as much a

diplomatic, social, political, and cultural history of communist China in the world during the mid-twentieth century as it is an international history of Chinese business and trade.

Tracing these influences contributes to three ongoing debates in historical scholarship. First, it advances debate among historians over the significance of ideology to Cold War international relations. Since the early 1990s, an expanding cohort of historians has mined newly available Chinese documentation for insights into the inner workings of foreign-policy making during the Mao years.⁵ On the basis of this “post-Cold War” documentation, scholars have re-written the history of Chinese diplomacy under Mao largely from the perspective of *Zhongnanhai* (中南海), the central leadership compound in Beijing.⁶ The chief insight from this approach is its clear demonstration that the study of ideas is essential for understanding the foreign relations of Mao’s China, just as it is indispensable for grasping the essence of the conflicts and alliances that monopolized much of international relations during the Cold War.⁷

⁵ Two prominent examples of this trend include Shen Zhihua, *Mao, Stalin, and the Korean War: Trilateral Communist Relations in the 1950s* (Milton Park, Abingdon; New York: Routledge, 2012) and Chen Jian, *China’s Road to the Korean War: The Making of the Sino-American Confrontation* (New York: Columbia University Press, 1990). A more recent contribution to this field is Shen Zhihua and Xia Yafeng, *Mao and the Sino-Soviet Partnership, 1945-1959: A New History* (Lanham: Lexington Books, 2015).

⁶ Chen Jian discusses the significance and limitations of China’s “post-Cold War” documentation in “Not Yet a Revolution: Reviewing China’s ‘New Cold War Documentation,’” (paper presented at the conference on “The Power of Free Inquiry and Cold War International History,” National Archives at College Park, Maryland, 25-26 September 1998).

⁷ On this point, see John Lewis Gaddis, *We Now Know: Rethinking Cold War History* (Oxford: Oxford University Press, 1997), 290. A vast body of historical scholarship has debated the role of ideology in foreign policy-making. See especially Michael H. Hunt, *Ideology and U.S. Foreign Policy* (New Haven: Yale University Press, 2009). Prominent works concerning ideology and foreign policy-making during the Cold War era include Odd Arne Westad, *The Global Cold War: Third World Interventions and the Making of Our Times* (Cambridge: Cambridge University Press, 2005); Chen Jian, *Mao’s China & The Cold War* (Chapel Hill: University of North Carolina Press, 2001); Lorenz M. Luthi, *The Sino-Soviet Split: Cold War in the Communist World* (Princeton: Princeton University Press, 2008); V. M. Zubok, *A Failed Empire: The Soviet Union in the Cold War from Stalin to Gorbachev* (Chapel Hill: University of

Earlier scholarship, written without the benefit of access to internal Chinese state and Party documents, tended to downplay or neglect the importance of ideas to Chinese foreign-policy making and instead turned to “security concerns” or “national interest” as keys for unlocking the mysteries of Chinese communist decision making in foreign affairs.⁸ But newly available Chinese documentation has shown that Mao was indeed a committed revolutionary who believed deeply that revolution offered China’s sole path to salvation.⁹ Only through revolution, he was convinced, could China restore its global prestige and transform itself into a land of universal justice, equality, and prosperity.¹⁰

Without a doubt, these convictions set the bearing of Chinese communist foreign relations under Mao. But this pioneering work on the history of ideas leaves the mistaken impression that Chinese leaders conceived and dictated foreign policy from the cloistered confines of ideological abstraction, and that the conceptualization of foreign policy is coterminous with its implementation. Missing is an understanding of how foreign-policy ideas formed and transformed as they passed through different political, geographical, and institutional contexts. What did foreign-policy ideas look like in motion?¹¹ By and large this lacuna in the

North Carolina Press, 2007); and Jeremy Friedman, *Shadow Cold War: The Sino-Soviet Competition for the Third World* (Chapel Hill: University of North Carolina Press, 2015).

⁸ The classic Cold War analysis in this spirit is Allen S. Whiting, *China Crosses the Yalu: The Decision to Enter the Korean War* (New York: Macmillan, 1960).

⁹ For a careful analysis of how Mao and his contemporaries “converted” to this revolutionary faith, see Michael Sheng, *Battling Western Imperialism: Mao, Stalin, and the United States* (Princeton: Princeton University Press, 1997), 3-14.

¹⁰ Chen Jian, “Tiananmen and the Fall of the Berlin Wall: China’s Path Toward 1989 and Beyond,” in *The Fall of the Berlin Wall: The Revolutionary Legacy of 1989*, ed. Jeffrey A. Engel (Oxford: Oxford University Press, 2009), 99.

¹¹ Michael Hunt touches on a similar question in his discussion of how the concept of ideology, and the notion of “culture” itself, can sometimes appear “too static to suit the needs of historians,” especially in works inspired by cultural anthropology. See Michael H. Hunt, “Ideology,” *The Journal of American History* 77, no. 1 (1990), 109-110. Hunt notes that neo-Marxist writings, which focus on class analysis and emphasize the concept of a hegemonic

historiography of modern Chinese foreign relations is the result of scholars' general preoccupation with politics at the apex of the CCP. Debates among senior Party officials and diplomatic notes between communist heads of state constitute the overwhelming majority of the evidentiary foundation for historical scholarship on Chinese foreign policy during the Cold War.¹² Yet these senior-level exchanges reveal only part of the process of diplomacy. They miss the vast collection of issues and concerns that absorbed the attention of lower-level cadres but only rarely rose to the rarefied heights of the senior leadership.

By placing China's commercial ties to global capitalism at the center of analysis, this dissertation broadens and deepens our understanding of how foreign-policy ideas and abstractions blended with the routine responsibilities and practices of diplomacy—in this case, commercial diplomacy—in Mao's China. Most senior decision makers in Beijing, Mao included, knew little about market economics and less still about the cultures and practices of international business. Crucially, however, they proved willing to take advantage of the opportunities and benefits that global capitalist markets might bring to the Chinese revolution. A small group of top-ranking cadres took this inclination a step further. Throughout the mid-twentieth century,

ideology associated with the dominant class, offer a potentially useful framework for conceiving of cultural construction—and, by extension, the construction of ideology—as an unending, dynamic process. While such frameworks may make culture and ideology more comprehensible and manageable, as Hunt observes, the tidiness of class-based analysis closes off opportunities for considering the ways in which a wide range of bureaucrats and traders of various statures contributed in disparate and often contingent ways to the slow brewing of foreign-policy ideology in communist China during the mid-twentieth century. In this regard, I am influenced by Carol Gluck, who has demonstrated convincingly how a broad set of actors contributed to a diverse process of ideology formation in Meiji Japan. Carol Gluck, *Japan's Modern Myths: Ideology in the Late Meiji Period* (Princeton: Princeton University Press, 1985).

¹² An exception to this tendency is Odd Arne Westad, *Restless Empire: China and the World Since 1750* (New York: Basic Books, 2012). Westad's focus is on the lived experiences of international affairs, which allows him to capture previously overlooked ways in which China absorbed influences from abroad, such as urban planning and architecture. But he misses China's sustained ties to capitalist markets as a possible source of such influences.

relatively broad-minded leaders such as Zhou Enlai, Li Xiannian, Li Fuchun (李富春), and especially Chen Yun (陈云) showed a particularly keen determination to explore the possibility that far-flung capitalist markets could indeed contribute in crucial ways to the creation of a new Chinese communist state. This open-mindedness at the top created sufficient space for second-echelon bureaucrats just below the Party's senior-most elite, men like Liao Chengzhi (廖承志), Qian Zhiguang (钱之光), Lei Renmin (雷任民), and Lin Haiyun (林海云), to take on outsized importance in calibrating revolutionary aspirations in Beijing to market realities abroad.

Officials at the working level contributed to this calibration effort as well. Employees of the CCP front company China Resources (*Huarun Gongsi*, 华润公司), for instance, routinely reported back to Beijing from Hong Kong about trends, patterns, and practices in shipping, insurance, banking, contract law, quality control standards, and other facets of international markets. These reports, grounded in the long experience of the women and men who wrote them, shaped perceptions in Beijing of what was feasible and desirable in Chinese commercial diplomacy. Central guidance from Mao, Zhou Enlai, and other top leaders then flowed back through the Ministry of Foreign Trade bureaucracy and out to the traders who implemented policy on the ground.¹³

This was a continuous, iterative process through which cadres of all stations and ranks could influence aspects of China's foreign commercial relations as well as the international dimensions of the Chinese revolution itself. Exploring this relationship between the circumference and the center of foreign-policy making is less a diminution of Beijing's relevance

¹³ In the case of China Resources, the firm operated directly under the jurisdiction of central authorities in Beijing. Wu Xuexian and Huarun (Jituan) Youxian Gongsi, *Hongse Huarun* [Red China Resources] (Beijing: Hongse Huarun Bianweihui, 2010), 7.

than an enriched appreciation of the larger context in which senior Party officials debated and formulated policy. A wider view is critical for observing the interplay between ideological abstractions and concrete realities as concepts worked their way through different contexts to become policy in practice. This is by no means a new methodology; Ernest May advocated decades ago for historians of U.S. foreign relations to sensitize themselves to the size, character, and complexity of government institutions.¹⁴ Yet, to date, historians of Chinese foreign relations during the twentieth century have been slow to take up the call.

In the case of communist China's foreign-commercial policy during the mid-twentieth century, adopting a "wider" view means more than simply making room in the narrative for the actions and decisions of mid- and lower-level officials alongside foreign-policy elites. It also calls for venturing beyond state-to-state interactions and looking beyond the official documents produced by Chinese authorities that have traditionally served as the bread and butter of historical scholarship on Chinese foreign relations during the Mao years. Throughout the mid-twentieth century, the Party and state leadership routinely dispatched trade representatives abroad for meetings and negotiations with businessmen, private firms, trade associations, and other non-governmental identities. Following the trail of evidence produced by these interactions indeed leads to documents held at central, provincial, and local archives throughout mainland China. Many of these materials, made available to scholars during the first decade of the twenty-first century, have by early 2017 largely been reclassified. But Chinese state and Party documents reveal only part of the story. The evidential trail also leads to trade promotion literature, advertisements, exhibition displays, product catalogs, corporate statements, ship

¹⁴ Ernest R. May, "Writing Contemporary International History," *Diplomatic History* 8, no. 2 (1984): 103-114.

manifests, and other commercial documents located in non-state archival collections like the corporate archives of the Hongkong and Shanghai Banking Corporation (HSBC) and the Japan External Trade Organization (JETRO).

These forays into non-state archives point to the contributions of this dissertation to a second ongoing historiographical debate: how does a “transnational” perspective, one that breaks from the nation-state as the sole category of analysis, shed new light on the histories of cross-border or cross-cultural interactions?¹⁵ High politics, elite decision-making, and Chinese national politics undoubtedly played a decisive role in the evolution of Chinese commercial contact with the capitalist world throughout the period studied here, and much of the story that unfolds in the following chapters accordingly takes the perspective of the Chinese communist state and its officials. In this sense, this is a history that continues to “privilege” the views of the Chinese nation-state, as befits the historical questions it sets out to answer.¹⁶ But a predominantly state-centric historical narrative by no means precludes insights from a transnational perspective. Based on multinational, multi-archival, and multilingual research in state and non-state archives, the following chapters will show that working-level ties between CCP officials, foreign firms, smuggling rings, and other nongovernmental organizations proved equally influential in shaping the Chinese communist state’s relationship to the capitalist world and the emerging identity of “new China” itself. These ties were transnational insofar as they linked the Chinese state to

¹⁵ Chris Bayly, Sven Beckert, Matthew Connelly, Isabel Hofmeyr, Wendy Kozol, and Patricia Seed discuss the characteristics of transnational history as a subfield, its relevance, and its potential in “AHR Conversation: On Transnational History,” *American Historical Review* 111.5 (Dec. 2006): 1440-1464.

¹⁶ For a discussion of the benefits and pitfalls of abandoning national perspectives in the study of the Cold War in favor of “internationalizing” the field, see Campbell Craig and Fredrik Logevall, *America’s Cold War: The Politics of Insecurity* (Cambridge and London: The Belknap Press of Harvard University Press, 2009).

private entrepreneurs and associations rather than other foreign state institutions.¹⁷ Bringing the history of these contacts to light thus contributes to ongoing efforts to broaden our understanding of the myriad ways in which people and institutions interacted across borders during the mid-twentieth century.

Third and finally, this project aims to reorient the study of capitalism—in modern China and throughout the world—by challenging the longstanding presumption that “liberation” in 1949 marked China’s withdrawal from global capitalism. As the following chapters will demonstrate, China’s ties to foreign capitalism transformed under Mao, but never broke off entirely. Others have observed this continuity, but often perfunctorily, and not with an eye for the political and ideological adaptation brought about by sustained engagement over the long term.¹⁸ Historians of Mao’s China, for example, have analyzed issues such as the rise and effectiveness of the U.S. embargo against China following its entry into the Korean War, the erosion of the U.S. embargo, and major turning points that either restricted or expanded commercial contact with capitalists.¹⁹ Several economists writing during the Cold War have produced careful studies

¹⁷ Examples of transnational Cold War histories that de-center the nation-state to a much greater extent include Erez Manela, “A Pox on Your Narrative: Writing Disease Control into Cold War History,” *Diplomatic History* 34.2 (2010): 299-323; and Matthew Connelly, *A Diplomatic Revolution: Algeria’s Fight for Independence and the Origins of the Post-Cold War Era* (Oxford: Oxford University Press, 2002).

¹⁸ A substantially larger body of work focuses on China’s economic contact with the Soviet Union and other socialist states during this period. See, for example, William C. Kirby, “China’s Internationalization in the Early People’s Republic: Dreams of a Socialist World Economy,” *The China Quarterly* 188 (2006): 870-890; and Shen Zhihua, *ZhongSu Tongmeng de Jingji Beijing: 1948-1952* [The Economic Background of the Sino-Soviet Alliance: 1948-1952] (Hong Kong: Chinese University of Hong Kong, Hong Kong Institute of Asia Pacific Studies, 2000).

¹⁹ See, respectively, Shu Guang Zhang, *Economic Cold War: America’s Embargo against China and the Sino-Soviet Alliance, 1949-1963* (Washington, DC, and Stanford, CA: Woodrow Wilson Center Press and Stanford University Press, 2001); Chad J. Mitcham, *China’s Economic Relations with the West and Japan, 1949-1979: Grain, Trade and Diplomacy* (London: Routledge, 2005); Nancy Bernkopf Tucker, *Patterns in the Dust: Chinese-American Relations and the Recognition Controversy, 1949-1950* (New York: Columbia University Press, 1983),

of China's trade with the capitalist world, but these concern the challenges of collecting reliable data and extrapolating from them accurate snapshots of the contemporary Chinese economy during the Mao era.²⁰ Valuable as these studies are, particularly for latter-day historians struggling to cross-check internal PRC trade statistics, the deeper, lasting changes over time associated with these data largely slip through the cracks. The studies that do analyze the cultural, social, political, and ideological shifts produced by twentieth-century China's relationship to capitalism either stop abruptly in 1949, at the threshold of the People's Republic, or begin with the Reform and Opening (*gaige kaifang*, 改革开放) agenda that gathered momentum under the leadership of Deng Xiaoping (邓小平) in the late 1970s, after Mao Zedong had left the scene.²¹

especially chapter 7; and Min Song, "A Dissonance in Mao's Revolution: Chinese Agricultural Imports from the United States, 1972-1978," *Diplomatic History* 38, no. 2 (2014): 409-430.

²⁰ For examples, see Alexander Eckstein, *Communist China's Economic Growth and Foreign Trade: Implications for U.S. Policy* (New York: McGraw-Hill Book Company, 1966); Nai-Ruenn Chen and Walter Galenson, *The Chinese Economy Under Communism* (Chicago: Aldine Publishing Company, 1969); Joint Economic Committee of the Congress of the United States, comp., *An Economic Profile of Mainland China* (Washington, DC: U.S. Government Printing Office, 1967).

²¹ For the pre-1949 period, see Wen-Hsin Yeh, *Shanghai Splendor: Economic Sentiments and the Making of Modern China: 1843-1949* (Berkeley: University of California Press, 2007); Sherman Cochran, *Inventing Nanjing Road: Commercial Culture in Shanghai, 1900-1945* (Ithaca: East Asia Program, Cornell University, 1999); and Frank Dikotter, *Exotic Commodities: Everyday Life in China* (New York: Columbia University Press, 2006). For analyses of China's growing contact with foreign capitalist markets following Reform and Opening, see Thomas G. Moore, "China and Globalization," in *East Asia and Globalization*, edited by Samuel S. Kim (Lanham: Rowman & Littlefield, 2000), 105-132; Thomas G. Moore and Dixia Yang, "Empowered and Restrained: Chinese Foreign Policy in the Age of Economic Interdependence," in David M. Lampton, ed., *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000* (Stanford: Stanford University Press, 2001), 191-229; David Zweig, *Internationalizing China: Domestic Interests and Global Linkages* (Ithaca and London: Cornell University Press, 2002); Susan L. Shirk, *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms* (Washington, DC: Brookings Institution, 1994). For a recent firsthand account of the impact of Reform and Opening on finance and banking in China, see Henry M. Paulson, Jr., *Dealing with China: An Insider Unmasks the New Economic Superpower* (New York and Boston: Twelve, 2015).

Pushing past the historiographical boundaries of 1949 and the late 1970s, and situating Mao's China within the longer arc of Chinese engagement with international capitalism during the twentieth century, allows us to observe communist leaders and working-level trade officials selectively appropriating and accommodating the commercial norms and practices that stabilized and lubricated postwar international capitalism, often in ways that resembled the policies of the Nationalist Party (*Kuomintang*, 国民党) before the CCP claimed the mantle of mainland sovereignty. These subtle forms of continuity and contact created a slender connection that pulled the postwar international capitalist system and Mao's China within arm's reach of one another despite the rigid architecture and divisive ideological conflicts of Cold War international politics. They also reveal a subtle, long-running process through which the CCP struggled to reconcile conceptions of communism and modernity in the Chinese context with an international political order grounded in liberal-capitalist norms. This process of reconciliation and adaptation crept into Chinese communist institutions and outlooks not during the flourishing 1970s and 1980s under Deng Xiaoping, but decades earlier, under Mao.

Examining this reconciliation opens up new terrain for thinking about the history of global capitalism, a vibrant field that remains predominated by scholarship concerned primarily with capitalism as it evolved in the United States, Europe, and other self-avowedly capitalist societies elsewhere in the world. A close examination of commercial contact between Mao's China and the capitalist world, however, reveals how the emerging Chinese communist state—leery of markets and enamored of revolution—nonetheless left its own imprint on the form and functioning of postwar global capitalism, reminding us that a deep understanding of global capitalism can be achieved not only by studying those individuals, institutions, and states that

fully embraced its emergence, but also those who came to engage it gradually, selectively, or fitfully.

Of course, China's push to do business with capitalists was not unique among socialist nations during the Cold War. Others, including the Soviet Union, also sought trade with capitalists, as Oscar Sanchez-Sibony has shown.²² But the history of commercial contact between Mao's China and the capitalist world is unique, and critically important, when thought of as a formative phase in a much larger historical process that began to unfold as early as the mid-nineteenth century and continues up to the present. This process, which historian John King Fairbank called "one of mankind's greatest problems," centered on the question of how to integrate the Chinese people, a full fifth of humanity, into a modern international order stitched together by economic and political connections.²³ The Chinese Communist Party began to contend in earnest with the commercial dimensions of this question as a rump political faction in the 1930s. Today, the very same Chinese Communist Party continues to grapple with this question as ruler and representative of 1.3 billion Chinese consumers, savers, investors, and producers; millions of private Chinese companies; and thousands of State-Owned Enterprises (SOEs). How the CCP guides the integration of these constituents into the current liberal-capitalist world order will be shaped inevitably by the CCP's own legacies and historical experience. When considered in this context, the uncovering of the Mao-era roots of communist China's capitalist trade matters not just for historians, but also for policy makers, entrepreneurs,

²² Oscar Sanchez-Sibony, *Red Globalization: The Political Economy of the Soviet Cold War from Stalin to Khrushchev* (Cambridge: Cambridge University Press, 2014).

²³ John King Fairbank, *Trade and Diplomacy on the China Coast: The Opening of the Treaty Ports, 1842-1854* (Cambridge: Harvard University Press, 1964), 21.

pundits, and scholars of all stripes striving to understand the rise of China and its implications for international order today and into the future.²⁴

The remainder of this dissertation unfolds chronologically across six chapters and concludes with an epilogue. Chapter 2 charts the CCP's construction of a vital trade network that linked "liberated" areas of Manchuria to international capitalist markets through the entrepot of Hong Kong. This network, which the Party inaugurated in November 1947, was a patchwork operation. It strung together Soviet shipping, a North Korean wharf, port-city front companies, a major British bank, and other seemingly incongruous elements of early postwar international commerce. Bringing this network to light challenges the prevailing view of the CCP under Mao as contentedly detached from the capitalist world. Instead, an image emerges of the Party struggling to develop its own ways to be present, to participate, and to prosper in capitalist markets abroad well before the founding of the People's Republic.

²⁴ A vast and ever growing body of literature continues to grapple with the contemporary—i.e. post-Mao—rise of China and its implications for international security and stability. These run the gamut of interpretations and policy prescriptions. For a sampling, see Aaron L. Friedberg, *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (New York: W. W. Norton, 2011); John J. Mearsheimer, "The Gathering Storm: China's Challenge to U.S. Power in Asia," *The Chinese Journal of International Politics*, 3.4 (2010): 381-396; Jonathan Kirshner, "The Tragedy of Offensive Realism: Classical Realism and the Rise of China," *European Journal of International Relations* 18.1 (March 2012): 53-75; Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security* (Stanford: Stanford University Press, 2005); Thomas J. Christensen, *The China Challenge: Shaping the Choices of a Rising Power* (New York: W. W. Norton, 2015); David Shambaugh, ed., *Tangled Titans: The United States and China* (Lanham: Rowman & Littlefield, 2013); Randall L. Schweller and Xiaoyu Pu, "After Unipolarity: China's Visions of International Order in an Era of U.S. Decline," *International Security* 36.1 (Summer 2011): 41-72; Brantly Womack, "China's Future in a Multinodal World Order," *Pacific Affairs* 87.2 (June 2014): 265-284; G. John Ikenberry, "The Rise of China and the Future of the West," *Foreign Affairs* 87.1 (January/February 2008): 23-37; Alastair Iain Johnson, "How New and Assertive Is China's New Assertiveness?" *International Security* 37.4 (Spring 2013): 7-48; and David C. Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2007).

Chapter 3 focuses on the evolution of CCP commercial contact with the capitalist world from the final months of the Chinese civil war to the first year of the People's Republic. It traces the ambitions and anxieties that led top CCP leaders and working-level economic officials to tighten control over foreign trade, and then demonstrates how this need for control influenced the CCP's simultaneous efforts to develop its own permanent presence in the vibrant capitalist markets of Hong Kong. The chapter then explores the unsteady, contingent process by which CCP leaders, working-level cadres, and foreign capitalists sought to renegotiate China's relationship to the capitalist world as the Party stepped into the roles of port-city administrators, Hong Kong entrepreneurs, and, finally, sovereigns of a new Chinese state.

Chapter 4 takes a fresh approach to the PRC's international experience during the Korean War by fitting wartime PRC commercial diplomacy into the longer arc of the Party's foreign economic relations. The Korean War had a lasting impact on the CCP's commercial relationship to the capitalist world on multiple levels—some obvious, some subtle, some fleeting, and some lasting, as Chapter 4 demonstrates. The chapter examines the emergence of PRC state institutions designed specifically to manage trade with the capitalist world, and uncovers how these new institutions came to be imbued with the wartime mobilizing sentiments of China's "War to Resist America and Aid Korea." As these institutions struggled to break through the American-led embargo against China during the war, Chinese communist traders began to see their mission of expanding trade with the capitalist world as a patriotic duty, one that gained international prominence during the Moscow International Economic Conference of April 1952. Ultimately, these formative years armed PRC traders with enthusiasm and experience, both of which set communist China on a new path in its commercial relations with the capitalist world as the 1950s got underway.

Chapter 5 revises our understanding of the significance of China's participation in the 1954 Geneva Conference by investigating the Chinese delegation's commercial activities during the conference. Chinese officials, in particular Chinese Ministry of Foreign Trade Official Lei Renmin, arrived in Switzerland prepared to negotiate business contracts and to showcase Chinese products. Lei's mission was to reinforce the image of "new" China as committed to peace, development, and increasing trade, a message Beijing sought to emphasize during the mid-1950s through formal diplomacy, official trade publications that targeted capitalist markets, and international trade fairs.

Chapter 6 investigates how the collective euphoria that swept through China during the Great Leap Forward (1958-1961) reshaped the institutional and intellectual underpinnings of communist China's trade with the capitalist world. Against the backdrop of the Sino-Soviet split and Mao's questioning of the Soviet model as China's preferred path to socialist modernity, senior CCP leaders and everyday bureaucrats alike came to see the Great Leap Forward as offering precisely the mix of enthusiasm and commitment China needed not just to surpass many capitalist powers in production and economic growth, but eventually to push the capitalist world off the cliff on which it had long teetered. This line of thought led PRC traders to the ironic conclusion that expanding trade with the capitalist world would only expedite the victory of Chinese socialism and hasten the collapse of global capitalism.

When the bubble burst and the tragedies of the Great Leap became undeniably clear, the CCP leadership turned to trade with the capitalist world for salvation. Chapter 7 examines how CCP officials sought out capitalist markets during the early 1960s, this time to purchase the food and equipment that would help to return the country to sounder economic footing. In doing so, the Party drew on the practices and rationales that had guided the activities of Chinese

communists in capitalist markets since the earliest days of the Pacific War. By the mid-1960s, when this dissertation concludes, commercial engagement with the capitalist world had become a mainstay of Chinese communist foreign policy, a key channel for international contact that fueled, fortified, and helped to conceptualize the making and the rise of a “new China.” Even the chaos of the Cultural Revolution couldn’t shake it loose. This was the deep context from which the U.S. \$4.3 billion import program emerged on that cold, clear Beijing day in January 1973. Hardly a bolt from the blue, the proposal represented a mindset that had begun to develop decades earlier, well before the founding of “new China” itself.

CHAPTER 2: OPENING A CAPITALIST WINDOW, 1937-1947

I. The Aldan, November 1947

On an afternoon in November 1947, a Soviet freighter called the Aldan (*A'erdan hao*, 阿尔丹号) moored in waters just off the docks of Hong Kong. The ship had recently arrived from the North Korean port of Rajin (*Luojin*, 罗津) and was loaded down with Chinese herbal medicines, soybeans, and a mix of other farm products from China's communist-controlled northeast—*Dongbei* (东北). Not long after the ship arrived, Wang Huasheng (王华生) and three fellow Chinese communists based in Hong Kong emerged from the captain's quarters clad in bulky vests. Their destination was visible from the decks of the Aldan: a gleaming white building with long, straight lines of windows that stretched upward like glass colonnades from the waterline toward the lush green peaks beyond the Hong Kong skyline. After a short ride to shore, the four men headed straight for the vault beneath this towering art deco structure, which housed the deposits of one of Britain's most famous and influential banks, the Hongkong and Shanghai Banking Corporation (HSBC).¹

The men shuffled past the massive bronze lions straddling the bank entrance, beneath the marbled banking hall, and through the twenty-ton steel door of the safety-deposit vault.² Inside the air-conditioned vault, they removed their vests and huddled around a small safe deposit box,

¹ This account of the Aldan's arrival in Hong Kong is based largely on Yuan Chaojun and Le Shuo, "Huarun: Zai Dajuezhanzhong Chuangye" [China Resources: Entrepreneurship in Armageddon], *Hongyan Chunqiu* 2 (1998): 33-49. Yuan was one of the three men who met Wang on the Aldan that day in November. His account is consistent with other sources. See, for example, Wu et al., *Qian Zhiguang Zhuan* [A Biography of Qian Zhiguang] (Beijing: Zhonggong Dangshi, 2011), 286.

² A detailed description of the HSBC head office building can be found in Frank H. H. King, Catherine E. King, and David J. S. King, *The Hongkong Bank between the Wars and the Bank Interned, 1919-1945: Return from Grandeur* (Cambridge: Cambridge University Press, 1988), 252-256.

waiting for the bank attendant to leave the room. The moment they were alone, the men briskly emptied hundreds of ounces of gold from pockets concealed in the linings of their vests.³ When they finished, the heavy box was secured in the vault and the men walked unceremoniously out into the humid streets of Hong Kong. By nightfall, with the gold in the vault and the *Dongbei* cargo floating safely in the harbor, Wang and his associates had completed a historic step toward the Chinese Communist Party's goal of plugging the revolution directly into the world of capitalism.

This string of events raises a number of questions. A member of the CCP escorts a cargo of produce and gold from a North Korean port to a British colony where, before selling his produce on local markets, he meets with fellow CCP members to secure his smuggled gold in the vault of a British bank believed by many in the CCP to be imperialism incarnate. What brought Wang and his cargo to Hong Kong in the first place? Who were the men with him in the HSBC vault, and who else in the CCP supported and sanctioned Wang's mission? Perhaps more importantly, why was the Chinese Communist Party seeking to connect its revolution to international capitalism in the first place during the fall of 1947? How does this overlooked ambition recast our understanding of the CCP's relationship to the capitalist world before 1949?

Prior scholarship on CCP foreign and economic policy during the pre-1949 period offers few insights into these questions. In fact, the subject of the CCP's commercial ties to the capitalist world before 1949 remains largely terra incognita in the most relevant English-

³ CCP members working in Dalian had tailored these vests specifically for Wang's trip. Each vest could carry between 20 and 40 *tiao* of gold, with a single *tiao* weighing approximately 10 ounces. Wu et al, *Qian Zhiguang Zhuan*, 289.

language historiography.⁴ This is true despite the fact that China scholars have known that trade linked communist base areas to capitalist markets since these economic ties were first developing in the 1930s. Edgar Snow touched occasionally on the subject in his classic firsthand account of daily life in the rural CCP bases, *Red Star over China*.⁵ But Snow was intrigued by the internal characteristics of the Chinese Communist Party, not its external ties. He believed that the economic production and social order he witnessed during his travels to “red” areas in 1936 might offer China a new path to salvation, and he stressed these internal dimensions of the Chinese communist revolution accordingly in his writing. So, too, did subsequent firsthand observers of the CCP base-area economies in action.⁶

The “loss” of China in 1949 and Mao’s announcement in June of that year that communist China would “lean” toward the Soviet Union in foreign relations seemed to validate the image of a CCP aloof from the capitalist world. A new wave of scholarship further entrenched this interpretation when the U.S. war in Indochina sparked renewed interest in the origins of the Chinese revolution as a potential model for Cold War anticolonial struggle. China scholars sought to uncover distinct processes at work within what was presumed to be a Chinese communist political economy largely insulated from capitalism.⁷ Mark Selden’s pioneering work

⁴ Chinese historians have had more to say on the subject in recent years. Particularly informative is Wu et al., *Hongse Huarun* (Beijing: Zhonghua, 2010), which draws extensively from privileged access to the internal corporate archives of the China Resources Corporation.

⁵ One of Snow’s more detailed discussions of trade is his interview with CCP Commissioner of Finance Lin Zuhan. Edgar Snow, *Red Star Over China: First Revised and Enlarged Edition* (New York: Grove Press, Inc., 1961), 229-232.

⁶ Examples include Theodore H. White and Annalee Jacoby, *Thunder Out of China* (New York: William Sloane Associates, Inc., 1946), especially chapter 13; John S. Service and Joseph Esherick, *Lost Chance in China: The World War II Despatches of John S. Service* (New York: Random House, 1974), 183-187.

⁷ On the flood of scholarship concerning the Chinese revolution in response to the U.S. war in Indochina, see Odd Arne Westad, *Decisive Encounters: The Chinese Civil War, 1946-1950* (Stanford: Stanford University Press, 2003), 20.

on the Shaan-Gan-Ning (陕甘宁) Base Area is a prominent case in point.⁸ Those scholars who have turned their attention to the CCP's external economic relationships during the pre-1949 period have focused mainly on the Communist Party's trade ties with the Soviet Union.⁹

There are some exceptions. A handful of studies have raised questions about this ingrained tendency to view the Chinese revolution as an autarkic enterprise. The historian Chen Yung-fa has argued that CCP opium exports produced a vital source of revenue for the Shaan-Gan-Ning leadership. His analysis goes only so far, however; Chen's central aim is to challenge Selden's emphasis on Chinese communist self-sufficiency as an alternative mode of economic development, not to examine the larger historical significance of sustained economic contact between the base areas and the capitalist world.¹⁰ The economist Peter Schran devoted an entire chapter to foreign trade in his meticulous book on Shaan-Gan-Ning economics.¹¹ But technical

⁸ Mark Selden, "Mao Zedong and the Political Economy of Chinese Development," in Arif Dirlik and Maurice Meisner, eds., *Marxism and the Chinese Experience* (Armonk, NY: M. E. Sharpe, 1989): 43-58. Selden claims in several places that the CCP was cut off entirely from the capitalist world during the Sino-Japanese War. For example, see Selden, "Mao Zedong and the Political Economy of Chinese Development," 44, 45. Selden's classic account of the period is *The Yanan Way in Revolutionary China* (Cambridge: Harvard University Press, 1971). For other works that frame pre-1949 Chinese communist political economy as detached from international capitalism, see Ralph Thaxton, "Peasants, Capitalism, and Revolution: On Capitalism as a Force in Revolutionary China," *Comparative Political Studies* 12.3 (1979): 289-334; and, for the civil war era, Steven I. Levine, *Anvil of Victory: The Communist Revolution in Manchuria, 1945-1948* (New York: Columbia University Press, 1978), especially chapter five, "The Political Economy of Civil War."

⁹ See Shen Zhihua, *ZhongSu Tongmeng de Jingji Beijing: 1948-1953* [The Economic Background of the Sino-Soviet Alliance: 1948-1953] (Hong Kong: Hong Kong University Press, 2000); and William C. Kirby, "The Two Chinas in the Global Setting: Sino-Soviet and Sino-American Cooperation in the 1950s," in Robert S. Ross and Jiang Changbin, eds., *Re-Examining the Cold War: U.S.-China Diplomacy, 1954-1973* (Cambridge, MA: Harvard University Press, 2001), 25-45.

¹⁰ Chen Yung-fa, "The Blooming Poppy under the Red Sun: The Yan'an Way and the Opium Trade," in Tony Saich and Hans van de Ven, eds., *New Perspectives on the Chinese Communist Revolution* (Armonk, NY: M. E. Sharpe, 1995), 263-298.

¹¹ Peter Schran, *Guerrilla Economy: The Development of the Shensi-Kansu-Ningsia Border Region, 1937-1945* (Albany, NY: State University of New York Press, 1976).

questions set the tone and direction of his analysis rather than historical ones. How severe was the annual Shaan-Gan-Ning current account deficit? How did the Party finance these deficits? How did CCP monetary policy respond to routine trade deficits?

As new Chinese sources have emerged in more recent years, several historians have begun to uncover previously overlooked connections between CCP bases and domestic Chinese markets. Allison Rottmann has shown how clandestine trafficking routes linked the CCP Central Base Area (*Huazhong Genjudi*, 华中根据地) to businesses and markets in Shanghai.¹² Others have examined facets of CCP economic activities in Hong Kong before 1949.¹³ These studies challenge the notion that the Chinese Communist Party withdrew from urban commerce during the Sino-Japanese War and the civil war, but they have yet to dislodge the still prevalent view that the CCP's pursuit of communist revolution demanded a proportionate dissociation from international capitalism.¹⁴

The persistence of this view reflects, in part, the teleology of the Chinese revolution itself. Liberation, anti-rightist campaigns and purges, the Great Leap Forward, the Cultural Revolution—the steady inevitability of these events looms over the historiography concerned

¹² Allison Rottmann, “Resistance, Urban Style: The New Fourth Army and Shanghai, 1937-1945” (PhD diss., University of California, Berkeley, 2007). See also Allison Rottmann, “Crossing Enemy Lines: Shanghai and the Central China Base,” in Christian Henriot and Wen-Hsin Yeh, eds., *In the Shadow of the Rising Sun: Shanghai Under Japanese Occupation* (Cambridge: Cambridge University Press, 2004), 90-115.

¹³ Sui-jeung Chan, *East River Column: Hong Kong Guerrillas in the Second World War and After* (Hong Kong: Hong Kong University Press, 2009); Christine Loh, *Underground Front: The Chinese Communist Party in Hong Kong* (Hong Kong: Hong Kong University Press, 2010); and Cindy Yik-yi Chu, *Chinese Communists and Hong Kong Capitalists: 1937-1997* (New York: Palgrave MacMillan, 2010).

¹⁴ Hans Van de Ven, for example, has characterized the rise of Mao's China as not simply China's withdrawal from the capitalist world, but as a steady slide toward full autarky and isolation. See Hans J. Van de Ven, “War, Cosmopolitanism, and Authority: Mao from 1937 to 1956,” in *A Critical Introduction to Mao*, ed. Timothy Cheek (Cambridge: Cambridge University Press, 2010), 87-109.

with the early years of the Chinese revolution. The subtle influence of this momentum can also be seen in the absence of Chinese communists from the growing body of scholarship on capitalism in China during the first half of the twentieth century, as though the CCP somehow opted out of these changes or was immune to them.¹⁵ With this sense of inevitability arranging the chronology, it becomes easier to dismiss the subtle economic exchanges between Red and White areas identified by Rottmann and others as ephemeral deviations from China's historical path.¹⁶ But when we suspend this momentum and attempt to consider the significance of these exchanges on their own terms and in their own context, a more complex relationship between Mao's China and the capitalist world comes into focus, one that offers new terrain for thinking about the larger questions of how the CCP struggled to build a revolutionary state in a largely capitalist environment, and how the conflicting impulses to cooperate and subvert came to shape CCP foreign and economic policy well before the founding of the People's Republic. If nothing else, it allows us to make sense of what it was that led Wang Huasheng to the HSBC basement in Hong Kong that day in November 1947.

¹⁵ Prominent examples include Sherman Cochran, *Inventing Nanjing Road: Commercial Culture in Shanghai, 1900-1945* (Ithaca: East Asia Program, Cornell University, 1999); Parks M. Coble, *Chinese Capitalists in Japan's New Order: The Occupied Lower Yangzi* (Berkeley: University of California Press, 2003); Parks M. Coble, "Chinese Capitalists in Wartime Shanghai, 1937-1945: A Case Study of the Rong Family Enterprises," in Christian Henriot and Wen-Hsin Yeh, eds., *In the Shadow of the Rising Sun: Shanghai Under Japanese Occupation* (Cambridge: Cambridge University Press, 2004); Wen-Hsin Yeh, *Shanghai Splendor: Economic Sentiments and the Making of Modern China, 1843-1949* (Berkeley: University of California Press, 2007); and Karl Gerth, *China Made: Consumer Culture and the Creation of the Nation* (Cambridge: Harvard University Press, 2003).

¹⁶ William C. Kirby has made a similar argument about the blinding effects of "the great 'transition' of 1949" on the historiography and on the historical profession itself. William C. Kirby, "Continuity and Change in Modern China: Economic Planning on the Mainland and on Taiwan, 1943-1958," *The Australian Journal of Chinese Affairs* 24 (1990), 122.

This chapter explores the origins and evolution of the Chinese Communist Party's commitment to opening a window into the capitalist world between 1937 and 1947. It begins with the rapidly expanding conflict between China and Japan creating new pressures and opportunities for the CCP to establish its first overseas commercial presence in the British colony of Hong Kong. From there it traces the emergence of an intellectual and institutional framework geared toward fostering greater commercial contact with the capitalist world. By late 1947, the Chinese Communist Party had established a sophisticated trade network that linked the "liberated" areas of Manchuria to international capitalist markets through the entrepot of Hong Kong. Along the way, the CCP had crafted an ideological rationale for continuing to participate selectively in the very capitalist order that, after 1949, the new People's Republic was committed to overthrowing. Examining this facet of the CCP's pre-1949 foreign policy reveals how desperation and ambition mixed with a fluid international environment to produce a tested, trusted, and ideologically sanctioned commercial policy dedicated to fostering economic relations with the capitalist world.

II. Mobilizing for Trade

The Sino-Japanese War provided an indispensable backdrop for the emergence of the CCP's first firm commercial ties to the capitalist world as part of a dramatic expansion of the Party's military strength and political influence.

Ten miles west of Beijing in July 1937, anti-Japanese nationalism and Japanese imperialism finally sparked open fighting between Chinese and Japanese forces. The clash, which came to be known as the Marco Polo Bridge Incident, rapidly spread south from the Tianjin-Beiping region to Shanghai, and from there it bled into Nanjing. The fall of these two cities, and the retreat west of Chiang Kai-shek's Nationalist (Kuomintang (KMT), 国民党)

forces, dispelled any hopes that China might repulse Japanese aggression with a resolute stroke of force, and both the CCP and the KMT began to dig in for protracted conflict.

This military conflict, ironically enough, spurred the Party toward cooperative economic outreach by creating new opportunities and new needs. Most of the opportunities arrived in the form of the KMT-CCP United Front, a wartime alliance between the two Chinese political parties that fundamentally altered the CCP's economic footing. Throughout 1936, KMT forces relied on a tight patchwork of blockades to strangle the CCP base areas in an effort to undercut CCP pretensions to Chinese sovereignty. The political climate began to change dramatically, however, when Chiang Kai-shek flew to Xi'an in early December 1936 for meetings with officers under the command of the Young Marshal Zhang Xueliang (张学良), son of the assassinated Manchurian warlord Zhang Zuolin (张作霖) and now de facto ruler of much of northwestern China. Chiang's goal for the trip was to assess the loyalty of local troops and to lay the groundwork for breaking the CCP resistance movement once and for all, but Zhang Xueliang had a different agenda altogether. Determined to force Chiang to commit fully to an anti-Japanese stance, Zhang had his troops kidnap Chiang in the early morning hours of December 12. Weeks of negotiation ensued, and on Christmas Day, 1936, Chiang finally offered a "verbal agreement" that he would review current KMT policies.¹⁷

The "Xi'an Incident," as this sensational episode became known, slackened the economic noose surrounding CCP enclaves in the north, and in the spring of 1937 the KMT blockades thawed as Chiang Kai-shek followed through on his coerced commitment to work toward a

¹⁷ For a concise overview of these events, see Jonathan Spence, *The Search for Modern China* (New York: W. W. Norton & Company, 1999), 403-409.

national united front against the Japanese.¹⁸ With the blockades dismantled, the CCP was now free to pursue deeper economic relationships with bordering markets and capitalists much farther afield. Just as importantly, the CCP now had the funds to venture out. Under the United Front framework, the Nationalist government agreed to allocate 500,000 *yuan* to the CCP each month. Mao grumbled about the sums, but the financial support was a godsend.¹⁹ Financial support from the Soviet Union and the Communist International (Comintern) also played a role in sustaining the Party and Red Army troops, but this support was neither substantial nor stable.²⁰ The bases had been scarcely able to produce enough to feed and clothe themselves before the United Front, let alone churn out surplus goods to export in exchange for imports. Now, with regular infusions of KMT cash, the Communist Party had access to a larger pool of capital for financing its persistent trade deficits.²¹

To handle this infusion of cash and the complexities of coordinating the military alliance, the CCP began in August 1938 to establish what became a sprawling network of military liaison

¹⁸ Chen, “The Blooming Poppy Under the Red Sun: The Yan’an Way and the Opium Trade,” 267. As Chen notes, the CCP had already signed secret agreements with generals Yang Hucheng (杨虎城) and Zhang Xueliang (张学良) to tear holes in the KMT blockade.

¹⁹ See, for example, Mao Zedong, cable, “Mao Zedong Guanyu Nanjing Dangju Buchong Balujun Jingfei Ji Yiwu, Danyao Qingkuang Deng Zhi Pan Hannian Dian” [Cable from Mao Zedong to Pan Hannian Regarding Nanjing Authorities’ Eighth Route Army Supplemental Outlays and the Situation [with] Clothing, Ammunition, Etc.], 31 August 1937, in Zhongguo Renmin Jiefangjun Lishi Ziliao Congshu Bianshen Weiyuanhui, *Balujun Xinsijun Zhu Ge Di Banshi Jigou* [Eighth Route Army and New Fourth Army Administrative Bodies Throughout the Country], vol. 1 (Beijing: Junshi Kexue, 2008) (hereafter *BLJ*), 583.

²⁰ Yang Kuisong, “Gongchan Guoji wei Zhonggong Tigong Caizheng Yuanzhu Qingkuang zhi Kaocha” [Investigation into the Circumstances of Communist International (Comintern) Financial Assistance to the Chinese Communist Party], *Dangshi Yanjiu Ziliao* 1 (2004): 1-37.

²¹ The CCP funded its trade deficits before the United Front by depreciating its own currency; confiscating the liquid assets of landlords, usurers, and other “exploiters”; and by tapping its limited holdings of hard currency. Schran, *Guerrilla Economy*, 169-170. Soviet aid and remittances also provided much needed support. Chen, “The Blooming Poppy Under the Red Sun: The Yan’an Way and the Opium Trade,” 267.

offices in key KMT-controlled cities. The first five offices sprouted up in Nanjing, Xi'an, Lanzhou, Taiyuan, and Shanghai. By war's end, the CCP had established a total of 55 Eighth Route Army and New Fourth Army Offices, their names having been derived from the new titles adopted by CCP Red Army troops after they came under the nominal control of KMT forces.²²

These new offices showcased a newfound legitimacy for the CCP under the United Front. So, too, did the Nationalist government's agreement to designate the Shaan-Gan-Ning Base Area the "Government of the Special Region of the Republic of China." The war with Japan had brought the CCP partway into the fold of Chinese sovereignty, conferring a measure of political validity at home and abroad that the Party formerly lacked. The camaraderie underlying these changes was fleeting, however, and by the end of 1940 KMT support payments had ceased and the embargo had crept back into place. But the cooperative spirit lingered long enough to offer the CCP the opportunity to forge out into the capitalist world.

If the United Front furnished the opportunity, the demands of wartime mobilization created the incentive. Mao Zedong (毛泽东), Zhou Enlai (周恩来), Ye Jianying (叶剑英), Zhang Wentian (张闻天), and other senior Party leaders were preoccupied throughout the summer and fall of 1937 with the task of orchestrating a shoestring supply network to keep communist troops fed, shod, and fighting. The Eighth Route Army Office network could not have come sooner as far as the CCP leadership was concerned. Cables pulsing out of Yan'an aimed to address shortfalls and coordinate stopgap measures. Huabei had no money and needed 5,000 *yuan* to

²² For a table of these offices, their locations, and dates of operation, see *BLJ*, vol. 1, 454-457. Not all of these offices operated concurrently. The Nanjing Office, for example, lasted only from August until December 1937, when approaching Japanese troops forced CCP representatives to flee the city.

cover expenses, Mao cabled Ye Jianying in early August.²³ Ye, who was in Xi'an at the time, had been wrapped up in United Front negotiations with KMT counterparts throughout the spring and summer.²⁴ Mao followed up with another urgent note to Ye two days later. Yan'an had no food, he said, and the communists there would soon go hungry.²⁵ On August 17, Mao sent equally dire instructions to Bo Gu (博古) and Lin Boqu (林伯渠), both of whom were in Nanjing to hammer out the finer points of United Front arrangements with the KMT. He urged them to nudge their Nationalist contacts to prepare 600,000 *yuan* in support funds for the CCP before August 21, and added that the Party already lacked money to buy rice.²⁶ The desperate tone of these and other requests likely carried a dose of theatrics. After all, many of these late summer solicitations coincided with the final stages of United Front negotiations, and ratcheting up the sense of urgency aided CCP negotiators in prying every *yuan* they could from KMT coffers as the new terms of the United Front were taking shape.

But Mao's requests for support did not trail off once United Front negotiations concluded. Quite the opposite—they continued throughout the rest of 1937 and into 1938.²⁷ Moreover, internal CCP communications unrelated to United Front talks reveal a similar tone of anxiety over supplies and funds. In late August Mao dashed off a note to Pan Hannian (潘汉年), chief of the Party's new Eighth Route Army Office in Shanghai. Assistance had begun to arrive, Mao explained, but it was not enough. "Nanjing gave us only 500,000 [*yuan*] this month, not 1,000,000," Mao told Pan. They also provided "no arms or any other kind of supplement; [there

²³ Gu Longsheng, ed., *Mao Zedong Jingji Nianpu* [An Economic Chronology of Mao Zedong] (Beijing: Zhonggong Zhongyang Dangxiao, 1993) (hereafter *MZDJJNP*), 106.

²⁴ For an account of Ye's contributions to the talks, see Fan Shuo et al., *Ye Jianying Zhuan* [A Biography of Ye Jianying] (Beijing: Dangdai Zhongguo, 1995), 238-252.

²⁵ *MZDJJNP*, 106.

²⁶ *Ibid.*, 107.

²⁷ For examples, see *ibid.*, 109, 114, 117-118.

is] only a supplement of clothing and a small amount of ammunition,” he continued.²⁸ The Party still needed arms, cotton-padded clothes, rain gear, and gas masks, among other goods.²⁹ The northern weather was already beginning to turn cold and Red Army troops would soon need blankets and thick clothing made from hides.³⁰

Rather than wait passively for additional KMT support, the Communist Party began to put its Eighth Route Army Office network to use by expanding its outreach efforts to other potential supporters. No feasible source of support went overlooked. For gas masks, Pan Hannian drafted a letter in October to the opium trafficker, smuggler, extortionist, and inveterate Shanghai powerbroker Du Yuesheng (杜月笙), who came through with a donation of 1,000 masks to the Eighth Route Army.³¹ Desperate times called for desperate measures, and if the CCP could turn to unsavory characters like Du Yuesheng, it might just as easily enlist the support of the capitalist world.

The Party’s ideological convictions called for some reflection, however, before the CCP could jump headlong into capitalist markets. In fact, the consensus within the Communist Party on the nature of foreign trade precluded anything resembling a headlong plunge into capitalism. Mao and the rest of the CCP leadership shared the Leninist view that economic exchange between rich capitalists and poor nations was inherently exploitative because it was driven by

²⁸ *BLJ*, v. 1, 583.

²⁹ *MZDJJNP*, 107.

³⁰ Zhou Enlai, cable, “Zhou Enlai Guanyu Ying Su Jiejue Balujun Dongzhuang Wenti Zhi Mao Zedong, Zhang Wentian Dian” [Cable from Zhou Enlai to Mao Zedong and Zhang Wentian Regarding the Need to Quickly Resolve the Issue of Eighth Route Army Winter Clothing,” 30 August 1937, *BLJ*, vol. 3, 61.

³¹ Pan Hannian, letter, “Pan Hannian Guanyu Yaoqiu Yuanzhu Fangdu Mianju Zhi Du Yuesheng Han” [Pan Hannian Letter to Du Yuesheng Regarding a Request to Donate Gas Masks], 28 October 1937, in *BLJ*, vol. 1, 591. For more on Du’s career in Shanghai, see Brian G. Martin, “The Green Gang and the Guomindang State: Du Yuesheng and the Politics of Shanghai, 1927-1937,” *The Journal of Asian Studies* 54.1 (1995): 64-91.

monopolists' search for new markets to carve up and control among themselves.³² This concept was more than a theoretical abstraction for Mao and the CCP leadership. China's own troubled history with foreign capitalism and imperialism, beginning with the Opium Wars, fueled much of the Party's revolutionary nationalism. As Benjamin Schwartz once observed, "[t]he Leninist theory of imperialism thus became the binding link between Marxism-Leninism and Asiatic resentments."³³

CCP wariness over the malignancy of trading with capitalists was never so doctrinaire that it choked off any possibility of doing business with the capitalist world, however. Historical context mattered, too, and the threat posed to China by Japanese fascism prompted the Communist Party leadership to develop an ideological rationale to sanction trade and aid from wherever it might be found, including the capitalist world. At a Party meeting on May 3, 1937, Mao stressed that Japanese imperialism had become the "primary contradiction" facing the Chinese Communist Party. The longstanding contradiction between general imperialism (*yiban diguozhuyi*, 一般帝国主义) and China had during the course of the 1930s transformed to become a particularly prominent (*tebie tuchu*, 特别突出) and particularly acute (*tebie jianrui*, 特别尖锐) contradiction between *Japanese* imperialism and China.³⁴ Tokyo's ultimate intentions were clear, Mao told his audience. "Japanese imperialism has implemented a policy of

³² Benjamin Schwartz, *Chinese Communism and the Rise of Mao* (Cambridge, MA: Harvard University Press, 1979), 203-204.

³³ *Ibid.*, 204.

³⁴ Mao Zedong, report, "Zhongguo Gongchandang Zai Kangri Shiqi de Renwu" [The Duties of the Chinese Communist Party During the Period of Japanese Resistance], 03 May 1937, in *Jiandang Yilai Zhongyao Wenxian Xuanbian, 1921-1949* [Selected Important Documents Since the Founding of the Chinese Communist Party, 1921-1949], vol. 14 (Beijing: Zhongyang Wenxian, 2011) (hereafter *JDYL*), 178.

completely conquering (*zhengfu*, 征服) China.”³⁵ To face down this threat, Mao argued the Party “must relegate contradictions between a number of other [forms of] imperialism and China to a subordinate position.”³⁶

Mao did not arrive at these views on his own. A sense of unease had been growing in Moscow since Hitler’s rise to power in January 1933, and this had produced a dramatic shift in Soviet and international communist assessments of the world situation. In December 1933 the Politburo of the Communist Party of the Soviet Union (CPSU) approved a foreign-policy outlook to reflect Moscow’s assessment that the fascist powers of Germany, Italy, and Japan posed the main threat to the Soviet Union rather than British, French, or U.S. imperialism.³⁷ The Communist International (Comintern) quickly adopted the same position. During the Comintern’s Seventh Congress in the summer of 1935, delegates approved a new tactical line calling on communists everywhere to strive for the creation of a worldwide popular front against fascist aggression.³⁸ The CCP leadership learned of the Comintern’s new stance in the autumn of 1935 and quickly fell into line.³⁹ During an enlarged CCP Politburo meeting in mid-December 1936 the Central Committee acknowledged the need to establish alliances with all countries, parties, and individuals—capitalist included—who opposed the Japanese threat.⁴⁰ Mao’s address

³⁵ Ibid.

³⁶ Ibid., 178-179.

³⁷ For an overview of Moscow’s evolving threat perceptions during the mid-1930s, see Niu Jun, *From Yan’an to the World: The Origin and Development of Chinese Communist Foreign Policy* (Norwalk, CT: Eastbridge, 2005), 12-14.

³⁸ Ibid., 13-14.

³⁹ It remains unclear precisely when the CCP leadership learned the details of the Comintern Seventh Congress. Zhang Hao, a CCP envoy to the Comintern, returned to northern Shaanxi in November 1935, but there are indications that news of the congress had reached Yan’an before Zhang’s arrival. Tony Saich, ed., *The Rise to Power of the Chinese Communist Party: Documents and Analysis* (Armonk, NY: M. E. Sharpe, 1996), 659.

⁴⁰ Niu, *From Yan’an to the World*, 15-16.

in early May 1937 thus represented a reaffirmation of the CCP's commitment to an established Comintern line on the eve of the Sino-Japanese War.

There were limits to how far anti-Japan United Front cooperation could extend, however. “To defeat the Japanese aggressors [we should] rely mainly on our own strength,” Mao argued in a major policy statement on the war effort in late July 1937.⁴¹ In the realm of economic relations with imperialist powers, this meant the CCP should “struggle for sympathy from England, the United States, and France for our anti-Japanese [resistance],” but the Communist Party should also take care to “struggle for their assistance under conditions that do no forfeit China's territorial integrity or sovereign rights.”⁴² Foreign aid and trade were “essential,” in other words, but also dangerous. They had to be controlled.⁴³

These ostensibly mixed emphases—on maintaining independence from the capitalist world while at the same time “struggling” for economic engagement with it—converged in the critical term *zili gengsheng* (自力更生), which is most commonly translated as “self-reliance,” though its literal meaning is closer to “revival through one's own efforts.” *Zili gengsheng* would become a pillar of CCP economic policy for decades throughout the Mao era. But it was not simply a policy; it was also a blend of caution and ambition from which the orientation and

⁴¹ Mao Zedong, “Fandui Riben Jingong de Fangzhen, Banfa he Qiantu” [Policies, Measures, and Perspectives for Resisting the Japanese Invasion], 23 July 1937, *Mao Zedong Xuanji* [Selected Works of Mao Zedong], vol. 2 (Beijing: Renmin, 1991) (hereafter *MZDXJ*) 347.

⁴² *Ibid.*

⁴³ Mao referred to foreign aid as essential (*bukeshao*, 不可少的) in his July 1937 statement. *Ibid.*, 347. CCP leaders generally discussed economic relations with the capitalist world in terms of aid rather than trade during the late 1930s. This likely reflected, in part, the Party's limited ability to produce exports for exchange. Under the circumstances, significant trade with capitalists was only possible when it could be financed by aid. Party leaders did begin to concentrate on *trade* policy in earnest during the spring of 1940, when Yan'an established a Trade Bureau system under the CCP Finance Committee. See Sherman Xiaogang Lai, “A Springboard to Victory: Shandong Province and Chinese Communist Military and Financial Strength, 1937-1945” (PhD diss., Queen's University, 2008), 281.

scope of economic interaction could be derived. The concept offered a seemingly coherent framework for thinking about the political implications and scope of cross-border economic exchange, particularly the vulnerabilities and dependences attendant in such interactions.⁴⁴ In its broadest sense, the term meant never trusting China's fate to outsiders, never placing all China's eggs into a single basket.⁴⁵ Provided this stipulation was met, the conditions were ripe by early autumn 1937 for the CCP to begin to develop its own economic connections to the capitalist world. The ideological footing was in place, the United Front had furnished the Party with political legitimacy and the institutional framework for such a move, and the economic and material incentives were undeniable.

III. The Hong Kong Foothold

Against this backdrop, the CCP leadership turned its attention to Hong Kong, where the Party had been conducting underground activities since well before the outbreak of the Sino-Japanese War. Throughout the fall of 1937, opportunities to develop economic ties to the capitalist world dwindled as Japanese forces occupied key cities in east China. By December the Japanese army controlled Beiping, Tianjin, Zhangjiakou, Hohhot, Shijiazhuang, Taiyuan, Shanghai, and Nanjing, while the Japanese navy was blockading the main maritime ports along

⁴⁴ Framing *zili gengsheng* as a policy has led many to question the coherence of the term as a long-running aspect of Maoist foreign-trade policy. For example, Stuart Schram has argued that although there may have been existential continuity between *zili gengsheng* in the context of Yan'an and the new policies adopted under the banner of *zili gengsheng* fifteen years later during the PRC period, intellectual continuity cannot be said to have existed. Schram, *The Thought of Mao Tse-Tung*, 93. But this misses the intellectual continuity that existed in *zili gengsheng* as a framework, a way of conceiving the merits and vulnerabilities of economic exchange.

⁴⁵ Kenneth Lieberthal interprets the term similarly to mean that the Party must keep the initiative in its own hands. Kenneth Lieberthal, *Governing China: From Revolution Through Reform* (New York: W. W. Norton, 1995), 76.

the Chinese coast.⁴⁶ As Tokyo consolidated control over China's major trading hubs, CCP leaders increasingly turned their attention to Hong Kong as a potential location for the Party's first overseas Eighth Route Army Office. An office in the British colony could serve as an ideal platform for propaganda work designed to elicit sympathy and donations from anti-Japan sympathizers overseas. It also offered direct access to the markets the Party needed for transforming any donations into goods and supplies destined for base areas and the front lines.

One of the first considerations the Communist Party faced was whom to place in charge of such a complex and vital undertaking. Sometime in late 1937, most likely in late September or early October, Zhou Enlai proposed that Liao Chengzhi head up the effort.⁴⁷ Liao was an ideal candidate. He came from impeccable revolutionary stock. His father, Liao Zhongkai (廖仲恺), had been a patriotic modernizer and nationalist.⁴⁸ Known as "Sun Yat-sen's wallet," he was a skilled financier and a founder of the KMT's predecessor, the Revolutionary Alliance (*Tongmenghui*, 同盟会).⁴⁹ He was also a martyr. Assassins shot him to death in August 1925, an

⁴⁶ *BLJ*, vol. 4, 707.

⁴⁷ There is some disagreement among scholars over how Liao was selected for his assignment to Hong Kong. Kurt Warner Radtke wrote in 1990 that it was unclear whether the CCP sent Liao south or whether he had volunteered for the assignment. Kurt Warner Radtke, *China's Relations with Japan, 1945-1983: The Role of Liao Chengzhi* (New York: Manchester University Press, 199), 63. However, Tie Zhuwei's biography of Liao states unequivocally that it was Zhou Enlai who suggested that Liao be sent south to Hong Kong to establish the Party's Eighth Route Army Office. Tie Zhuwei, *Liao Chengzhi Zhuan* [A Biography of Liao Chengzhi] (Beijing: Renmin, 1998), 156. Tong Xiaopeng (童小鹏), who first met Liao Chengzhi when the two worked together in 1937 at the Party's Eighth Route Army Office in Nanjing, also states that it was the Central Committee's decision to dispatch Liao to Hong Kong. See Tong Xiaoping, "Chengzhi Yongzai Xinzhong" [Chengzhi [Will] Forever [Be] in My Heart], in *Liao Gong Zai Renjian* [Liao in the World], ed. Zhongguo Xinwen She (Hong Kong, Sanlian, 1983), 19.

⁴⁸ Radtke, *China's Relations with Japan*, 23. For a detailed study of Liao Zhongkai's life and career, see Fook-lam Gilbert Chan, "A Chinese Revolutionary: The Career of Liao Chung-K'ai (1878-1925)" (PhD diss., Columbia University, 1975).

⁴⁹ Mayumi Itoh, *Pioneers of Sino-Japanese Relations: Liao and Takasaki* (New York: Palgrave MacMillan, 2012), 32.

untimely demise that brought his family the limited solace of conferring upon them unimpeachable revolutionary credentials.⁵⁰ Liao Chengzhi's mother, He Xiangning (何香凝), was a leading revolutionary in her own right. She joined the Revolutionary Alliance the same year as her husband, making her the party's second female member.⁵¹ This distinguished lineage carried weight among ethnic Chinese communities in Hong Kong, Macao, Southeast Asia, and farther afield, a fact that the CCP leadership hoped to capitalize on by assigning Liao the important task of heading fundraising efforts as chief of the Hong Kong Eighth Route Army Office.⁵²

Other considerations reinforced Liao's suitability. Born in Tokyo, he spoke fluent Japanese; his American-accented English was proficient enough that he could sprinkle fundraising speeches with "God only knows" and other natural utterances.⁵³ He had also studied French, German, and Russian.⁵⁴ Revolutionary work had taken him to Europe, where he

⁵⁰ In the years before his death, Liao Zhongkai had also served as head of the KMT's Financial Committee, provincial governor of Guangdong, head of the Guangdong Provincial Financial Office, and head of the Military Supply Bureau. See Hans van de Ven, "The Kuomintang's Secret Service in Action in South China: Operational and Political Aspects of the Arrest of Liao Chengzhi (1942)," *Intelligence and National Security* 16:4 (2004), 223.

⁵¹ The first woman to join the Revolutionary Alliance was feminist and writer Qiu Jin (秋瑾). Helen Foster Snow, *The Chinese Communists: Sketches and Autobiographies of the Old Guard* (Westport, CT: Greenwood Publishing Co., 1972), 30.

⁵² The CCP occasionally invoked the Liao family's contributions to China's independence movement in its Chinese-language newspapers. In August 1938, for example, *Xinhua* published an article written by Eighth Route Army Chief of Staff Ye Jianying extolling Liao Zhongkai and his contributions to China's quest for independence. Ye Jianying, "Huiyi Liao Zhongkai Xiansheng de Pianduan" [Recalling Fragments of Mr. Liao Zhongkai], *Xinhua Ribao*, 20 August 1938, as reprinted in Ye Jianying, *Ye Jianying Xuanji, di yi juan* [Selected Works of Ye Jianying, Volume 1] (Beijing: Renmin, 1996), 4-6.

⁵³ For firsthand observations on Liao's English mannerisms, see Helen Foster Snow, *The Chinese Communists*, 26.

⁵⁴ Radtke, *China's Relations with Japan*, 13.

organized strikes in Antwerp, Rotterdam, Hamburg, and Marseilles.⁵⁵ By the time Mao sent for Liao one evening in October 1937, the twenty-nine-year-old Liao who turned up was very much the worldly and self-assured product of these skills and experiences. But he was also naturally earthy and affable. He was a hybrid, equally at home in pulsing metropolises and the remote hills of Yan'an, and he was the perfect public face for the Hong Kong Eighth Route Army Office.

“Comrade Zhou really knows how to choose people,” Mao supposedly confided to Liao when he arrived for a briefing on his future role in Hong Kong. “[He] knows how to gauge them and assign them to the right positions” (*zhiren shanren*, 知人善任).⁵⁶ The decision to send Liao south, first to Nanjing for training and then on to Hong Kong to open the Party’s Eighth Route Army Office, was not Zhou’s alone, Mao stressed. “I also raised my hand (*wo ye ju le shou*, 我也举了手),” he explained, “this is the Central Committee’s decision.”⁵⁷ The leadership had little reason to object to Liao’s appointment. In sending him to Hong Kong, the CCP placed at the head of its new office a seasoned internationalist, a trusted cadre, and the son of a prominent revolutionary family who could be expected to trade on his proud genealogy for donations of medicine, cash, equipment, and ammunition that would keep communist fighters in the war against Japan.

The CCP leadership pressed ahead with plans for the new office in Hong Kong during the fall. It was penciled into the Party organization charts: it would report routinely to the Central Committee and the Central Yangtze River Bureau (*Zhonggong Zhongyang Changjiang Ju*, 中共中央长江局), a Wuhan-based organization headed by Zhou Enlai that coordinated CCP work in

⁵⁵ Van de Ven, “The Kuomintang’s Secret Service in Action in South China: Operational and Political Aspects of the Arrest of Liao Chengzhi (1942),” 224.

⁵⁶ The quotation is from Tie, *Liao Chengzhi Zhuan*, 156.

⁵⁷ *Ibid.*

Hong Kong and Macao.⁵⁸ Before Liao could begin to take up his new position, however, the CCP leadership had to secure permission from the British government to establish an office in the colony. The opportunity to pitch the idea arrived sometime near the beginning of 1938, when Zhou Enlai convened a forgotten but fateful meeting in Wuhan with Britain's ambassador to Nationalist China, Archibald Clark Kerr.⁵⁹

Zhou could make his case to Ambassador Clark Kerr by playing on a mix of anxieties that had preoccupied British officials in Hong Kong and London since the summer. Throughout the summer and fall London had struggled to maintain neutrality in the Sino-Japanese War without undermining Britain's strategic and commercial interests in the region, a nearly impossible task that nonetheless created several incentives for supporting Chinese resistance efforts. Among these incentives were the interests of major British firms operating in East Asia. Just weeks after the Marco Polo Bridge Incident in July 1937, KMT orders for tanks, planes, and ammunition began to land on the desks of British merchants. Many of these goods would have to be transshipped through Hong Kong. For British traders, these purchase orders represented

⁵⁸ The CCP Central Committee established the Central Yangtze River Bureau on August 23, 1937, primarily to take the lead in rebuilding the Party ranks in southern China and to support the war effort by engaging in United Front work. For more on the responsibilities and activities of the Yangtze River Bureau, see Cheng Peng, "Kangri Fenghuo Zhong de Zhonggong Zhongyang Changjiang Ju" [The CCP Yangtze River Bureau in the Midst of the Anti-Japan War], *Wuhan Wenshi Ziliao* [Wuhan Historical Materials] 6 (2011): 40-43.

⁵⁹ Chinese sources offer slightly inconsistent accounts of when Zhou's meeting with Clark Kerr occurred. According to Zhou Enlai's official chronology (*nianpu*, 年谱), which Party historians compiled with privileged access to CCP archives, the meeting occurred sometime in January 1938. See Zhonggong Zhongyang Wenxian Yanjiushi, *Zhou Enlai Nianpu, 1898-1949* [A Chronology of Zhou Enlai, 1898-1949] (Beijing: Zhongyang Wenxian, 1990), 402. However, an official history of the CCP's wartime military supply system dates the meeting to late December 1937. See *BLJ*, vol. 4, 841.

business as usual; military shipments had been routed through Hong Kong prior to the outbreak of war as a matter of course.⁶⁰

“We consider our function straightforward and as free of political unpleasantness as our previous armaments dealings,” the Shanghai office of the Jardine Engineering Corporation explained in an August telegram to Hong Kong colleagues.⁶¹ The firm had been approached by the Nationalist government to provide British tanks and other armaments, all of which the KMT hoped to receive at Guangdong following transshipment through Hong Kong. Any move to limit these emerging new trade opportunities could, at the least, run contrary to the interests of Britain’s major East Asian trading firms. “Naturally,” wrote the Foreign Office, “Jardine Matheson & Co. Ltd. would like to do the business if it is feasible for them to do so.”⁶²

Britain’s larger strategic considerations played into Zhou’s hands as well. Appearing to spurn China in its hour of need risked “alienating the goodwill of China on which the prosperity of Hong Kong ultimately depends,” the Colonial Office wrote in September in preparation for a Foreign Office meeting on Hong Kong’s status in the war.⁶³ As far as the Colonial Office was concerned, “[a] few risks for China’s sake would probably be a good investment in that it would reinforce that goodwill after the war.”⁶⁴ This “investment” created two possible advantages for London. First, allowing support to funnel into China through Hong Kong promised to safeguard

⁶⁰ For statistics on arms and ammunition shipments through the colony in 1936, see Governor of Hong Kong, “Transit of Arms and Ammunition through Hong Kong to China,” 03 March 1937, The National Archives of the United Kingdom, Kew, Richmond, Surrey, England (hereafter *TNA*), FO, 371, 20976, 2316/130/10.

⁶¹ Shanghai Office of Jardine Matheson & Co., Ltd., to Hong Kong Office, as quoted in Under-Secretary of State, Foreign Office, “Supply of munitions to Nanking Government,” 27 August 1937, *TNA*, FO 371, 20976, 5809/130/10.

⁶² *Ibid.*

⁶³ Colonial Office, “Memorandum on the Position of Hong Kong,” 06 September 1937, *TNA*, FO 371, 20976, 6164/130/10.

⁶⁴ *Ibid.*

the regional importance of the colony as a major shipping and financial hub in the face of Japan's revisionist aspirations. "Hong Kong herself has nothing to gain by Japanese domination in the south [of China], for they would no doubt attempt to cut out Hong Kong's position as an entrepot center," the Colonial Office reasoned.⁶⁵ Second, circumscribing Hong Kong's position in the China trade could cost British firms after the Sino-Japanese conflict had run its course. "I venture to put forward further consideration that if we now cut off arms supply to China through Hongkong, we are unlikely to obtain [a] large share in rearmament of China after the termination of hostilities," the British Embassy in Nanjing wrote.⁶⁶

London's sensitivity to its reputation in China was hardly a figment of the British bureaucracy's imagination. "The Chinese [Nationalist] Government and the educated classes are watching with the utmost anxiety for the reaction of His Majesty's Government to Japan's suggestion that restrictions should be imposed on the use of Hongkong as an entrepot for the import of arms into China," the British Embassy in Nanjing wrote to London on August 29.⁶⁷ The embassy was right to be concerned. Chinese observers, including CCP leaders, were keeping a close eye on London's moves. In a July 21 instruction, the Central Committee lumped the British together with the French to argue that both colonial powers disapproved of China's nation-wide resistance effort. London and Paris were clinging to the hope that China and Japan

⁶⁵ Ibid.

⁶⁶ Nanking (Gage) to Foreign Office, letter, 06 September 1937, *TNA*, FO 371, 20976, 6262/130/10.

⁶⁷ Nanking (Gage) to Colonial Office, letter, 04 September 1937, *TNA*, FO 371, 20976, 6149/130/10.

would reach a compromise. “This approach of theirs, objectively speaking, will benefit Japan,” the Central Committee concluded in frustration.⁶⁸

With these pressures churning in the back of Ambassador Clark Kerr’s mind, Zhou Enlai had plenty to work with in making the case that Britain’s own strategic interests would be served by allowing the CCP to establish a discreet office in Hong Kong. Zhou pointed out that such a presence could be used to channel funds and supplies quietly from sympathetic compatriots abroad to anti-Japanese resistance fighters on the mainland.⁶⁹ Clark Kerr couldn’t help but agree, and with his support the Communist Party received approval from Hong Kong authorities to open the new office.⁷⁰

The CCP was by no means given carte blanche in the colony. The fraught international climate imposed limits on what Hong Kong authorities were willing to tolerate. Too conspicuous a support structure for China threatened to undermine London’s painstaking efforts to retain an air of balanced neutrality. “The Chinese naturally look to Hong Kong as the entrepot for the supply of war materials,” the Foreign Office explained in a September 1937 memorandum. However, the memo continued, “the Japanese will certainly take steps to prevent it being so used should the traffic grow large enough to become a serious menace.”⁷¹ Activities inside the colony itself proved equally vulnerable to being swept into the war. What occurred in Hong Kong—or,

⁶⁸ CCP Central Committee, instruction, “Zhonggong Zhongyang Shujichu Guanyu Muqian Xingshi de Zhishi” [CCP Instruction on the Current Situation], 21 July 1937 in *JDYL*, vol. 14, 386-387.

⁶⁹ Yuan Chaojun and Le Shuo, “Huarun: Zai Dajuezhanzhong Chuangye” [China Resources: Entrepreneurship in Armageddon], *Hongyan Chunqiu* 2 (1998), 36. See also, Chen Dunde, *Ba Lu Jun Zhu Xianggang Banshichu Jishi* [True Record of the Eighth Route Army Office in Hong Kong] (Hong Kong: Zhonghua Shuju, 2010), 24-25.

⁷⁰ *BLJ*, vol. 4, 707, 841.

⁷¹ Far Eastern Department, Foreign Office, to Cabinet Committee on the Far Eastern Situation, memo, “Position of Hong Kong in Relation to the Present Sino-Japanese Dispute,” 14 September 1937, *TNA*, FO 371, 20977, 6664/130/10.

rather, what was permitted to occur in Hong Kong—was inevitably construed by belligerents and non-combatants alike as reflecting London’s stance on the war itself. In acknowledgement of Britain’s delicate position, Zhou promised Clark Kerr that CCP members operating in Hong Kong would refrain from displays or activities that would undermine London’s official neutrality.⁷²

In January 1938 the Communist Party’s new Eighth Route Army Office opened its doors at 18 Queen’s Road Central (*Huanghou Dadao*, 皇后大道), in the heart of Hong Kong’s central business district.⁷³ Before the office opened, a group of Party members decided during a secret meeting to open a front—the Yuehua Tea Company (*Yuehua Chaye Gongsì*, 粤华茶叶公司)—for the new Eighth Route Army Office.⁷⁴ But the flurry of activity undertaken by Eighth Route Army Office workers began to erode Yuehua’s commercial veneer almost from the outset. The office played a central role in transporting patriotic youths and skilled workers to CCP base areas on the mainland, for example. During 1938 and 1939 alone, staff helped to transport over 600 individuals.⁷⁵ The office also worked hand-in-glove with the China Defense League (*Baowei Zhongguo Tongmeng*, 保卫中国同盟) to raise funds, translate and distribute CCP propaganda, and publish newspapers sympathetic to the anti-Japan cause. According to incomplete Chinese records, the Hong Kong Eighth Route Army Office raised roughly HK \$2.2 million during the

⁷² Wu Xuewen and Wang Junyan, eds., *Liao Chengzhi yu Riben* [Liao Chengzhi and Japan] (Beijing: Zhonggong Dangshi, 2007), 68.

⁷³ *BLJ*, vol. 4, 707.

⁷⁴ Attendees included Liao Chengzhi, Pan Hannian (潘汉年), Wu Youheng (吴有恒), Lian Guan (连贯), Zhang Weiyi (张唯一), Li Shaoyou (李少右), and Liao Mengxing (廖梦醒), among others. Wu Xuewen and Wang Junyan, eds., *Liao Chengzhi yu Riben*, 68.

⁷⁵ *BLJ*, vol. 4, 710.

war, much of which was used to purchase everything from blankets to ammunition for communist troops on the mainland.⁷⁶

Little of this activity slipped past Japanese officials unnoticed. Tokyo had been aware of Hong Kong's indispensability to anti-Japanese resistance fighters since late summer 1937. As early as September 1, the Aid de Camp to the Japanese Marine Minister expressed his concern over the matter directly to Britain's naval attaché in Tokyo.⁷⁷ Tokyo's frustration only mounted as the months passed and supplies continued to funnel through Hong Kong into China.

"Something must be done," the exasperated Japanese consul general in Hong Kong told his U.S. counterpart in late March 1938.⁷⁸ Many of the goods routing through Hong Kong pushed well beyond the limits of inconspicuousness. Anti-aircraft guns, trucks, and even airplanes passed through Hong Kong's "neutral" shipping facilities bound for China.⁷⁹ Most of this traffic represented KMT rather than CCP shipments, but Japanese officials had little incentive to parse between recipients. Nor did British authorities, who continued to wring their hands over how to ensure Hong Kong's neutrality without alienating China, infuriating Japan, or undermining the British merchant houses that dominated the colony's trade routes.

On March 13, 1939, the CCP discovered that it had exceeded its bounds in Hong Kong. That morning Hong Kong Police Special Branch officers raided the Yuehua Tea Company,

⁷⁶ Ibid. A discussion of Eighth Route Army Office United-Front activities in Hong Kong can be found in Wu Xuwen and Wang Junyan, eds., *Liao Chengzhi yu Riben*, 67-112.

⁷⁷ Tokyo (Dodds) to Foreign Office, letter, 01 September 1937, *TNA*, FO 371, 20976, 5968/130/10.

⁷⁸ The Consul General at Hong Kong (Southard) to the Secretary of State, letter, 01 April 1938, *Foreign Relations of the United States* (hereafter *FRUS*), 1938, Volume III, The Far East, (Washington, DC: U.S. Government Printing Office, 1938), 132.

⁷⁹ For a list of these and other goods provided to the U.S. consulate in Hong Kong by a Japanese newspaper correspondent, see "Memorandum Prepared in the Division of Far Eastern Affairs," 20 April 1938, *FRUS*, 1938, Volume III, The Far East, 597-598.

seized company documents, and arrested several staff members. On the same morning local police arrested Lian Guan (连贯) in his home. Lian had run daily operations at Yuehua since it opened in January 1938.⁸⁰ Liao Chengzhi took the matter up directly with the police chief and the head of the Hong Kong Special Branch (*Zhengzhi Bu*, 政治部) the next day in meetings that turned out to be as fruitless as they were courteous.⁸¹

The Hong Kong government ultimately released all of the arrested staff, but Liao had little trouble reading between the lines. In a March 16 cable to the Central Committee and the Southern Bureau (*Nanfang Ju*, 南方局), which had replaced the Yangtze Bureau in October 1938, Liao speculated that the raid was an effort to pressure him to leave the colony. For two months, local authorities had stepped up investigations into six patriotic Chinese organizations operating in the colony, Liao explained. Close affiliates of the Eighth Route Army Office had also begun pushing the limits of acceptable discourse in the colony. Liao reminded the Party leadership that Song Qingling (宋庆龄), the founder and public face of the China Defense League, had recently castigated British imperialism in a public speech for having surrendered to fascism.⁸² The office had pushed too hard, too publicly. Liao's assessment of the local scene

⁸⁰ Liao Chengzhi, cable, "Liao Chengzhi Guanyu Yuehua Gongsu Bei Soucha Ji Kening Bei Poli Gang Zhi Zhonggong Zhongyang, Nanfang Ju Dian" [Cable from Liao Chengzhi to the Central Committee and the Southern Bureau Regarding the Search of Yuehua and Possible Pressure to Leave Hong Kong], 14 March 1939, *BLJ*, Vol. 4, 734. The police also arrested a New Fourth Army adjutant who was recuperating at Lian's home and two visiting youths from Hainan heading to Yan'an to study at the Anti-Japan Political and Military University.

⁸¹ The police chief told Liao that his office had not been aware that Yuehua was tied to the Eighth Route Army Office, and expressed regrets for the oversight. Ultimately, he concluded, the matter lay with the Special Branch. The head of the Special Branch was equally polite and noncommittal. *Ibid.*

⁸² Liao Chengzhi, cable, "Liao Chengzhi Guanyu Yuehua Gongsu Bei Soucha Yuanyin Ji Yingfu Cuoshi Zhi Zhonggong Zhongyang, Nanfang Ju Dian" [Cable from Liao Chengzhi to Central Committee and Southern Bureau Regarding the Search of Yuehua Company and Measures in Response], 16 March 1939, *BLJ.*, vol. 4, 736.

proved spot-on. By late June, “the anti-Party sentiment had heightened considerably,” he reported.⁸³ Before the year was out, Hong Kong authorities had shuttered Yuehua for good, although Liao and his staff continued to operate despite the lack of a cover office.⁸⁴

The untimely demise of the Yuehua Tea Company offered several lessons for CCP commercial work. Most pressing was the need to tighten security procedures. The Party leadership took the loss of sensitive documents during the Yuehua flap extremely seriously, and within weeks began to issue new guidance designed to shroud Party commercial work in secrecy. On April 1, 1938, the Southern Bureau cabled all of the offices under its command with strict new guidelines: do not store secret Party documents inside the office; burn sensitive cables involving intelligence work and secret affairs after reading them; burn other documents within five days of their arrival; treat Party financial accounting documents as top secret; prevent local parties from borrowing office space to convene meetings, dispatch communications, or for other reasons; and burn these instructions after reading them.⁸⁵ The CCP Secretariat followed up on April 12 with its own similar instructions.⁸⁶ The general tone set by both sets of guidance was unmistakable: commercial work in non-CCP areas was, and must be, a sensitive undertaking—more akin to intelligence work than open propaganda work.

⁸³ Liao Chengzhi, cable, “Liao Chengzhi Guanyu GangYing Zhengfu Banbu Jiancha Mishe Diantai Ling Deng Zhi Zhonggong Zhongyang, Nanfang Ju Dian” [Cable from Liao Chengzhi to Central Committee and Southern Bureau Regarding the British Hong Kong Government Issuance of Orders Regarding Inspections for Secretly Installed Transmitter-Receiver, Etc.], 24 June 1939, *BLJ*, vol. 4, 742.

⁸⁴ Chan, *East River Column*, 29.

⁸⁵ Central Southern Bureau, cable, “Zhonggong Zhongyang Nanfangju Guanyu Baozhang Banshichu Gongzuo de Jueding Zhi Ge Banshichu Bing Bao Zhongyang Dian” [Cable from the Central Southern Bureau to [Subordinate] Offices and Copied to the Central Committee Regarding Decisions to Safeguard Office Work], 01 April 1939, *BLJ*, vol. 1, 200.

⁸⁶ CCP Secretariat, resolution, “Zhonggong Zhongyang Shujichu Guanyu Mimi Gongzuo de Jueding” [CCP Secretariat Resolution Regarding Secret Work], 12 April 1939, *JDYL*, vol. 16, 163.

That CCP commercial activities required greater secrecy did not mean the Party leadership had any intention of curtailing its foreign-trade activities. The Eighth Route and New Fourth Armies were too desperate for that. The day after the CCP Secretariat guidance circulated within the Party, Zhu De (朱德), Peng Dehuai (彭德怀), and Yang Shangkun (杨尚昆) wrote to Nie Rongzhen (聂荣臻) and other senior army officials emphasizing the importance of strengthening trade work as an important component in the Red Army's efforts to overcome its economic difficulties.⁸⁷ The challenge, then, was to expand foreign-trade work while ensuring its sustainability through secrecy. The most promising model for accomplishing these twin objectives was a small firm called Liow & Company just a few hundred meters away from the Yuehua Tea Company, on Connaught Road Central (干诺道中).

By outside appearances, Liow & Company was one of the countless businesses trading briskly with the Chinese mainland from the cramped quarters of a downtown office. It was legally independent, not particularly large—capitalized at U.S. \$20,000, and run by a man who appeared preoccupied with the routine administrative and financial chores that occupied most enterprising young business owners.⁸⁸ But the company, known in Chinese as *Lianhe Hang* (联和行), was actually subordinate to the Eighth Route Army Office in Hong Kong. Local CCP members recognized early in 1938 the importance of opening a second commercial front company that had no outwardly discernable ties to Yuehua. Eighth Route Army Office staff intended to use the company as a clean front for opening bank accounts, renting warehouse

⁸⁷ Zhu De, Peng Dehuai, and Yang Shangkun, cable, “Zhu De Deng Guanyu Kefu Caizheng Jingji Kunnan Gei Nie Rongzhen de Dianbao” [Cable from Zhu De and Others to Nie Rongzhen on Overcoming Financial and Economic Difficulties], 13 April 1939, *JDYL*, vol. 16, 165.

⁸⁸ Wu et al., *Hongse Huarun* [Red China Resources] (Beijing: Zhonghua, 2010), 5.

space, and lining up shipping contracts.⁸⁹ By late summer 1938, the new company was up and running just far enough from Yuehua to dampen speculation that the two firms were linked, but still only minutes away on foot should the need arise for discreet business consultations.⁹⁰ This new office represented a decidedly different, and ultimately more durable, approach to economic engagement with the capitalist world.

The selection of Qin Bangli (秦邦礼) to head Liow & Company says a great deal about what the CCP leadership had in mind for how the new office should run. Qin was born in the famed Jiangsu commercial city of Wuxi in 1908. His family had once been local notables, but his father died young and left the family impoverished.⁹¹ Qin Bangli apprenticed at a local bank in his early teens, but he soon found purpose and meaning in the mission of the Chinese Communist Party.⁹² With slicked-back hair, soft cheeks, and a budding paunch, Qin bore little resemblance to his slimmer and older brother, the senior CCP leader Bo Gu (博古).⁹³ Bo recommended his brother in 1930 to Chen Yun, then a rising star within the CCP who would go on to play a central role in the development of CCP economic and trade policy.⁹⁴ Chen no doubt sensed opportunity in Qin Bangli, whose background in banking and trusted elder brother suggested a promising future in sensitive underground commercial work.

⁸⁹ Ibid.

⁹⁰ Ibid., 5-6.

⁹¹ Zhou Yan, “Hongse ‘Huarun’ de Shouwei Zhangmenren Yang Lin” [Yang Lin, the First Head of Red “Huarun”], *Shiji* 03 (2007), 13; Qin Fuquan, *Bo Gu he Mao Zedong* [Bo Gu and Mao Zedong] (Hong Kong: Dafeng, 2009), 191. Qin Fuquan was Qin Bangli’s son.

⁹² Zhou, “Hongse ‘Huarun’ de Shouwei Zhangmenren Yang Lin,” 13.

⁹³ Bo Gu’s given name was Qin Bangxian (秦邦宪).

⁹⁴ When he met Qin Bangli, Chen was the head of the organization department of the Jiangsu Provincial Party Committee (*Zhonggong Jiangsu Sheng Wei Zuzhi Buzhang*, 中共江苏省委组织部). Zhou Yan, “Hongse ‘Huarun’ de Shouwei Zhangmenren Yang Lin,” 13.

By 1931 Qin was honing his skills in underground CCP work under Chen's guidance. He had opened six small shops throughout Shanghai and one in the southern port city of Shantou.⁹⁵ These companies operated in a range of local markets, from furniture to stationary, and each provided fronts and funds for use by underground Party members.⁹⁶ Qin learned from running these companies how to foster a veneer of commercial legitimacy just plausible enough to sustain a host of illicit activities in Shanghai during the 1930s, including the procurement of urgently needed supplies for the Jiangxi Soviet.⁹⁷

Qin's successes in Shanghai and Shantou demonstrated an aptitude for blending entrepreneurship with underground Party work, and in early 1938 Chen Yun dispatched him to Hong Kong to support Liao Chengzhi by establishing a new, secret CCP company.⁹⁸ Among the senior ranks of the CCP leadership, none—save perhaps Chen Yun—was in a position to dictate the specifics of how Qin should go about establishing and running the new business. No one had the technical skills, the business experience, or the time to manage Qin's activities in too great detail. They had no choice but to delegate authority to Qin and his local colleagues in the Eighth Route Army Office. Yet the Central Committee and the Yangtze River Bureau (and later the

⁹⁵ Qin, *Bo Gu he Mao Zedong*, 13.

⁹⁶ The four remaining shops included a retailer of delicacies from south China (*nanhua*, 南货), a sugar refinery (*tangchang*, 糖廠), a rice shop (*midian*, 米店), and a branch in Shantou of the Shanghai ZhongFa Pharmacy (*Shanghai ZhongFa Yaofang*, 上海中法药房汕头分店). Ibid. Qin was one of several undercover CCP commercial operators in Shanghai during the late 1930s and early 1940s. Jiang Jianzhong, for example, a print shop worker who joined the CCP in 1938, also posed as a private businessman in Shanghai in order to conduct business on behalf of the Party. See Rottmann, "Resistance Urban Style," 358.

⁹⁷ Qin and his front companies also played a pivotal role in smuggling CCP members out of Shanghai and into the Jiangxi Soviet after the KMT's arrest of CCP spy chief Gu Shunzhang (顾顺章) in April 1931. Zhou, "Hongse 'Huarun' de Shouwei Zhangmenren Yang Lin" [Yang Lin, the First Head of Red "Huarun"], *Shiji* 03, 13.

⁹⁸ Qin, *Bo Gu he Mao Zedong*, 191.

Southern Bureau) still dictated the general orientation and scope of Qin's activities. The naming of Qin's company illuminates how this balance of authorities worked.

Party members in Hong Kong proposed the name "Lianhe Hang" because "Lian He" sounds similar to "Lian An" (廉安) when pronounced in the Wuxi dialect, and Yang Lianan (杨廉安) was the pseudonym Qin Bangli was using in Hong Kong at the time. The name "Lianhe Hang" was thus calculated to reinforce the outside image of the new company as a personal venture undertaken by an enterprising Wuxi native.⁹⁹ Hong Kong Party members still had to submit the proposed name to the Central Committee and the Yangtze River Bureau, however, before adopting it. Senior officials in Yan'an and Wuhan quickly concurred with the proposal, but the approval process itself, which allowed for cadres knowledgeable about the local business environment to propose initiatives for senior for approval, offers a glimpse into how the CCP was developing its own sense of how authority and decision-making should function at the nexus of a Leninist political organization and foreign capitalist markets.

Qin's lifestyle in Hong Kong reveals similar insights into the challenge of reconciling capitalist practices with communist identity on a personal and human level. Clad daily in a Western suit and tie, Qin followed the rhythms and norms that structured life for much of Hong Kong's entrepreneurial community. He worked hard to build personal connections that would embed his firm into the local commercial environment. But Party needs drove much of this agenda. The bases were perennially short of Western medicines, for example, so Qin befriended the manager of a Hong Kong pharmaceutical company.¹⁰⁰ He developed a relationship with another firm because it could provide wireless communication equipment to Red Army guerrilla

⁹⁹ Wu et al., *Hongse Huarun*, 5.

¹⁰⁰ *Ibid.*, 12.

units.¹⁰¹ He also developed ties with a banker at a Belgian overseas bank branch and a textile factory boss.¹⁰²

The networking, the suits, and the downtown office location all served the revolution. In the spirit of this cause, Qin scrimped every Hong Kong dollar he could. A visiting CCP member found Qin in late 1940 crowded with his family in a rented one-bedroom apartment so cramped that two family members shared the sofa each night for a bed.¹⁰³ Qin passed the early years of the Sino-Japanese War in this ideologically blended state at the capitalist-most edge of the Chinese revolution. When Hong Kong finally fell to the Japanese on Christmas Day in 1941, the Eighth Route Army Office closed its doors for good. But Liow & Company continued to operate under the radar. Qin himself left Hong Kong for the mainland and eventually settled in Wuzhou (梧州), a small city tucked against the Xi River in eastern Guangxi province.¹⁰⁴ But he still turned up in Hong Kong routinely to maintain operations at Liow & Company.

As Qin expanded his operations into the tire and tung oil trades during the early 1940s, the Central Committee consolidated its position on foreign trade.¹⁰⁵ On March 23, 1940, the CCP Secretariat urged the base areas to use tax policies and administrative controls to bring trade firmly into line with wartime goals. The same instructions urged officials to limit or prevent the import of goods that were unnecessary or that could be produced locally, and encouraged cadres to facilitate “appropriate” (*shidang*, 适当) exports to pay for essential imports.¹⁰⁶ Guidance

¹⁰¹ Ibid.

¹⁰² Yuan Chaojun and Le Shuo, “Huarun: Zai Dajuezhanzhong Chuangye,” 37.

¹⁰³ Wu et al., *Hongse Huarun*, 14.

¹⁰⁴ Ibid., 19.

¹⁰⁵ For Qin’s new business lines, see *ibid.*, 17, 19.

¹⁰⁶ CCP Central Secretariat, instruction, “Zhongyang Guanyu Dui Diren Jingji Douzheng de Zhishi” [Central Instruction Regarding the Economic Struggle Against the Enemy], 23 March 1940, available at *Zhongguo Gongchandang Zhongyao Wenxian Xinxiku* [CCP Important

quickly followed asking various base areas to establish foreign-trade administrative bodies to manage the task.¹⁰⁷ The motivation behind these instructions was a deepening conviction that foreign trade with capitalists would continue apace—not freely, but in accordance with Party-determined objectives. By the time Tokyo surrendered unconditionally in August 1945, the foreign-trade question that concerned the CCP leadership most was not whether foreign trade with capitalists would continue, but where and how.

IV. The Northeast Connection

The end of the Sino-Japanese War in August 1945 left the CCP with the space, strength, and need in north China to push for a broad array of regional trade relationships. In late summer, Soviet forces rushed into northeast China. For the CCP leadership, this amounted to a replacement of hostile Japanese interlopers with friendly Soviet ones. The newly arrived Soviet troops were slow to reverse course, waiting until March 1946 to begin to withdraw from the region.¹⁰⁸ The Party used the interim to fill the postwar vacuum with its own forces, which had grown substantially. By Mao's count, Red Army troops topped 910,000 men in April 1945, and its rural militia forces added another 2,200,000 troops to the total.¹⁰⁹ The Chinese Communist Party itself had grown, too. Mao figured the Party ranks had swollen to 1,200,000 men and

Documents Repository], <http://data.people.com/cn> (hereafter ZGZYWX), last accessed on February 17, 2017.

¹⁰⁷ See, for example, CCP Central Secretariat, instruction, “Zhongyang dui Puxi Bei Caijing Zhengce de Zhishi” [Central Instruction to Northwestern Shanxi [Regarding] Financial and Economic Policies], 18 May 1940, ZGZYWX. See also the Northern Bureau's instruction to administrative organs within its jurisdiction to establish a trade bureau (*maoyi ju*, 贸易局) in Northern Bureau, untitled instruction, 01 April 1940, ZGZYWX.

¹⁰⁸ Suzanne Pepper, *Civil War in China: The Political Struggle, 1945-1949* (Lanham, MD: Rowman & Littlefield, 1999), xii.

¹⁰⁹ Mao Zedong, report, “Lun Lianhe Zhengfu” [On Coalition Government], 24 April 1945, *MZDXJ*, vol. 3, 1038-1039.

women near the end of the war.¹¹⁰ More party members meant more mouths to feed, and more troops meant more men to arm.

Mao was convinced that his forces would soon be put to the test in an all-out conflict with the KMT. He harbored no illusions that ongoing peace negotiations with the Nationalists would amount to anything. “The Kuomintang peace offensive is a complete sham,” he cabled the Party’s Northeast Bureau on October 22, 1946. “[T]he civil war will not stop, [and we] must make it difficult for Chiang to enter the northeast.”¹¹¹ The conflict ahead would be “long and arduous (*changqi jianku*, 长期艰苦), he wrote to the Northeast Bureau a few days later, and the Party would have to make adequate preparations.¹¹² These included ensuring sufficient funds and equipment to fight the war. Having witnessed over the preceding eight years how useful trade with the capitalist world could be during a war effort, the CCP had already begun to lay the groundwork for linking north China to the Party’s fledgling commercial operations in Hong Kong.

On May 3, 1946, the Central Committee sketched out a receptive position on trade with foreign capitalists moving forward. This was a fluid moment for China, the CCP assessed. “The United States still does not believe that the CCP can engage in long-term economic cooperation with [Americans],” the Central Committee’s guidance explained.¹¹³ “[They] still suspect we

¹¹⁰ *Ibid.*, 1094.

¹¹¹ Mao Zedong, cable, “Zhi Dongbeiju Dian” [Cable to Northeast Bureau], 22 October 1946, in Zhang Dijie, ed., *Mao Zedong QuANJI* [Collected Works of Mao Zedong], vol. 22 (Hong Kong: Rundong, 2013) (hereafter *MZDQJ*), 193.

¹¹² Mao Zedong, cable, “Di Qiang Wo Ruo Bixu Zhunbei Changqi Douzheng” [The Enemy is Strong, We Are Weak, [We] Must Prepare for Protracted Struggle], 25 October 1946, *MZDQJ*, 195.

¹¹³ Central Committee, instruction, “Zhonggong Zhongyang Guanyu Jiefangqu Waijiao Fangzhen de Zhishi” [Instruction from the Central Committee Regarding Foreign Relations Guidelines for Liberated Areas], 03 May 1946, *JDYL*, vol. 23, 243. Liu Shaoqi (刘少奇) drafted the document.

want to conduct economic cooperation with the Soviet Union in order to resist [*dizhi*, 抵制] the United States.”¹¹⁴ As a result, American interactions with local CCP units “have an exploratory, tentative aspect to them” (*daiyou shitanxing*, 带有试探性). “[O]nce the Americans are able to clarify completely our position, then [they] will be able to determine their policies and guidelines with respect to us,” the instruction continued.¹¹⁵

These circumstances provided an opportunity to facilitate future CCP economic relations with the capitalist world, and doing so required reaching out to capitalists. “We should adopt a guideline of implementing trade (*tongshang*, 通商) and economic cooperation with the United States, England, France, and various [other] countries,” the Central Committee stated plainly. The guidance also sounded a note of caution, however.¹¹⁶ Party cadres must reject any efforts by Americans to manipulate their way into a military presence on the Shandong Peninsula, where they had been particularly active.¹¹⁷ These were capitalists and imperialists, after all. “American capitalism wants to control economic activity in China (including the liberated areas),” the Central Committee reminded working-level cadres. “This tendency is inevitable.”¹¹⁸ Locating the balance between inducing foreign capitalists to trade and defending against imperialist encroachment required vigilance, but it could be done. And in a few short months, cadres would depart from Dalian to prove it.

Tucked just north of the Yellow Sea between the Bohai Sea and Korea Bay, Dalian offered an enticing ice-free port for a sea route south to Hong Kong and trade hubs in between. The city was also accessible by rail from the northeastern city of Harbin, which CCP troops

¹¹⁴ Ibid.

¹¹⁵ Ibid.

¹¹⁶ Ibid.

¹¹⁷ Ibid.

¹¹⁸ Ibid.

conquered in April 1946 on the heels of departing Soviet troops.¹¹⁹ Equally important, the Soviets controlled the city. Moscow and the KMT government in Nanjing had agreed in the Sino-Soviet Treaty of Friendship and Alliance of August 1945 that Soviet-occupied Dalian would become a “free port open to the commerce and shipping of all nations.”¹²⁰ This proved to be a farce, however. In truth, Soviet military authorities closed the port to all but a trickle of Soviet vessels. By January 1947, port traffic remained firmly under military control.¹²¹ Moscow justified this lingering presence by pointing to the Sino-Soviet Treaty, which allowed Soviet forces to administer the city and neighboring Port Arthur as long as a formal state of war existed with Japan.¹²² Until a peace treaty was signed with Japan, the Soviets would stay put.

Chinese communists moved into Dalian just weeks after the Soviets took control. In September 1945 the CCP began to set up private (*minban*, 民办) companies in the city. Many of these firms opened factories that produced boots, uniforms, and materiel; others were used to “receive” (*jieshou*, 接收) enemy property.¹²³ The CCP’s efforts to maintain the fiction that these

¹¹⁹ Soren Clausen and Stig Thogersen, *The Making of a Chinese City: History and Historiography in Harbin* (Armonk and London: M. E. Sharpe, 1995), 151.

¹²⁰ Treaty of Friendship and Alliance between the Republic of China and the U.S.S.R., Moscow, 14 August 1945, Agreement Concerning Dairen. A text of the treaty can be found in *Chronology of International Events and Documents* vol. 1, no. 5 (August 27-September 9, 1945): 118-126.

¹²¹ The Consul General at Dairen (Benninghoff) to the Secretary of State, 17 January 1947, *FRUS*, 1947, Volume VII, The Far East: China, 484.

¹²² The Soviets reiterated this pretext on numerous occasions. See, for example, The Consul General at Dairen (Benninghoff) to the Charge in China (Robertson), 27 April 1946, *FRUS*, 1946, Volume X, The Far East: China, 1163; The Ambassador in China (Stuart) to the Secretary of State, 20 April 1947, *FRUS*, 1947, Volume VII, The Far East: China, 514-515.

¹²³ Lin Qingmin et al, eds., *Zhonggong Dalian Difang Shi, shang juan* [Chinese Communist Party Local History of Dalian, first volume] (Dalian: Dalian, 1996), 160-161, 163-164. For a firsthand account of one such firm, the Xinhua Company (新华公司), see Xie Qian, “Zai Dalian Gong’an Zongju de Houqin Zhanxian Shang” [On the Logistics Front of the Dalian Public Security Bureau] in Yu Erming et al, eds., *Jiefang Chuqi de Dalian: Jinian Dalian Jiefang Sishi Zhounian* [Dalian at Liberation’s Beginning: Remembering the Fortieth Anniversary of the Liberation of Dalian] (Dalian: [s.n.], 1985), 81-92.

were private firms reflected the precariousness of the Soviets' position in the city. The same treaty that Moscow had contorted into justifying Soviet military control of the city—the 1945 Sino-Soviet Treaty of Friendship and Alliance—also recognized the sovereignty of the Nationalist Party over China, which, by extension, precluded the Soviets from collaborating openly with Chinese communists. The opening of a U.S. Consulate General in Dalian in April 1946 brought the prying eyes of Consul General H. Merrell Benninghoff and staff into the city, a presence which underscored the Soviets' need to maintain the facade of Soviet aloofness to CCP forces. By and large, the CCP and the Soviets were successful: U.S. officials strongly suspected collaboration between the two, but could not confirm it.¹²⁴ Keeping up appearances required careful Soviet orchestration. Chinese sources indicate that the Soviet military authorities generally acquiesced (*moren*, 默认) to the CCP's military production near Dalian, but forbade the Chinese communists from producing artillery within the city limits.¹²⁵ The Americans, for their part, were forbidden from straying beyond Dalian city limits, thus separating CCP production from American observation.¹²⁶

Tacit Soviet support for the CCP in Dalian extended beyond military production activities. Li Zhuping, a cadre who arrived in Dalian in 1947 to work in military logistics, recalled nearly forty years later how a Soviet lieutenant colonel once inquired casually into the markings of the ships that CCP “businessmen” were using for their import/export trade. The Soviet officer replied that if Chinese “old friends” shared identifying details ahead of time, he

¹²⁴ The Consul General at Dairen (Benninghoff) to the Ambassador in China (Stuart), 18 March 1947, *FRUS*, 1947, Volume VII, The Far East: China, 503-505.

¹²⁵ Lin Qingmin et al, eds., *Zhonggong Dalian Difan Shi*, 164; Erming et al, eds., *Jiefang Chuqi de Dalian*, 111.

¹²⁶ The Consul General at Dairen (Benninghoff) to the Ambassador in China (Stuart), 18 March 1947, *FRUS*, 1947, Volume VII, The Far East: China, 504.

could pass the information along to his contacts in the Soviet navy, and the navy could then see to it that the arrival and departure of these ships was made “convenient.”¹²⁷

These winks and nods greased the wheels of the Party’s commercial activities in Dalian, but they also reveal constraints imposed on CCP business operations by larger international political concerns. In some ways, the Party’s burgeoning commercial presence in Soviet-controlled Dalian resembled the communists’ experience establishing business offices in Hong Kong nearly a decade earlier. In both instances, the CCP exploited international political divisions to carve out a commercial presence in an ostensibly “free” or “neutral” port city. Both endeavors required establishing and maintaining a plausible veneer of independent commercial legitimacy as a precondition for operating in these new environments. This requirement, in turn, demanded that Party members working in these front companies err on the side of concealment and obfuscation when conducting their activities. The key difference between Dalian and Hong Kong, of course, was that the political cleavages of the Cold War had replaced the regional divisions of the Sino-Japanese War.

In late 1946 the CCP in Dalian began to use its local advantages to pursue the Central Committee’s interest in exploratory trade relations with Americans, Britons, French, and other capitalists in the region. To stir up enthusiasm for foreign trade, the Dalian-Port Arthur Prefectural Party Committee coined a new slogan: “organize businessmen, face overseas, serve the development of production, guarantee reasonable profits!”¹²⁸ The Party’s push to expand

¹²⁷ Li Zhuping, “Huadong Ju Caiwei Zhu Dalian Banshichu he Jianxin Gongsi” [The Northeast Bureau Finance Committee Office in Dalian and the Jianxin Company], *Jiefang Chuqi de Dalian*, 118. Of course, Li shared the identifying information for the ships.

¹²⁸ The original Chinese is catchier: “组织商人，面向海外，为发展生产服务，保证其合理利润！” As quoted in Lin et al., *Zhonggong Dalian Difang Shi*, 160.

foreign-trade operations in Dalian dovetailed with a similar momentum gathering under the guidance of Chen Yun farther north, in Heilongjiang province.

Chen Yun had arrived in Harbin in April 1946 to assume control of the Military Control Commission that was responsible for overseeing the CCP's first attempt to run a major Chinese city.¹²⁹ By late June, he had taken charge of finance, economics, and logistics work as a member of the newly established Northeast Bureau Standing Committee.¹³⁰ Chen was a visionary, and soon after taking up his new position, he recognized the potential value of expanding trade relations with neighboring regions. He laid out his position on the subject during a discussion of economic issues at a July 11, 1946, meeting. It was incumbent on the Party to open up foreign trade, he argued. Only by exporting the region's relatively abundant grains would the CCP be able to acquire the goods many needed for daily life.¹³¹ Chen Yun's position aligned perfectly with the Central Committee's May 3 guidance and with the push for greater trade through Dalian. Chen soon developed a practicable framework to link Manchuria's grain output to Dalian's port facilities and, ultimately, Hong Kong's capitalist markets.

Chen Yun put the plan in motion on September 9, 1946, when he instructed the Northeast Bureau's new liaison office in Pyongyang to arrange a meeting with the North Koreans.¹³² He told the two men running the office, Xiao Jinguang (肖劲光) and Zhu Lizhi (朱理治), to raise a series of points with the Koreans to demonstrate just how serious the Northeast Bureau was about expanding its foreign economic contacts. Chen told Xiao and Zhu to pass on a lengthy list

¹²⁹ Zhu Jiamu and Liu Shukai, *Chen Yun Nianpu, 1905-1994, shangjuan* [A Chronology of Chen Yun, 1905-1994, first volume] (hereafter *CYNP*), 459.

¹³⁰ Fellow members of the Standing Committee included Lin Biao (林彪), Peng Zhen (彭真), Gao Gang (高岗), and Luo Ronghuan (罗荣桓). *Ibid.*, 463-464.

¹³¹ *Ibid.*, 465.

¹³² The Northeast Bureau established the Pyongyang office in July 1946. Wu et al., *Hongse Huarun*, 37.

of goods that the Northeast Bureau hoped to import in exchange for Chinese grain exports. He instructed them to raise the prospect of opening joint factories with the North Koreans, and to float the idea of establishing a CCP shop in North Korea. Finally, Xiao and Zhu were instructed to emphasize the importance of safeguarding the shipping and communication lines that connected North Korea to Dalian and to the Sino-North Korean border town of Andong (known today as Dandong).¹³³ Xiao and Zhu must have responded promptly to Chen's orders. Just over a month later, during a Party meeting on October 15, 1946, Chen was able to announce that the Northeast Bureau had "opened up foreign trade" (*datong le duiwai maoyi*, 打通了对外贸易), and that purchasing and transporting local grain for export were the two major steps ahead.¹³⁴

As Chen pushed the Party's foreign-trade program forward in the northeast, Zhou Enlai contributed his own momentum several hundred miles to the south, in Shanghai. At his temporary residence one evening in August 1946, Zhou briefed Liow & Company founder Qin Bangli on a new, three-part mission that required him to relocate to Hong Kong once again. Zhou first asked Qin to establish a seaborne shipping route along China's coast that the Party could rely upon to develop its foreign-trade operations more fully. Qin's second objective stemmed from the first. Zhou told Qin to carry out "financial tasks" (*caizheng renwu*, 财政任务) in Hong Kong on the Party's behalf. Available Chinese sources say little about the specific "financial tasks" Zhou had in mind, but Qin's actions—arranging insurance, exchanging currencies, coordinating shipping, and other trade-related financial concerns—make clear that Zhou had in mind taking full advantage of Hong Kong's capitalist markets. Qin's third assignment required investments of a different sort. Zhou and Qin both knew in August 1946 that very few Party

¹³³ Zhu and Liu, *CYNP*, 468.

¹³⁴ *Ibid.*, 470.

members had the technical skills or experience to perform these types of commercial activities. The Party needed more Qins, more cadres who were versed in the ins and outs of capitalist trade who could handle not only the pressing needs of the day, but also contribute toward the much larger aim of building a socialist “new China.” To thicken these ranks, Zhou instructed Qin to groom a cohort of individuals skilled in the techniques of foreign-trade work as the Party understood it.¹³⁵

Qin fully understood the long-term significance of the responsibilities Zhou and the Party leadership had assigned to him. He moved back to Hong Kong sometime in the fall of 1946, where one of his first tasks was to resurrect the appearance of a lifestyle befitting a successful Hong Kong merchant.¹³⁶ He moved into a spacious new home at 6 Sau Chuk Yuen Road (秀竹园道) in Kowloon, just across Victoria Harbor from his Hong Kong office.¹³⁷ Visitors to the Qin household in 1946 would have assumed that the Qins had themselves had purchased the home, a comfortable villa large enough for a private garden and a garage.¹³⁸ In fact, his father-in-law had built it for his own family years earlier, and the bank owned a percentage of the property after Qin and his wife took out a mortgage to generate capital to support local CCP business activities.¹³⁹ Unless they were Party members, visitors also would not realize that the Qins lived on a fixed income. The Party paid Qin HK \$700 a month; his wife received HK \$500. Such sums took you only so far in Hong Kong, where a bottle of Rodgers Gin cost HK \$6.00 even at a “specially reduced price.” Still, these sums were enough to play the part of a young merchant family, and they must have seemed downright generous to the more junior Party members who

¹³⁵ Wu et al., *Hongse Huarun*, 22.

¹³⁶ *Ibid.*, 23.

¹³⁷ *Ibid.*

¹³⁸ Yuan and Le, “Huarun: Zai Dajuezhanzhong Chuangye,” 37.

¹³⁹ Wu et al., *Hongse Huarun*, 23-24.

soon began to arrive from the mainland to work for Qin. The newer arrivals earned only HK \$200 per month.¹⁴⁰

Qin's reinvigorated efforts to construct the appearance of wealth and status in the mid-1940s reveal the struggle to reconcile two divergent ideological frameworks at the personal level. The villa was more than disingenuous posturing; it was a tacit acknowledgment—on the part of Qin and the CCP—that participation in capitalism abroad was contingent to a degree on adopting certain aesthetics and practices. It required investments in infrastructure and physical space—villas and office spaces—in overseas markets, especially in Hong Kong. Just as importantly, it demanded a measure of conformity, the placing of at least one foot on the normative foundation that that fostered coherence and stability in the Hong Kong commercial world. Embedded in this recognition was the deeper lesson that the incompatibility between revolution at home and capitalist status-quo abroad could be bridged, that there were ways of sanding the edges of these two ostensibly hostile worldviews to make them fit together, at least enough to conduct business. This realization would turn out to play a crucial role in the Party's efforts to cultivate even more far-ranging ties to global capitalism following the founding of the People's Republic.

Once Qin had settled back into Hong Kong life, he began to revitalize operations at Liow & Company. The company moved to a new space just a few blocks from Victoria Harbor on Des Voeux Road Central (德辅道中), and took on a new name: the Lianhe Import-Export Company

¹⁴⁰ According to Yuan Chaojun, who worked with Qin and his wife, Huang Meixian (黄美娴) in Hong Kong during the late 1940s, the couple received higher monthly incomes for several reasons: they lived relatively farther from the office (i.e. had a longer commute); Qin had to cultivate and sustain (*yingchou*, 应酬) a broad professional network in the city, and Huang was an American of Chinese descent rather than a member of the CCP, which Yuan seemed to believe was a self-evident justification for a higher salary; and the couple had to entertain business contacts to keep up appearances. Yuan and Le, "Huarun: Zai Dajuezhanzhong Chuangye," 44.

(*Lianhe Jinchukou Gongsi*, 联和进出口公司).¹⁴¹ Qin also registered a branch office in Guangdong, called Tianlong Hang (天隆行), to facilitate trade between Hong Kong and the Chinese mainland.¹⁴² The Party center soon began to dispatch new cadres south to Hong Kong to flesh out the commercial ranks in support of Qin's expansionary efforts.

To fill the new Hong Kong positions, the CCP turned to veterans of the Eighth Route Army Office network, where they found a pool of cadres with deep experience in communications, trade, finance, and shipping. Before Yuan Chaojun (袁超俊) arrived to work with Qin in April 1947, for example, he had run the Eighth Route Army Office communication station in Guiyang, the capital of Guizhou province in the southwest, and performed underground commercial work in Shanghai.¹⁴³ Liu Shu (刘恕) arrived in Hong Kong in late summer 1947, and he brought with him his knowledge of accounting, finance, and shipping, which he had developed while working at the Eighth Route Army Offices in Guilin and Chongqing.¹⁴⁴ Qian Zhiguang (钱之光), who would go on to become a key figure in the Party's growing commercial presence in Hong Kong in the late 1940s, worked trade and financial issues in multiple Eighth Route Army Offices during the war. In Nanjing he served as quartermaster,

¹⁴¹ Wu et al., *Hongse Huarun*, 23; Yuan and Le, "Huarun: Zai Dajuezhanzhong Chuangye," 37.

¹⁴² Wu et al., *Hongse Huarun*, 23.

¹⁴³ For Yuan's service in Guiyang, see *BLJ*, vol. 1, 453, Table: "Balujun Zhu Ge Di Banshi Jigou Yilanbiao" [Table of Eighth Route Army Administrative Offices in Various Locations]. For his experience in Shanghai, see Yuan and Le, "Huarun: Zai Dajuezhanzhong Chuangye," 33-35.

¹⁴⁴ Yuan Chaojun recalls Liu Shu as having arrived in Hong Kong sometime in August 1947. Yuan and Le, "Huarun: Zai Dajuezhanzhong Chuangye," 37. For Liu's work in Guilin, see *BLJ*, vol. 4, 422, Table: "Balujun Guilin Banshichu Ganbu Minglu" [Directory of Cadres [at the] Eighth Route Army Office in Guilin]. For his role as shipping director in the Chongqing Eighth Route Army Office, see *BLJ*, vol. 1, 915, Table: "Balujun Zhu Chongqing Banshichu Ganbu Minglu" [Directory of Cadres [at the] Eighth Route Army Office in Chongqing].

and in Wuhan he became an office director (*chuzhang*, 处长), a title he took with him to the Chongqing office, where he remained from January 1939 until May 1946.¹⁴⁵

Qian Zhiguang is a particularly noteworthy figure among this specialized group of commercial officers. It was Qian's long trek to Hong Kong that cinched together the gathering momentum for greater trade in Dalian, Dongbei, Pyongyang, and Hong Kong. Qian's route took him by land from Yan'an to Yantai, a port city in Shandong just across the bay from Dalian. From there, he expected to make his way by ship to Hong Kong. When he arrived in Yantai in early June 1947, however, the presence of Nationalist forces in the area forced him to change his route.¹⁴⁶ Instead of heading south, he boarded a small steamboat and traveled north to Dalian, where he conferred with Chen Yun and Li Fuchun (李富春), among others, about next steps.¹⁴⁷ Two subsequent developments quickly brought the CCP closer to establishing a new commercial network designed to link "liberated areas" to the capitalist world.

¹⁴⁵ For Qian's service in Nanjing, see Qian Zhiguang, "Wo Suo Liaojie de Balujun Nanjing Banshichu Chengli Qianhou Guogong Hezuo de You Guan Qingkuang" [What I Know of CCP-KMT Cooperation Around the Time of the Founding of the Eighth Route Army Office in Nanjing], in *BLJ*, vol. 1, 510. For his positions in Wuhan and Chongqing, see *BLJ*, vol. 1, 452-453, Table: "Balujun Zhu Ge Di Banshi Jigou Yilanbiao" [Table of Eighth Route Army Administrative Offices in Various Locations]. Qian's experience in foreign-trade work stretched back much earlier than the Sino-Japanese War. He served as the first head of the CCP Central Soviet Department of Foreign Trade (苏维埃对外贸易局) beginning in February 1933. Dai Xiang, "Qianxi Zhongyang Suqu de 'Duiwai Maoyi'" [Analysis of Central Soviet Area "Foreign Trade"], *Cang Sang* 1 (2008), 40.

¹⁴⁶ Qian's circuitous mission from Yan'an to Hong Kong is recounted in Wu et al., *Qian Zhiguang Zhuan*, 280-295.

¹⁴⁷ At the time Li Fuchun was secretary of the Central Northeast Bureau Financial and Economic Committee (*Zhonggong Zhongyang Dongbei Ju Caijing Weiyuanhui Shuji*, 中共中央东北局财经委员会书记), and was responsible for directing finance and economic work, as well as logistics, for the Northeast Bureau. Fang Weizhong and Jin Chongji, eds., *Li Fuchun Zhuan* [A Biography of Li Fuchun] (Beijing: Zhongyang Wenxian, 2001), 688.

First, the CCP's Municipal Party Committee in Dalian established a new firm in the Soviet-controlled port: the Zhonghua Trade Company (*Zhonghua Maoyi Gongsi*, 中华贸易公司).¹⁴⁸ The CCP intended to use the new front company to handle customs declarations and insurance for imports and exports transiting the port.¹⁴⁹ Second, Qian Zhiguang dispatched two cadres from Dalian to finalize arrangements for a maiden shipment of exports from Dongbei to Hong Kong. He sent Wang Huasheng (王华生) east to Pyongyang to confer with the local CCP liaison office and the Soviet Embassy about chartering two Soviet ships, one of which was the Aldan.¹⁵⁰ Qian then dispatched Zhu Hua (祝华) north to Harbin to coordinate with the Northeast Bureau leadership on an initial export shipment of 1,000 tons of soybeans.¹⁵¹ The Northeast Bureau included in the shipment an assortment of other agricultural exports and a cache of gold for purchasing imports.¹⁵²

Wang's consultations in Harbin went smoothly. He left the city with the exports by rail, bound for the North Korean port of Rajin rather than Dalian. The CCP was still unable to rely on the southern branch of the Chinese Eastern Railway, which linked Harbin to Dalian, because the Red Army controlled neither Changchun nor Shenyang, both of which were major junctions

¹⁴⁸ Wu et al., *Qian Zhiguang Zhuan*, 285.

¹⁴⁹ Wu et al., *Hongse Huarun*, 35.

¹⁵⁰ Wang was then nominally an employee of the Zhonghua Trade Company. Wu et al., *Qian Zhiguang Zhuan*, 286. Wu et al., *Hongse Huarun*, 38. Wang Huasheng was also a veteran of the Eighth Route Army Office network. He had been a branch manager (*kezhang*, 科长) in the Chongqing office. *BLJ*, vol. 1, 915, Table: "Balujun Zhu Chongqing Banshichu Ganbu Minglu" [Directory of Cadres [at the] Eighth Route Army Office in Chongqing].

¹⁵¹ Chinese sources are inconsistent over which senior Northeast Bureau official approved this initial shipment from Dongbei. Wu Xuexian claims it was Chen Yun. Wu et al., *Hongse Huarun*, 38. Wu Hesong argues that Li Fuchun approved the shipment. Wu et al., *Qian Zhiguang Zhuan*, 286.

¹⁵² Wu et al., *Hongse Huarun*, 38.

along the line. The long overland route from Harbin across the Tumen River to Rajin was the safest, most reliable path to the sea for CCP exports from the Northeast.

Once aboard the Aldan in Rajin, Wang and his cargo were able to slip into the larger stream of trade plying the Chinese coast. It became easier to blend into the commercial crowd as the ship neared Hong Kong; the volume of trade circulating through the British port city had risen dramatically after the war. When the Aldan sailed into Victoria Harbor in November 1947, it was one of 4,700 ships larger than 60 tons to register with Hong Kong authorities that year.¹⁵³ True, Soviet-flagged vessels like the Aldan contributed only a few drops into a large shipping pool. Hong Kong authorities reported only five Soviet ships arriving in Hong Kong during the entire year.¹⁵⁴ Still, there was no prohibition on Soviet ships entering the port to do business, and every Soviet ship that applied for clearance in Hong Kong during 1947 received it.¹⁵⁵ The CCP's careful efforts to obscure its own involvement in its shipment—by using front companies in Soviet-controlled Dalian and Hong Kong, relying on North Korean port facilities, and transporting goods on a Soviet-flagged vessel—all paid off. The cargo sailed into Victoria Harbor unmolested.

After Wang Huasheng connected with Qin Bangli, Yuan Chaojun, and Liu Shu, and the four men had secreted the gold from the captain's quarters of the Aldan to the vault of HSBC, the remainder of Wang's mission was anti-climactic.¹⁵⁶ The group sold the soybean cargo for a

¹⁵³ Merchant vessels over 60 net tons constituted most of the registered Hong Kong shipping traffic in 1947. See Hong Kong Census & Statistics Department, *Hong Kong Statistics, 1947-1967* (Hong Kong: Government Printer, 1969), Table 7.3, 123. The Aldan had a carrying capacity of approximately 3,000 tons. Wu et al., *Hongse Huarun*, 38.

¹⁵⁴ Hong Kong Census & Statistics Department, *Hong Kong Statistics, 1947-1967*, 123, Table 7.3.

¹⁵⁵ Ibid.

¹⁵⁶ Additional challenges still lay ahead, however. Wang and his associates had to collude with a local contact to recast the imported gold before selling it on the local market for U.S. and Hong

good price, but had less luck with the Dongbei weasel pelts Wang hoped to offload. Few in Hong Kong's muggy climate were in the market for fur coats.¹⁵⁷ They used the proceeds from export sales to purchase a broad mix of goods, including medicine, newsprint, vacuums, and filters.¹⁵⁸ Wang and his associates then loaded these goods onto the Aldan for the long trip north, back to Harbin. Once successfully concluded, the Aldan's maiden voyage heralded new possibilities for trade with the capitalist world on a vaster and stabler footing than had previously been possible. It also testified to the CCP's continued enthusiasm for expanding trade ties, a sentiment that would continue through the remainder of the civil war and into the early years of the People's Republic.

Not long after Wang Huasheng's first trip, the Lianhe Import-Export Company moved to a bigger office space in Hong Kong and again changed its name. For the next seventy years it would be known as the China Resources Company, or *Huarun Gongsi* (华润公司) in Chinese, and eventually became a multi-billion-dollar global SOE.¹⁵⁹ Even more merchant vessels were soon freighting goods and money between CCP-controlled areas and international markets on a regular basis. And as far as Chen Yun and other CCP leaders were concerned, this was only the beginning of a much larger and more substantial operation. Zhou Enlai paid close attention to these developments despite his many responsibilities: at this time, he held the position of de facto chief of staff of the People's Liberation Army, among other positions. On September 25, 1947, Zhou drafted a cable on behalf of the Central Committee authorizing Qian Zhiguang to initiate

Kong dollars, for example. The gold bore cast markings from Yantai, which was still closed to licit trade by a KMT blockade. Yuan and Le, "Huarun: Zai Dajuezhanzhong Chuangye," 39.

¹⁵⁷ Ibid.

¹⁵⁸ Ibid.

¹⁵⁹ "Hua" (华) refers to China, and "Run" (润) is an oblique reference to Mao Zedong's "zi" (字), or courtesy name, which was Runzhi (润之).

unofficial (*fei zhengshi*, 非正式) contact with British officials in Hong Kong to discuss future economic relations. The Central Committee, he wrote, “[a]pproves initiating business exchanges with Britain.” Zhou stipulated that such exchanges must be limited for the time being to the Huabei region, including the Shandong coastline and the Bohai Sea, which envelops the Liaodong Peninsula where Dalian is located. “[You] may also discuss debt (*zhaiwu*, 债务),” Zhou instructed, “and if indeed the other side [is willing to] trade in good faith, [you] may invite [them] to enter the Huabei liberated area to negotiate directly with the Huabei government.”¹⁶⁰ The stage was set for a new phase in the Chinese Communist Party’s commercial relationship to international capitalism.

V. Legacies of Exchange

“The characteristics of war have determined the features of wartime economic work,” Li Fuchun told his audience during a report on economic affairs just days before Wang Huasheng arrived in Hong Kong aboard the *Aldan* for the first time.¹⁶¹ Li’s assessment captured perfectly the evolution of CCP trade policy between 1937 and 1947. Across the span of three overlapping wars, the Chinese Communist Party had forged an approach to foreign trade with the capitalist world that was designed to withstand tension, conflict, and instability. High stakes demanded this sturdiness: the resources that arrived through these trade conduits were vital to the Party’s grand efforts to win the war and lay the foundation for a “new China.” By necessity, this trade was secretive, cautious, and opaque, but it was also sophisticated and dynamic. By November 1947

¹⁶⁰ As quoted in Wu et al., *Qian Zhiguang Zhuan*, 290.

¹⁶¹ Li Fuchun, report, “Guanyu Dongbei Caijing Gongzuo Wenti de Baogao” [Report on Issues in Northeast Economics Work], 30 October 1947, in *Li Fuchun Xuanji* (Beijing: Zhongguo Jihua, 1992), 49.

the CCP had created a shipping network that enabled cadres, currencies, and goods to slip into and out of international capitalist markets largely undetected and unobstructed by Nationalist blockades. The Party had built a string of front companies in Dalian, Pyongyang, Hong Kong, and Guangdong that provided office space, letterhead, customs declarations, and other markers of international commercial legitimacy and conformity. Even if much of this seemed only skin deep, it was enough to permit the CCP to be present, and to participate, in overseas capitalist markets.

This—the very act of prolonged participation—mattered. It mattered because it demonstrated over time, in different places, and under varying circumstances that the CCP could trade with foreign capitalists productively, in accordance with the rules and norms of international capitalism, without relinquishing the Party's revolutionary goals. The CCP's ideological outlook stretched to accommodate this realization, and along the way cadres working in Eighth Route Army Offices and in CCP front companies honed their skills and refined their techniques. Both developments made it easier still for senior CCP officials to turn to international capitalism when facing difficult economic challenges at home. Economic engagement with the capitalist world had become a tested and accepted component of CCP foreign and economic policy by late 1947 as a result of this sustained participation. Just as crucially, a new space came into being in which Party leaders and traders began to cultivate a fluid and unorthodox understanding of the relationship between the Chinese communist revolution and global capitalism. In the formative years that followed, as the Party began to expand and then consolidate its control over the Chinese mainland, the urge to trade with capitalists, and the knowledge that it could be done for the betterment of China's revolution,

came to influence the way in which the new People's Republic redefined China's relationship to the capitalist world.

CHAPTER 3: CLOSING THE OPEN DOOR, 1948-1950

I. A Third Road

On June 30, 1949, just a year and a half after Wang Huasheng's clandestine cargo linked China's "liberated" northeast to Hong Kong markets, Mao Zedong commemorated the anniversary of the founding of the CCP with a major address. In it, he seemed to raise questions about the durability of the Party's trade ties to international capitalism. "[A]ll Chinese without exception must lean either to the side of imperialism or the side of socialism," he proclaimed. It was just three months before the founding of the PRC. "Sitting on the fence will not do," he continued, "nor is there a third road."¹ Trade, too, would have to lean to the side of socialism, and soon it did. In 1950, the first full year of the People's Republic, "new China" still did over 75 percent of its business with capitalists according to internal CCP accounting.² Things had changed by 1951. The balance of mainland China's foreign trade had swung toward the socialist

¹ Mao Zedong, "Lun Renmin Minzhu Zhuanzheng" [On the People's Democratic Dictatorship], 30 June 1949, in *Mao Zedong Xuanji* [Selected Works of Mao Zedong], (Beijing: Renmin, 1991), vol. 4, 1473.

² Ministry of Foreign Trade, instruction, "Guanyu Guoqu Gongzuo Jiben Zongjie Ji Jinhou Gongzuo Zhishi" [Instruction Concerning a Basic Summary of Past and Future Work], August 1953, in Ministry of Foreign Trade General Office, *Zhongyao Wenjian Huibian, 1949 Nian – 1955 Nian* [Compilation of Important Documents, 1949-1955], Hebei Provincial Archives (hereafter *HPA*), F752.0-1, 1. Outside estimates of this trade volume were not far off the mark. Nai-Ruenn Chen and Walter Galenson put China's trade with non-communist countries at 71.1 percent of total trade in 1950. See Table VIII-4 in Nai-Ruenn Chen and Walter Galenson, *The Chinese Economy Under Communism* (Chicago, IL: Aldine Publishing Company, 1969), 207. Chen and Galenson produced this chart from data included in Robert L. Price, "International Trade of Communist China, 1960-1965," in Joint Economic Committee, *An Economic Profile of Mainland China* (Washington, DC: U.S. Government Printing Office, 1967), 583-608. Of China's total trade with capitalist states in 1950, \$238 million consisted of trade between the PRC and the United States. Hu Shiguang et al., eds., *Dangdai Zhongguo Duiwai Maoyi* [Contemporary Chinese Foreign Trade], vol. 1 (Beijing: Dangdai Zhongguo, 1992), 387.

world, climbing to 61 percent of the PRC's total trade that year. In 1952, only 21.1 percent of PRC trade touched the capitalist world, according to the Ministry of Foreign Trade.³

The sheer size and speed of this trade realignment accounts for part of the reason scholars have paid scant attention to CCP trade with the capitalist world during the founding of the PRC.⁴ Capitalist trade was drying up, while socialist trade was flourishing, so it made little sense to fixate on the rump end of this titanic shift.⁵ Greater trade volume brought more interaction, more negotiation, and more opportunity for influence, conflict, and consensus—the grist of historical

³ Ministry of Foreign Trade, instruction, “Guanyu Guoqu Gongzuo Jiben Zongjie Ji Jinhou Gongzuo Zhishi,” August 1953, 1.

⁴ None among the most influential English-language texts that chart CCP foreign relations during the founding of the PRC treats the subject of trade with capitalist states in significant depth. Most focus instead on the importance of ideology, security, and politics to China's revolutionary state formation process. For examples, see Michael Hunt, *The Genesis of Chinese Communist Foreign Policy* (New York: Columbia University Press, 1996); Chen Jian, *China's Road to the Korean War: The Making of the Sino-American Confrontation* (New York: Columbia University Press, 1994); and Dorothy Borg and Waldo Heinrichs, eds., *Uncertain Years: Chinese-American Relations, 1947-1950* (New York: Columbia University Press, 1980). Nancy Tucker has demonstrated the significance of American commercial and trade interests in China during the founding of the PRC, but her focus lies primarily on how these interests impacted Truman administration policy. See Nancy Bernkopf Tucker, *Patterns in the Dust: Chinese-American Relations and the Recognition Controversy, 1949-1950* (New York, NY: Columbia University Press, 1983). Shu Guang Zhang, perhaps more than any other historian, has covered in detail early PRC foreign-trade relations with the capitalist world from the Chinese perspective. Zhang's chief interest, however, is the impact of sanctions on Chinese foreign-trade policy rather than the underlying rationales that prompted the CCP to attempt to continue to trade with capitalist countries despite sanctions. Shu Guang Zhang, *Economic Cold War: America's Embargo against China and the Sino-Soviet Alliance, 1949-1963* (Washington, DC, and Stanford, CA: Woodrow Wilson Center Press and Stanford University Press, respectively, 2001), especially 50-112.

⁵ For insightful studies of the deepening trade relationship between the PRC and the Soviet Union during the late 1940s and early 1950s, see Shen Zhihua, *Mao, Stalin and the Korean War: Trilateral Communist Relations in the 1950s*, trans. Neil Silver (London and New York: Routledge, 2012); Shen Zhihua, *ZhongSu Tongmeng de Jingji Beijing: 1948-1952* [The Economic Background of the Sino-Soviet Alliance: 1948-1952] (Hong Kong: Chinese University of Hong Kong, Hong Kong Institute of Asia Pacific Studies, 2000); and William C. Kirby, “China's Internationalization in the Early People's Republic: Dreams of A Socialist World Economy,” *The China Quarterly* 188 (2006): 870-890.

scholarship. This tendency to conflate volume with historical significance has brought with it significant costs, however.

For one, the exclusion of trade with the capitalist world has obscured subtle variations in the color and tone of CCP policymaking during the formative first years of the People's Republic. Remove capitalist trade from the picture, and the Party's foreign policy seems guided by unalloyed hostility toward the capitalist world. This selective vision encourages historical debate in zero-sum terms, such as whether a "lost chance" existed for diplomatic recognition between the PRC and the United States, when in reality the question of whether and how ties should exist between communist China and the rest of the world cropped up on numerous levels, among a host of different groups. Moreover, a decision on one of these levels did not necessarily predetermine a judgment on another. Bringing the CCP's continuous trade with the capitalist world into sharper focus allows us to see how the Party came to develop a careful, nuanced position on economic relations with the capitalist world over time, iteratively, one transaction at a time.

Too narrow a focus on trade volume, alongside a cursory reading of Mao's "lean to one side" statement, also runs the risk of reifying the misconception that the year 1949 marked a clean break from China's past.⁶ The notion of China's socialist rebirth, a "fresh start," propagated first and most strenuously by the CCP itself, suggests that Mao and his top lieutenants arrived in Beijing in the spring of 1949 unencumbered by the past and free to lean with all of China's weight toward the socialist world. Vestiges of "old" China, whether in the

⁶ On the persistence of the 1949 divide in Western scholarship on China, see William C. Kirby, "Continuity and Change in Modern China: Economic Planning on the Mainland and on Taiwan, 1943-1958," *The Australian Journal of Chinese Affairs* 24 (1990), especially 121-123.

form of commercial practices and contracts or office holdovers from the KMT regime, are drowned out by the onrush of socialist momentum in the historiography.

This chapter breaks from the ingrained tendency to equate trade volume with historical significance by focusing on the evolution of CCP commercial relations with the capitalist world from the final months of the Chinese civil war to the first year of the People's Republic. What emerges from this approach is a far more complicated picture of the Party's foreign relations in general, and CCP ties to foreign capitalism in particular, during a fluid and particularly consequential span of China's twentieth-century. The chapter begins by tracing the ambitions and anxieties that led CCP economic officials to tighten control over foreign trade, and then demonstrates how this need for control influenced the Party's simultaneous efforts to expand economic ties to capitalist markets in Hong Kong. The chapter next explores the unsteady, contingent process by which CCP leaders, working-level cadres, and foreign capitalists sought to renegotiate China's relationship to the capitalist world as the Party stepped into the role of port-city administrators and, shortly thereafter, sovereigns of a new Chinese state. CCP leaders remained committed to trading with foreign capitalists during this transition, but many finer points remained unresolved. Which capitalists would be permitted to do business with "new" China? Where? Under what terms? For how long? How would these transactions be controlled? Chen Yun and other officials faced the unenviable task of devising answers to these questions as they grappled with the enormous challenges of managing international ports for the first time and laying the policy foundation for the emerging Chinese communist state.

II. Tightening Trade Controls

Trade between CCP-controlled regions in north China and capitalist markets continued in the months after the Party established its clandestine shipping network between north China and

Hong Kong in November 1947. By the summer of 1948, the Party was just one among many outfits, some no larger than a man on a junk, ferrying goods and currency between capitalist markets and communist regions. In Dalian, Culver Gleysteen, a first-tour diplomat working at the U.S. consulate, pieced together an understanding of how this trade worked despite restrictions on his movements by local authorities. The son of Presbyterian missionaries, Gleysteen had grown up in Beijing and spoke fluent Chinese. He liked to chat up the locals, and during one casual conversation on an early July day the subject of trade came up. Anything not “vital” to the local economy could be exported, Gleysteen discovered, provided the requisite taxes were paid. Most exports consisted of seafood or other sea products, and returning junks were permitted to import only medicine and food, he learned.⁷ Still, the junks came and went routinely. Business was brisk enough.

It was not difficult for Gleysteen or anyone else to uncover evidence of goods other than food and medicine slipping into Dalian. Local shops carried British cloth, American cosmetics, clocks, light bulbs, and pens—and not just any pens, Parker 51s, the envy of any social climber in postwar East Asia. These products were more than window dressing; many of them sold, and sold well. According to the American consul in Dalian, Paul “Zeke” Paddock, the sheen of a Parker pen cap in the handkerchief pocket of a communist official was a common sight on the streets of Dalian in late 1948.⁸

This tableau induced mixed feelings for senior CCP officials. On one hand, it was proof that critical supplies were circumventing the *Kuomintang* (KMT) blockades that stretched from

⁷ Clayton Gleysteen to Paul Paddock, “Junk Traffic to & From Dairen,” 08 July 1948, General Records of the Department of State, U.S. National Archives, College Park, MD (hereafter *USNA*), Record Group (hereafter RG) 84, Dairen Consulate, Box 1, File 1.

⁸ Paul Paddock, *China Diary: Crisis Diplomacy in Dairen* (Ames: Iowa State University, 1977), 137.

the mouth of the Pearl River in the south to the Bohai Sea in the north, in some cases providing “liberated” areas and communist troops with a lifeline of necessities. On the other hand, many of the goods that slipped through—the high-end pens, for instance—were of little use to soldiers short of ammunition or factories low on supplies. These consumer products represented economic loose ends in the eyes of CCP planners, inefficiencies that the Party and its army could ill afford, particularly now that it claimed jurisdiction over 95 percent of northeast China. This new breadth of control required a changed mindset and a new approach to trade and economic affairs, CCP leaders began to argue as early as the winter of 1947.⁹ Economic officials could no longer overlook inefficiencies. The larger view must be kept in mind. The needs of the entire swath of liberated China must now be taken into account when formulating economic policies, Li Fuchun (李富春) believed.¹⁰ And the most important need of all remained victory on the battlefield. “The war decides everything,” Li stated plainly. “All work, especially economic work, must embark from this [maxim].”¹¹

Li Fuchun and other economic planners believed that tightening control over economic affairs, and foreign trade in particular, was an essential prerequisite for wringing efficiency out of the economy. In October 1947, Li produced an important report that informed members of the Northeast Bureau Finance Committee that the Party must adhere to the principle of “unified control of foreign trade” (*duiwai maoyi tongyi guanli*, 对外贸易统一管理).¹² This was more incantation than argumentation. The rest of the committee already shared Li’s conviction that

⁹ Gu Shiming, Li Qiangui, and Sun Jianping, *Li Fuchun Jingji Sixiang Yanjiu* [Studies in the Economic Thought of Li Fuchun] (Xining: Qinghai Renmin, 1992), 36.

¹⁰ *Ibid.*, 35.

¹¹ As quoted in *Ibid.*

¹² Li Fuchun, report, “Guanyu Dongbei Caizheng Gongzuo Wenti de Baogao” [Report on Financial Work Issues in Dongbei], 30 October 1947, in *Li Fuchun Xuanji* [Selected Documents of Li Fuchun] (Beijing: Zhongguo Jihua, 1992), 57.

centralized control of all facets of the economy was essential, a belief that drew from their shared commitment to the principles of socialist planning and development. Uncontrolled markets were undisciplined markets, Li believed, and a laissez-faire (*tingzhi renzhi*, 听之任之) policy wasted time, effort and resources.¹³

Even worse, the absence of proper control opened the door to foreign domination, Li and the rest of the CCP leadership believed. A century of imperialism, including five decades of “Open Door” imperialism, had crippled China’s economy and consigned the Chinese people to the status of semi-colonial subordinates. That was old China—divided China, where foreign imperialists, feudalists, and bureaucratic capitalists conspired to control China’s economy and trade for their own ends.¹⁴ The CCP aimed to establish its own tight control over China’s trade precisely to overturn this unjust order.

Li Fuchun argued that firm control over foreign trade would allow the CCP to pursue a focused and efficient development agenda: “we will strive to export our surplus products and import essential materials for the development of production and construction,” he explained in his October 1947 report.¹⁵ “Essential materials” did not include consumer products. The Party “will strictly forbid the importation of consumer goods and luxury items,” which he believed had produced “unrestricted” (*manwu xianzhi*, 漫无限制) and expensive trade deficits.¹⁶ The scope of

¹³ Li Fuchun, “Ziran Kexue yu Shengchan Jianshe Shijian Xiangjiehe” [Combining the Natural Sciences and the Practice of Production and Construction], 21 January 1934, in Li, *Li Fuchun Xuanji*, 30. For Chen Yun’s thinking along similar lines, see Ezra Vogel, “Chen Yun: His Life,” *Journal of Contemporary China* 14.45 (2005), 752.

¹⁴ For a succinct expression of this view at the time, see Mao Zedong, “Zhongguo de Shehui Jingji Xingtai, Jieji Guanxi he Renmin Minzhu Geming” [China’s Socioeconomic Forms, Class Relations and the People’s Democratic Revolution], 15 February 1948, in *Mao Zedong Wenji, Di Wu Juan* [The Collected Works of Mao Zedong, Volume 5] (Beijing: Renmin, 1996), 57.

¹⁵ Li Fuchun, report, “Guanyu Dongbei Caizheng Gongzuo Wenti de Baogao,” 30 October 1947, in *Li Fuchun Xuanji*, 58.

¹⁶ *Ibid.*

the task Li and his fellow economic officials set out to achieve was as plain as every Parker 51 clipped to a cadre's shirt pocket. And this ambition soon began to fuel a sense of anxiety.

Each success on the battlefield seemed to bring the CCP closer to its goal of nationwide liberation, which also pushed Party economic officials closer to the responsibilities of planning and coordinating China's economy on a national scale, a task few believed in their hearts they were prepared to tackle. In November 1947, a month after Li's report to the Northeast Bureau Finance Committee, communist forces took over the city of Shijiazhuang, roughly 185 miles southwest of Beijing. CCP forces managed the "liberated" city, one of the earliest large urban centers to fall under Party control, without major difficulties. Four months later, in February 1948, the Central Committee issued instructions that embodied the blend of confidence and trepidation that framed the thinking of Party planners facing the prospect of national liberation. "In years past, we have captured many cities, and [we have developed] rich experience as well," the Central Committee observed.¹⁷ But the Central Committee observed that these experiences had not been documented and shared within the Party.¹⁸ In a move designed in part to shift focus away from purely rural and military affairs and toward the new challenges of urban work, the Central Committee ordered local officials to begin to share the experiences they gained from liberating large cities.¹⁹ The Party's new focus on urban work was just one facet of a larger concern within the leadership about the challenge of controlling a sophisticated national

¹⁷ CCP Central Committee, instruction, "Zhonggong Zhongyang Guanyu Chengshi Gongzuo de Zhishi" [CCP Central Committee Instruction on Urban work], February 1948, in Zhonggong Zhongyang Zhengce Yanjiushi, Dongbei Ju [CCP Central Committee Central Policy Institute, Northeast Bureau], *1948 Nian Yilai de Zhengce Huibian (Shang Ce)* [Policy Compilation Since 1948 (first volume)], HPA, D22-32-1, 93-94.

¹⁸ Ibid., 93.

¹⁹ Ibid., 94.

economy.²⁰ CCP leaders continued to fret over the big picture throughout the spring and into the summer of 1948.

On June 11, 1948, Zhou Enlai and Dong Biwu (董必武), head of the recently created Central Ministry for Finance and Economics (*Zhongyang Caizheng Jingji Bu*, 中央财政经济部), issued an order that again highlighted the worries and ambitions that colored the thinking of CCP leaders as they prepared for the responsibilities of running a national economy. “We need nationwide, systematic investigation materials concerning natural resources, banking, factories, mining, communications, trade, agriculture, forestry, animal husbandry, fisheries, financial revenues, the activities of bureaucratic capitalists, etc.,” they wrote to Xu Dixin (许涤新), a CCP “united front” activist and economic affairs expert in Hong Kong.²¹ Zhou and Dong were particularly interested in an update on the status of CCP economic research cells in Hong Kong and Shanghai. There was a sense of urgency to this inquiry. Zhou and Dong were clearly concerned with developing the resources and capabilities that would enable the Party to place “new China” on sound economic and financial footing as soon as possible. In the letter, Zhou and Dong authorized Xu to permit cadres with an interest in economic work to forgo political activities for the time being, which would free them up to pursue long-term economic research.²²

²⁰ For an overview of the Party’s growing emphasis on urban economic work in the northeast during the late 1940s, see Zhu Jianhua, “Dongbei Geming Genjudi de Chuangjian he Fazhan” [The Founding and Development of the Northeast Revolutionary Base] in Zhu Jianhua et al., *Dongbei Jiefangqu Caizheng Jingji Shigao, 1945.8-1949.9* [The Financial and Economic History of the Northeast Liberated Areas] (Harbin: Helongjiang Renmin, 1987), 48-60.

²¹ As quoted in Tan Deshan and Bian Yanjun, eds., *Dong Biwu Nianpu* [A Chronology of Dong Biwu] (Beijing: Zhongyang Wenxian, 2007), 309.

²² Ibid.

Xu Dixin quickly complied with the order. He set up six small groups, five to seven cadres each, to investigate different aspects of China's economy.²³ One of the groups focused specifically on international trade, a clear indication that the economic leadership was concerned with the question of how to handle trade patterns as major mainland ports came under communist control.²⁴ Zhou Enlai, Dong Biwu, and others realized that some semblance of pre-liberation international commerce would have to be preserved. Too many local economies depended on the stability of these major Chinese trading cities, and the leadership recognized that the war effort itself and especially postwar reconstruction stood to gain from the productive capacities of coastal urban areas. "We now have cities," the Northeast Bureau wrote on June 10, 1948, "[and we] should cherish them, put them to use, make cities produce more military supplies and everyday goods to support the war and to enrich the economies of liberated areas."²⁵ But in cities like Tianjin and Shanghai, for the near term at least, "putting the city to use" meant preserving relationships to undisciplined, uncontrollable capitalist markets. This tension between the desire for production and the impulse for control would soon make for an unsteady relationship at the working level between local Party officials and capitalist firms.

At the leadership level, however, a partial solution to this dilemma had already come into view. The CCP's trade route between northeast China and Hong Kong seemed to offer all the benefits of capitalist production without the corrupting influences, the coercion, and the inefficiencies that Li Fuchun and others associated with unbridled capitalism. The first running

²³ Jiang Guansheng, *Zhonggong Zai Xianggang, shang juan (1921-1949)* [The CCP in Hong Kong, first volume (1921-1949)] (Hong Kong: Tiandi Tushu, 2011), 245.

²⁴ Ibid.

²⁵ CCP Central Committee, instruction, "Zhonggong Dongbei Yangyang [sic] Ju Guanyu Baohu Xin Shoufu Chengshi de Zhishi" [CCP Central Northeast Bureau Instruction on Safeguarding Newly Recovered Cities], 10 June 1948, in *Zhonggong Zhongyang Zhengce Yanjiushi, Dongbei Ju, 1948 Nian Yilai de Zhengce Huibian (Shang Ce)*, 101.

of the route, which brought Wang Huasheng (王华生) back to Harbin in November 1947, demonstrated the feasibility of relatively hassle-free capitalist trade at a fortuitous moment. Just as the senior CCP leadership began to think seriously about trade and economic policymaking on a national level, Wang's trip seemed to offer a chance to have cake and eat it too. The leadership wasted little time in seizing the opportunity.

In August 1948, Qian Zhiguang (钱之光), who had been instrumental in coordinating the trade route between Dongbei and Hong Kong, began to retrace Wang Huasheng's steps. Qian departed from Dalian for Andong (now Dandong, 丹东), a small city on the Chinese side of the border with North Korea. From there, he and a small delegation of CCP officials headed southeast to Pyongyang, where his mission was to begin to lay the groundwork for an expanded Hong Kong trade route. During talks with the local CCP office representative Zhu Lizhi (朱理治) and Soviet officials, Qian secured an agreement to expand the CCP's use of Soviet ships.²⁶ Agreement in hand, he headed next to Rajin (罗津), a North Korean port just south of the spot where the Chinese, North Korean, and Soviet borders converge. There, he joined a shipment of gold, soybeans, furs, hog bristles, and other Dongbei produce aboard the "Poltava" (*Bo'ertawa hao*, 波尔塔瓦号), a newly chartered Soviet ship. The ship steamed south to Hong Kong's Victoria harbor, where Qian's first stop was the CCP commercial front company, Liow & Company (*Lianhe Hang*, 联和行).

This was to be his new place of business. Qian had orders to remain at Liow & Company, where he would work with colleagues to expand and develop the CCP's commercial

²⁶ Wu Hesong et al, eds., *Qian Zhiguang Zhuan* [A Biography of Qian Zhiguang] (Beijing: Zhonggong Dangshi, 2011), 288.

infrastructure. Soon after arriving, Qian began to collaborate with Qin Bangli (秦邦礼), the head of Liow & Company, to establish the CCP's own shipping fleet. While the Aldan (*A'erdan hao*, 阿尔丹号) and the Poltava had been vital to the founding of the smuggling route between Dongbei and Hong Kong, overreliance on chartered foreign vessels cut against the CCP's impulse for control. Qian also simply needed more ships to carry more goods as local CCP commercial operations expanded. Even before the Poltava had returned to Rajin after delivering Qian to Hong Kong, Ren Bishi (任弼时) had already dispatched instructions on behalf of the Party center for another run.²⁷

To accommodate these shipping needs, in late 1948 Qian Zhiguang and Qin Bangli established another company in Hong Kong, one that could furnish the CCP with a sound legal footing on which to interact with British customs authorities for routine commercial affairs. They registered the company as a subsidiary of China Resources, the firm Qin had established in late 1948 to supersede Liow & Company.²⁸ This subsidiary arrangement ensured that the new firm, called the Far East Enterprising Co. (in Chinese, *Huaxia Qiye*, 华夏企业), remained securely under the control of CCP cadres at China Resources, who, in turn, operated under the strict guidance of senior officials at the Party center.²⁹ Qian and Qin next turned to the task of adding flesh to the bones of the new front company. They needed warehouse space, ships, and sailors—

²⁷ On September 20, 1948, Ren ordered Zeng Shan (曾山), a senior cadre then en route to the East China Bureau, to contact Dalian immediately once he arrived to instruct officials there to prepare for another Hong Kong shipment. Yang, Zhang, et al., *Ren Bishi Nianpu*, 583. On the status of the Poltava at the time of Ren's cable, see Wu Xuexian et al., *Hongse Huarun* [Red China Resources] (Beijing: Zhonghua, 2010), 64.

²⁸ Qin Bangli registered China Resources in Hong Kong with 500 million Hong Kong dollars in capital on December 18, 1948. Wu, *Qian Zhiguang Zhuan*, 291.

²⁹ Wu et al., *Hongse Huarun*, 64

all of which had to remain under tight Party control given the sensitive nature of the work and the CCP's ideological distrust of freewheeling capitalism.

Neither Qian nor Qin was much of a seaman, nor was either man prepared to handle these technical arrangements with much confidence. Instead, they enlisted the skills of Wang Zhaoxun (王兆勋), who offered precisely the blend of expertise and loyalty they sought. Wang was a trusted Party cadre who had worked for the China Maritime Customs service. After being appointed the nominal director of Far East Enterprising, he set to work building the company's assets. He rented a warehouse on Connaught Road, which snaked along the edge of the harbor in those days, making it a prime location for shipping services. The new facility allowed him to accumulate up to a thousand tons of freight in store for northward shipments into CCP territory.³⁰

Wang Zhaoxun also began to look for a ship, the first in Huaxia's fleet. He settled ultimately on a secondhand passenger-cargo vessel, the "Oriental" (*Dongfang Hao*, 东方号), which he registered under a Panamanian flag, the national flag of choice for those seeking cheap and discreet registration.³¹ The Oriental was just the beginning. Huaxia soon added a second ship to the fleet—the "Orbital"—and then several more. The fleet continued to grow until it could lay claim to ships from Germany, England, and the United States, including several 10,000-ton vessels (*wandun julun*, 万吨巨轮).³²

As the fleet expanded, Wang needed reliable workers who could be trusted to follow CCP orders to the letter. Liu Shuangen (刘双恩) stood out as the perfect candidate to oversee this recruitment drive. A Fujian native then in his late thirties, Liu had spent nearly two decades

³⁰ Ibid.

³¹ Ibid., 67; and Wu Hesong et. al., *Qian Zhiguang Zhuan*, 293.

³² Wu et al., *Hongse Huarun*, 68.

piloting a China Customs Service anti-smuggling ship along the Chinese coast before joining the CCP in 1946. His years spent crisscrossing the coast left him with a wide network of maritime contacts.³³ In October 1948, when Wang Zhaoxun caught up with Liu, he was teaching at the Jimei Fisheries and Navigation Institute in Fujian and running underground CCP operations.³⁴ Weeks later Liu was in Hong Kong, filling out the ranks at Huaxia. Within months, he had hired 16 additional sailors, all trusted CCP cadres, to serve as Huaxia's first crew.³⁵

Liu Shuangen and the *Oriental* set sail for the first time in February 1949.³⁶ All aspects of the voyage—from crew to cargo, even down to the course that Liu proposed to sail—had been coordinated in advance with CCP higher-ups.³⁷ The *Oriental*, *Far East Enterprising*, and *China Resources* had all become CCP appendages, carefully controlled extensions of the Party into overseas capitalist markets that were designed to institutionalize the Party's presence in international markets without sacrificing control. These arrangements appealed in part because they remained localized, tightly controlled, and—because of these traits—highly effective. Trade through *China Resources* and *Far East Enterprising* offered a lifeline to capitalist markets rather than a tether; it was a connection that the Party could control and contain to suit its own needs and interests.

³³ *Ibid.*, 64-65.

³⁴ *Ibid.*, 65; Zhonggong Xiamen Shi Wei, *Feng Yu Lujiang: Xiamen Minzhong Dixia Dang de Huiyi yu Shiliao, di yi juan* [Wind and Rain on the Lu River: Underground Party Recollections and Historical Materials from Xiamen, Fujian, volume 1] (Beijing: Zhongyang Wenxian, 2000), 346-347.

³⁵ Between the Huaxia warehouse and the Huaxia fleet, the new company soon employed between sixty and seventy workers, including trainees and office staff. Wu et al., *Hongse Huarun*, 66.

³⁶ *Ibid.*, 104.

³⁷ This practice continued with subsequent voyages. See, for example, Zhonggong Xiamen Shi Wei, *Feng Yu Lujiang: Xiamen Minzhong Dixia Dang de Huiyi yu Shiliao*, 348.

The CCP concealed its control over these firms, which left Party leaders a measure of breathing room. They felt little pressure to grapple with larger questions about how the Hong Kong trade might fit into the official policies of a new Chinese communist state, or how a sustained commercial presence within the capitalist world squared with the ideological framework that undergirded the CCP's claim to legitimacy. This must have been a relief to the Party's economic officials, not only because these were difficult issues, but also because by early 1949 the CCP leadership already had its hands full dealing with these questions in a different context, much closer to home.

III. The Search for Policy Coherence

For Mao and his top lieutenants far north of Hong Kong, the year 1949 kicked off with a concerted effort to refine a foreign-policy framework that would guide the CCP through the final months of the civil war and lay the foundation for the future Chinese communist state. At the heart of this effort was the objective that had guided the CCP since its inception. The Party's vision—Mao's vision—was to repudiate China's passive relationship to foreign imperialism and to reclaim the nation's full sovereignty and confidence on the global stage. These ambitions infused Mao's decree on September 21, 1949, that henceforth the Chinese people had “stood up.”³⁸ Months before Mao made this historic proclamation, however, his ambitions had congealed into two earthy tenets, “making a fresh start” (*lingqi luzao*, 另起炉灶) and “cleaning the house before entertaining guests” (*dasao ganjing wuzi zai qingke*, 打扫干净屋子再请客).

According to Zhou Enlai, Mao first used the expression “*lingqi luzao*,” which literally means “building a new stove,” in the context of foreign relations sometime in the spring of

³⁸ Mao Zedong, “Zhongguo Ren Congci Zhanli Qilai Le” [The Chinese People Have Henceforth Stood Up], 21 September 1949, in *Mao Zedong Wenji, di wu juan*, 343.

1949.³⁹ The spirit of the concept had emerged months earlier, however. On January 19, 1949, the Central Committee circulated a directive, drafted by Zhou Enlai and approved by Mao, which sketched the stark contours of the idea: the CCP would abolish all standing treaties with the West rather than renegotiate terms following national “liberation.” China’s new leaders would set their own terms for rekindled bilateral relationships, and would forgo formal relations with any state that rejected the new Chinese state’s terms.⁴⁰

“Cleaning the house before entertaining guests” dovetailed with this notion of a fresh start. Starting off on the right foot, Mao believed, required cleansing China of imperialist vestiges—to “clean house,” as he put it to Anastas Mikoyan in early February 1949—before inviting outsiders to return.⁴¹ Like “making a fresh start,” “cleaning the house” was a defensive political concept designed to carve out an insular domestic environment in which to purify the Chinese revolution and to build a strong, independent state free from the internal threat of foreign imperialism. Both concepts resonated with the CCP’s push for tighter control over trade, and they reflected Mao’s conviction that Western capitalist powers posed an inherent threat to the Chinese revolution if left unchecked. But neither concept was so rigid that it demanded severing China from all contact with the capitalist world, even if some capitalist states refused to accept the Party’s new terms for official foreign relations.

³⁹ See Zhou Enlai, speech, “Women de Waijiao Fangzhen he Renwu” [Our Guidelines and Tasks], 30 April 1952, *HPA*, 1057-8-44.

⁴⁰ Lu Zhenyang, “Guanyu Xinzhongguo Santiao Waijiao Fangzhen de Zhiding” [On the Formulation of New China’s Three Foreign-Policy Guidelines] *Dang de Wenxian* 01 (1995), 51. For the text of the January 19, 1949, instruction, see Chinese Communist Party Central Committee, instruction, “Zhongyang Guanyu Waijiao Gongzuo de Zhishi,” 19 January 1949, in *Zhongyang Dang’anguan Bian, Zhonggong Zhongyang Wenjian Xuanji, di shiba ce* [Anthology of Chinese Communist Party Central Committee Documents, vol. 18], (Beijing: Zhonggong Zhongyang Dangxiao, 1992), 44-49.

⁴¹ Shi Zhe, *Zai Lishi Juren de Shenbian: She Zhe Huiyilu* [At the Side of History’s Giants: The Memoirs of Shi Zhe], (Beijing: Zhongyang Wenxian), 379.

The CCP was hardly attempting to dissociate China from foreign capitalists as these concepts were coming into focus in early 1949. Quite the opposite: it was struggling to redefine the terms under which China engaged international capitalism, which would allow it to continue to trade with overseas markets in a manner consistent with China's new national identity. This process took on added immediacy on January 15, 1949, when the People's Liberation Army (PLA) took control of Tianjin, a former treaty port with an established community of businesspeople and firms. For the first time, working-level cadres came into close contact with foreign capitalist markets not at the distant end of a tightly controlled trade network, but within CCP-controlled territory.

On January 19, 1949, four days after communist troops and administrators moved into the city, the Central Committee issued the directive on foreign affairs work that articulated the outlines of "making a fresh start."⁴² When the same guidance turned to the subject of foreign trade, it aimed at instilling caution and prudence in cadres on the ground in Tianjin and Beijing more than anything else. "Concerning trade with capitalist nations, do not busy [yourselves] establishing or restoring routine trade relations," the Central Committee advised.⁴³ There was no need to rush into things. "Especially do not busy [yourselves] concluding common (*yiban*, 一般) trade contracts," the guidance urged. Instead, "cadres can only engage in temporary, individual, localized import and export trade with these countries when it is advantageous to us and [concerns] urgently needed [goods]."⁴⁴ In other words, working-level cadres could certainly trade with local foreign capitalists, but they should avoid the appearance of hastily resuming the status-quo ante. Nor should cadres generate the impression that ongoing trade was indicative of

⁴² The text of the instruction can also be found in *JDYL*, vol. 26, 56.

⁴³ *Ibid.*

⁴⁴ *Ibid.*

larger CCP policy. These deals were temporary expediciencies, at least that was the message for the time being.

The Central Committee expanded on this position a month later, on February 16, by issuing two directives that addressed the subject of trade specifically.⁴⁵ The first, addressed to the North China Bureau and the leadership in Tianjin and Beijing, expressed the goal of prioritizing trade along ideological lines. The Central Committee explained that the CCP's "basic principle of foreign trade" was to satisfy needs as much as possible by doing business with the Soviet Union and the "new democracies" (*xin minzhu guojia*, 新民主国家) of Eastern Europe.⁴⁶ Only when socialist partners did not need Chinese goods or could not sell China what it needed would the CCP trade with capitalists.⁴⁷ Trade with capitalists was residual, perhaps, but no less urgent. The Central Committee concluded its instructions with an advance approval for Tianjin officials to hold talks with local Japanese commercial agencies about the possibility of continuing trade into the future.⁴⁸

⁴⁵ Liu Shaoqi drafted both documents on behalf of the Central Committee. See *Liu Shaoqi Nianpu, Xia Juan* [A Chronology of Liu Shaoqi, vol. 2], 1897-1969 (Beijing: Zhonggong Zhongyang Wenxian Yanjiushi, 1996), 180.

⁴⁶ CCP Central Committee, instruction, "Zhonggong Zhongyang Guanyu Duiwai Maoyi Jiben Fangzhen de Zhishi" [CCP Central Committee Instruction on Basic Foreign-Trade Principles], 16 February 1949, in *JDYL*, vol. 26, 137. In addition to the North China Bureau, the Central Committee sent the instructions to Peng Zhen (彭真), who was then secretary of the central Beijing municipal committee; Ye Jianying (叶剑英), who was chairman of the Beijing military control commission and mayor of the city; Huang Kecheng (黄克诚), chairman of the Tianjin military control commission; and Huang Jing (黄敬), mayor of Tianjin and vice chairman of the Tianjin military control commission. Marshals Lin Biao (林彪) and Luo Ruoheng (罗荣恒) also received the instructions, as did the Northeast Bureau. *Liu Shaoqi Nianpu, xia juan* [A Chronology of Liu Shaoqi, vol. 2], 1897-1969, 181.

⁴⁷ *Ibid.*

⁴⁸ *Ibid.*, 137-138.

The Central Committee transmitted a second cable that same day, February 16, which reached a wider readership and offered a more comprehensive statement on CCP trade policy.⁴⁹ The Central Committee noted that many capitalist businesses operating in KMT-controlled areas had approached local cadres with requests to trade following the “liberation” of Tianjin.⁵⁰ These kinds of trade relationships were necessary for the speedy recovery and development of the Chinese economy, the Central Committee argued, but it must adhere to three guidelines. First, it must be beneficial to China; second, it must strictly safeguard China’s independence and sovereignty; and third, it must be controlled strictly by the new Chinese government.⁵¹ This last familiar point, the need for control, set the tone of the directive just as it did for Li Fuchun’s admonitions a year earlier, and it conveyed to officials in Tianjin in no uncertain terms the central importance of retaining the upper hand when doing business with local capitalists.

The Central Committee’s February 16 guidance also ordered the North China People’s Government to establish a foreign-trade bureau (*Duiwai Maoyi Ju*, 对外贸易局) in Tianjin immediately to oversee the city’s trade. Private businesses wishing to operate in Tianjin would have to secure permits and approvals from the new bureau. So would foreign trade delegations interested in developing trade with communist China.⁵² The new bureau would also take responsibility for drafting a trade plan that used import and export controls and tariffs to bring

⁴⁹ This second cable was addressed to the full Tianjin and Beijing party municipal committees, as well as the North China Bureau, Lin Biao, and Luo Rongheng. The Central Committee also instructed recipients to pass the instructions along to CCP central offices and branches. CCP Central Committee, resolution, “Zhonggong Zhongyang Guanyu Duiwai Maoyi de Jueding” [CCP Central Committee Resolution Concerning Foreign Trade], 16 February 1949, in *JDYL*, vol. 26, 133.

⁵⁰ *Ibid.*

⁵¹ *Ibid.*

⁵² *Ibid.*, 133-134.

Chinese trade into line with the Party's larger industrialization goals.⁵³ This push for regulation and control from the Party center reached down even to the level of the junk trade that stitched together Tianjin, Qinhuangdao, Dalian, and other ports on the Bohai Sea.⁵⁴ For small-scale traffickers in lipstick and pens, the future looked bleak.

But just four days later, Party guidance took a slight turn. On February 20, 1949, the Central Committee issued another set of instructions on trade work in Tianjin, this time presenting a more accommodating position. The earlier guidance concerned “matters of principle” (*yuanze zhishi*, 原则指示), the Central Committee explained, and officials in Tianjin and Beiping were expected to study this guidance systematically.⁵⁵ However, working-level officials were nevertheless expected to “approach businesspeople who previously operated export and import trade and other related people [in Tianjin and Beiping] and [to conduct] detailed inquiries in order to understand the [local] situation [and] propose ways to conduct foreign trade in the future.”⁵⁶ In short, principles were important, but not so much that they should stand in the way of developing a functioning trade regime in Tianjin, Beiping, and elsewhere. Principle alone also did not absolve cadres of the responsibility for investigating preexisting capitalist trade practices in search of methods and techniques that might profitably inform future CCP policy.

The tension running through this string of guidance from the Central Committee—firm control on one hand, selective adaptation and accommodation on the other—placed working-

⁵³ Ibid., 134-135.

⁵⁴ Ibid., 136.

⁵⁵ Central Committee, instruction, “Zhonggong Zhongyang Guanyu Duiwai Maoyi he Yinhang Waihui Guanli Deng Wenti Gei Tianjin Shiwei Deng de Dianbao” [CCP Central Committee Cable to the Tianjin Municipal Committee and Others Concerning Foreign Trade, Bank Management of Foreign Exchange, Etc.], 20 February 1949, in *Dang de Wenxian* 3 (2009), 8.

⁵⁶ Ibid.

level cadres in a bind. How should one go about reconciling sternness with openness, and principle with practice, in routine interactions? Officials at the center were just as uncertain about these issues as those on the periphery. The Central Committee made this clear, if nothing else, in yet another set of ambiguous instructions on March 1, 1949. Local officials “should continue to adopt a stern [*yanzheng*, 严正] manner,” when it came to interactions with foreign businesspeople and firms, the Central Committee explained.⁵⁷ “But foreign-trade authorities should adopt an energetic and friendly (*youhao*, 友好) stance with any foreign businessperson or foreign agencies and organizations willing to conduct business with us.”⁵⁸ For instance, the guidance explained that officials were authorized to help foreign businesses with minor difficulties, such as procuring vehicle licenses and travel permits.⁵⁹ Lest officials in Tianjin lean too far in the direction of accommodation, however, local officials “also must not [be] excessively friendly or excessively energetic, to the point of creating the misimpression among foreigners that we are eager (*jiyu*, 急于) to trade with them.”⁶⁰

This tortuous effort to relate principle to policy in the fluid environment of post-liberation Tianjin commerce produced confusion on the ground. It is unclear how many cadres in Tianjin followed the Central Committee’s instructions to the letter and arranged “friendly” interviews with local capitalists to discuss best trade practices. But without a doubt the tension between stern control and energetic accommodation in the senior leadership’s inchoate trade policy soon squeezed the life from much of the trading community in the city. The British consulate general

⁵⁷ Central Committee, instruction “Zhonggong Zhongyang Dui Tianjin Shi Chengli Duiwai Maoyi Ju de Zhishi” [CCP Central Committee Instruction on the Establishment of the Tianjin Municipal Foreign-Trade Bureau], 01 March 1949, in *Dang de Wenxian* 3 (2009), 10.

⁵⁸ Ibid.

⁵⁹ Ibid.

⁶⁰ Ibid.

in Tianjin spelled out many local difficulties in a memorandum dated September 13, 1949, eight months into the CCP's tenure in the city. Complaints from British merchants ranged from lack of access to local trade authorities and restrictions on personal movement, to oppressive security regulations, discriminatory banking regulations, and arbitrary and aggressive taxation.⁶¹ Many British traders were certainly in a sour mood already. KMT blockades along the Chinese coastline had prevented ships from reaching Tianjin at all. It wasn't until March 1949 that the first fully loaded British-flagged freighter arrived in Tianjin from Hong Kong.⁶² Still, the CCP's own muddled policy prescriptions for trade with local foreign capitalists only made matters worse as far as the local business community was concerned.

As CCP officials in Tianjin began to wrestle with the task of implementing the Central Committee's ambiguous guidance on trade policy, the Party's senior-most leadership gathered from March 5-13, 1949, 200 miles to the southwest, in Pingshan county, for the Second Plenum of the Seventh Central Committee. This was a critical moment in the founding of the Chinese communist state, when attendees sketched the policy positions that would become the foundation of the People's Republic. When the subject of economics arose, the top leadership articulated a more clearly defined sense of what they expected foreign trade to accomplish in the abstract for China. For Chen Yun, Ren Bishi, and others who helped draft the plenum's final resolution, trade offered a means for transforming China from a backward (*luohou*, 落后) nation into a powerful and independent industrial state. They envisioned China's own import substitution

⁶¹ S. L. Burdett to Wang Zhenbo, "Memorandum," 13 September 1949, *TNA*, FO 371, 75867, F15297/1153/10.

⁶² Chen Nailiang, *Shangjie Qiren: Chen Zupei* [A Business Talent: Chen Zupei] (Guangzhou: Yangcheng Wanbao, 2000), 72-73.

industrialization (ISI) program. China would trade away surplus agricultural products for equipment and technology that would spur China's own protected industrialization at home.⁶³

On March 13, 1949, Ren Bishi, a respected Party veteran from Hunan province and a member of the CCP Central Secretariat and the Politburo, pointed to wartime Japan as an example of how China might achieve its industrialization goals.⁶⁴ If Japan managed to industrialize Anshan (鞍山) and Benxi (本溪), both northeastern cities in Liaoning province, by selling agricultural products abroad for hard currency and using the proceeds to import technology and equipment, then surely the CCP could do the same for the rest of "new China."⁶⁵ Tight trade controls would see to it that domestic industries had the space and protection to develop and that only essential materials were imported. As Mao Zedong put it in his own report to the plenum, "not having a policy of controlled trade is not possible."⁶⁶

Without a doubt, the Party's top leaders had a shared vision of what they wanted foreign trade to accomplish for China. But they remained uncertain of precisely how to link that vision to a concrete policy framework that would offer clarity to working-level officials striving to locate a balance between principled sternness and energetic engagement. This problem became more acute as communist forces pushed south toward Shanghai throughout the spring of 1949. Sensing

⁶³ CCP Central Committee, resolution "Zhonggong Qijie Erzhong Quanhui Jueyi" [Resolution of the Second Plenum of the Seventh CCP Central Committee], 13 March 1949, in *JDYL*, vol. 26, especially 205-209.

⁶⁴ Ren Bishi, speech, "Zai Zhonggong Qijie Erzhong Quanhui Shang de Fayan" [Speech During the Second Plenum of the Seventh CCP Central Committee], 13 March 1949, in *JDYL*, vol. 18, 183.

⁶⁵ *Ibid.*

⁶⁶ Mao Zedong, report, "Zai Zhongguo Gongchandang Diqi Jie Zhongyang Weiyuanhui Dier Ci Quanti Huiyi Shang de Baogao" [Report During the Second Plenum of the Seventh CCP Central Committee], 05 March 1949, in *JDYL*, vol. 26, 165. This language also made its way into the plenum's final resolution. CCP Central Committee, resolution "Zhonggong Qijie Erzhong Quanhui Jueyi" [Resolution of the Second Plenum of the Seventh CCP Central Committee], 13 March 1949, in *JDYL*, vol. 26, 208.

a mounting urgency for a clear and coherent policy position on trade and other economic issues, the CCP began to consolidate economic decision makers into a single bureaucratic entity. On May 9, 1949, Chen Yun boarded an overnight train from Shenyang, where he and Li Fuchun had been leading voices in economic planning for northeast China, and embarked for Beijing, the nation's future capital and the seat where he would take responsibility for economic development on a national scale.⁶⁷

Chen Yun dove into foreign trade as soon as he arrived. On May 11, 1949, he headed west to the hills just outside Beijing to attend a three-week conference on finance and economic work hosted by the Party's Central Military Commission. During the conference, Chen exchanged views with Zhu De, Liu Shaoqi, and other Party luminaries on a range of economic issues, including foreign trade in Tianjin, Tangshan (a large city northeast of Tianjin on the Bohai coast), and Shanghai.⁶⁸

Chen Yun understood the stakes of these conversations keenly, and the associated pressures, despite his usually cool exterior. Chen always kept up a tidy appearance. His lean frame, tidy hair, and strong jaw conjured an aura of control, precision, and confidence, but anxiety routinely gnawed at the man beneath this exterior.⁶⁹ He knew the urgency of the problem, with Shanghai's "liberation" just weeks away.

As Chen Yun pondered the scarcities and bottlenecks that continued to hamstring China's war-torn economy, the expediency of doing business with the capitalist world never strayed far

⁶⁷ Zhu Jiamu, Liu Shukai, et al., *Chen Yun Nianpu, shang juan*, 563. Jiang Changqing, "Wo Shi Suanzhang Pai: Chen Yun Jingji Guanli de Zhongyao Fangfa" [I Am the Accounts-Figuring Party: Important Methods of Chen Yun's Economic Management], in Zhu Jiamu ed., *Chen Yun yu Dangdai Zhongguo*, 739.

⁶⁸ Zhu Jiamu, Liu Shukai, et al., *Chen Yun Nianpu, shang juan*, 563.

⁶⁹ On Chen's reputation as the CCP's "in-house worrier," see Ezra F. Vogel, "Chen Yun: His Life," *Journal of Contemporary China*, 14:45 (2005), 759.

from his mind. On May 21, 1949, while still at the conference, he made the case to Zhou Enlai that the CCP should turn once again to Hong Kong markets to fill a critical supply gap. The scarcity of cotton in Shanghai threatened the city's critical textile industry and, indirectly, the entire urban economy.⁷⁰ Chen felt no compunctions about turning to Hong Kong markets to resolve this urgent need—he had been helping to oversee CCP underground commercial operations there since the 1930s. But it remained unclear whether it would be possible to develop more sophisticated trade routes between Hong Kong and other CCP-controlled ports along the Chinese coast. Chen made little progress in resolving this issue during the conference, but the meetings did manage to further centralize economic policymaking within the Party, a step in the right direction, as far as he was concerned.

On May 31, 1949, Liu Shaoqi drafted an outline (*dagang*, 大纲) on behalf of the Central Committee announcing the establishment of a central economic governance structure (*Zhongyang Caizheng Jingji Jigou*, 中央财政经济机构).⁷¹ After minor revisions by Mao and Zhou, the final document was circulated to announce the immediate creation of the Central Finance and Economics Committee (*Zhongyang Caizheng Jingji Weiyuanhui*, 中央财政经济委员会, or CFEC), which was invested with the power to plan and lead financial and economic

⁷⁰ Chen Yun, *Chen Yun Wenji, di yi juan* [The Collected Works of Chen Yun, volume 1] (Beijing: Zhongyang Wenxian, 2005), 675, as cited in Zhao Shigang, “Chen Yun Duiwai Maoyi Sixiang de Lishi Yanjin ji Qi Gongxian” [The Historical Evolution and Contributions of Chen Yun's Foreign-Trade Thought], in *Chen Yun yu Dangdai Zhongguo* [Chen Yun and Contemporary China], ed. Zhu Jiamu (Beijing: Dangdai Zhongguo, 2014), 288. Chen Yun also referred specifically to his lingering concern over cotton shortages in Shanghai in a letter to Zhou Enlai on May 23. See Zhu Jiamu, Liu Shukai, et al., *Chen Yun Nianpu, shang juan*, 564.

⁷¹ Liu based his draft on the proceedings of work conference. Cao Yingwang, “1949 Nian Chen Yun Shouming Zujian Zhongcaiwei” [Chen Yun's 1949 Orders to Form the Finance and Economics Committee], *Dangshi Bolan* [Party History Exposition] 8 (2006), accessed 15 September 2015, http://www.wxyjs.org.cn/zellsq/201308/t20130801_143020.htm.

work at the national—not regional—level.⁷² The question of who would lead the CFEC was left undecided. But on June 4, Zhou Enlai announced that Chen Yun and Bo Yibo (薄一波) would take charge of the new committee.⁷³ Zhou also underscored the significance of the CFEC by noting that it would remain intact after the founding of the People’s Republic. It was a state institution, in other words, invested with the authority to craft policies and procedures that would form the bedrock of the emerging Chinese communist state.

Chen Yun stressed the nationwide jurisdiction of the CFEC in his remarks following his acceptance of the leadership position. In the past, economic work took its cues from regional CCP organizations, he explained. But recently, economic problems had taken on a national character, and entirely new problems had cropped up along the way.⁷⁴ International trade was a case in point. “Previously, we didn’t have major cities,” he said, “but now we have them, [and] now we have the problem of international trade.”⁷⁵ By way of example, he observed that production in Jiangsu, Zhejiang, Anhui, Jiangxi, Hubei, Sichuan, and elsewhere all depended on Shanghai as a conduit for imports and exports. Tianjin was similarly bound to markets in the northwest.⁷⁶ Consolidating political control and managing economic growth in light of these subtle interdependencies would be no easy challenge, and “these issues must be resolved by the Party center’s financial institutions,” he argued.⁷⁷

⁷² Zhu Jiamu, Liu Shukai, et al., *Chen Yun Nianpu, shang juan*, 565.

⁷³ Ibid.

⁷⁴ Chen Yun, report, “Guanyu Chengli Zhongyang Caizheng Jingji Weihuan” [On the Establishment of the Central Finance and Economics Committee], 04 June 1949, in *Chen Yun Wen Xuan, di yi juan*, 388.

⁷⁵ Ibid., 389.

⁷⁶ Ibid., 388.

⁷⁷ Ibid.

Shanghai was at the front of Chen Yun's mind as he spoke. Communist troops had "liberated" the city in the final week of May 1949, while Chen Yun had been discussing economic affairs with others in western Beijing. On the same day Chen was appointed to head the CFEC, the Central Committee instructed local the CCP leadership in Shanghai and Nanjing to establish foreign-trade management offices immediately in order to oversee many of the challenges Chen identified in his CFEC acceptance speech.⁷⁸ Now that he headed the new CFEC, Chen was in a better position to define policy goals and to instill policy coherence. The new position gave him a mandate, and the office itself, because the Party intended to fold it into the state bureaucracy as it emerged, offered durability and a planning horizon that stretched beyond imminent crises and battlefield contingencies. Putting out fires would remain a key responsibility for the CFEC in the months ahead, but at least now Chen Yun had the bureaucratic footing he needed to begin to shift attention toward larger economic problems down the road, including trade with capitalists.

Even if Chen Yun and the CFEC had had the luxury of devoting all of their time and attention to crafting national policies to streamline trade with the capitalist world, the emergence of these policies would most likely have remained iterative and unsteady for the simple reason that not all of the Party's capitalist trade difficulties stemmed from the CCP's own internal ambivalences and ambiguities in 1949. On the noteworthy occasions when senior CCP officials did reach out to potential capitalist trade partners to explore trade prospects, reactions ranged from tepid to mixed. In March 1949, for instance, the U.S. consulate in Tianjin reported that the

⁷⁸ Central Committee, instruction, "Zhonggong Zhongyang Guanyu Shanghai Deng Shi Ying Ji Sheli Duiwai Maoyi Guanli Chu de Zhishi" [CCP Central Committee Instruction on Immediately Establishing Foreign-Trade Management Offices in Shanghai and Other Locations], 04 June 1949, *Dang de Wenxian* 3 (2009), 13.

local CCP foreign affairs group had invited the chairman of the city's American Chamber of Commerce to discuss foreign-trade issues.⁷⁹ This CCP outreach effort likely emerged from the Central Committee's March 1 directive urging cadres in Tianjin and Beijing to adopt an "energetic and friendly" stance with foreign businesses and organizations. According to the chairman of the American Chamber of Commerce, the talks were cordial and the communists showed heightened interest in trading with the United States. But beyond smiles and courtesies, the exchange produced little of substance.⁸⁰

In late April, cadres in Beijing began to put out trade feelers as well. Yao Yilin (姚依林), a senior official then working in the CCP's North China regional Ministry of Commerce and Industry (*Huabei Renmin Zhengfu Gongshang Bu*, 华北人民政府工商部), directed a subordinate to make contact with the U.S. consul general in Beijing, Oliver Edmund Clubb. During the meeting, Yao's emissary explained candidly that the CCP wished to propose trade between north China and U.S.-occupied Japan.⁸¹ According to Clubb's report, North China was prepared to offer Japan 100,000 tons each of coal and salt in exchange for machine parts, especially parts that could be used in the textile and steel industries. Yao's representative also noted that the CCP was interested in purchasing newsprint and medicines.⁸² He proposed that the Chinese side would rely on local Chinese firms—some established, some newly formed—to handle the deal, with the North China government overseeing the entire operation.⁸³ In the course

⁷⁹ Information Circular Airgram, 30 March 1949, *USNA*, RG 84, Box 11, WNRC (Washington National Record Center, in Suitland), as cited in Sheng, *Battling Western Imperialism: Mao, Stalin, and the United States*, 181.

⁸⁰ *Ibid.*

⁸¹ The Consul General at Peiping (Clubb) to the Secretary of State, 30 April 1949, *FRUS*, 1949, vol. IX: The Far East: China, 977-978.

⁸² *Ibid.*, 977.

⁸³ *Ibid.*

of discussions, Yao's representative also revealed that Yao was willing to restore Sino-American trade to prewar levels.⁸⁴

This initiative is particularly insightful because of Yao Yilin's close ties to the central leadership. His office in Beijing routinely reported to Zhou Enlai, who often issued orders directly to Yao and his staff.⁸⁵ Given these close working ties, as well as the political significance of a visit to the U.S. diplomatic mission in Beijing, Yao's outreach effort almost certainly the imprimatur of Zhou Enlai himself.⁸⁶ If this was an effort by Zhou to gauge the feasibility of securing a U.S. agreement to allow a resumption of commerce between Japan and communist China, the response was not reassuring. Clubb reported the proposal up the chain, but the deal ran into opposition from General Douglas MacArthur, whose position as Supreme Commander, Allied Powers (SCAP) in Tokyo gave him the final word on any potential trade arrangement. MacArthur's office quietly killed the idea with a mix of delays and bureaucratic obstacles.⁸⁷

⁸⁴ Ibid.

⁸⁵ Yao Jin, *Yao Yilin Bai Xi Tan* [Yao Yilin: One Hundred Evening Chats] (Beijing: Zhonggong Dangshi, 2008), 175.

⁸⁶ Chinese sources lend additional credibility to Clubb's reporting on CCP interest in resuming trade between north China and Japan. For example, the Party historian Zhao Shigang writes that Chen Yun cabled Zhou Enlai on June 11, 1949, to request permission to resume iron exports to Japan from Ma'anshan (马鞍山) in Anhui Province. Chen pointed out that the city, which was home to a former Japanese iron and steel works, held roughly 300,000 tons of iron and sand deposits that could be used to generate a useful stream of foreign exchange earnings. Zhao Shigang, "Chen Yun Duiwai Maoyi Sixiang de Lishi Yanjin ji Qi Gongxian," 288. Zhao cites Chen Yun, *Chen Yun Wenji, di yi juan*, 681.

⁸⁷ As Michael Hunt has observed, the U.S. State Department backed the obstructionist position adopted by SCAP Headquarters. See Michael Hunt, "Mao Tse-tung and the Issue of Accommodation with the United States, 1948-1950," in Dorothy Borg and Waldo Heinrichs, eds., *Uncertain Years: Chinese-American Relations, 1947-1950* (New York: Columbia University Press, 1980), 208-209.

Despite this rebuff, the CCP was keen to explore for other practicable trade conduits. On May 25, 1949, the Northeast Bureau reported to the Party center that British and other foreign firms and several private companies run by ethnic Chinese had approached local CCP authorities to express interest in serving as intermediaries for rekindled Sino-Japanese trade.⁸⁸ In China, they would buy soybeans, salt, and other goods for resale to Japanese buyers. In Japan, they would purchase textile equipment, steel, and U.S. cotton on behalf of the CCP.⁸⁹ The arrangement intrigued Party leaders in Northeast China. They urged the Party center to support the proposal, provided the whole operation remain secret. No documents should denote Japan as the final destination for Chinese communist exports, the Northeast Bureau advised, and Japanese should be excluded from direct involvement in the operation.⁹⁰

Zhou personally drafted the Central Committee's response to the proposal on June 2, 1949.⁹¹ It seems the Northeast Bureau leadership had been too timid in its ambitions and overly preoccupied with keeping Japanese capitalists at a distance. "Under conditions of mutual benefit and equality, we need not reject direct trade with Japan; on the contrary, we should welcome Japanese ships and firms to Chinese ports to conduct trade relations," he wrote.⁹² Inviting closer ties with Japanese businesses offered a chance to enhance the Party's influence among the Japanese people, Zhou explained. It would also create opportunities to exploit latent

⁸⁸ Northeast Bureau, cable, "Dongbei Ju Guanyu Duiwai Maoyi Wenti Gei Zhongyang De Dianbao" [Northeast Bureau Cable to the Central Committee Regarding Foreign-Trade Issues], 25 May 1949, *Dang De Wenxian* 3 (2009), 12.

⁸⁹ Ibid.

⁹⁰ Ibid.

⁹¹ *Zhou Enlai Nianpu* [A Chronology of Zhou Enlai], 1898-1949 (Beijing: Zhonggong Zhongyang Wenxian Yanjiushi, 1990), 829.

⁹² Central Committee, instruction, "Zhonggong Zhongyang Guanyu Dui Ri Maoyi Wenti Gei Dongbei Ju de Zhishi" [CCP Central Committee Instruction to the Northeast Bureau Regarding the Issue of Trading with Japan], 02 June 1949, *Dang De Wenxian* 3 (2009), 12.

contradictions between the United States and Japan. The Japanese people didn't oppose trade with China, he continued. MacArthur did. American monopoly capitalists did. They wanted the Japanese market for themselves; coal and salt exporters in particular connived to prevent cheaper Chinese supplies from breaking into the Japanese market.⁹³

That cadres in the Northeast Bureau missed these possibilities is altogether understandable given the ambiguous and imprecise guidance they had received throughout the spring on foreign-trade issues. When faced with the choice of a “stern” posture or a “friendly” and “energetic” one, few sensible cadres would opt for the latter in dealings with foreign imperialists. This was doubly so for cadres proposing a commercial arrangement with Japanese imperialists just four years after the collapse of the Japanese empire. Zhou Enlai suspected as much. He reassured the Northeast Bureau that if they had proposed indirect trade because of “worries about Chinese political reasons”—in other words, fear of inadvertently straying from the Party line—then they should know that “these concerns no longer exist.”⁹⁴

Even if this was true, the CCP still faced rocky road, and a measure of plain bad luck, in its efforts to reach out to capitalist trade partners. In July, Yao Yilin tested the waters for trade with British firms when he held talks with L. G. Frost, a manager from the Tianjin office of Jardine, Matheson & Company.⁹⁵ In keeping with the Central Committee's March guidance, and with explicit backing from Chen Yun and Bo Yibo, Yao invited Frost and his associates to share their views on general issues related to trade and shipping in future talks in Beijing.⁹⁶

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ For Frost's role in arranging meetings with Yao, see L. G. Frost to Yao Yee Lin, Esq., untitled letter, 15 July 1949, *TNA*, FO 371, 75866, F12554/1153/10.

⁹⁶ Zhu Jiamu, Liu Shukai, et al., *Chen Yun Nianpu, shang juan*, 570.

These proposed discussions held the potential to influence the course of CCP foreign-trade relations dramatically. The timing of Yao's invitation was noteworthy: the Party's own policies with regard to capitalist trade remained inchoate, and there was still ample time—months—until the Party would be prepared to announce the founding of the PRC, which meant Yao could exchange views with British merchants and possibly sketch the outlines of a working commercial agreement well before the details became wrapped up in the intractable politics of formal diplomatic relations. But the proposed talks were also not too early. The recently established CFEC gave the Party a stable institution capable of distilling from talks the rudiments of a working policy on CCP trade with foreign capitalists.

Yao's choice of Jardines as an interlocutor was also ideal. Right away, L.G. Frost looped in the director of Jardine's Shanghai office, John "The Younger" Keswick.⁹⁷ Keswick was more than the office director of an esteemed and influential firm in China. He was also chairman of the China Association, a league of leading merchants and officials dedicated to lobbying in London, Nanjing, and elsewhere on behalf of British commercial interests in China and Japan. As chairman of this elite group, Keswick offered a direct line into Shanghai's powerful foreign commercial community. British sources make clear that Yao Yilin expected that the Keswick delegation would also include two or three additional executives, as well as the Shanghai agent of the Hongkong and Shanghai Banking Corporation (HSBC), George H. Stacey.⁹⁸

The timing was perfect, and the participants ideal, but the talks never got off the ground. Keswick never made it to Beijing. Neither did Stacey. An unfortunate delay and a capricious note conspired to prevent either trip from occurring. Part of the problem was that Keswick

⁹⁷ Ibid.

⁹⁸ R. Stevenson (Nanking) to Foreign Office, memorandum, "Following Received from Tientsin," 19 August 1949, *TNA*, FO 371, 75866, F12434/1153/10.

seemed to feel no urgency in scheduling the talks. By the second week of August 1949, he still had not finalized his travel arrangements. Frost wrote to Yao on August 11 with apologies and explanations for the delay, telling Yao that Keswick remained unable to travel because of difficulties facing his firm in Shanghai, but that Keswick hoped to make the trip as soon as he could.⁹⁹ But sometime in the weeks that followed, John “The Younger” committed a tragic blunder by taking it upon himself to draft a memorandum to Yao Yilin. Inexplicably, he shared the note with no one before mailing it—not any of his contacts at the British consulate, none of his colleagues at Jardines, not even George Stacey, his fellow delegate to Beijing.¹⁰⁰

The message, in the words of the British consul general in Shanghai (who saw it afterward), “was not a good document.”¹⁰¹ This was putting it mildly. Others in the Shanghai business community who got wind of the memo’s content thought it a disaster.¹⁰² Keswick opened with an effort to clear the air. In a tone of confidence verging on imperiousness, he declared his ambitions and expectations for commercial operations in China, and then rehashed a few past shortcomings associated with running a business under CCP authority. This opening gambit undoubtedly failed to impress CCP officials, renowned by then for their sensitivity to infringements on Chinese sovereignty. He then presented a series of eleven questions that, by his own declaration, were “of great importance because successful cooperation between the Chinese

⁹⁹ L. G. Frost to Yap [*sic*] Yee Lin, Esquire, letter, “Visit to Peiping from Shanghai of Mr. John Keswick and Jardines’ Specialized Executives. Also Mr Stacey, Hongkong & Shanghai Banking Corporation,” 11 August 1949, *TNA*, FO 371, 75867, F15011/1153/10.

¹⁰⁰ R. W. Urquhart (Shanghai) to J. C. Hutchison, Esq (Beijing), untitled letter, 09 November 1949, *TNA*, FO 371, 75868, F18655/1153/10.

¹⁰¹ Consul General (Shanghai) to Foreign Office, untitled telegram, 05 November 1949, *TNA*, FO 371, F16653/1153/10.

¹⁰² R. W. Urquhart (Shanghai) to J. C. Hutchison, Esq (Beijing), untitled letter, 09 November 1949, *TNA*, FO 371, 75868, F18655/1153/10.

people and the British depends upon the initial agreement on certain broad principles.”¹⁰³ Nearly all of the questions were hopelessly broad, fraught with political sensitivity, and slightly demanding: “What is the Government policy on taxation of both foreign and Chinese private enterprise?” he wanted to know. “What is the Government’s general policy regarding trading?”¹⁰⁴

It may have been possible for Keswick, or another influential figure, to minimize the damage caused by his impulsive memo had he sent it earlier in the summer. But his delays had shifted the entire sequence of events closer to the official founding of the People’s Republic, which ultimately ensnared the visit in the politics of diplomatic recognition. When Keswick was finally ready to make the trip in late October, the invitation was off the table. Keswick and Stacey received word that if they still intended to travel to Beijing, they would have to apply for travel permits the ordinary way, from the Commerce Department of the Shanghai Military Control Commission, and without official sponsorship from Beijing.¹⁰⁵ Frost tried valiantly to salvage the visit by working his own channels from Tianjin, but the trip was done.¹⁰⁶

IV. Setting the Stage for PRC Trade

Chen Yun was in Shanghai as the Keswick visit began to unravel. The city was still reeling under the grip of a KMT blockade, and Chen was in town to meet with economic leaders to discuss the way ahead. The founding of the PRC was less than two months away, and Chen

¹⁰³ John Keswick [unsigned], Memorandum, [undated], enclosed within Consul General (Shanghai) to Foreign Office, untitled telegram, 05 November 1949, *TNA*, FO 371, F16653/1153/10.

¹⁰⁴ *Ibid.*

¹⁰⁵ Consul General (Shanghai) to Foreign Office, untitled telegram, 05 November 1949, *TNA*, FO 371, F16653/1153/10.

¹⁰⁶ Hutchison (Nanking) to Foreign Office, telegram, 29 October 1949, *TNA*, FO, 371, 75868, F16273/1153/10.

was still anxious. Prospects for future trade with the capitalist world appeared mixed at best. In an important speech on August 8, 1949, he told a gathering of economic planners from around the nation to brace themselves for a long-term economic blockade.¹⁰⁷ Prepare, he counseled, but don't give up. The capitalist world "cannot completely blockade us to death."¹⁰⁸ The Party had its own methods for seeing to that. Already, Chen reminded his compatriots, the CCP had encouraging entrees into foreign markets in the north, in places like Tianjin, Dalian, and the inner-Mongolian trading post of Manzhouli (满洲里). As soon as PLA troops liberated Guangzhou, the Party could lay claim to a major trade conduit in the south as well. CCP traders also could "export and import some to and from Hong Kong," he noted.¹⁰⁹ Though Chen didn't say so at the time, China Resources continued to do a brisk business slipping past KMT blockades, and just three days earlier he had cabled Zhou Enlai to propose that the CCP expand the Dalian-Hong Kong shipping route to include a stop in Shanghai.¹¹⁰ The new Shanghai stop would help to relieve some of the strain facing the city. Still, the missed opportunities and lukewarm exchanges throughout the spring and summer of 1949 made for lingering uncertainty when it came to the issue of China's international business prospects.

¹⁰⁷ Chen Yun, "Kefu Caizheng Jingji de Yanzhong Kunnan" [Overcome Severe Challenges in Economics and Finance], 08 August 1949, in *Chen Yun Wenxuan, 1949-1956*, 2. Chen Yi had made a similar point earlier in the summer. "Our struggle with imperialism has switched to a new form! They are using our economic difficulties to engage us," he argued. See Liu Shufa, ed., *Chen Yi Nianpu, shangjuan* [A Chronology of Chen Yi, volume 1] (Beijing: Renmin, 1995), 572.

¹⁰⁸ Chen Yun, "Kefu Caizheng Jingji de Yanzhong Kunnan," in *Chen Yun Wenxuan, 1949-1956*, 2.

¹⁰⁹ Ibid.

¹¹⁰ Looping Shanghai into the network would allay Chen's concerns over the state of Shanghai's cotton industry. Soviet ships could carry upwards of ten million quintals of cotton, Chen observed, all of which could be used to bolster the Shanghai textile industry's production. Zhu Jiamu, Liu Shukai, et al., *Chen Yun Nianpu, shangjuan*, 572. The mass of a quintal, or hundredweight, varies depending on the local base unit used for weight measurements. In this instance, Chen was probably referring to a British Imperial quintal, which is the equivalent of just over 50 kilograms.

Despite the uncertainty, Mao seemed to sense pure opportunity. Capitalist aloofness, coupled with the KMT blockade, offered tantalizing opportunities for mobilizing the rank and file. “The current blockade is extremely beneficial to us,” Mao wrote to Chen Yun on September 2.¹¹¹ KMT intransigence was a boon in both political and economic terms because it offered something to lean against, a common, external hardship around which to unite the masses, something to keep everyone moving forward. Chen had to admit, the blockade did present opportunities. Chinese traders could exploit contradictions among the imperialists, he told officials in Shanghai.¹¹² But this was making the best of a difficult situation, hardly an ideal footing on which to begin the task of founding a new state and rebuilding a devastated economy.

In late September 1949, Chen Yun gathered with the rest of the top CCP leadership and representatives from various “friendly” political parties to discuss the founding of the new state. The meeting was another turning point in CCP and Chinese history. Delegates proclaimed the founding of the People’s Republic, approved the new state’s flag and national anthem, and chose Beijing as the nation’s new capital. They also adopted a “Common Program” (*Gongtong Gangling*, 共同纲领), which served as a de facto constitution for the new state. The document laid out the state’s official positions on a host of policy issues, including foreign trade. Large questions still loomed over the CCP’s position on trade with capitalists, however: how to pursue it, how to control it, where would it occur, and to what extent? Chen and his fellow delegates had to write around these open questions, while at the same time laying out a position sturdy enough

¹¹¹ Mao Zedong, letter to Chen Yun and Rao Shushi (饶漱石), “Bixu Weichi Shanghai, Tongchou Quanju” [Preserve Shanghai, Coordinate the Overall Situation], 02 September 1949, in *Mao Zedong Wenji, di wu juan*, 335.

¹¹² Chen Yun, “Kefu Caizheng Jingji de Yanzhong Kunnan,” in *Chen Yun Wenxuan, 1949-1956*, 2.

to serve as an enduring foundation. Their efforts to balance these concerns emerged in Article 57 of the Common Program:

The People's Republic of China may, on a foundation of equality and mutual benefit, recover and develop trade and commercial relations with the governments and people of individual foreign countries.

中华人民共和国可在平等和互利的基础上，与各外国的政府和人民恢复并发展通商贸易关系。¹¹³

Equality (*pingdeng*, 平等) and mutual benefit (*huli*, 互利)—these were the prerequisites for doing business with the new Chinese state. Both terms offered wide latitude for interpretation, and the Party leadership retained the right to gauge whether future commercial relationships had met these thresholds. In this sense, Article 57 codified the ideological and political leeway that the Party's economic officials had long enjoyed in their dealings with international capitalism. The phrasing of Article 57, specifically the use of *ke* (可)—“may” or “can”—also left open the possibility that the CCP could refuse commercial relationships with the outside world even if the conditions of “equality” and “mutual benefit” existed. “*Ke*” captured perfectly the cultivated veneer of distance, almost aloofness, that had been evident in CCP policy on trade with capitalists since at least as early as the Central Committee's February 1949 guidance to cadres in Tianjin.

The language of Article 57 resembled phrasing Chen Yun had used to describe China's trade policy at a forum that convened alongside the Political Consultative Conference in late September. But instead of “*ke*,” Chen stated that the new People's Government “wished” or “desired” (*yuan*, 愿) to recover and develop trade and commercial relations with various

¹¹³ Chinese People's Political Consultative Conference, “Zhongguo Renmin Zhengzhi Xieshang Huiyi Gongtong Gangling” [Common Program of the Chinese People's Political Consultative Conference], 29 September 1949, in *JDYL*, vol. 26, 768.

governments and peoples.¹¹⁴ The difference may seem trivial, but the Party's senior leadership was highly attuned to the nuances of Party discourse; Mao Zedong, Zhou Enlai, and other leaders at the pinnacle of Party power routinely edited CCP documents to ensure that official discourse matched political purpose precisely. The ambiguity of Article 57's use of "ke" reflected the lingering uncertainty over what future trade with capitalists might look like. As it was written, Article 57 carved out just enough political and ideological space for more tailored policies and practices to emerge in the months and years ahead.

Two days after the Common Program was adopted, on October 1, 1949, Mao Zedong announced the founding of the People's Republic of China to the Chinese public. In the busy months that followed, much of the economic leadership's attention turned north, to Moscow, where an impending Treaty of Friendship, Alliance, and Mutual Assistance held out the promise of substantial economic and technical aid.¹¹⁵ But even amid the flurry of this activity in intra-socialist economic relations, the Chinese leadership kept its eyes on capitalist markets, too. Even the thoughts of Chairman Mao himself turned to the subject of future capitalist trade during the first few months of the PRC. Like Chen Yun, Mao knew that the future of PRC trade with international capitalist markets remained uncertain, but he was nonetheless steadfast in his view that China would maintain its commercial ties to the capitalist world even though it had decided to "lean" toward the side of socialism, as he had vowed publicly in his speech on June 30, 1949.

¹¹⁴ Chen Yun, "Jianshe Renmin de Xin Haiguan" [The Construction of the People's New Customs Administration], in *Chen Yun Wenxuan, 1949-1956*, 25.

¹¹⁵ For insightful studies of the negotiations between Mao and Stalin in Moscow during the winter of 1949-1950, see Sergei N. Goncharov, John W. Lewis, and Xue Litai, *Uncertain Partners: Stalin, Mao, and the Korean War* (Stanford: Stanford University Press, 1993); Lorenz M. Luthi, *The Sino-Soviet Split: Cold War in the Communist World* (Princeton: Princeton University Press, 2008), especially 31-40; and Shi Zhe, *Zai Lishi Juren de Shenbian: Shi Zhe Huiyi Lu* [Alongside Giants of History: The Memoir of Shi Zhe] (Beijing: Jiuzhou, 2014), 311-340.

For Mao, the operative question was how capitalist trade would factor into the PRC's maturing relationship with the Soviet Union.

This question tugged at Mao's mind even as he found himself in Moscow, the center of world socialism, during his first trip abroad in the winter of 1949-1950. On December 22, 1949, he cabled the Central Committee in Beijing to urge members to take a comprehensive perspective while preparing for the Sino-Soviet trade agreement. China had done business, or was going to do business, with Britain, Japan, the United States, India, and other nations, he reminded them. China must therefore take trade with these capitalist states into account when evaluating the scope and volume of future trade with the Soviet Union.¹¹⁶ The issue still nagged at him, however, and he followed up on the point a few weeks later. On January 7, 1950, he instructed Zhou Enlai and the Central Committee to pay special attention to making a comprehensive trade plan for 1950 with a host of capitalist countries, including Great Britain, France, the Netherlands, Belgium, Australia, Japan, Canada, and the United States.¹¹⁷ Despite all the misfires, setbacks, miscommunications, and inconsistencies, and notwithstanding the many hurdles that still lay ahead, trade with the capitalist world remained a fixture of Chairman Mao's own mental landscape, even as he toured the frigid boulevards of winter Moscow.

¹¹⁶ Mao Zedong, report, "Guanyu Zhunbei Dui Su Maoyi Tiaoyue Wenti Gei Zhongyang de Baogao" [Report to the CCP Central Committee Concerning Issues Related to Preparations for Preparations for the Soviet Trade Treaty], 22 December 1949, in *Jianguo Yilai Mao Zedong Wengao*, vol. 1, 197.

¹¹⁷ Mao Zedong, telegram, "Guanyu Churukou Maoyi Wenti Gei Zhou Enlai de Dianbai" [Telegram to Zhou Enlai Concerning Import/Export Trade Issues], 07 January 1950, in *Jianguo Yilai Mao Zedong Wengao*, vol. 1, 218.

CHAPTER 4: THE KOREAN WAR AND THE STRUGGLE FOR DISRUPTIVE ORDER, 1950-1953

I. A Turning Point

“Our nation’s economy is now at a major turning point in history,” Chen Yun told a group of Party delegates assembled for a meeting of the National Committee of the Chinese People’s Consultative Conference on June 15, 1950.¹ He meant that the Chinese economy had begun its long-awaited transition from a “feudal” and “semicolonial” backwater to an industrializing, modernizing force. His subject was the domestic economy, not foreign trade, and in his remarks Chen concentrated on the policies that would achieve rapid recovery and growth after years of civil war. But trade, too, was on the verge of change. Ten days after Chen’s speech, war broke out on the Korean Peninsula. Four months after that, in October 1950, the PRC itself was embroiled in the conflict, which had since expanded considerably. When Chinese “volunteer” troops entered the fray, they and their North Korean allies found themselves engaged in a brutal and bloody war with the U.S. “imperialist forces” and their United Nation’s allies.

The significance of the Korean War spread far beyond the Korean peninsula itself, as many historians have shown, and scholars of Chinese foreign relations have mapped in detail the impact of the conflict on foreign and domestic policymaking in Beijing.² But few have

¹ Chen Yun, report, “Muqian Jingji Xingshi he Tiaozheng Gongshangye, Tiaozheng Shuishou de Cuozi” [The Current Economic Situation and Policies for Adjusting Business and Taxation], 15 June 1950, in *Chen Yun Wenxuan, 1949-1956* [Selected Works of Chen Yun, 1949-1956] (Beijing: Renmin, 1984), 100.

² The vast body of scholarship on the legacies and meanings of the Korean War continues to grow. For relatively recent contributions, see Masuda Hajimu, *Cold War Crucible: The Korean Conflict and the Postwar World* (Cambridge: Harvard University Press, 2015); Sheila Miyoshi Jager, *Brothers at War: The Unending Conflict in Korea* (New York: W. W. Norton & Company, 2013); Shen Zhihua, *Mao, Stalin, and the Korean War: Trilateral Communist Relations in the 1950s* (Milton Park, Abingdon; New York: Routledge, 2012); Steven Casey, ed., *The Korean War at Sixty: New Approaches to the Study of the Korean War* (New York: Routledge, 2012); and William Stueck, ed., *The Korean War in World History* (Lexington: University Press of Kentucky, 2004). For a recent work that traces the legacies of the Korean

considered the influence of the war on China's economic relations with the capitalist world. Historian Shu Guang Zhang is perhaps the exception that proves the rule. Zhang shed new light on China's early Cold War international experience by documenting in careful detail both the rise and the effectiveness of the U.S.-orchestrated embargo against China during the Korean War.³ Along the way, he has uncovered many of the wartime exigencies and anxieties that preoccupied Chen Yun and other top economic officials during the war, but which had, until Zhang, largely been overlooked.

By drawing attention to the importance of trade and commerce to the PRC's Korean War effort, Zhang has also created new opportunities for others to build on his work. In particular, Zhang's concern lay exclusively with post-1949 CCP trade policy. He has argued, for example, that "[t]he PRC's foreign economic statecraft had its origins in the measures the leadership took to resist and circumvent the economic sanctions that the United States and its chief allies imposed on the new regime at its founding proclamation in October 1949."⁴ This is true enough, as far as it goes. But the question remains how the Party's deeper tradition of participation in capitalist markets—a tradition forged *before* the founding of the PRC—changed as it encountered the sanctions and embargoes brought about by the Korean War. The tendency to

War throughout the postwar period, see Charles K. Armstrong, *Tyranny of the Weak: North Korea and the World, 1950-1992* (Ithaca: Cornell University Press, 2013). For works that center on policymaking in Beijing during the war, see Chen Jian, *Mao's China & the Cold War* (Chapel Hill & London: The University of North Carolina Press, 2001), especially chapter 4; and Chen Jian, *China's Road to the Korean War: The Making of the Sino-American Confrontation* (New York: Columbia University Press, 1994).

³ See Shu Guang Zhang, *Economic Cold War: America's Embargo against China and the Sino-Soviet Alliance, 1949-1936* (Washington, DC, and Stanford, CA: Woodrow Wilson Center Press and Stanford University Press, respectively, 2001), especially 79-112.

⁴ Shu Guang Zhang, *Beijing's Economic Statecraft During the Cold War, 1949-1991* (Washington, DC, and Baltimore, MD: Woodrow Wilson Center Press & Johns Hopkins University Press, respectively, 2014), 21.

limit the field of analysis to post-1949 PRC foreign policy is not unique to Zhang; scholars writing in Chinese on the subject also tend to begin their analyses of Chinese trade policy on October 1, 1949.⁵

This chapter broadens the view by placing PRC trade during the Korean War into the longer arc of the CCP's foreign economic relations. The war had a lasting impact on the Party's commercial relationship to the capitalist world on multiple levels—some obvious, some subtle, some fleeting, and some lasting. The chapter begins by tracing how the PRC began to establish specialized institutions to manage trade with the capitalist world as soon as the country was founded in the fall of 1949. These institutions had only just begun to develop their own bureaucratic cultures when China launched its “War to Resist America and Aid Korea” in October 1950, and the war effort that followed mobilized trade officials, economists, and bankers just as it mobilized broader society. The drive to overcome the American “imperialist” embargo instilled in these institutions a clear sense of direction, a purpose to which they could apply their technocratic skills. It became both patriotic and necessary to expand trade with the capitalist world by circumventing the embargo. It also became internationalist, as this chapter will demonstrate by examining the Moscow International Economic Conference of 1952. By the end of the war, the PRC found itself touting a highly politicized agenda of “depoliticized” international trade. Beijing had become the champion of an international economic order

⁵ See, for example, Gu Xiaoying, “Jianguo Chuqi de ‘Jinyun’ he ‘Fan Jinyun’” [‘Embargo’ and ‘Anti-Embargo’ During the Early PRC [Period]], *Shanghai Daxue Xuebao* 6 (1995): 48-52; and Guo Youxin, “1949-1954 Nian Meiguo Dui Xianggang de Jingji Fangwei Zhengce” [U.S. Economic Defense Policies toward Hong Kong, 1949-1954], *Dongbei Shida Xuebao* 6.188 (2000): 56-61.

predicated on expanded trade and commercial inclusion—primarily as a means for disrupting the American-led embargo effort.

II. Laying a Foundation, 1950-1951

Lin Haiyun (林海云) likely knew the size of the task that awaited him when his train pulled into Beijing on a muggy afternoon in July 1949. He had been in Tianjin for months, preoccupied with the delicate task of taking control over the city's commerce without strangling it. In Beijing he would begin thinking of commerce in national rather than municipal terms. The streets were still wet and steaming from a summer downpour earlier in the day as he made his way from the train station to his new office at 13 Dongjiaomin Alley, in the center of the city's leafy legation quarter.⁶ Up two stone steps he went, beneath the Romanesque archway, and into the brick European revival building that was originally the Peking branch of the Yokohama Specie Bank. Inside his office, Lin set to work.

His task was to map out the bureaucracy that would become the institutional backbone of communist China's trade with the capitalist world. Earlier that summer, the CCP Central Organization Department had appointed him director of the Foreign Trade Business Office (*Waimao Yewu Shi*, 外贸业务室), a post he held concurrently with his role as deputy director of the Central Commerce Office (*Zhongyang Shangye Chu*, 中央商业处).⁷ These appointments positioned him well to play an influential role in the construction of a new, centrally controlled trade bureaucracy staffed with technical cadres capable of linking the Chinese communist

⁶ Gao Feng, *Lin Haiyun Zhuan: Cong Hongjun Zhanshi dao Gongheguo Haiguan Zongshu Shuzhang, Waimao Bu Buzhang* [A Biography of Lin Haiyun: From Red Army Soldier to [People's] Republic [of China] Customs Director, Director of the Ministry of Foreign Trade] (Beijing: Duiwai Jingji Maoyi Daxue, 2000), 207.

⁷ *Ibid.*

economy safely and selectively to overseas markets. Lin had other responsibilities, too. His portfolio included the task of organizing and motivating state-owned and private firms to develop foreign trade, for instance, and to establish contact with foreign firms that remained in China after “liberation.”⁸ But his main mandate was to help conceive, organize, and implement a new trade bureaucracy in close coordination with Yao Yilin, who was now director of the Central Commercial Office and Lin’s immediate supervisor.⁹

Lin and Yao first crafted a set of guidelines outlining the core responsibilities of a new Central Ministry of Trade (*Zhongyang Maoyi Bu*, 中央贸易部), which would oversee all of the new Chinese state’s trade, both foreign and domestic. In August 1949, Lin began to oversee the drafting of a second set of regulations, this time for another new entity, the Foreign Trade Division (*Guowai Maoyi Si*, 国外贸易司), a unit within the Ministry of Trade responsible for guiding all of China’s foreign trade after the founding of the People’s Republic of China.¹⁰ Both documents underwent minor revisions in late September to bring them into line with the spirit of the Common Program (*Gongtong Gangling*, 共同纲领), and by mid-October the Central Committee was prepared to announce the creation of both institutions.

The Ministry of Trade opened for business on October 21, 1949. From the outset, experienced trade officials staffed the ministry’s top echelons. Ye Jizhuang (叶季壮), a Guangdong native and Red Army veteran, left his post in northeast China as head of Foreign Trade Department of the Northeast People’s Government to become the PRC’s first minister of

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid., 208.

trade.¹¹ Ye was in his late fifties, and had already earned a reputation as an able and dependable Party manager. He was an inveterate tidier and taskmaster, so much so that colleagues took to calling him “the red housekeeper” (*hongguanjia*, 红管家). His tidy mustache and narrow glasses suggested fastidiousness and intellect, and, true to form, Ye was indeed a numbers man and a stickler for precision. His underlings knew all too well his propensity to single out loose phrasing; words and expressions like “roughly” (*dagai*, 大概), “maybe” (*keneng*, 可能), and “more or less” (*chabuduo*, 差不多) rarely made it past his sharp eyes and ears in briefings and in reports.¹² Numbers are critical in economic work, he told his staff. The Party uses these figures to make policy decisions and carry them out. There was no room for imprecise or slipshod work.¹³

Yao Yilin became one of the Ministry of Trade’s three vice ministers, and Lin Haiyun briefly headed the ministry’s General Office (*Bangong Ting*, 办公厅), which allowed him to work with the ministry leadership to develop basic operating procedures. But he worked in the General Office only briefly. On December 26, 1949, he took a new position as the head of the ministry’s Foreign Trade Division.¹⁴

Lin’s leadership of the Foreign Trade Division placed him at the center of the government’s plan to institutionalize the Party’s trade practices and inclinations into organized, formalized, controlled state policy. Lin had at his disposal several offices, all organized along

¹¹ Ibid., 209. For a brief biographic sketch of Ye Jizhuang, see C. D. W. O’Neill to Selwyn Lloyd, “China: Personalities Report for 1957,” 03 June 1957, p. 39, *TNA*, FO 371, 127263, FC 1012/1.

¹² Zhonggong Dangshi Renwu Yanjiu Huibian, *Zhonggong Dangshi Renwu Zhuan, di sishi wu juan* [Biographies from Chinese Communist Party History, volume 45] (Shaanxi: Renmin, 1990), 274.

¹³ Ibid.

¹⁴ Gao, *Lin Haiyun Zhuan*, 210.

geographic and functional lines. In the early months after the founding of the PRC, responsibility for overseeing trade with the capitalist world was spread across several of these offices.

The Office of European and American Trade (*Oumei Maoyi Chu*, 欧美贸易处) stood at the frontlines of this effort. The office was tasked with formulating a comprehensive plan for trade with capitalist countries in Europe, the Americas, and Africa that supported the CCP's foreign-trade agenda.¹⁵ This required staff to conduct research on markets within each of these capitalist countries. They studied industrial production, supply and demand of key goods and materials, and changes in market prices, among other issues.¹⁶ Cadres staffing the office also took responsibility for handling many of the routine procedures that accompanied international commercial transactions, from preparing background materials for negotiations to arranging talks and drafting contracts on behalf of PRC state trade companies.¹⁷ Officials working in the Office of Asian Trade took on similar responsibilities for PRC state firms doing business with capitalists throughout East and Southeast Asia.¹⁸

The expertise of these regionally focused officials fused with the state's overarching foreign-trade posture in an office called the Administration Division (*Xingzheng Guanli Ke*, 行政管理科) of the Foreign Trade Division's Foreign-Trade Management Office (*Waimao Guanli*

¹⁵ The Office of European and American Trade also coordinated PRC trade with Australia. Central People's Government Ministry of Trade, "Zhongyang Renmin Zhengfu Maoyi Bu Guowai Maoyi Si Gongzuo Tiaoli [Jielu]" [Central People's Government Ministry of Trade Foreign Trade Division Work Regulations], 1951, in Zhongguo Shehui Kexueyuan and Zhongyang Dang'anguan, comps., *Zhonghua Renmin Gongheguo Jingji Dang'an Ziliao Xuanbian, 1949-1952, Duiwai Maoyi Juan* [Selection of Materials from the PRC Economic Archives, 1949-1952, Foreign Trade Volume] (hereafter *JJDAMY*) (Beijing: Jingji Guanli, 1994), 81.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

Chu, 外贸管理处). The Administration Division worked in concert with the Foreign Trade Division's import and export branches and the experts in the regional Offices of European and American Trade and Asian Trade to propose reactions and responses to market developments abroad.¹⁹

Officials in the various functional offices of the Foreign Trade Division also routinely interacted with the laws and practices of overseas markets. Cadres in the Plans Office (*Jihua Chu*, 计划处), for instance, kept tabs on the global commodity prices of hog bristles, eggs, tea, and tin, and published regular reports describing the market trends they were observing for PRC trading companies.²⁰ Officials in the Foreign Shipping Office (*Guowai Yunshu Chu*, 国外运输处) researched trends in the international shipping market, including port fees and trends in freight rates, in order to support PRC importers and exporters.²¹ All of these offices, from Asian Trade to Shipping and Plans, strove to stay up to date on developments unfolding in capitalist markets across the globe.

Who worked in these offices? What breed of revolutionary took on the task of studying, analyzing, and inhabiting—intellectually at least—global capitalist markets? Lin Haiyun recognized early on the distinctive technical skills his officers must possess. They would need to understand the minutiae of finance. They would have to develop a firm grasp of market mechanics. Foreign language skills were also a must.²² Lin first turned to cadres who had spent

¹⁹ Central Ministry of Trade Foreign Trade Division, “Maoyi Guanli Chubanshi Xize” [Trade Management Office Work Rules and Regulations], 1951, in *JJDAMY, 1949-1952*, 91.

²⁰ *Ibid.*, 80.

²¹ *Ibid.*, 82.

²² Gao, *Lin Haiyun Zhuan*, 211.

years learning about trade on the job as staffers in the various financial offices of the North China People's Government.²³

But his staffing needs ran deeper than this pool of proven Party insiders. He was so desperate for solid talent that he was willing to abandon the Party's unwritten rule, in place since the 1930s, that commercial operations must remain in the hands of trusted CCP functionaries. He turned to holdovers from the Nationalist (*Kuomintang*, KMT) regime, skilled technical experts who had overseen China's foreign trade before "liberation" and had decided to stay on to help build a "new China."²⁴ Many of these former KMT officials had studied abroad. Wang Yanling (王延龄) had earned his Master's degree in the United States before joining the KMT government. Lin appointed him head of the Foreign Trade Division's commodity inspection department.²⁵ Lin also turned to local elite universities for new blood, recruiting recent graduates of Beijing University, Qinghua University, Fu'er University (which later became Beijing Normal University), and other top schools.²⁶

Lin Haiyun soon cast an even wider net for talent. Using the resources of the Party's Central Organization Department, the Ministry of Foreign Affairs, and the Hong Kong office of the *New China News Agency*, Lin put the feelers out for skilled and patriotic Chinese who might be willing to return to China to help rebuild the nation's commercial relations. This is how Lin came across people like Zhou Shiyu (周世玉), who joined the Foreign Trade Division after completing his doctorate in the United States. Zhou was one of many returnees who put graduate

²³ Ibid.

²⁴ Ibid.

²⁵ Ibid.

²⁶ Ibid.

degrees from the United States, Britain, and elsewhere to work on behalf of the Foreign Trade Division.²⁷

These experienced, educated, market-savvy staffers lent a cosmopolitan, technocratic air to the Foreign Trade Division. The Central Finance and Economics Committee (CFEC) was not content to rely solely on the in-house expertise of its own Ministry of Trade staff, however. In July 1950 the ministry convened a nationwide conference in Beijing to discuss the import and export trade in the People's Republic.²⁸ During the talks, a consensus emerged among the delegates that more had to be done to raise the collective understanding of those who work in international trade or conduct research on the subject in the PRC. Attendees decided to establish the China International Trade Association (ITA) (*Zhongguo Guoji Maoyi Yanjiu Hui*, 中国国际贸易研究会), a new forum for state trade workers, academics, bankers, customs officials, and others with professional interests in international trade to exchange ideas, share insights, and bolster the state's efforts to boost trade and spur "new democratic" economic construction.²⁹ But before the association could draft a founding charter, the political climate surrounding the PRC's capitalist trade agenda underwent a dramatic shift.

Chinese "volunteer" troops crossed the Yalu River into North Korea on the evening of October 19, 1950, setting in motion a train of events that posed challenges and created opportunities for the PRC trade. On December 3, 1950, the U.S. Department of Commerce announced what amounted to a complete embargo on all exports to mainland China, Hong Kong,

²⁷ Ibid., 213.

²⁸ China International Trade Association, Shanghai Branch, "Zhongguo Guoji Maoyi Yanjiu Hui Shanghai Fenhui Choubenhui Gongzuo Baogao" [China International Trade Association Shanghai Branch Preparatory Meeting Work Report], Undated [1952], Shanghai Municipal Archives (hereafter *SMA*), B171-1-3.

²⁹ Ibid.

and Macao in response to China's decision to join the fighting in Korea. The move was not a bolt from the blue. Beginning in early 1950, the United States had pushed to subsume PRC trade under the mandate of the Coordinating Committee (COCOM), a multilateral organization of NATO allies established to stem the flow of "strategic" goods into the Soviet bloc. Department of Commerce controls on exports destined for the PRC tightened in the months that followed, until the door finally slammed shut with the embargo in December 1950.³⁰

Cargoes already en route to Hong Kong would be offloaded and held pending further instructions from Washington, according to the Commerce Department's orders.³¹ Panic quickly spread through Hong Kong business circles. Local shipping agents and others with stakes in regional trade besieged the U.S. consulate's economic staff with inquiries. Hong Kong officials, responding to tales of hardship and loss collected by local chambers of commerce, expressed indignation at what they privately described to U.S. officials as a "hysterical" approach to export control.³²

Officials in Beijing faced just as much confusion and panic when news of the embargo trickled in. A week after the Commerce Department's announcement, the CFEC still had not received a formal note concerning the details of the embargo, but Chinese officials had been able to piece together a general understanding of what they were facing. On December 12, the CFEC prepared a report for Mao Zedong, Zhou Enlai, and the Central Committee providing the gist of the new U.S. embargo and proposed a handful of stopgap countermeasures designed to minimize

³⁰ For the U.S. political context that produced the embargo, see Kailai Huang, "American Business and the China Trade Embargo in the 1950s," *Essays in Economic and Business History* 19 (2001): 33-48. See also Shu Guang Zhang, *Economic Cold War*, 17-48.

³¹ U.S. Consulate Hong Kong to the Department of State, "Hong Kong's Trade with Communist Controlled Areas (Period December 4-9, 1950)," 05 January 1951, p. 2, *USNA*, RG 84, Records Re Hong Kong Trade with Communist Controlled Areas, 1950-54, Box 1, File 1.

³² *Ibid.*

near-term losses.³³ The report also noted that on December 6, Japan had announced its own comprehensive ban on exports to China, Hong Kong, and Macao, although the Japanese ban was expected to last only until January 15, 1951.³⁴ Four days after the CFEC provided the Central Committee with this initial overview, the U.S. government froze all Chinese financial assets in American financial institutions.

The new sanctions had immediate effects. The historian Shu Guang Zhang and Chinese scholars have documented in detail the frenzied purchases, liquidation of accounts, and other stopgap measures employed by Beijing's economic leadership in an effort to minimize losses.³⁵ Employees at Chinese Resources in Hong Kong, for example, rushed to purchase everything from bicycles to cigarette paper, the goal being to drain the company's foreign currency holdings before they could be frozen by U.S. banks, and to use the funds to purchase goods that were needed at home and likely to become harder to acquire as the embargo tightened.³⁶ But the new environment of financial warfare also had subtler effects on PRC participation in capitalist markets. To begin with, the sanctions, like the Korean War itself, provided ready fodder for the mobilization of PRC trade officials. As discussed in the previous chapter, conflicted trade

³³ Zhu Jiamu, Liu Shukai, et al., *Chen Yun Nianpu: 1905-1995, zhong juan* [A Chronology of Chen Yun: 1905-1994, middle volume] (Beijing: Zhongyang Wenxian, 2000), 74-75.

³⁴ Central Finance and Economic Committee, report, "Meidi Duiwo Jingji Fengsuo Xin Zhengce Ji Wo Tiyi Zhi Duice" [The American Imperialists' New Economic Blockade Against Us and Our Proposed Countermeasures], 12 December 1950, *HPA*, 855-1-20.

³⁵ Shu Guang Zhang, *Economic Cold War*, especially 79-112. The CFEC estimated that the U.S. government managed to freeze roughly U.S. \$42.5 million in PRC assets despite China's efforts to salvage them. CFEC, "Zhongcaiwei Guanyu Chuli Bei Dongjie Meihui de Jueding" [CFEC Decision Regarding the Handling of Frozen U.S. Currency], 07 June 1952, in Zhongguo Shehui Kexueyuan and Zhongyang Dang'anguan, comps., *Zhonghua Renmin Gongheguo Jingji Dang'an Ziliao Xuanbian, 1953-1957, Jinrong Juan* [Selection of Materials from the PRC Economic Archives, 1953-1957, Finance Volume] (hereafter *JDAJR*) (Beijing: Zhongguo Wujia, 2000), 943.

³⁶ Wu et. al., *Hongse Huarun*, 179.

policies from 1948 to 1949 created no small measure of incoherence and ambivalence in CCP trade with the capitalist world just as the Party was laying the groundwork for a new Chinese state. Now, in late 1950, the embargo gave state economic officials a common cause to unite against, and the CCP leadership took full advantage of it.

Central economic officials had already begun to consolidate control over local foreign-trade offices a month before the U.S. embargo came into being, but the Party shrewdly used the embargo to rationalize a further tightening of control. On November 6, 1950, the CFEC ordered all foreign-trade offices in China's major ports to report directly to the Ministry of Trade in Beijing.³⁷ The ministry also installed long-distance telephone lines and required trade officials in Tianjin, Shanghai, Wuhan, Guangzhou, and other major cities to call the Ministry of Trade headquarters nightly with reports on local conditions.³⁸ The goal behind these arrangements was tighter control between the center and the officials on the periphery who interacted daily with importers and exporters.³⁹ The CFEC believed that clear, unified guidance from the center to the

³⁷ CFEC, "Zhongcaiwei Dui Zhongyang Maoyibu Baogao de Pifu" [Central Finance and Economics Committee Reply to Central Ministry of Trade Report], 06 November 1950, in *JJDAMY, 1949-1952*, 103. For the text of the instructions sent to working levels in China's largest port cities, see Central Ministry of Trade, instruction, "Guanyu Jin, Hu Sui, Qing, Rong, Han, Kun Lvda, Ge Waiguanju Yilv Chuizhi Shou Benbu Lingdao de Zhishi" [Instructions Concerning All of the Various Foreign-Trade Administrations in Tianjin, Shanghai, Guangzhou, Qingdao, Fuzhou, Hankou, and Kunming, [Becoming Subject to the] Vertical Leadership of This Ministry], 16 November 1950, in *JJDAMY, 1949-1952*, 104.

³⁸ Fang Zhong, "Gongheguo Jingji Fengyun Zhong de Chen Yun yu Yao Yilin" [Chen Yun and Yao Yilin Amid Economic Instability in the Republic], *Jiang Huai Wenshi* 05 (2012), 48.

³⁹ Various subsidiary offices in some port cities remained under the control of municipal foreign-trade bureaus. For example, branches, offices, and sub-offices in the South China region (*Huanan*, 华南) remained under the leadership of the foreign-trade bureau office in Guangzhou. The trade office in Xiamen fell under the direct supervision of the Fuzhou foreign-trade bureau, while the Qingdao foreign-trade bureau supervised the trade office in Yantai. Central Ministry of Trade, instruction, "Guanyu Jin, Hu Sui, Qing, Rong, Han, Kun Lvda, Ge Waiguanju Yilv Chuizhi Shou Benbu Lingdao de Zhishi," 16 November 1950, in *JJDAMY, 1949-1952*, 104.

periphery would foster greater coordination among trade officials at the working level and ensure that the PRC's foreign-trade administration "marched together in lockstep."⁴⁰

The need for tightly orchestrated trade with the capitalist world was not new. Chen Yun and other leading economic officials had long argued that trade with capitalists—and control over trade with capitalists—were vital to the success of the Chinese revolution. This perception developed from long experience trading in wartime contexts—first during the war against Japan, then again during the civil war with the KMT. But now, in the context of the American embargo, it took on renewed salience. "The implementation of nationwide unified leadership over foreign-trade administration—and trade with capitalist nations," the Ministry of Foreign Trade Management Office explained in 1951, "is in fact the main form of economic struggle."⁴¹

In January 1951, with this charged environment as backdrop, delegates returned to Beijing for a second nationwide trade management conference.⁴² The most urgent matter on the agenda was the drafting of a constitution for the China International Trade Association to establish the structure of the new organization and define its objectives. Once drafted, the document identified Beijing as the headquarters of the new association. It also called for branch organizations in each of China's major trading ports—Tianjin, Shanghai, Qingdao, Guangzhou, Hankou, Kunming, and Dalian, and several others.⁴³ The association remained committed to

⁴⁰ CFEC, "Zhongcaiwei Dui Zhongyang Maoyibu Baogao de Pifu" [Central Finance and Economics Committee Reply to Central Ministry of Trade Report], 06 November 1950, in *JJDAMY, 1949-1952*, 103.

⁴¹ Ministry of Trade Foreign Trade Management Office, "Yijiu Wuling Nian Maoyi Guanli Chu Gongzuo Zongjie" [1950 Foreign Trade Management Office Work Summary], 1951, in *JJDAMY, 1949-1952*, 104-105.

⁴² China Committee for the Promotion of International Trade, "Guanyu Zhaoji Gedi Zhongguo Guoji Maoyi Yanjiu Hui Gongzuo Huiyi de Jihua" [Plan for Working Conference on the Convening of Local [Branches of the] China International Trade Association], 20 March 1953, in *JJDAMY, 1949-1952*, 126.

⁴³ *Ibid.*, 126-127.

enlisting the collective expertise of a wide range of commercial interests, from private traders and academics to state trade officials and bankers, in its quest for more productive engagement with international capitalist markets. Yet the draft constitution specified that local state trade offices would plan, convene, and establish the association's local branches, ensuring that the Ministry of Trade controlled the association from top to bottom.⁴⁴

The constitution also spelled out how members of the ITA would contribute to the struggle against American imperialism. Research was a core mission.⁴⁵ The association expected its members to analyze various aspects of international trade, such as trade management practices, tariffs, product standards and specifications, foreign currency management, and commercial treaty agreements. Mobilization meant looking outward as much as inward to understand how the PRC could better participate in international capitalist markets abroad. This required members to collect and study the supply, demand, and production of goods at home and abroad; distribution systems; and price trends. It also demanded that members play a supporting role in production by researching and improving technical equipment and working to raise the quality of export goods and substitutes for previously imported products that were no longer available because of the embargo.

To circulate insights and keep members apprised of the latest market trends, the association committed to organizing symposiums, academic talks, and reports. These touched on subjects ranging from economic policy and international trade law to tips for practicing international trade. The association's constitution also mandated that members compile and issue

⁴⁴ Ibid.

⁴⁵ China International Trade Association, "Zhongguo Guoji Maoyi Yanjiuhui Zhangcheng: Jianyi Xiuzheng Cao'an" [China International Trade Association Constitution: Draft Suggested Amendments], undated [1951], *SMA*, B171-1-1.

ITA publications.⁴⁶ Ensuring that quality content and expertise fed into these endeavors, the ITA first had to attract experienced professionals into the association.

Delegates to the Beijing conference identified a handful of benefits that could be expected to entice enterprising and knowledgeable trade enthusiasts. Members could reach out to the association's network for assistance when researching issues related to international trade. Likewise, they could circulate their findings among members. They also enjoyed discounts on association publications and access to special lectures and symposiums.⁴⁷ These perks placed a premium on professionalism. By framing the benefits of membership in purely professional terms, the association underscored its intention to assemble a critical mass of engaged and committed experts in order to bring their collective experience to bear on the state's larger effort to deepen PRC participation in capitalist markets.

Promising though it was, the ITA created potential risks for the Ministry of Trade. The ministry itself had convened the Beijing conferences, and it had taken care to ensure that local trade officials would oversee branch offices in China's major port cities. But the process of expanding the association by recruiting trade experts from all walks of life raised the prospect of reactionaries, covert capitalists, or other politically dubious types infiltrating the organization. To guard against these threats, the association's constitution established admission guidelines for individual members (*geren huiyuan*, 个人会员) and group members (*tuanti huiyuan*, 团体会员). Individuals wishing to join had to abide by the association constitution, secure introductions from at least two standing members, and gain the formal approval of the association council.⁴⁸ They also had to work in a state-run or private import-export firm or within an office handling

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Ibid.

international trade. Alternatively, expert academic research or writing on the subject of international trade could qualify a prospective applicant for membership.⁴⁹ Membership criteria for groups were less onerous. Private trading firms, state import-export companies, and academic groups required only the approval of the association council.⁵⁰

The association succeeded in assembling a diverse mix of trade experts from across the industries, private and public, throughout 1951. In Shanghai, by far the largest local branch, individuals working in the “cultural sector” (*wenhua jie*, 文化界), most likely academic institutions, and for private firms accounted for roughly half of 730 total individual memberships. State trade workers and banking officials made up the other half (see Table 4.1).⁵¹ There was greater diversity within these broad categories. A close look at the Shanghai branch roster reveals individual members from the Shanghai customs office, the municipal bureau of trade and industry (*Gongshang Ju*, 工商局), Fudan University, the Bank of Shanghai, the

Table 4.1: International Trade Association Membership as of 1951

	Group Memberships					Individual Memberships				
	State Offices	Private Firms	Banks	Cultural Entities	Total	State Offices	Private Sector	Banking	Cultural Workers	Total
Shanghai	15	133	11	0	159	248	260	116	106	730
Wuhan	8	36	10	0	54	10	38	12	5	65
Changsha*	N/A	N/A	N/A	N/A	14	N/A	N/A	N/A	N/A	20
Fuzhou	0	0	0	0	0	42	21	17	61	141
Xiamen*	0	133	0	0	133	110	7	0	40	157

* The Changsha Small Group operated under the auspices of the Wuhan Branch, and the Xiamen Branch operated under the Fuzhou Branch. Source: China Committee for the Promotion of International Trade, Guanyu Zhaoji Gedi Zhongguo Guoji Maoyi Yanjiuhui Gongzuo Huiyi de Jihua, 20 March 1952, in *JDDAMY*, 1949-1952, 128.

Minsheng Transport Ship Company, and the China Insurance Company, in addition to government officials from institutions such as the East China regional trade office.⁵²

⁴⁹ Ibid.

⁵⁰ Ibid., 123-124.

⁵¹ China Committee for the Promotion of International Trade, “Ge Di Fen (zhi) Hui Huiyuan Tongji” [Membership Statistics for Branches (Divisions) in Various Regions], 20 March 1953, in *JDDAMY*, 1949-1952, 128.

⁵² China International Trade Association, “Zhongguo Guoji Maoyi Yanjiuhui Shanghai Fenhui Choubi Weiyuanhui Mingdan” [China International Trade Association Shanghai Branch Preparatory Committee [Member] List], undated [likely September 1951], *SMA*, B171-1-4.

To put this collective expertise to use, the central government had to find ways to slip past the tightening capitalist embargos and into markets abroad. The Japanese government followed up its December 6, 1950, decision to join the China embargo with an announcement on February 28, 1951, that Tokyo would no longer permit barter trade with the PRC.⁵³ More Sino-Japanese trade began to slink through Hong Kong as a result. Roughly 80 percent of the U.S. \$38 million in peanuts, hog bristles, tung oil, coal, and other PRC exports to Japan looped south through Hong Kong in 1951 before being shipped north again to Japanese markets.⁵⁴ This circuitous routing reflected the Ministry of Trade's growing inclination to turn to Hong Kong as a solution to China's embargo woes. On May 25, 1951, the Ministry of Trade drafted instructions on behalf of the CFEC calling for a shift in focus toward the South China region. Trade with capitalist nations would become increasingly difficult, the guidance observed, and China should strive to make full use of Hong Kong and Macao as springboards for trade with capitalists.⁵⁵ In 1951 the South China Finance Committee opened a string of "joint" offices (*duiwai maoyi lianhe banshichu*, 对外贸易联合办事处) near the border with the colony to handle the expected uptick in Hong Kong trade.⁵⁶

⁵³ General Administration of Customs (GAC), "Haiguan Tongji Nianbao 1951 Nian Juan" [Customs Statistics Annual Report, 1951 volume], 1951, in *JJDAMY, 1949-1952*, 622-623.

⁵⁴ Ministry of Trade, "San Nian Lai Woguo Dui Dongnanya Geguo Maoyi Jiankuang Ji Xianggang Zhuankou Wenti" [Briefing on PRC Trade with Southeast Asian Countries During the Past Three Years and the Hong Kong Re-Export Problem], July 1952, in *JJDAMY, 1949-1952*, 625.

⁵⁵ Wang Hongxu, "Lei Renmin yu Mosike de Guoji Jingji Huiyi" [Lei Renmin and the Moscow International Economic Conference], *Bai Nian Chao* 04 (2001), 41-42. The Ministry of Trade disseminated the guidance three days later to local trade bureaus and finance committees in various regional trade hubs, port cities, and border towns. *Ibid.*, 42.

⁵⁶ South China Finance Committee, resolution, "Huanan Caiwei Guanyu Chengli Duiwai Maoyi Lianhe Banshichu" [South China Finance Committee Resolution to Establish Joint Foreign-Trade Offices], Guangdong Provincial Archive, 206-1-3-48, as cited in Ouyang Xiang, "20 Shiji 50 Niandai Xin Zhongguo Zai Xiang'ao Diqu Kaizhan de Shichang Zhengduo Zhan" [The

But even in Hong Kong, which had been the entrepot of choice for CCP traders since the 1930s, the commercial environment was becoming increasingly difficult for PRC traders. Much of the problem stemmed from an ever growing U.S. official presence in the colony. Between October 1949 and late 1951, the number of American officials working at the U.S. consulate swelled from 67 to 96.⁵⁷ The increase did not escape the attention of Hong Kong authorities. As the office of the Governor of Hong Kong observed, a staff of 96 was hardly needed to look after the affairs of an American community that scarcely numbered 1,000.⁵⁸ It was obvious, wrote one British official, “that if these officials in fact earn their pay, they must be doing other work—i.e. work concerned with China.”⁵⁹

Many of these American officials were doing precisely that. U.S. consulate staff began monitoring and reporting on CCP trade transiting Hong Kong in late 1949, just after the establishment of the PRC.⁶⁰ Consulate staff collected data locally and compiled monthly reports for policymakers and analysts in Washington.⁶¹ These reports, which were based primarily on shipping manifests, became a staple of consular correspondence.⁶² By December 1950, following the implementation of the comprehensive U.S. embargo against the PRC, the consulate was

Struggle for Markets Launched by New China in Hong Kong and Macao During the 1950s], *Dangde Wenxian* 2 (2014), 72.

⁵⁷ Governor of Hong Kong to the Secretary of State for the Colonies, Savingram, 11 September 1951, *TNA*, FO 371, 92385, 3/1126/50 S.

⁵⁸ *Ibid.*

⁵⁹ H. P. Hall to N. C. C. Trench, untitled letter, 27 September 1951, *TNA*, FO 371, 92385, FC 1905/9.

⁶⁰ Washington (Department of Commerce) to Hong Kong Consulate, telegram, 18 November 1949, *USNA*, RG 84, Records Re Hong Kong Trade with Communist Controlled Areas, 1950-1954, Box 1, File 1.

⁶¹ *Ibid.*

⁶² Examples can be found in *USNA*, RG 84, Records Re Hong Kong Trade with Communist Controlled Areas, 1950-1954, Box 1, File 1.

churning out detailed reports on a weekly basis.⁶³ These dispatches catalogued the movements of a menagerie of shippers and trade agents with ties to the PRC—from Chinese front companies like China Resources to longstanding pillars of the expat China trade community, such as Butterfield & Swire and Jardine, Matheson & Co.⁶⁴ The reports offered more data than analysis, but they still taxed consulate resources. Karl Rankin, the U.S. consul general, estimated that the consulate spent between 30 and 40 man-hours preparing each report.⁶⁵ Many of the 96 U.S. officials were also occupied with routine embargo upkeep, such as running to ground potential violations of Commerce Department export controls.⁶⁶

In the spring of 1951, British colonial authorities in Hong Kong began to suspect that the American consulate's zeal for the embargo had led to aggressive enforcement practices, including strong-arm tactics. On April 23, the Hong Kong Colonial Secretary, J. F. Nicoll, wrote to the Colonial Office in London that he had heard reports of American officials summoning local businessmen to the consulate on various pretexts, then dropping heavy hints that the firm may lose its ability to serve as an agent for U.S. exports.⁶⁷ U.S. officials leveled these threats

⁶³ See, for example, U.S. Consulate, report, "Hong Kong's Trade with Communist Controlled Areas (Period December 4-9, 1950)," 05 January 1951, *USNA*, RG 84, Records Re Hong Kong Trade with Communist Controlled Areas, 1950-1954, Box 1, File 1.

⁶⁴ Hong Kong Consulate, report, "Hong Kong's Trade with Communist Controlled Areas (Period March 25-31, 1951)," 19 April 1951, *USNA*, RG 84, Records Re Hong Kong Trade with Communist Controlled Areas, 1950-1954, Box 1, File 2; Hong Kong Consulate, report, "Hong Kong's Trade with Communist Controlled Areas (Period December 4-9, 1950)," 05 January 1951, *USNA*, RG 84, Records Re Hong Kong Trade with Communist Controlled Areas, 1950-1954, Box 1, File 1.

⁶⁵ U.S. Consulate (Rankin) to Secretary of State, telegram, 09 November 1949, *USNA*, RG 84, Records Re Hong Kong Trade with Communist Controlled Areas, 1950-1954, Box 1, File 1.

⁶⁶ See, for example, U.S. Consulate Hong Kong (Rankin) to the Secretary of State, telegram, 21 February 1950, *USNA*, RG 84, Records Re Hong Kong Trade with Communist Controlled Areas, 1950-1954, Box 1, File 1.

⁶⁷ Hong Kong Colonial Secretariat (Nicoll) to Colonial Office (Sidebotham), letter, 23 April 1951, *TNA*, FO 371, 92385, 18498/82/79/5.

mostly at agents exporting American goods to China, Nicoll observed, but not always. He had heard of at least one instance in which a U.S. consulate official hinted that a non-American firm might lose its agency for a popular American cigarette, and the firm's director might even experience difficulty obtaining a visa for a planned visit to the United States, unless the firm ceased its exports of Swiss drugs to the PRC.⁶⁸ This despite the fact that the Swiss government was not a member of COCOM. Evidence supporting specific allegations remained sparse, Nicoll admitted, but a U.S. official had admitted privately to him that the consulate did indeed resort to such tactics.⁶⁹

The expanding U.S. consulate staff, its careful monitoring of local PRC trade activity, the enthusiasm with which it pressured local firms to clamp down on trade with the mainland—all of it began to eat away at Hong Kong's allure as pipeline to markets overseas. Zheng Chinan (郑焯南), who worked for China Resources in Hong Kong during the Korean War, remembered that during the early 1950s some local firms wouldn't dare meet with him during business hours. They were afraid of "spies," he explained.⁷⁰ Others refused to sell Zheng goods in large quantities, forcing him rely on piecemeal purchases to accumulate shipments to the mainland.⁷¹ American pressure also threw a wrench into PRC shipping operations. The CCP front company Huaxia resorted to standing up an array of cutout companies to ship goods from Hong Kong to mainland ports, often using a new company for a single shipment before closing it.⁷²

PRC economic officials in Hong Kong and Beijing realized the dangers of overreliance on Hong Kong for access to capitalist markets. In early 1951 China Resources began dispatching

⁶⁸ Ibid.

⁶⁹ Ibid.

⁷⁰ Wu et al., *Hongse Huarun* (Beijing: Zhonghua, 2010), 180.

⁷¹ Ibid.

⁷² Ibid., 183.

its agents to European markets for direct purchases. Xu Pengfei (徐鹏飞), an experienced China Resources employee who spoke excellent English, left for England in January 1951 for a two-part mission. First, he bought imports. Second, he registered a new company in Britain, which he planned to use as a front for future purchases, much as the CCP had been using China Resources since the 1930s.⁷³ The following month, China Resources sent Zhang Yunxiao (张云啸) to Switzerland on another buying mission.⁷⁴

As these nominally independent buyers began arriving in Europe from Hong Kong, trade officials back in Beijing laid the groundwork for establishing an official commercial presence in Europe. In 1951 the Ministry of Trade opened trade representation offices (*shangwu daibiao chu*, 商务代表处) inside several PRC embassies in Europe.⁷⁵ These new offices occupied a unique place in the embassy hierarchy. The commercial reps who staffed them were neither private businessmen nor diplomats. They were appointed by the Ministry of Trade, but they also required the approval of the Ministry of Foreign Affairs.⁷⁶ The Ministry of Trade funded the offices, but staff reported to both the Ministry of Trade in Beijing and local embassy management, which Ministry of Foreign Affairs appointed.⁷⁷

Both the Ministry of Trade and the Ministry of Foreign Affairs expected trade officials to adhere to the embassy's spartan standards despite their contact with the capitalist commercial

⁷³ Xu Pengfei, interview, undated, as cited in *Ibid.*, 183. Xu later became a manager in the imports division of China Resources.

⁷⁴ Zhang Yunxiao would go on to work in the PRC's trade representative offices in Switzerland. See *ibid.*, 181.

⁷⁵ *Ibid.*, 181.

⁷⁶ Ministry of Trade [?], draft regulations, "Zhonghua Renmin Gonghe Guo Zhu Ouzhou Shangwu Daibiao Chu Zuzhi yu Gongzuo Zhanxing Tiaoli (Cao'an)" [Provisional Regulations Organization and Work Regulations for People's Republic of China Trade Representation Offices in Europe], 1951, in *JJDAMY, 1949-1952*, 87.

⁷⁷ *Ibid.*

scene. The leaders in Beijing ordered that the expenses and “cadre lifestyles” of the staff must adhere to each embassy’s centralized system and that their budgets must secure the approval of embassy management. If issues arose during routine business that touched on matters of principle, they must be reported to embassy management.⁷⁸

The apprehension that “matters of principle” might confound workers in the trade offices stemmed in part from the expansion of the Party’s capitalist trade operations. During the 1930s and 1940s, close personal ties between the CCP leadership on the mainland and Party traders in Hong Kong helped to mitigate this concern. Chen Yun and other Party leaders could trust cadres such as Qin Bangli to live and work in Hong Kong, for example, because they knew him. They could vouch personally for his ability to operate in the heart of capitalist markets without being seduced. By 1951, however, the scale of PRC capitalist trade programs had outgrown this personal network. Guidance and procedures stepped in to fill the void.

The nature of the work also accounted for the need to keep close tabs on trade office staff. Much of their work consisted of arranging insurance, shipping, contracts, and other aspects of trade between socialist states in Eastern Europe and PRC traders.⁷⁹ But these offices also negotiated deals directly with trade departments and firms from capitalist countries in Europe. They worked closely with local transportation companies to charter shipments. They signed contracts. They arranged cargo inspections. These interactions brought trade office workers into the capitalist orbit daily. Too much time in this ideological swirl could be disorienting, making it vital that staff report “matters of principle” to senior embassy officials promptly.⁸⁰

⁷⁸ Ibid., 87-88.

⁷⁹ Ibid., 88.

⁸⁰ Ibid., 88-89. Trade officers were also expected to report back to China with regular updates on how negotiations were proceeding, analyses of ongoing negotiations, and negotiation

Exposing cadres to the corrupting influences of capitalism was worth the political risk because of what the PRC stood to gain from posting trade officers in Europe. Not only did these officers seal deals, but they also took on the responsibility for conducting research tasks that dovetailed with the Ministry of Trade's efforts back home to deepen communist China's understanding of capitalist trade. Trade officers in Europe developed local research and investigation agendas. They collected materials on business conditions, market trends, and product technologies. They did all of this in consultation with the CFEC and the Ministry of Trade.⁸¹ Coordination with officials in Beijing was vital because these activities were meant to support the Ministry of Trade's larger mission of deepening PRC understanding of the capitalist world in preparation for more trade to come. In late 1951, a series of events in Europe, Moscow, and China brought the PRC closer still to this objective.

III. The Moscow Conference

On October 27, 1951, a group of left-leaning business types from France, England, West Germany, the United States, and other capitalist nations met in Copenhagen with commercially minded citizens from several socialist states. For two days, they talked about trade.⁸² The group was in Denmark to map out a path to greater trade across the Cold War ideological divide, and

suggestions, regardless of whether they were negotiating on behalf of PRC state companies, other trading companies, or the Ministry of Trade. *Ibid.*, 90.

⁸¹ *Ibid.*, 89.

⁸² Committee for the Promotion of International Trade, *International Economic Conference in Moscow, April 3-12, 1952* (Moscow: Committee for the Promotion of International Trade, 1952), 9. Attendees of the Copenhagen meeting represented 21 different countries. Wang Hongxu, "Lei Renmin yu Mosike de Guoji Jingji Huiyi," 42.

by the time the meeting adjourned on October 28 they had settled on the idea of an international economic conference as the next step.⁸³

The group's agenda fit perfectly with Beijing's efforts to expand PRC trade with the capitalist world, and Zhou Enlai was quick to see its potential value. He instructed the CFEC to assist with preparations for the conference from Beijing, and dispatched a non-official delegation—the Chinese People's Committee in Defense of World Peace (*Zhongguo Renmin Baowei Shiji Heping Weiyuanhui*, 中国人民保卫世界和平委员会)—to participate in preparatory meetings.⁸⁴ In keeping with the unofficial tone of the conference, Zhou did not send representatives from the Ministry of Trade. Instead, the PRC delegation included Wu Juenong (吴觉农), general manager of the China Tea Company, Peking University President Ma Yinchu (马寅初), and Ji Chaoding (冀朝鼎), a Columbia University-trained economist and director and vice president of the Bank of China.⁸⁵ Wu and Ji also attended the planning meeting in Moscow the following January, during which planners firmed up the specifics for the conference, which would convene in Moscow from April 3 to 12, 1952.

Organizers planned for 443 delegates to attend the event, 314 from capitalist nations and 129 from the socialist bloc, including 25 from the People's Republic of China.⁸⁶ Zhou Enlai

⁸³ Members of the Soviet-backed World Peace Council first raised the idea of bringing together technical experts, economists, industrialists, agricultural specialists, and businesspeople from socialist and capitalist countries to discuss international trade during a February 1951 meeting in Berlin. The Council planned to hold the conference in Moscow in October 1951, but it never materialized. *Ibid.*, 42. On the World Peace Council and its anti-nuclear campaign during the early Cold War, see Lawrence S. Wittner, *The Struggle Against the Bomb: A History of the World Nuclear Disarmament Movement, 1934-1970, Volume 2* (Stanford: Stanford University Press, 1997), 307-317.

⁸⁴ Wang Hongxu, "Lei Renmin yu Mosike de Guoji Jingji Huiyi," 43.

⁸⁵ *Ibid.* For Ji Chaoding's academic training in the United States, see Gregory S. Lewis, "Shades of Red and White: The Life and Political Career of Ji Chaoding, 1903-1963," (PhD diss., Arizona State University, 1999), 46.

⁸⁶ *Ibid.*

realized that China stood to gain from the conference in several respects, but from the outset he viewed it as part of the solution to the PRC's mounting trade troubles. When he reviewed the CFEC's proposed list of delegates to the conference, he observed that the banking and financial sectors seemed well represented, but the group needed a trade expert. Why not consider including Lei Renmin (雷任民), he asked.⁸⁷

Lei was a telling choice. The forty-two-year-old Sichuan native had a firm grasp of trade and economics, having studied economics as a graduate student at Waseda University in Tokyo before the outbreak of the Pacific War. More recently, in May 1951, Lei had been appointed deputy minister at the Ministry of Trade, where he oversaw PRC trade with the capitalist world.⁸⁸ By outside accounts, Lei was an agreeable cadre, a man who could be forthcoming in conversation with foreign capitalists.⁸⁹ His new job at the Ministry of Trade soon thrust him into the center of the Three and Five Anti campaigns that were roiling China's business communities in early 1952, which left him little time to take on additional responsibilities.⁹⁰ The Central Organization Department (*Zhongyang Zuzhi Bu*, 中央组织部) raised this point in response to Zhou's proposal that Lei attend the Moscow Conference. "Let him go, let him go make friends, [and] have a look around," Zhou responded.⁹¹ His reply was folksy but firm. Lei was going to Moscow. The potential for securing commercial agreements with the commercial world was too important to leave Lei on the sidelines.

⁸⁷ Wang Jinyuan and Shao Xianli, "Lvda Bu Chun Shiming" [*Assuming Major Roles Time and Again, Never Dishonoring the Mission*], *Dangshi Wenhui* 07 (2004), 26.

⁸⁸ Ibid.

⁸⁹ C. D. W. O'Neill to Selwyn Lloyd, "China: Personalities Report for 1957," 03 June 1957, p. 18, *TNA*, FO 371, 127263, FC 1012/1.

⁹⁰ Wang Hongxu, "Lei Renmin yu Mosike de Guoji Jingji Huiyi," 42.

⁹¹ Wang Jinyuan and Shao Xianli, "Lvda Bu Chun Shiming," 26.

On February 21, 1952, Zhou met with Lei and several others to review draft remarks for the conference and to scrutinize the delegation roster again. They settled on having Nan Hanchen (南汉宸) and Lei lead the delegation, with Ji Chaoding serving as the group's secretary.⁹² A few weeks later, on March 15, Zhou met with the entire delegation on the eve of their departure to offer some final guidance. "Opportunities to attend this kind of international economic conference are hard to come by," he confided, "[we] can't let it pass."⁹³ Zhou reminded them that most of the attendees would be progressives, "but there will also be reactionaries in attendance." Engage with them, he directed. "Make friends widely, don't just make friends with progressives; make reactionary friends, too."⁹⁴ Attending a single conference would not destroy the embargo, Zhou recognized. But it was a start. By attending, he told the group, you "can expand our influence, [you] can open a gap in the barrier."⁹⁵

A week and a half later, on March 27, the delegation's train steamed into Moscow, where it was greeted by China's ambassador to the Soviet Union, Zhang Wentian (张闻天).⁹⁶ The Chinese delegates arrived a full five days early to confer with Soviet counterparts. Lei traveled separately, by plane, and landed in Moscow on April 2.⁹⁷

The Moscow International Economic Conference formally opened the next day. From start to finish, it was a choreographed affair. It was sleek and sophisticated. A fleet of glossy

⁹² Ibid. This selection process generated tension among some members of the delegation. Gregory Lewis has argued based on interviews with Chinese officials, a long-running tension emerged between Lei Renmin and Ji Chaoding over who would serve formally as Nan's deputy during the conference. Gregory S. Lewis, "Shades of Red and White: The Life and Political Career of Ji Chaoding, 1903-1963," 242, 326.

⁹³ Wang Jinyuan and Shao Xianli, "Lvda Bu Chun Shiming," 26.

⁹⁴ Ibid.

⁹⁵ Ibid.

⁹⁶ Zhang Peisen, ed., *Zhang Wentian Nianpu, Xia Juan (1942-1976)* [A Chronology of Zhang Wentian, Second Volume (1942-1976)] (Beijing: Zhonggong Dangshi, 2000), 928.

⁹⁷ Wang Hongxu, "Lei Renmin yu Mosike de Guoji Jingji Huiyi," 44.

pastel-shaded Soviet sedans—Zims with suicide doors and special blue lights—whisked delegates between the deluxe new Sovietskaya Hotel to the conference site.⁹⁸ It was also professional and modern. Delegates received special edition copies of *Foreign Trade, Currency and Credit*, and *Problems of Economics* to peruse in English, French, German, or Chinese.⁹⁹ The venue, Trade Union Hall, had been a noblemen’s club in the pre-revolutionary era, but Soviet officials had added modern touches and technology to suit the occasion. Blond birch desks had been installed, along with a simultaneous translation system that included headphones for each delegate. Movie cameras and soundproof translation booths perched on the balcony that ringed the conference floor.¹⁰⁰ The translation booths, like the special edition periodicals, testified to the global ambitions of the conference. Conference organizers had arranged for simultaneous translations of the proceedings in English, French, German, Russian, Spanish, and Chinese.¹⁰¹ The image sought was one of inclusivity, openness, and transcendence, of commerce cutting across differences in economic and social systems, as the Committee for the Promotion of International Trade later put it.¹⁰²

Dean Acheson, the American secretary of state, thought the entire affair was “spurious.” Conference organizers were concocting a program to “confuse and weaken” the “free world,” he told any would-be conference goers in a March 14 press release.¹⁰³ “They [the Soviets] wish to

⁹⁸ Special to the *New York Times*, “Economic Parley Opens in Moscow; 3 U.S. Businessmen There—U.N. Touches Seen in Press and Translation Systems,” *New York Times*, 04 April 1952, 9.

⁹⁹ Ibid.

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

¹⁰² Committee for the Promotion of International Trade, *International Economic Conference in Moscow, 1952*, 9.

¹⁰³ United Press wire, “Moscow Economic Conclave Called ‘Spurious’ by Acheson,” *The Washington Post*, 15 March 1952, 3.

organize pressures in non-Communist countries against current restrictions on the export of strategic materials to the Soviet bloc,” he continued.¹⁰⁴ By chipping away at COCOM and its embargoes, he declared, the conference aimed to undermine the strength and solidarity on which the present peace depended.¹⁰⁵ Spurious though it may have been, the conference clearly touched a nerve in Washington, and elsewhere in the United States. American press coverage blended captivation with derision. The *New York Times* took a keen interest in which Americans had turned down invitations to the conference—“men of good reputation” such as former Treasury Secretary Henry Morgenthau and Harvard scholars John Kenneth Galbraith, Edward Mason, and Seymour Harris.¹⁰⁶

The *Times* and Acheson both sensed the same potential that caught Zhou Enlai’s attention when he committed to Chinese involvement. The Moscow Conference offered the PRC and other delegates an international stage on which to champion free trade, economic cooperation, and the PRC’s emphasis on equality and mutual benefit in foreign trade. The fancy hotel, the sleek cars, the UN-style press and translation equipment, and the diversity of the attendees reinforced the narrative of progress and prosperity through openness and trade. It was all counter-narrative to COCOM embargoes and blockades. Lei Renmin understood this message perfectly. “I am firmly convinced,” he concluded during a working group meeting on the morning of April 7, “that the nations being interconnected as they are, the artificial barriers could be removed and

¹⁰⁴ Ibid.

¹⁰⁵ Ibid.

¹⁰⁶ Harry Schwartz, “Many in U.S. Spurn Moscow Talk Bids,” *New York Times*, 16 March 1952, 24. Dean Acheson used the term “men of good reputation” to describe Americans targeted by conference organizers. See also C. L. Sulzberger, “Moscow’s Parley on Trade Shunned,” *New York Times*, 03 April 1952, 11.

international trade would be able to develop normally.”¹⁰⁷ In essence, the entire conference was a politicized bid to depoliticize international trade.

But the conference was more than a just propaganda ploy to Lei and the Chinese delegation. They were there to do business, too. “We propose to discuss not only general principles, but definite business arrangements,” Nan Hanchen explained in his remarks during the April 4 plenary session.¹⁰⁸ Lei framed China’s appeal for greater trade with the capitalist world in terms of business potential and economic development rather than ideological solidarity or political sympathy. Chinese coal is cheaper for Japanese than coal from elsewhere, he told attendees during a meeting of the “Development of International Trade Group,” and a rekindled Sino-Japanese coal trade would help lower production costs for Japan’s industries.¹⁰⁹ He noted, too, that China was also able to satisfy the demands for beans in France, Britain, Japan, and countries in northern Europe.¹¹⁰

On April 8, Chinese delegates signed a non-official contract with conference participants from Great Britain, their first of the conference. Before boarding the train back to Beijing, Nan Hanchen, Lei Renmin, and other members of the Chinese delegation also closed deals with attendees from Holland, France, Belgium, West Germany, Italy, Pakistan, Ceylon, India, Switzerland, and Indonesia.¹¹¹ These successes became the axis around which PRC trade propaganda wheels turned in the months that followed. For the Party’s senior economic

¹⁰⁷ Lei Renmin, statement, 07 April 1952, in Committee for the Promotion of International Trade, *International Economic Conference in Moscow*, 115.

¹⁰⁸ Nan Hanchen, statement, 04 April 1952, in Committee for the Promotion of International Trade, *International Economic Conference in Moscow*, 47.

¹⁰⁹ Lei Renmin, statement, 07 April 1952, in Committee for the Promotion of International Trade, *International Economic Conference in Moscow*, 113.

¹¹⁰ Ibid.

¹¹¹ Wang Jinyuan and Shao Xianli, “Lvda Bu Chun Shiming,” 27.

leadership, they represented visible blows against the U.S.-led embargo. Within weeks of the Chinese delegation's return to Beijing, PRC leaders began to use the Moscow Conference to catalyze the Ministry of Trade's campaign to expand trade with the capitalist world.

Translating the Moscow Conference into the domestic Chinese political context meant locating a balance between two themes. On the surface, the conference represented a triumph of internationalism. "This historic conference has already achieved glorious success," the *New China News Agency* explained on April 16, 1952, not just because of the trade deals, but also "because 471 businesspeople, economists, union workers, and workers in cooperatives from 49 countries with different social systems shared a common confidence[,] despite maintaining different ideas and beliefs[,] in using international economic cooperation to improve the lives of individuals living in different countries."¹¹² This was internationalism at its finest, not of the proletarian variety, but rather of a deliberately pan-ideological sort, and the common cause was obvious. Delegates in Moscow were "unanimous in their view" that current abnormalities in international trade—the COCOM embargoes and blockades—demanded urgent correction.¹¹³

But as Dean Acheson well knew, "internationalism" at the Moscow Conference was a euphemism for anti-American "imperialism." The Chinese press occasionally accentuated the anti-imperialist theme of the conference in propaganda pieces for domestic audiences. As a

¹¹² Xinhua, "Nan Hanchen Tan Guoji Jingji Huiyi de Chengjiu; Geguo Daibiao Yizhi Renwei Yinggai Quxiao Fengsuo yu Jinyun Jinliang Fazhan Guoji Maoyi; Wo yu Ying Fa Deng Guo Shangye Jia Qianding Jinchukou Yu Yi Liu Qian Wan Mei Yuan de Xieding" [Nan Hanchen Discusses the Successes of the International Economic Conference; Country Delegates Unanimously Believe Embargoes and Blockades Should Be Canceled [in Order to] Develop International Trade As Much As Possible; Our Country Signs Import-Export Contracts with Businessmen from England, France, and Other Countries Worth Over 160 Million U.S. Dollars] *Renmin Ribao*, 16 April 1952, 1.

¹¹³ Ibid.

People's Daily editorial put it plainly on May 1, the conference contributed to the "smashing [of] the American imperialist policies of embargo and blockade."¹¹⁴

Beyond newspaper editorials and public commentary, the Party leadership held up China's successes in Moscow to mobilize key state institutions as well. Trade-related bureaucracies routinely touted China's Moscow successes in internal communications during the months that followed the conference. In July 1952, the statistics department of the General Administration of Customs (GAC) identified the Moscow Conference as a crowning moment in China's second-quarter trade with the capitalist world. If nothing else, the GAC stated, the "great achievements" of the conference "reflected opposition to the American imperialist 'blockade' and 'embargo' on the part of a great many businessmen from capitalist countries, as well as [their] urgent demands to reinvigorate normal trade relations with the peaceful camp, especially with 'new' China."¹¹⁵ Each deal signed with a trader from a capitalist country (the GAC again listed all eleven countries) testified to the world's shared opposition to American imperialism. And the total value of all the deals China signed in Moscow, U.S. \$220 million, represented just the beginning, the GAC contended. "This is a good start to the restoration and development of our international trade with the capitalist camp on a foundation of equality and mutual benefit."¹¹⁶

In a report on August 21, 1952, the Ministry of Trade again recited the magic numbers: contracts with 11 capitalist countries worth over U.S. \$220 million. Senior ministry officials in

¹¹⁴ Renmin Ribao Shelun, "Jinian 'Wuyi' Guoji Laodong Jie wei Shijie Chijiu Heping er Fendou" [Remember "May First" International Labor Day, Struggle for Lasting International Peace], *Renmin Ribao*, 01 May 1952, 1.

¹¹⁵ General Administration of Customs, "Yi Jiu Wu Er Nian Di Er Ji Dui Ziben Zhuyi Guojia Maoyi Gaikuang" [Overview of Trade with Capitalist Nations During the Second Quarter of 1952], July 1952, in *JJDAMY, 1949-1952*, 613-614.

¹¹⁶ *Ibid.*, 614.

Beijing told cadres working on trade issues at the central, provincial, and municipal levels that these and other contracts with capitalists, along with a deepening economic crisis in the capitalist world, “make it easier for us to smash the American imperialist blockade, [and] to struggle (*zhengqu*, 争取) to develop trade with capitalist nations.”¹¹⁷ Over six months later, and nearly a year after the conference had adjourned, the Ministry of Trade and the CFEC were still touting the Moscow successes. By then, the conference seemed to have taken on even greater significance. It was a milestone, a major “turning point in our country’s struggle to develop trade with capitalist countries,” the ministry claimed in March 1953.¹¹⁸

Senior PRC leadership joined in the celebration as well. On April 30, 1952, just a few weeks after the conference closed, Zhou Enlai spoke at length in an internal speech on the present principles and tasks in China’s diplomacy. Over the past two years, he told the audience, the strength of imperialism in China has weakened substantially.¹¹⁹ China’s had been a “comprador economy” in the past, he explained. Foreign firms conducted eighty percent of its foreign trade, but China today was different. Now, foreign firms only handled 10 to 20 percent of China’s foreign trade.¹²⁰ The Moscow Conference embodied the political and historical significance of this shifting control. “[During] the international economic conference [in

¹¹⁷ Ministry of Trade, report, “Yi Jiu Wu Er Nian Shangban Nian Maoyi Gongzuo Baogao” [Report on Trade Work During the Second Half of 1952], 28 August 1952, *HPA*, 684-1-549. This argument also appeared elsewhere in Ministry of Trade internal communications that month. See, for example, Ministry of Trade, “Yi Jiu Wu Er Nian Shangban Nian Zhuyao Yewu Qingkuang Baogao” [Report on the State of Affairs in Important Work for the First Half of 1952], August 1952, in *JJDAMY, 1949-1952*, 614.

¹¹⁷ *Ibid.*

¹¹⁸ Ministry of Trade (forwarded by the CFEC), report, “Shiyi, Shier Yuefen Gongzuo Baogao” [Work Report for November and December], 04 March 1953, in *JJDAMY, 1949-1952*, 616.

¹¹⁹ Zhou Enlai, “Women de Waijiao Fangzhen he Renwu” [Our Diplomatic Guidelines and Tasks], 30 April 1952, *HPA*, 1057-8-444, 16.

¹²⁰ *Ibid.*, 16-17.

Moscow],” he continued, “our nation negotiated trade [worth] over U.S. \$220 million with Britain and 10 other capitalist nations, [and] British in China gorged on jealousy [*dachi qicu*, 大吃其醋], saying[,] why didn’t we talk with nearby foreign firms in China[?]”¹²¹ The PRC did still hope to do business with the foreign businesses remaining in China, Zhou said, “but we absolutely will not grant them monopolies, because monopolies are the privileges of imperialism.”¹²² In other words, the Moscow International Economic Conference gave concrete expression to the shift in control over foreign trade that the CCP had been struggling to develop since first taking over China’s coastal trading hubs in early 1949. The conference represented a culmination of this phase: “new China” had cleaned house. It had restored sovereignty over its trade at home and abroad.

Beyond its symbolic value, the Moscow Conference soon influenced China’s foreign trade in more concrete and technical terms as well. To start, the anticipated value of the transactions accounted for a large chunk of the PRC’s planned international trade for the year. According to a report prepared by the Moscow delegation itself, the cumulative amounts specified in the contracts reached 36% of planned state imports from capitalist countries during 1952 and 50% of planned exports to the capitalist world (see Table 4.2).¹²³ Many of the deals would ultimately fall through, often because conferees from capitalist countries found it difficult to navigate the thicket of COCOM restrictions.¹²⁴ But the successful deals still yielded significant sums in the context of the PRC’s expected trade with the capitalist world during 1952.

¹²¹ *Ibid.*, 17.

¹²² *Ibid.*

¹²³ Chinese Delegation [to the Moscow Conference], “Canjia Mosike Guoji Jingji Huiyi Maoyi Gongzuo de Zongjie Baogao” [Summary Report on Trade Work During Attendance at the Moscow International Economic Conference], 1952, in *JDDAMY, 1949-1952*, 616.

¹²⁴ Only 5% of China’s contracts with Japanese businesses from the Moscow Conference had been fulfilled after a year of delays, for example. See Shen Jueren et al., *Dangdai Zhongguo*

Table 4.2: PRC Moscow Conference Contract Values*

Total Imports	\$124,580,000
Total Exports	\$99,590,000
Total Trade	\$224,170,000

*Figures in U.S. dollars

Source: Chinese Delegation, work report, "*Canjia Mosike Guoji Jingji Huiyi Maoyi Gongzuo de Zongjie Baogao*," 1952, in *JJDAMY, 1949-1952*, 616.

The Moscow Conference left a lasting mark on the composition of China's trade bureaucracy as well. Not long after the conference concluded, the CFEC and the Ministry of Trade began to use the momentum generated by the conference to reconfigure trade institutions at home. By doing so, the ministry hoped to fortify itself intellectually and professionally for expanded trade with the capitalist world. The mandate for these changes came from the Moscow Conference itself. During the final plenary session on April 12, 1952, attendees voted to establish a "Committee for the Promotion of International Trade."¹²⁵ Each national committee would continue the work begun in Moscow along two lines: by disseminating information about the Moscow Conference itself, and by expanding trade among nations "on a basis of equality and with due regard to the needs of the industrialization of underdeveloped countries."¹²⁶

The PRC responded by creating the China Committee for the Promotion of International Trade (CCPIT) on May 4, 1952.¹²⁷ The new committee had clearly drawn from the Moscow

Duiwai Maoyi, shang [Contemporary Chinese Foreign Trade, volume 1] (Beijing: Dangdai Zhongguo, 1992), 402.

¹²⁵ Committee for the Promotion of International Trade, "Establishment of the Committee for the Promotion of International Trade," in *International Economic Conference in Moscow*, 307.

¹²⁶ *Ibid.*

¹²⁷ Wang Jinyuan and Shao Xianli identify the founding date of the Chinese Committee for the Promotion of International Trade as May 24, 1952. See Wang Jinyuan and Shao Xianli, "Lvda Bu Chun Shiming," 27. This is almost certainly a mistake. Internal Chinese sources identify the founding date as May 4. See, for example, Ministry of Foreign Trade General Office, "Guanyu Duiwai Maoyi Rugan Wenti He Woguo Shehui Zhuyi Chengji Fang Mian de Cankao Ziliao (buchong ben)" [Reference Materials on Various Issues in China's Foreign Trade and Aspects of China's Socialist Achievements (1960 supplementary edition)], 1960, in *JJDAMY, 1949-1952*, 129.

Conference. In fact, Nan Hanchen became the group's first chairman. But the CCPIT did not develop independently from the PRC's existing foreign-trade bureaucracy. Instead, the Ministry of Trade grafted the new committee onto existing institutions, turning first to the ITA, which had been limping along with mixed success. Despite the initial enthusiasm behind the ITA's creation in July 1950, it had yet to congeal into the expansive clearinghouse for foreign-trade knowledge that the Ministry of Trade had first envisioned. Shanghai, Wuhan, and Xiamen were the first cities to establish formal ITA branches in line with its January 1951 constitution.¹²⁸ These new branches published newsletters, organized lectures and workshops, and even, in the case of the Xiamen branch, opened a local trade library that housed two thousand trade-related volumes.¹²⁹

But by the summer of 1952 other locales had yet to follow suit. The distractions of the Three and Five Anti campaigns had created delays.¹³⁰ ITA branches in Tianjin, Qingdao, Guangzhou, and Fuzhou still lingered in the planning phases. Preparations for branches in Kunming and Dalian were dropped altogether, and the Changsha branch consisted only of a small group operating under the auspices of the Wuhan branch.¹³¹ The founding of the CCPIT offered an opportunity to put the ITA back on track. In August 1952, the Ministry of Trade and the fledgling CCPIT reached an agreement to subordinate all International Trade Association offices to the CCPIT. Beginning that month, the CCPIT directly coordinated the work of all ITA

¹²⁸ China Committee for the Promotion of International Trade, "Guanyu Zhaoji Gedi Zhongguo Guoji Maoyi Yanjiu Hui Gongzuo Huiyi de Jihua" [On the Plan for Convening a Working Meeting of China International Trade Associations in Various Locations], 20 March 1953, in *JJDAMY, 1949-1952*, 127.

¹²⁹ *Ibid.*

¹³⁰ *Ibid.*

¹³¹ *Ibid.*

offices.¹³² The new arrangement essentially hitched existing ITA branches to the CCPIT's larger mandate.

The influence of the CCPIT reached beyond the ITA alone that summer. From the outset, committee members pushed a much broader agenda that sought to bring PRC foreign trade into line with reigning international practices. This began in earnest on June 16, 1952, when members of the CCPIT research committee (*yanjiu hui*, 研究会) agreed to identify and assign trade-related research responsibilities to a patchwork of organizations in China.¹³³ The committee had in mind an approach similar to the ITA's two years earlier, but one that was more centrally organized. Rather than a loose confederation of trade-related industries, the CCPIT proposed a division of labor when it came to promoting foreign trade. On July 1, the research committee parceled out assorted trade topics—shipping trends, individual country studies, foreign currency trading, international trade theory—among six different types of trade groups: import and export companies, the Foreign Trade Division of the Ministry of Trade, the Foreign Operations Bureau at the People's Bank of China, the General Administration of Customs, the People's University, and the CCPIT itself.¹³⁴

The CCPIT took on the lion's share of the work. In addition to collaborating with faculty at the People's University in Beijing and banking officials to research general international economic affairs, the CCPIT also began a host of individual research tasks, including the pressing concern of the COCOM embargoes and economic problems facing the United States,

¹³² China International Trade Association, Shanghai Branch, "Zhongguo Guoji Maoyi Yanjiu Hui Shanghai Fenhui Choubenhui Gongzuo Baogao" [China International Trade Association Shanghai Branch Preparatory Meeting Work Report], Undated [1952], *SMA*, B171-1-3.

¹³³ China Committee for the Promotion of International Trade, "Guanyu Guoji Jingji Yanjiu Jinxing Fengong de Yijian" [Suggestions on the Division of Labor in International Economics Research], 04 July 1952, in *JJDAMY, 1949-1952*, 129.

¹³⁴ *Ibid.*, 129-130.

England, France, Japan, and West Germany.¹³⁵ To trade with businesses from capitalist countries, PRC officials first had to understand them. Understanding them, in turn, required immersing oneself in their practices and norms. This was the logic that guided the CCPIT's agenda in the summer of 1952, clearly a page out of the ITA's plan for collaboration from two years earlier. But the CCPIT had grander ambitions for promoting capitalist trade than simply redoubling research efforts. It also set its sights abroad, toward what amounted to a transnational network of trade associations and private businesses that shared the interest, commercial or ideological, in promoting trade across the iron curtain.

The Moscow Conference had poured the foundation for this network. Many other attendees established trade promotion committees in their own countries, just as the PRC did. In the first two years after the conference, the CCPIT maintained "regular contact" with counterparts from 15 such committees, many of whom lived in capitalist countries, such as France, Britain, and Italy.¹³⁶ The CCPIT used these connections to push for transnational contact with foreign capitalists in a number of ways. It routinely hosted visiting trade delegations from the capitalist world, for example.¹³⁷ By 1954, the CCPIT claimed it had established communications with foreign businesses and trade groups from 59 different states and regions.¹³⁸ In the logic of the PRC's anti-embargo struggle, each of these relationships was a feather in the cap for the CCPIT, testament to China's growing global engagement, not just with the socialist bloc, but with the entire world.

¹³⁵ *Ibid.*, 130.

¹³⁶ China Committee for the Promotion of International Trade, "Zhongguo Guoji Maoyi Cujin Weiyuanhui Liangnian Lai de Gongzuo" [The Work of the China Committee for the Promotion of International Trade During the Past Two Years], 1954, in *JDDAMY, 1949-1952*, 132.

¹³⁷ *Ibid.*

¹³⁸ *Ibid.*

The CCPIT relied on this transnational network to circulate ideas and analyses that strayed from the specifics of everyday commerce. During its first year of operations, for example, the CCPIT translated Soviet analyses capitalist economies, which by and large consisted of economic statistics and Marxist-inspired macroeconomic overviews of national economies in the capitalist world.¹³⁹ Trade promotion, broadly conceived, also meant PRC promotion, and the committee certainly produced such propaganda as English-language compilations of speeches touting the China's economic successes since "liberation."¹⁴⁰

But the Moscow Conference was not the sole impetus behind the CCPIT and the Party's growing enthusiasm for trade with the capitalist world. In fact, the timing of the conference amplified its influence. By the spring of 1952, when the conference convened, China's senior economic leadership had already embarked on intensive preparations for China's first Five-Year Plan (FYP), a carefully orchestrated national economic development agenda modeled after Soviet planning practices. The Politburo had decided in February 1951 during an enlarged meeting that China's own FYP would commence in 1953, leaving economic officials just 22 months to produce a plan.¹⁴¹ Hua-yu Li has documented how Mao had become convinced by late spring 1952 that economic conditions were ripe for China to stamp out capitalism at home entirely and to establish a planned economy, a conviction that prompted a new round of economic consultations between Moscow and Beijing and created new incentives to restructure

¹³⁹ See, for example, Foreign Trade Research Institute of the Chinese People's University, trans., *Yi Jiu Wu Er Nian Shangban Nian Ziben Zhuyi Guojia de Jingji Gaikuang* [Economic Overview of Capitalist Countries in the Second Half of 1952] (Beijing: Zhongguo Guoji Maoyi Cujin Weiyuanhui, 1953).

¹⁴⁰ China Committee for the Promotion of International Trade, *New China's Economic Achievements, 1949-1952* (Beijing: Foreign Language Press, 1952).

¹⁴¹ Hua-Yu Li, "Mao, Stalin, and Changing Course: Building Socialism in China, 1948-1953," (PhD diss., Columbia University, 1997), 143.

China's economic bureaucracy.¹⁴² In this moment of flux, the Moscow Conference suggested to the Party leadership that foreign trade with the capitalist world could indeed play an important supporting role in the emerging FYP.

Tapping fully into this trade would require the Party to incorporate it into the FYP itself, which created a need for institutions dedicated to ensuring a steady, consistent flow of commerce between China and capitalist firms abroad. The CCPIT stood to play a key role in this mission. Major bureaucratic restructurings would soon contribute, too. On August 7, 1952, the Central Committee decided to dissolve the Ministry of Trade. The PRC needed more specialized entities to oversee trade once the FYP commenced. In place of the Ministry of Trade, on September 3, 1952, the Central Committee established the Ministry of Foreign Trade (*Duiwai Maoyi Bu*, 对外贸易部) and placed it under the leadership of the CFEC.¹⁴³ The Central Committee simultaneously established the Ministry of Commerce (*Shangye Bu*, 商业部), which took charge of planning and oversight for China's domestic trade.¹⁴⁴ From that point forward, the CFEC had a central ministry charged with overseeing all of China's foreign-trade relations, including direct oversight of the China Resources Company in Hong Kong.¹⁴⁵ On August 15, 1952, the CFEC appointed Lei Renmin, the Moscow Conference veteran, to the position of deputy minister of the Ministry of Foreign Trade in charge of trade with capitalist countries.¹⁴⁶

¹⁴² See *ibid.*, especially 130-155.

¹⁴³ Su Shangyao and Han Wenwei, *Zhonghua Renmin Gongheguo Zhongyang Zhengfu Jiguan, 1949-1990 Nian* [Central Government Agencies of the People's Republic of China, 1949-1990] (Beijing: Jingji Kexue, 1993), 405.

¹⁴⁴ *Ibid.*

¹⁴⁵ The Ministry of Foreign Trade assumed control of China Resources in October 1952. Prior to that, the company reported to the Central Committee's General Office. See Wu et al., *Hongse Huarun*, 7.

¹⁴⁶ Wang Hongxu, "Lei Renmin yu Mosike de Guoji Jingji Huiyi," 42; Wang Jinyuan and Shao Xianli, "Lvda Bu Chun Shiming," 27.

Lei's appointment demonstrated in no uncertain terms that the Party leadership expected China's fledgling ties to the capitalist world to deepen as China's first FYP took effect. Lei had been an advocate of sending PRC trade missions directly to capitalist countries in Western Europe since as early as the summer of 1951. As he saw it at the time, building stronger trade ties with Europe made both economic and political sense. Indirect trade through Hong Kong posed security concerns and was expensive.¹⁴⁷ Besides, Switzerland, Sweden, Finland, and other capitalist countries in Europe were already willing to trade with the PRC, he knew.¹⁴⁸ Lei envisioned PRC commercial agents purchasing communications equipment, copper, and other urgently needed goods and marketing Chinese exports directly in Europe.¹⁴⁹ Chinese agents would then consolidate imports in Poland or Czechoslovakia for shipment back to China, most likely using the new Chinese-Polish joint stock shipping company Chipolbrok, which coordinated a fleet of ships now steaming between Gdynia, Poland, and PRC ports directly.¹⁵⁰ In mid-1951, Lei's plan to ramp up the presence of Chinese communists in European capitalist markets had been premature, and he failed to secure support from the central leadership. But he remained committed to the view that the PRC must develop its own direct presence in European capitalist markets if China was going to accomplish its economic development goals.

The larger political context had shifted by August 1952, when Lei Renmin took up his post as deputy minister of foreign trade, and his earlier ambitions for European trade seemed more in line with the new, post-Moscow Conference climate. The PRC had already dispatched

¹⁴⁷ Wang Hongxu, "Lei Renmin yu Mosike de Guoji Jingji Huiyi," 42.

¹⁴⁸ Ibid.

¹⁴⁹ Ibid.

¹⁵⁰ Krystyna Palonka, "Economic and Trade Relations between Poland and China since 2004," *Asia Europe Journal* 8.3 (2010), 370. The steamship Pulaski inaugurated Chipolbrok operations when it left Gdynia on March 17, 1951. See the Chipolbrok company website chronology at <http://www.chipolbrok.com.pl/strona.php?id=25>, last accessed on September 23, 2015.

Shi Zhi'ang (石志昂), a member of the Chinese delegation in Moscow, to East Berlin to establish the China National Import Export Office (*Zhongguo Jinchukou Gongsi Banshichu*, 中国进出口公司办事处).¹⁵¹ At first, this was meant to be a temporary office, an expansion of the PRC's existing European trade offices on the heels of the Moscow Conference. But soon after arriving in Europe, Shi saw the larger potential that Lei Renmin had envisioned a year earlier.

Shi asked for more time and more cadres, and in just over a year, on May 18, 1953, the China National Import Export Corporation had reached an agreement with East German Officials that the PRC could establish, fund, and control its own commercial office in Berlin.¹⁵² The new Chinese commercial office was candid about its mission: to represent the PRC in expected trade with West Germany and Western Europe.¹⁵³

Contact with the Berlin office was simple enough. A cable or a telephone call could connect businesspeople directly with office representatives.¹⁵⁴ Anyone preferring to do business in person could also simply visit the office, the British Council for the Promotion of International Trade advised.¹⁵⁵ From London it was a short flight to Tempelhof Aerodrome in West Berlin, and it was a quick, visa-less trip from there to the Eastern sector of the city where the PRC trade office stood.¹⁵⁶ Shi's office had also established a working relationship with the London Export Corporation, which acted as "correspondents" in the United Kingdom for the China National Import and Export Office.¹⁵⁷

¹⁵¹ Wang Hongxu, "Lei Renmin yu Mosike de Guoji Jingji Huiyi," 47.

¹⁵² Ibid.

¹⁵³ Ibid.

¹⁵⁴ British Council for the Promotion of International Trade, *China's Foreign Trade: An Analysis and Guide for the British Business Man* (London: British Council for the Promotion of International Trade, 1954), 51.

¹⁵⁵ Ibid., 55.

¹⁵⁶ Ibid.

¹⁵⁷ Ibid.

Never had it been easier to pursue commercial transactions with the People's Republic of China in Europe. And yet, just a year after the Berlin office opened on July 1, 1953, its luster had faded—not because Lei's ambitions outstripped reality, but because the Ministry of Foreign Trade had had success elsewhere. By the time of the Geneva Conference in the spring of 1954, the People's Republic of China had opened direct commercial lines to several European national markets, including commercial offices in London and Stockholm, and no longer needed a single point of entry into European capitalism.

III. The Fight for Trade

The commitment to trade with foreign capitalists was already entrenched among CCP economic officials by the time Chinese troops entered the Korean War in October 1950. When Chen Yun spoke of China's economy having reached a "turning point in history" in mid-June 1950, he anticipated a future in which economic development and industrialization at home lessened China's dependence on overseas markets. This was a long-term ambition, however, and the institutional architecture that emerged during the war leaves little doubt that Chen and the rest of the Party's economic leaders fully expected the PRC to be present in capitalist markets abroad for the foreseeable future.

These institutions, part of the backbone of the new Chinese communist state, created a refuge for the CCP practice of trading with the capitalist world. First the foreign-trade bureau, then the Ministry of Foreign Trade, the International Trade Association, and the China Committee for the Promotion of International Trade—these organizations and their subordinate offices served as sites where cadres thought through the finer points of international capitalist trade without needing, for the time being at least, to grapple with the larger ideological question of whether such trade was suitable for the revolution itself. The bankers, trade representatives,

front-company workers, economists, and officials who staffed these new institutions understood the PRC's trade with the capitalist world as an unquestioned practical reality, a part of their daily work routines. For them, trade with capitalists became revolutionary praxis.

The war reinforced this development. As Mao Zedong, Zhou Enlai, Chen Yun, Lei Renmin, and others quickly realized, the COCOM embargo could be more than a practical encumbrance. It also served up a ripe target for mobilization. In both public propaganda and internal communications, PRC trade institutions developed a new narrative for China's place in global markets, one that centered on the theme of capitalist trade as anti-imperialist struggle. Cutting deals with foreign capitalists became not only patriotic, but also internationalist. The Moscow Conference in the spring of 1952 offered a public venue where China could champion open international trade on the basis of equality and mutual benefits, and the Committees for the Promotion of International Trade that emerged in the wake of the conference became a transnational network for pursuing this agenda. No longer did Chinese traders fully conceal their presence in capitalist markets, as had been the practice for cadres working in Hong Kong front companies. Gone was the incoherence that hindered the Party's capitalist trade agenda during the fluid months of early 1949. During the Korean War years, capitalist trade had seeped into the PRC's international and institutional identity.

China's minister of foreign trade, Ye Jizhuang, had every intention of developing this facet of China's identity in the years ahead. In August 1953, weeks after the armistice halting the fighting in Korea, he reflected on China's foreign-trade work since liberation. The PRC had achieved many successes, he believed, key among which was the establishment of "independent" (*duli zizhu*, 独立自主) foreign trade and the development of a trade agenda premised on the

principles of equality and mutual benefit.¹⁵⁸ But much work remained to be done, a great deal of which concerned the need to refine PRC trade practices in capitalist markets abroad. Despite all the PRC's efforts to date, Ye acknowledged that shortcomings in trade work persisted, the most basic being insufficient research and investigation into the relationship between supply and demand for goods in the two global markets, capitalist and socialist, and the supply and demand of materials in China's own domestic markets.¹⁵⁹ He was concerned that the PRC had yet to harmonize production at home with markets abroad.

Other problems worried Ye. Not a few cadres clung to the belief that trade with capitalist countries was vexing and marginal. These officials slackened trade promotion work with capitalists as a result. Reinforcing this tendency was the view that capitalists at times paid lower prices for Chinese exports than the Soviet Union.¹⁶⁰ Trade officials also needed to develop a deeper understanding of markets and prices in key capitalist countries, he believed. Prices for some PRC exports had dipped on international capitalist markets, for example, but some cadres had missed this development and marketed Chinese goods at excessive prices, undermining exports and creating an overstock of hog bristles, tung oil, and other traditional exports.¹⁶¹ These and other problems would have to be addressed if the PRC was going to strengthen its position in capitalist markets abroad.

On October 15, 1953, the Central Committee endorsed Ye Jizhuang's assessments and circulated its approval to cadres working in China's various ministries, bureaus, and branches at

¹⁵⁸ Ye Jizhuang, instruction, "Zhongyang Renmin Zhengfu Duiwai Maoyi Bu Guanyu Guoqu Gongzuo Jiben Zongjie ji Jinhou Gongzuo de Zhishi" [Central People's Government Ministry of Foreign Trade Basic Summary of Past Work and Instruction for Future Work], August 1953, Jilin Provincial Archive (hereafter *JPA*), D531015, 4.

¹⁵⁹ *Ibid.*

¹⁶⁰ *Ibid.*

¹⁶¹ *Ibid.*

the central, provincial, and municipal levels, along with a copy of Ye's report and instructions for cadres to study it carefully and carry out policy accordingly.¹⁶² Foreign-trade work was a critical part of China's economic construction agenda as laid out by the Five-Year Plan, observed the Central Committee, and this included trade with the capitalist world. The end of the Korean War and the rapid fraying of COCOM solidarity soon opened up new opportunities for PRC trade officials to put this guidance into action.

¹⁶² CCP Central Committee, instruction, "Zhonggong Zhongyang Pizhun Duiwai Maoyi Bu Guanyu Duiwai Maoyi Gongzuo Jiben Zongjie Ji Jinhou Gongzuo Zhishi de Zhishi" [CCP Central Committee Instruction Concerning the Approval of the Ministry of Foreign Trade Basic Summary of Past Work and Instruction for Future Work], 15 October 1953, *JPA*, D531015, 4.

CHAPTER 5: FROM GENEVA TO GUANGZHOU—COMMERCE IN THE MAKING OF PEACEFUL
COEXISTENCE, 1954-1957

I. To Geneva

A persistent optimism softened Ye Jizhuang's frank assessment of the shortcomings that undermined China's trade with the capitalist world in August 1953. Much still plagued daily work at the Ministry of Foreign Trade: rudimentary market research, for example, provincial cadres who neglected export promotion work, and many other internal deficiencies. But Ye believed the future looked bright—brighter, perhaps, than it had since the founding of the PRC. Shifts in the international political climate had begun to shake up the status quo, producing new opportunities for the PRC to deepen its presence in markets abroad. The most influential of these shifts had occurred just a few weeks earlier, at 10:00 a.m. on July 27, 1953.

That morning, exhausted representatives of the United Nations High Command, North Korea, and the PRC signed an armistice that halted the fighting on the Korean Peninsula. The end of physical combat in Korea opened the door to subtler forms of militarization and conflict in East Asian politics, but the view from Ye Jizhuang's office remained sunny on the whole.¹ The ceasefire agreement put in motion a series of events that soon yielded commercial footholds, points of anchorage that Ye and his colleagues at the Ministry of Foreign Trade and the Ministry of Foreign Affairs (MFA) could use to pick apart the China embargo, which remained the key impediment to trade between communist China and the capitalist world.

At the bottom of the Korean Armistice agreement, beneath a lengthy discussion of prisoners of war and just before the concluding "Miscellaneous" section, a single line

¹ For discussions of the Korean Armistice as a catalyst for protracted militarization of the Korean Peninsula and the region, see Steven Lee, "The Korean Armistice and the End of Peace: The US-UN Coalition and the Dynamics of War-Making in Korea, 1953-1976," *Journal of Korean Studies* 18, no. 2 (2013): 183-224.

recommended that the signatories to the agreement convene a high-level political conference within three months to “settle through negotiation” the fundamental questions that fueled the fighting in the first place: peaceful settlement of the “Korean question,” the withdrawal of foreign forces from Korea, “et cetera.”² They missed the deadline, but representatives from the United States, the Soviet Union, Britain, and France—the “Big Four”—met in Berlin in January 1954 for four acrimonious weeks of talks over European and Asian affairs. Little was settled beyond an agreement to meet again, this time in Geneva in April, to continue discussions about the “Korea question” and the ongoing conflict between French forces and the Viet Minh in Indochina.

The talks in Geneva would be broader and more inclusive, the delegates announced from Berlin. In particular, the summit would include formal representation from the PRC, a decision that carried great significance for the leadership of the CCP. For the first time, world leaders had formally invited “new China” to join them in consequential discussions over the future of world affairs. The symbolism of this invitation was by no means lost on Washington. U.S. Secretary of State John Foster Dulles was outraged at the idea of inviting Chinese communists to Geneva. In a joint radio and television address to the American public after the Berlin Conference, he tried to downplay the significance of the PRC’s participation in the coming talks.³ Ultimately, he explained, representatives of communist China “will not come to Geneva to be honored by us, but rather to account before the bar of world opinion.”⁴ On a personal level, he believed the

² Korean War Armistice Agreement, 27 July 1953, Article IV, 60.

³ John Foster Dulles, “Text of Report by Dulles to Nation on Four-Power Conference in Berlin,” *New York Times*, 25 February 1954, 2.

⁴ *Ibid.*

regime in Beijing was simply “evil,” but he also recognized the political optics weren’t great. Charges from the right at home that Geneva represented a “Far Eastern Munich” didn’t help.⁵

The history of China’s participation in the Geneva Conference has largely been written with these political and diplomatic stakes in the foreground.⁶ The conference was a diplomatic coup for Zhou Enlai, these accounts show; it represented communist China’s acknowledged entrée into great-power diplomacy and heralded the start of a new phase in PRC foreign policy, one committed to crafting a national identity committed to peace and stability in international affairs. But there was a commercial mission embedded within the conference that earlier scholarship has largely overlooked. The Chinese delegation arrived in Geneva not just to negotiate peace in Korea and Indochina, but also to talk trade and cut deals. Premier Zhou Enlai had every intention of using the summit to develop economic and trade relations with other participating nations, a strategy he believed would reinforce the larger aims of reducing tension and fostering geopolitical stability.⁷ Bringing this commercial facet of the talks into focus reveals

⁵ For Dulles’s assertion that the PRC was simply “evil,” see John F. Dulles, “Statement at Berlin,” 26 January 1954, in U.S. Department of State Publication Services Division, *The Department of State Bulletin*, “Four Power Discussions at Berlin,” vol. XXX, No. 763, Publication 5369, 8 February 1954, 181. For charges that the Geneva Conference was a “Far Eastern Munich,” see Gordon H. Chang, *Friends and Enemies: The United States, China, and the Soviet Union, 1949-1972* (Stanford: Stanford University Press, 1990), 101.

⁶ See, for example, Shu Guang Zhang, “Constructing ‘Peaceful Coexistence’: China’s Diplomacy toward the Geneva and Bandung Conferences, 1954-1956,” *Cold War History* 7:4 (Nov. 2007): 509-528; Pei Jianzhang, *Zhonghua Renmin Gongheguo Waijoshi* [Diplomatic History of the People’s Republic of China] (Beijing: Shijie Zhishi, 1994), 220-230; Zhai Qiang, “China and the Geneva Conference of 1954,” *The China Quarterly* 129 (1992): 103-122; Kuo-kang Shao, “Zhou Enlai’s Diplomacy and the Neutralization of Indo-China, 1954-1955,” *The China Quarterly* 107 (1986): 483-504; Chen Jian, *Mao’s China & The Cold War* (Chapel Hill and London: University of North Carolina Press, 2001), 138-144; and Shi Zhe and Li Haiwen, *Zai Lishi Juren Shenbian, Shi Zhe Huiyi Lu, zengding ben* [Alongside Historical Giants: The Memoir of Shi Zhe, updated version] (Beijing: Jiuzhou, 2015), 384-405.

⁷ Xiong Huayuan, *Zhou Enlai Chudeng Shijie Wutai* [Zhou Enlai Debuts on the World Stage] (Shenyang: Liaoning Renmin, 1999), 8.

that Geneva was a meeting point in more senses than one. For Zhou Enlai and the Chinese delegation, the Geneva Conference linked the spirit and tactics of the Moscow Conference to Beijing's gathering diplomatic peace offensive in the mid-1950s, which sought to challenge not only the China embargo, but also the Cold War binaries that produced it in the first place.

II. Business on the Margins

Over two hundred PRC officials converged on Geneva with Zhou Enlai in late April 1954 for the summit. Among them was Lei Renmin, the five-foot-four Sichuanese economist and veteran of the Moscow International Economic Conference.⁸ Lei's mission in the Swiss capital was simple: to negotiate business deals with the capitalist world, just as he had done in Moscow in April 1952. Unlike in Moscow, however, Lei intended to conduct the bulk of his Geneva business on the sidelines of the summit itself. The Chinese delegation list identified Lei as "chief counsellor" (*shouxi guwen*, 首席顾问) rather than "delegate" (*daibiao*, 代表), a title designed in part to free him up to participate in activities outside of the Palais de Nations, where the plenary sessions convened.⁹

Lei arrived in town with the rest of the Chinese delegation on April 24, but he did not stay with Zhou Enlai at the Grand Mont-Fleury, a luxurious estate several kilometers outside of

⁸ On the size of the Chinese delegation to Geneva, see Shi Zhe, *Zai Lishi Juren Shenbian*, 390. For Lei's height, see Peter Tennant, memorandum, "Talks on Trade with China, May 6th – 7th, 1954," n.d., *TNA*, FO 371, 110289, folder 3, FC1151/55.

⁹ Wang Jinyuan and Shao Xianli, "Lvda Bu Chun Shiming" [Assuming Major Roles Time and Again, Never Dishonoring the Mission], *Dangshi Wenhui* 07 (2004), 27. For the official PRC delegation list, see "Zhonghua Renmin Gongheguo Canjia Rineiwa Huiyi Daibiaotuan Mingdan" [List of Names from People's Republic of China's Geneva Conference Delegation], n.d., Foreign Ministry Archive of the People's Republic of China (hereafter *FMA*) 206-Y0001, in *Zhonghua Renmin Gongheguo Waijiao Bu Dang'anguan*, ed., *Zhonghua Renmin Gongheguo Waijiao Dang'an Xuanbian (di yi ji)*, 1954 Nian Rineiwa Huiyi [Selections from the People's Republic of China Ministry of Foreign Affairs Archive (first collection), The Geneva Conference of 1954] (Beijing: Shijie Zhishi, 2006), 15.

the city.¹⁰ Instead, Lei checked into a suite at the Hotel Richmond, an elegant spot on the Quai du Mont Blanc just a few minutes' walk from the Rue du Rhone business district. The central location was Zhou's idea, prompted in part by the recognition that Lei's work required him to remain accessible to other delegations and visitors during the conference.¹¹

This peripheral positioning attenuated Lei's contact with Zhou Enlai and the rest of the PRC's senior delegates, which included Zhang Wentian (张闻天), Wang Jiaxiang (王稼祥), Li Kenong (李克农), and Wang Bingnan (王炳南). But the trade-off was necessary, and it reflected the subtle ways that trade and commerce supported the CCP's larger foreign-policy aspirations at the time. Lei was in Geneva to pursue commercial contracts that would reinforce the image of "new China" as committed to peace, development, and increasing contact. The operating strategic calculation was that increased trade with the capitalist world would substantiate the construction of this new national identity, undermine the solidarity of the American-led embargo against China, and permit the PRC to harness capitalist markets in support of the PRC's first Five-Year Plan (1953-1957).

So, Lei was a member of the Chinese delegation, but not an official delegate. He had real work to accomplish in Geneva, but little of it was for the cameras. None of these arrangements meant that Lei had been sent off on his own independent commercial agenda in Geneva, however, or that his responsibilities were of marginal concern to the leadership in Beijing. On the contrary, Zhou Enlai believed Lei's activities added a vital dimension to the PRC's larger diplomatic agenda during the summit. As the Chinese premier explained in an internal CCP report on August 12, 1954, "[Regarding] our [strategy for] improvement in relations with the

¹⁰ Barbara Barnouin and Yu Changgen, *Zhou Enlai: A Political Life* (Hong Kong: The Chinese University Press, 2006), 152.

¹¹ Wang Jinyuan and Shao Xianli, "Lvda Bu Chun Shiming," 27.

West, in politics there is “peace,” in economics there is “trade.”¹² Accordingly, Zhou attached great importance to Lei’s struggles to develop commercial relations with the Western powers that had converged on Geneva.¹³

Lei’s preferred venue for his “struggles” was the quiet sidebar meeting, of which he convened many. Most important among these was a series of private discussions with Humphrey Trevelyan, the British charge d’affaires in Beijing who was in Geneva as an official member of the British delegation, and Peter Tennant, the overseas director of the Federation of British Industries, an organization that claimed to represent ninety percent of British industrial manufacturers. Zhou Enlai specifically instructed Lei to seek out interactions with British officials during the conference because he believed Britain offered the most promising prospect for breaching the capitalist embargo against China.¹⁴

Lei first met with Trevelyan and Tennant in Geneva on May 6.¹⁵ At 10:00 a.m. that morning, he escorted his British counterparts into a sitting room within a private suite occupied by the Chinese delegation at the Beau Rivage Hotel, steps away from the Richmond where Lei was staying. By Tennant’s account, Lei was an accommodating host who appeared to straddle the line between apparatchik and businessman, stylistically at least, by wearing dapper brown

¹² Zhou Enlai, summary of remarks, “Guanyu Waijiao Wenti de Baogao” [Report on Diplomatic Issues], 12 August 1954, Fujian Provincial Archive (hereafter *FPA*), quanzong 101, mulu 5, juanzong 542, 3.

¹³ Lei Renmin, “Huiyi Zhou Zongli Duiwai Maoyi Gongzuo de Guanhuai he Zhidao” [Recalling the Care and Guidance in Premier Zhou’s Foreign-Trade Work], in *Bujin de Sinian* [Endless Longing] (Beijing: Zhongyang Wenxian, 1987), 250.

¹⁴ *Ibid.* For Zhou’s argument that the PRC should concentrate on developing closer ties to Britain first among other Western capitalist nations, see Zhou Enlai, summary of remarks, “Guanyu Waijiao Wenti de Baogao” [Report on Diplomatic Issues], 12 August 1954, *FPA*, quanzong 101, mulu 5, juanzong 542, 1.

¹⁵ Foreign Office, memorandum, “China Trade,” 12 May 1954, *TNA*, FO, 371, 110289, folder 3, FC1151/54.

shoes with his standard-issue gray Mao suit. Alongside him at the meeting was Shi Zhi'ang (石志昂), deputy manager of the China National Import Export Corporation (*Zhongguo Jinchukou Gongsi*, 中国进出口公司), and Chu Siyi (牟斯颐), who served as secretary for the Chinese side during the talks.¹⁶

From the start, Lei was careful not to miss opportunities to showcase Chinese wares to potential customers. He adorned the suite with Chinese products: a cabinet of ivory and jade bric-a-brac conspicuously planted, a Chinese rug underfoot, and a carved blackwood lamp with tassels of orange silk lighting the room—"stage props," Tennant called them.¹⁷ Chinese tea filled the cups on the table, and smoke from Chinese cigarettes wafted above the six men as they exchanged greetings and pleasantries.¹⁸

Both parties sought to set a conciliatory tone during opening pleasantries. Lei expressed delight (*yukuai*, 愉快) at meeting with Trevelyan, and he made sure to emphasize that China welcomed British efforts to develop Sino-British trade.¹⁹ Trevelyan let it be known that the sentiment was mutual, remarking that British businesses hoped to "expand Sino-British trade, [and] to broaden channels for contact, [so that] in the future it will include industry, commerce, and banking."²⁰

¹⁶ Chu Siyi, minutes, "Lei Renmin Huijian Du Weilian, Tai Luntuo Tanhua Jilu" [Transcript of Meeting between Lei Renmin, Trevelyan, and Tennant], 06 May 1954, *FMA* 206-C053, in *Zhonghua Renmin Gongheguo Waijiao Dang'an Xuanbian (di yi ji), 1954 Nian Rineiwa Huiyi*, 408-410.

¹⁷ Peter Tennant, memorandum, "Talks on Trade with China, May 6th – 7th, 1954," n.d., *TNA*, FO, 371, 110289, folder 3, FC1151/55.

¹⁸ *Ibid.*

¹⁹ Chu Siyi, minutes, "Lei Renmin Huijian Du Weilian, Tai Luntuo Tanhua Jilu" [Transcript of Meeting between Lei Renmin, Trevelyan, and Tennant], 06 May 1954, *FMA* 206-C053, in *Zhonghua Renmin Gongheguo Waijiao Dang'an Xuanbian (di yi ji), 1954 Nian Rineiwa Huiyi*, 408.

²⁰ *Ibid.*, 409.

Yet no sooner had the two sides begun to burnish this sense of shared purpose than cracks emerged beneath its surface. “At present,” Lei told his counterparts, “Sino-British trade relations are not normal” (*bu zhengchang*, 不正常).²¹ He didn’t need to explain why. The American-led embargo loomed thick as the smoke above. “It is entirely possible to launch trade, to restore [it] to the conditions of the past,” he continued, given China’s current stage of economic construction and the continual improvements in the lives of the Chinese people.²² Lei’s point was unmistakable: the demand for increased trade existed on both sides of the negotiating table, but the American-orchestrated embargo, to which the British government had acquiesced, stood in the way of the common goal uniting everyone in the room. For bilateral trade to reach its full potential, London would have to reconsider its stance on the China embargo.

Trevelyan and Tennant fully expected Lei to link bilateral trade to the embargo and to China’s larger foreign-policy aims, and the fight over this linkage shaped the ensuing discussions over three issues that dominated the rest of Lei’s agenda in Geneva. The first concerned lists of goods, a subject that arose as soon as Lei Renmin and Humphrey Trevelyan withdrew from the suite to allow Tennant and Shi to wade into the nuts and bolts of the talks. Shi asked for a list of the goods that United Kingdom producers could supply to the People’s Republic, but Tennant countered by suggesting that Shi, or the China National Import Export Company, provide their own list of goods they were interested in importing from Britain.²³

Both sides had straightforward rationales for their positions. Tennant hoped to avoid the administrative burdens of compiling vast lists of potential exports from Britain’s various

²¹ Ibid.

²² Ibid.

²³ Peter Tennant, memorandum, “Talks on Trade with China, May 6th – 7th, 1954,” n.d., p. 3, TNA, FO 371, 110289, FC1151/55.

exporters and the “trainloads” of paperwork that would inundate Shi and the China National Import Export Company.²⁴ Lei Renmin countered during a follow-up meeting on May 7 that Chinese planners needed general information on available products while they compiled plans for imports and exports involving multiple countries.²⁵ Beneath both stances lurked a political calculus that each side understood but neither vocalized. Any detailed list of goods would imply a scope of future trade in precise enough terms that it would invite references to existing embargo restrictions, a subject on which neither side was eager to show its hand first. Tennant and Shi realized that they each held starkly different views on how future trade would relate to the China embargo. British officials and businessmen hoped to achieve as much trade as possible without being dragged into the political morass of the China embargo, while Lei and Shi intended to use trade talks as a fulcrum for prying the embargo apart.

Tennant eventually agreed to provide a list of potential exports on May 26. When he slid the document across the table to Shi, the latter seemed “favorably impressed” with its length, according to Tennant, despite the fact that it included not a single item banned for export by the embargo.²⁶ Still, Shi explained he would have to share the list with officials in Beijing before the talks could go further.²⁷ The two decided to reconvene the following day, May 27, at 2:30 in the afternoon. When the appointed hour arrived, Shi had to ask for an extension. The Chinese side had been reviewing the list through the night and needed additional time to prepare.²⁸ An hour later Shi was ready, and when the meeting began he stated baldly that Tennant’s list was

²⁴ Ibid.

²⁵ Ibid., 6.

²⁶ Peter Tennant, memorandum, “Report on Trade Talks with Chinese in Geneva, May 26 – 28, 1954,” n.d., p. 1, *TNA*, FO 371, 110289, FC1151/72.

²⁷ Ibid.

²⁸ Ibid., 3.

inadequate for China's planned industrialization and that it did not accord with both sides' expressed desire to expand trade.²⁹ Unimpressed, and clearly frustrated, Tennant wrote afterward that Shi had "revealed himself as very inexperienced in all our talks."³⁰ But the British businessman was hardly surprised.

With Tennant's list on the table, Shi began to use it to pick apart the embargo exactly as the British expected. He asked whether Tennant could expand the lists of chemicals, medicines, and scientific instruments in the current draft. He then reiterated China's interest in heavy electrical equipment, steel, non-ferrous metals, ships, scientific instruments, heavy vehicles, locomotives, and wagons—all "strategic" items prohibited for export to the PRC under the current embargo regime.³¹ He realized the difficulties hindering bilateral trade in such goods, he explained, but he hoped nonetheless that progress could be made by "looking ahead," Tennant recalled.³² After all, Shi concluded transparently, he hated to think that the British "would be less forthcoming than Western Germany and France."³³

To Shi Zhi'ang, "looking ahead" also meant entertaining the idea of an inter-governmental trade agreement, the second core issue on Lei's agenda. Shi broached the subject with Tennant on May 6.³⁴ The manner in which he raised the issue—with "studied casualness"—implied to Tennant that this was a topic of considerable prestige and interest to Lei and Shi.³⁵ Trevelyan agreed, and surmised that Lei and Shi hoped to achieve an agreement similar to the

²⁹ Ibid., 4.

³⁰ Ibid., 1.

³¹ Ibid., 4.

³² Ibid.

³³ Ibid.

³⁴ Peter Tennant, memorandum, "Talks on Trade with China, May 6th – 7th, 1954," n.d., p. 4, *TNA*, FO 371, 110289, FC1151/55.

³⁵ Ibid., 4-5.

PRC's recent agreements with Indonesia and Burma.³⁶ A formal agreement along these lines would most certainly be touted in Beijing as a break in the American-led embargo, both parties knew, but neither addressed the issue directly in the talks.

Shi framed his request purely in commercial terms. Any agreement that bore the imprimatur of both governments would boost the "confidence" of traders in both Britain and China, he argued.³⁷ Tennant countered that any official agreement would have the opposite effect in Britain, where traders typically looked askance at governmental endorsements and associated them with trade restrictions rather than expansions.³⁸ Lei pushed the issue on May 7 by explaining that Chinese state planners needed assurance that imports would arrive on schedule to ensure domestic production remained on track.³⁹ But Trevelyan was firm. Her Majesty's Government did not support such agreements except where they solved "practical," i.e. commercial, problems.

Lei let the issue drop. He had a third issue to pursue anyway, one that promised to undercut the embargo just as much and to generate cachet for the PRC in the process. On May 6, in line with Zhou Enlai's instructions, Lei had raised the issue of bilateral commercial visits by pointing out the importance of increasing direct contact alongside trade.⁴⁰ Trevelyan seemed

³⁶ Humphrey Trevelyan (Geneva) to Foreign Office (London), untitled despatch, 06 May 1954, *TNA*, FO 371, 110289, FFC1151/57.

³⁷ Peter Tennant, memorandum, "Talks on Trade with China, May 6th – 7th, 1954," n.d., p. 5, *TNA*, FO 371, 110289, FC1151/55.

³⁸ *Ibid.*

³⁹ *Ibid.*, 7.

⁴⁰ Chu Siyi, minutes, "Lei Renmin Huijian Du Weilian, Tai Luntuo Tanhua Jilu" [Transcript of Meeting between Lei Renmin, Trevelyan, and Tennant], 06 May 1954, *FMA* 206-C053, in *Zhonghua Renmin Gongheguo Waijiao Dang'an Xuanbian (di yi ji)*, 1954 Nian Rineiwa Huiyi, 410. For Zhou's role in shaping this strategy, see Lei Renmin, "Huiyi Zhou Zongli Duiwai Maoyi Gongzuo de Guanhuai he Zhidao," 250-251.

open to the idea. He replied that London “very much welcome[d] the Chinese side to visit us.”⁴¹

Seizing the moment, Shi followed up later in the day with Tennant. A trade fair was actually underway in Britain that very moment, Shi observed. Tennant recognized the heavy-handed hint, and wrote in his minutes that Shi was angling for an invitation sooner rather than later.⁴²

Lei returned to the subject of bilateral visits the next day, May 7. He told Trevelyan and Tennant that the most suitable moment for trade delegations in either direction was sometime in May or June. June was, after all, the mid-year mark for Chinese planners, who operated on the calendar year.⁴³ China would certainly welcome a British trade delegation to the PRC within the next two months, he continued, and Beijing would be glad to send a delegation of its own to Britain.⁴⁴

Lei and Shi continued to hammer out an agreement for a Chinese delegation to Britain. By late May, Shi was anxious as ever to line up dates for a visit.⁴⁵ Both Trevelyan and Tennant supported the request, but it raised troubling political questions for Foreign Office officials in London, who realized from discussions with Tennant that the Chinese planned to make “political capital out of the visit and to weaken the embargo.”⁴⁶ Many in the Foreign Office had doubts about the utility of the embargo as a keystone of Britain’s foreign economic policy, especially

⁴¹ As quoted in Chu Siyi, minutes, “Lei Renmin Huijian Du Weilian, Tai Luntuo Tanhua Jilu” [Transcript of Meeting between Lei Renmin, Trevelyan, and Tennant], 06 May 1954, *FMA* 206-C053, in *Zhonghua Renmin Gongheguo Waijiao Dang’an Xuanbian (di yi ji), 1954 Nian Rineiwa Huiyi*, 410.

⁴² Peter Tennant, memorandum, “Talks on Trade with China, May 6th – 7th, 1954,” n.d., p. 4, *TNA*, FO 371, 110289, FC1151/55.

⁴³ *Ibid.*, 7-8.

⁴⁴ *Ibid.*, 8.

⁴⁵ Peter Tennant, memorandum, “Report on Trade Talks with Chinese in Geneva, May 26 – 28, 1954,” n.d., p. 1-2, *TNA*, FO 371, 110289, FC1151/72.

⁴⁶ Foreign Office (London) to U.K. Delegation (Geneva), untitled despatch, 02 June 1954, *TNA*, FO 371, 110289, FC1151/72.

following the ceasefire in Korea, but no one doubted Washington's commitment to the policy or its vigilance for signs that allies might be straying from the cause. Should anyone in London forget this point, Roger Makins, the British ambassador to the United States, wrote from Washington to the Foreign Office on May 20, 1954, to remind everyone that trade talks with PRC officials on the sidelines of the Geneva Conference "will presumably cause an unfavorable reaction in this country."⁴⁷

Appearances mattered. Already Lei and Shi had begun referring to the potential Chinese trip to the U.K. as a "trade delegation" rather than a business trip, a subtle but significant nudge toward formal diplomacy.⁴⁸ And on May 26, Shi asked Tennant to provide a letter to document remarks Tennant had made during the talks about arrangements for a future trip.⁴⁹ Torn between the desire to host PRC visitors as a prelude to export growth, on one hand, and concern over how Washington might perceive such a trip, on the other, the Foreign Office strove to stake out a middle position. On June 2, 1954, the British government agreed that a PRC visit should proceed, but that the visitors should be restricted to factories that produced goods on the lists already passed during talks in Geneva, rather than a general tour of British industry. Offering tours of shipbuilding yards and other "strategic" production sites would only cause

⁴⁷ Sir Roger Makins (Washington) to Foreign Office (London), untitled despatch, 20 May 1954, *TNA*, FO 371, 110289, FC1151/64.

⁴⁸ Humphrey Trevelyan (Geneva) to Foreign Office (London), untitled despatch, 19 May 1954, *TNA*, FO 371, 110289, FC1151/65.

⁴⁹ Peter Tennant, memorandum, "Report on Trade Talks with Chinese in Geneva, May 26 – 28, 1954," n.d., p. 5, *TNA*, FO 371, 110289, FC1151/72.

“misunderstanding” in the United States.⁵⁰ And the delegation should be small—about six or seven people, none of whom should be Lei Renmin.⁵¹

The Chinese delegation received an official invitation to visit Britain on behalf of the Federation of British Industries, the China Association, and several other non-government trade associations on June 3, 1954.⁵² Despite its limited scope, and the exclusion of Lei, whose senior rank would have lent an official air to the delegation, the proposed visit represented a commercial and diplomatic success for Lei and for Beijing. As it turned out, it was one among several.

In between negotiations at the Beau Rivage hotel, Lei had been orchestrating a public diplomacy campaign meant to showcase China’s stature as a peaceful and promising business partner. His efforts culminated on May 15, when he hosted what the *Times of India* called a “veritable trade-cum-cultural exhibition” and press conference.⁵³ Some two hundred reporters sipped Chinese tea and wandered the Hotel Richmond, eyeing painted scrolls and other treasures shipped in from China.⁵⁴ Photographs in albums and on the walls offered a chorus of testimonials

⁵⁰ Foreign Office (London) to U.K. Delegation (Geneva), untitled despatch, 02 June 1954, *TNA*, FO 371, 110289, FC1151/72.

⁵¹ *Ibid.* On the exclusion of Lei Renmin, see Foreign Office (London) to U.K. Delegation (Geneva), untitled despatch, 10 June 1954, *TNA*, FO 371, 110289, FC1151/82. Huan Xiang (宦乡), a Chinese Ministry of Foreign Affairs official and Geneva delegate, told Trevelyan on June 4 that the Chinese side hoped Lei Renmin would be permitted to head the delegation to Britain, a gesture that Huan believed would represent a positive step forward in official relations between Britain and the PRC. Zhang Xichang, “Huanxiang Huijian Du Weilian Tanhua Jilu” [Transcript of Meeting between Huan Xiang and Trevelyan], 04 June 1954, *FMA* 206-Y0012, in *Zhonghua Renmin Gongheguo Waijiao Dang’an Xuanbian (di yi ji), 1954 Nian Rineiwa Huiyi*, 421.

⁵² For the text of the document, see Foreign Office (London) to U.K. Delegation (Geneva), untitled despatch, 03 June 1954, p. 1-2, *TNA*, FO 371, 110289, FC1151/91.

⁵³ D. R. Mankekar, “China Ready to Trade with Any Country, All Facilities Offered,” *The Times of India News Service*, 17 May 1954, 11.

⁵⁴ *Ibid.*

to China's economic development under CCP leadership.⁵⁵ Any prospective trade partner would have little trouble envisioning the kind of mechanizing agricultural nation China proclaimed to be, the industrialized power it aspired to become, or the kind of foreign trade it sought to achieve its development goals.

Lei convened a press conference the same day to drive the point home. He told reporters that the rising standards of living and industrial development showcased by the exhibit had opened up "a vast potential" for foreign trade.⁵⁶ This wasn't an abstraction; it was already happening. Lei ticked off statistics that signaled gathering momentum: China's overseas business volume in 1953 reached its highest level since 1930; PRC trade with capitalist countries last year was up 29 percent over the year before; British exports to China increased by a third in 1953, and imports from the PRC were up 350 percent.⁵⁷ But Lei expected more. China's industrialization demanded it. China was hungry for Europe's machinery and consumer products, he made clear, and Beijing was willing to offer silks, handicrafts, and produce in exchange.⁵⁸

The tone of Lei's remarks harkened back to the Moscow Conference two years earlier. His mantra remained "equality and mutual benefit," and neither political nor ideological concerns would shake these principles loose from China's trade policy. "China will trade with any[,] and I emphasize, any country," he vowed, "as long the principle of equality and mutual benefit is observed."⁵⁹ The image of commercial openness contrasted starkly with what he framed as a petulant policy of economic embargo enforced by Western governments, and it was this contrast that brought the communist government in Beijing together with the capitalist

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Ibid.

traders of Europe in a politically agnostic alliance, Lei suggested. After all, he argued, the trade embargoes imposed on China by Western governments hurt capitalist traders as much as China.⁶⁰

Reporters from mainstream newspapers and wires read weakness into Lei's press conference. They sensed that the capitalist embargoes were taking their toll on "Red" China's economy. "The economy of Communist China has been seriously hurt by the United States trade embargo," wrote Robert Alden of the *New York Times*.⁶¹ The press conference was an "olive branch," Alden believed, a softer side of the Beijing government that contrasted with the "vilification" that Lei's compatriots had leveled at the United States.⁶² Though the *New York Times* never said so directly, the whole spectacle smacked of propaganda: the "rosy picture" of PRC economic development, Lei's assurances that China's door was open wide to American and other capitalist businessmen, his willingness to trade with businessmen of any ideological stripe. All of it came from a place of pain. The embargo had cut into the Beijing regime, and so Lei reached out, for machines, for equipment, for help. If this was the true impetus behind Lei's accommodating stance on trade, then the whole affair at the Hotel Richmond was disingenuous, more trade carnival than fair. It was a plea, not a welcome.

Some influential bankers and financiers sensed the makings of an opportunity in Geneva, regardless of the true motivations behind Lei's showmanship. The chairman of the Hongkong and Shanghai Banking Corporation (HSBC) wrote in his annual statement to the board that the mere presence of Zhou and the PRC delegation in Geneva seemed to thaw the East-West

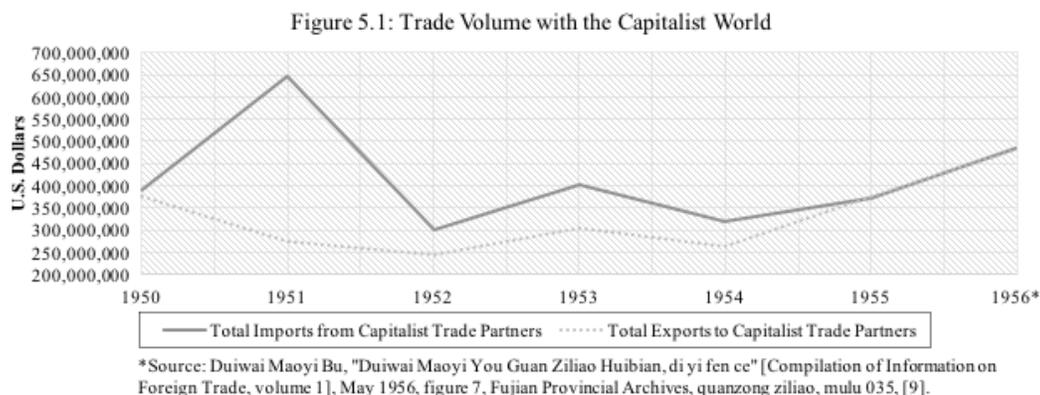
⁶⁰ Ibid.

⁶¹ Robert Alden, "Red China Makes Bid for U.S. Trade," *New York Times*, 16 May 1954, 9. The Associated Press offered a similar assessment. See Associated Press, "Red China Seeks Trade with West," 16 May 1954, *The Washington Post and Times Herald*, M5.

⁶² Robert Alden, "Red China Makes Bid for U.S. Trade," *New York Times*, 16 May 1954, 9.

commercial divide.⁶³ The summit offered a chance for “a clearing of the air,” he believed, between Asian communists and capitalist counterparts.⁶⁴

Regardless of whether one agreed with the *New York Times* or HSBC, few doubted Lei Renmin’s interest in securing trade contracts in Geneva. He was genuine in his hunt for deals. Newly available internal CCP statistics confirm the Ministry of Foreign Trade was indeed preserving a foothold in overseas capitalist markets at the time. Two years later, in May 1956, the Ministry of Foreign Trade prepared a classified report specifically for Mao Zedong showing that the government in Beijing had managed to retain a presence in international capitalist markets throughout the early 1950s despite the embargo (see Figure 5.1).⁶⁵



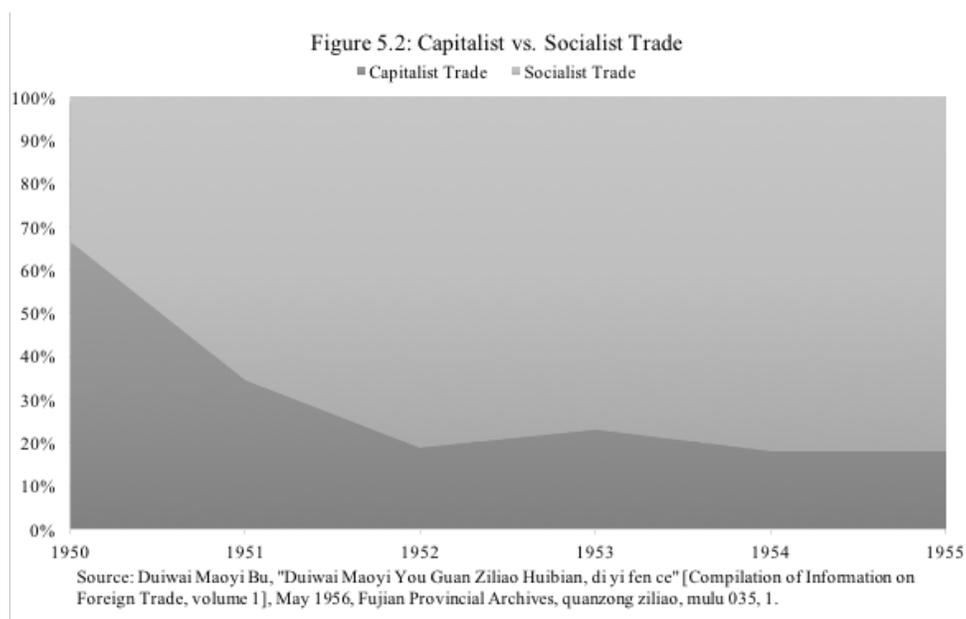
The same report confirmed what economists have long known from non-Chinese sources: that the capitalist world’s share of total PRC foreign trade during the early 1950s shrank substantially

⁶³ The Hongkong and Shanghai Banking Corporation, “Chairman’s Statement,” 11 March 1955, 11 January 1955 – 20 December 1955, Minutes of the Board of Directors, HK 0104/0005, The Hongkong and Shanghai Banking Corporation Archives, Asia Pacific (Hong Kong), 3.

⁶⁴ Ibid.

⁶⁵ Ministry of Foreign Trade, report, “Duiwai Maoyi Youguan Ziliao Huibian, di yi fen ce” [Compilation of Information on Foreign Trade, volume 1], May 1956, *FPA*, quanzong ziliao, mulu 035, “Liu: 1950 Nian dao 1955 Nian Woguo Jinkou Maoyi E Fen Guobie Tongjibiao” [Figure 6: PRC Import Trade Volume by Country from 1950 to 1955] and “Qi: 1950 Nian dao 1955 Nian Woguo Chukou Maoyi E Fen Guobie Tongjibiao” [Figure 7: PRC Import Trade Volume by Country from 1950 to 1955], [8-9].

during the first half of the 1950s, from a peak of roughly 66 percent in 1950 to its nadir below 18 percent in 1955 (See Figure 5.2). Taken together, however, Figures 5.1 and 5.2 also show that the PRC’s surging trade with the socialist world didn’t supplant China’s trade with capitalist states, it simply overshadowed it. Communist China’s trade with the capitalist world remained surprisingly steady throughout the early 1950s despite the embargo, while socialist trade, financed by Soviet loans, shot upward.



How much PRC trade with the capitalist world might have grown without the embargo is anyone’s guess.⁶⁶ So is the obvious corollary—whether China had been “seriously hurt” by the embargo, as Robert Alden of the *New York Times* supposed.⁶⁷ But what is clear is that Lei’s

⁶⁶ A January 1953 report by the Central Finance and Economics Committee (*Zhongyang Caizheng Jingji Weiyuanhui*, 中央财政经济委员会) speculated that, were the Korean War to end, PRC trade with the capitalist world would blossom just as it had with the socialist bloc. Central Finance and Economics Committee, “1953 Nian Guoying Maoyi de Fangzhen Renwu ji Suo Cunzai de Wenti” [Existing Issues [Related to] Principles and Tasks of State-Run Trade in 1953], 15 January 1953, G128-4-11, in Zhongguo Shehui Kexue Yuan and Zhongyang Dang’anguan, comp., *Zhonghua Renmin Gongheguo Jingji Dang’an Ziliao Xuanbian, 1953-1957, Shangye Juan* [Selection of Materials from the PRC Economic Archives, 1953-1957, Commerce Volume] (Beijing: Zhongguo Wujia, 2000), 1042.

⁶⁷ Robert Alden, “Red China Makes Bid for U.S. Trade,” *New York Times*, 16 May 1954, 9.

activities in Geneva had the full backing of the CCP senior leadership, who, like Lei, saw increased contact with the capitalist world as critical for PRC foreign relations in the post-Korea international climate. Zhou Enlai thought of the conference itself, particularly the Chinese delegation's interactions with the British, as a proving ground. Success there, both political and commercial, could illustrate that nations of different political systems and ideologies could indeed coexist and interact peacefully.⁶⁸

Zhou himself lost few opportunities to contribute his own considerable talents to Lei's mission. He met privately for over an hour in Geneva on May 30 with two members of British parliament, Harold Wilson, a Labor Party member and former president of the Board of Trade, and William Robson-Brown, a member of the Conservative Party. The two men had made the trek from London specifically to meet with members of the Chinese delegation, and while in town they also held private talks with Lei Renmin and Shi Zhi'ang. On June 1, Zhou cabled Mao Zedong, Liu Shaoqi, and the Central Committee in Beijing to report an important breakthrough: Wilson, Robson-Brown, and the head of the British delegation in Geneva, Foreign Secretary Anthony Eden, had jointly welcomed the PRC to establish a permanent trade body in London to facilitate future trade.⁶⁹

⁶⁸ Zhou Enlai, summary of remarks, "Guanyu Waijiao Wenti de Baogao" [Report on Diplomatic Issues], 12 August 1954, *FPA*, quanzong 101, mulu 5, juanzong 542, 1.

⁶⁹ Zhonggong Zhongyang Wenxian Yanjiushi, *Zhou Enlai Nianpu, 1949-1976, shangjuan* [A Chronology of Zhou Enlai, 1949-1976, first volume] (Beijing: Zhongyang Wenxian, 1999), 373. Lei Renmin raised the idea of establishing a PRC commercial office in London during a private meeting with Wilson and Robson-Brown on May 28. See Wang Jinyuan and Shao Xianli, "Lv Dang Daren[,] Bu Ru Shiming" [Assuming Major Roles Time and Again, Never Dishonoring the Mission] *Dangshi Wenhui* 07 (2004), 28. For the Chinese minutes of the meeting, see meeting minutes, "Zhou Enlai Huijian Yingguo Yiyuan Wei'ershun, Luo Boxun-Bulang Tanhua Jiyao" [Minutes from Talks During Zhou Enlai's Meeting with Representatives Wilson and Robson-Brown], 30 May 1954, *FMA* 206-Y0009, in *Zhonghua Renmin Gongheguo Waijiao Dang'an Xuanbian (di yi ji), 1954 Nian Rineiwa Huiyi*, 412-414.

Zhou supported the idea fully. As he saw it, the new office offered a chance to leverage commerce for political purposes. He urged the leadership in Beijing to raise the issue of a permanent trade mission formally with British authorities, taking care to note that the new office should be permitted to enjoy full diplomatic rights and privileges. In actuality, the new office would function as a diplomatic mission, he told the leadership back in Beijing.⁷⁰ Surprisingly, neither Harold Wilson nor William Robson-Brown seemed attuned to the importance Zhou and Lei placed on the political ramifications of expanded trade. Perhaps Zhou's subtle touch accounts for the misperception. By the time Wilson and Robson-Brown returned to London, both Members of Parliament were convinced the PRC was "not primarily out for political capital" in Geneva, Eden reported.⁷¹

Lei Renmin took his own lessons from the negotiations. He was as convinced as ever that the capitalist world eagerly awaited a chance to trade with the PRC. While in Geneva he met privately with officials and businessmen from Switzerland, West Germany, the Netherlands, Italy, and France, all of whom expressed to him in no uncertain terms a desire to expand trade with communist China.⁷² Most promising of all, Sino-British trade relations appeared to be gaining momentum.

⁷⁰ Zhou Enlai, cable, "Zhou Enlai Guanyu Daibiaotuan yu Yingfang Jiechu Qingkuang zhi Mao Zedong, Liu Shaoqi bing Bao Zhongyang de Dianbao" [Cable from Zhou Enlai to Mao Zedong, Liu Shaoqi, and the Central Committee Concerning The [Chinese] Delegation's Contact with the British], 01 June 1951, *FMA* 206-Y0004, in *Zhonghua Renmin Gongheguo Waijiao Dang'an Xuanbian (di yi ji), 1954 Nian Rineiwa Huiyi*, 415.

⁷¹ U.K. Delegation (Geneva) to Foreign Office (London), despatch, "Anglo-Chinese Trade," 31 May 1954, *TNA*, FO 371,110289, FC1151/75.

⁷² Wang Jinyuan and Shao Xianli, "Lv Dang Daren[,] Bu Ru Shiming," 28. For an example of trade talks between the PRC delegation in Geneva and European capitalist states, see meeting minutes, "Lei Renmin Huijian Yidali Gongshangjie Daibiao Tanhua Jiyao" [Minutes from Talks During Lei Renmin's Meeting with Italian Business Representatives], 13 June 1954, *FMA* 206-C052, in *Zhonghua Renmin Gongheguo Waijiao Dang'an Xuanbian (di yi ji), 1954 Nian Rineiwa Huiyi*, 436-436.

Lei's protracted talks with Trevelyan and Tennant bore additional fruit on June 28 when, with the Geneva Conference still in session, a "trade mission" from the China National Import Export Company set off to London for exploratory business talks. The London trip offered Chinese officials a chance to meet and mingle with British manufacturers and merchants in London, Sheffield, and Birmingham. It also gave the official host organization, the Sino-British Trade Committee, a grand opportunity to express Britain's zeal for future trade through factory tours, substantive talks, lavish meals at the Savoy, and a pre-departure "coach tour" of London.⁷³ Most important of all, however, was the momentum created by the London visit. Before the Chinese delegation left, they invited the Sino-British Trade Committee to arrange for a party of private entrepreneurs and industrialists to visit Beijing in November 1954 for a reciprocal visit.⁷⁴

III. Coexistence through Commerce

For Zhou Enlai, the talks in Geneva confirmed his sense that a new international climate was taking shape. Before the conference was underway, in late December 1953, he articulated for the first time the "five principles of peaceful coexistence" (*heping gongchu wuxiang yuanze*, 和平共处五项原则), a concept geared more toward preserving stability within the existing international system than fomenting change.⁷⁵ Talks in Geneva did little to dispel his sense that China had its back to the wind. Three months after the conference concluded, on October 18,

⁷³ For the delegation's itinerary, see The London Chamber of Commerce (Inc), "Visit of Chinese Trade Mission," appendix to "Press Notice," 25 June 1954, *TNA*, FO 371, 110291, FC1151/119.

⁷⁴ Sino-British Trade Committee, memorandum, "Report on Visit of Chinese Mission," n.d., p. 3, *TNA*, FO 371, 110291, FC1151/121.

⁷⁵ Zhou first identified the five principles (mutual respect for sovereignty and territorial integrity, nonaggression, noninterference in other countries' internal affairs, equality and mutual benefit, and peaceful coexistence) during a meeting on December 31, 1953, with Indian officials visiting Beijing to discuss territorial claims in Tibet. Zhou Enlai, "Heping Gongchu Wuxiang Yuanze" [Five Principles of Peaceful Coexistence], 31 December 1953, in *Zhou Enlai Waijiao Wenxuan* [Selected Diplomatic Works of Zhou Enlai] (Beijing: Zhongyang Wenxian, 1990), 63

1954, he offered a broad assessment of world affairs to other senior Party officials. China's diplomatic activities over the past six months had yielded a clearer understanding of the world situation, he explained.⁷⁶ The socialist world remained a postwar juggernaut, an irresistible force that held the future in its grip.⁷⁷ The capitalist world, by contrast, was "old," riddled with contradictions, and dying.⁷⁸ But it was still dangerous. The imperialists could lash out at any time in an attempt to forestall its own demise, he warned.⁷⁹ To guard against this scenario, the PRC must strive to preserve peace in the world.

Peace would allow the forces of historical development to strengthen the socialist world as rapidly as possible, thereby hastening the demise of capitalism. Rifts within the capitalist world offered opportunities for pursuing this strategy, Zhou told the Party leadership. He argued that the capitalist world could be divided into three types of nations: war mongers (*zhuzhan pai*, 主战派), typified by American imperialism; status-quo preservationists (*weichi xianzhuang pai*, 维持现状派), such as Great Britain and France, which were committed to peace but misguidedly relied on the United States to provide it; and a "peace-and-neutrality" faction (和平中立派), a shifting group of colonies, post-colonial states, and other subjugated nations with fluid commitments to "neutrality" (*zhongli*, 中立) in the gathering bipolar ideological conflict.⁸⁰

With this geopolitical landscape in mind, Zhou urged a three-part strategy. First, the PRC should gird itself for potential conflict by strengthening its own defense capabilities. Second,

⁷⁶ Zhou Enlai, report, "Nihelu Fanghua Qian Zhou Zongli Guanyu Waijiao Wenti de Baogao" [Premier Zhou Enlai's Report on Diplomatic Issues on the Eve of Nehru's Visit to the People's Republic of China], 18 October 1954, *FPA*, quanzong 101, mulu 5, juanzong 542, 1.

⁷⁷ *Ibid.*

⁷⁸ *Ibid.*, 1, 3.

⁷⁹ *Ibid.*, 2.

⁸⁰ *Ibid.*, 3-4.

China should promote peaceful forces. And third, China should avoid taking the initiative to provoke conflict.⁸¹ This framework carried clear implications for China's foreign-trade policy vis-à-vis the capitalist world. Zhou called for continued "work" on the status-quo preservationist group, Britain and France in particular, in order to construct a united front committed to international peace, which, would isolate and contain American imperialism.⁸² International trade stood to play an important role in this mission to foster contact and common ground.

The playbook Zhou read from in October 1954 was not all that different from what he, Lei Renmin, and other trade officials had in mind during the Moscow International Economic Conference of 1952. But the new strategic climate, and the sense of vindication and strength after China's "victory" in the Korean War, made this strategy all the more credible in the minds of China's leaders.⁸³ China's experiences in Geneva further reinforced the leadership's sense of how increased commercial contact with foreign capitalists could serve larger strategic trends. The Geneva Conference itself served as a proof-of-concept for this strategy. During a July 7, 1954, enlarged Politburo meeting in Beijing, Zhou explained that his aim in Geneva was to unite with Britain, France, and Southeast Asian nations so as to isolate the United States and foil its plan to extend American hegemony.⁸⁴ Mao Zedong voiced his support for the strategy during the meeting, and instructed Zhou to see it through when he returned to Geneva for the final leg of the conference.⁸⁵

⁸¹ Ibid., 6.

⁸² Ibid., 9.

⁸³ As Zhou explained in his October 18, 1954, report, a PRC policy of peaceful influence based on strength at home would not have been possible without China's battlefield successes in Korea. See *ibid.*, 9.

⁸⁴ Zhonggong Zhongyang Wenxian Yanjiushi, *Zhou Enlai Nianpu, 1949-1976, shang juan*, 395.

⁸⁵ Ibid.

Peace and capitalist trade also served critical CCP needs much closer to home in the post-Korea climate. The entire foreign-policy agenda Zhou outlined in October 1954 relied on a foundation of economic and military strength, “using power as a backup force” (*yi lilian zuo houdun*, 以力量作后盾), Zhou called it, and a peaceful international environment was essential to strengthening that foundation.⁸⁶ Li Fuchun (李富春) suggested as much in a July 1955 report to the National People’s Congress, when he pointed to the Korean War as one of several causes for the delayed formal adoption of China’s First Five-Year Plan (1953-1957).⁸⁷ Tension and conflict in the future could just as easily disrupt the plan again and hamstring the Party’s efforts to strengthen China’s industries and defenses. As Mao put it to Burmese Prime Minister U Nu during a December 1954 visit to Beijing, China wanted to transform itself into an industrial nation. This was “long-term work,” he believed, and it required a peaceful international environment.⁸⁸

Mao mused about China’s foreign trade with his trademark blitheness and imprecision, neither of which Lei Renmin or other trade officials could afford given the pressing challenges they faced. Foreign exchange shortfalls sat near the top of the list of concerns. Throughout 1954 officials at the Ministry of Foreign Trade worried that the PRC’s foreign-currency demand would outstrip its supply. In part, this concern reflected the assumption that overseas remittances,

⁸⁶ Zhou Enlai, report, “Nihelu Fanghua Qian Zhou Zongli Guanyu Waijiao Wenti de Baogao” [Premier Zhou Enlai’s Report on Diplomatic Issues on the Eve of Nehru’s Visit to the People’s Republic of China], 18 October 1954, *FPA*, quanzong 101, mulu 5, juanzong 542, 9.

⁸⁷ Li Fuchun, report, “Di Yi Ge Wunian Jihua de Fangzhen yu Renwu” [Guidelines and Tasks of the First Five-Year Plan], 05 July 1955, in Li Fuchun, *Li Fuchun Xuanji* [Selected Works of Li Fuchun] (Beijing: Zhongguo Jihua, 1992), 133-134.

⁸⁸ Mao Zedong, remarks, “Women Yinggai Zai Hezuo Zhong Zengjin Liaojie” [We Should Enhance Mutual Understanding Through Cooperation], 01 December 1954, in Mao Zedong, *Mao Zedong Waijiao Wenxuan* [Selected Diplomatic Works of Mao Zedong] (Beijing: Zhongyang Wenxian, 1994), 179.

long a mainstay of the state’s hard currency earnings, would dwindle in the years ahead. But other developments compounded the problem. The CCP’s longstanding policy of satisfying the import needs of the Soviet Union and Eastern Europe first, for instance, ensured that socialist markets claimed the lion’s share of China’s key exports, leaving relatively little to be sold for cash in the capitalist world.⁸⁹

This problem cropped up often in Ministry of Foreign Trade meetings during the mid-1950s because, as internal CCP documents show, the Planning Commission expected sales of Chinese exports to capitalist markets to generate an increasing share of China’s foreign cash during each successive year of the first Five-Year Plan (see Table 5.1).

Table 5.1: Foreign Exchange Earnings from Capitalist Markets

(Units: 1 = U.S. \$1,000,000,000)	1952	1953	1954	1955	1956	1957	FYP Total
Total Revenue	4.15	4.86	4.50	4.56	4.72	4.97	23.61
SOE exports	0.86	1.44	1.85	2.25	2.58	2.98	11.10
Local SOE exports	0.39	0.37	0.30	0.26	0.22	0.18	1.33
Private sector exports	1.20	1.22	1.00	0.85	0.72	0.61	4.40
Overseas Remittances	1.70	1.20	1.20	1.20	1.20	1.20	6.00
Other sources	N/A	0.63	0.15	N/A	N/A	N/A	0.78

*Source: Central Planning Commission, annual planning figures, 30 March 1954, in *JJDAJR*, 1953-1957, 899.

Remittances would dwindle in the years ahead, the Planning Commission believed, which required state exports to take on a greater role in producing foreign-currency revenue. The Ministry of Foreign Trade offered several marginal solutions to the problem, such as campaigns to conserve foreign cash and tighter, more centralized foreign-currency management.⁹⁰ But the ministry’s leadership also stressed the need to ramp up exports, which called for trade officials to “actively discover new types of export products, improve the quality of export products, strengthen the [domestic] procurement and export of secondary commodities,” i.e. goods not

⁸⁹ Central Ministry of Foreign Trade Leading Party Group, report, “Guanyu Waihui Wenti de Baogao (jielu)” [Report on Foreign-Currency Issues (Excerpt)], 09 February 1954, in *JJDAJR*, 1953-1957, 892-893.

⁹⁰ *Ibid.*, 887-888.

previously exported but for which markets may exist overseas.⁹¹ Chinese exports had to be more abundant, better synced to market demands abroad, and more salable.

Time was of the essence. A drop in foreign cash holdings could jeopardize the success of the Five-Year Plan, the centerpiece of the CCP's national economic agenda. The tightly choreographed economics of the plan favored prescience and stability, and the Planning Commission had already earmarked expected foreign-currency earnings for a host of anticipated expenditures. Planning officials had allocated between 70 and 85 percent of these projected earnings for imports of equipment and other producer goods, the bedrock of China's industrialization program (see Table 5.2).

Table 5.2: Foreign Exchange Expenditures vis-à-vis Capitalist States

(Units: 1 = U.S. \$1,000,000,000)	1952	1953	1954	1955	1956	1957	FYP Total
Total Expenditures	4.15	4.86	4.50	4.56	4.72	4.97	23.61
SOE imports	1.75	2.48	2.80	2.96	3.32	3.77	15.33
Local SOE imports	0.41	0.49	0.28	0.28	0.20	0.13	1.38
Private sector imports	0.85	1.05	0.52	0.52	0.40	0.27	2.76
Reexport Foreign Exchange	0.10	0.31	0.31	0.31	0.31	0.31	1.55
Shipping expenditures	0.22	0.35	0.30	0.20	0.20	0.20	1.25
Non-trade expenditures	0.12	0.18	0.29	0.29	0.29	0.29	1.34
Other expenditures	0.70	--	--	--	--	--	--

*Source: Central Planning Commission, annual planning figures, 30 March 1954, in *JDAJR*, 1953-1957, 899.

But Beijing needed the funds for vital foreign-policy objectives as well. China funded its diplomatic and trade missions abroad using local currency, for example.⁹² The Ministry of Foreign Trade itself also spent millions of U.S. dollars, Swiss francs, Hong Kong dollars, and British sterling on insurance and shipping each year.⁹³ By weaving these expenditures into the Five-Year Plan, the Planning Commission had locked the Ministry of Foreign Trade into ambitious export targets for the years ahead.

⁹¹ *Ibid.*, 887.

⁹² “Zhongyang Ji Yi Jiu Wu San Niandu Shiyong Fei Jinkou Waihui Zhifu Fenmu Tongjibiao” [Subheading Statistical Table for Central Non-Import Foreign Currency Payments in 1953], 29 January 1954, in *JDAJR*, 1953-1957, 890.

⁹³ *Ibid.*

Confronted by these insistent pressures, and determined to make the most of the historical tailwind toward socialism and peace, Zhou Enlai pushed for China to throw open its doors to the rest of the world. “[We] should open the door,” he told an assembly of representatives from professional organizations on March 6, 1956. “From now on, [we] won’t simply invite progressives and moderates to visit, we can also allow [political] laggards (*luohou de*, 落后的) and even reactionaries to visit,” he proclaimed. China must “dare to be in contact with people.”⁹⁴ “Contact” meant more than simply inviting a wider slice of the political spectrum to visit China. The PRC “must actively carry out work abroad,” he told the audience.⁹⁵

Zhou had in mind exchanges, with capitalist and socialist nations, that would allow Chinese workers and technicians to enhance production at home and expedite the nation’s industrialization, exchanges exactly like the China National Import Export visit to Britain during the summer of 1954.⁹⁶ Mao fully agreed. In a report to an enlarged Politburo meeting on April 25, 1956, he argued that China must imbibe the capitalist world’s “exceptional” (*youliang*, 优良) science, technology, and management techniques. The efficiency of capitalist businesses, for instance, certainly merited emulation.⁹⁷ By learning from increased exchanges with the capitalist world, China would be better poised to grow its economy, strengthen its defenses, and hasten the inevitable demise of capitalism.

This spirit worked its way into the goals and practices of working-level trade officials. By the end of 1955, the Ministry of Foreign Trade had a staff of over 33,000 specialists. These men

⁹⁴ Zhonggong Zhongyang Wenxian Yanjiushi, *Zhou Enlai Nianpu, 1949-1976, shangjuan*, 554.

⁹⁵ Ibid.

⁹⁶ Ibid.

⁹⁷ Mao Zedong, report, “Mao Zedong Zai 1956 Nian 4 Yue 25 Ri Zhongyang Zhengzhiju Kuoda Huiyi Shang de Baogao (biji)” [Notes from Mao Zedong’s Report During the April 25, 1956, Enlarged Central Political Bureau Meeting], 25 April 1956, *Gansu Provincial Archives*, quanzong 91, mulu 018, shunxu 0001, 13.

and women worked in 382 different offices throughout China and abroad, where they implemented the calls from Zhou and Mao for greater interaction with the capitalist world.⁹⁸ The vast majority of these specialists worked in China. They served as customs inspectors, municipal trade officials, workers in state-owned trade companies, or instructors at the Foreign Trade Institute (*Duiwai Maoyi Xueyuan*, 对外贸易学院). Some worked abroad; 352 trade officials staffed China's 19 foreign commercial offices in 1955.⁹⁹ These officials measured success in their work with metrics of expansion. China had forged commercial ties with over 50 different nations and regions, the ministry crowed in 1956, and had signed bilateral trade agreements with the governments of 20 different countries.¹⁰⁰ More and broader trade—this had always been the rubric of the Ministry of Foreign Trade. The post-Geneva spirit of outward engagement and greater contact simply reinvigorated it. The same 1956 report called for the ministry to continue to expand official and unofficial trade with capitalist nations in the years ahead, despite its assessment that the embargoes against China would likely not dissipate in the near term.¹⁰¹

In internal documents, the Ministry of Foreign Trade still turned often to the language and concepts of conflict, struggle, and fraternal solidarity—the binaries of the Cold War—to describe its pursuit of commerce across the ideological line. The term “commercial war” (*shangzhan*, 商战) was often on the ministry lips and pages.¹⁰² But this adversarial rhetoric obscured a deeper truth: that the People's Republic of China was increasingly willing to fight its commercial “struggles” (*douzhen*, 斗争) with the capitalist world on shared conceptual terrain.

⁹⁸ Li Zheren, “Duiwai Maoyi Bu Gongzuo Huibao” [Ministry of Foreign Trade Work Report], 21 March 1956, *FPA*, quanzong ziliao, mulu 232, 1.

⁹⁹ *Ibid.*

¹⁰⁰ *Ibid.*, 3.

¹⁰¹ *Ibid.*, 30.

¹⁰² See, for example, *ibid.*, 27.

The Ministry of Foreign Trade began to conceive of “struggle” as unfolding in accordance with the norms and procedures undergirding international capitalism in the mid-1950s, rather than overthrowing them, just as Zhou’s presence at the Geneva Conference suggested the PRC’s growing embrace of established diplomatic practices.

Many of the internal policy adjustments proposed by the Ministry of Foreign Trade for boosting capitalist trade entailed wringing inefficiencies from China’s trade bureaucracy to lower costs and enhance the competitiveness of Chinese goods on capitalist markets. “International market competition is fierce,” the ministry’s Party Leading Group acknowledged on February 9, 1954.¹⁰³ To increase China’s competitiveness, the Leading Group proposed that the ministry designate specialized plants for export production, which could be made to ensure that the quality, specifications, and packaging of products conformed to export standards, a challenge the ministry had been trying to overcome for years.¹⁰⁴ The Leading Group also proposed the creation of a specialized marketing agency that could showcase the qualities and prices of Chinese goods.¹⁰⁵

By 1956, the Ministry of Foreign Trade had additional suggestions for sharpening PRC competitiveness on international markets. The nation’s second Five-Year Plan (1958-1962), just coming into focus, called for China to ramp up its trade with the capitalist world to achieve a

¹⁰³ Ministry of Foreign Trade Party Leading Group, report, “Zhongyang Duiwai Maoyi Bu Dangzu Guanyu Waihui Wenti de Baogao (jielu)” [Ministry of Foreign Trade Policy Leading Group Report on Foreign Currency Issues (excerpt)], 09 February 1954, in *JJDAMY, 1949-1952*, 888.

¹⁰⁴ Ibid. The Ministry of Trade had struggled with the issue of national export standards for Chinese products as early as 1950, when it distributed interim commodity inspection standards. Central People’s Government Ministry of Foreign Trade, *Shuchuru Shangpin Jianyan Zanxing Biaozhun* [Interim Standards for Export-Import Commodities] (Shanghai: Shangwu, 1953), n.p.

¹⁰⁵ Ibid.

total volume 75 percent above Beijing's targets during the first Five-Year Plan.¹⁰⁶ Higher quality products, new product lines, and better marketing would all contribute to this goal, the ministry argued.¹⁰⁷ Officials also touted the importance of studying and selectively appropriating the marketing techniques of capitalist businessmen.¹⁰⁸

That Party leaders took these internal suggestions seriously can be seen in the emergence in the mid-1950s of advertising and trade exhibitions designed specifically to spark the interest of overseas capitalist traders. The China Committee for the Promotion of International Trade (CCPIT) rolled out the most sophisticated of China's marketing strategies in May 1956, when it published the first issue of *Foreign Trade of the People's Republic of China*. The main goal of the new periodical was to move products, as the editorial board made clear in a note to readers in the debut issue. "It is a magazine intended to let readers, especially traders and manufacturers who are interested in China's foreign trade, to get as much information as possible on anything in relation to it, particularly her export commodities," the board explained.¹⁰⁹ But the Ministry of Foreign Trade, which oversaw CCPIT, was savvy enough to realize that to sell Chinese goods, the magazine also had to sell China. This meant reconfiguring perceptions of communist China among businesses and consumers in the capitalist world.

At least three themes threaded through issues of *Foreign Trade* during the mid-1950s that reveal how the Ministry of Foreign Trade attempted to redefine the terms of China's commercial relationship to global capitalism. First, and most obvious, was the notion of the People's

¹⁰⁶ Li Zheren, "Duiwai Maoyi Bu Gongzuo Huibao" [Ministry of Foreign Trade Work Report], 21 March 1956, *FPA*, quanzong ziliao, mulu 232, 14.

¹⁰⁷ *Ibid.*, 19.

¹⁰⁸ *Ibid.*, 22.

¹⁰⁹ Editorial Board, "Editorial Note," *Foreign Trade of the People's Republic of China I* (May 1956), n.p.

Republic of China as a peaceful and already-accepted member of international markets. One of the core purposes of the magazine itself was to “promote friendship between the Chinese people and people’s all over the world,” the editorial board wrote in the inaugural issue.¹¹⁰ On page after page, images of contented officials signing business contracts and delegations touring plants and factories reiterated this narrative of already brisk engagement. Statistics added heft to the narrative: the PRC was trading with over 60 countries and regions in the world by May 1956; 870,000 people visited a ten-day Chinese expo in Lyons; in 1955 roughly 9,000 firms in Europe, America, Australia, Asia, and Africa had trade ties with China.¹¹¹ Each article had its own metrics attesting to China’s active presence in the halls of capitalism.

A second theme was the magazine’s politicized depoliticization of language, a technique with roots in the Moscow Conference of 1952. The tone and spirit of bonhomie throughout *Foreign Trade* stood in stark contrast to the language of “commercial war” that energized internal Ministry of Trade documents during the mid-1950s. When the magazine did acknowledge ideological differences between communist China and capitalist trade partners, it emphasized the commercial advantages inherent in Cold War ideological differences, particularly the economic benefits of trading with a command economy. “China’s economy is a planned economy,” explained one issue; “both her industry and agriculture grow in a well-coordinated manner.”¹¹² This orchestrated growth produced incentives for Chinese traders to ensure an “uninterrupted supply of materials” from “reliable sources,” the magazine explained, conjuring the same myth of the inexhaustible Chinese market that had lured European capitalists

¹¹⁰ Ibid.

¹¹¹ Ibid., 3, 6; Tsao Kaung-po, “How China’s Foreign Trade is Conducted,” in *ibid.*, 6.

¹¹² Ibid., 6.

east for centuries.¹¹³ Ideological difference, stripped of revolution and revealed to be more of a structural phenomenon than a philosophical division, was a boon to business.

This image of the “new China” as a peaceful trading nation shorn of its revolutionary roots dovetailed with a third motif that ran through the pages of *Foreign Trade*: the idea that trade with China was “normal,” the obvious organic preference of capitalist producers and consumers throughout the capitalist world. Embedding this argument into *Foreign Trade* was essential to the larger proposition that the China embargo continued to corrupt the natural workings of global markets. “[T]rade between China and Western countries has not been developing as it should be,” the second issue of *Foreign Trade* argued, “on account of the trade discrimination policy adopted by some countries.”¹¹⁴ Many in the West had long realized that the China embargo was “stupid and impracticable,” the editors observed, yet trade restrictions continued to obstruct “normal economic intercourse in contravention of the interests of all people in the world.”¹¹⁵ In testament to these mutual desires for “normal” economic engagement, an image above the text showed Lei Renmin clinking sherry glasses with a group of convivial Italian traders. Only the back of Lei’s gray Mao suit in the foreground suggested that this might be an ideologically heterodox business gathering.

The style of *Foreign Trade* was equally cosmopolitan, more like a *Spiegel* or *Sears & Roebuck* catalog than typical Party propaganda fare. Each cover page featured a bright, full-page color image of economic activity—ships at a quay, for instance, or the façade of a trade expo. Back pages showcased vivid color advertisements for various state export firms. On the pages in

¹¹³ Ibid.

¹¹⁴ “The Development of China’s Economy and Her Foreign Trade in 1956,” *Foreign Trade of the People’s Republic of China 2* (1956), 3.

¹¹⁵ Ibid.

between, polished English introduced the virtues of Chinese products great and small, from sewing machines and canned peaches to “Peking” electronic tubes.

Ads aimed to smooth the edges between capitalism and socialism in the interest of expanded trade. An advertisement in May 1957 for Ma Ling food products, for example, attempted to make braised fish with onion palatable to capitalist bourgeois consumers in more senses than one (see Figure 5.3). Stylized English-language branding on the product’s tin, sherry glasses, a fork and knife instead of chopsticks, a chic blue dress, and copious rouge all suggest a careful and deliberate effort to minimize the cultural, intellectual, and even aesthetic distance between the revolutionary workers who produced Ma Ling fish and the capitalists abroad who consumed it.



Source: *Foreign Trade of the People's Republic of China* (May 1957)

The same techniques are at work in a 1958 ad for “KOOL” and “Rose” brand shirts (see Figure 5.4). The ad appeared in the September issue of *Foreign Trade*—in other words, in the midst of the fever-pitch Great Leap Forward. Yet there is no trace of backyard furnaces or people’s communes in the ad because this was a marketing strategy to appeal to everyday expectations and desires of capitalist consumers.

The cover of the fifth issue of *Foreign Trade* in 1958 featured the façade of the Canton Exhibition Hall, drawing readers’ attention to another key space where PRC trade officials had long struggled to fortify China’s place within international



Source: *Foreign Trade of the People's Republic of China* (September 1958)

capitalist markets. “New China” first waded into the transnational expo circuit in 1951, when Chinese trade officials attended the Leipzig Trade Fair, a key venue for socialist producers to showcase their wares to potential buyers from the other side of the Iron Curtain. In the years that followed, the PRC kept up an active presence on the transnational expo circuit. By May 1956, the CCPIT could claim that Chinese goods had graced display halls in France, Sweden, Iceland, and Denmark. Closer to home, PRC trade officials had peddled products at expos in Pakistan, India, Japan, and Indonesia.¹¹⁶ In all, Chinese traders had attended 25 exhibitions in 15 countries since 1951, placing Chinese products before the eyes of over 19 million potential consumers, or so the CCPIT estimated.¹¹⁷

When Lei Renmin organized his own “trade-cum-cultural exhibition” in May 1954 during the Geneva Conference, he was drawing from this gathering commercial exhibitionism. Exuberance for trade fairs began to leave imprints closer to home at this time as well. The leadership in Beijing began to use trade expos inside China to move toward a reopening of China’s own door, just a crack, to foreign capitalist consumers. On December 28, 1953, Zhou Enlai approved a request from Pan Hannian (潘汉年), then vice mayor of Shanghai and head of the city’s finance and economics committee, to construct a permanent exhibition center in a corner of the city known as “Hardoon Garden.”¹¹⁸ In early 1954, the Ministry of Foreign Trade broke ground on a permanent exhibition hall in Beijing.¹¹⁹ The vast scale and sturdy austerity of

¹¹⁶ Koo I-fan, “For Trade and Friendship,” *Foreign Trade of the People’s Republic of China 1* (1956), 6

¹¹⁷ *Ibid.*, 7.

¹¹⁸ Zhou Enlai, letter to Pan Hannian, “Tongyi Zai Shanghai Xinjian Zhanlan Huichang” [Agreement on New Construction of an Exhibition Site in Shanghai], 28 December 1953, in Zhou Enlai, *Zhou Enlai Shuxin Xuanji* [Selected Letters of Zhou Enlai] (Beijing: Zhongyang Wenxian, 1988), 498.

¹¹⁹ Gao, *Lin Haiyun Zhuan*, 289.

the two new facilities, massive monuments to socialist classical architecture, celebrated the overwhelming importance of China's trade and cultural contact with the socialist world. But on June 20, 1956, the provincial head of the Ministry of Foreign Trade in Guangdong, Yan Yijun (严亦峻), proposed that China establish a national export exhibition hall in Guangdong that would support the Party's efforts to expand its ties to overseas capitalist markets as well.¹²⁰

Zhou approved the proposal, and from that point forward the premier took a special interest in the project, even, according to one Chinese source, offering input on the name, location, policies, and responsibilities of the new exhibition center.¹²¹ Given what the PRC stood to gain from a new, permanent exhibition center in Guangdong, it is hardly surprising why. Southeast Asian markets had begun to take on increasing allure for trade officials in Beijing, and a new facility in Guangzhou held out the prospect of China's own window onto the markets of the region. In late March 1956, three months before Yan proposed the new Guangzhou facility, the Ministry of Foreign Trade identified Asian and African markets as a key emphasis of China's capitalist-world trade agenda.¹²²

An exhibition site in Guangzhou offered all the geographical advantages of Hong Kong, which was less than two hundred kilometers away, without the prying eyes and political complications that hampered PRC business operations in the British colony.¹²³ Guangzhou was

¹²⁰ Chen Leigang, "Zhou Enlai yu 'Zhongguo Diyi Zhan' de Lishi Qingyuan" [Fateful Ties between Zhou Enlai and 'China's First Exhibition'], *Zhongshan Fengyu* 2 (2014), 4; Wu Xuexian, et al., *Hongse Huarun* [Red China Resources] (Beijing: Zhonghua, 2010), 268.

¹²¹ Chen Leigang, "Zhou Enlai yu 'Zhongguo Diyi Zhan' de Lishi Qingyuan," 4

¹²² Li Zheren, "Duiwai Maoyi Bu Gongzuo Huibao" [Ministry of Foreign Trade Work Report], 21 March 1956, *FPA*, quanzong ziliao, mulu 232, 25-26.

¹²³ The U.S. Consulate General in Hong Kong remained a vital observation post for Washington's efforts to track and catalog PRC economic activity with the capitalist world, particularly smuggling operations that funneled goods and funds through the colony. See, for example, American Consulate General (Hong Kong) to Department of State (Washington), despatch, "Communists' Demand for Petroleum," 07 April 1955, *USNA*, RG 84, Hong Kong

cheaper, too, easier on the Party's foreign-currency holdings. Inviting foreign capitalists to Guangzhou meant fewer hotel bills, plane and train tickets, and restaurant meals—all of which claimed dollars, pounds, and francs that otherwise could have been spent on imports.¹²⁴ Because the new facility was to be permanent, the Ministry of Foreign Trade could build on a relatively large scale, something along the lines of the new exhibition centers in Beijing and Shanghai, rather than the cramped pavilions of expos abroad.

There was nothing cramped about the exhibition hall in Guangzhou when it opened on April 25, 1957. The new building was a concrete structure of straight lines, small windows, and little character. It was as square and orderly as the business inside was meant to be. Silks, teas, fruits, handicrafts, and equipment fanned out across 140,000 square feet of floor room inside, a sea of space vast enough to float 14,000 different commodities, CCPIT officials calculated.¹²⁵ Ministry of Foreign Trade officials expected more than browsing when visitors arrived for biannual fairs in the spring and autumn; the space was for closing deals. Foreign businesspeople would find “banking, post, tele-communication, insurance and shipping services at the fair” to ensure logistical trifles didn't derail contracts.¹²⁶

Classified General Records, Box 22, File 511.2-Communists' Demand for Petroleum; U.S. Army Liaison Officer (Hong Kong), memorandum, “Smuggling of Diesel Oil and Kerosene to Communist China” n.d. [1955], *USNA*, RG 84, Hong Kong Classified General Records, Box 22, File 511.2-Communists' Demand for Petroleum.

¹²⁴ On the need to reduce “non-trade” (*fei maoyi*, 非贸易) use of foreign currencies, i.e. foreign-currency spending for purposes other than imports, see Ministry of Foreign Trade Party Leading Group, report, “Zhongyang Duiwai Maoyi Bu Dangzu Guanyu Waihui Wenti de Baogao (jielu)” [Ministry of Foreign Trade Policy Leading Group Report on Foreign Currency Issues (excerpt)], 09 February 1954, in *JJDAMY, 1949-1952*, 888.

¹²⁵ China Committee for the Promotion of International Trade, untitled photo description, *Foreign Trade of the People's Republic of China 5* (1958), 1.

¹²⁶ *Ibid.*

The largest impediment to finalizing deals in the new building, however, was beyond the control of the leadership in Beijing. The China embargo, however, had begun to unravel just in time to clear a businessman's path to Canton. Private British firms in various combinations had been meeting with PRC trade officials in various locations since 1953, with limited commercial success, in large part because of the embargo. Despite the ups and downs of the mid-1950s, members of this entrepreneurially cavalier group held fast to the belief that, under precisely the right circumstances, exceptions could be made to the export controls administered by the China Committee (CHINCOM), the body responsible for the China embargo on behalf of the Coordinating Committee for Multilateral Export Controls (COCOM).¹²⁷

The right circumstances arose in late 1955, when Japan's powerful steel industry pressured authorities in Tokyo to grant "exemptions" for limited exports of galvanized and black sheet steel to China.¹²⁸ British steelmakers, anxious about the prospect of idle capacity, lent their weight to the cause of "exemptions," which London soon granted.¹²⁹ Once these exceptions breached the embargo wall, it was only a matter of time until the entire edifice crumbled. During a CHINCOM meeting in Paris on May 27, 1957, Britain announced that it had decided unilaterally to eliminate the "China Differential"—the export controls for China that exceeded those targeting the Soviet Union.¹³⁰ Within weeks, most of Western Europe followed suit:

¹²⁷ For the rationales and disagreements behind CHINCOM and the political complications it produced, see Jeffrey A. Engel, "Of Fat and Thin Communists: Diplomacy and Philosophy in Western Economic Warfare Strategies toward China (and Tyrants, Broadly)," *Diplomatic History* 29, no. 3 (2005): 445-474.

¹²⁸ Percy Timberlake, *The 48 Group: The Story of the Icebreakers in China* (London: The 48 Group Club, 1994), 38.

¹²⁹ *Ibid.*

¹³⁰ Shu Guang Zhang, *Economic Cold War: America's Embargo against China and the Sino-Soviet Alliance, 1949-1963* (Washington, DC; Stanford, CA: Woodrow Wilson Center Press and Stanford University Press, 2001), 192.

France, West Germany, Italy, Holland, Luxembourg, Belgium, Denmark, Norway, and Portugal.¹³¹

British industrialists and merchants were giddy at the new prospects for trade with China. The British Council for the Promotion of International Trade figured that trade volume with communists could quadruple now that the differential had collapsed.¹³² Challenges persisted, the council acknowledged. Most Chinese factories were using engineering equipment produced elsewhere because London had maintained tight export controls throughout China's first Five-Year Plan, for example, which meant workers and technicians in Chinese factories remained unfamiliar with British equipment.¹³³ Major new orders were not likely to arrive from the PRC until the second Five-Year Plan was underway in late 1957.¹³⁴ The collapse of the China differential also did not mean that the floodgates had opened entirely for British exports. Export controls still restricted trade with China, but they were no longer more stringent than controls on trade with the Soviet Union or any other socialist nation. But these all seemed like eminently surmountable challenges in the wake of the China differential, minor ruts on the road to bigger deals and new opportunities.

Chinese trade officials felt the same way, and the exhibition hall in Guangzhou was meant to serve as a key venue for achieving Chinese, British, and many other capitalist traders' ambitions for expanded trade after the demise of the China differential. In a sense, the construction of the exhibition hall marked a culmination of the transformative shift that occurred in Chinese foreign policy during the mid-1950s. Beginning with the Geneva Conference in 1954,

¹³¹ Percy Timberlake, *The 48 Group: The Story of the Icebreakers in China*, 41.

¹³² British Council for the Promotion of International Trade, *China Trade and Economic Newsletter* no. 20 (June 1957), 2.

¹³³ *Ibid.*

¹³⁴ *Ibid.*

trade with the capitalist world had become entwined with “peaceful coexistence.” Commerce had become an indispensable tool for picking apart capitalist solidarity, for displaying “new” China’s clout on a global scale, for expediting economic and defense construction at home, for isolating American imperialism, and, most fundamentally, for hastening the vindication of communism and the collapse of global capitalism. The exhibition hall stood for these goals with concrete permanence. Canton once again became a site for prolonged commercial contact with foreign capitalists, not unlike the Canton System that emerged under the rule of the Qianlong Emperor over two centuries earlier in precisely the same location.

Unlike the Canton System, however, the Party’s exhibition venue was not intended to serve as the sole point of contact between foreign markets and the Chinese mainland. It was part of a latticework of contacts that included official bilateral trade agreements, transnational business networks like the Councils for the Promotion of International Trade and the Sino-British Trade Committee, temporary bilateral trade expos in China and abroad, Hong Kong front companies that continued to conduct business briskly on behalf of Beijing, and Chinese marketing materials that circulated Chinese goods—images of them, at least—throughout the capitalist world, with the actual goods only an exchange of cables away.¹³⁵

Working-level officials orchestrated these activities from behind the scenes in Beijing, where Ministry of Foreign Trade officials struggled to keep up with the schedules and projections of the first Five-Year Plan. Expectations for the second Five-Year Plan (1958-1962) suggested that these officials would have their work cut out for them for the foreseeable future.

¹³⁵ Overseas trade delegations became a centerpiece of PRC contact with the capitalist world following the visit by China National Import Export Company officials to London during the Geneva Conference in the summer of 1954. For a detailed account of Sino-British trade mission exchanges during this period, see Percy Timberlake, *The 48 Group: The Story of the Icebreakers in China*, 9-45.

None realized, however, how much the pressure to keep up with expansion would grow once the fever pitch of the Great Leap Forward began to convulse China's trade bureaucracy in the summer of 1958.

CHAPTER 6: A “GREAT LEAP” IN TRADE, 1957-1960

I. Trade and the Great Leap Forward

The Great Leap Forward (GLF) sharply altered the course of China’s commercial ties to international capitalism as the 1950s drew to a close. Mao Zedong launched the nation-wide campaign with the goal of dramatically increasing economic production by fanning the revolutionary fervor of the masses. Instead, in just over two short years, from late 1957 to early 1960, blind ambitions and reckless assertions crippled the PRC economy, uprooting the Ministry of Foreign Trade’s painstaking efforts to cultivate broad and stable engagement with firms, businesspeople, and governments throughout the capitalist world. Despite its best efforts, the ministry’s hard work of the 1950s began to unspool.

At first, however, the GLF seemed a timely and auspicious next step for China. Mao Zedong believed the Leap would accelerate China into its destiny. As he saw it, the massive mobilization effort would fire the revolutionary spirit of the Chinese people and the CCP would put this enthusiasm to work, channeling it into an explosion of agricultural and industrial growth. Farms and factories would produce more than ever before, and the PRC would soon leap to the forefront of the industrial age. Trade with the capitalist world was vital to this agenda. The Party leadership expected to sell its bountiful crop yields to markets abroad in exchange for fuels, fertilizers, factory equipment, and technology that would help lay the industrial foundation for China’s rapidly modernizing state. Sound as this logic seemed to officials in late 1957 and early 1958, reality pulled China in a very different, and ultimately tragic, direction, with dramatic consequences for China’s position in global capitalist markets.

A large body of literature has examined the causes, consequences, experiences, and contemporary significance of the Great Leap Forward.¹ Much of this work concerns elite politics, a sensible perspective in light of the fact that Mao Zedong himself and other top CCP leaders conceived, orchestrated, and finally abandoned the Great Leap.² Some studies have explored the everyday experiences of those who lived through the GLF, away from Beijing and out of sight of the central leadership.³ Others have scrutinized the Leap's famines and "unnatural

¹ For a somewhat dated but still useful historiographical review of Chinese-language scholarship on the Great Leap Forward, see Xie Chuntao, "'Dayuejin' Yundong Yanjiu Pingshu" [Review of Scholarship on the Great Leap Forward Movement], *Dangdai Zhongguo Guoshi Yanjiu* 2 (1995): 25-34. For English-language analyses of how historians in China have interpreted the Great Leap Forward, see William A. Joseph, "A Tragedy of Good Intentions: Post-Mao Views of the Great Leap Forward," *Modern China* 12, no. 4 (Oct. 1986): 419-457; and Felix Wemheuer, "Dealing with Responsibility for the Great Leap Famine in the People's Republic of China," *The China Quarterly* 201 (2010): 176-194.

² The classic account remains Roderick MacFarquhar, *The Origins of the Cultural Revolution, Volume 2: The Great Leap Forward, 1958-1960* (New York: Published for the Royal Institute of International Affairs, the East Asian Institute of Columbia University, and the Research Institute on Communist Affairs of Columbia University by Columbia University Press, 1974). Other noteworthy works include David M. Bachman, *Bureaucracy, Economy, and Leadership in China: The Institutional Origins of the Great Leap Forward* (Cambridge: Cambridge University Press, 1991); Frederick C. Teiwes and Warren Sun, *China's Road to Disaster: Mao, Central Politicians, and Provincial Leaders in the Unfolding of the Great Leap Forward, 1955-1959* (Armonk, NY: M. E. Sharpe, 1999); Alfred L. Chan, *Mao's Crusade: Politics and Policy Implementation in China's Great Leap Forward* (Oxford: Oxford University Press, 2001); and Thomas P. Bernstein, "Mao Zedong and the Famine of 1959-1960: A Study in Willfulness," *The China Quarterly* 186 (2006): 421-445.

³ For examples, see Ralph Thaxton, *Catastrophe and Contention in Rural China: Mao's Great Leap Famine and the Origins of Righteous Resistance in Da Fo Village* (Cambridge; New York: Cambridge University Press, 2008); Alfred L. Chan, "The Campaign for Agricultural Development in the Great Leap Forward: A Study of Policy-Making and Implementation in Liaoning," *The China Quarterly* 129 (1992): 52-71; Chris Bramall, "Agency and Famine in China's Sichuan Province, 1958-1962," *The China Quarterly* 208 (2011): 990-1008; and Jeremy Brown, "Great Leap City: Surviving the Famine in Tianjin," in Felix Wemheuer and Kimberley Ens Manning, eds., *Eating Bitterness: New Perspectives on China's Great Leap Forward and Famine* (Vancouver: UBC Press, 2011), 226-250.

deaths” in an effort to count and account for its tragedies.⁴ Still others have placed the GLF into international relief by tying it to larger developments unfolding in the global Cold War.⁵

This chapter will bring these historiographical strands together by examining the Great Leap Forward as it unfolded in the Ministry of Foreign Trade, the most important state institution at the nexus between the GLF campaign at home and markets abroad. The ministry offers a concrete institutional environment in which to explore how CCP elites and working-level officials struggled with fundamental questions raised by the GLF, questions that cut to the heart of what it meant to be communist, Chinese, and revolutionary in a capitalist international environment. How did cadres reconcile the Leap’s revolutionary goals and methods to the status quo abroad? The GLF was, after all, dissociative by design—a deliberate departure from established economic orthodoxies in the socialist and capitalist worlds alike. How could Ministry of Foreign Trade officials both dissociate and engage simultaneously? How did these technocrats navigate the internal challenge of privileging the Leap’s guiding principle that human will could overcome natural laws, while at the same time adhering to the expertise and practices that had become vital to everyday trade work during the mid-1950s? What can this navigation process tell us about how CCP trade officials reconciled abrupt shifts in concepts of production, organization, and growth in the Chinese revolution at home with the prerogatives of international

⁴ Frank Dikotter, *Mao’s Great Famine: The History of China’s Most Devastating Catastrophe, 1958-1962* (New York: Walker & Co., 2010); and Yang Jisheng, Edward Friedman, Jian Guo, and Stacy Mosher, *Tombstone: The Great Chinese Famine, 1958-1962* (New York: Farrar, Straus and Giroux, 2012).

⁵ Shen Zhihua and Xia Yafeng, “The Great Leap Forward, the People’s Commune, and the Sino-Soviet Split,” *Journal of Contemporary China* 20:72 (Nov. 2011): 861-880; Thomas J. Christensen, *Useful Adversaries: Grand Strategy, Domestic Mobilization, and Sino-American Conflict, 1947-1958* (Princeton: Princeton University Press, 1996), 194-241; and Chen Jian, *Mao’s China and the Cold War* (Chapel Hill and London: The University of North Carolina Press, 2001), 163-204.

capitalist markets overseas, which remained a vital component of China's larger industrialization agenda? Finally, and more broadly, what does the unfolding of these challenges within the Ministry of Foreign Trade reveal about the nature of the CCP's larger efforts to refine the institutional and intellectual foundations that would support the creation of a "new China," an undertaking that was deeply influenced by imported socialist and capitalist ideas, but also uniquely Chinese?

With these questions as backdrop, this chapter draws from Chinese, British, U.S., and Japanese archival sources to examine how the Great Leap Forward swept through the Chinese Ministry of Foreign Trade and shook the foundations of its work. It begins in the fall of 1957, when a new spirit of economic optimism spread from the mind of Mao Zedong to the Ministry of Foreign Trade and various other state and Party entities throughout China. The chapter then examines the intellectual origins of two concepts, "continuous revolution" and "red and expert," both of which would reshape routines and goals inside the ministry. It then explores how the ministry, battered and weakened by the Anti-Rightist campaign of 1957 and the Double-Anti movement of 1958, began to reformulate its training curriculum and institutional goals in an attempt to align with the core tenets of the Leap. The chapter next turns to the ministry's attempt to bring its trading practices into line with the GLF, and the destabilizing consequences of this effort. The Leap's emphasis on decentralization undermined discipline and control within the Ministry of Foreign Trade, and an unbridled flow of exports soon began to elicit allegations of Chinese "dumping" throughout international markets, while shoddy export procurement work at home led ministry officials to renege on contracts with capitalist partners. The hubris of the Leap also generated sharp tensions in China's capitalist commercial relationships, none more so than with Japan.

By early 1960, when the chapter concludes, China's commercial ties to the capitalist world had become sporadic, unstable, and often incoherent. This unspooling, entirely self-inflicted, became the most formidable challenge to China's capitalist trade agenda since the founding of the People's Republic—more than the burden of consolidating control over nationwide foreign trade at the time of “liberation” in 1949, more than the challenge of building a disciplined foreign-trade system during the early 1950s, and more than the ongoing difficulties of circumventing the U.S.-led embargo throughout the first decades of communist China's existence. At the same time, this formative phase set the stage for a redefinition of China's place within the global capitalist markets of the 1960s.

II. A New Ethos

In early December 1957, trade officials from bureaus and offices across China boarded trains for Beijing. The Ministry of Foreign Trade had called its senior and mid-level cadres into the capital to take stock. Challenges abounded. On December 14, Minister of Foreign Trade Ye Jizhuang ticked off a list of “serious weaknesses” that still plagued Chinese exports.⁶ Fountain pens, radios, bicycles, and other new consumer exports had trouble keeping up with market preferences, he told the assembled officers. Product designs, colors, qualities, specifications and styles often missed the mark. Rigid management practices hobbled transactions, and unsteady supply lines sabotaged successful deals.⁷

The point of the meeting was to inspire traders, not berate them, so Ye framed these shortcomings as reasons to redouble efforts rather than indelible marks of inadequacy. A sense of

⁶ Ye Jizhuang, “Zai Waimao Juzhang Huiyi Shang de Zongjie Jianghua (Jilu Gao)” [Concluding Remarks at the Foreign-Trade Bureau Chiefs' Meeting (Transcript)], 14 December 1957, as excerpted in *JJDAMY, 1958-1965*, 4-5.

⁷ *Ibid.*

optimism pervaded his speech and the conference itself. Attendees had much to be proud of at the close of 1957. The ministry was coordinating lively trade relationships with 82 different nations and regions throughout the world.⁸ Increasingly, foreign trade was taking on greater importance in China's larger foreign-policy agenda, according to Chen Yi (陈毅), who went on to become China's foreign minister two months after the conference concluded. "Before, we first conducted diplomacy, and then conducted trade," Chen Yi told conference attendees on December 13. "[N]ow, we want first to conduct trade, and then conduct diplomacy."⁹ Premier Zhou Enlai and Vice-Premier Bo Yibo also dropped in on the conference that day to underscore the increasing importance of trade as a key ingredient of Chinese foreign relations.¹⁰

Working-level trade officials and managers had high hopes for augmenting the importance of China's trade even further. Zhang Ping (张平), general manager and chief executive of China Resources, was convinced that the PRC had ample room to expand into capitalist markets abroad. From his office in Hong Kong, he saw great potential for Chinese exports not just in the colony itself, but also in Singapore and Malaya.¹¹ He shared this optimism with other conference-goers during a speech on the morning of December 10, and argued that China was also perfectly placed to break into new export markets in Canada, Australia, and Africa.¹²

⁸ Ministry of Foreign Trade Leading Party Group, "Guanyu Jinhou Duiwai Maoyi Fazhan Qushi, Renwu, Fangzhen Zhengce he Zhongyao Cuoshi gei Zhongyang de Baogao" [Report to the CCP Central Committee on Future Foreign-Trade Development Trends, Tasks, Policies, and Important Measures], 11 May 1958, in *JDDAMY, 1958-1965*, 11.

⁹ As quoted in Wu Xuexian et al., *Hongse Huarun* (Beijing: Zhonghua, 2010), 284.

¹⁰ Vice Chairman Zhu De (朱德) also attended the conference. *Ibid.*

¹¹ *Ibid.*, 285.

¹² A summary statement of Zhang Ping's remarks can be found in *ibid.*, 285-286.

Despite the “serious weaknesses” Ye Jizhuang referenced, he shared Zhang Ping’s assessment. Influenced by Mao Zedong’s expression just a few weeks earlier that “the East Wind is prevailing over the West Wind,” Ye sensed a deepening crisis within capitalist economies, a dynamic that spelled opportunity for PRC traders.¹³ “We should make full use of this opportune moment,” Ye urged, and “expand our foreign-trade activities.”¹⁴ He proposed thicker commercial ties to the capitalist nations that demonstrated “neutral” foreign-policy tendencies, such as Norway, Finland, Denmark, and Sweden.¹⁵ He also held out hope for improving trade with England, France, and West Germany, the key being to take advantage of the contradictions among capitalist-imperialist nations.¹⁶

The rosy optimism of the December conference aligned perfectly, and not coincidentally, with an emerging new Party line on the subject of political economy. China had arrived at a crossroads in its economic development by late 1957. The First Five-Year Plan (1953-1957) had achieved success by all accounts, but the CCP’s decision to model its economic development agenda after the Soviet Union had created pressing challenges. The classic Stalinist strategy called for massive investments in heavy industry to lay the industrial foundation that would enable China to become a powerful, independent, and modern socialist state. In an overwhelmingly agricultural economy like China’s, CCP economic planners turned to surplus grain as the principal source of large-scale investment. This required heavy extractions—grain

¹³ For Mao’s remarks on the “East Wind prevailing over the West Wind,” see Mao Zedong, speech at Moscow meeting of representatives of Communist and Workers’ Parties, 18 November 1957, in Mao Zedong, *Mao Zedong Wenji, di qi juan* [Collected Works of Mao Zedong, volume 7] (Beijing: Zhonggong Zhongyang Wenxian Yanjiushi, 2009) (hereafter *MZWJ*), 321.

¹⁴ Ye Jizhuang, “Zai Waimao Juzhang Huishang de Zongjie Jianghua (jilu gao)” [Concluding Remarks at the Foreign-Trade Bureau Chiefs’ Meeting (Transcript)], 14 December 1957, in *JJDAMY, 1958-1965*, 3.

¹⁵ *Ibid.*, 4.

¹⁶ *Ibid.*

taxes—from rural areas, which the CCP could earmark for export or funnel into cities to feed a steadily growing urban population. The problem, however, was that not enough “surplus” farm produce existed in 1957. Per capita grain output in China in 1957 stood only at half that of the Soviet Union’s in 1928, when Moscow initiated its first Five-Year Plan.¹⁷ The CCP had to create a grain surplus.

For Chen Yun (陈云) and other top economic planners, the solution lay in reforms that made selective use of material incentives. The Party simply had to induce farmers to produce more by spurring everyday desires. Pay farmers good prices for produce, the thinking went, and stock store shelves with affordable consumer goods, and farmers would throw themselves into agricultural production with renewed vigor. A fatal drawback marred this logic, however. To produce consumer goods, investment would have to be siphoned away from heavy industry, which meant ratcheting back industrial growth targets. This, in turn, rubbed against Mao’s increasing emphasis on unprecedentedly rapid industrialization.

By the fall of 1957, the Chairman was in no mood for half steps. Recent breakthroughs in the socialist world had charged his enthusiasm and shortened his patience.¹⁸ In August 1957, the Soviet Union successfully launched the world’s first intercontinental ballistic missile (ICBM). In October, the Soviets launched Sputnik, the first artificial satellite to orbit the globe. These successes prompted the Soviet leader Nikita Khrushchev to boast in November 1957 that the Soviet Union would surpass the U.S. economy within fifteen years. Not to be outdone, and

¹⁷ Kenneth Lieberthal, “The Great Leap Forward and The Split in the Yan’an Leadership, 1958-1965,” in *The Politics of China: Sixty Years of the People’s Republic of China*, ed. Roderick MacFarquhar (Cambridge: Cambridge University Press, 2011), 93.

¹⁸ Mao’s impatience had grown by 1957, but was not entirely new. As Andrew Walder has pointed out, Mao had long been a forceful advocate for rapid industrialization and economic transformation. Andrew G. Walder, *China Under Mao: A Revolution Derailed* (Cambridge: Harvard University Press, 2015), 124.

caught up in his own euphoria over the possibilities of socialist development, Mao countered Khrushchev's pronouncement by claiming that China would surpass Great Britain in the production of steel and other industrial goods within the same 15-year window.¹⁹

How would China accomplish this feat? By stoking the revolutionary fervor of the Chinese people. The Party would mobilize them to produce more through sheer will alone, an agenda captured by the heady slogan, "more, faster, better, more economical" (*duo kuai hao sheng*, 多快好省). This mantra for speed and scale was not new in late 1957. The People's Daily had used the expression in an editorial during the Chinese New Year in 1956, when the Party exhorted the masses to complete China's First Five-Year Plan ahead of schedule.²⁰ But now, in late 1957, the Party center was revitalizing the slogan after it had been "swept away" (*saodiao*, 扫掉) by "conservative" forces, the likes of which included Chen Yun.²¹

Mao committed the PRC to this supercharged development agenda at the close of the Eighth Central Committee's Third Plenum on October 9, 1957.²² "There are at least two ways of doing things," he explained, "one way is a bit slower, a bit slipshod [*cha*, 差], one is a bit better, a bit faster."²³ Framed this way, and by Mao himself, it was clear which choice the CCP would make. The seductive logic of the "more, faster, better, more economical" campaign was that it

¹⁹ For background on the November 1957 meeting in Moscow where Mao made this claim, see Lorenz M. Luthi, *The Sino-Soviet Split: Cold War in the Communist World* (Princeton: Princeton University Press, 2008), 74-79.

²⁰ Tong Xiaopeng, *Feng Yu Sishi Nian* [Forty Years of Wind and Rain], vol. 2 (Beijing: Zhongyang Wenxian, 1997), 350.

²¹ Mao Zedong, "Zai Ba Jie San Zhong Quanhui Shang de Jiang Hua" [Address at the Third Plenary Session of the Eighth Central Committee], 23 September 1957, *JPA*, 1-13/1-1957.64, 7.

²² Frederick C. Teiwes, "Mao Texts and the Mao of the 1950s," *The Australian Journal of Chinese Affairs* 33 (1995), 144.

²³ Mao Zedong, "Zai Ba Jie San Zhong Quanhui Shang de Jiang Hua" [Address at the Third Plenary Session of the Eighth Central Committee], 09 October 1957, *JPA*, 1-13/1-1957.64, 6.

promised the rapid growth Mao demanded without the politically dubious concessions to material incentives or domestic markets proposed by Chen Yun and other “conservatives.”

Evidence of the new campaign appeared on the front page of the People’s Daily on December 12, 1957, while Ye Jizhuang and his trade colleagues were still at the trade conference in Beijing. An editorial entitled, “[We] Must Adhere to the Construction Policy of More, Faster, Better, More Economical” (*bixu jianchi duo kuai hao sheng de jianshe fangzhen*, 必须坚持多快好省的建设方针) laid out in clear, confident strokes the Party’s vision of rapid growth and expansion. Not coincidentally, the very same spirit of expansionary exuberance seeped into much of the speechifying at the trade conference.²⁴ Mao himself had edited the *People’s Daily* editorial before publication, and in the months that followed, throughout the winter of 1957-1958, the Chairman personally orchestrated a political offensive that cleared the path for “more, faster, better, more economical” enthusiasm to grip the Chinese state and society.²⁵

During the first week of January 1958, at a conference in Hangzhou, a city famed for its mild climate and serene West Lake, Mao lashed out at the “right-deviationist conservative” thinking of those who opposed a “rash advance” (*maojin*, 冒进) in economic development, a none too subtle dig at Chen Yun and others who had advocated a more cautious and balanced approach to development.²⁶ A week later, in the southern city of Nanning, Mao criticized Zhou

²⁴ “Bixu Jianchi Duo Kuai Hao Sheng de Jianshe Fangzhen,” *Renmin Ribao*, 12 December 1957, 1.

²⁵ On Mao’s involvement with the December 12, 1957, People’s Daily editorial, see Tong Xiaopeng, *Feng Yu Sishi Nian*, 355.

²⁶ Tong Xiaopeng, *Feng Yu Sishi Nian*, 355-356. See also Jin Chongji, *Zhou Enlai Zhuan, xia* [A Biography of Zhou Enlai, volume 2] (Beijing: Zhongyang Wenxian, 1998), 1364-1365. Opposition to “rash advance” among top CCP leaders began in the spring of 1956, when excessive capital investment, ballooning costs from wage reforms, rapid increases in the urban work force, overextended credit, and deficit spending prodded Zhou to argue on May 11 that opposition to “rightism” and “conservatism” had gone on long enough. Teiwes and Sun, *China’s Road to Disaster*, 29.

Enlai, Chen Yun, and Politburo member Li Xiannian by name, a then-unprecedented move in elite Party politics.²⁷ By mid-March, Mao had shoehorned the debate over China's development program into a fundamental ideological divide between so-called "anti-rash advance" advocates and his own "rash advance" approach. On March 9, he told attendees at a Party conference in Chengdu, Sichuan province, that the "rash advance" approach he championed was Marxist, and that "anti-rash advance" planning was simply "un-Marxist" (*fei makesi zhuyi de*, 非马克思主义的).²⁸ The stakes over the development debate could not have been higher.

As Mao was quashing opposition to "more, faster, better, more economical" and "rash advance" in early 1958, he was also refining his own views on the relationship between political consciousness and economic development. His emerging perspective on this relationship raised delicate political challenges for the Ministry of Foreign Trade's enthusiastic commitment to expanding trade with the capitalist world. On January 31, 1958, Mao sketched out his thinking on political economy in an internal CCP document, "Sixty Articles on Work Methods" (*Gongzuo Fangfa Liushi Tiao*, 工作方法六十条).²⁹ The two longest and most consequential of the articles came in succession. Article 21 discussed the concept of "continuous revolution" (*buduan geming*, 不断革命). China's revolutions emerge one after another, the Chairman explained.³⁰

²⁷ Frederick C. Teiwes, "Mao Texts and the Mao of the 1950s," 146.

²⁸ Mao Zedong, "Mao Zedong Zhuxi Zai Chengdu Hankou Huiyi Shang de Jianghua (jilu)" [Chairman Mao Zedong's Addresses in Chengdu and Hankou [Wuhan] (transcript)], 09 March 1958, *HPA*, 855-4-1265-3, 2.

²⁹ A published draft of the document can be found in *MZWJ*, vol. 7, 344-364. It remains unclear what prompted Mao to draft this document, but its content resonates with the roughly contemporary conferences in Hangzhou and Nanning. Roderick MacFarquhar speculates that the Sixty Articles were most likely presented at an expanded Politburo meeting, held probably in late January or early February 1958. MacFarquhar, *The Origins of the Cultural Revolution: Vol. 2*, 29.

³⁰ Mao Zedong, "Gongzuo Fangfa Liushi Tiao (Cao'an)" [Sixty Articles on Working Methods (Draft)], 31 January 1958, in *MZWJ*, 349.

Revolution was a perpetual project, and revolutionaries never stood idle. Each new victory in the revolution brought with it new challenges, and Mao understood this successive dynamic to be the lifeblood of the Chinese revolution. The collective motion of interminable revolution produced its own bonds of shared purpose that filled the Party and the masses with fervor and staved off conceit (*jiao'ao*, 骄傲).³¹ With so much momentum, and so much to be done, there was no time to indulge in past triumphs.³²

In more concrete terms, Mao believed China had just entered a “revolution in technology” (*jishu geming*, 技术革命), a key phase that would allow China to surpass British steel production in roughly 15 years.³³ In Article 21 he argued that everyone in China would conscientiously study technology and science. Cadres, too, would have to become proficient in these skills if they were to lead the nation.³⁴ But a balance must be struck. Mao acknowledged that emphasizing technology ran the risk of slighting politics. So, he stressed that the Party and the people “must integrate technology with politics.”³⁵ As he saw it, improvements in technology and advances in technical competency must be fundamentally political processes. This was true individual and collectively. Just as China must industrialize while holding fast to its socialist identity, so too must individual cadres cultivate expertise in science and technology without sacrificing “redness.”

³¹ *Ibid.*, 350.

³² As Stuart Schram has noted, Party writers at the time of the Great Leap Forward explicitly linked the theory of continuous revolution to the new general line of “more, faster, better, more economical.” The phrase offered the most succinct expression of continuous revolution in concrete policy terms. Stuart R. Schram, “Mao Tse-tung and the Theory of the Permanent Revolution, 1958-1969,” *The China Quarterly* 46 (1971), 237-238.

³³ Mao Zedong, “Gongzuo Fangfa Liushi Tiao (Cao'an)” [Sixty Articles on Working Methods (Draft)], 31 January 1958, in *MZWJ*, 350.

³⁴ *Ibid.*

³⁵ *Ibid.*

The Chairman elaborated on the tension between technology and politics in Article 22. “Red and expert” (*hong yu zhuan*, 红与专) embodied a unity of two opposites, he argued. Each depended on the other, and neither could be absent in a successful cadre. The CCP opposed “phony politicians” (*kongtou zhengzhijia*, 空头政治家), he declared, meaning those who lacked technical proficiency.³⁶ But “lost” economic and technical experts, on the other hand, those devoid of political awareness, were “dangerous.”³⁷ Cadres who busied themselves with practical affairs and failed to devote sufficient attention to political thought ran the risk of losing touch with shifting political currents. Lose this, and you squander the soul of the revolution.³⁸

This formulation posed serious challenges for officials throughout the Chinese bureaucracy, particularly for cadres staffing the Ministry of Foreign Trade. Mao was characteristically vague on a number of issues raised by the “unity of opposites” linking redness and expertise. For instance, he explained that it was important for cadres to understand “a little” about technical affairs.³⁹ Understand too much, and political problems arose; too little, and other challenges cropped up. What did this mean in practice? How was one to gauge whether a proper balance had been achieved? Was this balance static, or did it shift over time and in different contexts? What should this balance look like as one performed daily work routines? These were far from abstract philosophical questions for cadres at the Ministry of Foreign Trade, particularly for those who oversaw China’s commercial contact with the capitalist world, where every

³⁶ Ibid., 351.

³⁷ Ibid.

³⁸ Mao refers to ideology and politics as the “commander-in-chief” (*tongshuai*, 统帅) and the “soul” (*linghun*, 灵魂) in Article 22 of his Sixty Articles on Work Methods. See *ibid.* For a detailed discussion of the origins and emergence of the “red and expert” concept, see Richard D. Baum, “‘Red and Expert’: The Politico-Ideological Foundations of China’s Great Leap Forward,” *Asian Survey*, 4.9 (1964): 1048-1057.

³⁹ Mao Zedong, “Gongzuo Fangfa Liushi Tiao (Cao’an)” [Sixty Articles on Working Methods (Draft)], 31 January 1958, in *MZWJ*, 352.

negotiation, every contract, and every transaction carried with it the potential for imbalance, or, just as dangerously, creating the appearance of having sacrificed “redness” to capitalist norms and trade practices.

With these questions unanswered, the General Office of the Central Committee circulated a draft of the Sixty Articles to officials at the central, provincial, and municipal levels on February 8, 1958.⁴⁰ Officials at the Ministry of Foreign Trade also received a copy.⁴¹ Formally, the Central Committee left the door open for trade officials, or anyone else who received the document, to press for clarification or express dissent. The cover letter to the Sixty Articles emphasized that this was a draft version. Recipients had until April 1 to submit proposed revisions.⁴²

But even if cadres at the Ministry of Foreign Trade did harbor concerns about how the Sixty Articles might impact China’s foreign-trade work, which they almost certainly did, they were in no position to take issue with the document in February 1958. For months already, since the summer of 1957, the Ministry of Foreign Trade had been staggering under the pressure of the Anti-Rightist Movement (*fanyou yundong*, 反右运动) precisely for having exhibited views and behaviors inconsistent with political expectations. Less than two months before the General Office distributed the Sixty Articles, on October 23, 1957, the Ministry of Propaganda circulated an internal CCP report that suggested serious to political problems in the halls of the Ministry of

⁴⁰ General Office of the Chinese Communist Party Central Committee, instruction, “Zhongyang Bangongting Guanyu ‘Gongzuo Fangfa Liushi Tiao (Cao’an)’ de Yuedu, Taolun Fanwei he Taolun Fangfa Guiding de Tongzhi” [Central Committee General Office Instruction with Stipulations for the Scope and Discussion Methods for Reading and Discussing ‘Sixty Articles on Working Methods (Draft)'], 08 February 1958, *HPA*, 855-4-1268-38, 1.

⁴¹ The distribution list for the document included central ministry cadres at the level of department head (*buzhang*, 部长) and above. *Ibid.*

⁴² *Ibid.*

Foreign Trade. According to the report, political or ideological problems within the workforce had led to the dismissal of 188 cadres from the ministry.⁴³

“[S]erious rightist sentiments” (*yanzhong youqing qingxu*, 严重右倾情绪) had cost 78 cadres their positions, and 86 officials had been sacked because they exhibited “serious individualism” (*yanzhong geren zhuyi*, 严重个人主义), shorthand for general selfishness or materialism, a crime that illustrated the perils of efforts by Chen Yun and others to incorporate material incentives into China’s planned economy.⁴⁴ By February 1958, those who had survived the purges at the ministry had little incentive to push against the grain and ample reason to align with the emerging GLF political winds.

The chance to showcase solidarity came in the form of a “high tide of rectification” (*zhenggai gaochao*, 整改高潮) that began to sweep through China’s state bureaucracies in the early months of 1958. The new campaign became known as the Double-Anti Movement (*shuangfan yundong*, 双反运动) because it aimed to boost production by opposing waste and conservative thinking. The *People’s Daily* touted the campaign as a “free airing of views,” which suggested an organic, spontaneous spirit behind the movement.⁴⁵ In truth, it was a surrogate for

⁴³ Ministry of Foreign Trade, “Waimao Bu Dui Dangnei Cuoshi Sixiang de Fenxi” [Ministry of Foreign Trade Analysis of Internal Party Erroneous Thought] in Central Ministry of Propaganda, ed., *Xuanjiao Dongtai* [The Kinetic Energy of Propaganda and Education], *zongce* 313 *qi*, 29 October 1957, *HPA*, HB864-2-430, 7.

⁴⁴ Other officials lost their jobs because of malfeasance, “sleeping around” (*luangao nan-nv guanxi*, 乱搞男女关系), “hedonism” (*tantu xiangshou*, 贪图享受), “degenerate” behavior (*tuihua bianzhi*, 蜕化变质), political passivity and failing to seek progress, and political apathy. *Ibid.*

⁴⁵ “Fan Langfei Fan Baoshou Shi Dangqian Zhengfeng Yundong de Zhongxin Renwu” [Anti-Waste, Anti-Conservatism is the Central Task of the Current Rectification Movement], *People’s Daily*, 11 February 1958, 1.

Mao's "more, faster, better, more economical" concept, with anti-conservatism standing in for "more" and "better" and anti-waste a proxy for "better" and "more economical."

By early March 1958, the Ministry of Foreign Trade had surrendered itself completely to the Double-Anti Movement. At the ministry's training institute in Beijing, students plastered the campus with big-character posters (*dazi bao*, 大字报), over 1,600 of them, denouncing waste and criticizing conservative thoughts.⁴⁶ Excerpts from some of these posters soon began to appear in the trade journal of the State Planning Commission, *Economic Planning (jihua jingji, 计划经济)*.⁴⁷ The curriculum at the training institute began to shift as well. Since it first opened its doors in August 1954, the institute had focused on training cadres in the practical aspects of foreign trade. Instructors taught trade economics, for example, and foreign languages.⁴⁸ Now, political training began to intrude on the curriculum. The institute's senior education office reported that instructors wanted to achieve a "great leap forward" in the existing training program by assigning more homework and demanding high quality studies.⁴⁹ But students instead were turning to extracurricular activities, like writing big-character posters and eliminating the "four pests," which distracted them from the formal coursework.⁵⁰

⁴⁶ Higher Education Office, "Waomao Xueyuan Shuangfan Yundong de Yixie Qingkuang" [Certain Circumstances in the Institute of Foreign Trade Double-Anti Movement], in Central Ministry of Propaganda, ed., *Xuanjiao Dongtai, zongce 365 qi*, 13 March 1958, HPA, HB864-2-440, 3.

⁴⁷ "Fan Langfei Fan Baoshou Dazibao JiJijin" [Collection of Big-Character Posters [Concerning] Anti-Waste, Anti-Conservatism], Guojia Jihua Weiyuanhui, *Jihua Jingji* 4 (1958), 28.

⁴⁸ British Broadcasting Corporation (BBC) Monitoring Report, "Setting up of an Institute of Foreign Trade in Peking," 31 August 1954, TNA, FO 371, 110279, FC1126/1.

⁴⁹ Higher Education Office, "Waomao Xueyuan Shuangfan Yundong de Yixie Qingkuang," 4.

⁵⁰ In early 1958 Mao presided over a national public health campaign that aimed to eliminate the "four pests": mosquitoes, flies, rats, and sparrows. For background on the campaign, see MacFarquhar, *The Origins of the Cultural Revolution: Vol. 2, The Great Leap Forward, 1958-1960*, 21-24; and Judith Shapiro, *Mao's War Against Nature: Politics and the Environment in Revolutionary China* (Cambridge: Cambridge University Press, 2001), 86-89.

The ministry remained committed to demonstrating an enthusiastic embrace of the Double-Anti Movement, but the divergent views of the faculty and students brought the practical and institutional challenges of “red and expert” into sharp relief. More was at stake than pedagogy. The question of how to allocate time and resources when training new trade officials touched on a fundamentally political question: how red should China’s trade experts be, and how expert? The institute’s Party Committee cautiously sought middle ground between students and faculty while adhering to the spirit of the Double-Anti Movement. It cut by six hours the amount of time reserved each week for “self-study” and reserved 10 hours per week for students to engage in “rectification and reform” (*zhenggai*, 整改) activities.⁵¹ To address the faculty’s commitment to a great curricular leap forward, the Party Committee set aside two hours every morning and evening for coursework and studies.⁵²

The training institute could pare down the technical curriculum only so far, however, given the mounting expectations for China to achieve major foreign-trade breakthroughs in the coming years, particularly in trade with the capitalist world. In February 1958, the ministry’s leadership adopted the slogan “[achieve] large-scale imports and exports” (*dajin dachu*, 大进大出), which captured the aggressively expansionist spirit of Mao’s “more” and “faster” concept but left off any mention of the supposedly counterbalancing “better” and “more economical.”⁵³ Achieving vastly expanded trade volume required marrying technical skills and expertise to the

⁵¹ Before these adjustments, students spent 22 hours per week on self-study. Afterward, they spent only 16. Higher Education Office, “Waomao Xueyuan Shuangfan Yundong de Yixie Qingkuang,” 4.

⁵² Students also spent 18 hours in class each week, six hours on various types of “labor” (*laodong*, 劳动), and four hours on other Party and Communist Youth League activities (*dangtuan huodong*, 党团活动). Ibid.

⁵³ See *JJDAMY, 1958-1965*, 2.

cause of Great Leap expansionism, a fact not lost on the Ministry of Foreign Trade's senior leadership.

In early February 1958, the ministry began to articulate how its trade experts might accomplish these objectives. Increasing contact and understanding was vital. “[We] must dispatch capable cadres overseas to operate, to immerse themselves energetically in markets, [and] to strive to strike deals on the spot,” explained a February 3 reference document sent to directors of various foreign-trade bureaus.⁵⁴ This included dispatching small groups abroad to “knock on doors” and drum up business in capitalist enclaves.⁵⁵ Ministry leaders also stressed the importance of establishing business “strongholds” (*judian*, 据点).⁵⁶ Cadres already posted abroad in embassy-based commercial offices were expected to delve into the particulars of their host nation's economic environment. Reports on economic trends, foreign currency developments, and policy shifts should flow in from abroad to the ministry's home offices and to state trade firms, the document explained.⁵⁷

All of this required delving more deeply into the finer points of international capitalist commerce. Only by developing a thorough understanding of markets abroad, paradoxically enough, could the Ministry of Foreign Trade accomplish the rapid growth envisioned by the Great Leap Forward. On the surface, these proposals were hardly new. Any of the cadres reading the February 3 reference document would have been quite familiar with these goals. The

⁵⁴ Ministry of Foreign Trade, “Quanguo Waimao Juzhang Huiyi Cankao Wenjian zhi Si: Guqi Geming Ganjin wei Wancheng Yijiu Wuba Nian dui Zibenzhuyi Guojia Chukou Liuyi dao Qiyi Meiyuan de Guangrong Renwu er Nuli (jielu)” [Nationwide Foreign-Trade Bureau Directors Conference Document No. 4: Muster the Motivation to Strive to Complete the Glorious Mission of Exporting U.S. \$600-700 million to Capitalist Nations in 1958 (excerpt)], 03 February 1958, in *JDDAMY, 1958-1965*, 397.

⁵⁵ *Ibid.*, 401.

⁵⁶ *Ibid.*

⁵⁷ *Ibid.*, 402.

ministry had intoned them before.⁵⁸ Anyone who had attended the December 1957 trade conference in Beijing certainly would have recognized them as well. The difference in early spring 1958, however, lay in the fact that these objectives had been hitched to the new scale and urgency of “more, faster, better, more economical.” In other words, the Ministry of Foreign Trade had begun to reconcile itself with the political and intellectual precepts of the Great Leap Forward. In this connection, established ministry objectives took on new meaning, new energy, and soon enough, new flaws.

III. A Bold Leap

On a cloudy Monday afternoon, May 5, 1958, the Party’s leading luminaries filed into the Hall of Embracing Compassion, the CCP headquarters inside the walled compound of *Zhongnanhai* in central Beijing. They were there to convene the second session of the Eighth Party Congress, a highly scripted three-week affair meant to set the tone and direction of Party work in the months ahead. Foremost on the agenda was the need to canonize Mao’s GLF thinking on political economy. During the opening proceedings, Liu Shaoqi (刘少奇) read a Central Committee work report that formally established a new general line: go all out; aim high; more, better, faster, more economical (*guzu ganjing, lizheng shangyou, duokuai haosheng*, 股钻劲, 力争上游, 多快好省).⁵⁹

With this breathless slogan in place, the CCP leadership set out next to demonstrate that all of China’s top economic policymakers stood behind the new general line. One by one, the Party’s senior-most economic leaders took center stage to admit and repudiate past “anti-rash”

⁵⁸ See Chapter 5, “From Geneva to Guangzhou: Commerce in the Making of Peaceful Coexistence, 1954-1957.”

⁵⁹ Jin, *Zhou Enlai Zhuan*, xia, 1390.

views. Zhou Enlai had already accepted responsibility for his own “anti-rash” inclination earlier in the spring. On March 25, during the Chengdu Conference, he had admitted to having “thrown cold water” on the gathering productive zeal of the masses between 1956 and 1957. He had erroneously embraced a policy of “less, slower, worse, and wasteful,” the premier confessed in Chengdu, instead of “more, faster, better, and more economical.”⁶⁰ This admission was a start, but Mao expected more.

At the hall of Embracing Compassion in May, Zhou again recounted his “anti-rash” mistakes. His speech was simply a review and self-criticism (*jiantao*, 检讨) of past errors, he told his secretary beforehand, because the Party had already raised and criticized his “anti-rash” thinking earlier in the year.⁶¹ But this made little difference in the tone and impact of Zhou’s remarks, which still had the ring of an untempered *mea culpa*. In front of the CCP leadership, Zhou recited Mao’s argument: “when undertaking socialist construction, there are two methods: one is to do it a bit faster and better; the other is to do it a bit slower and worse.”⁶² He admitted to having stumbled down the wrong path. “As regards the anti-‘rash advance’ mistake,” he confessed, “I have a share [of responsibility].”⁶³ Zhou’s was just one among many such self-criticisms at the Party congress. Bo Yibo’s was unequivocal. “The 1956 anti-‘rash advance’

⁶⁰ Ibid., 1383.

⁶¹ Fan Ruoyu, *Zai Zhou Enlai Shenbian de Rizi Li* [Daily Life at Zhou Enlai’s Side] (Nanjing: Jiangsu Renmin, 1984), 45-46.

⁶² Zhou Enlai, speech, “Zai Zhongguo Gongchandang Di Ba Jie Quanguo Daibiao Dahui Di Er Ci Huiyi Shang de Fayan” [Remarks at the Second Session of the Eighth National Congress of the Chinese Communist Party], May 1958, *HPA*, 855-18-543-3, 2.

⁶³ Zhou’s actual statement was, “对于反 ‘冒进’ 的错误我是有份的。” Ibid.

[stance] was entirely a mistake,” he conceded, “a fundamental policy error.” “I also am responsible.”⁶⁴ Chen Yun offered a similar confession.⁶⁵ So did Li Xiannian.⁶⁶

This string of confessions established fully and firmly the Party’s unified embrace of the new general line. By renouncing earlier “conservative” approaches to economic planning, the leadership left little top cover for any potential opposition to the new line during the spring of 1958. All of this lessened any prospect for resistance to the emerging GLF from within the Ministry of Foreign Trade.

Minister of Foreign Trade Ye Jizhuang witnessed this pageant as it unfolded. He was in the audience, there to brief senior leaders on developments and trends in China’s foreign-trade agenda, but also to demonstrate that he had aligned his ministry with the new general line, a task he accomplished with subtle sophistication by grafting longstanding ministry policy onto the emerging new line. Since its founding in 1952, the Ministry of Foreign Trade relied primarily on metrics of growth—trade volumes, tallies of trade partners, contract counts—to account for its successes, an ethos that resonated with the concept of “more, faster, better, more economical.”⁶⁷

Ye stressed this overlapping emphasis on expansion when it was his turn to address the leadership. To claim a greater share of global trade, he explained, Chinese exporters would have

⁶⁴ Bo Yibo, speech, “Bo Yibo Tongzhi de Fayan” [Comrade Bo Yibo’s Remarks], May 1958, *HPA*, 855-18-543-4, 2.

⁶⁵ “[A]s regards the anti-‘rash advance’ [movement,] that fundamental policy error,” Chen Yun explained, “I have the primary responsibility.” Chen Yun, speech, “Zai Zhongguo Gongchandang Di Ba Jie Quanguo Daibiao Dahui Di Er Ci Huiyi Shang de Fayan” [Remarks at the Second Session of the Eighth National Congress of the Chinese Communist Party], 21 May 1958, *HPA*, 855-18-543-1, 4.

⁶⁶ “The anti-‘rash-advance’ error brought considerably large losses in [economic] work, and here I am responsible,” Li admitted. Li Xiannian, speech, “Guanyu Caizheng Gongzuo Ruhe Zhixing Duo Kuai Hao Sheng Fangzhen de Wenti” [On the Issue of How Financial Work Can Implement the Policy of More, Faster, Better, More Economical], May 1958, *HPA*, 855-18-543-5, 3.

⁶⁷ See Chapter 5, “From Geneva to Guangzhou: Commerce in the Making of Peaceful Coexistence, 1954-1957,” 181.

to heed existing patterns and practices in foreign markets. Domestic producers must heed the desires of foreign consumers in everything from packaging to product quality if Chinese products hoped to gain greater market share abroad.⁶⁸ This was particularly true of China's trade with foreign capitalists, whom Ye expected to play a key role in expanding China's foreign-trade volume. After all, he pointed out, global capitalist trade in 1956 amounted to U.S. \$186.37 billion; of this, China's share only accounted for U.S. \$1.03 billion, or 0.55 percent.⁶⁹ China had plenty of headroom for growth, in other words.

Much of this had the ring of Ye's briefings from years past. He explained that he saw great potential for expanding trade in the months and years ahead, as he usually did in formal addresses. The reasons for his optimism—looming crises in capitalist economies, for instance, or the inevitable crumbling of the U.S.-led embargo against China—also fit the pre-GLF mold of expansionist Ministry of Foreign Trade briefings.⁷⁰ But Ye also departed from the pre-GLF orthodoxy script in key ways.

Most noticeably, he rooted much of his analysis in the concepts of the new general line. “In a global situation where the East Wind continues to prevail over the West Wind,” he told the audience, “the world standing of the United States and other imperialists nations will continue to weaken.”⁷¹ CCP officials had been making virtually identical statements about the economic

⁶⁸ Ye Jizhuang, remarks, “Guanyu Duiwai Maoyi Fazhan Wenti” [On Issues in the Development of Foreign Trade], May 1958, *HPA*, 855-543-11, 10.

⁶⁹ *Ibid.*, 6.

⁷⁰ *Ibid.*

⁷¹ *Ibid.* Ye references the “East Wind prevailing over the West Wind” elsewhere in his speech. See *ibid.*, 5.

prospects of the capitalist world since the mid-1950s, but Ye now invoked the discourse of Great Leap winds to make this point.⁷²

He also turned to the logic of the new general line to discuss changes in the ministry's leadership practices. The time had come for leading cadres at the Ministry of Foreign Trade to reconsider the balance between red and expert, Ye proposed. He explained that ministry leaders would henceforth place greater emphasis on political work. "Overall, in the past few years, we have generally paid attention to the leadership of political thought," he explained, "but this is still not enough."⁷³ Ministry officials needed to do more to guard against a tendency to separate red from expert. "From today forward, the leaders of the [Ministry of Foreign Trade] Leading Party Group must achieve seven parts politics, three parts professional work; [they must] overcome the pathology of excessive practical professional matters [and] minimal discussion of ideological principles," he declared.⁷⁴ The daily routine of the ministry's cadres would also shift, just as it had at the ministry's training institute. Party Group meetings would devote 70 percent of their time to discussing politics and 30 percent to practical work matters.⁷⁵ Leading cadres would devote more time each day to political reflection, and would be required to spend at least one hour every day reading political materials.⁷⁶

Ye also proposed institutional reform as a means for aligning the ministry with the new general line. Specifically, decentralization figured as an important theme in his remarks. Mao

⁷² In October 1954, for example, Zhou Enlai argued that the capitalist world was "old," riddled with contradictions, and dying. Zhou Enlai, "Nihelu Fanghua Qian Zhou Zongli Guanyu Waijiao Wenti de Baogao" [Premier Zhou Enlai's Report on Diplomatic Issues on the Eve of Nehru's Visit to the People's Republic of China], 18 October 1954, *FPA*, quanzong 101, mulu 5, juanzong 542, 1.

⁷³ Ye Jizhuang, "Guanyu Duiwai Maoyi Fazhan Wenti," 7.

⁷⁴ *Ibid.*, 7-8.

⁷⁵ *Ibid.*, 8.

⁷⁶ *Ibid.*

had raised the question of how much to centralize authority within state and Party institutions two years earlier, in April 1956, during his address, “On the Ten Great Relationships.” “In short,” he told the CCP leadership then, “when centralization is possible and necessary, [we must] centralize[;] when centralization is not possible or necessary, do not force centralization.”⁷⁷ This imprecise dictum represented Mao’s effort to carve out space for lower level officials to contribute their own initiatives to governance and growth in China. “Central authorities must take care to bring into play the initiative of the provinces and municipalities,” he demanded.⁷⁸ By mid-1958, the Chairman’s growing distaste for bureaucratic centralism and his faith in grassroots initiative had worked their way into the logic of the new general line.

Ye Jizhuang incorporated this spirit of decentralization into his remarks. In a move that would come to haunt him before the year was out, he proposed several decentralization measures at the Ministry of Foreign Trade. The organization of export production, purchasing and pricing of domestic goods intended for export, product processing, packaging, storage, and shipping—all of these responsibilities should transfer from the center to localities, he urged. Local authorities should also take responsibility for funds. They should conduct their own accounting and pass profits up to higher levels as appropriate. Foreign exchange earnings should remain at the local level. Ye went so far as to propose that leaders at the provincial, municipal, and autonomous region levels draw up their own import and export plans and their own trade balances, and then report these up to the State Economic Council and the Ministry of Foreign Trade; then, based on

⁷⁷ Mao Zedong, “Lun Shi Da Guanxi” [On the Ten Major Relationships], 25 April 1956, in *MZWJ*, vol. 7, 33.

⁷⁸ *Ibid.*, 32.

the domestic and international situation, they should carry out a unified, synthesized, balanced trade plan.⁷⁹

Unity remained central to foreign-trade work, Ye cautioned. This was not a call for wholesale decentralization within the Ministry of Foreign Trade. He stressed that the ministry must take particular care to maintain a united front when entering transactions with foreign counterparts. Officials at the central Ministry of Foreign Trade would retain sole responsibility for negotiating trade deals with foreign counterparts, both capitalist and communist.⁸⁰ This point of continuity notwithstanding, Ye's proposed decentralization plan marked a significant break from the ministry's longstanding commitment to tight, centralized control, an impulse with roots that stretched back to the founding of the People's Republic.⁸¹

Ye's remarks reflected months of internal reviews and discussions about the future of the Ministry of Foreign Trade and China's foreign-trade agenda. The Ministry's Leading Party Group had convened over 20 meetings since the Nanning Conference in January 1958 to reflect on past work and to discuss future trends, roles, and policies in the context of the emerging GLF.⁸² On May 11, 1958, while the CCP elite were still convened in the Hall of Embracing Compassion, the Ministry of Foreign Trade submitted a detailed, comprehensive report to the Central Committee that fleshed out Ye's proposals in greater detail.⁸³ The report amounted to an action plan for how the ministry would bring itself fully into line with the CCP's new

⁷⁹ Ye Jizhuang, "Guanyu Duiwai Maoyi Fazhan Wenti," 12-13.

⁸⁰ *Ibid.*, 13.

⁸¹ See Chapter 3, "Closing the Open Door," especially 72-83.

⁸² Ministry of Foreign Trade Leading Party Group, report, "Duiwai Maoyi Bu Dangzu Guanyu Jinhou Duiwai Maoyi Fazhan Qushi, Renwu, Fangzhen Zhengce he Zhongyao Cuoshi Gei Zhongyang de Baogao" [Ministry of Foreign Trade Leading Party Group Report to Central Authorities on Future Foreign-Trade Trends, Tasks, Policies, and Important Measures], 11 May 1958, in *JJDAMY, 1958-1965*, 11.

⁸³ A draft of the document can be found in *JJDAMY, 1958-1965*, 11-17.

expansionist general line. For trade officials working at the Ministry of Foreign Trade, this marked the full arrival of the Great Leap Forward.

Outside observers soon began to detect signs that the People's Republic of China was gearing up for a substantial expansion of foreign trade. China watchers noticed infrastructure projects on the mainland during the spring of 1958 that portended a major uptick in cargo traffic. In mid-April 1958, analysts at Jardine, Matheson & Company estimated that Chinese workers would soon finish work on a deep-water wharf at the former French colonial possession of Zhanjiang, in southern Guangdong province, some 250 miles southwest of Hong Kong. The project would transform this small fishing port into a modern, mechanized facility capable of handling 46 million tons of cargo annually, the analysts predicted.⁸⁴ Similar projects were nearing completion in Guangzhou and in Tianjin.⁸⁵ In Shanghai, China's largest port, work was underway to increase the city's port capacity to handle nearly 2.4 million tons of additional cargo each year.⁸⁶

Foreign press and diplomatic reporting contributed to the sense that the PRC was pushing for an expanded role in international markets. On March 29, 1958, the *Washington Post* reported that a PRC trade mission had signed deals worth U.S. \$12 million while visiting France, including contracts for five locomotives, hydroelectric machinery, and patent rights to manufacture French-type railroad engines.⁸⁷ On April 12, Jardine, Matheson & Company reported in its confidential *China Trade Bulletin* that China's export promotion efforts had

⁸⁴ U.S. Embassy (The Hague) to Department of State (Washington), "Trade with Communist China," 18 April 1958, p. 7, *USNA*, RG 59, Far East Trade, Box 2047, File 493.00/3-355.

⁸⁵ *Ibid.*, 6-7.

⁸⁶ *Ibid.*, 7.

⁸⁷ "China Gives France \$12 Million Order," *Washington Post*, 30 March 1958, A12.

gained so much momentum that it “has now become a drive.”⁸⁸ British diplomats reported from Beijing that China’s export corporations appeared “ready to seize any opportunity to increase, or diversify, China’s exports.”⁸⁹

This “drive” ran into few legal hurdles in the capitalist world because most of Western Europe had abandoned the U.S.-led multilateral embargo effort against China a year earlier, in May 1957.⁹⁰ The world’s largest market, however, remained largely off limits. U.S. treasury regulations, issued under the imprimatur of the Trading with The Enemy Act of 1917, still barred Americans from most forms of trade and trade-related financing with the People’s Republic.⁹¹ But cracks began to emerge in this barrier, too, in the spring of 1958.

On April 1, 1958, the *New York Times* reported that China Resources had purchased 45,000 tons of wheat from the Canadian subsidiary of an unnamed U.S. firm.⁹² The U.S. \$2.25 million deal quickly caused a stir in the United States. U.S. exporters began to wonder whether the American embargo also precluded foreign-based subsidiaries of U.S. firms from trading with the PRC.⁹³ If not, these subsidiaries might offer an indirect route for American firms into the

⁸⁸ Jardine, Matheson & Company, “China Trade Bulletin,” no. 32, 12 April 1958, p. 1, *USNA*, RG 59, Far East Trade, Box 2047, File 493.00/3-355.

⁸⁹ British Embassy (Beijing) to Foreign Office (Far Eastern Department), “Peking Economic Report No. 3,” 26 March 1958, p. 2, *TNA*, FO 371, 133392, FC1101/3.

⁹⁰ For more on this development, see Chapter 5, “From Geneva to Guangzhou: Commerce in the Making of Peaceful Coexistence, 1954-1957,” 190-191.

⁹¹ These U.S. Treasury regulations did not prohibit all trade with the PRC. American businesspeople and firms could engage in certain specified types of commerce provided they first secured a license from the U.S. Department of the Treasury. See Memorandum from the Assistant Secretary of Commerce (Kearns) to the Chairman of the Council on Foreign Economic Policy (Randall), “Review of Foreign Assets Control Regulations and Their Effect on American-owned Subsidiaries and Other Foreign Firms,” 07 July 1958, *FRUS*, 1958-1960: Foreign Economic Policy, vol. IV (Washington, DC: U.S. Government Printing Office, 1958-1960), 720-721.

⁹² Tillman Durdin, “Red China Buying Canadian Wheat,” *New York Times*, 01 April 1958, 11.

⁹³ This question surfaced in several other cases during the spring of 1958. According to an internal memorandum prepared by Assistant Secretary of Commerce for International Affairs

mainland China market. In July, following a summit in Ottawa between President Dwight D. Eisenhower and Canadian Prime Minister John Diefenbaker, the U.S. Commerce Department announced that automobiles and other “nonstrategic” goods could indeed be exported to the People’s Republic by subsidiaries of U.S. firms if Canadian authorities approved.⁹⁴ As the *Los Angeles Times* put it in a Saturday morning headline on July 12, this decision represented “A Break in the Chinese Trade Wall.”⁹⁵

Many U.S. firms hoped so. The very next Monday morning, July 14, the president of Chrysler Canada told the press that his company was prepared to accept *any* order for automobiles or trucks, provided it adhered to government policy. Not to be left out, a senior representative at Ford Canada explained that his company was also amenable to trading with mainland China, so long as it did not run afoul of U.S. or Canadian law.⁹⁶ Other companies soon began to probe for opportunities. On September 3, 1958, the Export Division of the Studebaker-Packard Corporation wrote discreetly to the U.S. Embassy in Ottawa for details on how to use its Canadian car factories to break into the mainland China market while sticking to the letter and

Henry Kearns, the issue had come up in exchanges with Ford of Canada; Ford of England; Quaker Oats of Canada; American Cyanamid of Canada; the Canadian subsidiary of Joy Manufacturing; Robin Hood Flour Mills of Montreal, a subsidiary of International Milling Company; Cargill Company; and International Harvester Company. See Memorandum from the Assistant Secretary of Commerce (Kearns) to the Chairman of the Council on Foreign Economic Policy (Randall), “Review of Foreign Assets Control Regulations and Their Effect on American-owned Subsidiaries and Other Foreign Firms,” 07 July 1958, in *FRUS*, 1958-1960: Foreign Economic Policy, vol. IV, 722.

⁹⁴ Secretary of Commerce Sinclair Weeks announced the decision during a news conference in Washington on July 10, 1958. “U.S. May Ease China Trade Ban,” *Baltimore Sun*, 11 July 1958, 1.

⁹⁵ “A Break in the Chinese Trade Wall,” *Los Angeles Times*, 12 July 1958, B4.

⁹⁶ “Canadian Units of U.S. Auto Makers Willing to Sell to Red China,” *Wall Street Journal*, 14 July 1958, 20.

spirit of U.S. law.⁹⁷ On September 22, the New York office of Scandinavian Airlines System (SAS) wrote to the State Department to inquire about selling transport planes produced by Douglas Aircraft to buyers in the People's Republic.⁹⁸

As prospects brightened for trade with North America, Beijing's export drive also seemed to be making headway with capitalist markets closer to home. On March 5, 1958, the China Committee for the Promotion of International Trade (CCPIT) signed the PRC's fourth long-term bilateral trade agreement with Japanese non-governmental organizations.⁹⁹ As an economic venture, the new deal had much to offer. The draft agreement called for U.S. \$196 million in total bilateral trade for the coming year, U.S. \$98 million in each direction.¹⁰⁰ Leaders in Tokyo, including Prime Minister Nobusuke Kishi, saw the prospect of nearly U.S. \$100 million in exports as a timely opportunity for shoring up Japan's trade balances. The nation had run up a U.S. \$20 million deficit with the PRC the year before, in addition to a deficit of over U.S. \$1 billion with its largest trade partner, the United States.¹⁰¹

China's Ministry of Foreign Trade also thought the deal a grand economic bargain. Japanese markets remained a keystone in the ministry's expansive trade agenda. Just a month earlier, on February 3, 1958, ministry leaders had urged the nation's foreign-trade bureau

⁹⁷ Dewey W. Smith to U.S. Embassy Ottawa, letter, 03 September 1958, p. 1, *USNA*, RG 59, Far East Trade, Box 2051, File 493.119/1-1758.

⁹⁸ Memorandum of Conversation, "U.S. Policy toward the Export of U.S. Origin Transport Aircraft to Communist China," 22 September 1958, p. 1, *USNA*, RG 59, Far East Trade, Box 2051, File 493.119/1-1758.

⁹⁹ The CCPIT signed the deal with the Japan Association for the Promotion of International Trade (JAPIT), the Diet Members' League for the Promotion of Sino-Japanese Trade, and the Japan-China Importers and Exporters Association (JCIEA). Amy King, *China-Japan Relations after World War II: Empire, Industry, and War, 1949-1971* (Cambridge: Cambridge University Press, 2016), 187.

¹⁰⁰ See *ibid.*, and "Tokyo Approves Red China Trade," *New York Times*, 10 April 1958, 3.

¹⁰¹ Jerome Alan Cohen, *The Dynamics of China's Foreign Relations* (Cambridge, MA: East Asian Research Center, Harvard University; Distributed by Harvard University Press, 1970), 44.

directors to “vigorously expand trade with Japan” (*dali jiaqiang duiri maoyi*, 大力加强对日贸易).¹⁰² The ministry noted that Japanese producers exported many of the industrial goods China needed most, like ammonium sulfate to produce fertilizer, rayon, steel plating, and nonferrous metals. By the same token, Chinese soybeans, rice, cashmere, and coal had a ready market in Japan.¹⁰³ The text and terms of the bilateral agreement perfectly captured this mutual complementarity.¹⁰⁴

In no sense, however, did these breakthroughs in capitalist commerce signify a diminution of the CCP’s commitment to its own political and ideological prerogatives. For the Chinese Communist Party, capitalist trade remained a fraught political proposition. Negotiations leading to the March 1958 Sino-Japanese trade deal had dragged on for months, since September 1957, far longer than anyone had expected. Behind the delays lay disagreements over politically symbolic protocols and rights stemming from the establishment of reciprocal trade missions in Tokyo and Beijing.¹⁰⁵ Particularly nettlesome to negotiators was the issue of whether, and under what legal pretense, the Chinese trade office in Tokyo would be permitted to fly the PRC national flag.¹⁰⁶

¹⁰² Ministry of Foreign Trade, “Quanguo Waimao Juzhang Huiyi Cankao Wenjian zhi Si: Guqi Geming Ganjin wei Wancheng Yijiu Wuba Nian dui Zibenzhuyi Guojia Chukou Liuyi dao Qiyi Meiyuan de Guangrong Renwu er Nuli (jielu)” [Nationwide Foreign-Trade Bureau Directors Conference Document No. 4: Muster the Motivation to Strive to Complete the Glorious Mission of Exporting U.S. \$600-700 million to Capitalist Nations in 1958 (excerpt)], 03 February 1958, in *JJDAMY, 1958-1965*, 400.

¹⁰³ *Ibid.*

¹⁰⁴ For a list of the agreement’s proposed Chinese and Japanese exports, see Jardine, Matheson & Company, “China Trade Bulletin,” no. 32, 12 April 1958, p. 1-2, *USNA*, RG 59, Far East Trade, Box 2047, File 493.00/3-355.

¹⁰⁵ Kurt Werner Radtke, *China’s Relations with Japan, 1945-1983: The Role of Liao Chengzhi* (Manchester and New York: Manchester University Press, 1990), 123-124.

¹⁰⁶ Many of the disagreements that cropped up during the negotiations had roots stretching back to the third Sino-Japanese trade agreement, signed in 1955. These included Beijing’s demand for a formal, intergovernmental bilateral trade agreement, a signed payments agreement between the

Politics continued to plague the fourth Sino-Japanese trade agreement after the deal was signed. In Taipei, opposition to the deal was swift and fierce. Particularly galling to KMT officials was a memorandum attached to the Sino-Japanese agreement that provided for, among other quasi-diplomatic courtesies, the right of the PRC trade mission in Tokyo to fly the PRC national flag on its building.¹⁰⁷ On March 12, 1958, an editorial in the KMT's official newspaper, the *Central Daily News* (*Zhongyang Ribao*, 中央日报), worried that the agreement represented a stepping stone toward formal diplomatic relations between Tokyo and Beijing.¹⁰⁸ The next day, the Nationalist government discontinued a trade conference with Japanese visitors (already underway in Taipei, awkwardly enough) to await Tokyo's clarification of the matter.¹⁰⁹ Taipei officials then raised the stakes by suspending all commercial negotiations and contracts with Japan and calling on supporters at home and abroad to boycott Japanese goods.¹¹⁰

U.S. Secretary of State John Foster Dulles arrived in Taipei for an official visit amidst this firestorm. On the evening of March 14, Chiang Kai-shek told Dulles and the U.S. ambassador in Taipei, Everett F. Drumright, that the general situation in Japan was developing badly. He expressed fear that Japan had charted a "neutralist" course, a none-too-subtle intimation that the Kishi government had begun to stray from the capitalist camp.¹¹¹ Chiang also

Chinese and Japanese state banks, the reciprocal establishment of permanent trade missions endowed with formal diplomatic immunity, a formal end to Japan's trade embargo against China, and an end to the fingerprinting of Chinese trade officials who intended to stay in Japan for longer than two months. See Gene T. Hsiao, *The Foreign Trade of China: Policy, Law, and Practice* (Berkeley: University of California Press, 1977), 42.

¹⁰⁷ The substance of the memorandum is discussed in Hsiao, *The Foreign Trade of China*, 45.

¹⁰⁸ "The Two Sides of Chinese Communist-Japanese Trade," *Zhongyang Ribao* (Taipei), March 12, 1958, 2; as cited in Hsiao, *The Foreign Trade of China*, 46.

¹⁰⁹ Hsiao, *The Foreign Trade of China*, 46.

¹¹⁰ *Ibid.*

¹¹¹ Memorandum of Conversation, "Exchange of Views," 14 March 1958, in *FRUS*, 1958-1960: China, vol. 19, 9-10.

assessed that the communist regime in Beijing was facing pronounced economic and fiscal difficulties.¹¹² Under the circumstances, a nearly U.S. \$200 million Sino-Japanese trade deal seemed to offer the CCP a lifeline.

Taipei's objections were only part of the problem. In April, CCP officials began to stoke the political significance of the agreement as well. At an April 1 opening for an exhibition of Japanese goods in Wuhan, Hubei province, Vice Chairman of CCPIT Lei Renmin told his audience that the Japanese government had tried to sabotage the agreement and decried the meddling of the U.S. and KMT governments.¹¹³ On April 4, Lei announced that Beijing was suspending plans to send an advance team of trade representatives to Japan as called for by the agreement. Still at the expo in Wuhan, he told Chinese and Japanese journalists that the Kishi government had no plans to recognize the right of the Chinese mission to fly the PRC flag in Japan. It made little sense to send the group, he reasoned, until Tokyo clarified its position. He also announced that plans to hold Chinese expos in Fukuoka and Nagoya later in the year were now on ice.¹¹⁴

Kishi scrambled to salvage the agreement from sinking irretrievably into cross-strait politics. On April 9, he issued a statement expressing support for the trade agreement, but also underscoring that Japan would not officially recognize the CCP regime in Beijing.¹¹⁵ Japan's Foreign Minister Aichiro Fujiyama reiterated separately that any flying of a national flag by the PRC trade mission in Tokyo "will not be recognized as a right, but will be protected under the

¹¹² Ibid., 10.

¹¹³ Wu Xuewen and Wang Junyan, eds., *Liao Chengzhi yu Riben* [Liao Chengzhi and Japan] (Beijing: Zhonggong Dangshi, 2007), 253.

¹¹⁴ Tillman Durdin, "Red Chinese Halt Mission to Japan," *New York Times*, 05 April 1958, 3.

¹¹⁵ "Tokyo Approves Red China Trade," *New York Times*, 10 April 1958, 3.

domestic laws of Japan.”¹¹⁶ Placated, the KMT accepted Tokyo’s position and resumed normal commercial relations with Japan.¹¹⁷ Chiang had the political reassurance he wanted. Beijing did not.

On April 13, the head of the CCPIT, Nan Hanchen (南汉宸), condemned Tokyo’s statements. He reiterated Lei Renmin’s earlier accusation that the Japanese government was colluding with the U.S. and the KMT to sabotage the trade agreement.¹¹⁸ “Although the Japanese Government has done everything possible to resort to sophistry in the reply [i.e. its official response to the draft agreement], it cannot succeed in hiding its intention to throw the fourth Sino-Japanese trade agreement overboard,” the *New York Times* quoted from Nan’s statement.¹¹⁹ Beijing radio took aim at Kishi personally, accusing him of “collusion” with the U.S. and Chiang and denouncing the leadership in Tokyo as “two-faced.”¹²⁰

Any hope of salvaging the Sino-Japanese agreement evaporated on May 2, 1958, when two young men strode into the Hamaya Department Store in Nagasaki, where the Japan-China Friendship Association was hosting a postage stamp and papercutting exhibition, and tore down one of the PRC national flags on display.¹²¹ This public desecration enraged the CCP leadership in Beijing. Liao Chengzhi, a long-time Japan specialist then serving as deputy director of the State Council’s Foreign Affairs Office, was reportedly beside himself with anger.¹²² When he briefed Zhou Enlai and Foreign Minister Chen Yi on the matter, Liao recommended that the

¹¹⁶ As quoted in *ibid.*

¹¹⁷ Hsiao, *The Foreign Trade of China*, 48.

¹¹⁸ Greg MacGregor, “Red China Spurns Tokyo Trade Pact,” *New York Times*, 14 April 1958, 1.

¹¹⁹ *Ibid.*, 3.

¹²⁰ *Ibid.*

¹²¹ Hsiao, *The Foreign Trade of China*, 49.

¹²² Wu Xuewen and Wang Junyan, eds., *Liao Chengzhi yu Riben*, 257.

Party leadership strike back hard.¹²³ On May 10, they did. Beijing suspended all trade with Japan. The Ministry of Foreign Trade would no longer issue import or export licenses for trade with Japan, and major Japanese firms involved in the China trade received cables from Shanghai informing them that their contracts had all been canceled.¹²⁴

The leadership at the Ministry of Foreign Trade expressed solidarity with these measures. The flag incident in Nagasaki transpired just three days before the opening of the second session of the Eighth Party Congress on May 5, leaving Minister of Foreign Trade Ye Jizhuang no choice but to address the issue explicitly in his report to the Central Committee during the session. On the one hand, China must trade with Japan, Ye argued. Continued commerce fostered friendly relations between the people of the two countries, he explained. It also helped to wean Japan slowly from its economic reliance on the United States.¹²⁵ On the other hand, he continued, trade must always serve political struggle.¹²⁶ While this may have been a truism in the hallways of the Ministry of Foreign Trade, it nonetheless bore repeating in the context of the ministry's ongoing efforts to recalibrate its own internal balance between "red and expert" and to bring itself into accord with the new general line. Even if Ye had private reservations about the rashness of severing all bilateral trade with Japan, this was hardly the time to take a nuanced stance. The Ministry of Foreign Trade had been through too much political tumult during the recent Double-Anti campaign. So, Ye was unequivocal on the matter: Central Committee's decision to suspend trade with Japan was "completely correct," he declared.¹²⁷

¹²³ Ibid.

¹²⁴ "Red China Bars Trade with Japan," *New York Herald Tribune*, 11 May 1958, 9.

¹²⁵ Ye Jizhuang, remarks, "Guanyu Duiwai Maoyi Fazhan Wenti" [On Issues in the Development of Foreign Trade], May 1958, *HPA*, 855-543-11, 12.

¹²⁶ Ibid.

¹²⁷ Ibid.

Many outside observers saw the severity of Beijing's reaction as a case of the CCP simply placing political principle above commercial gains. Saionji Kinkazu held this view. A long-time China hand, Saionji argued that Beijing's reaction to the flag incident reflected simmering frustrations over Prime Minister Kishi's pro-Taiwan stance.¹²⁸ He also noted that anti-Japan sentiment remained high on the Chinese mainland just 13 short years after the end of Japanese occupation. Moreover, he pointed out, the CCP had not only permitted Japanese trade missions to fly the Japanese national flag at recent trade exhibitions in Wuhan and Guangzhou, they had also assigned People's Liberation Army soldiers to guard the flag.¹²⁹

But newly available internal CCP documentation suggests that the CCP's response to the Nagasaki flag incident was more nuanced than a simple choice of politics over commerce. In October 1957, just as talks were getting underway for the fourth Sino-Japanese trade agreement in Beijing, the CCP Investigation Department (*Zhonggong Zhongyang Diaocha Bu*, 中共中央调查部) concluded in an internal report for the Central Committee that the Japanese government was facing fierce economic headwinds. Japan was grappling with challenges to its market share in the United States, the report explained, and Tokyo was dealing with a foreign currency crisis. As a result, the Kishi government was "eager and anxious" (*jiyu*, 急于) to expand trade with China.¹³⁰

¹²⁸ For Saionji's views on the causes and context of the flag incident, see Itoh, *Pioneers of Sino-Japanese Relations*, 109.

¹²⁹ Ibid.

¹³⁰ Zhonggong Zhongyang Diaocha Bu, "Zuijin Riben Zhengfu Dui ZhongRi Maoyi he ZhongRi Maoyi Tanpan de Taidu" [The Japanese Government's Recent Attitude toward Sino-Japanese Trade and Sino-Japanese Trade Talks], *Diaocha Ziliao* no. 43, 10 October 1957, *HPA*, D5-5-1, 1-2.

Similar internal assessments reiterated this point in the months that followed.¹³¹ On April 26, 1958, the Investigation Department assessed that the Japanese government's hopes for a greater share of the China market would only increase with time.¹³² The logic of this internal CCP narrative gave the upper hand to Beijing when it came to bilateral commercial relations. It also created the possibility that the PRC could have its cake and eat it too: it could take a principled stand on the flag incident with sufficient confidence that, sooner or later, Prime Minister Kishi would diffuse the tension unilaterally because he was so desperate for a solution to Japan's economic woes.

For months after the Nagasaki flag incident, internal CCP reporting underscored the wisdom of cutting off trade with Japan. On June 4, a CCP analysis reported that Japanese officials and members of the governing Liberal Democratic Party (LDP) seemed “anxious” (*danxin*, 担心) that the bilateral break in trade would become a long-term affair.¹³³ On June 12, another report claimed that Japanese had become anxious that capitalist traders from Western Europe would take advantage of Japan's absence to strengthen their positions in the China market. In early June, this report noted, these anxieties had prompted the Japanese Ministry of

¹³¹ See, for example, Zhonggong Zhongyang Diaocha Bu, “Ribei Jingji Jinkuang Ji Zhongri Maoyi Quxiang” [Recent Developments in the Japanese Economy and Sino-Japanese Trade Trends], *Diaocha Ziliao* no. 7, 28 February 1958, *HPA*, D5-5-2, 1-4. This report was also circulated as a Central Committee conference document. The circular bears the same date and title as the original report, is labeled Conference Document Number 44, and can be found in the Hebei Provincial Archive, 855-18-566-8.

¹³² Zhonggong Zhongyang Diaocha Bu, “Ribei Jingji Shuaitui de Fazhang Qushi Ji Qi Yingxiang” [Development Trends in the Decline of Japan's Economy and Their Effects] *Diaocha Ziliao* no. 11, 26 April 1958, *HPA*, D5-5-2, 1.

¹³³ Qingbao Jianxun Bianweihui, “Ribei Dui Wo Zuijin Duri Zhengce de Yixie Neimu Fanying” [Some Insider Reactions in Japan to Our Recent Policies Toward Japan], *Qingbao Jianxun* no. 22, 04 June 1958, *HPA*, D5-4-1, 1.

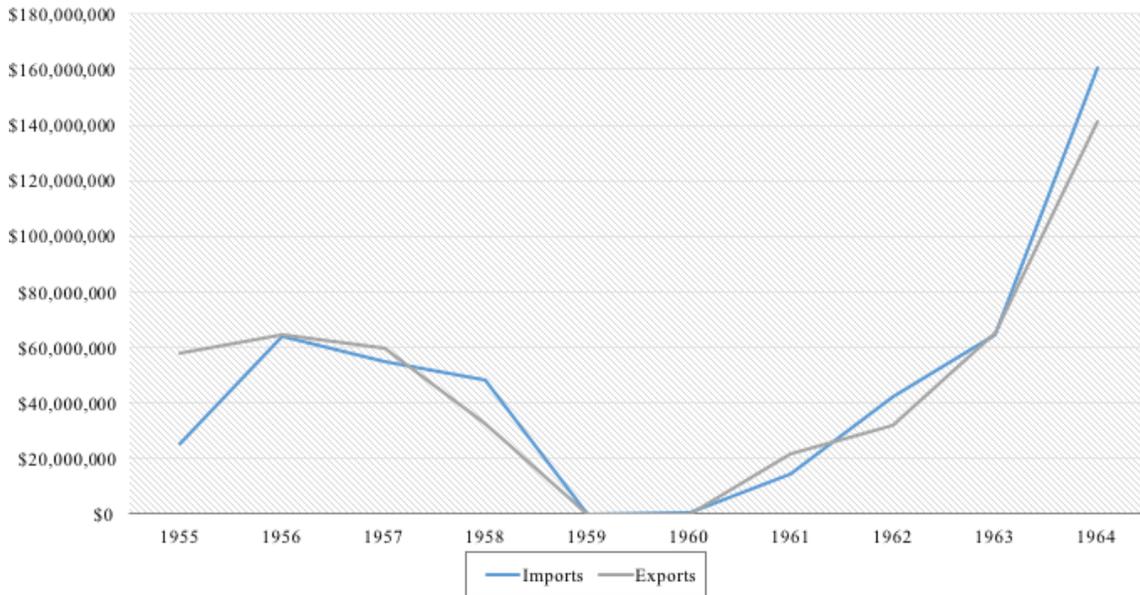
Foreign Affairs to instruct its diplomats in England and France to sound out local counterparts on their trade positions and plans in the PRC.¹³⁴

All of this suggested to policymakers in Beijing that China had the upper hand in the dispute, that Japan was eager—eager, even—to restore normal trade relations with China, and that it was likely just a matter of time until the Kishi government displayed sufficient contrition for its handling of the flag incident. These assessments resonated with the larger sense of confidence, bordering on hubris, that had been thickening the air in Beijing since the fall, when the “East Wind” had begun prevailing over the “West Wind.” With time and history on the Party’s side, why not punish Japan in the short term? Given Tokyo’s presumed desperation to resume trading, the flag incident offered a golden opportunity for the leadership in Beijing not to champion politics *over* trade, but rather to pursue politics *through* trade, and trade through politics. In the near term, this strategy called for applying commercial leverage, which the ministry did with dramatic flair. Sino-Japanese trade plummeted (see Figure 6.1), and did not begin to recover until the early 1960s.¹³⁵

¹³⁴ Qingbao Jianxun Bianweihui, “Ribei Jiji Tanxun YingFa Dui Woguo Maoyi de Taidu” [Japan Actively Makes Inquiries in England and France Regarding Attitudes Toward Trade with China], *Qingbao Jianxun* no. 25, 12 June 1958, *HPA*, D5-4-11, 1.

¹³⁵ While Figure 6.1, drawn from Chinese statistics, suggests that Sino-Japanese trade ceased entirely from 1959 to 1960, Japanese sources indicate that a meager amount of bilateral trade, such as Chinese imports of industrial chemicals and synthetic products, did manage to squeeze through during these lean years. For example, see Japan External Trade Organization (JETRO), *Chū-Nichi Bōeki Geppō* [Sino-Japanese Trade Monthly Report] 1964 (No. 11), Table 1, 20-21, and JETRO, *Chū-Nichi Bōeki Geppō* [Sino-Japanese Trade Monthly Report] 1965 (No. 6), Table IV, 10, JETRO Business Library and Archive, Tokyo, Japan.

Figure 6.1: Sino-Japanese Trade, 1955-1960



*Source: Dangdai Zhongguo Congshu Bianji Bu, Dangdai Zhongguo Duiwai Maoyi, xia (Beijing: Dangdai Zhongguo, 1992), Appendix 3, 371. Figures in U.S. dollars.

IV. A Great Unraveling

The CCP's commercial confidence seemed well founded in the spring of 1958, when the Great Leap Forward was still a campaign of latent possibilities. But as the Leap evolved from inspiration to perspiration over the summer months, the Chinese trade officials responsible for applying “more, faster, better, more economical” to international capitalist markets found themselves facing two complex challenges, one stemming from the GLF's push for decentralization, the other from a growing zeal for ramping up trade volume.

Structural problems associated with the decentralization impulse of the Leap made their way onto the agenda of the leadership's annual summer conference at the seaside resort of Beidaihe (北戴河), just a half-day's train ride from Beijing. The top items for discussion during the August 1958 conclave included industrial production and people's communes, but mounting concerns over decentralization in foreign-trade work couldn't be ignored. A few weeks before the conference, the Ministry of Foreign Trade's Leading Party Group sent an alarming report to

the Central Committee. The ministry explained that the push for decentralization in trade work had begun to wreak havoc on China's trade with capitalist markets. The report warned that during the first six months of 1958, enthusiastic local officials had placed orders for imports from capitalist markets that would cost a total of U.S. \$94 million, over twice the amount of foreign currency that the ministry had budgeted to localities *for the entire year*.¹³⁶ Even more alarming, the ministry had not yet achieved its export targets for the first half of 1958, which meant foreign exchange earnings had fallen behind schedule. The ministry warned the Central Committee that its holdings of dollars and other hard currencies would dwindle in the third quarter, and if local authorities continued to place orders abroad directly, China would run the risk of defaulting on import contracts.

As a stopgap measure, the leadership at the Ministry of Foreign Trade proposed a moratorium on local import orders from capitalist markets during the third quarter. The ministry also called for a further ramping up of exports in order to generate the revenue needed to make up for the surge in import orders during the first half of the year.¹³⁷ The Central Committee approved these proposals on August 10, 1958, one week before the Beidaihe conference.¹³⁸ But the Party leadership would have to make further adjustments to ensure that similar dislocations did not arise in the future.

On August 15, two days before the opening of the Beidaihe conference, the Central Committee circulated a draft resolution that outlined the decentralization problem and proposed

¹³⁶ The Ministry had budgeted U.S. \$45 million for imports from capitalist markets in 1958. Ministry of Foreign Trade Leading Party Group, "Zai Di San Jidu Difang Zanshi Tingzhi Dui Ziben Zhuyi Guojia Xin de Dinghuo de Qingshi Baogao" [Report Requesting Instructions on Localities Temporarily Ceasing New Orders for Goods from Capitalist Nations during the Third Quarter], 04 August 1958, in *JJDAMY, 1958-1965*, 404.

¹³⁷ Ibid.

¹³⁸ For the Central Committee's formal approval of the ministry's recommendations, see *ibid.*

solutions. In short, the Central Committee asserted that decentralization had to be walked back at the Ministry of Foreign Trade. Since Ye Jizhuang's call for decentralization in May, disunity, and even "chaos" (*hunluan*, 混乱), had crept into China's foreign-trade system.¹³⁹ In certain Chinese ports, for example, local foreign-trade offices were competing with one another for customers and market share rather than cooperating to strengthen China against foreign competitors. Some trade offices undermined national unity by haphazardly inviting foreign businessmen into China for talks or visits. In a few cases, local authorities had gone so far as to circumvent the Ministry of Foreign Trade entirely, negotiating deals directly with overseas capitalists.¹⁴⁰

These brushes with discord touched on the deep and abiding anxiety among senior CCP trade officials that the PRC might slide toward precisely the sort of destructive "free competition" that pervaded the capitalist world and which had plagued commerce in China before "liberation."¹⁴¹ Chaos of this sort threatened serious losses, the Central Committee believed, and not just in a commercial sense. China could also incur political costs from unruly commercial exchanges with capitalists.¹⁴² Trade with foreign capitalists was, after all, a form of political struggle, as Ye had reminded the ministry's leadership during a conference just a few weeks earlier, on July 19, and internal unity was essential to China's victory over imperialism.¹⁴³

¹³⁹ Central Committee, resolution, "Zhonggong Zhongyang Guanyu Duiwai Maoyi Bixu Tongyi Duiwai de Jueding (Cao'an)" [Resolution on the Necessity of Foreign Trade [Work] Unifying [When Facing] Abroad (Draft)], 15 August 1958, *HPA*, 855-18-555-32, 1.

¹⁴⁰ *Ibid.*

¹⁴¹ *Ibid.*

¹⁴² The Central Committee's resolution also bemoaned recent problems in trade with socialist nations, such as work units negotiating deals with trade officials from fraternal nations without approval from central trade authorities. *Ibid.*

¹⁴³ Ye Jizhuang, remarks, "Zai Quanguo Duiwai Maoyi Juzhang Huiyi shang de Jielun" [Concluding Remarks at a Nationwide Meeting of Foreign-Trade Bureau Chiefs] speech, 19 July 1958, in *JJDAMY, 1958-1965*, 21.

The Central Committee proposed a series of measures to ensure that decentralization did not weaken the Ministry of Foreign Trade's tight grip on trade with capitalists. Only the state trading firms operated by the ministry were permitted to negotiate and sign deals with large, monopolistic capitalist firms abroad. As for smaller-scale trade, local officials from various Chinese ports could take the lead in negotiations, provided they operated under the leadership of the ministry and in accordance with a port-by-port division of trade responsibilities that the ministry had worked out ahead of time.¹⁴⁴

Unauthorized dalliances between domestic producers and foreign capitalists had to stop, the Central Committee also decreed. The Ministry of Foreign Trade had to approve any invitation issued to foreign businesspeople to visit the People's Republic, just as all PRC trade missions abroad required ministry approval.¹⁴⁵ In a sign that some would-be dealmakers had resorted to politically dubious techniques for courting business partners, the Central Committee's resolution specifically forbade Party members from offering "free entertainment" to visiting foreign capitalists.¹⁴⁶ Nor could officials deviate from price lists mandated by the central Ministry of Foreign Trade, a technique used by eager traders to poach foreign trade partners from competing PRC exporters.¹⁴⁷ Decentralization would continue, but national unity in trade work was essential. The Central Committee vowed that it would "absolutely not permit" (*juebu rongxu*, 绝不容许) cracks in China's united commercial front.¹⁴⁸

¹⁴⁴ Central Committee, resolution, "Zhonggong Zhongyang Guanyu Duiwai Maoyi Bixu Tongyi Duiwai de Jueding (Cao'an)" [Resolution on the Necessity of Foreign Trade [Work] Unifying [When Facing] Abroad (Draft)], 15 August 1958, *HPA*, 855-18-555-32, 2.

¹⁴⁵ *Ibid.*, 3.

¹⁴⁶ *Ibid.*

¹⁴⁷ *Ibid.*, 2.

¹⁴⁸ *Ibid.*, 1.

But the zeal for “more, faster, better, more economical” foreign trade and the push for decentralization had gathered too much momentum for a single resolution, even from the Central Committee, to curb such practices overnight. China’s trade program continued to unravel into the fall of 1958. On October 15, a banker from Chartered Bank in Shanghai told a British diplomat that he planned to spend his day renewing over 90 letters of credit to cover Chinese exports, all of which were due to expire by the end of the day. The extensions were needed, both the banker and the diplomat knew, because the general confusion and disarray at Chinese ports had produced crippling delays. Trade vessels sometimes arrived in Shanghai two full weeks behind schedule because of logistical snags in north China ports. These very same vessels often encountered additional delays once they arrived in Shanghai, the diplomat reported.¹⁴⁹ This was hardly the picture of careful, controlled, deliberative trade mandated by the Central Committee.

As the Ministry of Foreign Trade’s internal practices unspooled, China’s international commercial and diplomatic agendas seemed to unravel in tandem. In late spring 1958, cheap Chinese sewing machines, typewriters, electric fans, watches, and canned foods began to crowd shop shelves and floor space in Hong Kong and throughout Southeast Asia.¹⁵⁰ Local shoppers undoubtedly appreciated the flood of affordable imports, but many exporters viewed the rapid growth of Chinese exports to Southeast Asia with alarm. Political tension quickly followed. By year’s end, accusations of Chinese “dumping” would become so strident that they earned the Ministry of Foreign Trade sharp rebukes from Premier Zhou Enlai himself.

¹⁴⁹ British Consulate-General, Shanghai (K. G. Ritchie) to the Far Eastern Department, Foreign Office, untitled letter, 15 October 1958, *TNA*, FO 371, 133394, FC 1121/13.

¹⁵⁰ For British reporting on surging PRC exports to Hong Kong and Southeast Asia, see Foreign Office Working Group on Chinese Exports, “Chinese Exports to South East Asia: Memorandum by the Joint Intelligence Bureau with Appendix by the Colonial Office,” 15 October 1958, *TNA*, FO 371, 133394, FC1121/15.

None was more sensitive to the growth of Chinese exports into Southeast Asia than Japanese traders, who kept a keen eye on market trends in the region because it swallowed a full third of Japan's total exports.¹⁵¹ On July 17, 1958, the *Japan Times* reported that a spike in the volume and variety of Chinese exports to Southeast Asia had appeared at the beginning of 1958.¹⁵² Imports into the region from China had been sporadic in the past, the newspaper observed, but it had become continuous in recent months, and the quality of Chinese goods had improved.¹⁵³ More disconcerting were the tactics by which Chinese goods were managing to carve out ever larger shares of local markets.

Allegations of Chinese price dumping were circulating in press reports by early summer 1958. In June and July, Chinese cotton piece goods were selling in markets across Southeast Asia at 1-2 percent below Japanese prices.¹⁵⁴ Other Chinese goods undercut Japanese competitors by as much as 10 to 15 percent.¹⁵⁵ Price differentials appeared to have widened further by early fall. On October 2, Koichi Mishi Katsu, head of the cotton textile section of Dainippon Textiles, reported that China was offering textiles in Southeast Asia at prices roughly 20 percent below those quoted by Japanese manufacturers, and this for textiles of "marginally better" quality, according to Koichi.¹⁵⁶

¹⁵¹ "China Sales Policy Irks Japanese," *Washington Post and Times Herald*, 09 June 1958, A21.

¹⁵² "Red China Intensifies Trade War in Asia: Sato," *Japan Times*, 17 July 1958, 1, as reported in British Embassy (Tokyo) to the Far Eastern Department, Foreign Office, untitled despatch, 21 July 1958, TNA, FO 371, 1333394, FC1121/6.

¹⁵³ Ibid.

¹⁵⁴ "China Sales Policy Irks Japanese," *The Washington Post and Times Herald*, 09 June 1958, A21.

¹⁵⁵ "Red China Intensifies Trade War in Asia: Sato," *Japan Times*, 17 July 1958, 1. See also P. K. Padmanabhan, "Trade War in Asia," *Los Angeles Times*, 03 August 1958, B5.

¹⁵⁶ Koichi was in the region to investigate the effect of Chinese competition on the Japanese market for textiles in Southeast Asia. He reported his findings during a private conversation with a British diplomat in Bangkok, Thailand. See British Embassy (Bangkok) to Far Eastern

Dumping was easy to charge, but tough to prove. For the allegation to stick, competitors would have to demonstrate that China was offering goods at prices either below the price charged for the same goods at home or below the cost of production. Evidence of these tactics would indicate a Chinese intention to drive competitors out of the market, capture their market share, and then raise prices to profitable levels once Chinese producers had cleared the market of competition. But because the People's Republic of China was a command economy, calculating the actual domestic prices for goods and their associated production costs was more art than science. Even if prices and costs could have been calculated satisfactorily, charges of dumping were only part of the story. China's export competitors were encountering other frictions as well.

Some claimed that PRC exports pirated Japanese designs, especially for cotton cloth and ceramics.¹⁵⁷ Others alleged China was freely copying Western patents and designs.¹⁵⁸ Generous financing and payment terms also helped to ease Chinese exports into local markets. In Jakarta, rumors circulated that the Bank of China had offered to advance loans to merchants to cover 70 percent of the cost and freight (C&F) value of goods imported from the People's Republic.¹⁵⁹ Some PRC exporters boasted attractive delayed-payment terms or offered to deliver goods to

Department, Foreign Office, untitled despatch, 02 October 1958, *TNA*, FO 371, 133399, FC11323/2.

¹⁵⁷ "Red China Intensifies Trade War in Asia: Sato," *Japan Times*, 17 July 1958, 1.

¹⁵⁸ U.S. Consulate General (Hong Kong) to Department of State (Washington), despatch, "Conversation with Japan Manager of Bank of Tokyo on Chinese Communist Trade Offensive in Southeast Asia," 14 August 1958, p. 1, *USNA*, RG 84, Hong Kong Classified General Records, Box 24, File 510.1-China, P.R./Japan.

¹⁵⁹ British Embassy (Djakarta) to Far Eastern Department, Foreign Office, untitled despatch, 17 December 1958, *TNA*, FO 371, 133399, FC11323/5. "Cost and freight" refers to transactions in which the seller, in this case a Chinese state company, pays for the shipment of goods to the port of destination—here, Jakarta—and provides the Indonesian buyer with documents necessary to take possession of the goods from the shipper. Under a C&F arrangement, Chinese state exporters would not have to obtain marine insurance against the risk of loss or damage to goods in transit.

Southeast Asian markets without waiting for letters of credit.¹⁶⁰ In Bangkok, a locally based representative of the PRC's China Resources company negotiated attractive deals with ethnic Chinese merchants for mainland goods, and a local bank offered plum credit terms to merchants who agreed not to place orders from other suppliers.¹⁶¹

Some of the frustration in Southeast Asia was sour grapes. Certainly the spat with the PRC over the flag incident in May had predisposed Japanese traders and the press to scrutinize Chinese trade activity for slights, which would add political overtones to any increased market share for China in Japan's traditional trading grounds. But even if these regional tensions grew partially from the natural ebb and flow of international competition, Beijing did nothing to mollify its riled competitors. Instead, it did the opposite.

Party leaders called for ethnic Chinese in Southeast Asia to boycott Japanese goods that summer, explicitly linking commercial trends in the region to the ongoing bilateral tension between China and Japan.¹⁶² These rallying cries fell on deaf ears when they reached Southeast Asian consumers. British diplomatic reporting in October from Vietnam, Laos, Cambodia, Thailand, Burma, the Philippines, and Indonesia all reported scant evidence of local anti-Japanese boycotts.¹⁶³ But the propaganda campaign did roil the nerves of Beijing's neighbors,

¹⁶⁰ P. K. Padmanabhan, "Trade War in Asia," *Los Angeles Times*, 03 August 1958, B5.

¹⁶¹ British Embassy (Bangkok) to Far Eastern Department, Foreign Office, untitled despatch, 02 October 1958, *TNA*, FO 371, 133399, FC11323/2.

¹⁶² Radtke, *China's Relations with Japan, 1945-1983*, note 61, 151. See also Sudhakar Bhat, "Bid to Capture Asian Markets: China Launches Economic War Against Japan," *Times of India*, 14 July 1958, 7; and Walter Briggs, "Tokyo Calm to Threats of Red China," *New York Herald Tribune*, 09 July 1958, 2.

¹⁶³ British Embassy (Saigon) to Far Eastern Department, Foreign Office, untitled despatch, 29 August 1958, *TNA*, FO 371, 133399, FC11323/1A; British Embassy (Vientiane) to Far Eastern Department, Foreign Office, untitled despatch, 22 August 1958, *TNA*, FO 371, 133399, FC11323/1B; British Embassy (Phnom Penh) to Far Eastern Department, Foreign Office, untitled despatch, 30 August 1958, *TNA*, FO 371, 133399, FC11323/1C; British Embassy (Bangkok) to Far Eastern Department, Foreign Office, untitled despatch, 22 September 1958,

contributing to a toxic international environment that seemed to be worsening for the PRC on multiple fronts.

Farther north, Sino-Soviet relations also began to sour noticeably during the spring and summer of 1958.¹⁶⁴ In the span of just a few months, miscommunication between Beijing and Moscow over the construction of a Sino-Soviet naval fleet and the building of a Soviet radio transmitter on Chinese soil contributed to a growing tension in the bilateral relationship.¹⁶⁵ Mao sensed “great-power chauvinism” emanating from Moscow, and on July 22 he unloaded a barrage of vitriol, sarcasm, and condescension on the Soviet ambassador to China, Pavel Yudin.¹⁶⁶ Soviet Premier Nikita Khrushchev arrived in Beijing on July 31 to meet with Mao and clear the air, but the trip rapidly devolved into a tragi-comedy of diplomatic circus work. Mao disparaged and belittled his guest, and by the time Khrushchev left Beijing, relations had not improved.

TNA, FO 371, 133399, FC11323/1D; British Embassy (Rangoon) to the Far Eastern Department, Foreign Office, untitled despatch, 07 October 1958, *TNA*, FO 371, 133399, FC11323/3; British Embassy (Manila) to Far Eastern Department, Foreign Office, untitled despatch, 12 November 1958, *TNA*, FO 371, 133399, FC11324; British Embassy (Djakarta) to Far Eastern Department, Foreign Office, untitled despatch, 17 December 1958, *TNA*, FO 371, 133399, FC11325.

¹⁶⁴ The Sino-Soviet relationship had begun to fray earlier, in February 1956, when Premier Khrushchev launched a “de-Stalinization campaign” by delivering a blistering critique of Stalin and his personality cult during the Twentieth Congress of the Chinese Communist Party of the Soviet Union (CPSU). Moscow had failed to consult Beijing in advance of the speech, which blindsided the visiting PRC delegation to the congress and greatly offended Mao and other CCP leaders. Chen, *Mao’s China and the Cold War*, 64.

¹⁶⁵ Thomas J. Christensen, *Useful Adversaries: Grand Strategy, Domestic Mobilization, and Sino-American Conflict, 1947-1958* (Princeton: Princeton University Press, 1996), 199. For a detailed account of these tensions and their impact on Sino-Soviet relations, see Chen Jian, *Mao’s China and the Cold War*, 72-78.

¹⁶⁶ For the Chinese minutes of this conversation, see “Minutes of Conversation, Mao Zedong and Ambassador Yudin,” 22 July 1958, in Mao Zedong, *Waijiao Wenxuan* [Selected Works of Mao Zedong on Diplomacy] (Beijing: Zhongyang Wenxian, 1994), 322-333.

A few weeks after Khrushchev's visit, Mao ratcheted up tension with the United States and its Nationalist ally in Taiwan. On August 23, under direct orders from Chairman Mao, the People's Liberation Army (PLA) unleashed a barrage of artillery shells on the KMT-occupied island of Jinmen (金門). Within 90 minutes, over 30,000 PLA shells burst upon the tiny island, destroying Nationalist military facilities, killing hundreds of Nationalist troops, and engulfing the Taiwan Strait in tension.¹⁶⁷ Intermittent shelling continued in the weeks that followed, ensuring that tensions remained high until at least mid-October.¹⁶⁸

Scholars have argued convincingly that Mao believed a circumscribed attack on the KMT-controlled islands of Jinmen and Mazu (馬祖), both just a few miles off the mainland coast, would create a beneficial tension for Beijing. Mao believed this tension could serve as a vital catalyst for the Chinese revolution; a military campaign would help to concentrate the masses, mobilize them, and push the Chinese revolution toward greater production, victory over capitalist imperialism, and, ultimately, communist utopia.¹⁶⁹

Useful as this tension may have been for mobilization purposes, it further undermined the Ministry of Foreign Trade's efforts to build on its commercial successes of the mid-1950s. Disruptions in PRC trade, in turn, threatened to undermine the Great Leap Forward and the Chinese revolution itself, as Ye Jizhuang and other top trade officials knew only too well. Zhou Enlai recognized this threat, too, and in late 1958 he intervened to address it.

¹⁶⁷ Gong Li, "Tension across the Taiwan Strait in the 1950s: Chinese Strategy and Tactics," in Robert S. Ross and Jiang Changbin, eds., *Re-Examining the Cold War: U.S.-China Diplomacy, 1954-1973* (Cambridge, MA: Harvard University Asia Center, distributed by Harvard University Press, 2001), 158.

¹⁶⁸ For detailed accounts of the 1958 Taiwan Strait crisis, see Chen Jian, *Mao's China and the Cold War*, 163-204.

¹⁶⁹ Chen Jian, *Mao's China and the Cold War*, 175.

At 10:30 in the morning on November 8, 1958, Zhou convened a meeting with Ye Jizhuang, Foreign Minister Chen Yi, Politburo Member Li Xiannian, and a handful of staff to discuss the subject of international trade. Zhou was upset, and Ye found himself in the hot seat. To Zhou, it seemed like no one in the Ministry of Foreign Trade was minding the fundamentals, as though the Great Leap Forward had simply swept away any semblance of prudence in the ministry's trade work. Three interrelated issues dominated the conversation.

First, Zhou expressed frustration at slack in export procurement work. When asked for an update, Ye explained that the provinces had stepped up their collection efforts for fulfilling export contracts, especially since the Beidaihe conference in August, but problems clearly remained.¹⁷⁰ When Zhou asked how well the ministry was fulfilling its export obligations to capitalist markets, Ye told him the picture was mixed. They would be able to meet the year's overall export targets, he explained, but persistent imbalances remained when it came to bilateral trade and individual products. Ye told Zhou frankly that exports to capitalist markets were not going well; China was also facing shortfalls in 13 different types of products that it owed the Soviet Union, including cement, pork, and poultry.¹⁷¹

This raised a second issue that frustrated Zhou: the possibility that China might renege on contracts. "What's the situation with exports to capitalist markets?" he asked. When told that China likely would only export U.S. \$600 million to the capitalist world instead of the full U.S. \$640 million as planned, Zhou was quick to order that all signed contracts be honored. He had stressed this point before, in July, at a working meeting of Ministry of Foreign Trade officials,

¹⁷⁰ Zhou Enlai, Chen Yi, Li Xiannian, et al., untitled minutes from meeting on foreign-trade work, 08 November 1958, *HPA*, 855-4-1273-6, 1.

¹⁷¹ *Ibid.*, 2.

but he clearly felt the message hadn't sunk in.¹⁷² The issue concerned Zhou enough that he instructed the ministry to compile a list of all export shortfalls, including the quantity of goods promised on signed contracts, how much of each contract had been fulfilled and how much was still owed, which nations were owed, and the provinces and departments that were responsible for providing the goods. Zhou then observed that a national conference of provincial and municipal Party secretaries had recently begun in Zhengzhou. He ordered the Ministry of Foreign Trade to put a cadre and the list of shortfalls on a plane to Zhengzhou, where the cadre could bring these shortfalls directly to the attention of the conferees.¹⁷³

Zhou was deadly serious about honoring these contracts. As he told the meeting attendees, we would “rather ourselves not eat or eat less, not use or use less, than not fulfill contracts already signed.”¹⁷⁴ Chen Yi echoed this view, chiming in at one point that the East German ambassador himself had recently asked for help collecting 1,300 tons of frozen pork before Christmas, part of a trade contract that remained unfulfilled.¹⁷⁵

When Li Xiannian raised the subject of cotton, Zhou launched into a sharp critique of the Ministry of Foreign Trade's recent activities on the global cotton market. Recent figures showed a significant increase in China's cotton exports by year's end, he noted, but revenues from cotton

¹⁷² For Zhou's comments during the July meeting in Shanghai, see *Zhou Enlai Zhuan, xia*, 1417-1418. The Ministry of Foreign Trade had for years committed itself to fulfilling all of its international trade contracts. Failure to do so would damage China's credit (*shi xin*, 失信) and amounted to a violation of the law (*fanfa*, 犯法), neither of which benefited the development of China's foreign trade, the ministry believed. See, for example, Ministry of Foreign Trade, instruction “Guanyu Guoqu Gongzuo Jiben Zongjie Ji Jinhou Gongzuo Zhishi” [Instruction Concerning a Basic Summary of Past and Future Work], August 1953, in Ministry of Foreign Trade General Office, *Zhongyao Wenjian Huibian, 1949 Nian – 1955 Nian* [Compilation of Important Documents, 1949-1955], *HPA*, F752.0-1, 7.

¹⁷³ Zhou Enlai, Chen Yi, Li Xiannian, et al., untitled minutes from meeting on foreign-trade work, 08 November 1958, *HPA*, 855-4-1273-6, 3.

¹⁷⁴ *Ibid.*, 3.

¹⁷⁵ *Ibid.*, 5, 2.

sales were in decline. The reason was obvious, Zhou said: the price of cotton had dropped. The American imperialists engage in price dumping, he declared curtly. Turning to Zhao Zhongde (赵重德), a Ministry of Foreign Trade official, he asked “are you or are you not also dumping?” Zhao hazarded a cautious but honest reply: global cotton markets were not great this year, and prices were down. To export cotton, which served as a vital source of foreign currency, China had to lower its prices. Ultimately, though, this was indeed dumping, he acknowledged.¹⁷⁶

A frustrated Zhou shot back that “this is actually dumping, [and] it has influenced Sino-Indian relations.”¹⁷⁷ India, one of the world’s largest cotton exporters, paid close attention to trends in global cotton prices. Zhou pointed out that the Ministry of Foreign Trade recently *increased* non-plan exports of cotton yarn by 30,000 units, which would have placed additional downward pressure on international cotton prices. “Who approved this?” the premier demanded.¹⁷⁸ Meeting attendees sheepishly explained the rationale behind the decision. China desperately needed foreign currency, they said. China had enjoyed a bumper cotton harvest this year, too, and the Ministry of Foreign Trade faced heavy export responsibilities. Given these considerations, ministry officials did not believe increasing cotton exports would cause major problems, so they never sought more senior approvals outside the ministry.¹⁷⁹ If they had sought advice from outside the ministry, they would have learned that much of China’s cotton production that year had already been spoken for, and that the Ministry of Finance was becoming increasingly concerned that China might actually run out of cotton stock.¹⁸⁰

¹⁷⁶ Ibid., 7.

¹⁷⁷ Ibid.

¹⁷⁸ Ibid.

¹⁷⁹ Ibid., 8.

¹⁸⁰ Ibid.

To Zhou, an only recently reconstructed “anti-rashist,” it seemed that the Great Leap Forward had completely upended the discipline and control that the Ministry of Foreign Trade had developed throughout the 1950s. “The products we export, what we export, how much, where, at what price, all of it [means] we must discuss policy,” the exasperated premier told Chen Yi.¹⁸¹ It was as though everyone had forgotten that trade itself was inherently political. To Zhou, certain forms of commerce, such as dumping and monopolizing markets, lacked socialist virtue. Ironically enough, they violated capitalist norms as well. Rather than stoop to such techniques, he argued, China aspired to a virtuous path (*wangdao*, 王道) in its commercial dealings.¹⁸² This required nuance. Zhou acknowledged that international trade with capitalists was a form of class struggle, but China could not afford to struggle blindly. CCP trade officials had to differentiate among different types of capitalists in order to find a suitable balance that served China’s larger foreign policy-goals. This meant developing firm commercial ties with certain capitalists and avoiding behavior that might undercut these commercial relationships. “We cannot take the ‘leap forward’ spirit and use it as our foreign policy,” Chen Yi piled on, “[and we] especially cannot oversimplify methods.”¹⁸³

Zhou instructed Ye Jizhuang to take this guidance back to the Ministry of Foreign Trade, convene a meeting, and pass it all down the chain.¹⁸⁴ Ye likely shared many of Zhou’s frustrations. Both men had spent years building up a global foreign-trade program for the People’s Republic, and now it was unraveling in front of them. But the problems Zhou identified during the meeting were symptoms, not the disease itself. The spirit of the Great Leap Forward,

¹⁸¹ Ibid.

¹⁸² Ibid., 6.

¹⁸³ Ibid., 10.

¹⁸⁴ Ibid., 11.

with its insistence on rapid expansion, its demand for decentralization, and its prizing of “redness” over expertise—all of it pushed the Ministry of Foreign Trade, an institution already cowed into compliance by the Anti-Rightist and the Double-Anti campaigns, in precisely the opposite direction of the prudence and nuance that Zhou demanded.

Still concerned about the direction of China’s trade, Zhou returned to the subject on the afternoon of November 23, a cool, clear day in Beijing. During a meeting of the central Foreign Affairs Leading Group (*Zhongyang Waishi Xiaozu*, 中央外事小组), he reminded attendees that the foundation of China’s foreign policy was socialism, not capitalism.¹⁸⁵ By extension, socialism also guided China’s foreign-trade agenda. Capitalists chased profits blindly, Zhou explained, whereas socialists proceeded according to political consciousness and careful deliberation. Socialist trade sought to help other nations industrialize, fortify their economic independence, and raise their own political consciousness, thereby shrinking capitalist markets and weakening the world’s imperialist economies.¹⁸⁶ On the surface, socialist trade might appear temporarily to strengthen the capitalist class in developing countries, he acknowledged, but it also strengthened the working class.¹⁸⁷

And yet, despite this clarity of purpose, China’s trade agenda still seemed adrift. Zhou observed that the Ministry of Foreign Trade had recently endured a rectification campaign, that it now rightly “opposed conservative thought,” and that it had decentralized its institutions. All of this had aligned the ministry with the spirit of the Great Leap Forward, but the ministry still struggled to find coherence and direction in carrying out China’s trade mission. What mindset

¹⁸⁵ Zhou Enlai, “Guanyu Duiwai Maoyi Fanzhen Zhengce de Zhishi Jiyao” [Summary Instructions On Foreign-Trade Policy], 23 November 1958, *HPA*, 855-4-1273-8, 1. Chen Yi, Ye Jizhuang, Lei Renmin, and Zhang Wentian also attended the meeting.

¹⁸⁶ *Ibid.*, 2.

¹⁸⁷ *Ibid.*

does the ministry place in command? he mused aloud. The answer remained unclear because the ministry had not yet fully assessed its own policies toward itself, he observed acidly.

Ye Jizhuang and Lei Renmin, both present for the meeting, sat in silence. Neither defended the ministry's untenable position, caught between the aspirations of the Great Leap and the realities of the status quo. Zhou himself had little to offer by way of specifics. He shared the exasperation felt by Ye and Lei, and felt equally torn between the political zeal of the GLF and the need for technocratic pragmatism and stability in statecraft. His criticisms of China's trade that afternoon represented Zhou's own continued search for coherence, for a means to anchor the aspirations of the Leap to the concepts and practices necessary for productive trade with markets abroad.

Zhou continued to wrestle with this challenge, and by late December 1958 his thinking on the subject had congealed into a fourteen-point treatise. He delivered these "opinions" (*yijian*, 意见) in Beijing on the morning of December 23 during a symposium of foreign-trade bureau chiefs. Zhou couched his address in longstanding CCP trade tenets, such as the Party's unwavering commitment to the policy of *zili gengsheng* and the sacrosanct principle of "equality and mutual benefit."¹⁸⁸ But he also put forward several propositions that aimed to instill greater cooperation and order into the Ministry of Foreign Trade's overall agenda.

Zhou repudiated the concept of "commercial war" (*shangzhan*, 商战), a term that had appeared in internal Ministry of Foreign Trade documents concerning China's trade with

¹⁸⁸ Zhou Enlai, remarks, "Jiejian Waimao Bu Kou'an Waimao Juzhang Zuotanhui Daibiao de Jianghua" [Remarks During Meetings with Representatives at a Forum of Ministry of Foreign Trade Port-Level Foreign-Trade Chiefs], 23 December 1958, *HPA*, 855-4-1273-10, 4, 10.

capitalists throughout the 1950s.¹⁸⁹ Instead, he emphasized “peaceful economics” (*heping jingji*, 和平经济) and the peaceful ambitions behind trade with the capitalist world. He also disavowed the slogan “import and export on a larger scale” (*dajin dachu*, 大进大出), which the ministry had adopted only ten months earlier, in February 1958. Zhou argued that such a mindset failed to consider the views and positions of China’s trade partners, an observation prompted almost certainly by the dumping fiasco in Southeast Asia.¹⁹⁰ *Dajin dachu* also ignored “objective laws” (*keguan guilv*, 客观规律), he argued. Foremost among these was that imperialism still existed in the world, an undeniable fact that could not simply be ignored or willed away.¹⁹¹

This assertion brought the discussion right back to the heart of the dispute between Mao and much of the top economic leadership over the nature of political economy in the Chinese context. Could China transform itself through the power of subjective will alone, as Mao had come to believe, or would the weight of concrete realities constrain the speed and scope of China’s economic transformation, as Zhou Enlai, Chen Yun, and other “anti-rash” advocates had argued before Mao and the GLF had steamrolled opposition in the spring? Lest anyone miss this connection between trade and the dispute over political economy, Zhou next argued that the slogan “Great Leap Forward” (大跃进) was also “incorrect” (*budui*, 不对). “Great leaps,” he argued, must also accord with objective realities, and foreign trade cannot jump 40-50 percent in an instant.¹⁹²

¹⁸⁹ Ibid., 1. For past references to “commercial war” in Ministry of Foreign Trade documents, see Li Zheren, report, “*Duiwai Maoyi Bu Gongzuo Huibao*” [Ministry of Foreign Trade Work Report], 21 March 1956, *FPA*, quanzong ziliao, mulu 232, 27.

¹⁹⁰ Zhou Enlai, remarks, “Jiejian Waimao Bu Kou’an Waimao Juzhang Zuotanhui Daibiao de Jianghua” [Remarks During Meetings with Representatives at a Forum of Ministry of Foreign Trade Port-Level Foreign-Trade Chiefs], 23 December 1958, *HPA*, 855-4-1273-10, 6.

¹⁹¹ Ibid.

¹⁹² Ibid.

Ever the conciliator, Zhou tempered this bold assertion by asserting that he still fully embraced the spirit of expansionism in foreign trade. This included trade with the capitalist world. He called for more trade with “peaceful, independent” capitalist nations like Sweden, Switzerland, Finland, and Austria.¹⁹³ In 1957 China bought 1.6 million watches from Switzerland, he told the group. In 1958, it bought only 90,000. This was no good, he said; China wanted to buy more in the future.¹⁹⁴ The PRC would also continue to trade with the imperialist nations, he continued. Imperialists may be unreliable, but they sell quality products.¹⁹⁵

V. New Depths

Zhou’s efforts to recalibrate the relationship between aspirations and realities in late 1958 proved too nuanced for the brute momentum of the GLF. The campaign rolled ahead despite mounting evidence that cooked production figures were funneling into Beijing and that pockets of famine had opened up throughout the countryside.¹⁹⁶ On January 23, 1959, the Ministry of Foreign Trade Leading Party Group responded to Zhou’s call for temperance by requesting permission from Mao and the Central Committee to reduce the overall import and export targets set by the original plan for the year.¹⁹⁷ But the new targets, which the Central Committee

¹⁹³ *Ibid.*, 10-11.

¹⁹⁴ *Ibid.*, 11.

¹⁹⁵ *Ibid.*

¹⁹⁶ Mao Zedong and other top leaders knew of famine conditions caused by Great Leap policies as early as 1958. Jeremy Brown, “Great Leap City: Surviving the Famine in Tianjin,” in Kimberley Ens Manning and Felix Wemheuer, eds., *Eating Bitterness: New Perspectives on China’s Great Leap Forward and Famine*, 227.

¹⁹⁷ Ministry of Foreign Trade Leading Party Group, report, “Guanyu Yijiu Wujiu Nian Jinchukou Huodan Tiaozheng Yijian de Qingshi Baogao” [Report Requesting Instructions on Proposed Adjustments to the 1959 Import and Export Shipping List], 23 January 1959, Hubei Provincial Archive (hereafter *HuPA*), SZ77-01-0058-001.

approved, remained *above* the actual 1958 values by 19 percent and 3 percent, respectively.¹⁹⁸ In a clear sign that even these new targets remained impossibly high, on January 28 the Ministry of Foreign Trade and the Ministry of Food reported problems in procuring rice and edible oils in line with plan targets. The provinces were failing to meet their lowered quotas.¹⁹⁹

Even China's business partners abroad noticed increasing signs of trouble in China's trade position. In February 1959, the U.S. Embassy in Belgrade reported that China had failed to provide additional goods to the Yugoslav government to balance out Beijing's bilateral deficit.²⁰⁰ The PRC also reneged on contracts to ship cotton waste to Great Britain.²⁰¹ Hong Kong imports from mainland China during February 1957 sunk to the lowest monthly total since July 1955.²⁰² In March, Beijing canceled an agreement with Finland to deliver 20,000 tons of sugar because the Ministry of Foreign Trade could not fulfill its end of the deal.²⁰³ West German diplomats in Hong Kong told their American counterparts in late March that Beijing had reneged on a number of major export contracts for bristles, textiles, and other goods.²⁰⁴

¹⁹⁸ *Ibid.*, 2. The Central Committee approved the ministry's request on February 8, 1959.

¹⁹⁹ Central Committee, "Zhonggong Pizhuan Liangshibu Dangzu he Duiwai Maoyibu Dangzu 'Guanyu Dangqian Chukou Dami, Shiyongyou Gonghuo Qingkuang de Baogao'" [Central Committee Endorsement of the [Joint] Ministry of Food Leading Party Group and Ministry of Foreign Trade Leading Party Group Report Concerning the Current Situation in Supplies for Exports of Rice and Edible Oils], 28 January 1959, *HuPA*, SZ1-02-0483-001.

²⁰⁰ U.S. Assistant Secretary of State for Far Eastern Affairs (Robertson) to Hong Kong Consul (Dillon), report, "Growing Dependence of the Chinese Mainland Economy on Free World Imports and Prospective Payments Difficulties," 16 February 1959, p. 1, *USNA*, RG 59, Far East Trade, Box 2047, File 493.00/3-355.

²⁰¹ *Ibid.*

²⁰² U.S. Consulate in Hong Kong (Dillon) to Secretary of State, telegram, 25 March 1959, p. 1, *USNA*, RG 84, Hong Kong Classified General Records, Box 25, File 510.1-Trade Agreements Hong Kong and Other Countries.

²⁰³ O. Edmund Clubb, *Twentieth Century China* (New York: Columbia University Press, 1964), 375.

²⁰⁴ U.S. Consulate in Hong Kong (Steeves) to Secretary of State, telegram, 02 April 1959, p. 1, *USNA*, RG 84, Hong Kong Classified General Records, Box 25, File 510.1-Trade Agreements China, P.R. and Other Countries 1959-60-61.

Internal Ministry of Foreign Trade reports offered candid assessments of these shortcomings throughout the spring and summer of 1959.²⁰⁵ Li Xiannian reflected soberly on the difficulties that continued to plague China's trade agenda during a meeting of trade and finance secretaries on May 12. Certain export quotas simply could not be met, he said. Administrative defects had produced incurable abnormalities in production quotas. The situation was becoming absurd. Regions without a single walnut tree had been ordered to produce walnuts for export.²⁰⁶ Factory-less rural locales had been told to produce industrial goods for export.²⁰⁷

The problems were easy enough to identify, but practicable solutions remained scarce so long as the orthodoxy of the Great Leap Forward kept moderation at bay. In July 1959, during a leadership work conference at the mountain-top retreat of Lushan in northern Jiangxi province, Minister of Defense Peng Dehuai did his best to challenge the reigning orthodoxy. On the afternoon of July 12, the blunt marshal marched to Mao's cottage to speak frankly about the serious problems of the Great Leap, which by now included reports of economic bottlenecks, hasty construction, chaotic communes, wasteful steel drives, mishandled harvests, and, most

²⁰⁵ A ministry report to the Central Committee on March 11, 1959, states baldly that procurement for planned exports during the first quarter of 1959 was "not good." Ministry of Foreign Trade Leading Party Group, report, "Guanyu Zhixing Duiwai Maoyi Jihua Zhong Cunzai Wenti de Qingshi Baogao" [Report Requesting Instructions Concerning Existing Problems in the Implementation of the Foreign-Trade Plan], 11 March 1959, *HuPA*, SZ77-01-0058-004, 2.

²⁰⁶ Li Xiannian, "Zai Quanguo Caimao Shuji Huiyi shang de Zongjie Fayan (jielu)" [Concluding Remarks at a Nationwide Meeting of Finance and Trade Secretaries] 12 May 1959, in *JDDAMY, 1958-1965*, 29.

²⁰⁷ *Ibid.*

troubling of all, famine.²⁰⁸ But Mao's guards turned Marshal Peng away.²⁰⁹ Peng stayed up that night and, fortified by a strong pot of tea, drafted a fateful "letter of opinion" to Mao in which he laid bare his critiques of the Great Leap Forward.²¹⁰

Peng's criticisms enraged Mao when he read them, and by the time the Chairman and the rest of the CCP leadership descended the mountain in August, Peng stood accused of heading an "anti-party clique." More importantly, the rest of the Party leadership had been cowed into submission by the force of Mao's furious response, and the Great Leap Forward had taken on renewed vigor.²¹¹

Hu Qiaomu (胡乔木), who had worked with Mao for twenty years, captured the moment perfectly: "The wind is blowing harder now," he said."²¹² This wind swept through the halls of the Ministry of Foreign Trade, where cadres continued to labor under competing and contradictory policy guidelines.²¹³ Surrender yourselves fully to the exuberance of the Great Leap Forward, the Central Committee commanded of trade officials, but also remain practical and prudent, as Zhou Enlai had ordered. On October 7, 1959, the Central Committee pressed the

²⁰⁸ Li Rui, who personally attended the Lushan conference as Mao's secretary, says Peng tried to visit Mao on the afternoon of July 12. Li Rui, *Lushan Huiyi Shilu* [A True Account of the Lushan Conference] (Hong Kong: Tiandi Tushu, 2015), 117. Lorenz Luthi argues that Peng attempted to visit Mao during the evening of July 12. Luthi, *The Sino-Soviet Split*, 127. Others have argued that Peng visited Mao's Lushan cottage on July 13. See Harrison E. Salisbury, *The New Emperors: China in the Era of Mao and Deng* (Boston: Little, Brown, 1992), 179; and Roderick MacFarquhar, *The Origins of the Cultural Revolution, volume 2*, 213.

²⁰⁹ Luthi, *The Sino-Soviet Split*, 127.

²¹⁰ MacFarquhar, *The Origins of the Cultural Revolution, volume 2*, 213.

²¹¹ The Central Committee passed a resolution during the Eighth Plenum that condemned Peng as the head of an "anti-Party clique" (*fandang jituan*, 反党集团). MacFarquhar, *The Origins of the Cultural Revolution, volume 2*, 234. Peng was also accused of military adventurism, conspiracy with the Soviet Union, organization of a "military club" that had planned a coup, and slander against the revolution. Party propaganda variously referred to him as a warlord, a bourgeois, and exploiter, and a "black general." Salisbury, *The New Emperors*, 181.

²¹² As quoted in Salisbury, *The New Emperors*, 181.

²¹³ Gao, *Lin Haiyun Zhuan*, 355.

ministry to “go all out, do everything it could” to keep the nation’s lofty foreign-trade commitments for the year.²¹⁴ On October 26, the Central Committee and the State Council established a temporary “export office” (*chukou bangongshi*, 出口办公室) to ensure that targets would be met for the year, and put in charge Yao Yilin (姚依林), the veteran Party trade official.²¹⁵

As much as this arrangement demonstrated the Party’s commitment to fulfilling the nation’s foreign contracts and plan targets, it also exposed the inability of the Ministry of Foreign Trade to achieve its own fundamental aims without resorting to ad-hoc emergency measures. So did an urgent instruction on November 4 from the ministry leadership to local offices ordering trade workers to “take emergency action” and declaring a “sixty-day battle” to ensure that China met its export commitments before the year was out.²¹⁶ The almost frantic tone of the order can be explained in part by its motivational aims; it was in part a propaganda piece meant to mobilize working-level trade officials. But the very fact that the Ministry of Foreign Trade had to initiate a

²¹⁴ Central Committee, “Zhongyang Pizhuan Duiwai Maoyi Bu Dangzu ‘Guanyu Jinnian Duiwai Maoyi Shougou, Chukou Jihua Zhixing Qingkuang he Wancheng Quannian Renwu de Yijian de Baogao’” [Central Committee Endorsement of the Ministry of Foreign Trade Leading Party Group’s Recommendation Report Concerning Implementation of This Year’s Foreign-Trade Procurement [and] Export Plan and Completion of Annual Tasks], 07 October 1959, *HPA*, 910-1-27-5, 2.

²¹⁵ The new office was housed with the Finance and Trade Office (*Caimao Bangongshi*, 财贸办公室) of the State Council. Central Committee and the State Council, instruction, “Guanyu Lizheng Wancheng 1959 Nian Duiwai Maoyi de Shougou Renwu he Chukou Renwu de Jinji Zhishi” [Urgent Instruction On Striving to Fulfill 1959 Foreign-Trade Procurement and Export Tasks], 26 October 1959, *HuPA*, SZ77-01-0061-006, 2.

²¹⁶ Ministry of Foreign Trade, directive, “Guanyu Jianjue Guanche ‘Zhonggong Zhongyang, Guowuyuan Guanyu Lizheng Wancheng Jinnian Duiwai Maoyi de Shougou Renwu he Chukou Renwu de Jinji Zhishi’ de Zhishi” [Directive Concerning the Resolute Implementation of “Central Committee and State Council Urgent Instruction On Striving to Fulfill 1959 Foreign-Trade Procurement and Export Tasks”], 04 November 1959, *HuPA*, SZ77-01-0061-004, 1.

crash program to accomplish its basic objectives for the year laid bare the persistent inadequacies of routine trade business in late 1959.

The depth of this dysfunction was on full display when the ministry's foreign-trade bureau heads met in Beijing on November 17, 1959, to discuss trade work for the coming year. From November 19-25, trade officials from 19 different provinces, municipalities, and autonomous regions pitched ideas and requested support for various schemes to expand export production.²¹⁷

Cadres from Guizhou proposed to build a new production base for mercury and sulfur; Qinghai officials wanted to build facilities for producing borax, asbestos, and mercury. Bureau heads from Sichuan, Inner Mongolia, Shanxi, and Liaoning all had similarly grandiose plans for expansion, but little concept of how such projects would be funded or whether these operations would prove profitable. Requests for approvals to import more goods from abroad rolled in just as steadily. Anhui officials asked to import four sets of chemical fertilizer equipment; Jiangsu hoped to import 30 sets.²¹⁸ No one seemed to have any idea where the funding would come from. Lin Haiyun (林海云), co-chair of the meeting alongside Lei Renmin, had to remind officials repeatedly that the nation's foreign currency holdings would remain tight as ever in the year ahead.²¹⁹ But he was swimming against the tide.

Less than a month later, on December 20, 1959, the Ministry of Foreign Trade submitted its plans for 1960 to the Central Committee and Chairman Mao. In true Great-Leap fashion, projections for the coming year remained rosy as ever. The report claimed that "the current

²¹⁷ Gao, *Lin Haiyun Zhuan*, 356.

²¹⁸ *Ibid.*, 357.

²¹⁹ *Ibid.*

situation in foreign trade, like the entire national economy, is quite good.”²²⁰ Some nagging challenges still existed, the report admitted. The United States remained bent on a Cold War, for example, and “Western nations” continued to drum up pretenses for suspicions that justified controls on Beijing’s capitalist-world trade.²²¹ Certain exports might not reach Western markets as a result, the report explained, just as some imports would be difficult to obtain.²²²

Nevertheless, the “East Wind” continued to prevail over the “West Wind,” and the future promised more growth in the days ahead. The ministry planned an 11.7 percent jump in imports from the capitalist world in the year ahead, bringing the total for 1960 to U.S. \$756 million. Exports would leap even higher, 16.7 percent above 1959 levels, to reach U.S. \$700 million.²²³ Naturally, trade with the Soviet Union would remain central to Beijing’s overarching global trade agenda as well.²²⁴

The Central Committee approved the plan on December 26, 1959, once again ordaining the accelerative spirit of the Great Leap. Nineteen-sixty was shaping up to look like more of the same: more struggle to bend expertise to “redness,” more grassroots revolutionary spirit, and more of the “more, faster, better, and more economical” ethos that had convulsed the country from top to bottom for nearly two years despite signs of rashness, recklessness, incoherence, friction, and famine. The Great Leap Forward had uprooted the discipline and control that the Ministry of Foreign Trade had sought to instill in its internal affairs and in China’s foreign

²²⁰ Ministry of Foreign Trade Leading Party Group, report, “Guanyu 1960 Nian Duiwai Maoyi Jihua he Guobie Kongzhi Shuzi de Qingshi Baogao” [Report Requesting Instructions on the 1960 Foreign-Trade Plan and National [Trade] Control Figures], 20 December 1959, *HPA*, 855-18-655-24, 2.

²²¹ *Ibid.*, 9.

²²² *Ibid.*

²²³ *Ibid.*

²²⁴ *Ibid.*, 7.

commercial relationships since the ministry's founding in 1952, with disastrous consequences for the ministry itself and for China's commercial ties to the capitalist world.

No one at the Ministry of Foreign Trade could have foreseen that these developments would soon usher in yet another shift in China's relationship to global capitalism, perhaps the most dramatic yet since the founding of the People's Republic. By the fall of 1960, famine would become so widespread and severe in China that the CCP leadership would have no choice but to take emergency measures, importing thousands of tons of food from the capitalist world to feed millions of starving peasants. The Sino-Soviet relationship would finally buckle, too, and thousands of Soviet technicians would withdraw from China overnight on orders from Moscow. These unanticipated shifts pushed the Chinese Communist Party to dig deeper still into overseas markets, for the sake of China's salvation and its future. This process, in turn, would mark the start of a new era in communist China's relationship to capitalist markets abroad.

CHAPTER 7: TRADING FOR SALVATION AND BEYOND, 1960-1964

I. Cracks in the Foundation

On January 21, 1960, the *New York Times* carved out a few inches of column space on page five to report that the PRC had missed its grain output target for 1959.¹ The news was third-hand. The Hong Kong newspaper *Ta Kung Pao* (大公报) had already reported the shortfall, having gleaned the information from the Chinese Communist Party's own *Red Flag* (红旗) magazine. Despite the disappointing news, the editors at *Red Flag* tried to put a positive gloss on things. The PRC had produced 270 million metric tons of grain in 1959, a full eight percent increase from the previous year, the magazine enthused. Less keen on uncovering a silver lining, the *New York Times* emphasized instead that the PRC's announced grain production figures fell short of the state's announced goal by five million metric tons.²

Curiously enough, despite this acknowledged shortfall, the CCP still managed to collect enough grain not only to meet its export targets for the year, but to *exceed* them. Just a few weeks before the *New York Times* article, the Chinese State Council reported to Chairman Mao and the Central Committee on January 6 that the CCP's last-ditch campaign to achieve the Ministry of Foreign Trade's procurement and export targets for 1959 had met with stirring success in the final days of the year. The State Council boasted that ministry officials had managed to collect 112 percent of the nation's aggregate procurement target for the year, yielding a store large enough for the ministry to export 102 percent of China's total adjusted export target for 1959.³ China's euphoric export drive continued mostly apace in 1959, in other

¹ *New York Times*, "Grain Output in '59 Below China's Goal," 21 January 1960, 5.

² *Ibid.*

³ Li Xiannian Zhuan Bianxie Zu, *Li Xiannian Nianpu, di san juan* [Li Xiannian Chronology, volume 3] (Beijing: Zhongyang Wenxian, 2011), 205. For the text of the report, State Council Office of Finance and Trade, report, "Guanyu Yijiu Wujiu Nian Duiwai Maoyi Shougou Renwu

words, despite clear indications that the farm yields in the nation's vast countryside couldn't keep up.

This subtle disjuncture pointed to a crack in the foundation of the Great Leap Forward. As the months passed, troubling internal CCP reports began to flow into Beijing. Various local grain bureaus, one after another, reported to the Party leadership that national food stocks had declined precipitously in late 1959 and early 1960, and that a potential food crisis was imminent.⁴ In some locales, famine had already arrived.⁵ The bottom was falling out of the Great Leap Forward.

The collapse of the GLF helped to usher in a historic shift in communist China's relationship to global capitalism. Widespread famine at home pushed the Party leadership to look abroad for salvation in 1960, but the sharp break in Sino-Soviet relations during the summer of 1960 left PRC traders with nowhere to turn for grain but capitalist markets. For the first time since the founding of the People's Republic, the bulk of mainland Chinese trade began to turn toward the capitalist world, bringing to a firm and final end the brief predominance of Sino-socialist trade in China's foreign economic agenda.

This chapter will demonstrate how and why, from 1960 to 1964, top trade and diplomatic officials in Beijing collaborated with working-level CCP traders in Hong Kong and throughout

he Chukou Renwu Chao'e Wancheng de Baogao" [Report Regarding Surpassed Completion of Foreign-Trade Procurement and Export Tasks in 1959], 06 January 1960, in *JJDAMY, 1958-1965*, 104-105.

⁴ Li Xiannian Zhuan Bianxie Zu, *Li Xiannian Zhuan, 1949-1992, shang* [A Biography of Li Xiannian, 1949-1992, volume 1] (Beijing: Zhongyang Wenxian, 2009), 467. See also Jin Chongji, ed. *Zhou Enlai Zhuan (xia), 1898-1976* [A Biography of Zhou Enlai, volume 2] (Beijing: Zhongyang Wenxian, 2008), 1391.

⁵ Mass famine had already spread to numerous villages by late 1959. Thomas P. Bernstein, "Mao Zedong and the Famine of 1959-1960: A Study in Willfulness," *The China Quarterly* 186 (2006), 422.

the world in an effort to broaden and stabilize commercial ties to foreign businesspeople, firms, and capitalist governments that CCP cadres had first begun to cultivate in the late 1930s. As this chapter will show, in many ways this effort drew from experiences and techniques already tried and tested by the Ministry of Foreign Trade, China Resources, and other CCP trade institutions. But the new push was also different in key respects. It was more sophisticated, larger, and suffused with a sense of anticipated permanence lacking in earlier capitalist trade.

The context had changed, too. The collapse of the Great Leap Forward undermined Mao's conviction that voluntarism and revolutionary élan alone could transform the Chinese economy overnight. This cleared a path for less quixotic approaches to achieving growth. The simultaneous withering of China's trade ties to the socialist world accentuated this turn and created a more permissive political environment in which Ministry of Foreign Trade officials could lean toward methods of trade that were more conventional in capitalist markets than in socialist ones.

The cumulative effect of these early 1960s developments was to prompt a decisive shift in the way the CCP's trade and diplomatic officials understood China's place within a freewheeling international environment now beset not just by capitalist imperialism, but by Soviet "revisionism" as well. There was a sense that the world was changing, and China had to adapt. For cadres at the Ministry of Foreign Trade and elsewhere in China's trade bureaucracy, this meant ideological refinement, a concerted effort to rationalize once again the shifting global commercial landscape in terms that were intelligible to the Chinese revolution. It also demanded new techniques, particularly in marketing and finance, to get capitalist trade going, and fast. China's future depended on it.

II. A Hard Landing

Anxiety gnawed at Li Xiannian during the winter and spring of 1960. A member of the Politburo and an acknowledged expert on trade and economic affairs by this time, Li was also an inveterate worrier with a healthy sense of fallibility. In 1954, when he first met Mao following his appointment as Minister of Finance, Li blurted out that he wasn't up to the task. He didn't have the right skills, Li told Mao, and he hoped that the Central Committee would consider others for the post.⁶ Mao admonished Li for his hesitation, and Li took the job, but he kept his sober outlook.

As reports of famine flowed into Beijing during the first half of 1960, Li saw clearly the potential for food shortages to unravel the PRC economy. Grain, cotton, edible oils, meat, and vegetables were the foundation of stable markets, he told colleagues during a February speech to trade and finance officials.⁷ Without these essentials, the people would be left with nothing to eat and nothing to wear, hardly a stable foundation for continued economic growth.

Li took his concern straight to the top early in the year. He informed Mao personally on January 13 that some provincial reports suggested between 10 and 20 percent of rural people's communes were facing food shortages.⁸ A month later, on February 18, he reported to Mao and

⁶ This vignette was recounted by Huang Da (黄达), who served as Li Xiannian's personal secretary from 1953 to 1964. Gao Yuanrong and Liu Xueli, "Li Xiannian: Gongheguo Ershiliu Nian de Fu Zongli—Jinian Li Xiannian Danchen Yibai Zhou Nian Fangtan Lu" [Li Xiannian: Twenty-Six-Year Vice Premier of the Republic—Interviews to Commemorate the 100th Anniversary of Li Xiannian's Birth], *Zhonggong Dangshi Yanjiu* 2009 (06), 103.

⁷ Li Xiannian, speech, "Li Xiannian Tongzhi Zai Quanguo Caimao Shuji Huiyi Shang de Zongjie Fayan" [Comrade Li Xiannian's Concluding Remarks during the National Conference of Finance and Trade [Party] Secretaries], 28 February 1960, *HPA*, 855-5-1805-1, 14.

⁸ Central Committee, "Zhongyang Pizhuan Li Xiannian Tongzhi Guanyu Anpai Nongcun Renmin Shenghuo Wenti he Jixu Kaizhan Aiguo Shou Mian Yundong de Baogao" [Central Committee Endorsement and Distribution of Comrade Li Xiannian's Report on Problems Concerning the Organization of Rural People's Livelihoods and Continued Development of the Patriotic Cotton Sales Campaign], 21 January 1960, as cited in *Li Xiannian Zhuan*, shang, 467.

the Central Committee that several major cities, including Beijing, Tianjin, and Shanghai, lacked adequate grain stocks. Discrete “disaster areas” (*zai qu*, 灾区) also faced serious food shortages, he warned.⁹

In the context of the anti-rightist hysteria that still held sway over state and society in China early in 1960, it took courage to express these concerns directly to Mao and the rest of the leadership. Peng Dehuai’s ignominious fall from grace during the Lushan conference in the summer of 1959 was still freshly imprinted on senior cadres’ minds. This dangerous political environment helps to explain the tepidity of Li’s proposals for resolving his mounting anxiety over food supplies. He called for a coordinated grain-transportation “assault” that would ship food from areas with relatively abundant grain stores to regions in need.¹⁰ Li’s proposal was a step in the right direction, but it left untouched the larger Great Leap framework that had produced the shortfalls in the first place.¹¹ Moreover, Li’s “assault” demonstrated clearly that he still viewed the emerging crisis as a purely domestic affair, a tangle that could be unsnarled with logistical adjustments alone.

Most of the Party’s top leaders agreed at first with Li’s impulse to fiddle at the margins, but by late spring a sense of unease had set in among the Party’s top brass. On June 14, the leadership converged on Shanghai for a five-day expanded Politburo meeting to discuss the final three years of the Party’s Second Five-Year Plan (1958-1962).¹² On the first day of the

⁹ Li Xiannian, report, “Guanyu Kaizhan Jinji Diaoyun Liangshi de Tuji Yundong de Baogao” [Report on the Campaign to Conduct Emergency Food Transfers], 18 February 1960, in Li Xiannian, *Jianguo Yilai Li Xiannian Wengao, di er ce* [Li Xiannian’s Manuscripts Since the Founding of the People’s Republic, volume 2] (Beijing: Zhongyang Wenxian, 2011), 116.

¹⁰ *Ibid.*, 116-117.

¹¹ Droughts in the north and floods in the south certainly exacerbated these shortfalls. Philip Short, *Mao: A Life* (New York: Henry Holt and Company, 1999), 502.

¹² Fang Weizhong and Jin Chongji, eds., *Li Fuchun Zhuan* [A Biography of Li Fuchun (Beijing: Zhongyang Wenxian, 2001), 540.

conference, Mao called for a general cooling off in economic affairs. “[We] can leave a bit more slack,” as he put it.¹³ Zhou Enlai concurred, and suggested that the CCP lower its production targets for grain, cotton, and pork.¹⁴ Decrease the production targets, he reasoned, and the procurement targets drop accordingly, leaving more food in bowls and stomachs throughout the countryside. Liu Shaoqi added his voice to the chorus by stressing that the people must have food in their stomachs if socialist construction was to continue. “[We] must safeguard the barest standards of living,” he reminded his fellow Politburo members on the afternoon of June 17.¹⁵ In truth, by this time the CCP had no choice but to “leave a bit more slack,” as the Party’s economic planning czar Li Fuchun (李富春) made clear when he took the dais in Shanghai.

The publicly announced grain figures for 1959 were bogus, Li told the Politburo. The totals had been inflated. Real grain production for 1959 stood at 240 million metric tons, not the 270 million that had been reported in the press.¹⁶ Unbeknownst to Li at the time, the “real” aggregate grain totals he was reporting were also inflated. As CCP officials would later discover, China had produced only 170 million metric tons of grain in 1959, not nearly enough to feed the population and keep up with export plans.¹⁷

Despite these troubling reports, the Party center nevertheless kept up the pressure on lower-level authorities to ensure that export procurement work remained on track for 1960. The new year was already off to a rocky start. Shaanxi province had met only 74.6 percent of its first-

¹³ Mao Zedong, “Zai Zhonggong Zhongyang Zhengzhi Ju Guangda Huiyi Shang de Jianghua Jilu” (Minutes from Remarks by Mao Zedong During an Expanded Meeting of the Politburo of the CCP Central Committee), 14 June 1960, as quoted in Jin, *Zhou Enlai Zhuan, xia*, 1392.

¹⁴ Jin, *Zhou Enlai Zhuan, xia*, 1393.

¹⁵ “Shanghai Huiyi Jieshu Shi Jianghua Jiyao” [Summary of Shanghai Meeting Concluding Remarks], 17 June 1960, *HPA*, 855-5-1793-5, 1-2.

¹⁶ Fang and Jin, *Li Fuchun Zhuan*, 541.

¹⁷ These aggregate output totals are given (in *jin*, or Chinese catties) in *ibid.* The figures above are based on my own conversions at 2,000 *jin* per metric ton.

quarter aggregate export quota, and even this meager showing obscured far more severe deficiencies of individual products, such as eggs, oil, and poultry—the very types of goods that starving farmers were loath to pack up and ship abroad.¹⁸ On April 10, 1960, the Central Committee urged provincial authorities to put their export programs in order, starting with candid investigations of local procurement practices.¹⁹ The Provincial Party Committee in Shaanxi offered a model for how this process might unfold. Officials there had just completed an internal investigation of export procurement work in the province, a dispiriting endeavor that uncovered shoddy goods and wanton disregard for approved procurement plans, among other serious shortcomings.²⁰

No one at the top doubted that similar problems existed elsewhere. The Ministry of Foreign Trade Party Committee warned on June 3 that imports were outstripping exports. As of May 20, China had exported only 523,000 of the 1.8 million tons of rice that the ministry had committed to exporting, according to the ministry's calculations.²¹ In other words, nearly halfway through the year China had met less than 30 percent of its annual rice export commitments. Shortfalls like these had begun to produce embarrassing and costly effects at the level of individual contracts. For instance, the Polish government had rented two ships outfitted with refrigerated storage in anticipation of receiving frozen pork from China late that spring. When China failed to fulfill its end of the contract, Polish authorities demanded U.S. \$275,000 in compensation for the ship rental, a significant outlay for the CCP at a time when every dollar

¹⁸ Central Committee, “Pizhuan Shaanxi Sheng Wei Guanyu Pubian de Shenru de Jiancha Duiwai Maoyi Shougou Gongzuo de Baogao” [Central Committee Endorsement and Distribution of Shaanxi Provincial Committee Report on General and In-Depth Investigations of Foreign-Trade Procurement Work], 10 April 1960, *JJDAMY, 1958-1965*, 112.

¹⁹ *Ibid.*

²⁰ *Ibid.*

²¹ *Ibid.*, 113.

counted.²² The Ministry of Finance originally expected to have earned roughly U.S. \$65 million by mid-year, but by late June Chinese exports had yielded only U.S. \$25.5 million.²³

While these economic and financial concerns were vexing Li Xiannian and others at the Ministries of Foreign Trade and Finance, clouds continued to gather on China's diplomatic horizon. Tension had been slowly corroding the Sino-Soviet relationship since at least as early as Soviet Premier Nikita Khrushchev's speech denouncing Stalin at the Twentieth Congress of the Communist Party of the Soviet Union (CPSU) in February 1956, but in late 1959 and early 1960 several particularly contentious events tore at the bilateral relationship to such an extent that its integrity could no longer be taken for granted.²⁴

India was one such irritant. In August 1959, after the Dalai Lama fled Tibet for India in March 1959 following Beijing's quashing of a popular Tibetan uprising, limited border clashes erupted between Chinese and Indian troops. Mao could stomach the conflict with India, but he was furious to learn that Moscow claimed neutrality in the quarrel, a position he interpreted as tantamount to betrayal.²⁵

²² Ibid.

²³ Central Committee, "Yijiu Liuling Nian Liu Yue Ershiliu Ri Zhaokai de Dianhua Huiyi – Tan Zhenlin[,] Li Xiannian Tongzhi Jiang Xiashou Xiazhong he Liangshi Diaoyun Wenti Jilu" [Telephone Conference Convened on 26 June 1960 – Comrades Tan Zhenlin and Li Xiannian Discuss the Summer Harvest and Grain Transportation Issues], 26 June 1960, *HPA*, 855-5-1801-5, 18.

²⁴ For a detailed examination of Khrushchev's speech at the Twentieth Congress and its impact, see Lorenz Luthi, *The Sino-Soviet Split: Cold War in the Communist World* (Princeton: Princeton University Press, 2008), 46-79. The CCP's response to Khrushchev's speech is analyzed in Chen Jian, *Mao's China and the Cold War* (Chapel Hill & London: The University of North Carolina Press, 2001), 64-68. Momentum toward de-Stalinization had been building within the socialist bloc for nearly three years by the time of Khrushchev's speech, as Andrew Walder has argued. Still, the sharpness of the Soviet premier's speech sent shockwaves throughout the socialist world. Andrew G. Walder, *China Under Mao: A Revolution Derailed* (Cambridge: Harvard University Press, 2015), 128.

²⁵ Short, *Mao: A Life*, 503. For a detailed account of the causes, consequences, and larger significance of the 1959 Tibetan rebellion, see Chen Jian, "The Tibetan Rebellion of 1959 and

Against this backdrop, during a Warsaw Pact meeting in Moscow in February 1960, representatives from Moscow and Beijing aired their differences in front of other socialist bloc members over the Soviet Union's advocacy of "peaceful coexistence," a policy that stressed disarmament, peaceful decolonization, and economic competition with the capitalist world rather than anti-imperialist struggle and conflict.²⁶ Exchanges became so heated during the meetings that, at one point during a banquet, a drunken Khrushchev cursed Mao personally in the presence of Chinese delegate Kang Sheng (康生). The Soviet premier called Mao a pair of worn-out galoshes; he was "defective," Khrushchev said, "good for nothing."²⁷

The CCP responded a few weeks later with a propaganda broadside. On April 22, the *People's Daily* celebrated Lenin's birthday with a front-page editorial arguing that "peaceful coexistence" was a sham. The article reminded readers that Lenin himself maintained that imperialism was the root of modern war.²⁸ Wherever imperialism existed, the threat of war loomed. Not content to leave it at that, CCP propagandists churned out additional attacks to drive the point home.²⁹

China's Changing Relations with India and the Soviet Union," *Journal of Cold War Studies* 8 no. 3, (2006): 54-101.

²⁶ Short, *Mao: A Life*, 503. As Jeremy Friedman points out, the Soviet practice of "peaceful coexistence" often contradicted the policy's tenets. Jeremy Friedman, *Shadow Cold War: The Sino-Soviet Competition for the Third World* (Chapel Hill: University of North Carolina Press, 2015), 62.

²⁷ Wu Lengxi, *Shi Nian Lunzhan: 1956-1966 ZhongSu Guanxi Huiyi Lu* (Beijing: Zhongyang Wenxian, 1999), 251-252; and Alexander Pantsov and Steven Levine, *Deng Xiaoping: A Revolutionary Life* (Oxford: Oxford University Press, 2015), 206.

²⁸ Editorial Department, "Yanzhe Weida Liening de Daolu Qianjin" [Along the Great Path of Lenin] *People's Daily*, 22 April 1960, 1. Hu Qiaomu (胡乔木) took the lead in drafting the editorial, with assistance from Wu Lengxi (吴冷西).

²⁹ See, for example, the text of a speech by Lu Dingyi (陆定一), a Central Committee member and head of the Propaganda Department, which appeared on the front page of the *People's Daily* on April 23, 1960. "Zai Liening de Geming Qizhi Xia Tuanjie Qilai—1960 Nian 4 Yue 22 Ri Zai Liening Dansheng Jiushi Zhou Nian Jinian Dahui Shang de Baogao" [Unite Under the Revolutionary Banner of Lenin—Report During Meeting Commemorating the 90th Anniversary

By early summer 1960, Sino-Soviet relations had been flayed raw. During a June meeting of communist party leaders at the congress of the Romanian Workers' Party in Bucharest, Khrushchev denounced Mao as an "ultra-leftist," an "ultra-dogmatist," and a "left revisionist."³⁰ Tension suffused the bilateral relationship, and all signs pointed to a serious fallout, an eventuality that spelled potential disaster for China's economic ties to its largest trading partner.

Just a few months earlier, economic relations between the PRC and the Soviet Union seemed as though they might weather the deepening political crisis. In late March 1960, Beijing's official *New China News Agency* had touted a new Sino-Soviet trade protocol that called for a ten percent increase in trade with the Soviet Union above the previous year. Beneath the fanfare, however, signs of a cooling relationship were undeniable. As the American Consulate in Hong Kong pointed out in a report to Washington, the 10 percent increase envisioned by the 1960 Sino-Soviet agreement was substantially less than the planned 25 percent increase in bilateral trade from 1958 to 1959.³¹ More telling still, Moscow had already claimed that actual Sino-Soviet trade volume in 1959 was 35 percent higher than in 1958, not 25 percent as first projected. On the heels of this rapid growth, the plans for a 10 percent increase announced in March 1960 lost their luster.³²

of the Birth of Lenin], *People's Daily*, 23 April 1960, 1. *Red Flag* (*Hongqi*, 红旗) also published a piece emphasizing the perseverance of imperialism and class warfare. For an inside account of how the CCP leadership crafted and coordinated this propaganda attack, see Wu, *Shi Nian Lunzhan*, 258-266.

³⁰ As quoted in Odd Arne Westad, "Introduction," in *Brothers in Arms: The Rise and Fall of the Sino-Soviet Alliance, 1945-1963*, ed. Odd Arne Westad (Washington, DC, and Stanford, CA: Woodrow Wilson Center Press; Stanford University Press, 1998), 25.

³¹ U.S. Consulate Hong Kong (Holmes) to the Secretary of State (Herter), telegram, 30 March 1960, *USNA*, RG 84, Hong Kong Classified General Records, Box 25, File 510.1-Trade Agreements China, P.R. and Other Countries 1959-60-61.

³² *Ibid.*

Behind the scenes, the CCP Central Committee was anxious about the trends. On Sunday evening, June 26, Li Xiannian, Tan Zhenlin (谭震林), and a handful of top officials talked trade and economics on a conference call. Tan tried to be optimistic. The overall environment for China at home and abroad was quite good, he told the others.³³ He had to admit, however, that the congress in Romania had been troubling, especially the unfriendly attitude on display by the Soviets. China had no choice under the circumstances but to redouble its efforts (*fafen tuqiang*, 发奋图强). By this he meant striving to achieve *zili gengsheng*, particularly in agricultural production, which would ensure that China's fate remained entirely in the hands of the Chinese people.³⁴ Tan saw no need to spell out the connection between the souring Sino-Soviet relationship and the need for *zili gengsheng*. Everyone on the call saw the potential for political tension to corrode bilateral trade and aid, just when it seemed China may need the Soviet Union most.

Li Xiannian took a darker view of events. It was becoming increasingly clear that his domestic grain distribution plan was inadequate. He suspected municipal authorities in Beijing, Tianjin, and Shanghai were concealing the depth of the local food crises they faced.³⁵ Some cities have only two days' worth of grain in storage, he warned.³⁶ A June 15 internal report from

³³ Central Committee, "Yijiu Liuling Nian Liu Yue Ershiliu Ri Zhaokai de Dianhua Huiyi – Tan Zhenlin[,] Li Xiannian Tongzhi Jiang Xiashou Xiazhong he Liangshi Diaoyun Wenti Jilu" [Telephone Conference Convened on 26 June 1960 – Comrades Tan Zhenlin and Li Xiannian Discuss the Summer Harvest and Grain Transportation Issues], 26 June 1960, *HPA*, 855-5-1801-5, 1.

³⁴ *Ibid.*

³⁵ *Ibid.*, 18. Li accused these officials of employing the "empty-city stratagem" (*kongchengji*, 空城计), a reference to a legend about the famed strategist Zhuge Liang (诸葛亮), who in the era of the Three Kingdoms allegedly made a show of his city's defenselessness in the hope that his adversary will suspect an ambush.

³⁶ *Ibid.*

the State Council's Finance and Trade Office (*Guowuyuan Caimao Bangongshi*, 国务院财贸办公室), which Li would have seen, concluded that neither Beijing, Tianjin, nor any of the major cities in Liaoning province had enough grain on hand to last two weeks. Shanghai had used up its rice stores entirely.³⁷ Li also worried about lagging exports to capitalist markets and sluggish foreign-currency earnings.³⁸ Exports to the Soviet Union had fallen behind for the year, too, which threatened to exacerbate the fraying political relationship. Li understood that any cynic would ask, "You took a Great Leap, why is it that 'more, faster, better, more economical' export products cannot fulfill the [annual plan]?"³⁹ At stake was more than the credibility of the Great Leap Forward. In the context of an increasingly strident bilateral dispute over the very nature of socialism, the legitimacy of the Chinese Communist Party and the Chinese revolution itself were on the line.

With these anxieties churning in his mind, Li Xiannian departed Beijing in early July for the Party's annual leadership retreat at Beidaihe. The top CCP leadership planned to spend most of the summer, from July 5 to August 10, deliberating international affairs and China's precarious economic footing. As it turned out, both subjects took on renewed urgency not long after the conference was underway.

³⁷ According to the report, as of June 15 grain stores in Beijing would last for seven days, ten days in Tianjin, and eight or nine days in the major cities of Liaoning province. State Council Office of Finance and Trade, report, "Guanyu Yaoqiu Quan Dang Zhuajin Liangshi Diaoyun, Zhuajin Chukou Shougou, Zhuajin Fushipin Shengchan he Gongying de Baogao" [Report Requesting the Entire Party to Grasp Firmly Grain Transportation[,] Export Procurement[,] Food Production and Supplies [Work]] 15 June 1960, *HPA*, 999-4-29-12, 2.

³⁸ Central Committee, "Yijiu Liuling Nian Liu Yue Ershiliu Ri Zhaokai de Dianhua Huiyi – Tan Zhenlin[,] Li Xiannian Tongzhi Jiang Xiashou Xiazhong he Liangshi Diaoyun Wenti Jilu" [Telephone Conference Convened on 26 June 1960 – Comrades Tan Zhenlin and Li Xiannian Discuss the Summer Harvest and Grain Transportation Issues], 26 June 1960, *HPA*, 855-5-1801-5, 18.

³⁹ *Ibid.*

On July 16, the Soviet Embassy in Beijing dropped a bombshell on the CCP in the form of a brief diplomatic note. Addressed to the Chinese Ministry of Foreign Affairs, the document stated curtly that Moscow had decided to withdraw all Soviet technical and economic advisors from China immediately.⁴⁰ A second note arrived on July 25 to explain that all Soviet advisers would be gone from China by September 1.⁴¹ Most would be departing active construction sites and half-completed projects; two thirds of the 304 Soviet aid projects remained incomplete as of that summer.⁴²

Shocked and alarmed, Chinese leaders asked the Kremlin to reconsider the decision, but Khrushchev refused to budge.⁴³ Li Xiannian and the rest of the Beidaihe conclave had no time to waste. Immediately they began to devise policies that would mitigate the damage. When the conference concluded on August 10, the Central Committee circulated an internal Party directive that mapped out the PRC's response to the Soviet withdrawal. The general theme, not surprisingly given the CCP's longstanding emphasis on control and the nature of the Soviet shock, centered on the need to eliminate vulnerabilities. First, the Central Committee consolidated overall control over foreign trade into the hands of a powerful trade triumvirate:

⁴⁰ Jin, *Zhou Enlai Zhuan, xia*, 1396. For an English-language translation of the note, see Soviet Embassy in Beijing to the Ministry of Foreign Affairs of the People's Republic of China, 18 July 1960, History and Public Policy Program Digital Archive, Stiftung, "Archiv der Parteien und Massenorganisationen der ehemaligen DDR" im Bundesarchiv J IV 2/202/280, as translated by Dieter Heinzig and Anna Eckner. Heinzig and Eckner appear to have misidentified the date of the document, which is not included in the original Soviet document but should be listed as 16 July.

⁴¹ Jin, *Zhou Enlai Zhuan, xia*, 1396; and Shu Guang Zhang, "The Sino-Soviet Alliance and the Cold War in Asia, 1954-1962," in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War: Volume 1, Origins* (New York: Cambridge University Press, 2009), 371.

⁴² Zhang, "The Sino-Soviet Alliance and the Cold War in Asia, 1954-1962," 371.

⁴³ Ibid.

Zhou Enlai, Li Fuchun, and Li Xiannian.⁴⁴ This group would personally supervise the formulation and implementation of China's foreign trade. Li Xiannian assumed the greatest responsibility within the group. He took on the role of overseeing the Foreign Trade Headquarters (*Duiwai Maoyi Zhihuibu*, 对外贸易指挥部), a new organization tasked with curbing imports, managing procurement, and streamlining exports.⁴⁵ In essence, his responsibility was to assert control over China's trade program.

This new institutional arrangement emerged largely in response to the Sino-Soviet split, but it also signaled a shift away from the reigning orthodoxy of the Great Leap Forward, which since 1958 had prized decentralization of trade work as a vital prerequisite for unshackling the productive and creative potential of the masses. Now, in late summer 1960, Li Xiannian's Foreign Trade Headquarters would restore tight, centralized control over the nation's trade balance sheets.

Li had his work cut out for him. When the Foreign Trade Headquarters was stood up in August, the Ministry of Foreign Trade had managed to collect just 43.3 percent of its procurement goal for the year, and only 38 percent of China's planned exports had actually left China.⁴⁶ Meanwhile, imports flowed into China at a healthy clip. By July, the Ministry of Foreign Trade had already met 52.7 percent of its annual import goal.⁴⁷ The resulting imbalance

⁴⁴ Central Committee, instruction, "Guanyu Quandang Dagao Duiwai Maoyi Shougou he Chukou Yundong de Jinji Zhishi" [Emergency Instructions Regarding the Entire Party Vigorously Conducting the Campaign for Foreign-Trade Procurement and Exports], 10 August 1960, *HPA*, 855-5-1813-9, 2-3.

⁴⁵ Gao, *Lin Haiyun Zhuan*, 362.

⁴⁶ Central Committee, instruction, "Guanyu Quandang Dagao Duiwai Maoyi Shougou he Chukou Yundong de Jinji Zhishi" [Emergency Instructions Regarding the Entire Party Vigorously Conducting the Campaign for Foreign-Trade Procurement and Exports], 10 August 1960, *HPA*, 855-5-1813-9, 1.

⁴⁷ *Ibid.*

drained the coffers at the Ministry of Finance and left Party traders with little hard cash on hand.⁴⁸ To stanch the outflow of currency, the Central Committee announced a moratorium on new additions to the current year's import schedules unless they were approved personally by the Li-Li-Zhou commission.⁴⁹

A second response to the Soviet withdrawal reflected more far-sighted calculations in Beidaihe. The Central Committee announced that China's debts to the Soviet Union and its satellites in Eastern Europe now represented an urgent problem. According to the Central Committee, everyone at the Beidaihe conference agreed on this point, from the top brass at the Party center to lower-level officials from the provinces, municipalities, and central ministries. China must avoid debts from the Soviet Union and Eastern Europe for the rest of the year, and it must strive to repay *all* of its loans to these socialist states in 1961, the Central Committee declared.

This bold commitment, buried on the second page of a sensitive internal CCP directive, pointed to a seismic shift in the minds of top officials. Paying off China's debts to the socialist world was more than simply a matter of socialist economic construction. Alongside the need to fulfil export commitments and balance the budget, zeroing out socialist debts impacted China's "international reputation" (*guoji shang de shengyu*, 国际上的声誉), the Central Committee explained.⁵⁰ This connection, linking socialist debt to international political stature, revealed the entanglement of commercial affairs with China's increasingly complex struggle against imperialism, no longer against reactionary capitalist-imperialists alone, the Central Committee seemed to suggest, but now against "modern revisionists" and their lackeys in the Soviet Union

⁴⁸ Ibid.

⁴⁹ Ibid., 3.

⁵⁰ Ibid., 2.

and Eastern Europe as well. The persistence of China's debts to the Soviet Union represented an economic vulnerability, but it also suggested a political deficiency in this fluid environment.

Moscow's withdrawal of Soviet assistance clearly struck a nerve with the Chinese leadership. Wittingly or not, Khrushchev seemed to have tapped into the same deep anxiety that left Mao Zedong uneasy a decade earlier, on the train in February 1950, en route to Beijing. Mao had just signed the Treaty of Friendship, Alliance, and Mutual Assistance with Stalin in Moscow, which brought U.S. \$300 in desperately needed Soviet aid, but Mao was nevertheless anxious. As he explained to the Central Committee at the time, China had not requested more assistance because it was better "to borrow less than to borrow more at present and for several years."⁵¹ This may have been Mao's attempt to put a positive gloss on the meager sum offered by Moscow at the time—the Soviet Union had provided Poland a credit line of up to U.S. \$450 million in 1949.⁵² But it almost certainly also triggered the fear of economic dependency that informed *zili gengsheng*. Now, in the summer of 1960, Khrushchev's revocation of support seemed to vindicate the longstanding view that aid brought dependency, and dependency signaled vulnerability, even within the realm of intra-socialist relations.

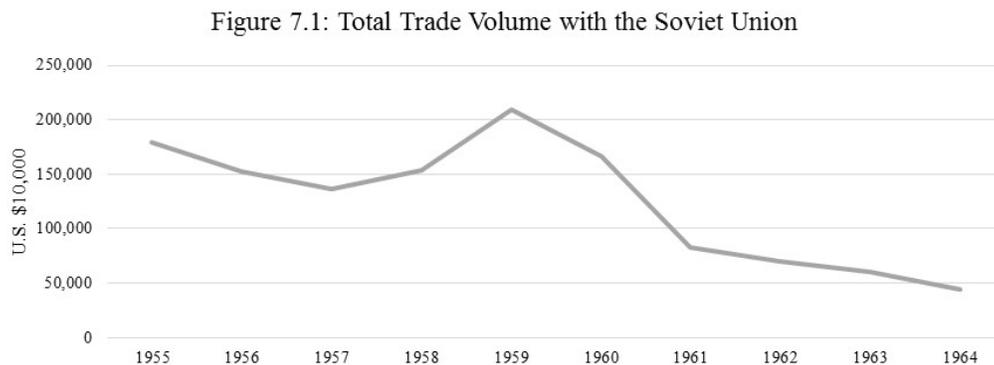
This vindication ushered in a shift in CCP thinking on international political economy. Since the 1930s, *zili gengsheng* had served as a coherent framework for reconciling the ostensible contradiction between keeping foreign imperialists at bay, on one hand, while at the

⁵¹ Mao Zedong to CCP Central Committee, untitled telegram, 03 January 1950, as translated and reproduced Zhang and Chen, *Chinese Communist Foreign Policy and the Cold War in Asia: New Documentary Evidence, 1944-1950* (Chicago: Imprint Publications, 1996), 132-133. See also Pei Jian Zhang, *Zhonghua Renmin Gongheguo Waijiaoshi, 1949-1956* [Diplomatic History of the People's Republic of China, 1949-1956] (Beijing: Shijie Zhishi, 1994), 24.

⁵² On the likelihood that Mao knew about Stalin's larger loan to Poland in 1949, see Lawrence C. Reardon, *The Reluctant Dragon: Crisis Cycles in Chinese Foreign Economic Policy* (Seattle and London: University of Washington Press, 2002), 50.

same time seeking them out to do business.⁵³ By emphasizing the need to control all commercial contact with foreign imperialists, *zili gengsheng* indirectly sanctioned the continuation of such trade. Now the Party leadership was adding a corollary to this framework by linking the “modern revisionists” of the Soviet Union and Eastern Europe to the imperialist world as joint targets of “struggle” (*douzheng*, 斗争).⁵⁴ In this new formulation, *zili gengsheng* urged a reduction in economic vulnerability to the socialist world by paying off debts early, while still legitimizing controlled commercial engagement with the capitalist world.

The immediate implications of this evolving position were clear for Sino-Soviet trade. China’s trade with the Soviet Union, already slipping from the inflated highs of the Great Leap Forward, descended further (see Figure 7.1). As it did, the balance of China’s trade volume shifted away from the socialist world and toward capitalist markets, never to swing back again. Though no one recognized it at the time, this turnabout marked the end of the predominance of the socialist world in China’s global economic engagement (see Table 7.1).



Source: Shen Jueren et al., *Dangdai Zhongguo Duiwai Maoyi, xia* (Beijing: Dangdai Zhongguo, 1992), Appendix 3, 383.

⁵³ See Chapter 2, “Opening a Capitalist Window, 1937-1947,” 33-34.

⁵⁴ Central Committee, instruction, “Guanyu Quandang Dagao Duiwai Maoyi Shougou he Chukou Yundong de Jinji Zhishi” [Emergency Instructions Regarding the Entire Party Vigorously Conducting the Campaign for Foreign-Trade Procurement and Exports], 10 August 1960, *HPA*, 855-5-1813-9, 2.

Table 7.1: Percentage of Total PRC Trade Volume by Region, 1959-1963

Trading Partners	1959	1960	1961	1962	1963
Soviet Union, Eastern Europe, Mongolia	71.6	67.3	49.1	42.7	34.5
Albania, North Korea, Vietnam, Cuba	4.7	6.9	15.2	17.4	17.1
Asia, Africa, and Latin America	11	12.3	15.3	19.1	22.1
Capitalist "West," including Japan	12.7	13.5	20.4	20.8	26.3

Source: "Guanyu Woguo Duiwai Maoyi de Ruogan Jiben Qingkuang," *Duiwai Maoyi Ziliao (Zeng kan)*, 26 September 1964, in Zhongguo Shehui Kexueyuan and Zhongyang Dang'an Guan, comps., *Zhonghua Renmin Gongheguo Jingji Dang'an Ziliao Xuanbian, 1958-1965, Dui Wai Maoyi Juan* (Beijing: Zhongguo Caizheng Jingji, 2011), 162.

On an even deeper level, this shift and the thinking behind it raised new and difficult questions about the guiding theoretical precepts behind the PRC's trade agenda. Mao and the CCP had long embraced the Leninist view that rich capitalists connived relentlessly to set the terms of economic exchange with poor nations. CCP orthodoxy saw monopolists' quest for new markets as the fundamental force animating capitalist-imperialist trade. By definition, then, the capitalist's zeal for foreign trade was driven by ambitions of exploitation.⁵⁵ But now, as Chinese traders turned increasingly toward the capitalist world to trade rather than to socialist allies, the clean lines that distinguished capitalist from socialist trade had begun to blur. If economic exchange with socialists was no longer inherently an expression of solidarity and mutual assistance, distinct from exploitative capitalist trade, and if commercial ties to the Soviet Union could also threaten China's independence, could economic exchange with the capitalist world become inherently less pernicious? If so, what did this mean for future CCP thinking on the peril and promise of capitalist commerce?

Few had time to ponder these points during the summer of 1960. Too much was unraveling and people were starving. At Beidaihe, Li Fuchun had begun the task of reorienting economic planning away from the Great Leap mentality toward a program of "adjustment,

⁵⁵ Benjamin Schwartz, *Chinese Communism and the Rise of Mao* (Cambridge, MA: Harvard University Press, 1979), 203-204.

consolidation, and rising standards.”⁵⁶ When the conference ended in August, the Party’s economic leaders scrambled to restore order in time for the coming fall harvest. Few underestimated the difficulty of the task. During a telephone conference on August 25, Li Xiannian stressed that the nation’s economy was up against a wall. The food situation had deteriorated, and was now worse than he had seen it in the past two years. In earlier crises, the Ministry of Grain could pull from its stockpiles, he explained. Now, grain stores stood at their lowest limit. Edible oil supplies were also low, and cotton was scarce.⁵⁷

Desperate for grain, with nowhere else to turn, Party planners began to consider the idea that China should turn to capitalist markets for food.⁵⁸ Chen Yun floated the idea informally to the Ministry of Grain, and after discussing the matter internally, the ministry’s Party Committee decided to raise the matter with the Central Committee and to loop Li Xiannian into the discussion.⁵⁹

⁵⁶ Alexander V. Pantsov and Steven I. Levine, *Mao: The Real Story* (New York: Simon & Schuster, 2012), 476; Frank Dikotter, *Mao’s Great Famine: The History of China’s Most Devastating Catastrophe, 1958-1962* (New York: Walker & Co., 2010), 116.

⁵⁷ Central Committee, “Yijiu Liuling Nian Ba Yue Ershi Wu Ri Zhaokai de Dianhua Huiyi – Li Xiannian[,] Liao Luyan[,] Tan Zhenlin Tongzhi Jiang Nongchanpin Shougou he Shenghuo Anpai Wenti Huiyi Jilu” [Telephone Conference Convened on 25 August 1960 – Comrade Li Xiannian, Liao Luyan, Tan Zhenlin Discuss the Matters of Agricultural Procurement and Arrangements for [People’s] Livelihood], 25 August 1960, *HPA*, 855-5-1802-3, 2.

⁵⁸ The Central Committee also began to undo some of the most harmful domestic policies associated with the Great Leap Forward. On November 3 the Central Committee issued an emergency directive that permitted villagers to maintain private plots, engage in small-scale sideline occupations, and participate in newly revived rural markets (*nongcun jishi*, 农村集市). Central Committee, instruction, “Zhonggong Zhongyang Guanyu Nongcun Renmin Gongshe Dangqian Zhengce Wenti de Jinji Zhishi Xin” [Emergency Instruction Letter Concerning the Issue of Current Policies for Rural People’s Communes], 03 November 1960, *HPA*, 940-4-511-8.

⁵⁹ Li Xiannian Zhuan Bianxie Zu, *Li Xiannian Zhuan*, shang, 481. See also Shang Changfeng, “1961 Nian Zhongguo Liangshi Jinkou Yanjiu” [Analysis of China’s 1961 Grain Imports] *Zhonggong Dangshi Ziliao* 3 (2009), 155.

The idea was hardly revolutionary in the larger context of China's twentieth-century history. Rice generally fetched a higher price on international markets than wheat, and the Nationalist regime routinely leveraged its comparative advantage by exporting rice and importing wheat.⁶⁰ But in "new China," such practices verged dangerously close to rightism. China must feed itself, the Party insisted, and since 1949 mainland China had managed to achieve net exports of grain amounting to roughly 2.3 million tons per year—until, that is, late 1960.⁶¹

III. A New Path?

By late October, after the fall harvest was mostly in, any hopes of a miraculous turnaround had flickered out. The food situation remained bleak, and a long, barren winter lay ahead.⁶² Despite the desperation, Party officials showed no interest in turning to the Soviet Union for help. Quite the opposite, in fact. On October 23, 1960, Zhou Enlai wrote to Chairman Mao and the Central Committee to explain that he, Li Fuchun, and Li Xiannian were in agreement that representatives from the Ministries of Foreign Trade and Foreign Affairs should meet with the

⁶⁰ Chad J. Mitcham, *China's Economic Relations with the West and Japan, 1949-1979: Grain, Trade and Diplomacy* (London: Routledge, 2005), 4.

⁶¹ China continued to import limited quantities of grain from the capitalist world during the 1950s. For a thorough examination of China's grain trade during the first three decades of the People's Republic, see Mitcham, *China's Economic Relations with the West and Japan*. For China's positive net grain exports from 1950 to 1960, see Shang, "1961 Nian Zhongguo Liangshi Jinkou Yanjiu," 154.

⁶² By this time, several top CCP officials had seen firsthand the grim conditions in the countryside. From September 20-27, Li Xiannian conducted personal inspections of "disaster" areas in Hubei, Hebei, Henan, and other regions. Li Xiannian Zhuan Bianxie Zu, *Li Xiannian Nianpu, di san juan*, 258. Chen Yun embarked in August on a multi-province, three-month rural inspection tour to ascertain the facts. Zhang Suhua, "'Bu Diaocha Qingchu, Ta Jiu Bu Jianghua'—Ganwu Liushi Niandai Chu de Chen Yun" ['If [He] Doesn't Investigate Clearly, He Does Not Speak'—Coming to Grips with Chen Yun in the Early 1960s], *Dang de Wenxian* 4 (2005), 122-123.

Soviet Embassy in Beijing to discuss current and future Sino-Soviet trade relations formally and frankly.⁶³ Minister of Foreign Trade Ye Jizhuang's draft remarks for the meeting left little doubt that China had no intention of sacrificing pride or principle for the sake of assistance.

By turns defiant, accusatory, and appreciative, Ye's remarks encapsulated perfectly the schizophrenic tumult that had become Sino-Soviet relations. He insisted that the Chinese economy had indeed leapt ahead during the past three years, though he also acknowledged recent, and temporary, setbacks. And while he expressed appreciation for Soviet assistance over the years, which the Chinese people would never forget, he also pointed to Soviet perfidy as one of two reasons for China's current economic difficulties, the other being natural disasters.⁶⁴ He ticked off a list of recent trade grievances: Moscow's unwillingness to accept supplemental Chinese exports that would address China's bilateral deficit for 1960; a continual flow of partial or incomplete sets of products from the Soviet Union outside of existing contracts, despite China's explicit request not to send deliveries unless a formal contract had been signed; and repeated Soviet refusals to accommodate Chinese orders for desperately needed imports, despite the fact that China needed many of these proposed imports, such as petroleum products and trucks, to fulfill its standing export contracts.⁶⁵

These were not oversights or misunderstandings, Ye charged. He accused Moscow of "willfully making things difficult" (*guyi weinan*, 故意为难).⁶⁶ But it was worse than that. He

⁶³ Zhou Enlai, untitled memorandum to Mao Zedong and the Central Committee, 23 October 1960, *HPA*, 855-18-692-9, n.p.

⁶⁴ Ye Jizhuang, draft remarks, "Guanyu Zhongsu Maoyi Wenti Yuejian Sulian Dashi he Sulian Shangwu Daibiao de Tanhua Gao" [Draft Remarks on Sino-Soviet Trade Issues [and] Scheduling an Appointment with the Soviet Ambassador and the Soviet Commercial Representative], October 1960, *HPA*, 855-18-692-9, 1-2. This undated document was produced sometime in early or mid-October, most likely just before October 23.

⁶⁵ *Ibid.*, 2-4.

⁶⁶ *Ibid.*, 4.

lashed out at Moscow for violating the socialist principles of equality, mutual benefit, and mutual cooperation, and for failing to adhere to the norm of friendly relations among socialist nations.⁶⁷

In a sanctimonious flourish, Ye committed Beijing to repaying all of its debts to the Soviet Union on time, although of course China would not be able to fulfill some export contracts and would have to reconsider its import contracts for the year.⁶⁸ Ye capped his tirade with a thin salve of platitudes about the unbreakable bonds of friendship between the Soviet and Chinese people.

Lest there be any doubt that the enmity was mutual, on November 14 the Chinese embassy in Moscow cabled Beijing to report that the PRC had been effectively sidelined from Soviet economic planning for the coming year. According to an unnamed Soviet source, the Soviet Central Committee had excluded China entirely from its 1961 foreign aid and trade plans.⁶⁹ By December 1960, officials at the Chinese embassy in Moscow were confident that the Soviet leadership intended to ratchet back bilateral trade with China. They knew Moscow expected weaker growth in overall foreign trade in 1961; they knew also that Moscow planned to expand trade significantly with “democratic,” newly independent, and other socialist nations. Taken together, these trends demonstrated “that the Soviet side has already prepared to reduce

⁶⁷ Ibid., 5.

⁶⁸ Ibid., 5-6. The PRC government actually paid off all of its 1950s-era Soviet debt, principal and interest, by 1964, one year ahead of schedule. Shen Zhihua and Xia Yafeng, *Mao and the Sino-Soviet Partnership, 1945-1959: A New History* (Lanham: Lexington Books, 2015), 110.

⁶⁹ Chinese Embassy in Moscow to Ministry of Foreign Affairs and Ministry of Foreign Trade, “Sugong Zhongyang Taolun 1961 Nian Duiwai Yuanzhu he Maoyi Wenti” [Communist Party of the Soviet Union Central Committee Discusses Foreign Aid and Trade Issues for 1961], 14 November 1960, *FMA*, 109-D0798.

greatly (*dada suojian*, 大大缩减) foreign trade with our nation,” the PRC’s Moscow commercial office concluded.⁷⁰

With Sino-Soviet economic relations crumbling, and facing the prospect of mass starvation at home, Chen Yun’s suggestion that China import capitalist grain began to gain traction. Li Xiannian supported the idea fully, and on November 29, 1960, he sent a letter to Mao, Zhou, Li Fuchun, Tan Zhenlin, and Bo Yibo to propose the idea formally.⁷¹ He stressed that this was a temporary expedient, meant only to help China cross a difficult stretch in its economic development. But it was nonetheless a vital and urgent measure.⁷² To start, Li proposed that China import just over 12 billion *jin* (roughly 800,000 tons) of grain.⁷³ Zhou agreed with the proposal and lent his support formally on December 5. Mao chimed in the following week, on December 12, with a few hastily penciled characters on the margins of Li’s proposal. “Return to Comrade Xiannian. Agree completely. [If we] can import 20 billion *jin*, [that would be] better.”⁷⁴

With the green light from Mao, trade officials sprang into action. Three days later, on December 15, the Ministry of Foreign Trade established a new office to coordinate the effort, the Grain Import Leadership Small Group Office (*Waimao Bu Liangshi Jinkou Lingdao Xiaozu Bangongshi*, 外贸部粮食进口领导小组办公室). The Ministry placed Chen Ming (陈明) in charge of the office, a cosmopolitan cadre and savvy trader with ample experience in capitalist

⁷⁰ Chinese Commercial Office to the Ministry of Foreign Trade, “Su 1961 Nian Duiwai Maoyi Tanpan Qingkuang” [The Circumstances of the Soviet Union’s 1961 Foreign-Trade Talks], 21 December 1960, *FMA*, 109-D0798.

⁷¹ Li Xiannian Zhuan Bianxie Bu, *Li Xiannian Zhuan*, *shang*, 481.

⁷² *Ibid.*

⁷³ *Ibid.* Twelve billion *jin* is equivalent to 793,664 U.S. tons.

⁷⁴ *Ibid.*, 481. Twenty billion *jin* is the equivalent of 1,322,773 U.S. tons.

markets.⁷⁵ Born in Malaya, Chen immigrated to mainland China as a teenager in 1938.⁷⁶ In the years that followed, he worked with the Ministry of Foreign Trade and the Bank of China, where he learned to mingle easily with diplomats and businessmen from the capitalist world.⁷⁷ As head of the new grain import office, Chen worked for Li Xiannian, who personally oversaw the new grain program from the senior ranks as a member of the post-Beidaihe trade triumvirate.⁷⁸

On its first day in operation, December 16, Chen's office turned its attention to one of its most pressing challenges: logistics. Quickly shipping millions of tons of grain from capitalist markets to Chinese ports required an established outfit with international expertise and contacts on both sides of the Cold War divide, so the Party turned naturally to its longstanding commercial beachfront in Hong Kong, China Resources. The Grain Import Office instructed China Resources to set up meetings with Australian grain exporters and to push for a deal, with the goal being to import 100,000 tons of wheat before Christmas. Chen's office also instructed China Resources to dispatch two company representatives to Canada, where they should aim to strike a similar deal by January 10, 1961.⁷⁹

Time was of the essence, and China Resources had the networks, knowledge, and experience to implement the grain import office's orders with few delays and minimal oversight.

⁷⁵ Gao, *Lin Haiyun Zhuan*, 365. Chen's deputy was Li Yusheng (李郁生), who worked in the MOFT second bureau (第二局).

⁷⁶ Mitcham, *China's Economic Relations with the West and Japan*, 38.

⁷⁷ In May 1960, for example, Chen socialized comfortably with a visiting trade delegation at a cocktail party hosted by the British mission in Beijing. British Charge d'Affaires in Beijing to Far Eastern Department, Foreign Office, untitled letter, 03 June 1960, *TNA*, FO 371, 150449, FC 1121/7. In March 1957, Chen discussed Sino-British trade prospects with A. H. Campbell of the British Embassy in Beijing. British Embassy in Beijing (A. H. Campbell) to Peter G. F. Dalton, Foreign Office, untitled letter, 15 March 1957, *TNA*, FO 371, 127322, FC 1122/3.

⁷⁸ Li Xiannian was assisted by Minister of Foreign Trade Ye Jizhuang, Minister of Grain Chen Guodong (陈国栋), Niu Peicong (牛佩琮), and Ma Dingbang (马定邦). Li Xiannian Zhuan Bianxie Zu, *Li Xiannian Zhuan*, shang, 482.

⁷⁹ Wu Xuexian et al., *Hongse Huarun* [Red China Resources] (Beijing: Zhonghua, 2010), 301.

For shipping, the firm turned to Far East Enterprising, the China Resources subsidiary founded by Qian Zhiguang and Qin Bangli in 1948.⁸⁰ The man who captained Far East's maiden voyage from Hong Kong to Dalian in February 1949, Liu Shuangen, personally took charge of chartering the ships for the coming influx of grain. By mid-January 1961, just weeks after the Grain Import Office was stood up, Far East had signed charters for 49 vessels to carry grain into China.⁸¹

As operations got underway in Hong Kong, top finance and trade officials in Beijing grappled with an even more vexing challenge: how was China going to pay for all this grain? China's coffers were as empty as its grain silos. Ministry of Foreign Trade officials concluded in a November 14, 1960, report that China needed to generate an average of U.S. \$93 million in each of the two remaining months of the year to meet its existing trade commitments.⁸² Under normal circumstances, this was a reasonable ambition for a nation the size of China, but these were not normal circumstances. Amid the fallout of the Great Leap, China had earned an average of just U.S. \$45 million per month during the first ten months of 1960.⁸³ China would have to double its monthly export earnings in the final two months of the year just to complete its preexisting trade obligations, and this was *before* the grain import program was underway.

Looking ahead to 1961, the financial prognosis appeared even worse. On December 22, 1960, the State Council's Finance and Trade Office (*Caimao Bangongshi*, 财贸办公室) calculated that the PRC would need U.S. \$810 million to get its capitalist trade agenda, including

⁸⁰ See Chapter 3, "Closing the Open Door, 1948-1950," 80.

⁸¹ Wu et al., *Hongse Huarun*, 305.

⁸² Ministry of Foreign Trade Leading Party Group, report, "Dangqian Duiwai Maoyi Shougou he Chukou Qingkuang de Baogao" [Report on the Current Circumstances of Foreign-Trade Procurement and Exports] 14 November 1960, *HPA*, 855-5-1813-13, 3-4.

⁸³ *Ibid.*, 4.

grain imports, off the ground in 1961.⁸⁴ This figure did not include aid to China's allies, which State Council analysts expected to cost U.S. \$40 million. But the Finance and Trade Office expected China's exports to generate only U.S. \$600 million in 1961, far short of the U.S. \$850 million China would need to balance its trade accounts.⁸⁵ How did the Ministry of Finance expect to cover this expected U.S. \$190 million shortfall?

Gold and silver sales on international markets would make up most of the difference. The Central Committee had already approved the sale of 80 million *liang* of silver in 1961 to raise U.S. \$72 million.⁸⁶ Now, Chinese traders planned to sell an additional 60 million *liang* of silver and 400,000 *liang* of gold, which they expected to yield an additional U.S. \$68 million. Even if these sales went off without a hitch, however, Chinese traders would still need an additional U.S. \$50 million to cover imports, and this is where the planners left off. They could only stretch the numbers so far. China would simply have to figure out a way to sell more gold and more silver, export more goods, or ratchet back imports.⁸⁷

Even if the State Council had managed to wring out the \$850 million it needed for capitalist trade in 1961, this figure was only a starting point. Yao Yilin initially proposed to Zhou Enlai that China import 500,000 tons of grain from capitalist markets.⁸⁸ Chen Yun suggested nearly 800,000 tons on November 23, 1960. But by March 1961, the figure had swollen to five

⁸⁴ State Council Office of Finance and Trade, report, "Guanyu 1961 Nian Liangshi he Shichang Wenti de Anpai Yaodian" [Key Points Concerning the Disposition of Grain and Market Issues for 1961], 22 December 1960, in *JJDAMY, 1958-1965*, 124.

⁸⁵ Ibid.

⁸⁶ Each *liang* was equivalent to 50 grams based on the PRC's standard mass units, as recalibrated in 1959.

⁸⁷ Ibid.

⁸⁸ Gao Jingzeng, as interviewed in Gao Yuanrong and Liu Xueli, "Li Xiannian: Gongheguo Ershi Liu Nian de Fu Zongli—Jinian Li Xiannian Danchen Yibai Zhou Nian Fangtanlu" [Li Xiannian: Twenty-Six-Year Vice Premier of the Republic—Interviews Commemorating the 100th Anniversary of Li Xiannian's Birth], *Zhonggong Dangshi Yanjiu* 06 (2009), 107.

million tons.⁸⁹ An import program on this staggering scale would require over U.S. \$1 billion for grain purchases alone, according to Li Xiannian's calculations.⁹⁰ Debt was the only way to make the numbers work, as Chinese officials soon learned.

In addition to the logistical and financial hurdles, the Party faced the difficult task of situating massive grain imports within the Party's ideological framework. The challenge was not to rationalize trade with capitalists—PRC traders had been participating in global markets for over a decade already. The real hurdle was that massive grain imports cut against the CCP's longstanding commitment to self-sufficiency in food. Anticipating this difficulty, in early 1961 Beijing began to stress two rationales for this departure from Party orthodoxy.

First, the leadership insisted that grain imports were only temporary, even though this would turn out not to be the case. Li Xiannian emphasized this point on January 27, 1961. The current situation was “exceptional,” he told workers in the State Council's Finance and Trade Office.⁹¹ In the end, “no matter how many years [we] engage in grain imports, generally speaking, this is a temporary measure.”⁹² Li wisely avoided any discussion of precisely how long this “temporary” deviation might last. The intention behind the measure presumed transience, he seemed to imply, and intent trumped duration.

The second rationale keyed in on the theme of victimhood. Two years of natural disasters had afflicted China, Li Xiannian observed, laying the groundwork for an argument about the

⁸⁹ Li Xiannian, “Li Xiannian Tongzhi Fayan Yaodian: Di Er Ge Wenti Chukou yu Waihui” [Key Remarks by Comrade Li Xiannian: The Second Problem[,] Exports and Foreign Exchange], 20 March 1961, *JJDAMY, 1958-1965*, 128.

⁹⁰ Li's specific figure was U.S. \$1.03 billion. *Ibid.*

⁹¹ Li Xiannian, “Zuohao Jinkou Liangshi de Jiexie, Zhuanyun Gongzuo” [Complete The Work of Receiving, Unloading, and Distributing Imported Grain], 27 January 1961, Li Xiannian, *Li Xiannian Lun Caizheng Jinrong Maoyi, 1950-1991 Nian, shang* [Li Xiannian on Finance, Banking, [and] Trade, 1950-1991, volume 1], (Beijing: Zhongguo Caizheng Jingji, 1992), 441.

⁹² *Ibid.*

causes and consequences of the Great Leap Forward that continues in official CCP literature to this day. In the face of these natural calamities—flooding along the Yellow River in the summer of 1959, for example, and droughts in the north—the CCP had no choice but to seek aid wherever it could be found. The Party was forced (*pobu deyi*, 迫不得已) to import grain from abroad, Li argued, and the decision was both “completely necessary” (*wanquan biyao*, 完全必要) and “correct” (*zhengque*, 正确).⁹³ This was true, as far as it went. But for obvious reasons Li skipped over the Party’s own responsibility for the state of the Chinese economy. In Li’s telling of events, grain imports became an example of CCP vigilance, of deft trade work and nimble policymaking in the face of exogenous shocks. It became a tale of heroics, not an indictment of ineptitude.

As Li Xiannian crafted this narrative in Beijing, working-level traders in Hong Kong pressed ahead with logistics. China Resources staff established two negotiating groups: one for Canadian grain, one for Australian.⁹⁴ The reason behind the Ministry of Foreign Trade’s focus on these two markets was straightforward. Both Canada and Australia were major grain producers, and both nations had bumper harvests in 1960. North America and Australia also had alternating growing seasons, which opened up the possibility of signing deals that would allow grain to flow into China throughout the year uninterrupted.⁹⁵ Just as importantly, China Resources staff in Hong Kong already had relationships with Canadian and Australian contacts.⁹⁶

The Ministry of Foreign Trade intended to remain fully abreast of developments in Hong Kong. Ministry leaders dispatched Chen Ming to Shenzhen, where he set up shop at a local

⁹³ Ibid.

⁹⁴ Wu et al., *Hongse Huarun*, 303.

⁹⁵ Ibid.

⁹⁶ Ibid.

branch of China Resources and kept open the lines of communication between Beijing and Hong Kong. Nobody trusted the confidentiality of the telephone lines in Hong Kong, so each day the Chinese Resources office in the colony sent a trusted courier across the border into Shenzhen to brief Chen on developments in person. Chen would then transmit details up the chain using a secure phone line from Shenzhen to Beijing.⁹⁷ The whole grain operation was wrapped in secrecy and security; figures relating to grain imports or sales of gold and silver were particularly sensitive. In early 1961, the Central Committee reminded cadres not to circulate such information beyond the Party-committee level in the provinces, municipalities, autonomous regions; central bureaus and ministries; and key state organs.⁹⁸

These precautions stemmed partly from the Central Committee's interest in stanching the circulation of import statistics that might raise questions about the extent to which China had actually "stood up" on its own two feet under CCP rule. But these measures were also the product of historical momentum. The Party had an ingrained tendency to associate commercial activities in capitalist spaces with intelligence and other secret operations, a conflation that dated back at least as far as the establishment of the CCP's first front companies in Hong Kong at the start of the Pacific War.⁹⁹ In late 1960 and early 1961 both of these tendencies toward secrecy were reinforced by the realization that leaked information about looming transactions on this

⁹⁷ Wu et al., *Hongse Huarun*, 303.

⁹⁸ Central Committee, "Zhongyang Pizhuan Caimao Bangongshi Guanyu Yijiu Liuyi Nian Duiwai Maoyi Ruogan Wenti de Qingshi Baogao" [Central Committee Endorsement and Distribution Office of Finance and Trade Urgent Report on Several Issues in Foreign Trade for 1961], 07 February 1961, *HPA*, 855-6-2032-13.

⁹⁹ See Chapter 2, "Opening a Capitalist Window, 1937-1947."

scale could affect China's bottom line. News of China's plans for a succession of large contracts could easily generate upward pressure on international grain prices and the shipping rates.¹⁰⁰

In the end, Chinese trade officials could keep a lid on developments for only so long. Reporters from the Canadian *Globe and Mail* were on hand to snap pictures and pepper two China Resources employees with questions as they arrived in Ottawa for negotiations on December 29, 1960. "I can't tell you anything," blurted out one of the arriving negotiators. "We have a lot of friends and we want to visit them," he added, and left it at that¹⁰¹ But the mere arrival of China Resources negotiators in Canada after a three-year absence was enough to invite speculation, and the next day's headline read, "China Team Arrives: Wheat Considered Principal Interest."¹⁰² A few weeks later, on January 23, the *Globe and Mail* announced that the China Resources team had indeed struck a deal to import 5.5 million bushels of grain, or about 152 metric tons, and this was just the beginning.¹⁰³

On February 2, the wires reported that Beijing had signed a deal with Canada to purchase a massive 40 million bushels of grain, one of the largest single commercial grain sales in Canadian history at the time.¹⁰⁴ News also broke from Australia, where PRC negotiators had reached a deal to buy one million tons of wheat for U.S. \$60,500,000 in cash.¹⁰⁵ This announced figure included 300,000 tons of wheat that Beijing had agreed to buy from Australia in

¹⁰⁰ Frederick Nossal, "China Seeks Credit Deal in Wheat," *The Globe and Mail*, 06 April 1961, 1. Wu et al., *Hongse Huarun*, 302.

¹⁰¹ Bruce MacDonald, "Canadian Goods Sought After 3 Years: China Trade Team Arrives: Wheat Considered Principal Interest," *Globe and Mail*, 29 December 1960, 1.

¹⁰² Ibid.

¹⁰³ Bruce MacDonald, "China Signs Barley Deal with Canada," *The Globe and Mail*, 24 January 1961, 1.

¹⁰⁴ "Canada Makes Big Grain Deal with Red China," *Chicago Daily Tribune*, 03 February 1961, 14.

¹⁰⁵ "Buy Australian Wheat," *Chicago Daily Tribune*, 02 February 1961, 14; "China Grain Sale Is Biggest Ever," *The Globe and Mail*, 04 February 1961, 8.

December, but which had not been announced previously at Beijing's request.¹⁰⁶ By the time news of the deal broke, Australian grain was already in mainland China. The first shipment arrived in Tianjin roughly 35 minutes after midnight, several hours before the story broke and precisely ten weeks and a day after Chen Yun first pitched the idea of importing grain from the capitalist world.¹⁰⁷

More deals soon followed. In April 1961, the Canadian Wheat Board and China Resources reached an agreement of intent covering long-term grain sales from June 1, 1961, through December 1963. The deal called for a total of six million tons of wheat, barley, and flour to be shipped to mainland China in exchange for approximately U.S. \$362 million.¹⁰⁸ The specifics of shipment quantities and prices would be worked out in future negotiations, but the aggregate sums involved made this again one of the largest grain sales in Canadian history. The contract also turned China into Canada's second largest consumer in the global grain market, behind only Great Britain.¹⁰⁹ In September, figures from the Commonwealth Bureau of Agricultural Economics revealed that the PRC had purchased more wheat from Australia in 1960-1961 than any other nation.¹¹⁰ These were just the largest of China's new import contracts. CCP negotiators also signed grain deals with a variety of other capitalist nations, including France, Argentina, West Germany, and Italy.¹¹¹

Financing this buying spree required a bold political precedent: compromising on the CCP's principled avoidance of capitalist debt. China Resources negotiators needed credit from

¹⁰⁶ "Buy Australian Wheat," *Chicago Daily Tribune*, 02 February 1961, 14.

¹⁰⁷ Wu et al., *Hongse Huarun*, 305.

¹⁰⁸ Raymond Daniell, "Canada to Sell China 362 Million in Grain," *New York Times*, 02 May 1961, 1.

¹⁰⁹ Bruce MacDonald, "China Buys \$362,000,000 Grain," *The Globe and Mail*, 02 May 1961, 1.

¹¹⁰ "Red China Top Wheat Buyer," *Los Angeles Times*, 12 September 1961, 12.

¹¹¹ Shang, "1961 Nian Zhongguo Liangshi Jinkou Yanjiu," 157.

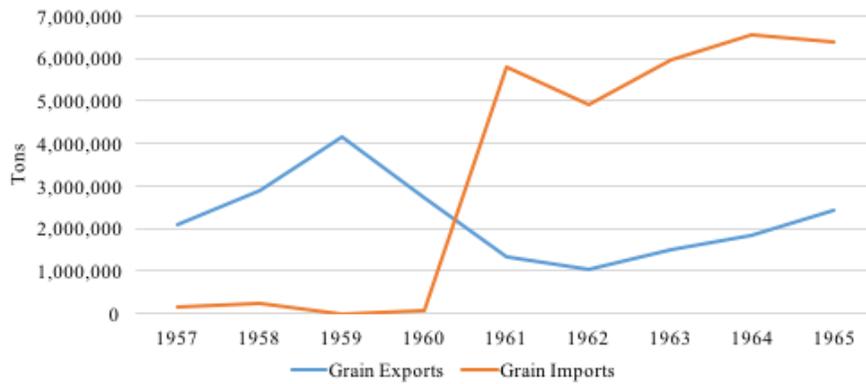
Ottawa to seal the long-term agreement with the Canadian Wheat Board; without financing, the talks were a waste of time. Negotiations ultimately led to an agreement for China to pay 25 percent in cash up front for each individual contract and the remainder of the balance within 270 days. The Canadian government, eager to offload its massive grain surplus, agreed to guarantee credit up to a ceiling of U.S. \$50 million.¹¹² These arrangements, routine commercial minutiae, marked a historic departure for the Party. Since the founding of “new China” in 1949, the CCP’s unwillingness to take on capitalist debt had kept a lid on the scope and scale of trade with the capitalist world. Now, it the lid was coming off, precisely at the time when Beijing had committed to paying off Soviet and East European debts ahead of schedule.

CCP traders continued to rack up grain import deals throughout the rest of 1961 and into the first half of the 1960s (see Figures 7.2 and 7.3). The influx of grain, by Zhou’s estimation in 1960 more than 80 catties for every man, woman, and child in China, brought partial relief to many millions.¹¹³ But it also induced queasiness at the Ministries of Foreign Trade and Finance, where officials recognized that the current mode of financing these purchases—capitalist debt, gold and silver sales, and limited cash reserves—was both unsustainable and, in the case of debt, politically perilous.

¹¹² Raymond Daniell, “Canada to Sell China 362 Million in Grain,” *New York Times*, 02 May 1961, 2.

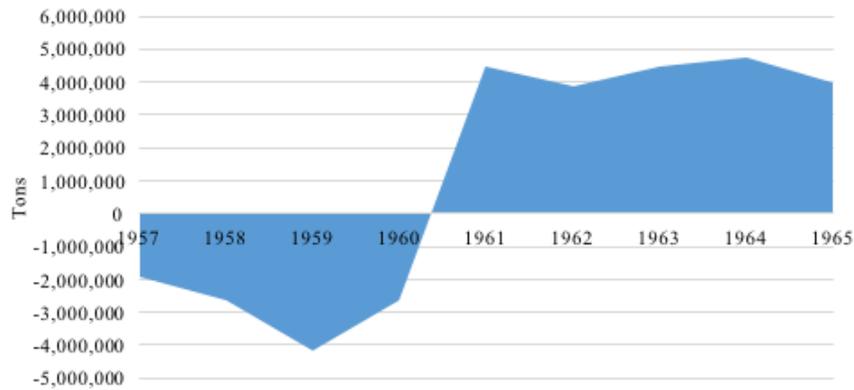
¹¹³ Zhou Enlai, report, “Guanyu Liangshi Wenti Baogao” [Report On the Grain Issue], 1960 [n.d.], *HPA*, 855-5-1795-2, 2. Eighty catties, or *jin* (斤), is the equivalent of 88.18 pounds.

Figure 7.2: Grain Imports and Exports, 1957-1965



Source: Shang Changfeng, "1961 Nian Zhongguo Liangshi Jinkou Yanjiu," *Zhonggong Dangshi Ziliao* no. 3 (2009), 156.

Figure 7.3: Net Grain Imports, 1957-1965



Source: Shang Changfeng, "1961 Nian Zhongguo Liangshi Jinkou Yanjiu," *Zhonggong Dangshi Ziliao* no. 3 (2009), 156.

Even when the financing came through, the national trade-balance sheet remained shaky. On January 18, 1961, the Office of Finance and Foreign Trade at the State Council estimated that if international grain prices held at U.S. \$70 per ton, and if China stuck to the Ministry of Foreign Trade's original export targets for the year, the nation would accrue a deficit of U.S. \$243 million in its capitalist trade.¹¹⁴ Budgeters at the State Council proposed that the Ministry of Foreign Trade trim its original import plan by cutting back on non-essential goods, such as

¹¹⁴ State Council Office of Finance and Foreign Trade, report, "Guanyu Yijiu Liuyi Nian Duiwai Maoyi Ruogan Wenti de Qingshi Baogao," 18 January 1961, *HPA*, 855-6-2032-13, 4.

steel, to help close the expected gap.¹¹⁵ They also stressed the importance of squeezing every last exportable good from Chinese production capacity. China must be farsighted, the office counseled. People certainly need to eat, but walnuts, almonds, melon seeds, and other consumables produced for overseas markets had to be exported. If farmers ate these products in the field, it would erode China's hard currency earnings, which would decrease the amount of grain China could afford to import.¹¹⁶

The Office of Finance and Trade had a point. China needed cheap grain to feed many people. The Party turned to capitalist markets to buy grain and fertilizers to grow more grain in China. This meant China needed foreign currency, which required China to export everything it good, especially produce like walnuts and almonds, which earned higher prices on international markets than grains. By selling high-priced produce and importing cheaper grains, China could purchase more calories than it sold. But the terrible truth behind this logic was that it required senior Party officials in Beijing to order starving peasants in the countryside to fill baskets with walnuts for delivery to state export companies on the thin promise that someday this contribution would be returned several times over as grain. The tragic irony of the planners' sound logic, in other words, was that it demanded an illogical faith from local farmers.¹¹⁷

Still, trade officials in Beijing saw no other option. Even if these belt-tightening measures succeeded exactly as planned, China would cut its projected capitalist-trade deficit down to U.S.

¹¹⁵ Ibid., 6.

¹¹⁶ Ibid.

¹¹⁷ Eventually, following suggestions from Li Xiannian in March 1961, the central government began to offer grain supplements to producers of six key export products: tea, silk, peppermint oil, apples, oranges, and shelled walnuts. By 1962, the state's foreign-trade corporations could provide various scarce goods, such as cigarettes and bolts of silk, to induce farmers to produce 108 relatively lucrative export commodities. Lawrence C. Reardon, "Learning How to Open the Door: A Reassessment of China's 'Opening' Strategy," *The China Quarterly* 155 (1998), 485.

\$10.6 million, but not eliminate it entirely.¹¹⁸ Once again, the planners could push the numbers no further. The Office of Finance and Trade simply hoped that PRC traders would be able to negotiate some sort of credit arrangement or installment plan that would paper over this gap as talks progressed.¹¹⁹

As grain from Canada, Australia, and other capitalist nations funneled into Chinese ports throughout the winter and spring of 1961, the urgency of the crisis began to subside. The relief was almost euphoric for Li Xiannian. On July 30, he crowed to Mao and the Central Committee that “grain days have returned” (*liangshi rizi guolaile*, 粮食日子过来了), thanks, of course, to the Chairman’s guidance and the quick and careful work of the Party center.¹²⁰ He pointed specifically to the absence of any domestic unrest and “relatively good” social order, a low bar all things considered, as proof of the Party’s success.¹²¹

Despite Li’s relief and the congratulatory tone of his report, he still harbored doubts about long-term prospects. He worried about next steps. After accounting for the influx of capitalist grain, Li calculated that China still faced an aggregate grain shortfall of 5.35 million tons for the rest of 1961 and all of 1962, a sum so large that it would be impossible to make up with imports by the first half of 1962. China simply didn’t have the cash on hand, nor was it clear where CCP traders would find the grain to purchase.¹²² Reports of bad harvests in Canada and Australia raised the possibility that grain prices might rise in the near future and that neither Canada nor Australia would be as forthcoming with financing and delayed payments as they had

¹¹⁸ *Ibid.*, 7.

¹¹⁹ *Ibid.*

¹²⁰ Li Xiannian, letter to Chairman Mao and Central Committee, “Guanyu Liangshi Wenti de Yi Feng Xin” [A Letter On the Grain Issue], 30 July 1961, *HPA*, 855-6-2031-6, 2-3.

¹²¹ *Ibid.*, 2.

¹²² *Ibid.*, 5.

been for initial deals.¹²³ Any practicable solution to these problems required steady increases in hard-currency earnings in the months ahead.¹²⁴

The Ministry of Foreign Trade had already begun to make institutional and ideological adjustments to place the import program on sounder footing. In June 1960, the ministry approved funding and plans for the development of permanent export production bases (*chukou shangpin shengchan jidi*, 出口商品生产基地), the central purpose of which was to broaden and regularize the supply of exports to overseas markets.¹²⁵ As Chen Yun described them in May 1961, these bases would operate with international competition in mind. “[When] doing business on international markets, it’s not just us, but rather many others, too,” he explained. The only way to beat out the competition is to listen to the demands of customers. Quality mattered. Price mattered. Stability mattered. These were the keys to commercial success, he stressed.¹²⁶ Export production bases would enable China to organize production around international market needs rather than subjective internal mandates. When Chen made these points in late spring 1961, his aim was to get the bases up and running as soon as possible, ideally by the end of 1962.¹²⁷

The Ministry of Foreign Trade also began to reorient its propaganda work at roughly the same time. Gone was the blind pursuit of *dajin dachu* (大进大出) that had upended the PRC’s commercial agenda during the heyday of the Great Leap Forward. In its place stood *yijin*

¹²³ Ibid., 8.

¹²⁴ Li proposed a seven-point plan in his letter to Mao for how to address the nation’s ongoing grain crisis. The plan included a mix of domestic measures, such as eliminating waste and boosting domestic production, to pursuing more imports while striving for *zili gengsheng* in the long run. Ibid., 5-8.

¹²⁵ Gao, *Lin Haiyun Zhuan*, 405. See also *JJDAMY*, 1958-1965, 5.

¹²⁶ Chen Yun, “Zuohao Waimao Gongzuo” [Perform Foreign-Trade Work Well], 30 May 1961, *Chen Yun Wenxuan, di san juan* [Selected Works of Chen Yun, volume 3] (Beijing: Renmin, 2015), 157.

¹²⁷ Ibid., 158.

yangchu (以进养出), which translates loosely as, “use imports to cultivate exports.” The slogan meant China should import raw materials that domestic producers could use to produce higher-value-added goods, which China could export to generate hard currency earnings. The concept was not new in China, as the Party leadership well knew. In March 1961 Zhu De recalled that coastal cities in “old China” also practiced *yijin yangchu*.¹²⁸ The crucial difference now, however, was that foreign imperialists no longer exploited or controlled this process in China. This distinction helped to inoculate the concept against questions about its political palatability as a continuation of pre-“liberation” practice.¹²⁹

Yijin yangchu offered a more sustainable strategy for generating hard currency that did not require squeezing the population ever more tightly. It was a long-term vision. It was “not a one-year plan for this year, nor something undertaken only amidst a crisis,” Zhu De explained. Rather, it was a “historical [phenomenon] produced by global markets,” and it was impossible to seal oneself off from it.¹³⁰ The Ministry of Foreign Trade had actually been practicing *yijin yangchu* quietly since 1957, when processed exports comprised 13 percent of China’s exports.¹³¹ In 1960, that share had climbed only slightly, to 15.8 percent. By 1961, however, it reached 27 percent, and in 1962 it climbed to 32.2 percent of China’s total export volume.¹³²

The growing importance of *yijin yangchu* carried a larger historical significance beyond yielding hard currency. For one, it was a strategy oriented almost exclusively toward the

¹²⁸ Zhu De, excerpts from untitled remarks in Guangzhou, 30 March 1960, as quoted in “‘Yi Jin Yang Chu’ he ‘Yi Chu Dai Jin’,” *Dangde Wenxian*, 2006 (6), 7.

¹²⁹ *Ibid.*

¹³⁰ *Ibid.*, 7, 9.

¹³¹ Ministry of Foreign Trade, “Jin Jinian Lai Duiwai Maoyi Jige Zhuyao Bianhua de Ziliao” [Data for Several Major Changes in Foreign Trade During the Past Few Years], 01 August 1962, in *JJDAMY, 1958-1965*, 70.

¹³² *Ibid.*

capitalist world. The Ministry of Foreign Trade's full embrace of the strategy in 1961 represented a tacit acknowledgement by top CCP officials that China's trade would continue to drift away from socialist nations and toward global capitalist markets, as Table 7.1 demonstrates it did.¹³³ The concept also posited a tight, lasting bond that linked global commodity markets to global consumer markets via China's own production processes and bases. This represented a shift in the way the CCP conceived of communist China's relationship to global capitalism, a turn toward a vision increasingly characterized more by careful, calibrated, and continuous connections than tightly scripted, discrete commercial exchanges conducted at arm's length. In this sense, *yijin yangchu* served as an early turning point. It presaged a much more consequential shift in China's relationship to the global economy that would occur just two decades later, during Reform and Opening.

From 1962-1964, PRC trade appeared to have turned a corner. The hunt for grain, fertilizer, unprocessed goods, and new consumers for Chinese products led PRC traders to fortify existing trade ties and to seek out commercial relationships in previously untapped markets. The resignation of Japanese Prime Minister Nobusuke Kishi in July 1960 opened the door to rekindled trade with Japan following the two-year hiatus that began with the Nagasaki flag incident of May 1958. Zhou seized the opportunity on August 27 when he told the visiting director of the Japan-China Trade Promotion Association that if China and Japan could restore trade relations, as the people of both nations desired, it would benefit the people of both

¹³³ On the fact that *yijin yangchu* concerned primarily capitalist trade, see Central Committee, "Zhonggong Zhongyang Pizhuan Guojia Jihua Weiyuan Hui, Guowuyuan Caimao Bangongshi Guanyu Yijiu Liusi Nian Duiwai Maoyi Jihua Anpai Yijian de Baogao" [Central Committee Endorsement and Distribution of Report from the National Planning Committee and the State Council Office of Finance and Trade Concerning Proposals for Foreign-Trade Planning Arrangement for 1964], 16 November 1963, in *JJDAMY, 1958-1965*, 157.

nations.¹³⁴ He proposed three types of commercial exchange to accomplish this goal: government accords (*zhengfu xieding*, 政府协定), people-to-people contracts (*minjian hetong*, 民间合同), and individual deals negotiated under special considerations (*gebie zhaogu*, 个别照顾).¹³⁵ The first type reflected Beijing's continuing pressure on Tokyo to move in the direction of formal recognition of the PRC.¹³⁶ The second two, however, signaled a willingness in Beijing to allow private Japanese firms, mostly left-leaning ones, to trade with China as well.¹³⁷

Zhou's "three trade principles" (*san yuanze*, 三原则), as they were called, set the stage for a renewed push for trade with Tokyo. On November 8, 1962, Liao Chengzhi and Takasaki Tatsunosuke moved this agenda forward by signing a trade memorandum that further normalized bilateral trade. The Liao-Takasaki Memorandum created a stable framework in which a wider range of Japanese firms could trade with Chinese state export-import firms. Now, Japan's largest conglomerates, companies like Mitsubishi and Sumitomo, could deal with Chinese state trade agencies. The agreement also permitted companies to sign contracts for as long as 3-5 years, further shoring up stability in the bilateral trade relationship. Just as critically for the Ministries of Foreign Trade and Finance in Beijing, the new agreement permitted Chinese traders to import certain "badly needed" Japanese goods using a deferred-payment structure that operated on credit from the Bank of Japan.¹³⁸ The bilateral commercial relationship stabilized further still

¹³⁴ Zhou Enlai, "Guanyu Cujin Zhongri Guanxi de Zhengzhi San Yuanze he Maoyi San Yuanze" [Three Political Principles and Three Trade Principles Concerning the Promotion of Sino-Japanese Relations], 27 August 1960, in *JJDAMY, 1958-1965*, 466.

¹³⁵ *Ibid.*

¹³⁶ Amy King, *China-Japan Relations after World War Two: Empire, Industry, and War, 1949-1971* (Cambridge: Cambridge University Press, 2016), 178.

¹³⁷ *Ibid.*

¹³⁸ *Ibid.*, 183.

when, on April 19, 1964, Liao and Takasaki signed an agreement to establish trade missions in each nation's capital, a longstanding CCP goal.

PRC trade with Britain began to blossom at around this time as well. For three weeks in the early spring of 1963, Vice-Minister of Foreign Trade Lu Xuzhang (卢绪章) toured Britain.¹³⁹ He met with state officials and leading industrialists to discuss the future of Sino-British trade, toured factories and shipyards, and made time for a visit to Oxford University. Lu left his hosts with the impression that he was more interested in the nuts and bolts of building up bilateral trade than grandstanding.¹⁴⁰ Still, the political symbolism of his trip was undeniable. Lu's was the first visit to Britain by any minister of the PRC government at the invitation of Her Majesty's Government.¹⁴¹

That Lu was concerned with substance as much as form should have surprised few. He had accumulated decades' worth of experience doing business with capitalists by 1963 and had no trouble grasping its importance to the revolution. Before "liberation," the thickset Ningbo native had operated Guangda Huahang (广大华行), a small front-company that transacted business on behalf of the CCP Southern Bureau and the Eighth Route Army office network.¹⁴²

¹³⁹ Lu arrived in Britain on March 21, 1963, and departed on April 12. Foreign Office, Far Eastern Department, "Brief for the Official Visit of Mr. Lu Hsu-Chang, Vice Minister of Foreign Trade of the People's Republic of China, 21st March to 12th April, 1963," *TNA*, FO 371, 170691, FC 1151/42.

¹⁴⁰ Foreign Office, Far Eastern Department, "Brief for the Official Visit of Mr. Lu Hsu-Chang, Vice Minister of Foreign Trade of the People's Republic of China, 21st March to 12th April, 1963, Section I, Annex A, Biographical Notes," *TNA*, FO 371, 170691, FC 1151/42.

¹⁴¹ Board of Trade, "Visit to Britain of Mr. Lu Hsu-Chang, Vice-Minister of Foreign Trade of the People's Republic of China," *TNA*, FO 371, 170691, FC 1151/45.

¹⁴² Wang Yuanzhou, "Guangda Huahang: Cong Xiao Xiyao Hang Dao Zhonggong Sanxian Dixia Jigou" [Guangda Huahang: From a Small Western Medicine Firm to a Third Line Chinese Communist Party Underground Organization], *Bai Nian Chao* 01 (2005), 47. See also Chen Huimin, "Yang Yanxiu: Wei Dang Zhangguan Qiandai de Hongse Tegong" [Yang Yanxiu: Red Agent in Charge of the Party's Wallet], *Chinese Communist Party News*, 14 January 2014, accessed 16 May 2015, <http://dangshi.people.com.cn/n/2014/0113/c85037-24097242-2.html>.

His first position under the new regime after 1949 had been to oversee China's trade with capitalist nations as the head of the China National Import Export Corporation.¹⁴³ In the early 1950s he served as the director of the Ministry of Foreign Trade's Third Bureau, which oversaw all of China's trade with Western capitalist nations.¹⁴⁴ When he landed in London on March 21, 1963, Lu was a long established advocate of developing trade with his British counterparts.¹⁴⁵

The momentum in Sino-British trade relations continued into the summer, when in July Britain's first official trade exposition opened in muggy Beijing. Visiting businessmen clustered at the Xin Qiao Hotel, which, ironically enough, the CCP had built to house Soviet advisers. Now, the rooms were occupied by representatives from a menagerie of imperialist firms, including the British crucible manufacturer Morganite, the industrial firm R. H. Windsor, and the longtime East Asian trading house Jardines.¹⁴⁶ The British mission in Beijing viewed the exhibition as a valuable opportunity, particularly because it offered a chance for UK industrialists to hobnob with potential Chinese "end-users" and CCP officials in person.¹⁴⁷ Chinese interlocutors also seemed to find value in the opportunity to make personal connections. For instance, Chen Ming, Ji Chaoding, and other top Ministry of Foreign Trade officials spent one evening after the expo had closed for the day sipping whiskey-sodas, the quintessential

¹⁴³ Gao, *Lin Haiyun Zhuan*, 212.

¹⁴⁴ Mitcham, *China's Economic Relations with the West and Japan*, 9.

¹⁴⁵ For an example of Lu's advocacy of greater trade ties to the capitalist world, see Lu Xuzhang, "Duizi Maoyi Wenti" [Issues in Trade with Capitalists], 18 April 1958, in *JJDAMY, 1958-1965*, 9.

¹⁴⁶ Approximately 25 representatives of British firms participated in the exhibition altogether. Office of the British Charge d'Affaires in Beijing (Ross) to Foreign Office, Far Eastern Department (McKenzie-Johnston), untitled letter, 27 August 1963, *TNA*, FO 371, 170717, FC 1861/20.

¹⁴⁷ While the British mission believed the exhibition was a success overall because of these contacts, Foreign Office trade officials were nonetheless disappointed at the lack of immediate orders secured during the expo itself. *Ibid.*

beverage of British imperial subjects throughout Asia, and indulging in a four-hour dinner at the Summer Palace hosted by the De La Rue Company, a printing and paper manufacturing firm.¹⁴⁸ This and other gatherings designed to mix socializing with business produced little in the way of concrete deals, but they did pave the path for a far larger exhibition in the fall of 1964, when representatives from 230 different firms funneled into Beijing for the PRC's largest non-Communist trade fair since its founding.¹⁴⁹

Chinese traders pushed into other capitalist markets while commercial relations with Japan and Britain blossomed.¹⁵⁰ The common theme linking these outreach efforts was an emphasis on stability. The Ministry of Foreign Trade needed a smooth inflow of raw materials, a steady outflow of exports, and the financial breathing room of external financing and credits to reorient China's trade toward international capitalist markets gently. This was a far more nuanced approach than had been adopted during the heyday of the Great Leap Forward. It was also motivated by expansionary ambitions far greater than those of the mid-1950s. The results spoke for themselves. In 1963, the Ministry of Foreign Trade gleefully announced that China's exports to international capitalist markets had surged to U.S. \$842 million dollars, a 36 percent

¹⁴⁸ Ibid.

¹⁴⁹ Flora Lewis, "Britain Pushing China Trade: Sending \$3 Million in Samples to Trade Fair in Peking," *The Washington Post*, 23 October 1964, A17.

¹⁵⁰ In January 1964, for example, Ministry of Foreign Trade officials held a month-long trade fair in Mexico City, the PRC's first in Latin America. "Peking Ends Fair in Mexico," *New York Times*, 07 January 1964, 14. In February 1964 the de Gaulle government in Paris named its charge d'affaires in Beijing, Paris's first concrete step toward a restoration of Sino-French diplomatic relations in 1964. At nearly the same time, French industrialists were organizing an industrial exposition planned for Beijing later in the year. French organizers of the exposition forecast that France would be able to capture at least a U.S. \$200 million market share in China. Drew Middleton, "French Diplomat Gets Peking Post: Charge d'Affaires Chosen—Trade Goal Outlined," *New York Times*, 13 February 1964, 1. In fact, China imported U.S. \$64.64 million worth of goods from France in 1964, including some sets of complete plants. Ministry of Foreign Trade, comp., *Waimao Diaoyan* [Foreign-Trade Research] no. 36, 20 November 1965, as reproduced in *JJDAMY, 1958-1965*, 491.

increase over the previous year and 112 percent of the ministry's revised target for 1963.¹⁵¹ Total trade with the capitalist world quickly climbed to U.S. \$3.32 billion for the year. In relative terms, this amounted to a full 70 percent of China's total foreign-trade volume that year, a share far and away greater than the 18 percent nadir of PRC capitalist trade in 1955.¹⁵²

Li Xiannian, Ye Jizhuang, and working-level traders at the Ministry of Foreign Trade also seemed to have the political winds at their backs. In the spring of 1961, Mao "retreated" to the "second line" of Party leadership, leaving Liu Shaoqi to implement the CCP's new Eight-Character Plan of "adjustment, consolidation, supplementation, and rising standards" (*tiaozheng, gonggu, chongshi, tigao*, 调整、巩固、充实、提高), a platform that amounted to a thorough repudiation of the headlong euphoria of the Great Leap Forward.¹⁵³ Mao's influence ebbed to its lowest point during a central work conference at the start of 1962. The meeting, known as the Seven Thousand Cadres Conference, became a month-long venue for venting and catharsis.¹⁵⁴

¹⁵¹ Ministry of Foreign Trade, report, "Guanyu Yijiu Liusan Nian Jixiang Zhuyao Gongzuo de Zonghe Baogao" [Composite Report Concerning Several Important [Types of] Work in 1963], 28 December 1963, in *JJDAMY, 1958-1965*, 148.

¹⁵² Ministry of Foreign Trade Leading Party Group, National Planning Committee Leading Party Group, State Council Office of Finance and Trade, report, "Guanyu 1965 Nian Dui Wai Maoyi Jihua Anpai Yijian de Baogao" [Report Concerning Suggested Arrangements for the 1965 Foreign Trade Plan], 18 February 1965, as cited in *JJDAMY, 1958-1965*, 6. For internal CCP figures on trade from the mid-1950s, see Ministry of Foreign Trade, "Duiwai Maoyi You Guan Ziliao Huibian, di yi fen ce" [Compilation of Information on Foreign Trade, volume 1], May 1956, *FPA*, quanzong ziliao, mulu 035, 1.

¹⁵³ The CCP leadership officially adopted Li Fuchun's Eight-Character Plan during the Ninth Plenum of the Eighth National Party Congress, which met January 14-18, 1961. Lawrence C. Reardon, *The Reluctant Dragon: Crisis Cycles in Chinese Foreign Economic Policy*, 105. For Li's involvement in the creation of the Eight-Character Plan, see Zeng Changqiu and Peng Shuai, "Li Fuchun de Shehui Zhuyi Jingji Jianshe Sixiang yu Tiaozheng Guomin Jingji de Bazi Fangzhen" [Li Fuchun's Thoughts on Socialist Economic Construction and the Eight-Character Policy for Adjusting the National Economy] *Xiaogan Xueyuan Xuebao* 22, no. 4 (2002): 5-9.

¹⁵⁴ The conference took its name from the unprecedented number of attendees, which included not only the usual participants from the center, regional bureaus, provinces, and municipalities, but also CCP members from districts, counties, industrial units, and the PLA. For a detailed analysis of the conference, see Roderick MacFarquhar, *The Origins of the Cultural Revolution*,

One by one, Party leaders repudiated the Great Leap Forward, though often in terms that “implicated all while pinpointing none,” as Roderick MacFarquhar has argued.¹⁵⁵ Neither Zhou Enlai, nor Chen Yun, nor anyone else used the occasion to pin the disasters of the Leap on Mao personally, a fateful decision that left open a path for Mao’s resurgence. Still, Mao’s own speech during the conference on January 30, 1962, coy and restrained though it was, came closest to a self-criticism from the Chairman since the founding of the People’s Republic.¹⁵⁶ His influence and prestige had clearly been dented.

From this chorus of criticism, it appeared as though the Party had begun to atone for its rashness during the Great Leap Forward. The new political environment began to tilt the balance between “redness” and “expertise” in the direction of the latter, creating surer political footing for the staff at China Resources, for cadres in Ministry of Foreign Trade offices in mainland China, and for Chinese traders working in the commercial sections of PRC embassies abroad. These officials had more political breathing room in which to employ their technical expertise, more space for carrying out guidance from Li Xiannian, Lu Xuzhang, and other top trade officials seeking to restore the stability to capitalist trade that had been lost during the Great Leap Forward. For many traders, up and down the bureaucratic ladder, it appeared that the People’s Republic of China had embarked on a new path.

Volume 2: The Coming of the Cataclysm, 1961-1966 (New York: Published for the Royal Institute of International Affairs, the East Asian Institute of Columbia University, and the Research Institute on Communist Affairs of Columbia University by Columbia University Press, 1974), 137-183.

¹⁵⁵ *Ibid.*, 179.

¹⁵⁶ Mao’s physician, Li Zhisui, makes this point. See Li Zhisui and Anne F. Thurston, *The Private Life of Chairman Mao: The Memoirs of Mao’s Personal Physician* (New York: Random House, 1994), 387. For an exegesis of Mao’s “self-criticism” at the conference, see MacFarquhar, *The Origins of the Cultural Revolution, Volume 2*, 169-170.

IV. Continuity and Change in Capitalist Trade

Years earlier, sometime in 1958, as the Great Leap Forward was picking up steam, the economist Xue Muqiao (薛幕桥) urged Chen Yun to seek out Chairman Mao for a private talk. Xue worried that the Chinese economy had begun to overheat, and he hoped Chen would discuss with the Chairman how to cool things down before the Leap got out of hand. Although Chen was sympathetic to Xue's concerns, he balked at intervening. "It isn't that Mao individually is hot [i.e. feverish about rapid growth], many of the nation's leaders are also hot," he told Xue.¹⁵⁷ Nobody was prepared to listen to sober words of caution. It would take a setback to remedy this collective fever, Chen believed. As he put it to Xue, if the Chinese people "do not eat a little bitterness, such words [of caution] cannot be heard."¹⁵⁸ With the benefit of hindsight, and a clearer understanding of the "bitter" human consequences of the Great Leap Forward, Chen's words seem callous, even craven. But he was partly right.

Just as Chen Yun predicted, China's fever did break in the early 1960s. The consequences of this episode were far larger than Chen could have foreseen in 1958, however. The ache of the famine and the souring of relations with the Soviet Union precipitated the collapse of a particular mode of Chinese socialist construction. Specifically, the failures of the Great Leap Forward put to rest two core convictions guiding economic work in Mao's China. First, the idea that China could transform itself overnight through headlong expansion of imports and exports, *dajin dachu*, had been unequivocally discredited. Second, Khrushchev's withdrawal of economic assistance in the summer of 1960 had disabused the CCP leadership of any notion that solidarity among socialist markets could serve as the mainstay of China's international trade

¹⁵⁷ Zhang Suhua, "'Bu Diaocha Qingchu, Ta Jiu Bu Jianghua'—Ganwu Liushi Niandai Chu de Chen Yun," 122.

¹⁵⁸ *Ibid.*

program. The irony of having to turn to capitalist grain markets for salvation in the wake of these developments contributed to a shift in how CCP officials thought about China's relationships to what had long been viewed as two contending developmental paths to modernity: one socialist, one capitalist. The contrast between socialist perfidy and the benefits of access to capitalist markets called for increasing flexibility in China's own relationships to these two ostensibly alternative development paradigms, and this flexibility, in turn, chipped away at the relevance of the distinctions between socialism and capitalism in the context of Chinese economic development.

Zhou Enlai tried to place these realizations into a larger context in April 1960. During an address to the National People's Congress, he reminded delegates that China had set out to cross uncharted terrain. The construction of socialism in China was an entirely new undertaking, he told the congress.¹⁵⁹ It required the gradual accumulation of experience. During China's First Five-Year Plan, Zhou recalled, China had no experience conducting large-scale construction and had no choice but to learn from the experiences of the Soviet Union and other socialist states. China had to accumulate its own experience along the way.¹⁶⁰ "Blindness" (*mangmuxing*, 盲目性) to objective laws had marred China's early socialist construction, he believed, and it was only through practice that the Chinese people—from cadres and masses up to the top leaders—could gradually recognize and master these objective rules.¹⁶¹

The subtext of Zhou's reasoning became more explicit as he continued. He told the assembled delegates that China's "great achievements" (*weida chengjiu*, 伟大成就) in socialist

¹⁵⁹ Zhou Enlai, remarks, "Zai Di Er Jie Quanguo Renmin Daibiao Dahui Di San Ci Huiyi Guanmu Huishang de Jianghua" [Opening Remarks for the Third Session of the Second National People's Congress], 16 April 1962, *HPA*, 855-6-2289-5, 2.

¹⁶⁰ *Ibid.*

¹⁶¹ *Ibid.*

construction over the past few years had proven that the general political line was absolutely correct.¹⁶² Mistakes arose when the Party deviated from this general line, and the consequences of these missteps only reinforced the correctness of the general line itself.¹⁶³ The Great Leap Forward represented a failure in the practical implementation of certain policies, in other words, not a fundamental flaw in China's overarching approach to socialist construction or political economy.

Zhou's emphasis on the importance of practice in China's socialist construction was a liberating, if dubious, argument. It freed the CCP to retain its claim to be the legitimate arbiter of socialist construction in China despite the massive and obvious setbacks of the Great Leap Forward. In Zhou's telling, recent economic failures resulted from a mix of natural calamities, Soviet perfidy, and the misapplication of certain principles, but those principles nevertheless remained entirely suitable for China's unique national circumstances. Nothing in this account suggested a flawed conceptualization, nor did it vindicate "revisionist" methods of economic construction that were then unfolding in the Soviet Union and Eastern Europe. Zhou's analysis framed the Great Leap Forward as a painful but nonetheless progressive learning experience, a time to "eat bitterness," a corrective process. Looking to the future, he promised that China would continue to pursue its own form of socialist construction, and it would rely on the unique experiences that it accumulated along the way.¹⁶⁴

Zhou's emphasis on the failures of implementation, rather than the flaws in principle, also freed the CCP leadership from having to accept full blame for the Great Leap Forward. "It is important for leaders themselves to gain experience," he acknowledged, "however, solely leaders

¹⁶² Ibid., 3.

¹⁶³ Ibid.

¹⁶⁴ Ibid., 2.

having experience is not enough, vast numbers of cadres and the broad masses must also gain experience.”¹⁶⁵ By implication, “blindness” to objective laws had afflicted not just the top leadership in Beijing, but everyone; and if everybody was responsible, nobody was responsible.

Zhou’s reasoning revealed a tragic dynamic at work in CCP decision-making. The Party leadership saw no way to retain its own legitimacy without clinging to a monopoly on truth, a limited vision that pressed Zhou and the rest of the leadership to account for misguided policies by presenting them as temporary or partial failures of implementation. Yet by failing to disavow fully the flaws and failures of the Great Leap Forward—the infatuation with “redness” at the expense of expertise, the preoccupation with scope and speed over stability and nuance—Zhou and the rest of the CCP leadership kept alive the prospect of these and other forms of “hot” thinking in the years ahead.

For the thousands of trade officials struggling to place China’s commercial contact with the capitalist world on a sounder foundation during the early 1960s, this dynamic created worrisome possibilities. The Party had yet to achieve a true synthesis of the deep tensions that beset these traders’ daily commercial dealings with capitalist markets, and it remained an open question how these individuals and the institutions they staffed would reconcile the demands of the revolution with the prerogatives of capitalist trade. This reconciliation mattered greatly to the long-term question of how China could, should, and would fit into a shifting international order. It also mattered in the short term. By 1964, the PRC found itself aloof from the two centers of world economic power. Beijing’s economic relations with Moscow and much of the socialist bloc remained strained as ever, and despite great gains in capitalist trade, China’s commercial relations with the capitalist world in the months and years ahead remained uncertain in light of

¹⁶⁵ Ibid.

persistent ideological tensions, Beijing's diminished hard currency stores, and unclear prospects for long-term financing.

And yet, not all was lost. The CCP's continuing emphasis on the importance of practice, and the flexibility this yielded, helped to reinforce the continuities that undergirded the CCP's longstanding capitalist trade program. Since the beginning of the Sino-Japanese War in the summer of 1937, CCP traders had been developing and honing expertise in capitalist markets. They had built state and non-governmental trade institutions designed to foster productive and stable trade with foreign capitalists. Chen Yun, Ye Jizhuang, and other top economic and trade officials had also accrued nearly a quarter-century's worth of experience reconciling these practices and institutions to prevailing political currents and the principles of the Chinese revolution. None of this had been swept away by the anti-rightist campaigns, the oscillations between "red" and "expert," or the euphoric turns of the Great Leap Forward. As it would turn out, none of this would be snuffed out by the coming assault of the Cultural Revolution. On the contrary, these embedded traditions survived and revived once again to help shape a far greater and more consequential shift in China's relationship to global capitalism just fifteen years later, when China embarked on Reform and Opening under a different ruler, in different circumstances, and with dramatically different results.

CHAPTER 8: EPILOGUE

China has utterly transformed since Mao's death on September 9, 1976. Well before the Chairman left "to meet Marx," however, the view from Beijing had begun to change dramatically. The Cultural Revolution unleashed new and destructive dynamics at home that savaged China's diplomatic agenda throughout the late 1960s. By the end of the decade, Sino-Soviet tensions had deteriorated to the point that the Soviet Union loomed as China's greatest security threat. But the new decade brought new opportunities. On October 25, 1971, the United Nations voted to admit the PRC into its assembly, in the process transferring China's permanent seat on the UN Security Council from Taipei to Beijing. Richard Nixon's trip to the People's Republic in February 1972, the first ever by a U.S. president, and the subsequent Sino-American rapprochement undercut Moscow's strategic position vis-à-vis Washington and Beijing. At a deeper level, the so-called "tacit alliance" between Washington and Beijing also contributed to the slow death of the conviction that communism offered a practicable solution to the problems created by modernization.¹ Normalization between the PRC and Japan quickly followed. In late September 1972, Japanese Prime Minister Kakuei Tanaka visited Beijing as well, and within six months both nations had opened official embassies in each other's capitals.²

The economic landscape had shifted just as momentarily. Chen Yun reflected on this point one warm June morning in 1973. He was chatting in his home on Beichang Street in

¹ On this point, see Chen Jian *Mao's China & The Cold War* (Chapel Hill: The University of North Carolina Press, 2001), 276. For a detailed account of Nixon's first trip to China, see Margaret MacMillan, *Nixon and Mao: The Week That Changed the World* (New York: Random House, 2007). For Henry Kissinger's discussion of Sino-American rapprochement as a "tacit alliance to block Soviet expansionism in Asia," see Henry Kissinger, *Diplomacy* (New York: Simon & Schuster, 1994), 728.

² For an overview of Sino-Japanese rapprochement, see Hong N. Kim, "Sino-Japanese Relations Since the Rapprochement," *Asian Survey* 15, no. 7 (1975): 559-573.

Beijing, just west of the Forbidden City, with an old comrade, Chen Xiyu (陈希愈), who was now head of the People's Bank of China.³ “In the past[,] 75 percent of our foreign trade was with the Soviet Union and Eastern European nations, and 25 percent with capitalist nations,” he told his guest.⁴ “Now [this] has changed so that 75 percent [lies with] the capitalist world and 25 percent with the Soviet Union and Eastern Europe.”⁵ Was this an enduring shift, he wondered aloud, a permanent reorientation? “I think it is,” he said, not bothering to wait for Chen Xiyu's answer.⁶

Any lingering faith Chen Yun had harbored for a full resurrection of intra-socialist trade was gone. His faith in Chinese socialism itself remained intact, but Chen also had begun to consider that China's path to a modern, powerful socialist state was more complex, and more circuitous, than he and many others first believed. He recognized, too, that China still had a long way to go. “Lenin once said, [when we] arrive at the age of communism, [we] will build public toilets with gold,” he told Chen Xiyu.⁷ “As I see it,” he continued, China is “still quite far from that era.”⁸ No doubt there was little in the modern Chinese condition of June 1973 that resembled the land of social justice, industry, strength, and abundance that Chen and the CCP envisioned

³ Also present were Qiao Peixin (乔培新) and Li Yumin (李裕民), both senior officials at the People's Bank of China. Zhonggong Zhongyang Wenxian Yanjiushi Bian, *Chen Yun Zhuan, san* [A Biography of Chen Yun, volume 3] (Beijing: Zhongyang Wenxian, 2015), 1417.

⁴ Chen Yun, “Yao Yanjiu Dangdai Ziben Zhuyi” [[We] Must Study Modern Capitalism], 07 June 1973, in Chen Yun, *Chen Yun Wenxuan, di san juan* [The Selected Works of Chen Yun, volume 3] (Beijing: Renmin, 1995), 217-218.

⁵ *Ibid.*, 218.

⁶ *Ibid.*

⁷ *Ibid.* Chen was quoting from Lenin's “The Importance of Gold Now and After the Complete Victory of Socialism,” which can be found in V. I. Lenin, *Lenin's Collected Works* (Moscow: Progress Publishers, 1965).

⁸ Chen Yun, “Yao Yanjiu Dangdai Ziben Zhuyi,” 218.

for China's socialist modernization. And not a single golden toilet graced even the rarefied stalls of *Zhongnanhai*.

Amid these disappointments and unexpected turns, Chen Yun's instincts told him that China's position in the world hinged on whether the Chinese people could develop a deeper understanding of global capitalism. "[If we] don't study capitalism," he told Chen Xiyu, "we'll lose out."⁹ Unless China developed a deeper grasp of capitalism—and by this he meant global market prices, international finance, currencies, and the economic "laws" of capitalism—"then don't [even] think about occupying the position we should hold in world markets."¹⁰ These ruminations revealed the outlines of a conceptual shift that was part prologue to the rise in the late 1970s of Reform and Opening, an approach to economic development under Deng Xiaoping that called for dramatically deepening China's engagement with global capitalist markets and a sharp shift away from "redness" toward expertise and tangible results.

Chen's logic in June 1973 signaled an important break with the past. During the mid-twentieth century, Mao and his top lieutenants believed that participating in international capitalist markets would hasten the demise of capitalism itself, a conviction that congealed into state policy during the Korean War but which had roots in the "united front" tactics of the Pacific War in the 1930s and the Party leadership's faith in Marxism-Leninism. PRC trade policy was predicated on the idea that selective commerce would foment discord within the capitalist camp while at the same time furnish China with the technology and equipment it needed to

⁹ Chen Yun, "Yao Yanjiu Dangdai Ziben Zhuyi," 218.

¹⁰ Ibid. See also Dong Zhikai, "Chen Yun Duidai Ziben yu Ziben Shichang de Sixiang Shijian Tanxi" [Chen Yun's Approach to Capital and Capital Markets in Theory and Practice], *Zhonggong Dangshi Yanjiu* 8 (2010): 77. For Chen's emphasis on prices, finance, currencies, and capitalist economic "laws," see *Zhonggong Zhongyang Wenxian Yanjiushi Bian, Chen Yun Zhuan, san*, 1419-1426.

industrialize at home. The idea was to participate in capitalism to precipitate its demise, to exacerbate its contradictions while benefiting from its resources.

This ambition died with Mao. But the notion that trade could induce the collapse of global capitalism, or that socialist-capitalist divisions should even play a meaningful role in shaping PRC economic policy, had clearly come into question during Mao's lifetime, and not just by Chen Yun. Between 1973 and 1974, the Chairman himself began to articulate a fluid vision of world affairs that downplayed capitalist-socialist cleavages and instead emphasized economic development as a central concern in Chinese foreign policy. In what became known as Mao's "three-worlds thesis," the Chairman grouped the United States and the Soviet Union together in the "first world" because they were rich and because they had amassed large stockpiles of nuclear weapons. The "second world" included Japan, Europe, Australia, and Canada—relatively wealthy states, some of them nuclear armed, which nevertheless could not compete with first-world economic and nuclear clout. The "third world" encompassed all the rest: all of Africa, Latin America, and Asia, excluding Japan but including the People's Republic of China.¹¹ Mao still invoked the language and concepts of class struggle, oppression, and imperialism in this new conceptual framework, but he had begun to let go of the view that these contradictions and conflicts would necessarily revolve around the axis of Cold War bipolarity.

On March 1, 1975, while Mao was frail but still very much alive in Beijing, Deng Xiaoping told Congo's Prime Minister Henri Lopez bluntly that the socialist camp no longer existed, and that the "two-camp" Cold War concept failed to fit contemporary reality. It was out

¹¹ For an analysis of Mao's three-worlds thesis and its relationship to his intermediate-zone and two-intermediate-zone theories, see Chen Jian, "China's Changing Policies Toward the Third World and the End of the Global Cold War," in *The End of the Cold War and the Third World: New Perspectives on Regional Conflict*, eds. Artemy M. Kalinovsky and Sergey Radchenko (New York: Routledge, 2011), 101-121.

of date, Deng argued, and it made little sense to rely on distinctions between socialism and capitalism when identifying friends and enemies.¹² This inclination to blur the distinction between socialism and capitalism was not new for Deng. Over a decade earlier, in late June 1962, he had summed up his view that pragmatism should prevail over dogmatism in economic policymaking with his earthy cat theory: “black cat or white cat, so long as it catches mice, it’s a good cat.”¹³

Mao’s death less than two years after Deng’s meeting with Henri Lopez, and Deng’s subsequent consolidation of power, paved the way for the outward-oriented trade and development policy that helped to underwrite China’s transformation in the closing decades of the twentieth century. The post-Mao Party leadership has emphasized what capitalist trade can offer the nation’s economic development at home, but jettisoned talk of how such trade will undermine the stability of international capitalism itself.¹⁴ Gone is the sense of destruction and impermanence that surrounded capitalist trade during Mao’s lifetime. Instead, China has become deeply entrenched in global trade patterns, and to dramatic effect. By 2016, the PRC had become the world’s largest exporting nation and second-largest importer.¹⁵ This flow of goods into and

¹² Shu Guang Zhang, *Beijing’s Economic Statecraft During the Cold War, 1949-1991* (Washington, DC, and Baltimore, MD: Woodrow Wilson Center Press & Johns Hopkins University Press, respectively, 2014), 263.

¹³ As Alexander Pantsov and Steven Levine point out, Deng’s first iteration of his cat theory, during a June 1962 session of the Secretariat, referred to black and *yellow* cats, not white ones. Only later did popular lore transform one of the cats from yellow to white, most likely for greater contrast. Pantsov and Levine, *Deng Xiaoping: A Revolutionary Life* (Oxford: Oxford University Press, 2015), 222-223.

¹⁴ The Party codified its commitment to opening the Chinese economy to the world in December 1982, when it revised the PRC constitution to declare that “opening up” was a “fundamental national policy” for China. Shu Guang Zhang, *Beijing’s Economic Statecraft During the Cold War, 1949-1991*, 264.

¹⁵ World Trade Organization (WTO) Statistics Database, “Country Profile: China,” last accessed 06 February 2017, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Country=CN>.

out of mainland China has fueled the nation's historic growth in the decades since Mao's death.¹⁶ According to World Trade Organization (WTO) statistics, foreign trade has accounted for over 22 percent of China's gross domestic product (GDP) in recent years.¹⁷ By nearly any metric, the Chinese economy, now the world's second largest, has become a critical component of the very capitalist system that Mao and the CCP once set out to destroy.¹⁸

There are few signs in 2017 that China seeks to change any of this in the near term. Chinese President Xi Jinping (习近平) reiterated the Party's commitment to open trade in a major address on January 17, 2017, at the World Economic Forum in Davos, Switzerland. "We must unswervingly develop global free trade and investment, promote liberalization of trade and investment in the course of opening up, and clearly oppose protectionism," he told an audience of economists, journalists, politicians, and business leaders. He could point to several major initiatives that lent weight to this agenda, such as Beijing's 2016 initiation of the multilateral Asian Infrastructure and Investment Bank.¹⁹

¹⁶ China's Gross Domestic Product (GDP) growth rate has averaged nearly 10 percent annually since 1978—the fastest sustained economic expansion by a large economy in history. World Bank, "Country At A Glance: China Overview," last accessed 05 February 2017, <http://www.worldbank.org/en/country/china/overview>.

¹⁷ This was true for China's GDP from 2013 to 2015. World Trade Organization (WTO) Statistics Database, "Country Profile: China," last accessed 06 February 2017, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Country=CN>.

¹⁸ David Barboza, "China Passes Japan as Second-Largest Economy," *New York Times*, 15 August 2010, B1. The International Monetary Fund calculated that China became the world's largest economy in terms of purchasing power parity in late 2014. "The World's Biggest Economies: China's Back," *The Economist*, 11 October 2014, 82.

¹⁹ Xi Jinping, "Xi Jinping Zai Dawosi Luntan Kaimushi Shang de Zhuzhi Yanjiang" [Xi Jinping's Keynote Address at the Opening Ceremony of the Davos Forum], *Xinhua*, 17 January 2017, last accessed 06 February 2017, http://news.xinhuanet.com/politics/2017-01/18/c_1120331545.htm. For an overview of the origins, structure, and ambitions of the Asian Infrastructure and Investment Bank, see Rahul Mishra, "Asian Infrastructure Bank: An Assessment," *India Quarterly: A Journal of International Affairs* 72, iss. 2 (2016): 163-176. Xi's "One Belt, One Road" initiative similarly commits to the development of a platform for open economic cooperation by connecting China to Central, West, and South Asia via a network of

Lurking beneath these postrevolutionary transformations in trade and investment, however, are deep continuities that reach back to the Mao era. Much of this continuity endured at the level of personal experience and knowledge. Many individuals who first cut their teeth in capitalist trade during the Maoist period went on to usher in the post-Mao era of Reform and Opening. For decades, Chen Yun and other top economic officials had emphasized the benefits of capitalist trade; this backdrop shaded the way these officials understood China's options as the geopolitical landscape shifted in the mid-1970s. Certainly, the Sino-Soviet split, the PRC's admission to the United Nations, Nixon's visit to China, and Sino-Japanese rapprochement all helped to create a political and strategic context conducive to a lasting economic reorientation toward the capitalist world. But the experience required to conceive and implement such a shift, as Chen Yun did in June 1973, and to view it as an opportunity rather than defeat, had emerged over the course of decades.²⁰

Chen Yun remained the CCP's most respected economic leader as Reform and Opening began to coalesce in 1978 and 1979, this despite having been banished to the countryside during the Cultural Revolution for "rightist" tendencies. When the Party permitted Chen Yun to return

transportation corridors and multilateral trade, finance, and policy programs. For an analysis of how the "One Belt, One Road" initiative relates to China's larger strategic ambitions, see Yong Wang, "Offensive for Defensive: The Belt and Road Initiative and China's New Grand Strategy," *The Pacific Review* 29:3 (2016): 455-463.

²⁰ Chen Yun's confidence notwithstanding, CCP traders still had much to learn about how the Chinese economy could successfully reorient toward capitalist markets. Party traders had a baseline level of knowledge and experience that allowed them to understand what markets had to offer, but were still capable of making numerous and costly missteps, as several Chinese scholars have noted. For example, see Zhonggong Zhongyang Wenxian Yanjiushi Bian, *Chen Yun Zhuan*, *san*, 1417.

from exile in late 1972, he worked closely with Zhou Enlai to study the nation's foreign-trade challenges and to devise new policies for using trade to rekindle the Chinese economy.²¹

Five years later, Chen Yun ascended to the apex of Party economic decision-making. In December 1978, the CCP leadership appointed him vice-chairman of the Central Committee and a member of the powerful Politburo Standing Committee.²² Chen stepped into these new roles just as the eleventh Central Committee was convening for the plenary session that marked the launch of Reform and Opening. But Chen Yun wasn't the only top official with deep capitalist trade experience to guide the early steps of Reform and Opening.

Li Xiannian linked Mao-era capitalist trade to Reform and Opening perhaps more directly than any other senior official. Unlike many others, Li retained his clout in economic policymaking throughout the Cultural Revolution.²³ He also emerged unscathed from the power struggles that followed Mao's death and which culminated in Deng Xiaoping's rise to the top. Li's ability to survive politically ensured a consistent and influential voice at the senior-most levels in favor of greater commercial engagement with the capitalist world.²⁴ When he called for imports of entire plants to produce chemical fertilizers and synthetic fibers during the late 1970s,

²¹ Zhao Shigang, "Chen Yun Duiwai Jingmao Sixiang de Lishi Yanjin Ji Qi Gongxian" [The Historical Evolution and Contributions of Chen Yun's Foreign Trade and Economic Thought], in *Chen Yun yu Dangdai Zhongguo* [Chen Yun and Contemporary China], ed. Zhu Jiamu et al. (Beijing: Dangdai Zhongguo, 2014), 291.

²² *Ibid.*, 294.

²³ Many other leaders of communist China's early capitalist trade were less lucky. Qin Bangli, founder of China Resources, was "persecuted to death" (*bei pohai daosi*, 被迫害到死) during the Cultural Revolution. Qian Zhiguang, who was instrumental in developing trade between mainland China and Hong Kong during the 1940s, fell under criticism during the Cultural Revolution but survived. Li Yingji (李应吉), who took over general management of China Resources from Qin Bangli, died after falling from a building. Cultural Revolution "rebels" reported that Li jumped to his death, a claim his family still disputes. Wu Xuexian, et al., *Hongse Huarun* [Red China Resources] (Beijing: Zhonghua Shuju, 2011).

²⁴ On Li Xiannian's survivability, see Ezra Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge: The Belknap Press of Harvard University Press, 2011), 732.

for example, it was a clear echo of his advocacy during the early 1960s for China to turn to capitalist markets for grain imports.²⁵

Li Xiannian joined Chen Yun and Deng Xiaoping in what CCP insiders called the “two and a half” during the 1980s, a reference to the roughly equal status of Deng and Chen at the top of the CCP hierarchy and Li’s position just a half-step below.²⁶ The two men did not always see eye-to-eye with Deng on the specifics of Reform and Opening. Chen Yun, in particular, remained steadfast in his belief that the CCP must remain cautious when wading into capitalist markets.²⁷ But Chen’s caution represented only a difference with Deng over pace and scope, not direction.²⁸

These continuities at the elite level mattered not just because they permitted the transfer of knowledge, experience, and perspective from the Mao era to Reform and Opening, but also because they linked capitalist trade to Mao’s own imprimatur. The “two and a half” could personally attest to an established tradition of seeking out trade with capitalists that began under Chairman Mao’s own watch. Deng did so on September 16, 1978, when he reminded senior Party officials from Jilin province that “when Comrade Mao Zedong was still alive, we also wanted to expand China’s economic and technological exchanges with the outside world, including developing economic and trade relations with some capitalist nations, and even the

²⁵ Ibid. For an overview of Li Xiannian’s contributions to foreign-trade policy and foreign affairs more generally during the early phases of Reform and Opening, see Cheng Zhensheng, “Li Xiannian yu Gaige Kaifang Chuqi de Duiwai Gongzuo” [Li Xiannian and Foreign Affairs Work During the Early Phase of Reform and Opening], *Zhonggong Dangshi Yanjiu* 6 (2009), 93-102.

²⁶ Vogel, *Deng Xiaoping and the Transformation of China*, 343.

²⁷ For example, see Chen Yun, “Gongzuo Yao Zhuashi” [[We] Must Grasp Work], 06 June 1990, in *Chen Yun Wenxuan, di san juan*, 377.

²⁸ For an example of Chen’s thinking along these lines, see his remarks during an opening meeting of a CCP Central Work Conference on December 16, 1980, as recounted in Dong Zhikai, “Chen Yun Duidai Ziben yu Ziben Shichang de Sixiang Shijian Tanxi,” 79.

introduction [into China] of foreign capital, joint ventures, etc.”²⁹ Connections like these allowed Deng and others to frame expanded capitalist trade as a refinement of Maoist policy, which helped to inoculate the “opening” component of Reform and Opening against the potential for resurgent political opposition.

This Maoist legitimacy, as highlighted by Deng, was reinforced by the momentum of the practices and rationales that had developed over decades at the working levels. Day in and day out, CCP traders had refined techniques and norms to guide commerce with capitalists amid shifting political, economic, and social conditions at home and abroad. Although capitalist trade was sanctioned and organized by the Party itself, it nevertheless remained a fraught undertaking throughout the mid-twentieth century. Recurring political campaigns, such as the Three- and Five-Antis in 1951-1952, the Anti-Rightist Movement of 1957, and the Double-Anti Movement of 1958 invariably targeted the technocratic market-watchers and negotiators at the Ministry of Foreign Trade because these women and men, and the work they performed, provoked troubling questions about the identity of Chinese socialism and its boundaries. Did a record of success in negotiations with foreign capitalist businesses suggest that a cadre had abandoned “redness” for the sake of expertise? At what point did a mastery of the minutiae of commodity markets or

²⁹ The problem then, Deng explained, had been that the “conditions were not right,” by which he meant embargoes against China and the Gang of Four’s (*siren bang*, 四人帮) virulent opposition to any form of interaction with the capitalist world. Deng Xiaoping, *Deng Xiaoping Wenxuan, di er juan* [Selected Works of Deng Xiaoping, volume 2] (Beijing: Renmin, 1994), 127. Li Xiannian also used Mao’s approval of trade with capitalists as support for broader commercial engagement with the capitalist world in the late 1970s. See, for example, Li Xiannian, untitled excerpt of remarks during a Central Committee work conference, 18 March 1977, as quoted in “Deng Xiaoping Deng Lao Yi Bei Gemingjia Guanyu Jingji Jianshe he Fazhan Wenti de Yizu Jianghua, Pishi (Yi Jiu Qi Nian San Yue – Yi Jiu Qi Ba Nian Si Yue)” [A Collection of Speeches and Instructions from Deng Xiaoping and Other Older-Generation Revolutionaries Regarding Economic Construction and Development Issues (March 1977-April 1978)], *Dang de Wenxian*, iss. 2 (2009), 5.

shrewd capitalist advertising techniques begin to alter one's political consciousness? When did the pursuit of profits slide from a worthy revolutionary ambition into a capitalist mentality?

Without a doubt, these questions hampered the daily work of CCP capitalist trade. More importantly, however, they also compelled Chinese communist traders to justify and reaffirm the work they did in the theoretical terms that helped to define and guide the making of “new China.” “United Front” campaigns, “equality and mutual benefit” (*huli pingdeng*, 互利平等), anti-American “depoliticized” trade during the Korean War, the drive for “large-scale imports and exports” (*dajin dachu*, 大进大出), “using imports to yield exports” (*yijin yangchu*, 以进养出)—each of these policy frameworks represented an effort by CCP traders to reconcile capitalist trade to the ongoing process of building a “new,” modern, and socialist China. This was a messy, often dangerous, and costly process for traders at China Resources, the Ministry of Foreign Trade, and in China's many commercial offices abroad, but each succeeding framework served to justify the continuation of capitalist trade in support of socialist construction at home and, by extension, the Chinese revolution itself.

Reaffirmations of this sort helped to sustain a decades-long Maoist experiment in capitalist trade—selectively, at arm's length, and on a limited basis for sure, but this was enough to shape policies, institutions, ideology, and even the identities of the CCP and “new China” itself over time. The slow drip of experience left impressions of what China might gain from capitalist trade, and how the PRC might pursue these gains while at the same time safeguarding the Party's political imperatives at home. These impressions accumulated between the 1930s and the 1960s, but it wasn't until the geopolitical landscape shifted in the late 1960s and 1970s that they became truly consequential. To overlook these Maoist roots is to misunderstand the nature of the historical forces behind China's engagement with global capitalism today. What we are

witnessing is not simply the rise of capitalism in post-Mao China, but rather the continuation under new historical circumstances of the Party's longstanding willingness to use markets to achieve fundamentally political aims, foremost among which remains the development of a strong, modern Chinese state capable of "standing up," as Mao put it, for its own interests.

These Mao-era roots have produced an enduring challenge that continues to confront the Party leadership to this day. There is no question that Mao's China, and Mao himself, fought fiercely to achieve a type of Chinese modernity starkly different from the one we know today. The CCP under Mao aspired to a China that was self-reliant, egalitarian, steeped in socialist revolutionary consciousness, and forged by heavy industry. Were Mao alive today, it is difficult to imagine him celebrating the arc of China's revolution up to the present, stretching from the hills of Yan'an to Xi Jinping's rousing call for globalization in Davos. But Mao might recognize—and Chen Yun certainly would grasp—the fundamental challenge facing Xi of how to couple illiberal political order at home with open markets abroad. Mao faced this dilemma in the context of pursuing socialist revolution; Xi Jinping confronts it as the leader of a single-party state with no apparent plans to implement meaningful political reform anytime soon. Neither leader was interested in the liberalizing political effects of open-market commercial interactions; both men recognized the contributions that such exchanges stood to make to the Party's modernization aims.

The history of commercial contact between Mao's China and the capitalist world during the mid-twentieth century helps to uncover this abiding tension between illiberalism in the modern Chinese political context and the open exchange of goods, currencies, habits, and ideas in the context of global capitalist markets. During the Mao era, the Party's search for a resolution to this tension routinely lurched from one direction to another. Today, the CCP's touch is lighter,

its approach more nuanced. But it remains an open question how the Party will navigate this tension in the years ahead, and the stakes couldn't be higher. Riding on it is the fate of not just the Party itself, but also the 1.3 billion people who live under its rule and the many billions more whose daily lives are touched in some fashion or another by the ties that knit China into the fabric of global capitalism today.

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